

COAC Intellectual Property Rights (IPR Working Group) Restricted & Prohibited Party (RPP) List Background Paper

A. CBP and Other Government Agencies Have Successfully Utilized Denied, Restricted, Debarred or Suspended Party Lists to Prohibit Trade with Bad Actors

For export control purposes the Bureau of Industry & Security, Department of Commerce (BIS), Department of State, Directorate of Defense Trade Controls, Department of State (DDTC) and Office of Foreign Assets Controls, Department of Treasury (OFAC) among others have utilized denied party lists to enable regulators to restrict and/or prohibit trade with bad actors. Such lists include the specially designated nationals and blocked persons list per the existing OFAC type procedures https://www.treasury.gov/resource-center/faqs/Sanctions/Pages/faq_lists.aspx#sdn.

Freight forwarders are required to screen against these lists for export purposes and customs brokers, couriers and other third parties may verify against these lists where imports may involve these parties. As there is no importer or exporter number provided, these lists can only be tracked by name and address.

Meanwhile, CBP maintains a debarred or suspended importers list. Debarred parties may not import or do business with CBP. However, this list alone will not address section 321 IPR issues because it is not a comprehensive list that includes counterfeiters and is limited only to importers, exclusive of overseas parties. See CBP.gov for information on the S.A.M. database that manages debarred and suspended importers: <https://www.cbp.gov/trade/programs-administration/suspension-and-debarment>.

We note that up until about twenty (20) years ago, CBP did issue 1592(a) and (b) lists including foreign factories that had been issued, or against whom CBP attempted to issue, 19 USC 1592 commercial negligence or fraud penalties. CBP required importers sourcing product from such companies to demonstrate a heightened level of reasonable care to demonstrate to CBP that merchandise procured from such entities complied with CBP laws and regulations.

B. To Combat Trafficking in Counterfeit and Pirated Goods CBP Should Adopt an IPR Restricted and Prohibited Party List

Known IPR violators represent a similar type of danger to the U.S. as parties (e.g., narcotics traffickers, money launderers, export control violators) subject to the OFAC or other lists, because the importation and sale of many counterfeit goods are a threat to health, safety, security and the economy. What one company considers a “bad actor” might actually reflect a contractual issue or dispute. We suggest focusing on an “IPR Restricted or Prohibited Party List” which would allow CBP to focus more closely on the foreign parties who are unauthorized manufacturers as well as domestic parties sourcing from these entities that are not otherwise known to CBP without prior importation history. Perhaps parties who have been found to deal with counterfeit goods subject to a lesser offense (administrative detention or seizure) initially could be placed on the restricted list warranting automatic detention for all future shipments until further notice. Parties found to traffic in counterfeit goods subject to a higher offense (civil liability or criminal prosecution) or repetitious violations could be placed on the prohibited list barring future shipment until further notice.

On a cautionary note, CBP has a history of repeatedly detaining genuine goods based upon reasonable suspicions that the goods are counterfeit because they are goods traded lawfully in the secondary, unauthorized, parallel, or gray market. The goods are often regarded as suspicious because the importer is “unknown” to CBP or the goods are older, reconditioned or refurbished models. The importers are often long-time importers who share the interests of CBP and IPR rights holders in stopping counterfeit goods. CBP’s effort to focus upon and find counterfeit goods would be greatly enhanced by diminishing the number of inspections, detention, seizure and forfeiture actions involving goods ultimately determined to be genuine.

A restricted or prohibited IPR party list would be critical to halt counterfeit trade in the section 321 as well as informal and formal entry context. The trade community as well as CBP needs a paradigm change that moves us from what is an in rem (against the property) approach, which only evaluates whether the merchandise itself is violative, as opposed to an in personam (against the person) approach which considers the parties involved in the transaction. We need more dedicated and energetic action against actual violators in addition to actions against violative goods. Such an effort would also be intended to assist the many key players in international commerce who do not have a sanctioned way to identify violators.

For example, express consignment carriers complain that they are not put on notice about the identity of bad actors such that they can refuse shipment tender. An IPR Restricted and Prohibited Parties List would constitute such notice. In addition, shipments involving bad actors would be presumptively inadmissible, clearing up CBP’s resources to identify whether goods are counterfeit. The mere risk of being put on a list might chill illegal conduct.

The final decision as to who is placed on the restricted or prohibited IPR party list would rest with CBP with input from the trade community, such input fostered by functionality in the new IPR portal. Regarding the above-mentioned concern about false positives (e.g., gray market importers), we have not and do not suggest that IPR holders designate such parties.

The IPR Working Group has advanced the concept that IPR holders may provide reliable evidence of counterfeiting. Evidence submitted by multiple IPR holders (multiple types of evidence, multiple instances) would be filed in a single system (the portal), consolidating evidence from multiple sources about the same violators. This is absolutely critical, akin to shared criminal data bases relied upon by law enforcement.

CBP can verify and assign weights to various forms of evidence (i.e., cease and desist order from a court versus prior CBP seizures versus criminal prosecutions at federal, state, and local levels). Statutory mandate and regulatory action will be necessary. However, the concept may be explained by borrowing from BIS and OFAC type procedures. For example, see https://www.treasury.gov/resource-center/faqs/Sanctions/Pages/faq_lists.aspx#sdn.

We reiterate that debarring or suspending parties who do not import or conduct business with CBP is a start to curbing the flow of counterfeit merchandise, but this action will not solve the Section 321 IPR problems or address overseas counterfeiters. Accordingly, we recommend a restricted or prohibited party list modeled after the OFAC specially designated nationals and blocked party lists as well as other similar lists.

Finally, an IPR Trusted Vendor concept should complement the IPR RPP List. CBP should continue to seek and/or receive authorized/licensed imports/importer information. IPR holders should be able to green-list such parties to make CBP's and trade's job easier. Parties do this already on eCommerce sites. Further, CBP should be fully engaged in developing and administering the IPR Trusted Vendor process so that parties may be removed from the list as appropriate or recognized as compliant parties to avoid being placed on the list to begin with.

Several factors could indicate whether a party should be considered a Trusted IPR Vendor such as receipt of a binding ruling from the Office of Regulations & Rulings confirming the genuine nature of merchandise. While this does not resolve the false positive issue attributable to gray market goods, it does not presumptively demand more enforcement attention to gray market goods and would provide an avenue for such parties to demonstrate they do not engage in the trade of counterfeit or piratical goods.

C. CBP Would Need to Develop a Uniform Process as well as Criteria to Place Parties on the IPR Restricted and Prohibited Parties List

The IPR RPP List should include bad actors, both foreign and domestic entities, that are repeat violators, including entities receiving seizure and detention notices as well as being subject to other administrative or judicial proceedings. They should be included on this list for customs brokers, express carriers, and freight forwarders to identify and not conduct business with them.

CBP has a wealth of targeting information on the domestic and foreign side due to repeat detentions and seizures they manage. CBP publishes annual IPR statistics that provide the top commodities, values, modes of transit, etc. From that same list, there should also be entities that caused these detention and seizures that could be included in an IPR RPP List.

On the domestic side, trade would need to ensure a sufficient vetting process to make sure neither the trade nor CBP are improperly capturing gray market importers and the like who can legally import. Neither should smaller users that innocently ordered something that turned out to be counterfeit be automatically included on the list.

The IPR RPP List can also include information from trademark owners concerning entities that are trafficking in counterfeit goods. This could include information that CBP is unaware of and will help them target and examine those goods and, if found to be counterfeit, seize them and start to develop records on those individuals. For example, IPR holders may be working with a joint taskforce between ICE and local law enforcement on conducting criminal investigations or raids that could result in prosecution by the local district attorney and conviction of the party. While at the same time, this party could be violating other IPR holders' rights that might result in multiple seizures.

CBP must provide this list because they have the only holistic view of information. Any one party will only have limited information that is more reactive than proactive based on past history. CBP can provide a more comprehensive list through an automated process. Pending the development of the new CBP IPR database portal that would complement CBP's IPR e-Recordation Application, which serves as CBP's system of record for IPR administration and enforcement, CBP should explore how ACE be used short-term to maintain this list.