



**WRITTEN TESTIMONY OF CLARK R. SILCOX
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**Legislative Hearing on S.622
The Trade Facilitation and Trade Enforcement Reauthorization Act of 2013**

**United States Senate
Committee on Finance**

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CHAIRMAN BAUCUS, RANKING MEMBER HATCH and Members of the Committee. Thank you for inviting me to appear before the committee to address the trade enforcement provisions of The Trade Facilitation and Trade Enforcement Reauthorization Act of 2013. I testify primarily about Section 241 of the Bill, but I note Sections 231 and 242 through 258 are intended to enhance intellectual property enforcement and we are in support of those provisions as well.

I am Clark Silcox, General Counsel of the National Electrical Manufacturers Association (NEMA), which is headquartered in Rosslyn, Virginia. NEMA represents approximately 430 North American manufacturers of electrical equipment used in the generation, distribution, and control of electricity. The product scope of our organization is very broad and includes over 50 different electrical product groups. It includes electrical equipment used in factories, in commercial buildings, apartments and homes, as well as hospitals, schools, and government buildings. These are products sold for installation by electrical contractors in construction projects, to utilities, as well as medical imaging and radiation therapy equipment. It also includes some consumer products sold at retail such as batteries, extension cords, smoke detectors, thermostats, lighting products, and for the do-it-yourself homeowner, products like circuit breakers, fuses, switches and receptacles that are also sold at retail.

Our member companies have business operations and employees in all fifty states, and they have either headquarters or plants in the states of every member of this committee. Of interest to the committee members, NEMA member companies who have been victims of electrical product counterfeiting have headquarters and/or production facilities in New York (receptacles, ground fault circuit interrupters, conduit fittings), Ohio (lighting, ground rods, and batteries, welding products), Pennsylvania (circuit breakers), Georgia (batteries, circuit breakers), North Carolina (ground rods, receptacles, batteries), Florida (batteries) and New Jersey (batteries). We have member companies with headquarters and/or production facilities in many other states who have been impacted by counterfeiting as well.

Product safety is a major concern of our industry, and many electrical products are third-party tested to safety standards by independent laboratories such as Underwriters Laboratories, CSA Group, Intertek, and other testing and certification organizations. Counterfeit electrical products are frequently found to be substandard in terms of safety or product performance characteristics. One of our member companies with headquarters and manufacturing in Illinois learned they had a counterfeiting problem a few years ago when they were wrongly named as a defendant in a products liability lawsuit involving a defective counterfeit product t.

The electrical sector is not often viewed as the poster child for trademark counterfeiting, yet annual Customs data has recognized our products in the top 5 seizure categories for health and safety products. The counterfeit electrical products that we have found in this country include, for example, residential circuit breakers, medium voltage circuit breakers, extension cords, batteries, ground rods, light bulbs, electrical receptacles, ground fault circuit interrupters, electrical connectors, electrical adaptors, and outside the United States a number of other electrical products. Members of our industry, along with the testing and certification industry whose certification marks have been counterfeited, have worked with US Customs at the ports to help them identify suspect counterfeit products, educating them where genuine products are made and where counterfeit products come from. I have been personally involved in several of those training programs. And we appreciate the public private partnership that has combined their resources to achieve some good results.

Sometimes, based on information provided by the trademark owner to Customs, the port officials are able to make a determination that a product is counterfeit or genuine. In that case,

our training programs have worked and are effective. There are situations where it can be very difficult for a port official to determine whether a suspect product is genuine or counterfeit.

I hold in my hand today a counterfeit circuit breaker and counterfeit packaging for that circuit breaker. The genuine product is made here in the USA -- Nebraska. Knowing that, a port official seeing the product come off a ship or airplane from China ought to be able to make the determination that the product is counterfeit and take action. That decision is reinforced when the packaging that comes from China says "Made in the USA" as this counterfeit package does.

In contrast, NEMA battery manufacturers make batteries for the domestic market here, but they will make batteries for the Asian, European and African markets overseas. The labeling of the counterfeit batteries can successfully simulate the genuine labeling and it can be difficult to tell the difference by visual inspection. A look under the hood so to speak, may be required, and sometimes the ultimate determination of whether the battery is genuine or counterfeit is secured by an X-ray examination that can see the structural differences inside the battery cell.

Historically, as part of their port training programs, NEMA manufacturers told the ports, if you need our assistance, send us the product for study and we will have a response for you within 48 hours of receipt of the sample. And we did. Customs has 30 days to make a determination whether goods it is holding are genuine or counterfeit.

Customs officers were forced to suspend that part of public private partnership a couple of years ago when they were reminded of an agency legal opinion that port officials violated the Trade Secrets Act if they disclosed images or samples of products to trademark owners whose marks were on the suspect products.¹ This was a curious interpretation of trade secrets. If the product is counterfeit and the importer has no legal right to sell the product, a claim of trade secrets makes no policy sense. If the product is genuine, the trade secrets inherent in the product belong to the trademark owner.

Although Customs' interpretation has now been superseded by Section 818(g) of the National Defense Authorization Act of 2012 (P.L. 112-81), that provision sunsets upon the enactment of this bill and Customs has not stepped forward to implement the 2012 law. See Addendum. It is time to make this policy permanent as provided in Section 241 of this bill and implement it so that the ports hands are no longer tied by an erroneous interpretation of the Trade Secrets Act. That is the intent of Section 241.

There are twin policies at stake here and they are reflected in the title of this bill: Trade Facilitation and Trade Enforcement. Brand owners are in the best position to determine quickly if it is their product or not. The brand owner may be the only person who can make that determination. In the civil litigation that ensued over the counterfeit circuit breakers in this country, the typical defense asserted by those who imported them was --- despite the fact that they came from China with Made in the USA on the packaging --- We were fooled. We could not tell. We thought they were genuine.² So in terms of trade facilitation, if Customs has doubts about the authenticity of a product, the most effective tool is to allow the manufacturer to examine the product and give them a deadline to respond, and both trade facilitation and trade enforcement are supported at the same time.

¹ See Addendum.

² *Square D Co. v Breakers Unlimited*, 2009 WL 1407019 at *2 (S.D. Ind. 2009). See also *Square D Co. v Breakers Unlimited*, 2010 WL 381334 *1 (S.D. Ind. 2010)(final judgment on jury verdict that defendant sold counterfeit circuit breakers, but did not act with willful blindness).

ADDENDUM

Legal Background on Information Sharing Respecting Suspect Counterfeit Goods

Historically, the identification of, and enforcement against, suspected counterfeit shipments entering the country generally followed the process described below. Upon their arrival at a port of entry, imported goods are presented to US Customs and Border Protection for examination and inspection. Customs regulations authorized officers, "At any time following presentation of the merchandise for Customs examination . . . to provide a sample of the suspect merchandise to the owner of the trademark or trade name for examination or testing to assist in determining whether the article imported bears an infringing trademark or trade name."³ On that authority, if a CBP officer had questions regarding the authenticity of those goods, they would routinely query their Recordation Database, find the designated contact for the trademark owner, and provide them with a sample or digital image of the goods. Our members report an average turnaround time of 48 hours or less, from the time that image or sample is received, to respond to CBP's inquiry. During this same period, CBP was permitted to provide the trademark owner with a variety of information related to the shipment, including the date of the importation, the port of entry, the quantity involved, a description of the merchandise, and the country of origin of the merchandise.⁴

Because of the potential for unreasonable delay for legitimate imports bound for the U.S. market, Federal Regulations have required (both in the past, and currently,) prompt action by CBP in making determinations about shipments' suitability for entry. Within five days of the goods' presentation for examination, pursuant to 19 CFR 133.25, CBP is required to either permit their entry, or provide notice to the importer that the goods are being detained for a suspected intellectual property violation. If the officer chooses to detain the goods, such investigation, absent a showing of good cause, is to be concluded within 30 days of the goods' presentation for inspection. Following the issuance of a notice of detention, the importer is permitted to present evidence that the importation of the goods is, in fact, not prohibited or can be remedied by action prior to the release of the goods.⁵ During this period of detention, the trademark owner whose rights are implicated can likewise provide evidence to demonstrate that the importation of the goods in question would constitute an IP violation, and that CBP should therefore seize the shipment.

At the conclusion of its investigation, CBP would either release the goods into the country (if the evidence available was insufficient to establish an IP violation), or seize the goods (if the evidence was sufficient to establish a violation). Following a seizure of articles bearing a counterfeit mark, CBP was required to provide to the owner of the mark both the information for which disclosure was required following detention of the goods, as well as the name and address of the manufacturer, the exporter, and the importer.⁶

³ 19 CFR 133.25(c). Similar authority, with respect to imports violating copyrights is set forth in 19 CFR 133.43.

⁴ 19 CFR 133.25(b). Disclosure of that same information to the trademark owner is not permissible, but required, by the regulation within 30 days of the issuance of a notice of detention.

⁵ See, 19 CFR 133.25(a), 133.22(c), 133.23(d).

⁶ 19 CFR 133.21(c).

Several years ago, U.S. Customs and Border Protection (“CBP”) announced a change in policy that has served only to frustrate the sort of collaboration that was once the norm. The agency advised its personnel that, even when made for the limited purpose of determining whether goods intended for import were authentic or counterfeit, the disclosure of certain information regarding that shipment was impermissible. The rationale offered by CBP is that such disclosures would constitute a violation of 18 U.S.C. 1905 (“the Trade Secrets Act”), and Customs Regulations concerning the procedures for providing information and samples related to suspected IP violations. CBP points to the issuance of Customs Directive 2310-008A⁷ (hereafter, “the Directive”), dated April 7, 2000, as the date of the formal change in policy, however NEMA members continued to enjoy data sharing under historical practices up until approximately 2008, and then it changed.

The Directive includes language in Section 5.2.3, which requires Customs officers to “remove or obliterate any information indicating the name and/or address of the manufacturer, exporter, and/or importer, including all bar codes or other identifying marks,” prior to the release of any sample to a trademark holder. The basis for the Directive appears to be tied to an overly-formalistic reading of the relevant regulatory code sections related to the sharing of information regarding, and samples of, the suspect shipment. The apparent conflict, as seen by CBP, is between CBP’s officers’ authority to seek assistance by providing a physical sample (or a digital image of those goods) to a trademark owner from the date the goods are presented for inspection⁸, and the timing authorized for the disclosure of other information related to the shipment.⁹ CBP has stated that if various markings, distribution codes or the like might reveal to the trademark owner any information that would otherwise only be made available after a determination that the goods should be seized, any such markings must be removed or redacted before providing the samples to the rights-holder. It is worth noting however, that no such language mandating the removal or redaction of information is included in the relevant regulatory code sections.¹⁰ Contrary to CBP’s position, Customs regulations provide no basis whatsoever for the proposition that samples of the suspect goods should be provided to the rights-holder in any condition other than that in which they were presented for inspection.

CBP argues, by extension, that because it believes it has no specific authorization to reveal that information relating to the identity of the manufacturer, exporter, or importer, pre-seizure – and on the assumption that bar codes, or other information included on the product or packaging would reveal that information to the trademark owners – that providing unredacted samples or images of the goods would constitute a violation of the Trade Secrets Act. That statute prohibits the disclosure by a federal employee of confidential information to a third party which is not

⁷ See, U.S. Customs & Border Protection - Customs Directive 2310-008A.

⁸ See 19 CFR 133.25(c).

⁹ Compare 19 CFR 133.25(b) , permitting the disclosure, from the time of presentation, of the date of importation, the port of entry, a description of the merchandise, the quantity involved, and the country of origin of the merchandise; and 19 CFR 133.21(c), authorizing the disclosure of the above information, as well as the identity of the manufacturer, exporter, and importer, subsequent to a seizure.

¹⁰ Compare, Customs Directive 2310-008A, 19 CFR 133.21 and 19 CFR 133.25.

otherwise authorized by law. Violations of the statute are punishable by no more than one year imprisonment, and removal from office or employment.¹¹

It is clear that the conduct in question – the provision of samples to rights-holders by CBP officers, for the limited purpose of seeking assistance in fulfilling its IP enforcement mission – is not the sort of conduct that Congress intended to criminalize by its enactment of the Trade Secrets Act. Furthermore, such conduct should not be precluded by the Act, *because the bar codes and other such information included on the products and packaging in question are not “trade secrets.”* Were the goods to be released into the U.S., those same codes will be plainly visible to the trademark owner, and to any consumer who finds the product on a store shelf. The markings themselves are in no way secret or confidential; the only arguable secret inherent in the markings is the information encoded by the markings. But even if that assertion is accepted, the disclosure of an unredacted sample or image to the trademark owner would not run afoul of the Act. If the suspect goods in question were, in fact, legitimate goods, then the codes and information in question were applied by, and owned by the rights-holder to whom they would be disclosed; and the Trade Secrets Act does not prohibit the disclosure of a trade secret to its owner. If the goods were counterfeit however, any such codes included on the goods will be indecipherable by the trademark owner; they will not reveal any information regarding the identity of the manufacturer, exporter, or importer, but simply reveal the fact that the goods are not genuine.

Though drafted broadly,¹² courts and federal agencies have generally construed the Trade Secrets Act narrowly.¹³ CBP's adopted policies though take a very expansive view of the range of conduct that is prohibited by the Act. This expansive view is unwarranted.

In December 2011, Congress addressed this very issue with its enactment of provisions pursuant in the National Defense Authorization Act, authorizing the Secretary of the Treasury to “share information appearing on, and unredacted samples of, products and their packaging and labels, or photographs of such products, packaging, and labels, with the right holders of the trademarks suspected of being copied or simulated for purposes of determining whether the products are prohibited from importation pursuant to such section,” in cases where CBP suspects the goods of being imported in violation of trademark law.¹⁴ Since the enactment of that law however, CBP continues to refuse to provide such information and unredacted samples, purportedly due to conflicts between that law and existing regulations. Furthermore, because the Defense Authorization provisions are scheduled to sunset upon the enactment of forthcoming Customs Reauthorization legislation, Congressional action is necessary to ensure that CBP will not revert to its current policy in the future. Section 241 will direct the ports to provide to trademark and copyright owners information that appears on the merchandise and its

¹¹ See, 18 U.S.C. 1905.

¹² One court has observed that the Act, “had a bizarre effect of criminalizing and imposing prison terms for almost every communication by government employees of information they obtain in the scope of employment.” See *United States v. Wallington*, 889 F. 2d 573, 576 (5th Cir. 1989).

¹³ See, e.g., “Business Confidentiality After Chrysler.” United States Department of Justice, FOIA Update, Vol. 1, No. 2 (1980), describing the policy of the Department of Justice’s Criminal Division to not prosecute government employees for violations of 18 U.S.C. 1905, if the employee was acting in good faith to comply with a request made pursuant to the Freedom of Information Act.

¹⁴ See, National Defense Authorization Act for Fiscal Year 2012, Public Law No: 112-81, at Section 818(g).

packaging, including unredacted images and product samples, if examination of the merchandise would assist the port in determining if a counterfeiting violation has occurred.