

KNOCK-OFF MY MARK, GET SET, GO TO JAIL? THE IMPROPRIETIES OF CRIMINALIZING POST-SALE CONFUSION

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The Trademark Counterfeiting Act (TCA) has been widely applied to cases of post-sale confusion, which occurs when someone buys a knock-off luxury item knowing that it is fake. When liability is predicated on post-sale activity, the only people that are confused are the members of the general public who observe someone wearing what looks like a genuine brand item—a Rolex watch or Louis Vuitton bag for instance—and think it is real when in fact it is not. While every circuit that has dealt with knock-off goods has held that post-sale confusion is criminalized by the TCA, this Note argues that this conclusion relies on an improper reading of the statute. The TCA was only designed to make criminal those actions that were clearly actionable civilly in 1984, when it was enacted. This Note will show that post-sale confusion was far from uniformly accepted civilly in 1984 and argue that, therefore, it should not be read into the TCA. Furthermore, this Note argues that the harms of post-sale confusion are identical to the harms of dilution, which was not covered in the Lanham Act until 1996 and was never included in the TCA. The Note then examines the statutory scheme to argue that Congress had only point-of-sale confusion in mind when it enacted the TCA. The statute unambiguously fails to cover more typical dilutive sales, which is strong evidence that, contrary to the courts’ collective reasoning, Congress did not have the harms of dilution in mind when it added criminal penalties to trademark law. Finally, this Note argues that, from a policy perspective, post-sale confusion should not be criminalized. The harms are small, and companies have had a great deal of success combatting knock-offs with civil actions. There is no need to impose severe fines and long prison terms for selling knock-offs. This Note concludes by stating that there are serious harms from counterfeits that create point-of-sale confusion, but the public does not take these seriously because they think only of knock-offs when they think about counterfeits. The decriminalization of the sale of knock-offs will allow the public to be more willing to accept the true dangers of “real” counterfeits and to become more vigilant in the marketplace.

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“Disillusioned words like bullets bark, as human gods aim for their mark.”¹

“‘What time is it?’ said the judge to Joey when they met. ‘Five to ten,’ said Joey. The judge says, ‘That’s exactly what you get.’”²

INTRODUCTION

Counterfeiting has been a growing problem over the last half-century. Reports claim that counterfeiting is responsible for a vast array of negative consequences, including the loss of billions of dollars in companies’ profits, the elimination of hundreds of thousands of jobs,³ the loss of tax revenue,⁴ the erosion of the public’s confidence in

¹ BOB DYLAN, *It’s Alright, Ma (I’m Only Bleeding)*, on BRINGING IT ALL BACK HOME (Columbia Records 1965).

² BOB DYLAN, *Joey*, on DESIRE (Columbia Records 1976).

³ See, e.g., COMPUTER CRIME & INTELLECTUAL PROP. SECTION, CRIMINAL DIV., U.S. DEP’T OF JUSTICE, PROSECUTING INTELLECTUAL PROPERTY CRIMES 3 (3d ed. 2006) [hereinafter PROSECUTING IP CRIMES], available at <http://permanent.access.gpo.gov/gpo24938/ipma2006.pdf> (“Total losses suffered by U.S. industries due to their products being counterfeited is estimated at between \$200 and \$250 billion per year, costing 750,000 American

the marketplace,⁵ and the creation of dangerous and sometimes deadly situations.⁶ In addition to this parade of horrors, bold claims have been made that counterfeiting is linked to organized crime and even international terrorism.⁷ Congress has responded to these reports by radically changing trademark laws to allow more activity to be actionable civilly,⁸ and in 1984, for the first time in over a century,

jobs.”). Sam Cocks has put these figures in a telling perspective: “The dollar value of the American counterfeit goods market exceeds the dollar value of the American market for illegal narcotics by roughly \$100 billion, and the disparity continues to widen with each passing year.” Sam Cocks, Note, *The Hoods Who Move the Goods: An Examination of the Booming International Trade in Counterfeit Luxury Goods and an Assessment of the American Efforts to Curtail Its Proliferation*, 17 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 501, 508 (2007).

⁴ See, e.g., PROSECUTING IP CRIMES, *supra* note 3, at 309 (stating that the loss of tax revenue from intellectual property crimes, including trademark counterfeiting, is one of the main reasons that prosecuting them is a high priority); NAT’L CHAMBER FOUND., U.S. CHAMBER OF COMMERCE, WHAT ARE COUNTERFEITING AND PIRACY COSTING THE AMERICAN ECONOMY? 1, 5 (2005) (stating that counterfeiting “nearly always escapes taxation” and that “[i]t means no tax revenue for schools, communities, and states”), available at http://www.fnal.gov/directorate/OQBP/sci/sci_reference_docs/SCI%20Costs%20to%20Economy%20uschamber.pdf; WILLIAM C. THOMPSON, JR., CITY OF N.Y. OFFICE OF THE COMPTROLLER, BOOTLEG BILLIONS: THE IMPACT OF THE COUNTERFEITING GOODS TRADE ON NEW YORK CITY 1 (2004), available at <http://www.comptroller.nyc.gov/bureaus/bud/04reports/Bootleg-Billions.pdf> (claiming that the sale of counterfeit goods deprived New York City of \$1 billion in tax revenue and New York State of \$2.6 billion in 2003 alone).

⁵ See, e.g., Alex Kozinski, *Trademarks Unplugged*, 68 N.Y.U. L. REV. 960, 971 (1993) (explaining that one of the potential harms of counterfeits is the “affirmative destruction of the market . . . by undermining consumer confidence”).

⁶ See, e.g., MICHELE FORZLEY, INT’L INTELLECTUAL PROP. INST., COUNTERFEIT GOODS AND THE PUBLIC’S HEALTH AND SAFETY 1–3 (2003) (discussing some of the dangers from counterfeits, including some of the ways that people have died from them), available at http://www.micheleforzley.com/wp-content/uploads/2013/02/Counterfeit_Goods_Web_Version.pdf; NAT’L CHAMBER FOUND., U.S. CHAMBER OF COMMERCE, *supra* note 4, at 7 (explaining that there are numerous reports about “exploding batteries, doctored pharmaceuticals and foods, and substandard auto and airplane components[,] . . . faulty medical devices, dangerous cosmetics and skin products, fake shampoos and soaps, doctored teas, dangerously defective and faulty batteries that have been linked to explosions in cell phones, and even fake and dangerous baby foods”).

⁷ E.g., Adam Fifield, *The Knockoff Squad*, N.Y. TIMES, June 23, 2002, at CY10 (“Some officials say that [counterfeiting] has ties to organized crime, the drug trade and terrorism . . .”); David Johnston, *Threats and Responses: The Money Trail; Fake Goods Support Terrorism, Interpol Official Is to Testify*, N.Y. TIMES, July 16, 2003, at A11 (“Groups like Al Qaeda and Hezbollah have turned to trafficking in counterfeit consumer goods . . . says the top official at Interpol. . . . ‘Interpol is sounding the alarm that intellectual property crime is becoming the preferred method of funding for a number of terrorist groups.’”); Roslyn A. Mazer, *From T-Shirts to Terrorism; That Fake Nike Swoosh May Be Helping to Fund Bin Laden’s Network*, WASH. POST, Sept. 30, 2001, at B2 (“New York’s Joint Terrorist Task Force had reason to believe that high-level players who controlled a counterfeit T-shirt ring were using the proceeds to support terrorist groups such as the one that bombed the World Trade Center in 1993.”).

⁸ See *infra* Part I.B.1 (discussing the legislative expansions of the civil trademark laws).

Congress made certain forms of trademark infringement criminal.⁹ Every few years since enacting the criminal trademark law, Congress has revisited and strengthened it.¹⁰ Courts have also contributed to the growing criminalization of trademark law by interpreting the relevant statutes broadly and increasing the range of punishments for violations.¹¹ Despite these changes, the problem of counterfeiting is widely viewed as only getting worse.¹²

In light of this perception, courts have applied the criminal counterfeiting statute to post-sale confusion cases without much resistance.¹³ Generally, post-sale confusion occurs when people other than the purchaser think that a good is made by a particular company when in fact it is not.¹⁴ Take, for example, Lawrence Gantos, who on three instances sold counterfeit Rolex watches for between \$60 and \$80 to an undercover agent. Mr. Gantos never claimed that the watches were authentic. Quite the opposite—prior to each sale he proactively told the purchaser that the watches were imitations. The purchaser could therefore not possibly have been confused at the point of sale. The only potential confusion is that of the general public after the purchaser left Mr. Gantos's store. The Eighth Circuit held that this sale

⁹ Trademark Counterfeiting Act of 1984 (TCA), Pub. L. No. 98-473, sec. 1502, 98 Stat. 2178 (codified as amended at 18 U.S.C. § 2320 (2006 & Supp. V 2012)). There was a narrow statute passed in 1962 that criminalized the selling of records with counterfeit labels. Act of Oct. 9, 1962, Pub. L. No. 87-773, 76 Stat. 775 (codified as amended at 18 U.S.C. § 2318 (2006)). Prior to that, the last congressional statute to criminalize trademark infringement was declared unconstitutional—along with all other federal trademark laws—in 1879, when the Supreme Court held that they were improperly based on the Copyright Clause of the Constitution. *The Trade-Mark Cases*, 100 U.S. 82, 82 (1879).

¹⁰ See *infra* Part I.B.2 (tracing the progression of the criminal trademark law).

¹¹ See, e.g., *United States v. Yamin*, 868 F.2d 130, 132–35 (5th Cir. 1989) (stating that the TCA does not require a defendant to intend to deceive anyone; that the statute protects the public at large, including the non-purchasing public; and that the statute does not necessarily trigger some of the typically strict federal evidentiary rules). In 2011, the Third Circuit held that trademark counterfeiting constituted a “crime involving moral turpitude” and therefore upheld the Board of Immigration Appeals’s decision that a conviction under the TCA warranted deportation. *Dolgosheev v. Att’y Gen. of the U.S.*, 436 F. App’x 91, 94 (3d Cir. 2011); see also *Yong Wong Park v. Att’y Gen. of the U.S.*, 472 F.3d 66, 67 (3d Cir. 2006) (upholding a deportation order after a TCA conviction on the basis that it constitutes an aggravated felony).

¹² See, e.g., NAT’L CHAMBER FOUND., U.S. CHAMBER OF COMMERCE, *supra* note 4, at 1 (“[I]t is getting worse. Experts say that it is growing exponentially and with sophistication and brazen boldness. Increased access to technology and other resources has armed these criminals with the means to pirate the latest goods and stay one step ahead of the law.”); Julia Boorstin, *Louis Vuitton Tests a New Way to Fight the Faux*, *FORTUNE*, May 16, 2005, at 34 (“The police have been jailing and fining vendors for decades, but the problem seems to be getting worse . . .”).

¹³ See *infra* Part II.A (describing the ease with which courts accepted the argument that post-sale confusion is a crime).

¹⁴ For a more elaborate explanation of this mode of confusion, see *infra* Part I.A.

constituted a felony and sentenced Mr. Gantos to three years in federal prison.¹⁵ While the criminal post-sale confusion cases have not gone unnoticed, they have been almost completely unchallenged.¹⁶ This Note argues that post-sale confusion should not be criminalized, relying on the text of the relevant statutes, their legislative history, and policy considerations.

Numerous articles have been written about the post-sale confusion doctrine.¹⁷ These articles explain the doctrine and tend to conclude that it should be actionable civilly. However, they do not extend their discussion to criminal sanctions. Many other articles discuss the general evils of counterfeits and address the expansion of the criminal trademark law descriptively.¹⁸ The few articles that propose decriminalization of post-sale confusion tend to do so as part of an overall attack on either the post-sale confusion doctrine or on criminal trademark laws in general.¹⁹

¹⁵ *United States v. Gantos*, 817 F.2d 41, 42, 44 (8th Cir. 1987).

¹⁶ See, e.g., David J. Goldstone & Peter J. Toren, *The Criminalization of Trademark Counterfeiting*, 31 CONN. L. REV. 1, 33–34 (1998) (briefly mentioning criminal post-sale confusion cases and agreeing with the courts' decisions to apply criminal penalties). A significant amount of the scholarship that discusses the civil application of the post-sale confusion doctrine addresses in passing that it has been applied to criminal trademark law without analyzing the merits of this leap. See, e.g., Michael J. Allen, *The Scope of Confusion Actionable Under Federal Trademark Law: Who Must Be Confused and When?*, 26 WAKE FOREST L. REV. 321, 347 n.133 (1991) (analyzing the post-sale confusion doctrine in depth but simply stating in two sentences in a footnote that it has been applied to criminal cases); Kozinski, *supra* note 5, at 964 (discussing post-sale confusion and mentioning only in passing that courts have utilized it in criminal prosecutions); cf. Anne M. McCarthy, Note, *The Post-Sale Confusion Doctrine: Why the General Public Should Be Included in the Likelihood of Confusion Inquiry*, 67 FORDHAM L. REV. 3337, 3359–61 (1999) [hereinafter McCarthy, *Post-Sale*] (arguing that one of the reasons that the post-sale confusion doctrine should be applied civilly is because courts have been applying it criminally).

¹⁷ E.g., Ann K. Wooster, Annotation, "Post-Sale Confusion" in *Trademark or Trade Dress Infringement Actions Under § 43 of Lanham Trade-Mark Act (15 U.S.C.A. § 1125)*, 145 A.L.R. FED. 407 (1998); Kozinski, *supra* note 5; McCarthy, *Post-Sale*, *supra* note 16.

¹⁸ See, e.g., Lauren D. Amendolara, Note, *Knocking Out Knock-Offs: Effectuating the Criminalization of Trafficking in Counterfeit Goods*, 15 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 789 (2005) (generally describing the problems of counterfeits and the attempt to curtail them through criminal law); Tiffani L. McDonough, *Piecing It All Together: The Amendment to the Federal Trademark Counterfeiting Act Prevents Circumvention Through Component Parts*, 35 AIPLA Q.J. 69 (2007) (same); Cocks, *supra* note 3 (same).

¹⁹ See, e.g., Ann Bartow, *Counterfeits, Copying and Class*, 48 HOUS. L. REV. 707, 732–47 (2011) (rejecting the civil post-sale confusion doctrine and calling for an end to the criminalization of counterfeit consumer goods generally); Malla Pollack, *Your Image Is My Image: When Advertising Dedicates Trademarks to the Public Domain—With an Example from the Trademark Counterfeiting Act of 1984*, 14 CARDOZO L. REV. 1391 (1993) (arguing that the communicative aspect of trademarks in the post-sale confusion context places them in the public domain and that therefore there should be no civil or criminal cause of action).

This Note does not challenge the propriety of a civil cause of action for post-sale confusion, but rather contends that the existence of the civil remedy partly renders criminal sanctions inappropriate.²⁰ While there is genuine harm done to trademark holders through post-sale confusion, the harm is not serious enough to warrant a felony conviction and a sentence of up to ten years in prison for an initial transgression.²¹ This Note will refute some of the traditional arguments that are made in support of the need for criminal penalties for counterfeiting generally, as applied to post-sale confusion. This Note will also show that Congress did not intend to criminalize this method of confusion when it passed the Trademark Counterfeiting Act (TCA).

Part I explains the current state of the relevant trademark law and how it has evolved. Part II argues that the criminalization of post-sale confusion is contrary to the language of the TCA and its legislative history. This Part also challenges the justifications for why the TCA should cover post-sale confusion that rely on alleged congressional intent. Part III then argues that criminal penalties are not appropriate for selling knock-off²² goods because they do not provide adequate deterrence and they weaken the public's trust in the law.

I

THE EVOLUTION OF THE TRADEMARK LAWS

Trademark law is traditionally thought to serve two overarching purposes: lowering search costs and ensuring that a company is able to recoup the benefits of its goodwill, thus encouraging investment in

²⁰ For the inverse of this argument, see Connie Davis Powell, *We All Know It's a Knock-Off! Re-evaluating the Need for the Post-Sale Confusion Doctrine in Trademark Law*, 14 N.C. J. L. & TECH. 1, 34–37 (2012) (claiming that post-sale confusion should no longer be actionable civilly, in part because the TCA addresses it criminally).

²¹ 18 U.S.C. § 2320(b)(1) (2006 & Supp. V 2012). The law also allows for a fine of up to \$2,000,000 in addition to the potential ten-year prison sentence. A company found guilty faces a first-offense fine of up to \$5,000,000. The penalties get much stiffer for second offenses with individuals facing fines up to \$5,000,000 and prison sentences of up to twenty years, and companies facing fines up to \$15,000,000. *Id.* Section 2320 only allows for felony convictions and does not provide for less serious charges. See PROSECUTING IP CRIMES, *supra* note 3, at 88 (“Selling just one counterfeit item can be a felony. There is no misdemeanor provision.” (citation omitted)).

²² In this Note, the term “knock-off” is used to refer to a counterfeit good that the consumer is aware is not authentic at the time of purchase, because of its relatively low price, poor quality, or a seller making its nature explicit. Knock-offs are therefore the subset of counterfeits that, by definition, can only cause confusion post sale. The term “counterfeit” used in this Note tracks the statutory definition. See *infra* note 58 and accompanying text.

quality.²³ The search-cost rationale posits that, when a consumer associates a mark with a product, the consumer needs less time to decide what to purchase. If the consumer can be confident that anything bearing a certain mark comes from a particular company that she has come to like (or is the same good as the previous product she purchased bearing that mark), she does not need to read every last item of descriptive text on the package. Instead, she can simply look for the trademark to know what to purchase. This lowers transaction costs and improves the efficiency of shopping.²⁴

The other main justification for protecting trademarks argues that only by giving a company proprietary rights in its trademarks will that company be able to capture the investments that it makes in the quality of its goods. If another company were allowed to use a confusingly similar mark on comparable, but inferior, products, then some sales would be diverted to this other company. By giving a quasi-property right to the trademark holder, the law makes such a scenario less likely and thus promotes a company's investment in quality.²⁵

In 1946 Congress passed the Lanham Act,²⁶ an omnibus trademark law that has exclusively governed civil federal trademark protection since its enactment. This Act offers protection to "any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish

²³ For a thorough account of the traditional arguments supporting trademark protection and an analysis of whether they can still fit into the current environment of increasingly broad trademark protection, see Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 NOTRE DAME L. REV. 1839 (2007).

²⁴ The Supreme Court has explained: "In principle, trademark law, by preventing others from copying a source-identifying mark, 'reduce[s] the customer's costs of shopping and making purchasing decisions.'" *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 163–64 (1995) (quoting 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2.01 (3rd ed. 1994)); see also Stacey L. Dogan & Mark A. Lemley, *Trademarks and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777, 786–88 (2004) (explaining the economic theory of trademark law and declaring that "trademarks contribute to economic efficiency by reducing consumer search costs"); William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 268–70 (1987) (explaining the benefit that trademarks can create by lowering consumer search costs).

²⁵ See, e.g., *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 782 n.15 (1992) (Stevens, J., concurring) ("[W]here the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation [He is also given the means to secure] the advantages of reputation and good will by preventing their diversion" (quoting S. REP. NO. 79-1333, at 3–4 (1946))); Landes & Posner, *supra* note 24, at 269 ("[T]rademark protection encourages expenditures on quality.").

²⁶ Lanham Act, ch. 540, 60 Stat. 427 (1946) (codified as amended at 15 U.S.C. §§ 1051–1141n (2006)).

them from those manufactured or sold by others.”²⁷ Initially the holder of a registered trademark had a cause of action under section 32 of the Lanham Act against unauthorized use of a mark “in connection with the sale, offering for sale, or advertising of any goods or services” when “such use is likely to cause confusion or mistake or to deceive *purchasers as to the source of origin* of such goods or services.”²⁸ The Act also contains a separate section, which provides protection even to unregistered trademarks.²⁹ Over the years, federal trademark protection has increased greatly through legislative and judicial action on both the civil and criminal fronts.

A. *The Post-Sale Confusion Doctrine*

Traditionally trademark law has concerned itself with point-of-sale confusion. This occurs when someone sells a product that infringes a trademark and confuses the consumer at the time of purchase into thinking that she is buying something other than what she is actually getting. The extreme case is when the seller intentionally engages in “passing off,” sometimes referred to as “palming off.”³⁰ The post-sale confusion doctrine, by contrast, encompasses situations where the buyer knows what she is getting, but other people who later view (or are gifted) the item might be confused into

²⁷ Lanham Act § 45 (codified as amended at 15 U.S.C. § 1127 (2006)) (defining a trademark). From the outset the Lanham Act afforded equal protection to service marks (marks identifying services rather than goods), certification marks (marks used to certify an aspect of the product that must be available for use to all companies who meet the standards of that aspect), and collective marks (which include “marks used to indicate membership in a union, an association or other organization”). Lanham Act §§ 3–4, 45 (codified as amended at 15 U.S.C. §§ 1053–1054, 1127 (2006)). In this Note the word “trademark” will be used in the colloquial way of referring to any mark capable of designating source, be it of goods, services, or membership.

²⁸ Lanham Act § 32(1)(a) (codified as amended at 15 U.S.C. § 1114(1)(a) (2006)) (emphasis added).

²⁹ Lanham Act § 43 (codified as amended at 15 U.S.C. § 1125 (2006)). While this section initially protected against a narrow harm it was later greatly broadened. *See infra* notes 42–50 and accompanying text (describing the development of section 43).

³⁰ *See* 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION §§ 25:1–2 (4th ed. 2007) [hereinafter MCCARTHY ON TRADEMARKS] (explaining that courts sometimes use the terms “passing off” and “palming off” to refer to any kind of confusion, but that these terms actually relate to the narrower and more egregious situations where the seller intends to deceive the purchaser, as opposed to standard confusion situations where purchasers are confused regardless of the seller’s intent); McKenna, *supra* note 23, at 1897 (“Unfair competition law was intended to prevent competitors from stealing each other’s customers. . . . At a doctrinal level, courts found infringement only when consumers were likely to be confused about the actual source of the defendant’s product.”).

thinking that it is something other than what it actually is.³¹ The harm here is not that the buyer will be duped, but rather that others who later view the item may be confused into thinking that it is authentic.

Post-sale confusion cases often involve luxury goods, though doctrinally this is not a requirement. The potential injury is two-fold. First, if someone views the fake product and assumes that the legitimate trademark owner makes it, she will associate the qualities of the fake product with the legitimate mark. In the usual case, the infringing product is of inferior quality, and so third-party observers might think less of the high-quality good than they would have, had they not been exposed to the lower quality replica. Thus, these third parties may forgo purchases of the genuine item that they would have otherwise made.³² Second—and more exclusive to luxury goods—the mere existence of products bearing a luxury mark will harm the mark's value, since it is the exclusivity of the good that makes people want to purchase it.³³ This happens when a buyer knowingly purchases an inexpensive imitation of a luxury item to obtain some of the good's prestige without having to pay full price.³⁴ Furthermore, the potential luxury-consuming population might observe more goods in public that appear to bear a particular mark and therefore decide that the marked

³¹ 4 LOUIS ALTMAN & MALLA POLLACK, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS & MONOPOLIES § 22:16 (4th ed. 2012) (providing an overview of the post-sale confusion doctrine); 4 MCCARTHY ON TRADEMARKS, *supra* note 30, at § 23:7 (same).

³² See, e.g., *Rolex Watch U.S.A., Inc. v. Canner*, 645 F. Supp. 484, 495 (S.D. Fla. 1986) (“Individuals examining the counterfeits, believing them to be genuine . . . might find themselves unimpressed with the quality of the item and consequently be inhibited from purchasing the real [one].”); Kozinski, *supra* note 5, at 971–72 (referring to this concept as “negative goodwill”); McCarthy, *Post-Sale*, *supra* note 16, at 3357 (“[I]ndividuals may examine the infringing goods believing them to be those of the senior user, and find themselves disappointed with the quality of the item, which could inhibit them from purchasing the genuine product.”).

³³ See, e.g., *Hermès Int'l v. Lederer de Paris Fifth Ave., Inc.*, 219 F.3d 104, 108 (2d Cir. 2000) (“[T]he purchaser of an original is harmed by the widespread existence of knock-offs because the high value of originals, which derives in part from their scarcity, is lessened.”); *Canner*, 645 F. Supp. at 495 (“Others who see the watches bearing the Rolex trademarks on so many wrists might find themselves discouraged from acquiring a genuine because the items have become too common place and no longer possess the prestige once associated with them.”); Kozinski, *supra* note 5, at 970 (“Whatever pleasure people get from wearing an image-enhancing product is diminished if everyone else can get the same thing at a discount store.”).

³⁴ See, e.g., *Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-Le Coultre Watches, Inc.*, 221 F.2d 464, 466 (2d Cir. 1955) (“[S]ome customers would buy plaintiff's cheaper clock for the purpose of acquiring the prestige gained by displaying what many visitors at the customers' homes would regard as a prestigious article.”); 4 MCCARTHY ON TRADEMARKS, *supra* note 30, at § 23:7 (“[C]onsumers could acquire the prestige value of the senior user's product by buying the copier's cheap imitation. . . . Thus, the senior user suffers a loss of sales diverted to the junior user, the same as if the actual buyer were confused.”).

good is no longer sufficiently exclusive to associate themselves with. They will therefore not purchase the item that they otherwise might have.³⁵ To reach these harms, many courts have interpreted the Lanham Act's "likely to cause confusion" requirement as encompassing confusion that only arises after a sale.³⁶ Some scholars have criticized this by stating that the harms of post-sale "confusion" are not those of confusion, but rather those of dilution,³⁷ a distinct harm that was not protected in the Lanham Act until 1996—over a decade after the enactment of the TCA.³⁸

B. Legislative Expansion of Trademark Remedies

Over the past half-century Congress has steadily broadened the Lanham Act. In addition to expanding the civil trademark laws, Congress has made certain trademark infringements criminal and through the years has increased the reach and severity of criminal trademark law. This Subpart will trace these developments.

³⁵ See, e.g., Jonathan M. Barnett, *Shopping for Gucci on Canal Street: Reflections on Status Consumption, Intellectual Property, and the Incentive Thesis*, 91 VA. L. REV. 1381, 1390 (2005) ("[I]n the case of the snob effect, additional perceived users outside the elite consumer class exert a negative consumption externality on existing users . . ."); Richard S. Higgins & Paul H. Rubin, *Counterfeit Goods*, 29 J.L. & ECON. 211, 214 (1986) ("[T]he value of the trademark lies in the exclusivity it signals, and this exclusivity is of value to snobbish consumers. When the logo is counterfeited, the consumption plans of these snobbish consumers are thwarted if they purchased expecting no counterfeiting."). Professor Barton Beebe has referred to this aspect of trademark law as being a modern form of the sumptuary code—ancient laws that regulated consumption based on social status. He argues that technology has advanced to a point where rarity is no longer necessary and that intellectual property law, including the post-sale confusion doctrine, seeks to artificially impose rarity to maintain class distinctions. Barton Beebe, *Intellectual Property Law and the Sumptuary Code*, 123 HARV. L. REV. 809 (2010).

³⁶ E.g., *Mastercrafters*, 221 F.2d at 464 ("[T]he likelihood of such [post-sale] confusion suffices to render plaintiff's conduct actionable."); *Canner*, 645 F. Supp. at 492 ("The [Lanham] Act endeavors not just to protect a purchaser, but instead aims to prevent mistake, deception, and confusion in the market place at large."); David M. Tichane, *The Maturing Trademark Doctrine of Post-Sales Confusion*, 85 TRADEMARK REP. 399, 399 (1995) ("[T]he doctrine of post-sales confusion . . . became well established in the mid-1980s, [and] it quickly spread to virtually every federal circuit.").

³⁷ See Beebe, *supra* note 35, at 851–53 (explaining that courts have used post-sale confusion "to do the regulatory work that antidilution law was originally intended to do"); William D. Raman, Ferrari—*Can Dilution Be the Standard for Likelihood of Confusion?*, 1 TEX. INTEL. PROP. L.J. 1 (1992) (analyzing a Sixth Circuit decision that imposed liability on a seller of kits that made ordinary cars look like Ferraris and determining that the court "essentially adopted a tarnishment or dilution test for determining likelihood of confusion"); see also *infra* Part II.C (arguing that since the harms from post-sale confusion are essentially the harms of dilution, this mode of "confusion" should not be covered in the TCA).

³⁸ See *infra* note 47 (discussing the enactment of dilution law).

1. *Civil Expansion of Trademark Laws*

The first major change to the Lanham Act was the 1962 removal of the original requirement that, to be liable, one must use a mark that is likely to cause confusion of “purchasers as to the source of origin” of the goods or services connected to the mark.³⁹ The effect of this change has been widely disputed by courts and commentators. Some courts ignored the change and still required point-of-sale confusion of actual purchasers, others interpreted the deletion of the abovementioned phrase to mean that the Lanham Act now covered any confusion of the general public at large in a post-sale context, and still others interpreted the amendment to only extend the statute to reach potential purchasers, which is in keeping with stated Congressional intent.⁴⁰ Over time the debate over whether section 32 reaches post-sale confusion became largely academic, as other parts of the Lanham Act were amended in ways that more clearly cover post-sale confusion.⁴¹

The 1962 change was only applicable to section 32(1)—the subsection of the Lanham Act that covers infringement of a registered mark. Although there have been no subsequent legislative changes to section 32(1) since it was amended over fifty years ago, the rest of the Lanham Act has not remained static during this time. Many drastic changes have since been made to section 43(a)—the section that provides a remedy regardless of registration status—all of which occurred after the 1984 enactment of the TCA. While the 1962 Act had no bearing on section 43(a), Congress completely revamped the section in 1988.⁴² The new section 43(a) makes actionable the use “in connection with any goods or services” of “any word, term, name, symbol, or device” that “is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association . . . or as to the origin, sponsorship, or approval.”⁴³ While this language is very similar to section 32(1), it is notably broader,⁴⁴ because it explicitly covers

³⁹ Compare Lanham Act, ch. 540, § 32(1)(a), 60 Stat. 427, 437 (1946) (codified as amended at 15 U.S.C. § 1114(1)(a) (2006)) (containing the quoted language), with Act of Oct. 9, 1962, Pub. L. No. 87-772, sec. 17, § 32(1)(a), 76 Stat. 769, 773 (codified at 15 U.S.C. § 1114(1)(a) (2006)) (altering section 32 to remove the quoted language).

⁴⁰ See *infra* notes 88–102 and accompanying text (discussing the ways courts have interpreted the amendment and how commentators view these interpretations).

⁴¹ See *infra* notes 42–51 and accompanying text (discussing the later Lanham Act amendments).

⁴² Trademark Law Revision Act of 1988, Pub. L. No. 100-667, sec. 132, § 43(a), 102 Stat. 3935, 3946 (striking the old section and replacing it in full) (codified as amended at 15 U.S.C. § 1125(a) (2006)).

⁴³ *Id.*

⁴⁴ The author of the leading trademark treatise has referred to the revised section 43(a) as “today’s unrivaled legal instrument to combat unfair competition.” J. Thomas

confusion other than “as to the origin.”⁴⁵ The additional qualifying terms after “confusion,” “mistake,” or “deceive” suggest that this section can reach confusion of any kind. Even if people viewing an imitation product would not think that it was authentic, as long as they think that legally selling the imitation product would require the actual markholder’s approval, selling the imitation product would violate section 43(a). While section 43(a) does not explicitly state that it can reach the general public in a post-sale setting, its added language has been viewed as encompassing a broad view of actionable confusion.⁴⁶

The next significant expansion occurred in 1996 when Congress added protection against dilution of certain marks.⁴⁷ Dilution is made up of two separate components: dilution by blurring and dilution by tarnishment. As defined in the Lanham Act, dilution by blurring is an “association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark.”⁴⁸ Dilution by tarnishment is defined as an “association arising from the similarity between a mark or trade name and a famous mark

McCarthy, *Lanham Act § 43(a): The Sleeping Giant Is Now Wide Awake*, LAW & CONTEMP. PROBS., Spring 1996, at 45, 46. Beyond covering unregistered trademarks, the section also covers a wide array of trade dress, which “involves the total image of a product and may include features such as size, shape, color or color combinations, texture, graphics, or even particular sales techniques.” *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966, 980 (11th Cir. 1983). The Supreme Court has held that product packaging is automatically protected under section 43(a) and design or configuration trade dress is protected if the plaintiff can establish it has acquired distinctiveness. *Wal-Mart Stores, Inc. v. Samara Bros.*, 529 U.S. 205 (2000).

⁴⁵ 15 U.S.C. § 1125(a)(1)(A) (2006).

⁴⁶ See McCarthy, *Post-Sale*, *supra* note 16, at 3349 (stating that 1988 amendment to section 43 incorporated a “liberalized likelihood of confusion”); Wooster, *supra* note 17, at § 2(a) (collecting sources claiming that the amendments were enacted so that section 43 could reach post-sale confusion).

⁴⁷ Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, sec. 3, 109 Stat. 985, 985–86 (1996) (codified as amended at 15 U.S.C. § 1125(c) (2006)) (providing for injunctions and other relief against “dilution of famous marks”). Much of the original law was unclear, which led to inconsistent and highly subjective judicial decisions about the scope of anti-dilution protection. See generally Marc L. Delflache et al., *Life After Moseley: The Trademark Dilution Revision Act*, 16 TEX. INTELL. PROP. L.J. 125, 129–37 (2007) (explaining some of the aspects over which courts were split). The need for a revision was made evident when the Supreme Court held in 2003 that a showing of a likelihood of dilution was insufficient; to prevail, a plaintiff had to prove actual dilution of her mark. *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418, 433 (2003). Congress responded by enacting a replacement in 2006. Trademark Dilution Revision Act of 2006, Pub. L. No. 109-312, sec. 2, 120 Stat. 1730, 1730–32 (codified at 15 U.S.C. § 1125(c) (2006)) (providing for injunctions against use in commerce that is “likely to cause dilution . . . of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury”).

⁴⁸ 15 U.S.C. § 1125(c)(2)(B) (2006).

that harms the reputation of the famous mark.”⁴⁹ The Lanham Act provides a remedy to the holder of a nationally famous mark against the “use of a mark or trade name in commerce that is likely to cause dilution” either by blurring or tarnishment.⁵⁰ Unlike confusion, which requires a conscious mistaken view at a discrete time about the connection between a particular good and a mark, dilution is concerned with the subconscious lasting effect that observing an infringing mark has on a viewer. Dilution is therefore less amenable to segregating the analysis based on whether it occurs before, at the point of, or after a sale. While confusion is arguably concerned with specific purchasing decisions,⁵¹ dilution deals with more abstract mental associations that need not relate to a sale.

With respect to counterfeiting, Congress first targeted the problem civilly in the same law that added criminal penalties. The TCA amended the Lanham Act to allow for *ex parte* seizures of counterfeit goods.⁵² It also added treble damages and attorney’s fees for intentional and knowing uses of counterfeit marks.⁵³ This increased the amount of available damages, but still required the plaintiff to prove the actual amount of baseline monetary harm. In 1996 Congress relieved plaintiffs of this burden by making available statutory damages instead of actual damages in counterfeiting cases.⁵⁴ In 2008 the statutory damages were doubled.⁵⁵

2. *Enactment and Expansion of the Criminal Trademark Law*

In 1984 Congress enacted the TCA, which provides broad criminal penalties for trademark counterfeiting. The TCA made counterfeiting a felony with the original penalties of a maximum fine of

⁴⁹ *Id.* § 1125(c)(2)(C) (2006).

⁵⁰ *Id.* § 1125(c)(1) (2006).

⁵¹ See *infra* notes 88–97 (discussing how some courts require there to be someone actively involved in the purchasing process to find confusion).

⁵² Trademark Counterfeiting Act of 1984, Pub. L. No. 98-473, sec. 1503, 98 Stat. 2178, 2179–80 (codified in relevant part at 15 U.S.C. § 1116(d)(1)(A) (2006)).

⁵³ *Id.* at 2182 (codified in relevant part as amended at 15 U.S.C. § 1117(b) (2006)).

⁵⁴ Anti-Counterfeiting Consumer Protection Act of 1996, Pub. L. No. 104-153, sec. 7, § 1117, 110 Stat. 1386, 1388 (codified as amended at 15 U.S.C. § 1117(c) (2006)). This Act also makes trademark counterfeiting a predicate offense for the RICO statute, which creates additional civil penalties and causes of action. *Id.* sec. 3, § 1961(1)(B), 110 Stat. at 1386. The triggering of RICO also has criminal implications. See *infra* notes 61–63 and accompanying text.

⁵⁵ Prioritizing Resources and Organization for Intellectual Property Act of 2008, Pub. L. No. 110-403, sec. 104, § 1117, 122 Stat. 4256, 4259 (codified at 15 U.S.C. § 1117(c) (2006 & Supp. V 2012)). This Act also allows for treble damages and attorney’s fees in a civil suit against one who “provid[es] goods or services necessary to the commission” of intentional trademark counterfeiting. *Id.* sec. 103, § 1117(b), 122 Stat. at 4259 (codified at 15 U.S.C. § 1117(b)(2) (2006)).

\$250,000 and up to five years in prison for an individual's first offense. Any subsequent conviction carried with it fines up to \$1,000,000 and fifteen years in prison.⁵⁶ The Act reaches anyone who "intentionally traffics or attempts to traffic in goods or services and knowingly uses a counterfeit mark on or in connection with such goods or services."⁵⁷ In the Act, a counterfeit mark is defined as:

[A] spurious mark—(i) that is used in connection with trafficking in goods or services; (ii) that is identical with, or substantially indistinguishable from, a mark registered for those goods or services on the principal register . . . and in use, whether or not the defendant knew such mark was so registered; and (iii) the use of which is likely to cause confusion, to cause mistake, or to deceive.⁵⁸

Even though the law seems to have high mens rea requirements, the definitions show that, at least with respect to registration status, there is a strict liability component to the offense.⁵⁹

Since 1984, Congress has occasionally made revisions to § 2320 that have increased the scope and the severity of its penalties, while keeping the core structure constant. The first amendment to § 2320 occurred a decade after the enactment of the TCA, when Congress increased the cap on the various criminal counterfeiting fines between 300% and 800%. The potential fine for an individual convicted for the first time was raised from \$250,000 to \$2,000,000. The maximum prison sentence for a first offense was also doubled to ten years.⁶⁰

These core penalties have not subsequently been adjusted, but two years after the drastic expansion of penalties for a violation of § 2320, Congress made trademark counterfeiting a predicate offense for the Racketeer Influenced and Corrupt Organizations Act (RICO).⁶¹ This subjects the defendant to a sentence of up to twenty

⁵⁶ Trademark Counterfeiting Act of 1984, Pub. L. No. 98-473, sec. 1502 (codified as amended at 18 U.S.C. § 2320(b)(1) (2006 & Supp. V 2012)). The Act also provided for maximum criminal fines for companies of \$1,000,000 for a first offense and \$5,000,000 for a subsequent conviction. *Id.*

⁵⁷ *Id.* (codified as amended at 18 U.S.C. § 2320(a)(1) (2006 & Supp. V 2012)).

⁵⁸ *Id.* (codified as amended at 18 U.S.C. § 2320(f)(1)(A) (2006 & Supp. V 2012)).

⁵⁹ *See, e.g.,* United States v. Sung, 51 F.3d 92, 93–94 (7th Cir. 1995) (finding that the defendant could be held liable for violating § 2320 by copying a registered mark, even if he thought that, since it did not contain the "®" symbol, it was unregistered).

⁶⁰ Violent Crime Control and Law Enforcement Act of 1994, Pub. L. No. 103-322, sec. 320104, § 2320(a), 108 Stat. 1796, 2110 (codified as amended at 18 U.S.C. § 2320(b)(1) (2006 & Supp. V 2012)). The Act also increased the maximum penalty for any subsequent conviction to a \$5,000,000 fine and twenty years in prison. The cap on fines for companies was increased to \$5,000,000 for an initial offense, and \$15,000,000 for each succeeding offense. *Id.*

⁶¹ Anti-Counterfeiting Consumer Protection Act of 1996, Pub. L. No. 104-153, sec. 3, § 1961(1)(B), 110 Stat. 1386, 1386 (codified at 18 U.S.C. § 1961(1)(B) (2006)).

years in prison⁶² and also greatly expands the types of assets subject to seizure by law enforcement.⁶³ Ten years later Congress passed the Stop Counterfeiting in Manufactured Goods Act (SCIMGA)⁶⁴ to expand the reach of § 2320 to include the trafficking or attempted trafficking of “labels, patches, stickers, wrappers, badges, emblems, medallions, charms, boxes, containers, cans, cases, hangtags, documentation, or packaging of any type or nature, knowing that a counterfeit mark has been applied thereto.”⁶⁵ SCIMGA got around the requirement that infringement must involve the type of goods for which the trademark holder registered her mark by making actionable the trafficking of labels⁶⁶ that are “designed, marketed, or otherwise intended to be used on or in connection with the goods or services for which the mark is registered.”⁶⁷ Most recently, Congress increased the length of incarceration when a defendant “knowingly or recklessly causes or attempts to cause serious bodily injury” or death by trafficking in counterfeit goods.⁶⁸

While Congress has consistently increased penalties for violations of the TCA, it has left constant the basic framework for establishing a violation of the law. Other than SCIMGA’s expansion of § 2320 to reach counterfeit marks detached from goods, none of the various amendments to the TCA extends the scope of infringing activity beyond its 1984 limits.

⁶² 18 U.S.C. § 1963(a) (2006).

⁶³ *Id.* § 1963(b); 141 CONG. REC. S12084 (daily ed. Aug. 9, 1995) (“This amendment to the RICO statute would allow law enforcement officials in appropriate cases to seize not only counterfeit goods, but also the non-monetary assets, including both personal and real property . . . associated with the criminal counterfeiting enterprise . . .”).

⁶⁴ Pub. L. No. 109-181, 120 Stat. 285 (2006) (codified as amended at 18 U.S.C. § 2320 (2006 & Supp. V 2012)).

⁶⁵ *Id.* sec. 1(b)(1), § 2320(a) (codified as amended at 18 U.S.C. § 2320(a)(2) (2006 & Supp. V 2012)). This was done to close a loophole that existed in some circuits where counterfeit labels on their own were not found to be “goods” within the meaning of the TCA. *See generally* McDonough, *supra* note 18 (explaining the ambiguity of the prior law, the legislative history of the amendment, and its effect on counterfeiters).

⁶⁶ The word “label” is used to refer to the full array of packaging quoted in the text accompanying note 65.

⁶⁷ Stop Counterfeiting in Manufactured Goods Act, sec. 1(b)(3), § 2320(e)(1) (codified at 18 U.S.C. § 2320(f)(1)(A)(iii) (2006 & Supp. V 2012)).

⁶⁸ Prioritizing Resources and Organization for Intellectual Property Act of 2008, Pub. L. No. 110-403, sec. 205, § 2320, 122 Stat. 4256, 4261–62 (codified as amended at 18 U.S.C. § 2320(b)(2) (2012)). This allows for twenty years in prison for a first offense when serious bodily injury is involved and for a sentence of life in prison when the defendant recklessly causes or attempts to cause death. *Id.* Apparently \$2,000,000 in criminal fines and twenty years to life in prison were not a sufficient deterrent: In late 2011, Congress increased the maximum fines in these cases to \$5,000,000 for an individual and \$15,000,000 for a company. National Defense Authorization Act for Fiscal Year 2012, Pub. L. No. 112-81, sec. 818(h), § 2320, 125 Stat. 1298, 1497–98 (codified at 18 U.S.C. § 2320(b)(2) (2012)).

II

THE COURTS' APPLICATION OF THE TCA TO POST-SALE
CONFUSION AND THE STATUTORY REASONS THAT COUNSEL
AGAINST THIS APPLICATION

This Part argues that courts' applications of the criminal trademark statute to post-sale confusion situations are inappropriate based on a proper reading of the TCA and a careful consideration of the Act's legislative history. This Part also argues that the interplay of the trademark statutes shows that Congress envisioned the TCA to only reach point-of-sale confusion because, when Congress wanted to protect against the harms of dilution, it did so broadly and explicitly in section 43 of the Lanham Act in an amendment passed more than a decade after the enactment of the TCA. The TCA applies narrowly to reproductions of registered trademarks on the goods for which the mark is registered. Since the TCA applies narrowly, and unequivocally does not reach more typical dilutive sales, this Part argues that its concern was with the harms of point-of-sale confusion rather than those of dilution.

A. *Judicial Application of the Trademark Counterfeiting Act to Post-Sale Confusion*

It did not take long for courts to be faced with § 2320 cases based on a post-sale confusion theory. Less than a year and a half after the passing of the TCA there were already several district court opinions addressing this issue. In *United States v. Torkington*,⁶⁹ the first case to address the role of post-sale confusion in § 2320, the district court was adamant that this doctrine had no role in the TCA.⁷⁰ In this case, John Torkington was indicted for selling counterfeit Rolex watches at prices low enough that it would be inconceivable for there to be point-of-sale confusion. The district court judge dismissed the case, emphatically declaring: "The Court finds it unlikely—to the point of absurdity—that the purchaser of a replica or fake Rolex watch that sold for \$27.00 would be confused, mistaken or deceived into thinking that he was purchasing a genuine Rolex" ⁷¹ This, however, was to be the last

⁶⁹ No. 85-6168-CR-NRC (S.D. Fla. Feb. 10, 1986). While the district court opinion is unpublished, it has been quoted and discussed both on appeal and by another district court.

⁷⁰ See *United States v. Torkington*, 812 F.2d 1347, 1352 (11th Cir. 1987) ("[T]he district court . . . concluded that the likelihood of post-sale confusion is irrelevant to the section 2320[] inquiry.").

⁷¹ *United States v. Gonzalez*, 630 F. Supp. 894, 895–96 (S.D. Fla. 1986) (quoting *United States v. Torkington*, No. 85-6168-CR-NRC (S.D. Fla. Feb. 10, 1986)).

known opinion ruling against the application of post-sale confusion to the TCA.

The doctrine developed in *Torkington* was both unique and incredibly short-lived. A mere thirty days later in a case with near-identical facts, a different judge in the same court issued a contrary ruling in the second case to ever address the criminal post-sale question. In an opinion that barely spans two pages, the judge in *United States v. Gonzalez* declined to follow *Torkington*, arguing that the TCA is “fashioned for the protection of trademarks themselves and for the prevention of the cheapening and dilution of the genuine product.”⁷² The court relied on policy reasons to broaden the scope of the TCA. No longer was the statute read only to cover situations where purchasers or potential purchasers could be confused. Instead, the *Gonzalez* court explicitly stated that the TCA was designed to prevent dilution.

The Eleventh Circuit embraced the district court’s holding in *Gonzalez* when *Torkington* went up on appeal. The appeals court relied on the “plain meaning” of § 2320.⁷³ The court did not address the legislative history of the 1962 Lanham Act amendment but did restrict its analysis to potential purchasers, which is in line with one common reading of that amendment.⁷⁴ The Eleventh Circuit declared that § 2320 is to “be given the same interpretation as is given the identical language in section [32].”⁷⁵ It then reiterated *Gonzalez* and declared: “A trademark holder’s ability to use its mark to symbolize its reputation is harmed when potential purchasers of its goods see unauthentic goods and identify these goods with the trademark holder.”⁷⁶ It felt this reputational harm was covered in the TCA and reversed the district court. The other circuits that addressed knock-off goods under § 2320 have all held that the statute covers situations in which only post-sale confusion occurs. In doing so, the courts all quote either *Gonzalez*’s “cheapening and dilution,” *Torkington*’s statement about the TCA protecting the markholder’s reputation, or both.⁷⁷

⁷² *Gonzalez*, 630 F. Supp. at 896.

⁷³ *Torkington*, 812 F.2d at 1351.

⁷⁴ See *infra* note 98 and accompanying text (explaining that the Seventh Circuit read the 1962 amendment in this way).

⁷⁵ *Torkington*, 812 F.2d at 1352. The court stated that the same multifactor test used to determine liability under section 32 applies to § 2320. Interestingly, none of the listed factors has anything to do with determining whether the people that come in contact with the item after the sale are potential purchasers, but this did not stop the Eleventh Circuit from reversing the lower court. See *id.* at 1354–55 (listing the standard likelihood of confusion factors that the court applied and reversing the district court’s dismissal of the case).

⁷⁶ *Id.* at 1353.

⁷⁷ See *United States v. Foote*, 413 F.3d 1240, 1245–46 (10th Cir. 2005) (quoting *Torkington*, 812 F.2d at 1352–53); *United States v. Hon*, 904 F.2d 803, 806 (2d. Cir. 1990)

Rather than independently analyzing the TCA, these courts relied on the early statements by the *Torkington* and *Gonzalez* courts to sidestep the interpretive difficulties of holding that the TCA covers post-sale confusion.

Moreover, while *Torkington* expressly limited its post-sale confusion analysis to potential purchasers, the Second and Fifth Circuits have held that the TCA can reach the post-sale confusion of the general public.⁷⁸ According to the Second Circuit, if the post-sale analysis were restricted to potential purchasers, there would likely never be criminal liability for post-sale confusion in the TCA. This is because potential purchasers scrutinize goods more closely than the non-potential-purchaser viewing public, and thus the requisite confusion to lead to a violation of the TCA would not exist for knock-offs.⁷⁹

The court noted that the decision to go beyond potential purchasers “is quite likely to be material in a case such as this,” further suggesting that if the TCA does not encompass the post-sale confusion of the entire general public then there would be no criminal liability for post-sale confusion.⁸⁰

B. *The TCA Properly Interpreted Does Not Cover Post-Sale Confusion*

1. *Text and Congressional Intent*

The TCA and section 32 of the Lanham Act hinge liability on a near-identical phrase. To be guilty under the TCA, the defendant must traffic in goods or services with a counterfeit registered mark,

(quoting *Gonzalez*, 630 F. Supp. at 896); *United States v. Yamin*, 868 F.2d 130, 132–33 (5th Cir. 1989) (quoting *Gonzalez*, 630 F. Supp. at 896; *Torkington*, 812 F.2d at 1353); *United States v. Gantos*, 817 F.2d 41, 43 (8th Cir. 1987) (quoting *Gonzalez*, 630 F. Supp. at 896). As of this writing, the remaining eight circuits have yet to rule on post-sale confusion’s role in the TCA.

⁷⁸ *Hon*, 904 F.2d at 805, 808 (upholding a jury instruction that § 2320 covers nonpurchasers, including those “who have no intention of purchasing”); *Yamin*, 868 F.2d at 132 (upholding a jury instruction that the TCA “includes persons who have no intent to purchase such as the recipient of a gift or the guest in the house who simply views goods as well as purchasers and potential purchasers”). This tracks the expansive view of the 1962 amendment to the Lanham Act. See *infra* note 101 and accompanying text (discussing how some courts read the amendment to encompass the public at large).

⁷⁹ The *Hon* court explains:

A purchaser or potential purchaser would invest at least minimal effort in examining the counterfeit watch in question and, based on the differences he would discover in price and quality of manufacture between the counterfeit and the genuine item, would probably not be confused as to the watch’s origin. However, a casual observer viewing a counterfeit watch on the wrist of a friend, for instance, could easily be confused.

904 F.2d at 805.

⁸⁰ *Id.*

“the use of which is likely to cause confusion, to cause mistake, or to deceive.”⁸¹ Section 32 makes actionable the trafficking in goods or services with an imitation of a registered mark when “such use is likely to cause confusion, or to cause mistake, or to deceive.”⁸² This language is facially ambiguous with respect to whose confusion it is concerned with; the text does not make it clear whether this covers the confusion of actual purchasers, the general public, or someone in-between, such as a potential purchaser.

The legislative history sheds some light on how to properly interpret the TCA. The sponsors of the TCA from both houses of Congress issued a joint statement, which they indicated was “to be the final and authoritative explanation of the legislative intent of this act.”⁸³ In this statement TCA sponsors asserted that “[t]he scope of this act is narrower than current law [It] is intended to reach only the most egregious forms of trademark infringement.”⁸⁴ They then explained that they purposely borrowed section 32’s language in the TCA, which is “intended to ensure that no conduct will be criminalized by this act that does not constitute trademark infringement under the Lanham Act. . . . [T]he sponsors do not intend to treat as counterfeiting what would formerly have been arguable, but not clear-cut, cases of trademark infringement.” Congress very much had the Lanham Act—as it existed in 1984—in mind when it wrote the TCA.⁸⁵ Therefore, to understand whether Congress intended certain conduct to be covered by the TCA, it is crucial to know how this conduct was treated civilly in 1984. Only the most serious and noncontroversial Lanham Act violations were intended to be criminalized.⁸⁶ Unless it was clear that the Lanham Act reached post-sale confusion in 1984, Congress did not intend to criminalize it in the TCA.

In 1984 it was far from settled that the Lanham Act made post-sale confusion actionable. The circuits and lower courts took a wide variety of approaches, mainly based on their reading of the 1962 amendment to section 32 that deleted the “purchasers as to the source

⁸¹ 18 U.S.C. § 2320(f)(1)(A)(iv) (2012).

⁸² 15 U.S.C. § 1114(1)(a) (2006).

⁸³ 130 CONG. REC. 31,673, 31,673 (1984) (Joint Statement on Trademark Counterfeiting Legislation).

⁸⁴ *Id.* at 31,673, 31,676.

⁸⁵ *See, e.g.*, H.R. REP. NO. 98-997, at 8 (1984) (“[T]his legislation relies in a number of instances on concepts and definitions of the Lanham Act.”); *see also* PROSECUTING IP CRIMES, *supra* note 3, at 89 (expressing the Department of Justice’s view that “Congress repeatedly indicated that the Lanham Act was the background against which § 2320 should be interpreted”).

⁸⁶ *See supra* note 84 and accompanying text.

of origin” language from the confusion analysis.⁸⁷ Some ignored the amendment and continued to require that, to be actionable, there must be a likelihood that purchasers would be confused as to which company manufactured the goods they were purchasing.⁸⁸ This approach was in place around the time of the enactment of the TCA in the First,⁸⁹ Seventh,⁹⁰ and Federal⁹¹ Circuits, all of which have yet to adjudicate a post-sale confusion claim under § 2320. Also, as acknowledged by the court in *United States v. Hon*, there was a line of Second Circuit precedent that required point-of-sale confusion to find liability under section 32.⁹² Additionally, many lower court decisions between 1970 and 1990 required confusion to be of an actual purchaser before finding civil liability.⁹³

Other courts embraced the sparse legislative history of the amendment, which states: “The purpose of the proposed change is . . . to omit the word ‘purchasers[,]’ since the provision actually relates to potential purchasers as well as to actual purchasers.”⁹⁴ Reaching

⁸⁷ See *supra* note 39 and accompanying text (describing the 1962 amendment to section 32).

⁸⁸ See, e.g., *Allen*, *supra* note 16, at 332–39 (addressing and critiquing the different approaches courts have taken to limit confusion to purchasers at the time of sale after 1962); *McCarthy*, *Post-Sale*, *supra* note 16, at 3352–54 (discussing cases after 1962 that required point-of-sale confusion).

⁸⁹ See, e.g., *Astra Pharm. Prods., Inc. v. Beckman Instruments, Inc.*, 718 F.2d 1201, 1206–07 (1st Cir. 1983) (finding no confusion since the high price of the goods and the sophistication of the consumers that this implies makes it “simply inconceivable that purchasers of the parties’ respective products could be confused as to the source of those products”).

⁹⁰ See, e.g., *Nike, Inc. v. “Just Did It” Enters.*, 6 F.3d 1225, 1232 (7th Cir. 1993) (explaining that the underlying legal inquiry is whether “customers might be confused when purchasing”). A few years later the Seventh Circuit changed its approach and found that some forms of post-sale confusion are actionable. See *infra* note 98.

⁹¹ See, e.g., *Litton Sys., Inc. v. Whirlpool Corp.*, 728 F.2d 1423, 1447 (Fed. Cir. 1984) (stating that the relevant inquiry is “whether an ordinary shopper might be confused into buying a Whirlpool oven when intending to buy a Litton oven”).

⁹² The defendant argued that numerous post-1962 Second Circuit decisions, including some that were quite recent, stated that the Lanham Act is concerned with the confusion of purchasers or potential purchasers. The court brushed off this argument by trying to distinguish many of the cases and, for the ones that could not be distinguished, briskly stated that “there is no suggestion in the legislative history of 18 U.S.C. § 2320 that Congress intended to incorporate *Hon*’s reading of [these] . . . cases into its understanding of the confusion requirement it was enacting.” *United States v. Hon*, 904 F.2d 803, 808 (2d Cir. 1990).

⁹³ See *Allen*, *supra* note 16, at 332 n.61 (listing eight district court opinions, including five issued between 1982 and 1985, and one from the Trademark Trial and Appeal Board that required point-of-sale confusion).

⁹⁴ S. REP. NO. 87-2107, at 4 (1962), reprinted in 1962 U.S.C.C.A.N. 2844, 2847. While this statement was directly referring to a change in 15 U.S.C. § 1052, which states conditions for trademark registration, this change was also made in § 1114. Compare Lanham Act, ch. 540, §§ 2(d), 32(1)(a), 60 Stat. 427, 428, 437 (1946) (codified as amended at 15

potential purchasers is not the same as reaching the public at large in a broad post-sale confusion context. Consider two approaches taken by some courts after 1962. In *Redken Laboratories, Inc. v. Clairol Inc.*,⁹⁵ the court took a narrow view of the amendment and concluded: “Congress merely sought to clarify [that] . . . likelihood of confusion is to be determined not only with respect to those who actually make a purchase, but also with respect to those who view the wares with the prospect in mind of making a purchase.”⁹⁶ This has been interpreted as “extend[ing] [trademark protection] only slightly beyond actual purchaser confusion to include individuals who have engaged in the purchasing process up to the point of finalizing a sale.”⁹⁷ The Seventh Circuit took an intermediate approach and applied the Lanham Act to post-sale contexts, but only when the viewers of the infringing good are potential purchasers.⁹⁸ This is also the approach that the Federal Circuit eventually adopted.⁹⁹ Under this approach, the trademark law is only concerned with the confusion of a small subset of the general public—especially when dealing with an expensive luxury good.¹⁰⁰

Finally, a number of courts employed a broad interpretation of the amendment and held that section 32 reaches all possible post-sale confusion of the public at large.¹⁰¹ Commentators have criticized this

U.S.C. §§ 1052(d), 1114(1)(a) (2006)) (containing the word “purchasers” after the “cause confusion or mistake or to deceive” phrase), with Act of Oct. 9, 1962, Pub. L. No. 87-772, sec. 17, §§ 2, 32(1)(a), 76 Stat. 769, 769, 773 (codified at 15 U.S.C. §§ 1052(d), 1114(1)(a) (2006)) (altering the relevant phrase in sections 2 and 32 to “cause confusion, or to cause mistake, or to deceive” without additional qualifying language). This Note makes the reasonable assumption that Congress intended the same changed language to have consistent meaning in the two sections.

⁹⁵ 350 F. Supp. 1301 (C.D. Cal. 1972), *aff'd in relevant part sub nom.* *Redken Labs., Inc. v. Clairol, Inc.*, 501 F.2d 1403 (9th Cir. 1974).

⁹⁶ *Redken Labs., Inc.*, 350 F. Supp. at 1306 n.10.

⁹⁷ McCarthy, *Post-Sale*, *supra* note 16, at 3355.

⁹⁸ See 4 MCCARTHY ON TRADEMARKS, *supra* note 30, at § 23:7 (“The Seventh Circuit has restricted the scope of the post-confusion rule to viewing by potential customers, not just viewing by those who are not possible buyers of the products.”).

⁹⁹ See *Elec. Design & Sales, Inc. v. Elec. Data Sys. Corp.*, 954 F.2d 713, 716 (Fed. Cir. 1992) (“[I]n the case of goods and services that are sold, the inquiry generally will turn on whether actual or potential ‘purchasers’ are confused.”).

¹⁰⁰ Not everybody who simply views a good is a potential purchaser. See *supra* note 98. This distinction between viewers and potential purchasers is amplified only when the good in question is one that the vast majority of the population would not be able to afford.

¹⁰¹ See, e.g., *Syntex Labs., Inc. v. Norwich Pharmacal Co.*, 437 F.2d 566, 568 (2d Cir. 1971) (“In amending [§ 1114(1)] in 1962, Congress eliminated the . . . qualifying language, thereby evincing a clear purpose to outlaw the use of trademarks which are likely to cause confusion, mistake, or deception of any kind, not merely of purchasers nor simply as to source of origin.”); see also Tichane, *supra* note 36, at 403 (“By eliminating the qualifying phrase that such confusion, mistake, or deception be suffered by ‘purchasers,’ Congress facilitated federal court recognition of the post-sales confusion doctrine.”).

approach as being an “extreme view” that, given the clear legislative intent and statutory framework, is “intellectually dishonest.”¹⁰²

When interpreted in light of the legislative history, it becomes clear that § 2320 should not be read to criminalize post-sale confusion, as this mode of confusion was not clearly subject to civil liability under the Lanham Act in 1984. The diversity of approaches courts have taken suggests that the propriety of extending section 32 of the Lanham Act to post-sale confusion is not clearly established. In the self-proclaimed definitive statement of congressional intent, it was made known that “the sponsors do not intend to treat as counterfeiting what would formerly have been arguable, but not clear-cut, cases of trademark infringement.”¹⁰³ Section 32’s vague language and its legislative history suggest that Congress did not intend to subject post-sale confusion to criminal penalties. Even if § 2320 were read to incorporate the expansive reading of section 32’s legislative history, extending confusion to cover potential purchasers not actively involved in the purchasing process, this would still not suffice to make post-sale confusion actionable in many cases.¹⁰⁴ The only way to read § 2320 as encompassing post-sale confusion is to claim that the text of the provision unambiguously covers it; however, the wide variety of ways that courts have interpreted the near-identical language in section 32 suggests that there is sufficient ambiguity as to the meaning of “likely to cause confusion” so that post-sale confusion should not be subject to the TCA’s criminal penalties.

2. Lenity

The rule of lenity provides additional support for the conclusion that post-sale confusion should not be criminalized. The rule of lenity is a rule of statutory construction that counsels against attaching criminal penalties to ambiguous statutes.¹⁰⁵

It is axiomatic that criminal laws are to be construed strictly and that citizens should not be subject to criminal penalties for acts that

¹⁰² Allen, *supra* note 16, at 348, 355; *see also* Tichane, *supra* note 36, at 421 & n.73 (proposing that the early post-sale decisions, which were instrumental in the development of the doctrine, made “sweeping assertions” about congressional intent that had “no support in the legislative history”).

¹⁰³ 130 CONG. REC. 31,673, 31,676 (1984) (Joint Statement on Trademark Counterfeiting Legislation).

¹⁰⁴ *See supra* text accompanying notes 79–80 (quoting and explaining the *Hon* court’s statement that under this reading of the 1962 amendment, as long as the confusion is cleared up prior to purchase, there is no infringement).

¹⁰⁵ *See, e.g.*, BLACK’S LAW DICTIONARY 1449 (9th ed. 2009) (defining the rule of lenity as “[t]he judicial doctrine holding that a court, in construing an ambiguous criminal statute that sets out multiple or inconsistent punishments, should resolve the ambiguity in favor of the more lenient punishment”).

the law does not clearly proscribe.¹⁰⁶ As the Supreme Court explained in a case ruling against criminalizing copyright infringement, “[d]ue respect for the prerogatives of Congress in defining federal crimes prompts restraint” in assessing the reach of a federal criminal statute, which leads the Court to “typically find a ‘narrow interpretation’ appropriate.”¹⁰⁷ Thus, if “Congress has not spoken with the requisite clarity,” a court should “[i]nvok[e] the ‘time-honored interpretive guideline’ that ‘ambiguity concerning the ambit of criminal statutes should be resolved in favor of lenity.’”¹⁰⁸ When deciding to read post-sale confusion into § 2320, however, many courts have done the exact opposite. Most courts did not consider the statute’s ambiguity and did not apply lenity. The Second Circuit in *Hon* addressed the argument that the statute was ambiguous, but concluded that since the statute did not explicitly preclude criminal penalties, it should be read to support them.¹⁰⁹ This decision is at odds with the judicial precedent on lenity. A proper application of the principle of lenity shows that, because § 2320 is far from clear with respect to post-sale confusion, the courts should not subject it to criminal penalties.

C. *Criminalizing Post-Sale Confusion Runs Counter to the Statutory Scheme of the Trademark Laws*

All the courts that criminalized post-sale confusion did so in part based on the false assumptions that the TCA was designed to protect against dilution (by blurring and tarnishment) and that Congress intended to protect the trademark holder’s reputation beyond the harm that is caused through point-of-sale confusion. This Subpart will describe these assumptions and argue that their falsity greatly undercuts the persuasiveness of the courts’ reasoning that post-sale confusion is within the scope of § 2320.

All the circuits that have ruled on criminal post-sale confusion have found that it is covered in § 2320, relying in large part on the idea that § 2320 protects a markholder’s reputation and exists to protect against the “cheapening and dilution” of their mark.¹¹⁰

¹⁰⁶ See, e.g., *United States v. Bass*, 404 U.S. 336, 348 (1971) (“This policy embodies ‘the instinctive distastes against men languishing in prison unless the lawmaker has clearly said they should.’” (quoting HENRY J. FRIENDLY, MR. JUSTICE FRANKFURTER AND THE READING OF STATUTES, reprinted in HENRY J. FRIENDLY, BENCHMARKS 196, 209 (1967))).

¹⁰⁷ *Dowling v. United States*, 473 U.S. 207, 213 (1985) (quoting *Williams v. United States*, 458 U.S. 279, 290 (1982)).

¹⁰⁸ *Id.* at 229 (quoting *Rewis v. United States*, 401 U.S. 808, 812 (1971)).

¹⁰⁹ *United States v. Hon*, 904 F.2d 803, 807 n.2 (2d Cir. 1990) (“Still, nothing in the legislative history or the statute as amended excludes from its reach public, nonpurchaser confusion in the case of counterfeits.”).

¹¹⁰ See *supra* Part II.A (showing that each circuit either directly stated this or quoted it from a prior case).

Torkington, relied on by many later courts, states that “a central policy goal of the Act is to protect trademark holders’ . . . reputations” and “[i]t is essential to the Act’s ability to serve this goal that the likely to confuse standard be interpreted to include post-sale confusion.”¹¹¹ As authority for the first part of this claim, the court cited to both a Senate and a House report.¹¹² However, these reports do not support the *Torkington* court’s conclusion. The House report does mention reputation, but it is referring to the harm that results from *point-of-sale confusion*.¹¹³ The report does not mention post-sale confusion and offers no support for the circuit court’s conclusion in *Torkington*.

The Senate report is similar. Some of the pages cited by the *Torkington* court do not mention reputational harms at all but do speak of how counterfeits “defraud consumers,”¹¹⁴ which can happen only at the point of sale. The cited passage mentions reputation only once, stating that the presence of counterfeits “tarnishes th[e manufacturers’] reputation[s] when the manufacturers are blamed for the flaws of goods they did not produce.”¹¹⁵ This would only happen if the purchaser thought that the genuine manufacturer made the good—that is, if she was confused at the point of sale.

While *Torkington* misread the legislative history, it at least made an attempt to justify reading protection against dilution by tarnishment into § 2320. The *Gonzalez* court simply stated in a conclusory manner: “The Trademark Counterfeiting Act and its civil kindred, the Lanham Act, are not just designed for the protection of consumers. They are likewise fashioned for the protection of trademarks themselves and for the prevention of the cheapening and dilution of the genuine product.”¹¹⁶ Nearly every court that applied § 2320 to post-sale confusion quoted this passage.¹¹⁷

However, there are strong reasons why this statement is unpersuasive. It was not until four years after the passage of the TCA that

¹¹¹ United States v. *Torkington*, 812 F.2d 1347, 1353 (11th Cir. 1987).

¹¹² *Id.* (citing H.R. REP. NO. 98-997, at 5–6 (1984); S. REP. NO. 98-526, at 1–2, 4–5 (1984)).

¹¹³ Three sentences after the initial mention of reputation, the report states: “When articles bearing trademarks are copied exactly, or substantially so, buyers of those goods are deluded into believing that they have purchased the genuine article.” H.R. REP. NO. 98-997, at 5 (1984). The report again mentions a reputational harm later, stating “[b]usinesses are unjustly criticized for having sold substandard products.” However, here again the report is referencing point-of-sale confusion. *Id.* at 5–6 (referring to the harm that results “when consumers seeking the genuine article mistakenly buy the counterfeit”).

¹¹⁴ S. REP. NO. 98-526, at 1 (1984), reprinted in 1984 U.S.C.C.A.N. 3627, 3627.

¹¹⁵ S. REP. NO. 98-526, at 4 (1984), reprinted in 1984 U.S.C.C.A.N. at 3630.

¹¹⁶ United States v. *Gonzalez*, 630 F. Supp. 894, 896 (S.D. Fla. 1986).

¹¹⁷ *Supra* note 77 and accompanying text.

the Lanham Act was amended to possibly cover this form of harm, not until 1996 that the Lanham Act was amended to explicitly state that dilution is protected, and not until 2006 that anti-dilution law was strengthened to make it more effective.¹¹⁸ To say that the 1984 TCA and the 1946 Lanham Act protect against the “cheapening and dilution” of trademarks is to rewrite history before it was even made. The one statement that the *Gonzalez* court made in favor of this expansive protection is that to hold otherwise would be “tantamount to sanctioning the very introduction into commerce of fakes that are sold at low prices.”¹¹⁹ However, it is the job of the courts to interpret the statute as written, not to rewrite it.¹²⁰ Such a decision is more naturally left for a legislative body to make. In fact, Congress did make it by later adding this protection civilly. If post-sale confusion were already covered in both the Lanham Act and the TCA based on a dilution theory, then there would be no reason to later amend the Lanham Act to add dilution protection.¹²¹ More telling than the fact that Congress eventually made dilution actionable is where it did so in the code. Congress included dilution protection in section 43, not in section 32, on which the TCA was based, or in § 2320. It is telling that Congress stayed as far away from § 2320 as it possibly could when it eventually added dilution protection.

The TCA was not designed to protect against the harm of dilution that occurs post sale, but rather to offer protection against the traditional harm of trademark law—confusing a consumer at the point of sale. If § 2320 were truly about manufacturer reputation and blurring of trademarks, Congress would not have made the TCA apply only to near-exact replicas. Under § 2320, in order to fall within the scope of the statute, a counterfeit good must use a mark “that is identical with, or substantially indistinguishable from, a mark registered *for those*

¹¹⁸ See *supra* notes 41–49 and accompanying text (tracing the history of these statutory developments).

¹¹⁹ *Gonzalez*, 630 F. Supp. at 896.

¹²⁰ See generally U.S. CONST. art. I, § 1 (“All legislative powers herein granted shall be vested in a Congress of the United States . . .”).

¹²¹ An argument can be made that Congress would have been aware that courts were reading protection against the harms of dilution into § 2320 and explicitly added dilution protection to section 43 of the Lanham Act only because courts were already reading it into § 2320. However, this seems rather tenuous. In 1996, when dilution law was added to section 43, only four circuits had addressed the issue in § 2320. It seems a stretch to say that Congress’s silence on dilution protection in § 2320 is a tacit endorsement that the controversial doctrine, which had not previously been authorized by Congress, should constitute a felony. While the TCA and section 43 of the Lanham Act both deal with trademarks, they are independent and incredibly different statutes found in different titles of the United States Code. There is no reason to read section 43 and § 2320 *in pari materia*. An amendment to one implies nothing about the other.

goods or services on the principal register.”¹²² If a defendant were to sell sneakers with the Rolex logo or toothpaste with a Louis Vuitton emblem, this would not be covered under § 2320, even though typical dilution law is designed to reach these actions.¹²³ The reputation of Rolex and Louis Vuitton could be hurt by these sales: Certainly their trademarks would be diluted since their distinctiveness would be impaired. However, the seller of these items would only potentially face civil liability.

The TCA makes a distinction between dilutive sales of differing goods and dilutive sales of cheap “exact” reproductions. This suggests that the Act is solely concerned with point-of-sale confusion. Because there is only criminal liability if the markholder uses its mark on the same types of goods as the counterfeits, the law is careful to punish only when there is a legitimate possibility that the defendant is defrauding a consumer. The likelihood of this “passing off”¹²⁴ disappears if the genuine company does not actually make the good that the defendant sells. Even though the harms of dilution can attach both to selling a counterfeit Rolex watch and to selling a pair of sneakers with the Rolex mark, the TCA concerns itself only with the sale that could conceivably confuse a purchaser at the point of sale. Therefore, it seems that the TCA was intended not to protect against the post-sale harms of dilution, as the courts have said, but rather to protect against point-of-sale consumer confusion—the harm that trademark law traditionally seeks to prevent.

Additionally, the fact that after the passage of SCIMGA, the TCA imposed criminal sanctions for possession of trademark labels provides further evidence that Congress was concerned exclusively with point-of-sale confusion. For example, if a seller is caught with loose Louis Vuitton labels, she can be found guilty of counterfeiting.¹²⁵ However, the moment that this label is glued to a product that Louis Vuitton does not actually sell, the criminal liability goes

¹²² Trademark Counterfeiting Act of 1984, Pub. L. No. 98-473, sec. 1502, 98 Stat. 2178, 2179 (codified as amended at 18 U.S.C. § 2320(f)(1)(A)(ii) (2006 & Supp. V. 2012) (emphasis added).

¹²³ These situations fit into the standard definition of dilution by blurring, since they form an “association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark.” 15 U.S.C. § 1125(c)(2)(B) (2006). Even though the consumers would not be confused, the marks would be diluted in their eyes.

¹²⁴ See *supra* note 30 and accompanying text (defining the egregious scenarios of “passing off” and “palming off”).

¹²⁵ See *supra* notes 64–67 and accompanying text (explaining the effect of SCIMGA).

away.¹²⁶ This suggests that the fear that the label will be used to confuse a consumer is what motivates criminal liability. Labels on their own can possibly be attached to goods that the markholder sells, and thereby lead to point-of-sale confusion. As soon as it becomes clear that purchasers will not be confused (by placing the label on a good that the markholder does not produce), there is no criminal liability, even though the general harms of dilution persist.¹²⁷ Congress therefore was not concerned with the damage to the exclusivity and prestige of a mark possibly caused by post-sale confusion, but rather with the harms of point-of-sale confusion.

III

POLICY ARGUMENTS COUNSEL AGAINST CRIMINALIZING POST-SALE CONFUSION

Beyond the statutory arguments, there are normative reasons why post-sale confusion should not be subject to criminal penalties. This Part will address two of these reasons:

First, the conditions that merit criminal penalties do not exist. While there are great economic and societal harms from the sale of traditional counterfeits that create point-of-sale confusion, the harms that result from selling knock-offs are not nearly as severe, and can thus be adequately dealt with through civil litigation.

Second, decriminalization would likely have the beneficial effect of making the public more willing to accept the dangers of point-of-sale counterfeits. This will potentially encourage vigilance in the marketplace against non-knock-off counterfeits. Thus, this Part argues that from a utilitarian perspective, post-sale confusion should be decriminalized.

A. *Civil Protection Is Sufficient to Achieve Optimal Deterrence of Selling Knock-Offs*

From an economic perspective, there is no compelling reason to impose criminal penalties on the sale of knock-offs. Economic theory counsels against imposing criminal sanctions where “tort remedies, including punitive damages, are an adequate deterrent because they

¹²⁶ This occurs because it would no longer be a loose label, but rather a label attached to a good. This is only actionable under the TCA if the good bearing the counterfeit mark is one for which the authentic mark is registered. *See supra* note 122 and accompanying text.

¹²⁷ This scenario is not far-fetched. As recently evidenced in the *New York Times Magazine*, counterfeiters sometimes sell goods with designer labels even though the designer “doesn’t make anything like [the good].” Willy Staley, *Canal Street Booty*, N.Y. TIMES MAG., Feb. 10, 2013, at 16.

do not strain the potential defendant's ability to pay."¹²⁸ This is likely to be the case where the monetary value of the harm is low and where the probability of detection is high.¹²⁹ Even if tort law provides the "correct" level of deterrence, not all conduct that "should" be deterred will be. However, Judge Posner explains: "If in a particular case [misconduct] is not [deterred], even though the tort remedy is set at the correct level and there is no solvency problem . . . , there still is no social gain from using a criminal sanction."¹³⁰ Applying this approach to post-sale confusion demonstrates that existing civil remedies are more than sufficient.

1. *The Harm from Selling Knock-Offs Is Low*

When discussing the costs and harms associated with counterfeiting, the government and industry rely on incorrect data and unsupported information. The figures that are often cited are that counterfeits reduce sales of authentic goods by a quarter of a trillion dollars a year and cause annual losses of billions of dollars of tax revenue.¹³¹ The methodology used to obtain these numbers, however, is deeply flawed. As explained in *Forbes Magazine*, the \$200 billion to \$250 billion claimed loss "is as fake as an imitation Tommy Hilfiger T shirt: It derives from retail prices for the real McCoy. Never mind that anyone who spends ten bucks to snag a Rolex ringer from a street vendor with a briefcase full of fakes is unlikely to buy the real thing."¹³² To get to the cited figure, organizations "apparently took an estimate of the total number of counterfeit items sold (how it got *that* number is a good question), then multiplied by the full retail price of genuine articles."¹³³ This relies on "quite a dubious set of assumptions."¹³⁴ Acknowledging this, the spokeswoman for the International

¹²⁸ Richard A. Posner, *An Economic Theory of the Criminal Law*, 85 COLUM. L. REV. 1193, 1204 (1985).

¹²⁹ See *id.* at 1203 (explaining that optimal damages are equal to the harm caused divided by the likelihood of detection).

¹³⁰ *Id.* at 1204.

¹³¹ See *supra* notes 3–4 and accompanying text (citing various authorities making these claims).

¹³² Adam L. Penenberg, *Cops, Cash and Counterfeits*, FORBES, Dec. 28, 1998, at 68, 70.

¹³³ R.T. NAYLOR, *SATANIC PURSES: MONEY, MYTH, AND MISINFORMATION IN THE WAR ON TERROR* 253 (2006).

¹³⁴ McKenna, *supra* note 23, at 1908 n.296; see also NAYLOR, *supra* note 133, at 253 (stating that the dollar figure rests "on the assumption that people able to divert \$40 from their welfare checks for a fake Rolex would, if the copy were not available, spend \$4000 on the real thing"); Kozinski, *supra* note 5, at 964 ("They're buying the fakes precisely *because* they're fake; these folks want to pretend to own a Rolex without paying the price—which also means Rolex is not losing any sales because the people buying twenty dollar fakes wouldn't have bought the real thing.").

AntiCounterfeiting Coalition, a large trade organization lobby group, has been cited as supporting the proposition that “[t]here are no solid numbers on how much individual companies lose to counterfeiters.”¹³⁵ Yet the group still, somehow, stands by the \$250 billion figure.¹³⁶

Commentators have suggested that in making these estimates, companies are more concerned that counterfeits weaken the prestige of their products.¹³⁷ Putting aside the fact that the TCA did not seek to protect against dilution,¹³⁸ the notion that knock-off goods pose a threat to the prestige of genuine items is also vulnerable to criticism, because there is reason to believe that many imitations are readily identifiable.¹³⁹ As Judge Kozinski colorfully explained:

If you pay for a Rolex shell with cruddy innards, you’re unlikely to blame Rolex when your timepiece makes you late for an important meeting. Most third-party observers normally would not know or care whether your timepiece is accurate. It’s possible, I suppose, that if you’re consistently late to meetings and people observe you wearing a Rolex, they’ll begin to doubt whether your timepiece is reliable. More likely, though, they’ll assume you’re the kind of inconsiderate clod who keeps others waiting at meetings. And this would be a fair assumption if you’re late for meetings more than once because you relied on your ersatz Rolex.¹⁴⁰

Indeed, it is possible that rather than harming owners of genuine marks, knock-offs may actually benefit markholders. Rather than simply dilute the exclusivity of the mark, a knock-off can be viewed as providing free advertising.¹⁴¹ Also, the desirability of owning an

¹³⁵ Patricia Hurtado, *Louis Vuitton, Coach Fight \$23 Bln Flood of Fakes in New York*, BLOOMBERG, Jan. 26, 2006, http://www.bloomberg.com/apps/news?pid=21070001&sid=aaTetDaRc_fQ.

¹³⁶ See *id.* (“Trademark infringement, such as counterfeit sales, drains about \$250 billion from U.S. businesses in lost sales a year, according to the coalition.”).

¹³⁷ See Alison Neumer, *Faux Real: For Some, Buying Fake Designer Duds Is a No-Brainer, but Does Going Cheap End Up Costing You the Most?*, CHI. TRIB., Dec. 15, 2004, at 48 (“For luxury designers, lost revenue isn’t the big issue. They’re more concerned that counterfeit merchandise may diminish the prestige of their products.”).

¹³⁸ See *supra* Part II.C (explaining that dilution was not covered civilly until over a decade after the TCA and that it was never provided for in the criminal statute).

¹³⁹ See McKenna, *supra* note 23, at 1908 n.296 (explaining that the argument that an authentic manufacturer will lose sales as a result of post-sale confusion “requires an assumption that imitations are not readily identifiable,” an assumption that McKenna rejects).

¹⁴⁰ Kozinski, *supra* note 5, at 971–72.

¹⁴¹ Referring to the situation where a company sells merchandise unrelated to the principal goods they produce—such as a beverage company selling a T-shirt with an image of its mark—Judge Kozinski has said, “The consumer gets a kick out of it, and the manufacturer gets free advertising, solidifying its name recognition and reinforcing brand loyalty.” *Id.* at 961. This language seems equally applicable to cheap knock-offs. See Barnett, *supra*

authentic good could very well increase when potential purchasers observe other people wanting a good that they cannot afford so badly that they are willing to buy an imitation.¹⁴² The combination of the potentially exaggerated figures of lost sales and the uncertainty surrounding whether imitations actually cause reputational harms shows that the alleged economic harms that have been used to justify criminalization of post-sale confusion are likely much less severe than claimed.

It has been claimed that, beyond the economic harms to the markholder, counterfeits pose a danger to public safety and health and have ties to terrorism. In addition to academics, journalists, and industry groups,¹⁴³ Congress has mentioned these concerns in the legislative history of the TCA and in the text of some of its amendments.¹⁴⁴ However, several commentators have pointed out that there is no evidence whatsoever linking knock-off goods to terrorism.¹⁴⁵ As for public safety concerns, the typical examples given are goods like

note 35, at 1384–85 (“[S]ales by counterfeiters advertise, and even exaggerate, the popularity of the relevant item, thereby arguably leading some non-elite consumers to adjust upward their estimate of the expected status benefits to be gained by visibly owning the original.”).

¹⁴² See, e.g., Barnett, *supra* note 35, at 1384 (“[I]mperfect counterfeits may enable producers to charge an enhanced ‘snob premium’ to ‘elite’ consumers eager to distinguish themselves from the ‘non-elite’ consumers who visibly settle for the fakes.”); Nestor M. Davidson, *Property and Relative Status*, 107 MICH. L. REV. 757, 804 (2009) (“[I]n markets for luxury goods, the existence of knockoffs . . . may in fact enhance sales . . . , because cheap copies actually reinforce the status benefits of the original goods.”).

¹⁴³ See *supra* notes 6–7 (citing to articles and papers addressing the public health dangers and connections to terrorism that counterfeits are said to possess).

¹⁴⁴ See S. REP. NO. 98-526, at 4 (1984), reprinted in 1984 U.S.C.C.A.N. 3627, 3630 (“The damage done by counterfeiting often goes beyond mere economic injury. Many counterfeiters today sell products that pose a serious threat to public health and safety.”); Anti-Counterfeiting Consumer Protection Act of 1996, Pub. L. No. 104-153, § 2, 110 Stat. 1386, 1386 (codified at 18 U.S.C. § 1961(1)(B) (2006)) (stating that counterfeiting is tied to organized crime and “poses health and safety threats”); Stop Counterfeiting in Manufactured Goods Act § 1(a)(2), 120 Stat. at 285 (finding that counterfeiting has connections to “terrorist organizations” and that it “poses a widespread threat to public health and safety”).

¹⁴⁵ See, e.g., NAYLOR, *supra* note 132, at 254 (“Consumers who purchased these goods, and merchants who sold them, were no longer just greedy and shortsighted; they were complicit in high treason and mass murder. A formerly victimless crime now had victims in spades. This farce was aided and abetted by Interpol”); Naomi Klein, *McWorld and Jihad*, GUARDIAN (Oct. 4, 2001), <http://www.theguardian.com/business/2001/oct/05/warinafghanistan2001.afghanistan> (“There are many contenders for Biggest Political Opportunist since the September 11 atrocities [O]ne voice of opportunism still stands out. That voice belongs to Robyn A[.] Mazer. Ms[.] Mazer is using September 11 to call for an international crackdown on counterfeit T-shirts. Not surprisingly, Ms[.] Mazer is a trade lawyer What does any of this trade wrangling have to do with terrorism? Nothing, absolutely nothing.”).

counterfeit airplane parts, surgical supplies, and medicine.¹⁴⁶ These certainly are dangerous, but these dangers are the result of point-of-sale, not post-sale, confusion. The only people who would buy these items are those that were duped at the point of sale into thinking they were authentic. Consumers would not knowingly purchase counterfeit versions of these items unless they had a death wish.¹⁴⁷ In short, the alleged dire circumstances that necessitate the imposition of criminal penalties for selling knock-offs simply do not exist.

2. *The Probability of Detection Is High*

There is strong reason to believe that sellers of knock-off goods are very likely to be detected by authentic markholders. Unlike other intellectual property crimes that can be virtual and hard to detect,¹⁴⁸ selling knock-offs involves tangible goods and, often, brick-and-mortar stores.¹⁴⁹ It is no secret where people can find these items.¹⁵⁰ As a result, private companies have been very successful in bringing civil actions against the sellers of knock-off items.¹⁵¹ Although

¹⁴⁶ See *supra* note 6 (listing the types of counterfeits that are said to pose safety concerns).

¹⁴⁷ While it is possible that an airline company or a surgeon would knowingly buy counterfeit products to save money, this is highly unlikely. First, they would face civil and criminal liability outside of the TCA. Second, they do not have anything to gain, since these goods are not visible to the public. It would not make much sense to knowingly buy knock-off industrial goods that are concealed “under-the-hood.” Even if this does currently occur, this is likely not a violation of the TCA, even in the circuits that read post-sale confusion into the statute. Because the public is not exposed to these goods, there would be no confusion of any kind. If instead a bad actor knowingly purchased a counterfeit so that he could resell it to his customers, passing it off as genuine, this would be covered under the TCA, since what started as post-sale confusion would turn into point-of-sale confusion at the second sale. Therefore, decriminalizing post-sale confusion would likely have no impact on these situations.

¹⁴⁸ Copyright infringement, for example, can occur anywhere there is an Internet connection.

¹⁴⁹ While it is true that targeting the stores does not directly address the problem of their suppliers, the civil laws do authorize *ex parte* seizures of counterfeits, provide for coordination with customs officers to prevent importation of infringing goods, and provide stiff penalties for accessories to counterfeiting. See 15 U.S.C. § 1116(d) (2006) (*ex parte* seizures); 15 U.S.C. § 1117(b)(2) (2006) (monetary penalties); 15 U.S.C. § 1124 (2006) (coordination with customs officers). Furthermore, it does not appear that the TCA has had any success in cutting off the supply chain. After all, in the nearly three decades since its enactment the presence of counterfeits has steadily increased. See *supra* note 12 and accompanying text (stating that the problem of counterfeits is only getting worse). Moreover, if the supplier of knock-offs was also involved in selling traditional counterfeits, she would be within the reach of the TCA, even if post-sale confusion were decriminalized.

¹⁵⁰ See, e.g., Fifield, *supra* note 7 (“[A tourist] carried a list of New York tourist attractions, presumably prepared by a travel agent, that included the bold heading: ‘Going to Canal Street.’ It was below a heading for ground zero.”).

¹⁵¹ See, e.g., *id.* (discussing the success of private enforcement and stating that “[o]ften the private investigator is the one at the center of the fight against fakes”); Miles Socha &

Congress and commentators had cautioned that civil penalties were inadequate since they would be treated as “a cost of doing business,”¹⁵² the civil penalties that have actually been imposed for selling knock-offs refute this argument. In addition to criminalizing counterfeiting, the TCA also allowed for civil seizures, treble damages, and attorney’s fees.¹⁵³ Since then, the civil remedies have expanded to include statutory damages up to “\$2,000,000 per counterfeit mark per type of goods or services.”¹⁵⁴ To deal with the possibility that some individual sellers may be hard to find or may be judgment-proof, companies have recently started to sue complicit landlords under a contributory liability theory, which has had a great deal of success.¹⁵⁵ In fact, private companies are so effective at discovering these cases that they are often the ones that initiate the criminal investigations.¹⁵⁶

Ross Tucker, *LVMH Scores One Against Knockoffs*, WOMEN’S WEAR DAILY, Sept. 1, 2004, at 3 (discussing Louis Vuitton’s civil efforts at dealing with counterfeits and its success in suing Canal Street sellers); Hurtado, *supra* note 135 (explaining that private companies have had more success at enforcement than the government and that private investigators “are among the most effective weapons against counterfeiters”).

¹⁵² See S. REP. NO. 98-526, at 5 (1984), *reprinted in* 1984 U.S.C.C.A.N. 3627, 3631 (identifying this as one of the reasons necessitating the passage of the TCA); Goldstone & Toren, *supra* note 16, at 11 (“Since the Lanham Act does not permit punitive damages . . . , criminal sanctions are necessary to deter counterfeiters who might otherwise regard civil penalties as the cost of doing business.”).

¹⁵³ See *supra* note 52–53 and accompanying text (explaining the civil implications of the TCA).

¹⁵⁴ 15 U.S.C. § 1117(c) (Supp. V 2012).

¹⁵⁵ See, e.g., Cocks, *supra* note 3, at 545–47 (detailing the success that companies such as Louis Vuitton have had in suing landlords on Canal Street); *In Brief: Canal Street Injunction*, WOMEN’S WEAR DAILY, Jan. 25, 2006, at 2 (quoting a Louis Vuitton executive stating that the company has made “real progress” with contributory liability lawsuits and describing the company’s stated “ongoing focus on the landlords of properties where the overt sale of counterfeit goods takes place”). While secondary liability has its own problems, these are minimized in this context. Questions of fairness arise when a company tries to hold an Internet vendor such as eBay accountable for the trace sale of counterfeits that inevitably occurs. The difference here is that the landlord’s building is being used primarily to sell counterfeits. Since knock-offs tend to be sold in known areas, such as on Canal Street in Manhattan, it is probable that the owner of a building in an area famous for selling knock-offs is aware of what occurs on her property. Therefore it is highly likely that, unlike eBay, Canal Street landlords will meet the judicial test for contributory liability by having specific knowledge of or willful blindness towards trademark infringing activity. See *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 107, 109 (2d Cir. 2010) (applying this test of contributory liability to eBay and determining that, since it did not have more than general knowledge of counterfeit goods on its site and it took active measures to stop the sale of counterfeits, eBay was not liable). While landlords may be less culpable than their tenants, if they are aware of, complicit in, and indirectly profiting from the sale of infringing goods, they are not free from blame.

¹⁵⁶ It was, after all, a “private investigator with Rolex Watch U.S.A., Inc.” that referred the very first post-sale case under the TCA to a deputy marshal. *United States v. Torkington*, 812 F.2d 1347, 1349 (11th Cir. 1987). See also Cocks, *supra* note 3, at 512 (“[W]ithout the insistent impetus of Chanel, it is exceedingly unlikely that federal

Despite turning the counterfeiting of knock-offs from a private into a public harm, the same cases continue to appear in court. The difference is that the costs of litigation are shifted from the company that makes the luxury goods to the taxpayer.¹⁵⁷ This is completely unnecessary, as companies have proven quite capable of fending for themselves.

B. Decriminalizing Post-Sale Confusion Would Foster Greater Respect for the Law

Commentators have complained that the public does not take counterfeiting seriously. These commentators suggest that the public believes that counterfeiting is only about knock-off watches and handbags and that they do not realize that counterfeiting also implicates goods that are actually dangerous.¹⁵⁸ If the goal is to make consumers more vigilant about the counterfeits that are actually hurting companies through lost sales and endangering the public, then we should stop criminalizing the sale of items that the public actually wants to purchase.¹⁵⁹ With post-sale confusion in mind, the public views counterfeiting as a “victimless crime.”¹⁶⁰ If post-sale confusion were no longer criminalized, then this mindset would have to change, since the subset of counterfeiting that is “victimless” would no longer be criminal. The way to properly convince the public of the evils of

prosecutors and law enforcement agencies would have embarked upon Operation Pipeline. The government initiated Operation Pipeline only after Chanel approached customs officials in Miami with detailed information about an ongoing counterfeiting operation”); Hurtado, *supra* note 135 (“Federal authorities welcome the industry’s assistance ‘They give us the beginning of the investigation, and we take over from there.’”).

¹⁵⁷ See, e.g., NAYLOR, *supra* note 133, at 253 (“For industry, criminalization was a brilliant stroke – civil suits meant much of the proceeds ended up in the pockets of lawyers, while criminal cases shifted onto the public sector the cost of actions whose main objective was to protect the industry from competition and raise its profitability.”). The district court judge who issued the original decision in *Torkington* called the remanded case “a waste of the taxpayers’ money.” Pollack, *supra* note 19, at 1451 n.250.

¹⁵⁸ See, e.g., NAT’L CHAMBER FOUND., U.S. CHAMBER OF COMMERCE, *supra* note 4, at 7–8 (“What makes th[e] [consumer safety] problem even more dangerous is that consumers simply don’t know about it. It’s one thing to knowingly spend \$20 for a poorly produced fake Rolex watch It is quite another to [purchase] an authentically packaged brand-name pharmaceutical or cosmetic . . . that may contain illicit and often dangerous chemicals.”); McDonough, *supra* note 18, at 76 (“Consumers do not realize . . . that counterfeiting is far more dangerous than street vendors selling fake luxury items.”).

¹⁵⁹ See FORZLEY, *supra* note 6, at 29 (identifying a poll that concludes that 40% of the public would consider purchasing a knock-off, which “is not surprising since many products, which are counterfeited and are knowingly purchased . . . are not associated with reports of injuries, disease or death”).

¹⁶⁰ See, e.g., *id.* (“[T]here appears to be a perception that buying counterfeit goods is a victimless crime.”); Beebe, *supra* note 35, at 867 (“[T]he counterfeiting of relative [i.e., luxury] goods is so often said to be a ‘victimless crime.’”).

counterfeits is to stop arresting the people providing them harmless and desirable goods.

The legislative history of one of the amendments to the TCA states “Congress recognized that the problem of . . . trademark counterfeiting was much broader than individual street corner vendors selling watches and handbags when it enacted the Trademark Counterfeiting Act of 1984.”¹⁶¹ Counterfeiting causes genuine and very serious harms. However, these do not arise in post-sale settings.¹⁶² If courts reverse course on criminalizing post-sale confusion, not only would it free up limited government resources to concentrate on dangerous counterfeits,¹⁶³ it would also go a long way in winning over the public and making consumers more vigilant about point-of-sale authenticity in the marketplace.

CONCLUSION

The Trademark Counterfeiting Act, properly construed, does not reach post-sale confusion. The Act was meant to criminalize only what was clearly actionable civilly at the time of its enactment; given that it was not a settled civil trademark doctrine in 1984, post-sale confusion should not be read into the criminal statute. At the very least, it is arguable that post-sale confusion was not intended to be a part of § 2320, and therefore courts should apply the rule of lenity and not impose criminal liability on the basis of post-sale confusion.

Furthermore, the rationale behind the criminalization of counterfeiting does not apply to knock-off items. The economic harm is small, the health risks are non-existent, and the terrorism claims are unsubstantiated. The true harms of knock-off goods are the harms of dilution, which are only actionable civilly. Markholders have been successful in bringing civil suits in these cases. There is no need to criminalize post-sale confusion and, in so doing, trivialize the seriousness of counterfeiting in the eyes of the public.

¹⁶¹ H.R. REP. NO. 104-556, at 2 (1995), *reprinted in* 1996 U.S.C.C.A.N. 1074, 1075.

¹⁶² *See supra* Part III.A.1 (arguing against the perceived severity of economic harms and the existence of health and national security concerns in cases where confusion only occurs post sale).

¹⁶³ *See Amendolara, supra* note 18, at 835 (“Governmental resources are not being used to eradicate the real counterfeit problems . . . [T]ask-force efforts should not be singularly focused on finding counterfeit handbags. Counterfeit pharmaceuticals, for example, should become a focused, primary target of government resources and agencies.”). In addition to dangerous counterfeits, the TCA would still cover traditional counterfeits that confuse purchasers and directly lead to lost and diverted sales. This includes the same types of goods that make up most knock-offs—counterfeit watches and handbags—but only the ones that are passed off as genuine and sold to mistaken customers.