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Showdown in Chinatown: Criminalizing the Purchase of Counterfeit Goods

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SHOWDOWN IN CHINATOWN: CRIMINALIZING THE PURCHASE OF COUNTERFEIT GOODS

Lauren Schmale Estacio*

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INTRODUCTION

Selling counterfeit goods, especially replicas of expensive designer accessories, is rampant around the world. In fact, the International Chamber of Commerce estimates that, by 2015, the value of counterfeit goods around the world will exceed \$1.7 trillion.¹ In most big cities, visitors can find small shops or cardboard fold-up tables selling imitation luxury purses, scarves, watches, and sunglasses, and New York City is no exception.

Designers of nearly every type of item—clothes, accessories, and electronics—create and use symbols, marks, and words that, over time, become synonymous with their brand and its quality, and eventually are afforded protection under trademark laws.² Those who use these marks in connection with other goods without permission from the mark owner are in violation of trademark laws and are subject to civil and criminal penalties.³ Although the manufacturers and sellers of such counterfeit goods are arguably the “guiltiest” participants, countless counterfeit goods are purchased, used, and flaunted every day by people who know, or should know, that the goods are not genuine.

Currently, there are no federal, state, or local laws that punish buyers of counterfeit goods. New York City in recent years has attempted to combat counterfeiting by punishing sellers, not buyers.⁴ In April 2011, New York City Councilwoman Margaret Chin proposed a local law that would impose criminal penalties, including possible jail time, for purchasers of counterfeit goods.⁵ Councilwoman Chin’s proposed legislation sets out two alternative mens rea requirements for a conviction under this proposed law: that the defendant either knew or should have known that the item bought was not genuine.⁶ The latter mens rea term, should have known, however, is not mentioned in New

¹ Steve Hargreaves, *Counterfeit Goods Becoming More Dangerous*, CNN MONEY (Sept. 27, 2012), <http://money.cnn.com/2012/09/27/news/economy/counterfeit-goods/index.html>.

² RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 9 cmt. g (2012) (discussing the present breadth of trademark law).

³ J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION §§ 25:14, 25:15 (4th ed. 2011).

⁴ Ross Tucker, *Counterfeit Crackdown: New York Police Shutter Canal Street Buildings, WOMEN’S WEAR DAILY* (Feb. 28, 2008), <http://gibney.com/p/bb10a56b8c7e85544ea6ff9b8c5dab4b987a975f>.

⁵ Int. No. 544 § 10-902 (2011), available at <http://legistar.council.nyc.gov/LegislationDetail.aspx?ID=885894&GUID=926F900B-7A1E-48E8-991D-6A3CFE24EA90&Options=&Search=>.

⁶ Int. No. 544 § 10-902(2).

York's Penal Code and has not been clearly defined by New York courts. Despite this ambiguity, the law is beneficial because it is likely to substantially combat trademark infringement and the current vague understanding of the phrase "should have known" can easily be clarified by the legislation and future court opinions.

Part I of this Note discusses theories of criminal punishment and the mens rea requirement in criminal law generally and under the New York Penal Code. Part II provides a background of trademark law, federal and New York state trademark regulation, and the requirements of trademark infringement actions. In Part III, this Note provides a factual background of the counterfeit goods market in New York City. Part IV introduces the proposed local law intended to provide a source for criminal actions against purchasers of counterfeit goods in New York City. Finally, Parts V and VI analyze the mens rea requirements of the proposed New York City legislation, examine similar laws in other U.S. states and foreign countries, and discuss why the proposed law comports with theories of criminal punishment and public policy.

I. The Mens Rea Requirement in Criminal Law

A. Theories of Criminal Punishment

Criminal law is meant to punish wrongdoing.⁷ Punishment can be manifested in a variety of ways, including fines, community service, imprisonment, or even the death penalty.⁸ The two dominant justifications for punishment arise from two divergent penological theories: retributivism (or deontology) and utilitarianism.⁹ These theories postulate that punishment is justified by the public's perceived desire to punish wrongdoers (retributivism) and its need to punish criminals in order to deter future criminal behavior (utilitarianism).¹⁰ One authority succinctly described the difference in the theories as follows: "a retributivist claims that punishment is justified because people deserve it; a utilitarian believes that justification lies in the useful

⁷ John Hasnas, *The Centenary of a Mistake: One Hundred Years of Corporate Criminal Liability*, 46 AM. CRIM. L. REV. 1329, 1336 (2009).

⁸ SANFORD H. KADISH, STEPHEN J. SCHULHOFER, & CAROL S. STEIKER, CRIMINAL LAW AND ITS PROCESSES: CASES AND MATERIALS 67 (8th ed. 2007).

⁹ Matthew Haist, *Comment: Deterrence in a Sea of "Just Deserts": Are Utilitarian Goals Achievable In a World of "Limiting Retributivism"?*, 99 J. CRIM. L. & CRIMINOLOGY 789, 793 (2009).

¹⁰ Hasnas, *supra* note 7, at 1336.

purposes that punishment serves.”¹¹

The retributive theory is based on the traditional “eye-for-an-eye” concept that seeks to justify punishment based on the offender’s moral culpability.¹² The nineteenth century English judge and proponent of retributivism, Sir James Fitzjames Stephen, stated that, “the infliction of punishment by law gives definite expression and a solemn ratification and justification to the hatred which is excited by the commission of the offence[.]”¹³ This theory also reflects society’s desire to punish those who violate the law and is rooted in morality.¹⁴ It assumes that all people are moral actors capable of making good versus evil choices.¹⁵ Those who follow the retributivist school of thought also believe that it is not only morally better if a wrongdoer is punished than if he is not, but that retributivism imposes a duty on society to punish.¹⁶ In fact, scholars have asserted that society’s act of punishing a wrongdoer is not only reasonably good, but morally good.¹⁷

Retributivists have set forth several different sub-theories. Some retributivists believe that there is a delicate balance between the benefits and burdens of living in a society that relies on each member’s respect for the rights of others.¹⁸ When the law is broken, the balance is disrupted.¹⁹ The condemnation of punishment, however, takes away any advantage gained through the misconduct and restores the benefit-burden balance.²⁰ For other retributivists, laws serve a morally educative purpose and persuade citizens to act a certain way.²¹ Punishment not only reaffirms this moral code, but not punishing a wrongdoer would

¹¹ Kent Greenawalt, *Commentary: Punishment*, 74 J. CRIM. L. & CRIMINOLOGY 343, 347 (1st ed. 1983).

¹² KADISH, SCHULHOFER, & STEIKER, *supra* note 8, at 79.

¹³ SIR JAMES FITZJAMES STEPHEN, A HISTORY OF THE CRIMINAL LAW IN ENGLAND 81-82 (1883), *available at* <https://play.google.com/store/books/details?id=apbaAAAAMAAJ&rdid=book-apbaAAAAMAAJ&rdot=1>.

¹⁴ Haist, *supra* note 9, at 795; Hasnas, *supra* note 7, at 1336.

¹⁵ RICHARD J. BONNIE, ET AL., CRIMINAL LAW 7 (3d ed. 2010).

¹⁶ Todd R. Clear, *Harm in American penology: offenders, victims, and their communities* 9 (1994); Michael S. Moore, *The Moral Worth of Retribution, in RESPONSIBILITY, CHARACTER AND EMOTIONS* 179 (Ferdinand Schoeman ed., 1987).

¹⁷ HERBERT MORRIS, ON GUILT AND INNOCENCE 33-34 (1976); H. L. A. HART, PUNISHMENT AND RESPONSIBILITY: ESSAYS IN THE PHILOSOPHY OF LAW 231-32 (1968).

¹⁸ Clear, *supra* note 16, at 9 (citing Kant (1887)).

¹⁹ *Id.*

²⁰ *Id.*

²¹ *Id.* at 10.

itself be immoral.²² Others simply view laws as prohibiting immoral acts.²³ Because U.S. citizens are free to make their own decisions, if someone makes a morally bad decision, society condemns that decision and demands punishment.²⁴ Punishment not only makes the condemnation tangible, but it also symbolizes the moral reprehensibility of the act.²⁵

Because retributivists believe punishment must be deserved,²⁶ maintaining proportionality between a crime and its punishment is crucial.²⁷ This requires an assessment of the moral culpability of the wrongdoer based on the severity of the crime.²⁸ Today's criminal system implements proportionality by grading offenses using a degree system and by labeling crimes as either misdemeanors or felonies.²⁹

Although the majority of scholarship today focuses on retributivism, today's criminal justice system is largely based on the work and beliefs of eighteenth century utilitarian reformers.³⁰ The main goal of utilitarianism is to increase the net happiness of society.³¹ Criminal punishment accomplishes this by setting an example for society and preventing future offenses through deterrence, incapacitation, and rehabilitation.³²

Deterrence is effectuated when the threat of punishment prevents a would-be criminal from engaging in illegal activity because the cost of punishment outweighs the benefit of committing the crime.³³ In other words, when one wishes to avoid punishment to a sufficient extent, he will not commit a crime. Thus, the deterrence theory suggests that greater penalties will lead to less crime by raising the cost of committing the crime. Deterrence theory applies to both past criminals, whose unpleasant punishment deters them from committing another

²² *Id.*

²³ *Id.*

²⁴ Haist, *supra* note 9, at 793-94.

²⁵ Clear, *supra* note 16, at 10.

²⁶ JOHN KAPLAN, ET AL., CRIMINAL LAW: CASES AND MATERIALS 32 (6th ed. 2008).

²⁷ MORRIS, *supra* note 17, at 33-34; HART, *supra* note 17, at 231-32.

²⁸ BONNIE, ET AL., *supra* note 15, at 12.

²⁹ *Id.*

³⁰ KAPLAN, ET AL., *supra* note 26, at 31.

³¹ JOSHUA DRESSLER, UNDERSTANDING CRIMINAL LAW 14 (4th ed. 2006); Haist, *supra* note 9, at 794.

³² BONNIE, ET AL., *supra* note 15, at 3; Haist, *supra* note 9, at 794; Moore, *supra* note 16, at 179.

³³ Haist, *supra* note 9, at 794; KADISH, SCHULHOFER, & STEIKER, *supra* note 8, at 92.

crime, and would-be criminals, who are deterred by the threat of punishment without ever having experienced it.

Incapacitation involves the simple idea of protecting the public by physically preventing criminals from committing additional crimes.³⁴ Facilities like jails and prisons are designed and operated for this purpose.³⁵ In fact, despite the high costs, some argue that prisons “pay big dividends” because of a prison’s ability to incapacitate criminals.³⁶

Rehabilitation involves two goals: first, to make criminals safe to return to society to make the streets safer, and, second, to rehabilitate criminals so that they can not only return to society, but so that they can lead productive, successful lives in the general public.³⁷ In fact, studies indicate that rehabilitation is effective in achieving these societal goals.³⁸

In reality, the American criminal system is a composite of these and other penological theories.³⁹ Different punishment justifications are exercised at different times.⁴⁰ The New York Penal Code, for example, states multiple reasons for its outlined punishments:

The general purposes of the provisions of this chapter are . . . [t]o insure the public safety by preventing the commission of offenses through the deterrent influence of the sentences authorized, the rehabilitation of those convicted . . . and their confinement when required in the interests of public protection.⁴¹

Seemingly contrary to the Constitution’s promises of freedom,⁴² criminal law permits the government to take away a person’s freedom and property—and sometimes their life—both metaphorically and

³⁴ KADISH, SCHULHOFER, & STEIKER, *supra* note 8, at 101-02 (citing FRANKLIN E. ZIMRING & GORDON HAWKINS, *INCAPACITATION: PENAL CONFINEMENT AND THE RESTRAINT OF CRIME* (9th ed. 1995) (arguing that incapacitation is the central objective of criminal punishment)).

³⁵ *Id.* at 101.

³⁶ John J. DiIulio, Jr., *Prisons are a Bargain, by Any Measure*, N.Y. TIMES, Jan. 16, 1996, at A17, available at <http://www.brookings.edu/research/opinions/1996/01/16crime-john-j-diulio-jr> (positing that, despite high prison costs, the price of imprisoning a man is half that society would pay if he were let free).

³⁷ KADISH, SCHULHOFER, & STEIKER, *supra* note 8, at 98.

³⁸ *See id.* at 99-101.

³⁹ BONNIE, ET AL., *supra* note 15, at 3.

⁴⁰ *Id.*

⁴¹ N.Y. PENAL LAW § 1.05 (Consol. 2013).

⁴² U.S. CONST. amend. V (stating that “no person shall . . . be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation.”).

literally.⁴³ Because wrongful convictions are inherent in the legal system, and because U.S. citizens place a high value on the rights to life and liberty, the U.S. has historically been wary of criminalizing acts for fear of wrongfully depriving an innocent person of his rights.⁴⁴ This idea is based on William Blackstone's famous statement that "it is better that ten guilty persons escape than that one innocent suffer."⁴⁵ Thus, before a criminal law is enacted, the purpose and value of the law and resultant criminal punishment must be evaluated and compared with the harmfulness of the wrongful act. Only then can it be determined if it is logical to enact the new law.

B. *Mens Rea in New York*

Almost every criminal law has two main elements, an actus reus and a mens rea. Actus reus requires that a voluntary act or omission has occurred.⁴⁶ Mens rea requires that the actor possessed a culpable state of mind.⁴⁷ Because of the nature of criminal punishment and the general caution typically exercised before enacting a criminal law, any potential holes or uncertainties in these elements will make a law less than ideal.

The requisite level of mens rea varies by crime and jurisdiction.⁴⁸ Although not adopted word-for-word, the mens rea standards in New York's Penal Code are based on the Model Penal Code ("MPC").⁴⁹ New York divides culpability into four levels of mental states: intentionally, knowingly, recklessly, and criminal negligence.⁵⁰ The highest level, "intentionally," is present when a person acts with the "conscious objective" to cause a specific result or to act as

⁴³ Hasnas, *supra* note 7, at 1335.

⁴⁴ *Id.* at 1335-36.

⁴⁵ *Id.* at 1335 (quoting 4 WILLIAM BLACKSTONE, COMMENTARIES ON THE LAWS OF ENGLAND 359 (Wayne Morrison ed., Routledge-Cavendish 2001) (1769)).

⁴⁶ MODEL PENAL CODE § 2.01.

⁴⁷ *Id.* § 2.02; 22 C.J.S. *Criminal Law* § 37 (2012); 35 N.Y. JUR. 2D *Criminal Law: Substantive Principles and Offenses* §§ 21-22 (2012). Some crimes, such as statutory rape, are strict liability crimes that do not have a mens rea element.

⁴⁸ MODEL PENAL CODE § 2.02 (describing varying levels of culpable mental states); 35 N.Y. JUR. 2D *Criminal Law: Substantive Principles and Offenses* §§ 21-22 (2012).

⁴⁹ MODEL PENAL CODE § 2.02; Paul H. Robinson & Marckus Dirk Dubber, *An Introduction to the Model Penal Code* 3 (1999), <http://www.law.upenn.edu/fac/phrobins/intromodpencode.pdf>.

⁵⁰ N.Y. PENAL LAW § 15.05. In contrast, the MPC uses the four mental states of purposely, knowingly, recklessly, and negligently. MODEL PENAL CODE § 2.02(2).

he did.⁵¹ New York's "intentionally" standard is essentially equivalent to the MPC's "purposely" mens rea standard.⁵² The next level of mens rea in New York, referred to as "knowingly," occurs when a person is "aware" of the connection between his conduct or the circumstances and the offense.⁵³ A very fine line separates the "knowingly" and "intentionally" standards.⁵⁴ While "intentionally" requires a conscious objective to cause a result by specific conduct, "knowingly" requires merely an awareness that the result is practically certain to result from conduct.⁵⁵

The third level of mental culpability in New York is "recklessly."⁵⁶ This occurs when "[a] person acts recklessly with respect to a [criminal] result or to a circumstance."⁵⁷ In cases of recklessness, the actor must have consciously disregarded a risk, and the risk must be so "substantial and unjustifiable" that it "constitutes a gross deviation" from the way a reasonable person would act under the same circumstances.⁵⁸

The final mens rea level in New York is criminal negligence.⁵⁹ A person acts with criminal negligence with respect to a result or to a circumstance described by a statute defining an offense when he fails to perceive a substantial and unjustifiable risk that such result will occur or that such circumstance exists.⁶⁰ The risk must be of such nature and degree that the failure to perceive it constitutes a gross deviation from the standard of care that a reasonable person would observe in the situation.⁶¹ This final level of mens rea in New York is essentially the equivalent of the MPC's "negligently" requirement.⁶² Some argue that negligent behavior, where the actor was not aware of a threat of punishment and did not act with a guilty mind, should never have penal

⁵¹ N.Y. PENAL LAW § 15.05(1).

⁵² Compare N.Y. PENAL LAW § 15.05(1), with MODEL PENAL CODE § 2.02(2)(a).

⁵³ N.Y. PENAL LAW § 15.05(2).

⁵⁴ Paula Gormley, *The New York State Penal Law: A Supplement to Professor Matthew Lippman's Contemporary Criminal Law, First Edition*, at 38, available at <http://www.sagepub.com/lippmanstudy/state/ny/> (last updated Aug. 2008).

⁵⁵ *Id.*

⁵⁶ N.Y. PENAL LAW § 15.05(3).

⁵⁷ *Id.*

⁵⁸ *Id.*

⁵⁹ N.Y. PENAL LAW § 15.05(4).

⁶⁰ *Id.*; MODEL PENAL CODE & COMMENTARIES PART I, at 229-44 (1985).

⁶¹ N.Y. PENAL LAW § 15.05(4).

⁶² Compare *id.* with MODEL PENAL CODE § 2.02(2)(d).

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consequences.⁶³

II. Trademark Law

A. General Background

Trademark law prohibits competitors from using marks in a way that will confuse consumers as to a good's manufacturer or affiliation.⁶⁴ Such marks can be a word, name, symbol, or device, or any combination of these, that is used to indicate the source of a good or service.⁶⁵ Trademark law aims to protect both valid trademark owners and the public.⁶⁶ In passing the Lanham Act that regulates federal trademark law, Congress stated that the purpose of trademark regulation is two-fold:

[first,] to protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get . . . [and s]econdly, where 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 by pirates and cheats.⁶⁷

When successful, this allows consumers to rely on certain marks of a good to identify the source, and, thereby, to recognize other characteristics, such as the quality, of that good.⁶⁸ This protects a trademark owner's business in a variety of ways, including by preventing lost sales that result when others sell imitation items for less without having to invest in the development of the good.⁶⁹ Trademark law also helps limit damage to a creator's reputation through dilution.⁷⁰

⁶³ BONNIE, ET AL., *supra* note 15, at 209 (citing MODEL PENAL CODE & COMMENTARIES PART I, at 229-44 (1985)); Jerome Hall, *Negligent Behavior Should be Excluded from Penal Liability*, 63 COLUM. L. REV. 632, 634-37 (1963).

⁶⁴ MCCARTHY, *supra* note 3, at § 2:2.

⁶⁵ RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 9.

⁶⁶ *Id.*

⁶⁷ S. REP. NO. 79-1333, at 3-4 (1946), available at http://ipmall.info/hosted_resources/lipa/trademarks/PreLanhamAct_026_HR_1333.pdf; see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 9.

⁶⁸ S. REP. NO. 79-1333, at 4 ("To protect trade-marks, therefore, is to protect the public from deceit, to foster fair competition, and to secure to the business community the advantages of reputation and good will by preventing their diversion from (sic) those who have created them to those who have not.").

⁶⁹ RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 9.

⁷⁰ *Id.* Dilution occurs when the strength of a mark's association with the plaintiff creator or company is decreased and the mark's good name or reputation is tarnished. *Id.*

The protection that trademark law affords creates incentives for manufacturers and retailers to create and produce new and inventive items for the public because they can trust that the law will protect their products and their ability to sell and make a profit.⁷¹ It also leads to a more efficient, competitive, and productive marketplace that benefits creators, sellers, and buyers alike.⁷²

B. Regulation of Trademark Law

While federal law strictly regulates both patent law and copyright law, trademark law is the subject of both state and federal regulation.⁷³ The federal Lanham Act provides a means for creators to register trademarks with the federal Patent and Trademark Office and is a basis for relief for infringement, even in some situations in which a mark is unregistered.⁷⁴

Before the Act took effect in 1947, there was no federal trademark protection in the U.S. because it was unclear whether or not Congress had the power to regulate this area of law.⁷⁵ In 1879, the Supreme Court decided *In re Trade-Mark Cases* and held that the federal government's power to regulate trademark law stems from the Constitution's Commerce Clause and Congress's power to "regulate commerce with foreign nations, and among the several states, and with the Indian Tribes."⁷⁶

In general, however, the Lanham Act does not directly preempt state trademark law.⁷⁷ Rather, states are granted the power to pass their

⁷¹ MCCARTHY, *supra* note 3, at § 2:3.

⁷² *Id.*

⁷³ *Id.* §§ 5:3, 22:2.

⁷⁴ 15 U.S.C.A. §§ 1051-1129 (2005); *see also* MCCARTHY, *supra* note 3, at § 5:4.

⁷⁵ MCCARTHY, *supra* note 3, at § 5:3. In fact, in *In re Trade-Mark Cases*, the Supreme Court held that Congress does not have power to regulate trademarks under the Constitution's patent and copyright clause. *Id.* (citing U.S. CONST. art. 1, § 8, cl. 8; *In re Trade-Mark Cases*, 100 U.S. 82 (1879)).

⁷⁶ *In re Trade-Mark Cases*, 100 U.S. at 94-95 (citing U.S. CONST. art. 1, § 8, cl. 3).

⁷⁷ *E.g.*, *Colonial Penn Grp., Inc. v. Colonial Deposit Co.*, 834 F.2d 229, 234 n.3 (1st Cir. 1987); *Spartan Food Sys., Inc. v. HFS Corp.*, 813 F.2d 1279, 1284 (4th Cir. 1987); *Keebler Co. v. Rovira Biscuit Corp.*, 624 F.2d 366, 372 (1st Cir. 1980); *La Chemise Lacoste v. Alligator Co., Inc.*, 506 F.2d 339, 346 (3d Cir. 1974) (White, J., dissenting). However, while state law can expand trademark rights, it cannot narrow or usurp federal rights, nor can it be incongruous with Congress's intent in enacting the Lanham Act. *See e.g.*, *Purolator, Inc. v. EFRA Distribs., Inc.*, 687 F.2d 554 (1st Cir. 1982); *Golden Door, Inc. v. Odisho*, 646 F.2d 347 (9th Cir. 1980). *See generally* MCCARTHY, *supra* note 3, at § 22:2.

own trademark laws as part of the general police powers granted by the U.S. Constitution, a protection that falls within unfair competition laws.⁷⁸ Under New York state law, as under the federal Lanham Act, all that is required to bring an action for unfair competition based on a trademark is a likelihood of confusion, not actual confusion.⁷⁹ In a pre-Lanham Act opinion, the New York State Supreme Court Appellate Division held that an alleged counterfeiter is liable “if the resemblance is such as to deceive a purchaser of ordinary caution, or if it is calculated to deceive the careless and unwary; and thus . . . injure[s] the sale of the goods of the proprietor of the trade mark [sic].”⁸⁰

C. Trademark Infringement

A successful trademark infringement suit requires the plaintiff to prove two elements under both Federal and New York law.⁸¹ First, the defendant must have made use of the trademark by reproduction, counterfeit, copy, or colorable imitation in connection with the sale, offering for sale, distribution, or advertising of any good or service without consent from the trademark holder.⁸² The requirement generally means that the defendant must have closely associated the mark with goods or services he was advertising or selling.⁸³ Second, the plaintiff must show that this use is likely to “cause confusion, or to cause mistake, or to deceive.”⁸⁴ There are a variety of factors that a court can consider in determining if this element is fulfilled, including the similarity of the marks in sight, sound, and/or meaning, the manner of presenting the mark, the strength of plaintiff’s mark, the similarity and sophistication of prospective purchasers, the cost of the goods, the similarity of marketing channels, the alleged infringer’s good faith, the defendant’s interest in entering the plaintiff’s market by using the mark, and any evidence of actual confusion.⁸⁵ Which factors are evaluated

⁷⁸ U.S. CONST. amend. X; MCCARTHY, *supra* note 3, at § 5:3.

⁷⁹ N.Y. GEN. BUS. LAW § 360-k (Consol. 2013); Allied Maint. Corp. v. Allied Mech. Trades, Inc., 369 N.E.2d 1162, 1165 (N.Y. 1977).

⁸⁰ Charles S. Cash, Inc. v. Steinbook, 220 A.D. 569, 572 (N.Y. App. Div. 1927).

⁸¹ 15 U.S.C. § 1114(1) (2005).

⁸² RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 20.

⁸³ *See id.*; *see also* A&H Sportswear, Inc. v. Victoria’s Secret Stores, Inc., 237 F.3d 198, 211-12 (3d Cir. 2000); Frisch’s Rests., Inc. v. Elby’s Big Boy, Inc., 670 F.2d 642, 648 (6th Cir. 1982) (citing AMF v. Sleekcraft Boats, 599 F.2d 341, 348 (9th Cir. 1979)).

⁸⁴ 15 U.S.C. § 1114(1)(a).

⁸⁵ *E.g.*, Polaroid Corp. v. Polarad Elect. Corp., 287 F.2d 492 (2d Cir. 1961); *see also*

varies in every jurisdiction, but courts always employ at least a few in their assessment.⁸⁶ Despite the many similarities between New York's trademark laws and the Lanham Act, there is at least one significant difference: although federal law requires the mark to acquire secondary meaning before it is afforded trademark protection, this is not a requirement for an unfair competition trademark action in New York.⁸⁷

Furthermore, under New York penal law, there are three classes of trademark counterfeiting—A, C, and E—and the degree depends on the retail value of the good.⁸⁸ The relevant section of the Penal Code states that:

[a] person is guilty of trademark counterfeiting . . . when, with the intent to deceive or defraud some other person or with the intent to evade a lawful restriction on the sale, resale, offering for sale, or distribution of goods, he or she manufactures, distributes, sells, or offers for sale goods which bear a counterfeit trademark, or possesses a trademark knowing it to be counterfeit for the purpose of affixing it to any goods.⁸⁹

Despite clearly criminalizing the creation or sale of counterfeit goods, the New York Penal Code makes no explicit reference to placing criminal penalties on those who purchase or merely possess counterfeit goods.⁹⁰

RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 20; *A&H Sportswear, Inc. v. Victoria's Secret Stores, Inc.*, 237 F.3d 198 (3d Cir. 2000); *Frisch's Rests., Inc. v. Elby's Big Boy, Inc.*, 670 F.2d at 647, 648 (6th Cir. 1982); *AMF v. Sleekcraft Boats*, 599 F.2d 341, 348 (9th Cir. 1979).

⁸⁶ RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 20.

⁸⁷ *Markel v. Scovill Mfg. Co.*, 471 F. Supp. 1244, 1249 (W.D.N.Y. 1979).

⁸⁸ N.Y. PENAL LAW § 165.71-165.73. A crime is a class A misdemeanor where the value of the counterfeited goods is less than one thousand dollars, a class E felony where the value is between one thousand dollars and one hundred thousand dollars, and a class C felony where the value exceeds one hundred thousand dollars. *Id.* New York's penal law also provides for the seizure and destruction of counterfeit goods upon conviction of the counterfeiter. *Id.* § 165.74. In New York, a class A misdemeanor carries a possible prison term of up to one year. *Id.* § 70.15(1). A class E felony carries a possible prison term of up to four years. *Id.* § 70.00(2). A class C felony carries a possible prison sentence of up to fifteen years. *Id.*

⁸⁹ *Id.* § 165.71; *see also id.* §§ 165.72, 165.73.

⁹⁰ *Id.* § 165.71.

There are numerous defenses that can be used to avoid liability once a plaintiff proves the elements of his trademark infringement claim. Defenses include fair use, consent, abandonment, and equitable common-law defenses such as laches and unclean hands.⁹¹ In a successful trademark infringement action, a trademark owner may be awarded an injunction or monetary recovery, including actual damages for injury and the amount of the defendant's profits, or both.⁹²

III. The Practice of Selling Counterfeit Goods in New York City

Vendors in New York City sell counterfeit goods in small shops, from makeshift stalls along the street, and even from blankets laid out on sidewalks. This practice has made New York City, especially along Canal Street in Chinatown in Lower Manhattan, notorious as a major hub of counterfeit operations in the United States if not the world.⁹³ The goods sold in New York City range from fake clothes to accessories, including purses, watches, jewelry, and scarves, to luggage and electronics.

Despite the illegality of the practice, tourist sites for visitors to New York City peddle counterfeit goods shopping. For example, the website NYC.com describes Canal Street as “an amazing open-air bazaar,” and further explains to readers that “[i]f you’re wondering why some of the dealers keep their most prized goods in attaché cases, it’s because of frequent raids by US Customs and the New York City police targeting dealers in counterfeit items.”⁹⁴ Another website, New York Show Tickets, further explains to tourists—and, presumably, locals—where to buy imitation purses and how to spot a good-quality counterfeit handbag.⁹⁵ Despite touting this advice, the New York Show

⁹¹ RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 28-32.

⁹² 15 U.S.C. § 1114(2).

⁹³ Aubrey Fox, *The High Price of Counterfeit Goods*, GOTHAM GAZETTE (Mar. 2008), <http://www.gothamgazette.com/article/crime/20080331/4/2476>; Sara Kugler, *NYC Police Seize Over \$1M in Fake Goods*, USA TODAY (Feb. 26, 2008), http://www.usatoday.com/news/nation/2008-02-26-3240627089_x.htm.

⁹⁴ *Canal Street – Editorial Review*, NYC.COM, http://www.nyc.com/arts_attractions/canal_street.1312/editorial_review.aspx (last visited Apr. 19, 2013).

⁹⁵ *Guide to Buying Fake Handbags in New York City*, N.Y. SHOW TICKETS, <http://www.nytx.com/NewYorkCity/articles/handbags.html> (last visited Apr. 19, 2013). It should be noted, however, that other, arguably more upstanding websites, such as New York Magazine, do not tout similar advice. In fact, a search ran in March 2012 on New York

Tickets article does include a section entitled, “The Ethical Dilemma of Buying A Fake Handbag.”⁹⁶ However, the website does little to dissuade potential buyers, and in fact states that, “[f]or the buyer, there is little risk of prosecution, as no one has ever been charged in New York City for buying a fake handbag, even though it is an illegal act.”⁹⁷

In recent years, officials in New York have attempted to crack down on this growing industry via the Office of Special Enforcement created by New York City Mayor Michael Bloomberg in 2006 to combat various “quality of life issues.”⁹⁸ Between 2003 and 2005, authorities seized over forty-five million dollars in counterfeit goods in midtown Manhattan in New York City.⁹⁹ In 2006, police confiscated more than twenty-five million dollars in counterfeit goods, issued seventy-five warrants, and made almost one hundred arrests.¹⁰⁰ In 2007, seven locations selling counterfeit goods were closed and five hundred thousand dollars in fines was collected by the city.¹⁰¹ During the 2007 raids, the products seized included everything from DVDs and computer games to apparel.¹⁰²

In February 2008, police raided three buildings in Chinatown and confiscated more than one million dollars in counterfeit goods, the majority of which were handbags, scarves, belts, watches, and perfumes.¹⁰³ Mayor Bloomberg called the raid location “one of the most notorious knockoff shopping malls in the five boroughs.”¹⁰⁴ This area in Chinatown has been dubbed the “Counterfeit Triangle;” it is comprised

Magazine’s Chinatown neighborhood guide revealed little mention of the counterfeit goods market. *The Everything Guide to Chinatown*, N.Y. MAGAZINE (Feb. 11, 2007), <http://nymag.com/guides/everything/27795/>.

⁹⁶ *Guide to Buying Fake Handbags in New York City*, *supra* note 95.

⁹⁷ *Id.*

⁹⁸ *Mayor’s Office of Special Enforcement*, NYC.GOV, <http://www.nyc.gov/html/cjc/html/quality/mose.shtml> (last visited Apr. 19, 2013). *See generally* Tucker, *supra* note 4.

⁹⁹ Tucker, *supra* note 4.

¹⁰⁰ *Id.*

¹⁰¹ *Id.*

¹⁰² *Id.*

¹⁰³ Sewell Chan, *City Raids “Counterfeit Triangle,” Shutting 32 Storefronts*, N.Y. TIMES (Feb. 26, 2008), <http://cityroom.blogs.nytimes.com/2008/02/26/city-raids-counterfeit-triangle-shutting-32-storefronts/>; Kugler, *supra* note 93; Jefferson Siegel, *Police Bust “Counterfeit Triangle” on Canal St.; 32 Stores Padlocked*, THE VILLAGER (Feb. 29, 2008), http://thevillager.com/villager_252/policebustcounterfeit.html.

¹⁰⁴ Siegel, *supra* note 103.

of a group of several buildings, all owned by the same landlord.¹⁰⁵ The buildings house thirty-two shops that sell counterfeit goods and operate over ten hours per day, seven days per week, and employ over 150 people.¹⁰⁶ The February 2008 raid uncovered additional storage rooms and backroom retail operations in the Triangle.¹⁰⁷

The crusade against the counterfeit goods market in New York City shows no signs of slowing down. In July 2011, Apple, Inc. filed a lawsuit against two stores, Fun Zone and Apple Story, in Queens, NY, alleging that the stores sell accessories for Apple products branded with the Apple, Inc. logo and other protected Apple marks.¹⁰⁸ Although the stores maintain that they did not violate trademark laws, a court-ordered settlement compelled the stores to hand over their infringing products; Apple Story was also required to change its name.¹⁰⁹ Most recently, nearly fifty vendors were arrested in Chinatown for selling goods they allegedly believed were genuine.¹¹⁰ During a press conference after the February 2008 raid, Mayor Bloomberg stated that “[t]his is the wrong place to come if you want to buy stolen merchandise. We are not a place that engages in criminal activity.”¹¹¹

¹⁰⁵ Chan, *supra* note 103; Kugler, *supra* note 93; Siegel, *supra* note 103; Tucker, *supra* note 4.

¹⁰⁶ Siegel, *supra* note 103; Tucker, *supra* note 4.

¹⁰⁷ Tucker, *supra* note 4.

¹⁰⁸ Complaint at 8-11, *Apple, Inc. v. Apple Story, Inc.*, No. 11-3550 (E.D.N.Y. Jul. 25, 2011), available at <http://docs.justia.com/cases/federal/district-courts/new-york/nyedce/1:2011cv03550/320338/1/>; *Apple Moves Against Knockoffs in New York*, REUTERS (Aug. 18, 2011, 7:04 PM), <http://www.reuters.com/article/2011/08/18/apple-knockoffs-idUSN1E77H1Y920110818>.

¹⁰⁹ Consent Order of Judgment and Permanent Injunction Against Defendants at 3, 4, *Apple, Inc. v. Apple Story, Inc.*, No. 11-3550 (E.D.N.Y. Sept. 16, 2011), available at <http://docs.justia.com/cases/federal/district-courts/new-york/nyedce/1:2011cv03550/320338/33/>; *Apple Settles With Queens Stores Over Knockoffs*, REUTERS (Sept. 15, 2011, 5:04 PM), <http://www.reuters.com/article/2011/09/15/applestory-settlement-idUSS1E78E1LV20110915>.

¹¹⁰ Justin Chan, *Chinatown Vendors Angry About “Angry Birds” Arrests*, VOICES OF N.Y. (Mar. 5, 2012), <http://voicesofny.org/2012/03/chinatown-vendors-angry-about-angry-birds-arrests/>.

¹¹¹ Tucker, *supra* note 4.

IV. *Proposal to Criminalize purchasing counterfeit goods in New York City*

A. *General Background*

In April 2011, at a New York City council meeting, council member Margaret Chin, whose district includes Chinatown, proposed a local law (“Intro 544”) to amend the New York City administrative code to criminalize the purchase of counterfeit goods.¹¹² The proposed legislation, which is currently under review, would make purchasing a counterfeit good a misdemeanor punishable by a fine, jail time, or both.¹¹³ Ms. Chin hopes the law will be enacted by the end of 2013.¹¹⁴

The aim of Intro 544 is to deter people from purchasing illegal counterfeit goods that infringe on the trademark rights of other items in the marketplace. Ms. Chin also believes that the legislation will stop tourists from coming to Chinatown to buy counterfeit goods, and that they will instead visit Chinatown for other, more respectable reasons.¹¹⁵ In fact, in May 2011, the two community boards that cover the majority of Ms. Chin’s District 1—Community Board No. 1 and Community Board No. 2¹¹⁶—voted in support of Intro 544.¹¹⁷ Furthermore,

¹¹² Int. No. 544 § 10-902; John Farley, *Debate on City’s Counterfeit Goods Bill Continues*, THIRTEEN (July 10, 2011, 6:00 PM), <http://www.thirteen.org/metrofocus/news/2011/07/debate-on-citys-counterfeit-goods-bill-continues/>.

¹¹³ Int. No. 544 § 10-902.

¹¹⁴ Narine Khngikyan, *Buying Counterfeit Goods is Just No Good!*, CONSUMER ADVOCATE LEGAL UPDATE (July 26, 2012), <http://www.consumeradvocatelegalupdate.com/2012/05/articles/consumer-fraud/buying-counterfeit-goods-is-just-no-good/>.

¹¹⁵ Farley, *supra* note 112.

¹¹⁶ New York City is made up of fifty-nine community boards, which are community organizations that represent the interests of their community residents on a variety of issues, including sanitation and street maintenance, zoning, and development and planning. *Home*, CMTY. BD. NO. 1, <http://www.nyc.gov/html/mancb1/html/home/home.shtml> (last visited Apr. 19, 2013). Community Board No. 1 covers nearly all of lower Manhattan below Canal Street. Kasey LaFlam, *Community Board #1 Map*, CMTY. BD. NO. 1, http://www.nyc.gov/html/mancb1/downloads/misc/Community_Board_1_Map.jpg (last visited Apr. 19, 2013). Community Board No. 2 is bound by Canal Street, 14th Street, Bowery, and the Hudson River, and includes the New York City neighborhoods of Greenwich Village, South Village, SoHo, NoHo, Little Italy, Chinatown, Hudson Square, and Gansevoort Market. *Home*, CMTY. BD. NO. 2, www.cb2manhattan.org (last visited Apr. 19, 2013).

¹¹⁷ Biography of Margaret Chin, N.Y. CITY COUNCIL, <http://council.nyc.gov/d1/html/members/biography.shtml> (last visited Apr. 19, 2013);

Community Board No. 2 adopted a resolution in support of Intro 544, in which it stated that the sale of counterfeit goods on and around Canal Street in Chinatown has been a “serious issue over many years.”¹¹⁸ The Community Board further stated that the illegal activity has led to

threatening behavior towards and the physical assault of local residents and police officers by vendors, [and] a proliferation in other criminal activity in the area [It also] impedes pedestrian traffic on sidewalks and in crosswalks, blocks building access and egress, and contributes to sanitation issues and other quality of life issues.¹¹⁹

The Board and other proponents of Intro 544, including neighboring Community Board No. 1, cite additional economic and ethical reasons for their support of the legislation.¹²⁰ They claim that the selling of counterfeit goods has been connected to other organized crimes, such as human trafficking, money laundering, and terrorism.¹²¹ The industry uses child labor, causes harm to other legitimate local businesses, and has led to over one billion dollars in lost tax revenue and 750,000 lost jobs in New York City.¹²²

Kristoff Grospe, *Proposed Law Targets Purchasers of Counterfeit Goods*, 18 CITY LAW 1 (2012). Board 1 voted twenty-two to thirteen in favor of the proposed legislation, while Board 2 voted unanimously in favor of the proposed legislation. Grospe, *supra*. Shortly before the publication of this Note, Ms. Chin and lower-Manhattan residents petitioned for a hearing on Intro 544. Kate Briquet, *Tourists Beware: Councilwoman Wants to Make it a Crime to Buy Knockoff Handbags*, N.Y. POST (Apr. 7, 2013, 8:49 AM), available at http://www.nypost.com/p/news/local/manhattan/knock_it_off_shoppers_S0C161DwzGrvsCxsLwujwM. Additionally, area residents and members of The First Precinct Community Council initiated an online petition through the non-profit service SignOn.org in an effort to garner support for passing the proposed law. *Please Sign to Help Make it Illegal to Buy Counterfeit Trademarked Goods*, THE FIRST PRECINCT CMTY. COUNCIL (Apr. 8, 2013), available at <http://www.1stprecinctcc.org/please-sign-to-help-make-it-illegal-to-buy-counterfeit-trademarked-goods/>.

¹¹⁸ Resolution in Support of Intro 544, CMTY. BD. NO. 2, May 26, 2011, available at http://www.nyc.gov/html/mancb2/downloads/pdf/monthly_cb2_resolutions/may_2011/05_may2011_environment.pdf.

¹¹⁹ *Id.*

¹²⁰ *Id.*; *Home*, CMTY. BD. NO. 1, *supra* note 116.

¹²¹ Resolution in Support of Intro 544, *supra* note 118; see also JEROME P. BJELOPERA & KRISTIN M. FINKLEA, CONG. RESEARCH SERV., R41547, ORGANIZED CRIME: AN EVOLVING CHALLENGE FOR U.S. LAW ENFORCEMENT 3-5 (2012), available at <http://www.fas.org/sgp/crs/misc/R41547.pdf> (citing the counterfeit goods market as a new avenue of illegal activity linked to organized crime). In fact, New York Magazine labels Chinatown a “crime epicenter” rife with a “massive scale of heroin importing, human smuggling, prostitution, illegal gambling” in addition to its counterfeit goods market. Dimitri Ehrlich, *The Enduring Micro-City*, N.Y. MAGAZINE (Feb. 11, 2007), <http://nymag.com/guides/everything/chinatown/27779/>.

¹²² Resolution in Support of Intro 544, *supra* note 118; Farley, *supra* note 112; Fox,

Opponents of Intro 544, however, fear that, if passed, the law would be detrimental to the local community.¹²³ The opponents believe that New York City residents and tourists go to Chinatown to buy fake goods, but that they also spend money at local restaurants, grocery stores, and other legitimate local businesses, and that the criminalization of purchasing counterfeit goods will negatively impact the local economy.¹²⁴ Moreover, critics of the legislation worry that its passage will have a detrimental effect on the area's small business owners and residents, especially its poorest residents, because this industry is so ingrained in the local economy in Chinatown.¹²⁵ While Ms. Chin hopes that tourists will flock to Chinatown to visit its other worthy attractions, many fear that the neighborhood simply will not have enough left to lure visitors.¹²⁶

As proposed, Intro 544 prohibits the actus reus of buying a "tangible item containing a counterfeit trademark."¹²⁷ The proposed law will apply to any trademark "registered, filed, or recorded" under the laws of New York, any other U.S. state, or with the United States Patent and Trademark Office.¹²⁸ If passed, violating Intro 544 would be a Class A misdemeanor, punishable by a criminal penalty of up to one year in jail and a fine of up to one thousand dollars, a civil penalty of a fine of up to one thousand dollars, or both.¹²⁹ Each object or good purchased can be considered a separate violation under the legislation.¹³⁰

supra note 93.

¹²³ Farley, *supra* note 112.

¹²⁴ *Id.*; Ashley Parker, *Bill Aims to Make Buying Fake Designer Brands a Crime*, N.Y. TIMES (Apr. 26, 2011), <http://www.nytimes.com/2011/04/27/nyregion/bill-aims-to-make-buying-fake-goods-a-crime-in-new-york.html>.

¹²⁵ Farley, *supra* note 112; Parker, *supra* note 124.

¹²⁶ Farley, *supra* note 112; Parker, *supra* note 124.

¹²⁷ Int. No. 544 § 10-902(a).

¹²⁸ *Id.* § 10-901(c).

¹²⁹ *Id.* § 10-902(b)(1).

¹³⁰ *Id.* § 10-902(b)(2).

B. *Mens Rea Requirements*

Intro 544 uses two alternative mens rea terms to define the requisite mental state necessary for the crime of purchasing counterfeit goods: “knows or should have known” that the goods were counterfeit.¹³¹ The first term, knows, is relatively straightforward and corresponds to the knowingly standard in the New York Penal Code.¹³² It requires actual knowledge, or that, at the time of purchase, the actor is essentially certain the good is counterfeit.¹³³

Understanding the requisite mental state necessary for the second standard, “should have known,” is more complicated, and consequently creates an obstacle for Intro 544’s effectiveness. The phrase “should have known” is not a mens rea standard set out in the New York Penal Code.¹³⁴ Intro 544, however, states that, in New York City, the quality and price of the item, the condition of the seller and the store, and the store location indicate or should indicate to the buyer that the item is counterfeit.¹³⁵ Thus, when interpreting the plain meaning of the phrase “should have known,” the standard implies negligent behavior as defined by New York Penal Code section 15.05(4).¹³⁶ New York courts, however, have held that “should have known” should be interpreted as a recklessness standard.¹³⁷ For instance, in a 2009 patent case before the

¹³¹ *Id.* § 10-902(a).

¹³² N.Y. PENAL LAW § 15.05(2).

¹³³ *Id.*

¹³⁴ *Id.*

¹³⁵ Int. No. 544 § 10-902(a).

¹³⁶ Andrew M. Stengel, *Criminal Culpability’s Wild Mens Rea: Use and Misuse of “Willful” in the Laws of New York*, 4 ALB. GOV’T L. REV. 779, 804-05 (2011); see also G. Robert Blakely and Kevin P. Roddy, *Reflections on Reves v. Ernst & Young: Its Meaning and Impact on Substantive, Accessory, Aiding Abetting and Conspiracy Liability Under RICO*, 33 AM. CRIM. L. REV. 1345, 1621 app. D (1996) (equating the “should have known” standard with negligence).

¹³⁷ *People v. Martin*, 71 A.D.2d 928, 930 (N.Y. App. Div. 1979) (holding that, because the defendant knew or should have known that the victim posed no danger, he acted recklessly or with criminal negligence when shooting the victim). *But see* *People v. Joseph*, 172 N.Y.S.2d 463 (1958) (holding that “the recklessness requisite in a culpable negligence manslaughter case requires proof of ‘knowledge’ or conscious awareness of risk. Evidence which tends to prove that the defendant ‘should have known’ is admissible to prove *actual* knowledge.”). In a 1996 case, a New York State Appellate Division court held that “[a] violation of Labor Law § 220 is willful if the contractor acted ‘knowingly, intentionally or deliberately’, and a contractor *acts knowingly if it ‘knew or should have known’* that it was violating the prevailing wage law.” *Baywood Elec. Corp. v. N.Y. State Dep’t of Labor*, 649 N.Y.S.2d 28, 30 (N.Y. App. Div. 1996) (emphasis added) (quoting *Tenalp Constr. Corp. v. Roberts*, 141 A.D.2d 81 (N.Y. App. Div. 1988)).

Federal Circuit Court of Appeals, the concurring opinion criticized the “should have known” standard as a simple negligence standard, “lower even than the ‘gross negligence’ standard.”¹³⁸ As a result of this ambiguity and without further clarification of the meaning of the phrase “should have known,” Intro 544 will be difficult to interpret, predict, and apply, thus limiting the proposed law’s effectiveness.

C. *Similar Laws in Other Jurisdictions*

Georgia’s state code is the only one in the United States that could be interpreted as intending to punish purchasers of counterfeit goods. It imposes sanctions upon “[a]ny person . . . who purchases and keeps or has in his or her possession with the intent to sell or resell any goods he or she knows or should have known bear a forged or counterfeit trademark”¹³⁹ It is unclear, however, whether the mere purchase of a counterfeit good is sufficient for punishment under this statute, or if the buyer must also intend to sell or resell the item, and there appears to be no case law that addresses the issue.

It may come as no surprise, however, that two of the world’s fashion capitals—France and Italy—have laws that criminalize the purchase of counterfeit goods. France, which is considered to have the strictest anti-counterfeiting laws in Europe, explicitly prohibits purchasing counterfeit goods.¹⁴⁰ In France, a person can be fined or imprisoned for “bad faith possession” of counterfeit goods.¹⁴¹ The penalty for such an offense can be a fine of up to three hundred thousand euros (approximately \$391,422 USD)¹⁴² and up to three years in jail for a person who “holds without legitimate reason, imports under all customs procedures or exports goods presented under a [sic]

¹³⁸ *Larson Mfg. Co. v. Aluminart Prods.*, 559 F.3d 1317, 1344 (Fed. Cir. 2009) (Linn, J., concurring).

¹³⁹ GA. CODE ANN. § 10-1-454(c) (West 2013).

¹⁴⁰ Amanda Silverman, *Draconian or Just? Adopting the Italian Model of Imposing Administrative Fines on the Purchasers of Counterfeit Goods*, 17 CARDOZO J. INT’L & COMP. L. 175, 199 (2009); Miles Socha & Sharon Edelson, *Attacking Counterfeits: Wal-Mart Unit Settles with Fendi Over Fakes*, WOMEN’S WEAR DAILY (June 7, 2007), available at http://www.docstoc.com/docs/76788330/fakes_arresting_wwd2; *Tourists Warned Over Fake Goods*, BBC NEWS, http://news.bbc.co.uk/2/hi/uk_news/8215519.stm (last modified Aug. 22, 2009).

¹⁴¹ Silverman, *supra* note 140, at 198-99 (citing Code de la propriete intellectuelle, art. 716-10 (Fr.), translated in <http://195.83.177.9/code/liste.phtml?lang=uk&c=36&r=2594>).

¹⁴² *Id.*; *Tourists Warned Over Fake Goods*, *supra* note 140. Conversion calculated on April 22, 2013 by www.xe.com.

infringing mark.”¹⁴³ In 2007, Michael Burke, the CEO of the Italian-based luxury brand Fendi, praised France’s criminal laws against counterfeit goods, which he says successfully deter tourists from buying such goods.¹⁴⁴

In Italy, France’s neighboring and fellow fashion-conscious country, manufacturing, buying, and selling counterfeit items is very common.¹⁴⁵ The Italian intellectual property laws, especially those governing counterfeit goods, have changed and advanced considerably during the past ten years.¹⁴⁶ Originally, it was a misdemeanor to purchase property of suspect origin.¹⁴⁷ The law set out to punish “[a]nyone who, without previously ascertaining their legitimate origin, purchases or receives, by any title goods that, due to their quality, the personal condition of the seller or their price can reasonably be suspected to originate from a crime.”¹⁴⁸ Violators could face up to six months in prison or a fine “not inferior to [€10.32].”¹⁴⁹ Furthermore, anyone who is negligent in failing to ascertain the origin of a good “reasonably suspected to originate from a crime” could be subject to a minimal fine or jail time.¹⁵⁰

In 2005, Italy added a more specific provision.¹⁵¹ That law states that,

unless the act amounts to an offence, the purchase or acceptance without previously ascertaining their legitimate origin, for any reason of objects which, because of their quality or because of the condition of the person offering them or because of the price, lead to believe [sic] that laws on the origin and source of the good and on intellectual property have been infringed¹⁵²

¹⁴³ Silverman, *supra* note 140, at 198-99 (citing Code de la propriete intellectuelle, *supra* note 141, at art. 716-10).

¹⁴⁴ Socha & Edelson, *supra* note 140.

¹⁴⁵ Silverman, *supra* note 140, at 182-83.

¹⁴⁶ *Id.*

¹⁴⁷ *Id.* at 187.

¹⁴⁸ *Id.* (citing C.p. art. 712 (Italy), translated in Pier Luigi Roncaglia, *Handling of Counterfeit Goods: A Hands-on Problem for the Italian Criminal System*, 92 TRADEMARK REP. 1393, 1398-99 n.18 (2002)).

¹⁴⁹ *Id.* at 187.

¹⁵⁰ *Id.*

¹⁵¹ Silverman, *supra* note 140, at 188-89.

¹⁵² *Id.* at 188 (citing Decree-Law No. 80/05 of May 14, 2005, art. 1(7), Gazz. Uff. No.111, (May 14, 2005), translated in Societa Italiana Brevetti, *New Anti-Counterfeiting Measures: Confiscation and Fines for Buyers of Fakes*, UPDATES ON INTELLECTUAL AND INDUSTRIAL PROPERTY IN ITALY AND THE EU: TRADEMARKS (Italy), July 2005, at 1

A violation of this law is punishable by a fine of up to ten thousand euros (approximately \$13,043 USD).¹⁵³ Preliminary evidence indicates that Italian authorities have been successful in imposing the new laws, although it is unclear whether or not the laws have been effective in curtailing the counterfeit goods market. A 2007 report by Italy's High Commissioner for the Fight Against Counterfeiting reported that there were 11,728 administrative fines and 12,283 administrative seizures in the first half of 2006 alone, indicating a high success rate of the provision.¹⁵⁴ However, these statistics are not limited to end-consumers only, so it is unclear how truly effective this new measure has been in achieving its goals of decreasing demand for and production of counterfeit goods.¹⁵⁵ Nonetheless, newspapers and travel websites have reported that both Italian residents and tourists have received very large fines for buying counterfeit goods.¹⁵⁶ This is in stark contrast to New York City travel websites that promote counterfeit goods shopping as a tourist attraction.¹⁵⁷ Perhaps if, instead of encouraging the sale and purchase of counterfeit goods, New York City travel websites discouraged such conduct, Intro 544 would be more effective.

V. *The Application of Intro 544's Mens Rea Requirements*

Intro 544 imposes punishment for two different levels of mens rea: knowingly and should have known. The former is often used in criminal statutes, while the latter is used less so. Under the knowingly standard, the New York Penal Code requires that an actor have actual knowledge of the circumstances, his actions, and their consequences.¹⁵⁸ Because "culpable" means the actor presently knows and knew at the time the act was done that he did something wrong, it is appropriate for the law

[hereinafter Italian Decree-Law 80/05)].

¹⁵³ Italian Decree-Law 80/05, *supra* note 152; conversion calculated on April 22, 2013 by www.xe.com.

¹⁵⁴ See Silverman, *supra* note 140, at 189.

¹⁵⁵ See *id.*

¹⁵⁶ *Id.* at 188, 219 (citing Ing Svata Zdenek, *Fake Products: Foreign Tourists Fined 10,000 for the Purchase of Goods of Dubious Origin*, EUROPEAN CONSUMER CENTRE PRAGUE (July 31, 2006), <http://www.mpo.cz/zprava20307>, http://www.konsumenteuropa.se/Documents/Engelska/fake_products.pdf) (Italy has streamlined the application of its law against purchasing counterfeit goods by most often applying the highest possible fine).

¹⁵⁷ See, e.g., *Canal Street – Editorial Review*, *supra* note 94; *Guide to Buying Fake Handbags in New York City*, *supra* note 95.

¹⁵⁸ N.Y. PENAL LAW § 15.05(2).

to require, at a minimum, a knowing mens rea standard.¹⁵⁹

Some would argue, however, that Intro 544's second mens rea requirement, should have known, is too low of a standard to impose criminal punishment from a retributivist perspective. Under the retributive theory, punishment should only be meted out when one subjectively has a guilty mind. However, as discussed below, one who purchases a good under suspicious circumstances can be said to be culpable for failing to recognize, or for recognizing and accepting, the risk that the good she is purchasing may be counterfeit. The "should have known" standard has a subjective component and looks to what the actor actually knew about the context of the situation in which he purchased the goods and whether those circumstances are sufficiently suspicious that the actor is guilty for not having heeded the warning written on the wall.

Utilitarians, on the other hand, may argue that deterrence cannot occur unless one knows that she is doing something wrong. Though this is true, public education programs regarding the harm and criminality of dealing in counterfeit goods, as well as news of major arrests on the front page of the *New York Times*, will surely create deterrence. In fact, those who oppose Intro 544 often argue that the deterrence element will work too well and Chinatown will lose its ability to attract visitors if this illegal dealing is curtailed.

There are several reasons why permitting criminal liability under a "should have known" standard is neither problematic nor inconsistent with criminal law. First, although the phrase "should have known" is not defined in the New York Penal Code,¹⁶⁰ it can be given its plain meaning: the person did not *actually* know what she was doing nor did she understand the consequences of her actions, but that she nevertheless should have known based on an objective analysis of the circumstances.¹⁶¹ Moreover, the "should have known" standard is found

¹⁵⁹ Although not relevant to this Note, the knowing mens rea standard also includes the higher mens rea states of purposeful and intentional acts.

¹⁶⁰ N.Y. PENAL LAW § 15.05.

¹⁶¹ Note that the "should have known" standard is easier to satisfy than is the willful blindness standard, which requires the actor to intentionally avoid learning of wrongdoing in order to avoid legal consequences. *See Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2070-71 (2011); *United States v. Reyes*, 302 F.3d 48, 54 (2d Cir. 2002). Courts finding willful blindness sufficient to impose criminal sanctions have reasoned that a defendant who intentionally avoids learning of wrongdoing is as culpable as one who has actual knowledge of it. *See Global-Tech Appliances, Inc.*, 131 S. Ct. at 2069.

in several instances of criminal punishment stemming from supervisory or contributory positions. Under “command responsibility” in international criminal law, a leader may be found guilty of international crimes for the acts of his subordinates if he “‘knew, or . . . should have known’ that crimes had been or were going to be committed.”¹⁶² The responsible corporate officer doctrine also imposes a “should have known” standard for criminal liability for environmental crime on corporate officers for violations of those they supervise.¹⁶³ Finally, under U.S. copyright laws, courts have held that a contributory infringer should have known that the service allowed users to obtain copyrighted material.¹⁶⁴

Second, many jurisdictions open the punishment door to lower levels of mental culpability. Indeed, the New York Penal Code lists both recklessness and criminal negligence as potential mens rea standards for criminal punishment, both of which permit punishment without actual knowledge that one is doing something wrong.¹⁶⁵ Criminal negligence entails risk taking, and Intro 544 implies the same, as it indicates that jurors should look to whether the circumstances presented to the defendant a risk that the goods were fake that the buyer did not heed. The risk taking, or failure to perceive the risk, for criminal negligence must constitute a “*gross deviation* from the standard of care that a reasonable person would observe in the situation.”¹⁶⁶ This same standard is likely to be applied by jurors who have discretion and the power to choose not to convict when the visible circumstances—price, quality, sale location—do not clearly indicate that there was a risk that an item is counterfeit. Thus, there will be a connection between subjective culpability and liability for violating Intro 544.

¹⁶² *Rome Statute of the International Criminal Court*, July 17, 1998, art. 28(a)(i).

¹⁶³ Janet L. Woodka, *Sentencing the CEO: Personal Liability of Corporate Executives for Environmental Crimes*, 5 TUL. ENVTL. L.J. 635, 650 (1992).

¹⁶⁴ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005); *A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896 (N.D. Cal. 2000).

¹⁶⁵ N.Y. PENAL LAW § 15.05(3), (4).

¹⁶⁶ N.Y. PENAL LAW § 15.05(4) (emphasis added).

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As legal scholar John L. Diamond explained, negligence does involve an inquiry into what a defendant actually knew:

[a]t bottom, negligence involves a judgment that, based on what the actor knew, he or she should have known something else and should therefore have known enough to have understood the obligation to act more carefully. In spite of its concentration on objective components, the baseline for negligence is the context as the actor perceived it. Negligence, therefore, involves a subjective inquiry (what the actor actually knew about the context) and an object inquiry (the inferences that should have been drawn from what the actor knew).¹⁶⁷

Thus, jurors, insofar as the retributivist theory is correct that persons are concerned with punishing wrongdoers, will only find someone guilty of a crime if they believe that the person did something wrong by ignoring contextual factors that they actually knew of. If a jury concludes that the evidence of what the defendant actually knew does not make him culpable to some extent, the jury will not convict because a fundamental principle of the retribution theory is that punishments are not imposed unless the actor is culpable. Indeed, the statute specifically requires the jury to consider the contextual information, such as price and sale location, that was available to the actor.

Imposing a criminal penalty in this context is analogous to someone who is so intoxicated that they unknowingly get behind the wheel and cause an injury. Even though they were too drunk to recognize the risk that they were taking by driving, they are still held liable because, by choosing to drink in excess, they choose to take a risk that they may unknowingly do something harmful when intoxicated. A similar principle applies to someone who shops at stores that provide no indicia of authenticity of their goods (or outward signs that the goods are counterfeit): by purchasing without knowledge of authenticity, they take a risk that they could be buying something that is illegal, even if they do not know that is the case.

¹⁶⁷ John L. Diamond, *The Myth of Morality and Fault in Criminal Law Doctrine*, 34 AM. CRIM. L. REV. 111, 121 (1997) (citing Peter W. Low, *The Model Penal Code, the Common Law, and Mistakes of Fact: Recklessness, Negligence, or Strict Liability?*, 19 RUTGERS L.J. 549, 549 (1988)). On the other hand, some scholars have argued that there is little difference between “he knew” and “he should have known.” William S. Laufer, *Corporate Bodies and Guilty Minds*, 43 EMORY L. J. 647, 701-02 (1994) (citing Herbert Packer, *The Limits of the Criminal Sanction* 128-29 (1968)).

Although some may argue that people do not know that they risk criminal liability by buying a counterfeit item being sold in such an open manner as in Chinatown, ignorance of the law is never a defense in criminal law. Thus, although some individuals may not realize that buying counterfeit goods is wrong, a campaign to educate the public of the harms of the counterfeit goods market and the illegality of buying such goods is recommended. In fact, in May 2012, authorities in France announced that ten thousand posters would be displayed in the country's eighteen airports to warn tourists of the illegality of purchasing counterfeit merchandise.¹⁶⁸ Similar education campaigns have been successfully implemented in the United States to inform consumers of the harms and potential liability for purchasing or downloading illegally pirated music and movies. What may now not be considered morally wrong by the majority of the U.S. population may change as a result of an educational campaign.

Finally, there are crimes in which there is strict liability—liability without mens rea—showing that a criminal mens rea is not an indispensable element of every criminal offense. Under statutory rape laws, for instance, one can be jailed for many years, even if he or she did not know that the victim was not of legal age. The punishment for that crime is far greater than the maximum penalty imposed by Intro 544, and the mens rea requirement is less. Thus, Intro 544 would not stand alone in imposing criminal punishment without actual knowledge that one is doing something wrong. Furthermore, Intro 544 requires more than statutory rape laws because it requires a jury to determine a defendant's culpability in the context of surrounding circumstances, such as the price and sale location of the goods, whereas statutory rape does not.

VI. *The Criminalization of Purchasing Counterfeit Goods Comports With Public Policy*

Intro 544 and the criminalization of purchasing counterfeit goods comports with public policy. Various members of New York City's government and community condone the city's recent crusade against the counterfeit goods industry. This support indicates that there is a need for Intro 544 in the community, and that it will be backed by many. Furthermore, Intro 544 furthers various intellectual property law

¹⁶⁸ Jada Wong, *France Fights Counterfeit Luxury Goods With New Ad Campaign*, STYLEITE (May 30, 2012), <http://www.styleite.com/media/france-anti-counterfeit-ads/#0>.

goals. Finally, the proposed law simply marks another step in New York City's extensive crusade against the counterfeit goods market. In the end, despite any drawbacks, it is clear that the potential positive effects outweigh the consequences and favor a passage of Intro 544.

First, the success of similar laws in France and Italy serve as a model for the potential success of Intro 544. Italian and other foreign websites warn tourists that both citizens and tourists have been fined, typically the maximum amount legally permitted, for purchasing counterfeit goods in Italy.¹⁶⁹ There is no reason not to believe that a similar law would not be equally successful in the United States. Furthermore, there are signs that the community and authorities will be willing to work together to ensure Intro 544's success. In the wake of the most recent arrests in Chinatown in early 2012, Manhattan Borough President Scott Stringer, State Senator Daniel Squadron, Councilwoman Chin, and officers with the New York Police Department met with community members in Chinatown to discuss the incident, during which numerous community members expressed confusion about the laws against counterfeit goods.¹⁷⁰ Such transparency and alliance between the community and various agencies will increase the possibility for success and effectiveness of Intro 544. Moreover, although it remains unclear whether or not these foreign laws will produce large scale effects down the chain of sale and lead to a decline in the manufacturing of counterfeit goods, it is conceivable that decreasing consumers' demand for counterfeit goods will lead to a decrease in the supply of these products. Such effects will further reinforce the purpose of Intro 544 and similar laws.

Second, Intro 544 is in line with the goals of intellectual property and trademark laws, which seek to protect both trademark owners and consumers.¹⁷¹ Criminalizing the purchase of counterfeit goods furthers the objective to ensure that consumers are not confused by the source of goods and are not duped by the quality or price of a good. Intro 544 also reinforces a trademark owner's rights over his mark. It protects the mark owner's economic interests, including the quantity of sales of the

¹⁶⁹ Silverman, *supra* note 140, at 188, 219 (citing Svata Zdenek, *Fake Products: Foreign Tourists Fined 10,000 € for the Purchase of Goods of Dubious Origin*, EUROPEAN CONSUMER CTR. PRAGUE (July 31, 2006)); *Tourists Warned Over Fake Goods*, *supra* note 140.

¹⁷⁰ Chan, *supra* note 110.

¹⁷¹ S. Rep. No. 79-1333, at 3-4 (1946), available at http://ipmall.info/hosted_resources/lipa/trademarks/PreLanhamAct_026_HR_1333.pdf.

goods, the competitive price of the goods, and the goodwill the mark owner has built-up as the result of time, creative, and economic investment. Additionally, one of the most important goals of intellectual property law is to create incentives for creation and invention. Intro 544 reinforces this by reassuring current and future trademark holders that their marks and the time and money they spend to develop and popularize the mark will not be compromised. The overall effect of this betters the public marketplace of not only goods and services, but furthers the country's goals of innovation and creation. These intellectual property goals will be protected by the enactment of Intro 544. As evidenced by the successes of similar laws in France and Italy, Intro 544 will curtail the entire counterfeit goods market by dissuading consumers from buying counterfeit goods, thereby decreasing the demand for counterfeit goods.

Finally, Intro 544 and its sanctions are in line with increasing federal efforts to curtail the counterfeit goods market.¹⁷² In late 2011, the Obama Administration announced its public-education-focused campaign against the sale and purchase of counterfeit and pirated goods.¹⁷³ At the White House announcement for the campaign, Attorney General Eric Holder stated that, “[f]or far too long, the sale of counterfeit . . . goods has been perceived as business as usual.”¹⁷⁴ In highlighting the harms of intellectual property crimes, Holder further stressed that these crimes “destroy jobs, suppress innovation, and jeopardize the health and safety of consumers.”¹⁷⁵ As part of this crusade, the Immigration and Customs Enforcement Agency, the Federal Bureau of Investigations, and U.S. Attorneys’ Offices banded together to cooperate in an investigation called Operation In Our Sites.¹⁷⁶ On November 28, 2011, Cyber Monday, U.S. officials shut down 150 domain names of commercial websites allegedly selling counterfeit goods; on Cyber Monday 2010, authorities shut down eighty similar

¹⁷² Stephanie Clifford, *Officials Seize Counterfeit Holiday Goods*, N.Y. TIMES (Dec. 21, 2011), <http://www.nytimes.com/2011/12/22/business/officials-seize-counterfeit-holiday-goods.html>; Seth Stern, *Campaign Against Fake Products Begun by Obama Administration*, BLOOMBERG (Nov. 29, 2011), <http://www.bloomberg.com/news/2011-11-29/campaign-against-fake-products-begun-by-obama-administration-1.html>.

¹⁷³ Stern, *supra* note 172.

¹⁷⁴ *Id.*

¹⁷⁵ *Id.*

¹⁷⁶ Terry Frieden, *150 Domain Names Shut Down in Probe of Counterfeit Goods*, CNN (Nov. 28, 2011), http://articles.cnn.com/2011-11-28/tech/tech_websites-counterfiet-goods_1_counterfeit-goods-phony-goods-websites?s=PM:TECH.

websites.¹⁷⁷ Authorities placed banners on the seized websites to explain why the site was shut down in an effort to educate consumers about the illegality of selling and purchasing counterfeit goods; in the year that followed Cyber Monday 2010, the banners received seventy-seven million hits, an indication that the Operation is reaching millions of potential consumers.¹⁷⁸

Some argue that, if passed, Intro 544 may in fact have detrimental effects on the local community in areas of New York City, such as in Chinatown, where selling counterfeit goods is common. Because selling counterfeit goods along Canal Street is so engrained in the local community, wiping out this industry would arguably destroy the livelihood of many families. As previously stated, the Counterfeit Triangle alone houses (or housed) at least thirty-two shops and employs over 150 people.¹⁷⁹ For these business owners and employees, losing their job would be devastating, especially given the current economic decline and high unemployment rate. Shutting down counterfeit operations in neighborhoods like Chinatown may also have detrimental effects on other legitimate businesses in the community, such as restaurants, groceries, and legitimate shops. The patronage of not only local residents will decrease at these establishments, but also that of other New Yorkers and tourists who will no longer have a reason to visit the area.¹⁸⁰

Despite these fears, the neighborhood will rebound if it indeed suffers a decline due to the enactment of Intro 544, and New York City will only be better from the further enforcement against counterfeit goods. Efforts to assist the neighborhood and its residents who currently depend on the counterfeit goods market will aid the local community in making the transition. Although there may be an adjustment period, New York City, and especially Chinatown, will benefit greatly from Intro 544's successful implementation.

¹⁷⁷ *Id.* The term "Cyber Monday" was invented by a division of the U.S. trade association National Retail Federation and was first used in ecommerce in 2005. Robert D. Hof, *Cyber Monday, Marketing Myth*, BUS. WK. (Nov. 29, 2005), http://www.businessweek.com/bwdaily/dnflash/nov2005/nf20051129_9946_db016.htm. This new holiday occurs every year on the Monday after Thanksgiving and Black Friday and is one of the biggest online shopping days of the year. *Id.*

¹⁷⁸ Frieden, *supra* note 176.

¹⁷⁹ Tucker, *supra* note 4.

¹⁸⁰ Farley, *supra* note 112.

CONCLUSION

The counterfeit goods industry is rampant in New York City, and Intro 544 is simply another part of the crusade against it. Although some may argue that the mens rea term “should have known” creates an uncertainty in the legislation that will make Intro 544’s enforcement and effectiveness questionable, this is not the case. Based on the successes of similar laws in Italy and France, Intro 544 will be an effective, enforceable law that will fulfill the retributive and utilitarian goals of criminal law. Although its proposal has already garnered negative policy attention, Intro 544, bolstered by community support and public awareness, will only aid New York City’s campaign against the counterfeit goods industry and further the goals of intellectual property law.