

WORLD CLASS LAW FIRM - WINE COUNTRY LOCATIONS

The Legal Complexities of Unauthorized Dealer Enforcement

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Disclaimer

This memorandum is provided by Dickenson, Peatman & Fogarty for educational and informational purposes only and is not intended and should not be construed as legal advice.

Background

- Grey Market (aka Parallel Market): market in goods sold outside authorized/intended channels.

- Grey Market Goods:
 - Unofficial or Unauthorized
 - Unintended by the manufacture
 - Legal

Differences from Counterfeits

- Genuine, authentic product
- “Brand New”
- “New”
- “In the box”
- “Unopened”
- “Unused”

v. “Like New”

Origin of Unauthorized Goods

- Importation
- Clearance
- Returns
- Liquidation
- Trans-shipment

Types of Goods

- Electronics
- Pharmaceuticals
- Apparel
- Alcohol
- Textbooks

Online Auction/Retail Sites

- Etsy
- eBay
- Amazon
- Alibaba
- TaoBao

Problems

- The “Free Rider” Problem
- Erosion of revenue
- Increased costs –e.g., warranty claims, returns, and service
- Erosion dealer network integrity, confidence

More Problems

- Potential to harm company goodwill
- Harm to consumer confidence
- Damage to the Brand
- Frustrate efforts to build premium brand
- Legal Exposure

Prophylactic Measures

- RETURN POLICY
- Establish strict policy for consumer returns at the retail partner level.
- No resale of returns to third parties, except individual customers.
- No resale to liquidators or other commercial third parties.

Prophylactic Measures

- WARRANTY
 - Applies to authorized goods only
 - Goods purchased from unauthorized dealers - voids warranty
 - Clear articulation of policy
 - Written limited product warranty policy
 - Website product information (pre-sale)
 - Product literature/In-package

- Minimum Advertised Pricing (MAP)

Prophylactic Measures

Example:

AN IMPORTANT MESSAGE TO OUR CUSTOMERS:

Monster Authorized Dealer and Warranty Statement

Monster is firmly committed to providing our customers with best in class, reliable products through authorized dealers. *Our policy is to honor product warranties and to perform services only on products purchased from an authorized Monster dealer and only accompanied by a receipt or proof of purchase.* If you purchase a Monster product from an unauthorized dealer or if the original factory serial number has been removed, defaced or altered, your Monster warranty will not be valid.

...

Unfortunately, there are some websites and dealers who claim to be authorized Monster resellers but are not. Products sold on these websites or from these dealers do not carry a warranty from Monster. When you purchase products from an unauthorized website or dealer you are taking a risk, because these products may be counterfeit, used, defective, or may not be designed for use in your country. *Please protect yourself and your Monster product by ensuring that you only purchase Monster products from an Authorized Monster Dealer.*

To see a list of Monster authorized dealers, please [click here](#).

Prophylactic Measures

Limitation of Warranties

- **General Rule:** Manufacturer is not required to warrant gray market goods and can elect to provide a different warranty, or no warranty to such products.
- FTC interpretation of **Magnuson-Moss Warranty Act** suggests that limiting warranty coverage to certain persons, including customers of authorized dealers, is legal.

Prophylactic Measures

- Education of Consumers
 - Counterfeits
 - Unauthorized Goods
 - Warranty Applicability

- List Authorized Retailers
 - Brick and Mortar v. eTailers


List of Authorized Dealers

NEWS & PRESS
USER REVIEWS
EVENTS
COMPANY INFO
CALIFORNIA TRANSPARENCY AND SUPPLY CHAIN ACT DISCLOSURE
MONSTER CARES
WHERE TO BUY
- Where To Buy Monster
- Monster Worldwide
- Worldwide Retailers
- International Distributors
- BUY SAFE
RESELLER APPLICATION
MONSTER RETURNS POLICY
SUPPORT

Where To Buy Monster

powered by iMONSTER

Make sure it's a Monster



As a trusted industry leader, Monster strives to make sure our customers receive the quality products and services we've been offering for over 30 years. To be absolutely certain your product comes with the high levels of quality and service you expect from Monster, always purchase it from a Monster authorized dealer.
[More info...](#)

Shop Online with Our EMonster® Partners



Click on product logo to view dealers list

HOME THEATER/ CHASSIS POWER	MSERIES/ISF	HEADPHONES
SPEAKERS	MONSTER AUDIO/ VIDEO	

Where To Buy Worldwide

Monster USA USA Where to Buy >>	Monster Australia Australia Where to Buy >>	Monster Brasil Brasil Where to Buy >>
Monster France France Where to Buy >>	Monster China China Where to Buy >>	Monster Germany Germany Where to Buy >>
Monster Canada Canada Where to Buy >>	Monster Mexico Mexico Where to Buy >>	Monster Israel Israel Where to Buy >>
Monster India India Where to Buy >>	Monster UK U.K. Where to Buy >>	Monster Thailand Thailand Where to Buy >>

You Tube



Recent Tweets

Monster Products @MonsterProducts 1h
Bid now on #MonsterDNA headphones signed by @Nelly_Mo benefiting @the_USO!!
bitly.com/MonsterHope
pic.twitter.com/nhk92d3
Show Photo

Monster Products @MonsterProducts 1h
Bid now on #MonsterDNA signed headphones by @steveaustinBSR benefiting @the_uso! #WWE

Tweet to @MonsterProducts

Enforcement Measures

- Take-Downs
 - DMCA – Copyright protection
 - eBay VeRO Program –
 - Patents, trademarks and copyrights
 - Notice of Claimed Infringement
 - Counter Notice procedure
 - Problem: “Whack-A-Mole!” on steroids

Federal Court Litigation

Legal Theories: **Trademark Infringement**

- “Material Difference” from genuine goods
 - Physical differences
 - Quality Control deviations (recognized in some circuits, including the 9th and 2d.)

- TM Indicia (*see also* copyright discussion to follow)

Federal Court Litigation

Legal Theories: **Copyright Infringement**

- Copied photographs
- Copied Advertising copy and other text
- Also consider: Trademarks and other indicia of association or sponsorship
- **General Rule**: Unauthorized resale of imported product(s) subject to copyright protection is not infringement. E.g., textbooks

Kirtsaeng v. John Wiley & Sons, Inc., 133 S. Ct. 1351 (2013)

Federal Court Litigation

Legal Theories: **False Advertising - 15 USC Sec. 1125 (a)(1)**

False designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—

.....

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities

Federal Court Litigation

Legal Theories: **False Advertising – CA B&PC Sec. 17200**

Applies to any “unfair, deceptive, untrue or misleading advertising”

- “Authorized”
- “Manufacturer’s Warranty applies”

Federal Court Litigation

Pleading:

- Highly fact specific pleading required
- Plead all facts
- Mere recitation of quality control insufficient

See TechnoMarine SA v. Jacob Time, Inc.,

905 F. Supp. 2d 482 (SDNY 2012)

(dismissed for failure to plead sufficient facts to support claim of TM infringement)

Federal Court Litigation

Pleading Quality Control:

- A trademark holder must demonstrate only that: (i) it has established **legitimate, substantial, and nonpretextual** quality control procedures, (ii) it abides by these procedures, and (iii) the non-conforming sales will diminish the value of the mark.

Warner-Lambert Co. v. Northside Dev. Corp.,
86 F.3d 3, 6 (2d Cir. 1996).

Related Cases

- Lack of a particular packaging voids warranty, creating material difference. Bel Canto Design, Ltd. v. MSS Hifi, Inc., 837 F. Supp. 2d 208, 225 (S.D.N.Y. 2011)
- Lack of warranty card voids the warranty, resulting in a material difference. See TechnoMarine at 491.
- Alteration of Serial nos. or identifying packaging which voids warranty results in material difference. See Beltronics USA, Inc. v. Midwest Inventory Distribution, LLC, 562 F.3d 1067, 1073 (10th Cir. 2009)

Federal Court Litigation

Contributory Infringement

- Liability for allowing infringers to operate
- E.g., ISP's, Auction sites, payment processors
- Standard:
 - Notice to the ISP: “knew or should have known” of infringing activity
 - Power to withdraw service to the infringers
 - Continued to allow infringement

See Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc., 97 U.S.P.Q.2D (BNA) 1178 (N D Cal. Mar. 19, 2010)

State Statutory Authority

CA Civil Code Sec. 1797.8

"grey market goods" means consumer goods bearing a trademark and normally accompanied by an express written warranty valid in the United States of America which are imported into the United States through channels other than the manufacturer's authorized United States distributor and which are not accompanied by the manufacturer's express written warranty valid in the United States.

State Statutory Authority

CA Civil Code Sec. 1797.81

Requires conspicuous disclosures by gray market sellers:

- Conspicuous sign at the product's point of display and affix to the product or its package a conspicuous ticket, label, or tag disclosing:
 - not covered by a manufacturer's express written warranty valid in US
 - not compatible with US electrical currents
 - not compatible with US broadcast frequencies
 - Replacement parts not available through US distributors
 - Compatible accessories are not available through US distributors
 - not accompanied by instructions in English
 - not eligible for a manufacturer's rebate; and
 - (CATCH ALL) Any other incompatibility or nonconformity with relevant domestic standards known to the seller.

State Statutory Authority

CA Civil Code Sec. 1797.81

- Disclosures not required if grey market goods are accompanied by an express written warranty
 - If equal to or better than the original warranty; and
 - Complies with Song-Beverly Consumer Warranty Act (including but not limited to Section 1793.1 (warranty disclosure standards) and 1793.2 (service and repair facilities))
 - Conspicuous notice at point of sale that warranty available for inspection at consumer's request

State Statutory Authority

CA Civil Code Sec. 1797.82

- Every retail dealer who offers for sale grey market goods must disclose in a “type of conspicuous size” in any advertisement the disclosures required by Section 1797.81.

CA Civil Code Sec. 1797.97

- Any violation under 1797.8, et seq. constitutes **unfair competition** under BP&C Sec. 17200, **grounds for rescission** under CCC Sec. 1689, and an **unfair method of competition or deceptive practice** under CCC Sec. 1770.

Litigation

- Potential problems to consider:
 - Identification of infringer(s)
 - Locating the infringer(s)
 - Jurisdiction
 - Venue
 - “Diplomatic” or “Political” problems – e.g., is this your biggest customer?

Customs/ITC Enforcement

- Interface with Customs
 - IP Recordation
 - Training of agents
 - Ongoing relationship
 - Responsive, timely communication

- ITC/Section 337 Action
 - Exclusionary Orders
 - General exclusion

Industry Application

Gray Market Textbooks:

- First Sale doctrine of copyright law applies to the resale in the United States of used textbooks manufactured overseas, though not intended by the manufacturer for sale in the U.S.

Kirtsaeng v. John Wiley & Sons, Inc., 133 S. Ct. 1351 (2013)

Industry Application

Wine Industry:

- Obtaining wine from any source other than the registered/established U.S. importer.
- Direct purchase from foreign (EU) importers *without knowledge of the registered U.S. import agent.*
- Less expensive.
- Not coming directly from the winery.

Industry Application

Wine Industry, cont'd.:

- Chain of custody issues: storage, handling, shipment.
- Not held to standards of provenance (except that of the retailer).
- **Price** at the expense of all else.
- Many grey marketers buy wine from any source, under any condition (e.g., a hot store window in Singapore).

Prevention

- Policing the Supply Chain
- Authorized Dealer Compliance
- Protocol for Returns
- Product Serialization
- Third party monitoring, investigation and reporting

Parting Thoughts

- Anticipate high volume of enforcement
- Catalog of Forms:
 - DMCA takedown notice
 - C&D to sellers (brick & mortar/e-tailers)
 - Familiarize with procedures and collect Notice/Takedown forms for each major online auction (e.g., eBay VeRO)
- Stable of current outside resources: investigators, experts, consultants



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THANK YOU!

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