



100 Years Standing Up for American Enterprise  
**U.S. CHAMBER OF COMMERCE**

May 18, 2012

Senator Stephen M. Saland  
Chairman  
Codes Committee  
New York Senate  
State Street Room 504 - Capitol  
Albany, NY 12247

RE: Opposition to S 6966

Dear Chairman Saland:

The undersigned associations write to you today to express grave concerns regarding Senate Bill 6966, and its counterpart, Assembly Bill 6248A. While this legislation is obviously well-intentioned, it is likewise seriously flawed, both in terms of policy and with regard to the practical framework which the bill seeks to create. For the reasons discussed in detail below, we strongly urge you to oppose S 6966.

Trafficking in counterfeit goods is prohibited under the State's General Business Law<sup>1</sup>, and is likewise a criminal offense under the Penal Code<sup>2</sup>. Under these existing statutes, any counterfeit goods seized in violation of the State's trademark laws are required to be destroyed. Such a disposition has traditionally been viewed as the simplest way to achieve important state interests, including keeping potentially dangerous goods from an unregulated supply chain out of the hands of consumers, and to prevent the contraband from re-entering the stream of commerce to the detriment of legitimate businesses. The

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<sup>1</sup> Section 360-m.

<sup>2</sup> Section 165.74.

pending legislation seeks to permit an alternative disposition of certain seized goods, namely clothing and shoes, authorizing their donation to not-for-profit charitable organizations for subsequent distribution to indigent members of the community. The proposal however fails to give sufficient consideration to the reasons underlying the current policy of destroying seized counterfeits.

Recent years have brought considerable media coverage to the threats posed by counterfeit goods, including threats related to consumers' health and safety. While such coverage has brought a welcome, increasing awareness among the public with regard to those dangers, such stories have frequently focused on certain product sectors or types of goods – pharmaceuticals, automotive parts, electronics, and consumables, for example – where the threats are more readily apparent. Unfortunately, this has led to a mistaken conclusion by many that counterfeits in other sectors, for example, clothing and shoes, are in a different class altogether, and that they do not pose similar risks. Nothing could be further from the truth, but this is the basic premise upon which S 6966 is founded.

The health and safety risks posed by counterfeit goods spring directly from the fact that the counterfeit supply chain is entirely unregulated. Whether the products in question are pills, brake pads, pajamas, or tennis shoes, legitimate manufacturers are expected to, and do, follow a variety of legal and regulatory requirements governing the components and processes that can be utilized in making products for sale in the U.S. market. Counterfeiters have little incentive to follow such requirements, and in fact have an incentive to ignore prohibitions or limitations on the use of a variety of chemicals, dyes, and the like, if complying with those rules would increase their costs or decrease their profits. S 6966 however does not require even a cursory examination or testing of seized goods in order to determine whether those goods comply with the relevant provisions that have been enacted to protect consumers from dangerous, substandard products. While the bill's intent is to provide assistance to the indigent population, it does so in a way that creates a significant threat to the health and safety of the bill's intended beneficiaries.

S 6966 includes a number of provisions intended to minimize the risk of subsequent economic harm resulting to the legitimate owner of rights in the trademark implicated by seized goods, but the procedures fall far short of what is necessary to achieve that goal.

The new Section 2 of Section 360-m of the General Business Law, proposed by the bill, places with the court the authority to determine whether certain seized goods should be donated, yet provides no guidance with regard to what sort of factors the court should consider in making that determination. As noted above, we believe that one such consideration should involve a determination of whether the goods comply with relevant consumer health and safety regulations, but the bill remains silent on that issue, as well as secondary matters such as who shall bear the cost of testing necessary to undertake that analysis. Section 2 further states that the lawful mark owner must be notified of the court's intent to donate the seized goods, and grants the mark owner an opportunity to object to the donation. However, that section is ambiguous as to the effect of such an objection, and whether it is controlling upon the court, or if the mark owner's objection is simply a factor which the court should take into consideration when deciding whether to allow the goods' donation.

Sections 3 through 5 limit the availability of donations under the statute "to a not-for-profit corporation that has an established history of providing goods and services to indigent individuals," prohibit the

goods' resale by an individual or organization who receives a court-ordered donation, and require the goods to be altered to prevent the counterfeits' confusion with the legitimate trademark owner's actual products. However, these sections fail to provide any objective criteria or guidance as to the qualifications of a proposed beneficiary. For example, any organization seeking such a donation should be required to demonstrate their ability to handle the volume of goods in question – including the organization's financial capacity to alter the donated goods as required by Section 5. The provisions of S 6966 establish no such minimum standards, though even if they did, the legislation provides no means of oversight or auditing of the recipient charities to ensure that the donated goods are properly handled and distributed, and that they do not re-enter the stream of commerce. Absent clear and enforceable standards, the model proposed by S 6966 will expose the State's consumers and legitimate businesses to the very harms that trademark laws were enacted to prevent in the first place.

We ask that you to take our concerns into consideration as the Committee reviews S 6966, and to vote against the bill. We would welcome an opportunity to discuss these issues further with you, and to work with you toward a more constructive approach to these issues.

Sincerely,

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The International Trademark Association  
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U.S. Chamber of Commerce  
1615 H Street NW  
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Cc:

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