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ESSAY

Applying the Safe Distance Rule in Counterfeiting Cases: A Call for the Use of Broad Equitable Power to Prevent Black and Gray Marketeering

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INTRODUCTION

Trademark holders are failing to make good use of their full arsenal of weapons in the ongoing legal battle against black and gray marketeers who deal in counterfeit goods. The underused weapon is the safe distance rule, a broad equitable remedy that allows the courts to create a zone of safety around trademark holders victimized by counterfeiting[1]—a crime that costs intellectual property owners billions of dollars.[2] By applying the safe distance rule in

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1. The safe distance rule requires courts to draft injunctive relief broadly enough to ensure that a past infringer will not have the opportunity to infringe an owner's rights in the future. *See* discussion *infra* Part II (describing the safe distance rule); Sunbeam Prods., Inc. v. West Bend Co., 123 F.3d 246, 260-61 (5th Cir. 1997) (noting that the safe distance rule gives broad discretion to the courts to ensure that manufacturers do not circumvent Lanham Act injunctions by making minor modifications to products covered by a previous injunction); *see also* Prince of Peace Enter. Inc. v. Kwok Shing Import-Export, Inc., No. 94-04183, 1997 WL 475699, at *12 (N.D. Cal. July 8, 1997) (noting that the safe distance rule does not apply absent actual infringement).

2. Trafficking in counterfeit goods is a criminal offense in the United States and abroad. *See* 18 U.S.C. § 2320 (1994) ("Whoever intentionally traffics or attempts to traffic in goods or services and knowingly uses a counterfeit mark on or in connection with

counterfeiting cases, courts can enjoin counterfeiters from trading in any goods of their victims, regardless whether those goods are fake or genuine. By that means, the court can create a zone of safety around the victimized trademark holder.

Nevertheless, counterfeiting victims generally do not seek this relief. Typically, courts merely enjoin the counterfeiter from trading in non-genuine goods, which is already proscribed by statute. Yet the safe distance rule has the power to make a major dent in the multi-billion dollar counterfeit industry, which runs the gamut from fake branded apparel to shoes to videos to software and more.[3] Although the United States provides severe civil remedies to combat the counterfeiting of intellectual property,[4] they are no substitute for full application of the safe distance rule.

Full application of the safe distance rule also would go a long way toward solving a related problem: the use of gray market goods[5] to conceal trafficking in counterfeit goods. Counterfeiters

such goods or services shall, if an individual, be fined not more than $2,000,000 or imprisoned not more than 10 years, or both . . . ."). Counterfeiting is also a crime under state laws. *See, e.g.*, CAL. PENAL CODE § 350 (West 1998 & Supp. 1998).

3. *See* U.S. INT'L TRADE COMMISSION, PUB. NO. 2065, FOREIGN PROTECTION OF INTELLECTUAL PROPERTY RIGHTS AND THE EFFECT ON U.S. INDUSTRY AND TRADE (1988) (estimating the cost to U.S. business from counterfeiting). More recently, estimates indicate international counterfeiting is increasing at a rate three times the rate of trade in legitimate goods. *See* COUNTERFEITING INTELLIGENCE BUREAU, INT'L CHAMBER OF COMMERCE, COUNTERING COUNTERFEITING: A GUIDE TO PROTECTING & ENFORCING INTELLECTUAL PROPERTY RIGHTS 13 (1997). Of course, because counterfeiting activity is illicit and therefore often hidden, estimates of the scope of this problem are not precise.

4. Civil remedies in the United States include *ex parte* civil seizures, treble damages, statutory damages, and recovery of attorneys fees against parties who engage in counterfeiting or who offer to do so. *See* Trademark Act of 1946 ("Lanham Act"), ch. 540, 60 Stat. 427 (codified as amended at 15 U.S.C.A. §§ 1051-1127 (West 1998 & Supp. 1998)). The remedies are found at sections 1116 and 1117. 15 U.S.C.A. §§ 1116, 1117 (West 1998). Section 1116 provides for injunctive relief, *id.* § 1116; section 1117 governs other damages. *Id.* § 1117; *see also* Levi Strauss & Co. v. Shilon, 121 F.3d 1309, 1312 (9th Cir. 1997) (affirming injunctive relief and award of attorneys' fees against defendant who made a "naked offer" to engage in counterfeiting even though defendant did not complete counterfeit transactions).

5. This Essay employs the term "gray marketeering" to refer to unauthorized trade in genuine goods. Gray marketeering generally refers to the distribution of genuine goods into trade channels or areas that are not authorized by the owner of the intellectual property in the goods. This may occur, for example, when a "foreign-manufactured good, bearing a valid United States trademark . . . is imported without the consent of the United States trademark holder." K Mart Corp. v. Cartier, Inc., 486 U.S. 281, 285

oftentimes deal simultaneously in black market goods and in genuine, gray market goods[6]—at times using them to provide cover for their counterfeiting. Counterfeiters often mix genuine, gray market goods and fake products into a single shipment. Such a mixture of phony and genuine goods within a single order thwarts efforts to detect or interdict counterfeit goods, because customs officials ordinarily lack the resources to inspect every article in a large shipment. Thus, black and gray marketeering often go hand-in-hand.

(1988).

Unauthorized distribution of genuine goods also is referred to as the parallel or secondary market, and is also described as product diversion:

> [Gray marketeers] always purchase the goods from the manufacturer and owner of the trademark or an intermediary, and resell the goods in violation of an agreement the manufacturer has with the exclusive distributor, or a policy of the manufacturer barring the sale of the goods in a particular geographic market.

Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co., 112 F.3d 1296, 1303 (5th Cir. 1997).

Although gray market activity generally does not violate United States trademark laws—at least when the gray marketed goods are not materially different from goods the intellectual property owner has authorized for sale—it disrupts an intellectual property owner's distribution system. Gray marketeering damages an intellectual property holder's relationships with distributors, undermines its marketing premises and efforts, and robs it of differential profit margins available by virtue of the higher demand and otherwise restricted supply in regional markets.

Gray marketeers make substantial profits by taking advantage of the differential price structures of global companies throughout the world. For example, gray marketeers may accumulate goods bought in the United States and resell them overseas, outside the manufacturer's authorized foreign distribution channels. The market dynamics, alternatively, can work in reverse, allowing gray marketeers to undercut authorized domestic United States sales by importing and selling identical goods procured more cheaply abroad. The Lanham Act prohibits certain gray market practices, such as unauthorized trade in goods that are materially different from their authorized counterparts. 15 U.S.C.A. § 1114; *see* Original Appalachian Artworks, Inc. v. Granada Elec., Inc., 816 F.2d 68 (2d Cir. 1987) (holding that the unauthorized importation of dolls, manufactured for sale in Spain, into the United States could be enjoined under the Lanham Act because the Spanish-made dolls were materially different from those authorized for sale in the United States).

6. In a recently filed case, *Levi Strauss & Co. v. Benjy West*, Levi Strauss alleged that the defendants, gray marketeers, mixed genuine and phony goods to further their counterfeiting activities. Defendants brought a motion to dismiss these claims, but the district court denied the motion, holding "Defendants are not merely reselling the genuine products; rather Defendants are allegedly wrongly acquiring them in order to facilitate their counterfeiting activities." Levi Strauss & Co. v. Benjy West, No. 97-7287-WJR (C.D. Cal. Dec. 8, 1997) (denying motion to dismiss).

The safe distance rule allows the courts to deal with such use of legal conduct to mask illicit activity. Under newly developing authorities, United States intellectual property rightholders have been able to restrain counterfeiting defendants' trade in gray market products.[7]

This Essay suggests that intellectual property owners should consider carefully the application of judicial injunctive powers to prevent both black and gray marketeering. Part I discusses the equitable remedies law that authorizes courts to include, within injunctive relief, provisions enjoining even arguably legal conduct. Part II explores the application of general equitable principles to trademark infringement cases and the judicially created safe distance rule. Part III extends the analysis to counterfeiting and argues that courts should enjoin counterfeiters from trading in genuine, gray market goods of intellectual property owners. This Essay concludes that courts should utilize their broad equitable powers to discourage black marketeering and the unauthorized distribution of gray market goods.

I. COURTS' EQUITABLE POWERS TO ENJOIN LAWFUL CONDUCT

Courts command broad equitable powers to enjoin lawful, even protected, conduct when the remedy is fairly tailored to vindicate a statutory right or interest created by Congress, such as the fair and free competition interests embodied in the federal antitrust laws or the rights protected by the civil rights statutes. Those equitable principles have found special application in the trademark arena through adoption of what is known as the safe distance rule, requiring courts to draft injunctive relief broadly enough to ensure that a past infringer will not have the opportunity to infringe an owner's rights in the future.[8]

7. *See, e.g.*, Levi Strauss & Co. v. Sunrise Int'l Trading Inc., 51 F.3d 982 (11th Cir. 1995) (affirming district court's enjoining of a counterfeiter's trade in genuine Levi's brand apparel).

8. *See* Sunbeam Prods., Inc. v. West Bend Co., 123 F.3d 246, 260-61 (5th Cir. 1997) (noting that the safe distance rule gives broad discretion to the courts to ensure that manufacturers do not circumvent Lanham Act injunctions by making minor modifications to products covered by a previous injunction); *see also* Prince of Peace Enter. Inc. v. Kwok Shing Import-Export, Inc., No. 94-04183, 1997 WL 475699, at *12 (N.D. Cal. July 8, 1997) (noting that the safe distance rule does not apply absent actual infringement);

The equitable powers of courts to fashion appropriate injunctions enjoy an unassailable pedigree. In the civil rights context, the Supreme Court held that, "[o]nce invoked, 'the scope of a district court's equitable powers to remedy past wrongs is broad, for breadth and flexibility are inherent in equitable remedies.'"[9] Therefore, when the right to be remedied is derived from the Constitution or a statute, as in the case of the Lanham Act[10] or the Copyright Act,[11] the courts' power to fashion a *remedy* exceeds the narrow scope of the *right*.[12]

This distinction between a statutory right and the equitable relief necessary to protect the right is critical. Indeed, courts are required to employ their broad equitable powers to enforce such rights, including imposing relief that restrains acts that are not themselves wrongs, unless the statute expressly limits those equitable powers.[13] For example, in a price-fixing case under the

discussion *infra* Part II (describing the safe distance rule).

9. Hutto v. Finney, 437 U.S. 678, 687 n.9 (1978) (quoting Swann v. Charlotte-Mecklenburg Bd. of Educ., 402 U.S. 1, 15 (1971)) (affirming a court's power, once a constitutional right has been violated, to implement broad remedies to vindicate such right). In *Hutto*, plaintiffs, who were prisoners within the Arkansas prison system, brought suit charging that prison conditions violated the Eighth Amendment's ban on cruel and unusual punishment. The Supreme Court affirmed a district court's imposition of a 30 day limit on punitive, solitary confinement. The Court stated that, given the prison officials' repeated failure to cure constitutional violations, this broadly worded "comprehensive order [was justified] to insure against the risk of inadequate compliance" with constitutional requirements. *Id.* at 687.

10. 15 U.S.C.A. §§ 1051-1127 (West 1998 & Supp. 1998).

11. Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (codified as amended at 17 U.S.C. §§ 101-1010(1994)).

12. *See Swann*, 402 U.S. at 1.

13. *Cf.* Local 28 of Sheet Metal Workers' Int'l Ass'n v. EEOC, 478 U.S. 421, 464 (1986) (Brennan, J., plurality) (ruling that the specific language of title VII remedies provision did not preclude a court order of preferential relief benefiting individuals not actual victims of discrimination). Far from limiting a court's broad powers, the Lanham Act provides that courts can grant injunctions "according to the principles of equity." 15 U.S.C. § 1116(a) (West 1994). One authority explained:

> If remedies should enforce rights, then the tailoring stage should shape the remedy to reflect the rights in question, subject only to practical constraints. Because injunctions can provide many different means and terms, *they may at times be tailored to forbid acts that are not themselves wrongs, or to command acts that are not in themselves part of the plaintiff's entitlement.*

1 DAN B. DOBBS, DOBBS LAW OF REMEDIES 114 (2d ed. 1993) (emphasis added).

Sherman Act,[14] the Supreme Court stated that "relief, to be effective, must go beyond the narrow limits of the proven violation."[15] Thus, "[a]cts entirely proper when viewed alone may be prohibited."[16]

Accordingly, a court's broad equitable powers to secure rights created by statute may include the enjoining of conduct otherwise lawful under the statute when the injunction is tailored to vindicate the statutory rights. To this end, an injunction may restrain even constitutionally protected conduct.[17] In *ES Development, Inc. v. RWM Enterprises, Inc.*,[18] the Eighth Circuit upheld an injunction barring defendant automobile dealers from communicating with their manufacturers even though such communications constituted commercial speech protected under the First Amendment.[19] The *RWM Enterprises* court declared that courts are "empowered to fashion appropriate restraints on [the defendant's] future activities both to avoid a recurrence of the violation and to eliminate its consequences."[20] The court added that, in fashioning a remedy, a district court should endeavor to prevent "conspirators" from receiving "future benefits from their forbidden conduct."[21] Thus, according to the court, "the district court may consider both the 'continuing effects of past illegal conduct,' and the possibility of 'lingering efforts' by the conspirators to capitalize on the benefits of their past illegal conduct."[22]

The courts have applied their broad equitable powers to enjoin otherwise legal conduct in a number of areas. For example, in one antitrust case the court compelled a watch manufacturer, found to have fixed prices with its exclusive distributors, to sell its watches

14. Sherman Anti-Trust Act, ch. 647, 26 Stat. 209 (1890) (codified as amended at 15 U.S.C.A. §§ 1-7 (West, WESTLAW through Pub. L. No. 105-165, approved Mar. 20, 1998)).

15. United States v. United States Gypsum Co., 340 U.S. 76, 90 (1950).

16. *Id.* at 89 (citation omitted).

17. *See* ES Dev., Inc. v. RWM Enters., Inc., 939 F.2d 547, 557-58 (8th Cir. 1991), *cert. denied*, 502 U.S. 1097 (1992).

18. *Id.*

19. *See id.*

20. *Id.*

21. *Id.*

22. *Id.* (citations omitted).

to another distributor—even though the manufacturer normally would have a broad right to choose distributors.[23]

In the employment context, courts can impose injunctions that go beyond proscribing wrongful acts, even if the order infringes on an employee's liberties in the workplace. In *FMC Corp. v. Varco International, Inc.*,[24] the Fifth Circuit upheld a preliminary injunction drafted to protect plaintiff's trade secrets against disclosure by a former employee. The court's order went beyond merely forbidding disclosure of the secrets and enjoined the defendant business from putting the employee in any position that would pose a threat of inadvertent trade secret disclosure.[25] Courts also have enjoined otherwise legal action as a remedy in civil rights cases,[26] employment contract cases,[27] and harassment cases.[28]

Nowhere, however, are courts' equitable powers to enforce statutory rights more apparent than when protecting the intellectual property rights recognized by the trademark and copyright statutes. The Lanham Act expressly authorizes district courts to "grant injunctions, according to the principles of equity and upon such terms as the court may deem reasonable, to prevent the violation of any right of the registrant of a mark . . . ."[29] Likewise, the Copyright Act authorizes "injunctions on such terms as [the court] may deem reasonable to prevent or restrain infringement of a copyright."[30] With these terms, Congress plainly expressed its intention that district courts have wide discretion to fashion the terms of an

23. *See* Trabert & Hoeffer, Inc. v. Piaget Watch Corp., 633 F.2d 477, 485 (7th Cir. 1980). "The issuance of an injunction against future refusals to deal with the injured company has been repeatedly upheld where necessary to cure past and to prevent future Sherman Act violations." *Id.* (citations omitted). Such a remedy is especially appropriate, the court observed, if "the defendants cannot be trusted . . . ." *Id.* at 486.

24. 677 F.2d 500 (5th Cir. 1982).

25. *See id.* at 505.

26. *See* English v. Town of Huntington, 448 F.2d 319, 324 (2nd Cir. 1971) ("[A] court could prohibit otherwise lawful acts until the condition had been rectified.").

27. *See* Savoy Record Co., Inc. v. Mercury Record Corp., 108 F. Supp 957 (D.N.J. 1952).

28. *See* Galella v. Onassis, 487 F.2d 986, 998 (2nd Cir. 1973) (holding a photographer who had harassed a celebrity is properly enjoined from coming within 25 feet of her).

29. 15 U.S.C. § 1116(a) (1994).

30. 17 U.S.C. § 502(a) (1994).

injunction to protect the rights created by these statutes. Thus, so long as the district court deems the terms of an injunction reasonably necessary to prevent violation of a right, and the terms do not violate principles of equity, the injunction should not be disturbed on appeal.

II. DEVELOPMENT OF THE SAFE DISTANCE RULE IN TRADEMARK INFRINGEMENT CASES

Consistent with the principles of equity, courts often have used their broad equitable powers in the area of trademark infringement and unfair competition to enjoin conduct that otherwise would not violate the Lanham Act or state law. In fact, the courts have developed a specially named rule, the safe distance rule, which states that "[a] competitive business, once convicted of unfair competition in a given particular, should thereafter be required to keep a safe distance from the margin line—even if that requirement involves a handicap as compared with those who have not disqualified themselves."[31]

As articulated by various courts, the safe distance rule of equity serves several complementary purposes. It ensures that injunctive relief will be broad enough to protect the plaintiff-owner from future recurrent infringing conduct by the defendant. It also facilitates monitoring of the defendant's compliance with a court's injunction by delineating clear limitations on defendant's conduct. This rule further relieves the court from having to adjudicate the issue of infringement anew each time the defendant makes minor changes to the design of its products. The safe distance rule also is meant to ensure that the defendant does not retain any lingering benefit or goodwill from its past infringing activities. And, finally, in the case of an egregious or intentional infringer, the safe distance rule serves the punitive purposes of the Lanham Act by preventing the defendant from engaging in conduct, which would be lawful for defendant's competitors.

31. Ambrit, Inc. v. Kraft, Inc., 812 F.2d 1531, 1547 n.88 (11th Cir. 1986) (quoting Broderick & Bascom Rope Co. v. Manoff, 41 F.2d 353, 354 (6th Cir. 1930)); *see also* 5 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 30:4 (4th ed. 1997).

The safe distance rule has been applied most commonly in cases where a defendant-infringer has been ordered to make changes in the design or packaging of its infringing products. In one typical case, *Ambrit, Inc. v. Kraft, Inc.*,[32] the Eleventh Circuit held that a party liable for trade dress infringement under the Lanham Act was properly enjoined from using even those parts of the plaintiff's trade dress that did not constitute infringement.[33]

The *Ambrit* case arose out of a dispute over the packaging of chocolate ice cream bars. The plaintiff, Ambrit, Inc. ("Ambrit"), successfully sued defendant, Kraft, Inc. ("Kraft"), on the grounds that the wrapper of Kraft's Polar B'ar infringed the trade dress of Ambrit's Klondike bars. The Eleventh Circuit affirmed the district court injunction, forbidding Kraft from using any image of a polar bear on its chocolate ice cream bar wrapper.[34] According to the Eleventh Circuit, included within a court's equity power to "fashion appropriate relief" is the authority to proscribe more than "the use of a 'confusingly similar mark.'"[35] Therefore, the Eleventh Circuit added, "[i]n fashioning relief against a party who has transgressed the governing legal standards, a court of equity is free to proscribe activities that, standing alone, would have been unassailable."[36]

The desire to ensure effective relief against a repeat infringer motivated the Second Circuit's invocation of the safe distance rule in *Oral-B Laboratories, Inc. v. Mi-Lor Corp.*[37] In that case, the plaintiff obtained a preliminary injunction against defendant Mi-Lor Corporation's ("Mi-Lor") toothbrush packaging on the grounds that the packaging infringed Oral-B Laboratories' ("Oral-B") trademarks and other rights. After the initial injunction prohibited Mi-Lor from using toothbrush boxes with a blue and white

32. 812 F.2d 1531 (11th Cir. 1986).

33. *See id.* at 1547-48.

34. *See id.* at 1551.

35. *Id.* at 1547 n.86 (citations omitted).

36. *Id.* at 1548 (quoting Kentucky Fried Chicken Corp. v. Diversified Packaging Corp., 549 F.2d 368, 390 (5th Cir. 1977)). The *Ambrit* court also held that one portion of the district court's order went too far: the injunction against any use by Kraft of the "royal blue" color on a foil wrapper. *Id.* at 1548-49. The court remanded for a more narrowly tailored portion of the order addressing the color of the wrapper.

37. 810 F.2d 20 (2d Cir. 1987).

oval, Mi-Lor redesigned its boxes. After each redesign, however, the district court found the boxes still infringed Oral-B's rights. The court eventually cited Mi-Lor for contempt of its order and entered a broadly worded order which, among other things, prohibited Mi-Lor from making any references whatsoever on its boxes to "Oral-B," including references for comparative advertising purposes that ordinarily would be legal and protected under the First Amendment.[38] The Second Circuit affirmed the district court's use of its discretion by finding that such a broad provision would "assure that future toothbrush boxes would not be confusingly similar to Oral-B's."[39]

Assuring the plaintiff adequate protection against numerous and distinct infringements was a paramount concern of the Fifth Circuit in *Conan Properties, Inc. v. Conans Pizza, Inc.*[40] In *Conan Properties*, the owner of the rights in the fictional character Conan the Barbarian sued a pizza restaurant chain for trademark infringement and unfair competition. The jury found for the plaintiff, but the court denied it any monetary or injunctive relief because of plaintiff's delay in bringing suit. The appeals court reversed the denial of injunctive relief and remanded for an order prohibiting the defendant from using in its restaurants anything resembling or derived from the Conan the Barbarian.[41] The court held that such a broad injunction was needed to ensure that the defendant would not simply "modify his behavior ever so slightly and attempt to skirt the line of permissible conduct."[42]

The Fifth Circuit adopted a similar rationale to keep an infringer at a safe distance in the more recent case of *Sunbeam Prod-*

38. *Id.* at 24.

39. *Id.* Further, the court distinguished another case that had denied such relief on the grounds that the other case "had not considered the injunction on comparative advertising necessary for effective relief." *Id.* at 25. The Second Circuit also was swayed by the punitive purposes served by the safe distance rule as applied against a guilty infringer. The court stated: "Furthermore, a party who has once infringed a trademark may be required to suffer a position less advantageous than that of an innocent party." *Id.* at 24 (citing Conan Properties, Inc. v. Conans Pizza, Inc., 752 F.2d 145, 154 (5th Cir. 1985)).

40. 752 F.2d 145 (5th Cir. 1985).

41. *See id.* at 154.

42. *Id.*

ucts, Inc. v. West Bend Co.[43] Plaintiff Sunbeam Products Inc. ("Sunbeam") obtained a preliminary injunction against the defendant for infringing Sunbeam's trade dress and other intellectual property rights relating to a mixer. The injunction was extended to defendant's modifications of the mixer that, by themselves, may not have been infringing. Without even considering whether or not the new designs were infringements, the Fifth Circuit affirmed the broad injunction after applying the safe distance rule, thereby assuring that Sunbeam's rights could not be circumvented piecemeal by subsequent minor changes to new products.[44] The Fifth Circuit stated that this rule "vests broad discretion in the district court" to "issue injunctions that sweep even more broadly than the Lanham Act would permit against a manufacturer who has not already been found liable for trademark infringement."[45]

Punishing prior infringement and ensuring effective future relief were the primary reasons for the broad application of the safe distance rule in *Kentucky Fried Chicken Corp. v. Diversified Packaging Corp.*[46] Plaintiff Kentucky Fried Chicken Corporation ("KFC") sued Diversified Packaging Corporation ("Diversified") for manufacturing and selling food containers and napkins bearing KFC's trademarks to KFC's franchisees without authorization from KFC. Diversified also misled KFC's franchisees by failing to inform them that they were not authorized suppliers of KFC branded sundries.[47] In addition to proscribing Diversified's specific acts of unfair competition, the Fifth Circuit affirmed the trial court's injunction, forbidding use of marks that Diversified might otherwise have been entitled to use. The court stated that Diversified's "conduct clearly calls for strong and effective relief"[48] and that the broad injunction was "justified by [Diversified's] history of improper behavior."[49]

Many other trademark and trade dress cases have applied the

43. 123 F.3d 246 (5th Cir. 1997).
44. *Id.* at 260-261.
45. *Id.*
46. 549 F.2d 368 (5th Cir. 1977).
47. *Id.* at 372.
48. *Id.* at 390 n.28.
49. *Id.* at 390.

safe distance rule and recognized the power of courts to enjoin infringers from engaging in conduct that ordinarily would not be infringing or otherwise unlawful.[50] In addition, some courts have applied the safe distance rule as a standard by which defendants' compliance with the terms of an existing injunction is to be strictly judged. Such courts hold that defendants may not escape liability for contempt of an injunction by adhering to the letter of an injunction while skirting the court's intent.[51] Thus, the safe distance rule is both a principle useful in drafting terms of an injunction and a justification for enforcing strict compliance with those terms.[52]

III. COURTS SHOULD ENJOIN COUNTERFEITERS FROM ENGAGING IN THE GRAY MARKET

Courts should enjoin counterfeiters from engaging in gray market trade. This is particularly true in light of the safe distance rule and the interrelationship between counterfeiting and gray marketeering. First, broadly worded bright line injunctions are the most, and in many cases the only effective way to guard against recurrent counterfeiting. Second, injunctions that merely prohibit defendants from future acts of counterfeiting are, for all practical purposes meaningless without additional protection for the plaintiff-owner. Third, enjoining the otherwise lawful trade in genuine

50. *See, e.g.*, OSEM Food Indus. Ltd. v. Sherwood Foods, Inc., 917 F.2d 161, 164 n.4 (4th Cir. 1990) (reversing district court's denial of a preliminary injunction, relying in part on the safe distance rule); Chevron Chem. Co. v. Voluntary Purchasing Groups, Inc., 659 F.2d 695, 705 (5th Cir. 1981) (extending injuction to include similar but non-infringing packaging when one of defendants packages violated plaintiff's trade dress); Plough, Inc. v. Kreis Lab., 314 F.2d 635, 638 (9th Cir. 1963) (observing the rule that, once caught, an infringer is required to keep a safe distance away from the margin line); Coca Cola Co. v. Gay-Ola Co., 200 F. 720, 724-25 (6th Cir. 1912) (barring manufacturer of a cola whose color resembled Coca Cola from using that color even if defendant did not intend to mislead consumers); Moore Bus. Forms, Inc. v. Seidenburg, 619 F. Supp. 1173, 1185 (W.D. La. 1985) (applying safe distance rule at preliminary injunction stage to justify entering broad order requested by plaintiff).

51. *See* Howard Johnson Co., Inc. v. Khimani, 892 F.2d 1512, 1517 (11th Cir. 1990); Wella Corp. v. Wella Graphics, Inc. 37 F.3d 46, 48 (2d Cir. 1994) (applying safe distance rule to hold defendant strictly responsible for compliance with intent of injunction).

52. *See* Oral-B Laboratories, Inc. v. Mi-Lor Corp., 810 F.2d 20, 24 (2d Cir. 1987) (applying the safe distance rule both as a rule of drafting and of measuring compliance with injunctions).

goods ensures that willful counterfeiters will be deprived of any lingering economic benefit from their past illicit conduct. And, finally, such injunctions serve the important punitive purposes of United States anti-counterfeiting laws.

Courts should apply the safe distance rule to counterfeiting cases. As a result, courts would order counterfeiting defendants not to infringe upon plaintiffs' intellectual property rights through gray marketing or counterfeiting. Under the principles of equity invoked by the remedy sections of our civil counterfeiting laws, the scope of an injunction should address more than past methods or violations; it also should foreclose the possibility that future violations will occur.[53] Further, in counterfeiting cases, any doubt about whether a given injunction is broad enough to provide effective relief "must be resolved in [the owner's] favor . . . and against the [defendant], which has shown by its conduct that it is not to be trusted."[54]

Often, the only effective way to ensure that a counterfeiter will refrain from selling counterfeit goods in the future is to prohibit the defendant from dealing in the plaintiff's branded or copyrighted goods altogether. A proven counterfeiter who is free to continue dealing in the plaintiff's goods has many ways to conceal its continued illegal conduct. The counterfeiter may, for example, camouflage its counterfeiting operations with the occasional trade in genuine goods or by combining into one shipment both genuine and counterfeit goods. Furthermore, a counterfeiter's continued participation in the channels of trade through which gray market goods move may afford the counterfeiter the opportunity to move

53. *See* Field Enters. Educ. Corp. v. Cove Indus., Inc., 297 F. Supp. 989, 998 (E.D.N.Y. 1969) ("In any equity case once danger is revealed, the power to protect against foreseeable abuse is broad."); Conan Properties, Inc. v. Conans Pizza, Inc., 752 F.2d 145, 154 (5th Cir. 1985) (protecting against recurrent violations "by issuing broad injunctions that prohibit conduct that clearly infringes the plaintiff's mark as well as conduct that ordinarily would not justify any relief."); *cf.* United States v. American Tel. and Tel. Co., 552 F. Supp. 131, 150 (D.D.C. 1982), *aff'd*, 460 U.S. 1001 (1983) (applying injunctive relief to effectively foreclose recurring antitrust violations).

54. Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc., 955 F.2d 1143, 1151 (7th Cir. 1991) (quoting Polo Fashions, Inc. v. Dick Bruhn, Inc., 793 F.2d 1132, 1135 (9th Cir. 1986) (quoting William R. Warner & Co. v. Eli Lilly & Co., 265 U.S. 526, 532, 44 (1924))).

counterfeit goods through those same channels, thereby making the counterfeit transactions difficult to detect. A bright line injunction forbidding any trade in the plaintiff's branded goods can provide the plaintiff and the court with a straightforward means of ensuring compliance with the injunction and is the only reliable assurance against recurrent counterfeiting.

The alternative—an injunction that enjoins the defendant from engaging only in future counterfeiting—forbids conduct already prohibited by existing criminal and civil laws.[55] Thus, a civil order prohibiting continued future counterfeiting provides the plaintiff with little or no additional protection than those laws guarantee.

Existing civil laws entitle plaintiff-owners to seek contempt sanctions against recurrent counterfeiters, but only upon a showing of clear and convincing evidence: a standard much more stringent than that required to establish civil liability under the counterfeiting statute.[56] Moreover, a persistent counterfeiter, who has shown that it is not deterred by the steep monetary sanctions already available in the civil counterfeiting provisions,[57] is unlikely to be deterred by the piling on of additional monetary sanctions for civil contempt. In short, an injunction that merely tells the counterfeiter not to counterfeit again, is a meaningless added protection.

Preventing a counterfeiter from dealing in the genuine goods of the plaintiff serves another important principle of equity: it ensures that the defendant retains no enduring benefit from its illicit activities. Courts commonly recognize that injunctions against future lawful conduct may be necessary to negate the benefit received

55. *See* Majestic Drug Co., Inc. v. Olla Beauty Supply, Inc., No. 97 Civ. 0046, 1997 U.S. Dist. LEXIS 900, at *38 (S.D.N.Y. Jan. 29, 1997) ("An injunction which merely forbids a defendant . . . from 'infringing on plaintiff's trademarks and trade secrets' adds nothing to what the law already requires." (quoting 2 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 30:8 (2d ed. 1984))). Courts frown upon injunctions that, by their terms, merely prohibit the defendant from repeat violations of the law, as failing to satisfy the requirement, in rule 65 of the Federal Rules of Civil Procedure, that injunctions "shall be specific in terms [and] shall describe in reasonable detail . . . the act or acts sought to be restrained . . . ." *Id.* at *37 (quoting FED. R. CIV. P. 65(d)).

56. *See Oral-B*, 810 F.2d at 24.

57. The civil counterfeiting law provides statutory damages of as much as $1 million per trademark for willful counterfeiting.

from a defendant's past unlawful conduct as well as to eradicate ill effects of continued conduct.[58] In the course of infiltrating the market with counterfeit products, counterfeiters often forge relationships with the plaintiff's customers by falsely representing to buyers and intermediaries that they are a source of genuine products. It would be inequitable to allow counterfeiters to take advantage of goodwill fostered in the course of their fraud.

Broad injunctive relief which disqualifies counterfeiters from participation in otherwise legitimate trade is also a just punishment for willful wrongdoers. Public policy commands that a counterfeiter who intentionally pirates another's trademark must not be permitted to make profits off those marks in the future. By prohibiting counterfeiters from participating in the gray market trade, courts serve the important punitive and compensatory objectives that the anti-counterfeiting laws espouse.

Public policy, civil and criminal laws, and practical considerations should encourage district courts to assert their equitable powers to enjoin a counterfeiter's trade in genuine goods when the situation so demands. The district court for the Southern District of Florida demonstrated the appropriateness of full injunctive relief in *Levi Strauss & Co. v. Sunrise International Trading, Inc.*[59] That case arose from allegations by Levi Strauss & Company ("Levi Strauss") that a number of manufacturers were involved in a major international scheme to counterfeit LEVI'S jeans. According to the complaint, the defendants manufactured counterfeit LEVI'S jeans abroad and sold them at substantial profit to various retailers throughout Europe.[60] The district court, which had previously en-

58. *See, e.g.*, Chevron Chem. Co. v. Voluntary Purchasing Groups, Inc., 659 F.2d 695, 705-06 (5th Cir. 1981) (holding injunction should be broad enough to inhibit efforts "by [defendants] to retain . . . part of the good will originally misappropriated from [plaintiffs]"); *see also* ES Dev., Inc. v. RWM Enters., Inc., 939 F.2d 547, 557 (8th Cir. 1991) (restricting defendants' contacts with their antitrust conspirators because otherwise they "could continue to reap the benefits of their past illegal conduct"); Broderick & Bascom Rope Co. v. Manoff, 41 F.2d 353, 354 (6th Cir. 1930) (finding that permitting defendants to compete equally as an "honest competitor" would "preserve for them a good will acquired through fraud").

59. 51 F.3d 982, 982-85 (11th Cir. 1995).

60. *See id.* at 984 (affirming preliminary injunction order that, among other things, prevented defendants from "participating in transactions involving any genuine or counterfeit LS & CO product").

tered a preliminary injunction against the defendants,[61] found that Levi Strauss was entitled to a *permanent* injunction in order to "protect it from recurrent counterfeiting or infringing activities by defendants."[62] Accordingly, the district court entered a broad injunction forbidding defendants from dealing in any goods bearing plaintiff's trademarks, without regard to their genuineness.

CONCLUSION

The appropriate invocation of the courts' equitable power in counterfeiting cases can pay high dividends for intellectual property owners. One can imagine the application of the safe distance rule, for example, to enjoin flea market proprietors—once caught selling counterfeit cassettes, compact discs, or videos—from selling similar products, real or genuine. Or, in the case of manufacturers and traders in counterfeit cable box descramblers, an order preventing such defendants from tampering with, or even servicing, genuine boxes. Of course, the most analogous application of the safe distance rule would prevent traders in counterfeit products, such as branded apparel, copyrighted software, and Internet-based products, from trading in genuine or similar versions of the pirated products. The peril to those defendants should be much greater than the mere disqualification of their counterfeit trade. Rather, those pirates should face banishment from trading in the victim's goods at all.

In an era when legislatures are providing greater protection for the rights of intellectual property holders, the courts should seek out and re-analyze the methods it employs to enforce existing laws. Courts should be encouraged to fashion creative and stern equitable remedies that will raise the stakes and provide strong disincentives for those who would trade in counterfeit products. In sum,

61. Defendants appealed the entry of the preliminary injunction and the imposition of an asset freeze. The Eleventh Circuit affirmed. *See id.* at 987. The circuit court, however, did not address the merits of the district court's injunction against the sale of genuine goods by the defendant in the preliminary injunction because the issue had not been preserved. *See id.* at 986. Defendants did not appeal the entry of the permanent injunction.

62. *See* Levi Strauss & Co. v. Sunrise Int'l Trading Inc., No. 93-6547 (S.D. Fla. July 16, 1993).

courts should assert their equitable jurisdiction to bar a counterfeiter, once caught, from engaging in otherwise lawful gray market trade in branded goods of the plaintiff.