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Mark A. Morgan
Acting Commissioner
U.S. Customs and Border Protection
Department of Homeland Security
1401 Constitution Avenue, NW
Washington, DC 20230

Timothy E. Skud
Deputy Assistant Secretary
Office of Tax, Trade and Tariff Policy
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Re: Comment Request on the Notice of Proposed Rulemaking on the Disclosure of Information Regarding Abandoned Merchandise, 84 Fed Reg. 44790, pp. 44790-92 (August 27, 2019)

Dear Acting Commissioner Morgan and Deputy Assistant Secretary Skud:

The Entertainment Software Association (“ESA”) welcomes the opportunity to comment on the proposal to amend U.S. Customs and Border Protection (“CBP”) regulations pertaining to the disclosure of information regarding merchandise bearing suspected counterfeit trademarks. The proposed amendment would create a procedure for the disclosure of information otherwise protected by the Trade Secrets Act to a trademark owner when merchandise bearing suspected counterfeit marks has been voluntarily abandoned. ESA commends CBP’s Notice of Proposed Rulemaking (“NPRM”) as a step in the right direction however, we offer suggestions for the improvement of the proposed regulations that we believe will lead to the effective enforcement of intellectual property rights at the border. In addition, we urge the agency to do more to assist video game companies with border enforcement, including by promulgating rules to implement Section 303 of the Trade Facilitation and Trade Enforcement Act of 2015 (“TFTEA”).

ESA is the U.S. trade association for companies that publish interactive entertainment software for video game consoles, handheld devices, personal computers, and the internet.¹ It represents nearly all of the major video game publishers and gaming platform providers in the United States. In 2018, the industry generated \$43.4 billion in total revenue, with consumers spending \$35.8 billion on software, downloadable content and subscriptions, up from \$29.1 billion in 2017. Additionally in 2018, consumers spent a total of \$5.1 billion on video game consoles and \$2.4 billion on accessories and virtual reality hardware, including headsets, up from \$4.7 billion and \$2.2 billion in 2017, respectively. The industry added more than \$11.7 billion in value to U.S. GDP in 2017 and directly employed more than 65,000 people in the United States and 220,000 indirectly.

¹ A list of ESA members is available at <http://www.theesa.com/about-esa/members/>.

The video game industry is at the forefront of both innovation and job creation, which are buoyed by the strong protection and effective enforcement of intellectual property rights. Strong IP rights also ensure that gamers have access to authentic games, services and hardware accessories. With this purpose in mind, the video game industry, individually and also through ESA, has fostered and maintained constructive relationships with U.S. law and border enforcement as a key part of its global content protection program. On behalf of its members, ESA conducts nationwide trainings and education for local, state and federal law and border enforcement personnel on the protection of video game software, hardware and accessories and, to date, ESA's program has delivered free trainings to thousands of enforcement officers in the United States and around the world. ESA and its members also provide officials from CBP with the support and tools required to confirm the illegality of suspected infringing imports or devices designed to bypass technological measures put in place to protect video game consoles.

At the core of the industry's relationships with CBP and other U.S. government agencies, is information-sharing and cooperation. This is why ESA and its members support rules that require the greater disclosure and sharing of information regarding infringing or counterfeit goods at the border, including goods (such as circumvention devices) imported in violation of Section 1201 of the Digital Millennium Copyright Act.²

The Impact of Counterfeit and Other Illegitimate Goods on the Video Game Industry

Like many industries, the video game sector must contend with the infringement of copyright in software, the infringement of trademarks and trade dress through the counterfeiting of hardware, accessories and merchandise and, additionally, issues of security such as the hacking of games and game networks and account-reselling. Demand for our compelling products and services plus the desire for cheaper alternatives combined with the ease of sale to a worldwide market and the ease of delivery after purchase have given rise to the availability of illegitimate goods. These types of goods may cause substantial loss of revenue for our members and may pose health and safety risks for consumers, like, for example, counterfeit batteries or adapters. To assist in understanding the nature of the problem, a brief description of counterfeits and other illegitimate goods, such as circumvention devices, follows.

Counterfeits

The most commonly counterfeited items include accessories such as video game controllers, which traditionally pair with game consoles and "plug-n-play"³ devices that appear to be genuine. Members' wireless controllers designed for use with video game consoles, such as Microsoft's Xbox and Sony's PlayStation 4, are also targeted by sophisticated counterfeiters, who produce counterfeit controllers that look so close to the original that it can be difficult to tell legitimate from illegitimate products. ESA members also encounter user-generated

² 17 U.S.C. § 1201 (1998).

³ A recent and troubling trend in the video game industry is the production of legacy game consoles that come pre-loaded with popular games (often referred to as "plug-and-play devices"). High nostalgia value and low manufacturing costs make certain popular consoles prime targets for scalping and counterfeiting that can result in plug-and-play consoles.

counterfeits/unlicensed merchandise, such as print-to-own t-shirts or other print-to-sell merchandise as well as toys and figurines.

Circumvention Devices

Although circumvention devices are not necessarily counterfeit items, they pose significant challenges to video game companies, especially console and accessories manufacturers, because these devices facilitate the mass infringement of intellectual property rights and other unauthorized uses of video game consoles. A circumvention service or device bypasses the technological protection measures employed by rights holders to protect their video game software and hardware such as a video game console. There are a number of different types of circumvention devices including modification (“mod”) chips, game copies and even circumvention through software modifications (“soft mods”). A mod chip is a semiconductor chip that contains a program that circumvents the technical protection measures of a console system. When a “mod chip” is affixed to the circuit board of a console, it allows the systems to run illegitimate copies of games. Soft mods use software to modify the normal operation of video game console hardware in a way that can unlock or disable security features used to prevent the play of illegal games. Once the security features are unlocked, users can circumvent copy protections employed by rights holders on game cartridges or discs and within a video game console. A popular circumvention device today is the “game copier”, which is designed exactly like the video game cartridge, in the greatest detail, includes features (*i.e.*, shape, size, thickness, connections, sockets and pin configuration) of a video game cartridge. These types of circumvention devices allow users to copy download and play unlimited illegal copies of games on hardware.

Proposed 19 C.F.R. §§ 133.21(b)(6) and 127.12(c)

Because CBP’s proposed rule contemplates the same or similar type of disclosure of comprehensive importation information as in 19 C.F.R. § 133.21(e)(1) – (8) (“current rule”), ESA believes that the current rule, which governs analogous situations involving the seizure of trademark-infringing goods and the disclosure of comprehensive importation information to trademark owners, should serve as a model for CBP’s proposed Section 133.21(b)(6). The current rule provides greater assurance and clarity to trademark owners in three ways that the proposed rule, as drafted, does not.

First, the current rule requires mandatory disclosure to trademark owners of comprehensive importation information if there has been a seizure of merchandise suspected of infringing trademarks. The rule states: “When merchandise is seized under this section, CBP ***will*** disclose to the owners of the mark the following comprehensive information, if available, ***within 30 business days*** from the date of the notice of disclosure.” In contrast, CBP’s proposed language, section 133.21(b)(6), only notes that when merchandise suspected of infringing trademarks is voluntarily abandoned, “CBP ***may*** disclose to the owner the following comprehensive importation information.” Second, the current rule includes a time period (30 business days) by when rights holders can expect to receive comprehensive importation information. The proposed rule, in contrast, lacks a period of time for notification altogether,

further disadvantaging trademark owners as they attempt to conduct enforcement of their rights. Third, CBP adds in a qualifier to the proposed rule that disclosure will only occur if “CBP determines the disclosure will assist in CBP’s trademark enforcement.” ESA members express concern about this language because it could result in a situation where information about abandoned merchandise may not be relevant or useful to a specific CBP operation but would be nevertheless invaluable to rights holders who conduct their own enforcement. We note that the current rule has no such qualifier.

The discretionary nature of the language on disclosure of information in the proposed rule combined with a lack of certainty by when a trademark owner is to receive comprehensive importation information could result in a scenario where no actual disclosure of importation information takes place. ESA suggests strengthening the proposed rule by substituting “will” for “may” on disclosure and adding a period of, at most, 30 business days. Doing so would not only greatly assist trademark owners but would also aid CBP in achieving the goals, as stated, in the president’s Executive Order 13,785⁴ as well as in its NPRM. We also urge CBP to either delete the discretionary language on whether disclosure occur if it benefits CBP or, as an alternative, to add that disclosure must happen if it would be in the interest of or of benefit to the right holder affected. As it currently stands, the proposed rule will only result in highly ineffective enforcement because no actual disclosure to the right holder is likely to occur.

Because we are deeply concerned about the extent of the permissiveness of CBP’s proposed section 133.21, we have proposed ideal language (in the attached Annex A on page 7) that we believe more completely implements the intent of the executive order. We add to the current rule (section 133.21(e) and (f)) language about what acts CBP should take when trademark-infringing merchandise is abandoned that would be beneficial to rights holders as well as CBP.

We also urge CBP to fortify the language in proposed § 127.12(c) that indicates when voluntarily abandoned merchandise is subject to detention and disclosure. Proposed subpart (c) reads “If merchandise voluntarily abandoned pursuant to paragraph (b) of this section is suspected of bearing a counterfeit mark, it also *may* be subject to the detention and disclosure provisions of § 133.21(b) [and proposed § 133.21(b)(6)] of this chapter.” We believe that changing “may” to “will” or even “should”, especially if the merchandise is suspected of infringement, will permit trademark owners to gather much-needed information to combat the importation of trademark-infringing goods, particularly those in small consignments. Lastly, we would also encourage CBP to make clear in the proposed regulations that infringing voluntarily abandoned merchandise should be destroyed or otherwise disposed (after the removal or obliteration of the name, mark or trademark) in accordance with 19 C.F.R. § 133.52 on the disposition of forfeited merchandise.

⁴ Exec. Order 13,785 “Establishing Enhanced Collection and Enforcement of Antidumping and Countervailing Duties and Violations of Trade Customs Laws,” 82 Fed. Reg. 16,719 (Mar. 31, 2017) *available at* <https://www.whitehouse.gov/presidential-actions/presidential-executive-order-establishing-enhanced-collection-enforcement-antidumping-countervailing-duties-violations-trade-customs-laws/>.

Section 303 of the Trade Facilitation and Trade Enforcement Act

Although the relevant section of Executive Order 13,785 upon which the NPRM is based, focuses on sharing information with rights holders on voluntarily abandoned merchandise, ESA would like to point out that Section (4)(b)(i) of the order also mandates CBP to share with rights holders “any information necessary to determine whether there has been an IPR infringement or violation.” ESA believes that this language grants to CBP the leeway to engage in other facilitating actions, including rulemaking, that promote information-sharing such as promulgation of rulemaking implementing Section 303 of TFTEA. Even in the NPRM, CBP acknowledges that TFTEA grants CBP the authority to disclose information to rights holders about seized merchandise.

Section 303 requires CBP to notify rights holders, no later than 30 business days from seizure, of information regarding the circumvention devices, tools and implements seized at the border. The statute also requires CBP to prescribe regulations establishing procedures for implementation, including establishing and maintaining a list of persons who should be notified. On October 16, 2019, CBP published an NPRM in the Federal Register requesting public input on its proposed rules implementing Sections 302 and 303. ESA members are encouraged by CBP’s efforts to implement TFTEA on an issue of great importance to the video game industry.

Section 303 is a hard-won recognition that circumvention devices, tools and implements may neither infringe trademarks nor copyrights⁵ and could therefore fall outside the ambit of laws designed to combat harmful imports. For example, circumvention devices will likely not be covered under either the current or proposed CBP regulations involving the disclosure of comprehensive importation information to rights holders, as they are not, as described in the NPRM, merchandise bearing suspected counterfeit marks. In addition, circumvention devices often enter the United States in small, single packages or consignments, mislabeled or incorrectly described, or in some cases with no description at all, making their interdiction even more challenging for video games rights holders. Because the proposed rules would not adequately cover circumvention devices and CBP and there is not yet a rule implementing Section 303, video game companies cannot (and still do not) receive either limited or comprehensive importation information they need to conduct enforcement and protect video game consoles, leaving them with little recourse at the border. Given the crucial role border enforcement plays in stemming the importation of illegitimate goods into the United States, we encourage CBP to work with rights holders to facilitate the intention of TFTEA in order to improve intellectual property rights enforcement.

The language in Section 4(a) of the executive order reads even more broadly than Section 4(b). CBP “shall develop and implement a strategy and a plan for combatting violations for goods and for enabling interdictions and disposal including through methods other than seizure, of inadmissible merchandise entering through any mode of transportation, to the extent authorized by law.” We think that the mandate in Section 4(a) permits CBP to take a not so narrow view of enforcement focused on trademarks at the expense and to the detriment of

⁵ Even if their importation could violate the anti-trafficking provisions of 17 U.S.C. § 1201. There are rare instances, however, where circumvention devices have logos or other markings on them that would infringe ESA members’ trademarks or copyrights.

copyrights, whereby a two-tier system of disclosure is created depending on whether the good infringes trademarks or copyrights.

Conclusion

The video game industry faces serious challenges from counterfeiters who manufacture products that not only deceive consumers, but that also cut into industry revenue and endanger American jobs. In order to effectively combat the importation of counterfeit and illicit goods at the U.S. border, we believe CBP’s proposed rule is a good start. However, in order for the proposed rule to prove useful to stakeholders, information-sharing with rights holders on abandoned merchandise must be more than discretionary; it should be mandatory. In addition, ESA strongly urges CBP to promulgate regulations that implement Section 303 of e-commerce platforms, given the crucial role border enforcement plays in stemming the importation of illegitimate goods, like circumvention devices, that greatly harm the U.S. video game industry.

Should the Department have any questions or comments concerning ESA’s response, please contact Bijou Mgbjikwe at (202) 223-2400.

Respectfully submitted,



Bijou Mgbjikwe
Senior Counsel, Intellectual Property and Trade Policy

Annex A

ESA Proposed Amendment Text

§ 133.21 Articles suspected of bearing counterfeit marks.

...

(e) Seizure and disclosure to owner of the mark of comprehensive importation information. Upon a determination by CBP, made any time after the merchandise has been presented for examination, that an article of domestic or foreign manufacture imported into the United States bears a counterfeit mark, CBP will seize such merchandise and, in the absence of the written consent of the owner of the mark, forfeit the seized merchandise in accordance with the customs laws. When merchandise is seized under this section, CBP will disclose to the owner of the mark the following comprehensive importation information, if available, within 30 business days from the date of the notice of the seizure:

- (1) The date of importation;
- (2) The port of entry;
- (3) The description of the merchandise from the notice of seizure;
- (4) The quantity as set forth in the notice of seizure;
- (5) The country of origin of the merchandise;
- (6) The name and address of the manufacturer;
- (7) The name and address of the exporter; and
- (8) The name and address of the importer.

When merchandise is abandoned pursuant to paragraph (b) of section 127.12 of this chapter, CBP will disclose to the owner of the mark the comprehensive importation information described in paragraphs (e)(1) – (e)(8), if available, within 30 business days from the date of the abandonment.

(f) Disclosure to owner of the mark, following seizure, of unredacted photographs, images, and samples. At any time following a seizure of merchandise bearing a counterfeit mark under this section, **or any time following the abandonment of merchandise pursuant to paragraph (b) of section 127.12 of this chapter**, and upon receipt of a proper request from the owner of the mark, CBP may provide, if available, photographs, images, or a sample of the seized merchandise and its retail packaging, in its condition as presented for examination, to the owner of the mark. To obtain a sample under this paragraph, the owner of the mark must furnish to CBP a bond in the form and amount specified by CBP, conditioned to indemnify the importer or owner of the imported article against any loss or damage resulting from the furnishing of the sample by CBP to the owner of the mark. CBP may demand the return of the sample at any time. The owner of the mark must return the sample to CBP upon demand or at the conclusion of the examination, testing, or other use in pursuit of a related private civil remedy for infringement. In the event that the sample is damaged, destroyed, or lost while in the possession of the owner of the mark, the owner must, in lieu of return of the sample, certify to CBP that: “The sample described as [insert description] and provided pursuant to 19 CFR 133.21(f) was (damaged/destroyed/lost) during examination, testing, or other use.”