

# **Seminar on Unfair Competition Enforcement in the United States and Supply Chain Cybersecurity Issues**

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# **The Use of Unfair Competition Laws to Level the Playing Field in Trade: Impact on Exporters to the United States**

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# Background

- While IP protection in the U.S. is primarily based on a framework of federal/national laws, unfair competition or unfair business practices laws are at the state level and based on common law concepts of fairness in commercial dealings.
- All U.S. states recognize a theory of legal action by state against unfair competition or unfair trade or business practices as a matter of either common law or statute.

# Background

- IP rights holders in the U.S. continue to have concern over adequate protection and enforcement in developing countries, and have begun to look to U.S. domestic law as a potential firewall against the use of infringing works by foreign competitors.
- UCA is a legal tool against businesses that use unlicensed or pirated software in their manufacturing process or operations and thereby gain an unfair advantage against American businesses.

# Legislation

- Two states have enacted specific laws to address this issue of illegal software use: Louisiana and Washington State, with the Washington statute creating a new cause of action based on misappropriation of IT in competition.
- The law is silent on the location of the potential parties, as long as venue and jurisdictional issues are met, and allows pursuit of companies importing the illegal goods under certain circumstances.

## Legislation

- Two plaintiffs are contemplated in the UCA: 1) the manufacturer (“victim”) injured by the unfair competition of the infringing manufacturer (“infringer”), and 2) the State.
- The actual infringement determination is under the infringer’s local law.
- If the primary claim is not satisfied, then a secondary claim may be brought against a third party who contracts with the infringer to import pirated goods.

# Legislation

- It is up to an IP owner, not the victim, to take action, and the infringer can avoid any further action if it can prove its legal compliance or brings its business into compliance within 90 days, during which time victim cannot take action against the infringer.
- If infringer fails to prove compliance, a direct action may be brought against it by either the victim or the state Attorney General.

## Legislation

- The remedies available may turn on extent to which item of illegal goods is “essential component” of a third party’s product and whether third party has taken steps to require infringer to cease its infringing activity.
- To enjoy a “safe harbor” will depend on whether third party is adequately policing its supply chain and takes action to not purchase illegal goods from contractors and suppliers.



## **Recent Actions**

- Massachusetts AG investigated and settled case with Thai seafood exporter, Narong Seafood Co., Ltd., in July 2012, for a fine of US\$10,000 and agreement to bring its operations into full compliance, with a full audit of its IT operations.
- California AG has brought cases against Chinese and India garment manufacturers based on use of unlicensed software and IT in their design operations. Cases are pending in California courts.

## **Recent Actions**

- The Washington AG settled a case against a Brazilian airplane manufacturer for using stolen technology and unlicensed software to undermine U.S. companies based in Washington State.
- The Tennessee AG settled a case against a Thai tire manufacturer for a substantial sum for having used unlicensed software in its manufacturing and distribution operations in Thailand.

## Recent Actions

- In Louisiana, the AG pursued Guangdong Canbo Electrical Appliance Co. (China), manufacturer of Char-broil® and Char-grill® barbeque grills, for use of unlicensed software, which agreed to pay more than US\$250,000 to settle with audits to assure compliance. The company was told that it could have its products banned from the Louisiana market, and it quickly agreed to pay to fully legalize their software and comply with the law.

## **Recent Actions**

- In Arkansas, the AG is pursuing legal action against three Thai food manufacturers and processors that distribute their products into the Arkansas market based on use of unlicensed software in their business operations.
- The cases are being pursued for violation of the Arkansas Deceptive Trade Practices, and are in the early stages of investigation and settlement discussions.

## **Recent Actions**

- In Oklahoma, the AG has filed a lawsuit against Neway Valve Co. (China), an oil equipment supplier, claiming Neway stole proprietary software allowing it to produce and sell its competing equipment in Oklahoma at a lower price, thereby violating Oklahoma's Antitrust Reform Act and Oklahoma common law.
- No settlement yet reached in the case.

## **Anticipated Actions**

- Several additional states are currently investigating other cases of unfair trade practice and unfair competition against foreign exporters based on use of unlicensed software in their business activities and the impact of this on their state economies.
- Next wave of actions likely to be against component manufacturers and suppliers.
- In sum, this will only continue to expand as a basis for civil enforcement actions.

# THANK YOU.

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