

New U.S. Law Affects Users of Unlicensed or Pirated IT



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Manufacturers whose products are sold, or offered for sale, in Washington State should be aware of a new unfair competition law in that state. The new law, which went into effect on July 22, 2011, imposes civil liability on manufacturers who use IT that is either stolen or misappropriated. Proceedings can be brought by competing manufacturers or the Washington State Attorney General if such IT is used in the manufacture, distribution, marketing, or sale of products sold or offered for sale in the state. This may become a growing trend in the United States, as a similar law has already been passed in Louisiana. Other states are likely to follow.

The new laws seek to level the playing field so that users of illegal or unauthorized IT will no longer enjoy the competitive advantage of being able to use such IT for free, thus competing unfairly against competitors in the marketplace who choose to use only legal and legitimate IT to conduct their business. Moreover, those manufacturers who elect to use stolen IT run the risk of having to pay damages, having their goods seized, and possibly losing access to desirable U.S. markets.

The laws are intended to ensure that there is a respect for property rights, while also providing a compliance procedure that is easy for all stakeholders to implement.

How the Law Works

Under the Washington State law, a competing manufacturer, whether it resides in the U.S. or a foreign country, can bring the action having to prove that it:

- ▶ Manufactures products sold in the state in direct competition with the products claimed to have been created using stolen or misappropriated IT.
- ▶ Did not manufacture its products using stolen or misappropriated IT.
- ▶ Suffered economic harm, established by showing a retail price of stolen IT of at least USD 20,000.

The law goes even further. Not only are manufacturers liable for suit, but so are third parties, such as retailers or distributors, who offer goods produced with stolen IT. After a successful action against the manufacturer, a plaintiff may bring an action against third parties that, among other criteria, have a direct contractual relationship with the manufacturer that uses unauthorized IT. Such an action may be brought if the third party was not subject to the original proceedings, if the manufacturer has no attachable assets to satisfy the judgment, or if certain other criteria are fulfilled. Plaintiffs are not required to have any minimum contacts in the state in order to commence actions under the Washington State law.

Before an action can commence, IT owners are first required to have written to the potential defendant setting out details of the allegation particular enough to allow the potential defendant to respond. The potential

defendant will have 90 days to respond to the IT owner's letter. A further 90-day period may be granted if the manufacturer demonstrates that it needs more time for the legal-ization process. Defendants who fail to stop using stolen IT after the commencement of the court action may be subject to court injunctions preventing the sale of their goods in the state, or the plaintiff could be awarded either the actual damages suffered or statutory damages not exceeding the retail price of the IT, whichever is greater. Willful infringers run the risk of having damages tripled.

There are several limitations, however. Actions may not be brought against manufacturers who produce food, beverages, and medical products regulated by the U.S. FDA. Companies cannot be sued if their end products are protected by copyright law, such as books, movies, and music. Promotional products related to copyrightable works and theme parks are also excluded from the law.

What the Law Calls For

Because these new U.S. state laws apply to any manufacturers of goods sold in those states and any customers (such as retailers or distributors) they have within those jurisdictions, even manufacturers with no legal presence in the U.S. should examine these new laws closely and monitor state legislatures that are considering similar laws. Most businesses have IT management systems in place already, but with the promulgation and likely additional laws intended to disadvantage users of stolen IT, now may be a good time to conduct internal audits on their business units and supply chains globally to ensure internal policies and procedures are being followed and to determine whether additional safeguards need to be implemented. Manufacturers around the world are now going to have increase their IT management vigilance.

The benefits of using legal and legitimate IT are clear. Compliance with legal IT can be a competitive differentiator in the global marketplace. Successful global companies are increasingly focused on implementing high standards of legal and ethical compliance throughout their supply chains and in their relationships with other businesses. Organizations that are able to certify their use of legal IT will enhance their global reputation, safeguard their business, and have a distinct competitive advantage. 