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LEGAL UPDATES

Counterfeits and Brand Protection Amid COVID-19 Supply Chain Disruptions

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The recent global COVID-19 pandemic has highlighted the vulnerabilities of supply chains in the modern marketplace. Nowhere was this made more acutely apparent than in the realm of critical personal protective equipment ("PPE") for medical personnel, and in particular, the availability of N95 rated medical masks. "N95" is a rating for the degree of airborne particle and liquid protection, and the N95 masks and respirators are regulated by the FDA, CDC, NIOSH and OSHA at the federal level in the US. As demand for N95 masks exploded, a critical situation quickly developed as the product sources, almost exclusively based in China, were disrupted at multiple points in the supply and distribution chain by quarantines and mounting mortality.

Predictably, counterfeits began to flood the market designed to look like the coveted masks and using the "N95" designation without qualification or certification. In addition to counterfeits, altered respirators, falsely marked as certified or altered using non-approved components or modifications to certified respirators, began to surface. Many sources began selling masks that did not meet certification standards. In the desperate search for critical PPE, even sophisticated purchasers were fooled. Multiple states purchased, then mounted recalls of substandard or malfunctioning PPE, including Illinois which recalled masks it had procured for \$17 million.

Desperation in consumers and healthcare workers grew as PPE supplies dwindled, opening the door to outright fraud. In one example, in an elaborate international con, the Service Employees International Union (SEIU) in California celebrated securing 39 million medical masks urgently sought by its healthcare service members, only to discover that the masks were nonexistent and the entire transaction a scam. The scam deal was made by the SEIU through a Pittsburgh businessman with a broker in Australia and a supplier in Kuwait, and fell under suspicion when it was discovered that 3M Corporation, which was the purported manufacturer of the 39 million N95 masks in question, had manufactured only 20 million such masks the previous year. The Australia broker and Kuwaiti supplier are under federal investigation. The SEIU and Pittsburgh businessman were among many targets of the global swindle. Sadly, healthcare workers on the front lines of the COVID-19 battle and those

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threatened by the virus were, arguably, the true victims of the scandal with the waste of scarce resources and delays in critical timelines.

Lessons from COVID-19 Supply Chain Disruption

Although the PPE supply chain presents a uniquely acute example of problems in this time of COVID disruption, similar problems are rippling through many other supply chains. The unprecedented patchwork of current stay at home restrictions around the US and the world present unique challenges when problems are encountered. Nonetheless, whether you are a consumer product supplier, a manufacturer, a component supplier to OEMs, or purchaser of goods and services, here are some steps you can take now to mitigate problems with counterfeits and brand erosion in the face of supply chain disruption:

1. **Stay in touch with your suppliers and customers.** It's likely that you are already reaching out more proactively than before to your supply chain partners. Use your enhanced contact regimen to look for unusual changes in market conditions or activity, and to step up communication of your brand standards and requirements to supply chain partners. Sensitize and educate your supply chain to the enhanced risks of counterfeits and brand damage during disruptions, and use your supply chain to expand your surveillance network. If you have not already done so, it may be a good time to create trademark use guidelines for your marks, and to review, expand, or update your trademark use and trademark registrations.
2. **Review your major commercial contracts and licenses.** Before counterfeit goods or infringing occurrences disrupt your supply chain, review your obligations and rights under agreements with supply chain partners to refresh your general understanding of these relationships. Now may be the time to finally read those "boilerplate" provisions in your contracts, which will have greater relevance in the current risk environment with increased frequency of defaults. Besides the terms addressing the scope of licenses, minimum quantity requirements, royalties, and quality control, those less familiar and infrequently used terms addressing restrictions on use or sales channels, remedies and liability, delivery and acceptance, cover provisions, inspection or audit, notification, breach, and dispute resolution terms may be of particular relevance to the disrupted commercial conditions. You may also find it's time to have addenda or other updates to your agreements prepared to reflect changes in IP assets, customers, or other changes since the agreements were executed.
3. **Increase monitoring for counterfeits or brand infringement.** The world in the age of COVID-19 is online, in case you hadn't noticed yet. So, if you don't already monitor your products and marks online, set up a regular schedule for routine review of supplier, distributor, and sales websites, as well as general online searches of your product and marks for unauthorized or improper use on the web. For b2b transactions in particular, tighten up your delivery and acceptance processes, procedures and documentation. If delivery and acceptance is based on meeting trademark guidelines, technical specifications, or other quality control standards, regularly inspect goods before shipment (if selling) or acceptance (if buying) to confirm the goods are conforming. In a disrupted supply chain environment, beware of counterfeit, nonconforming or otherwise unacceptable components or goods popping up more often, even in previously qualified products and even from usually reliable supply chain partners. It's a good time for supply chain partners to watch each other's backs. If your supply chain agreements provide for inspections or audits, consider whether it would be appropriate to schedule one to head off possible problems.
4. You can also engage third party assistance to monitor trademark registries and online uses. Your trademark attorney can help you to find appropriate providers. If you have registered your trademarks with the USPTO, you can also record your registration with the Customs and Border Protection agency to monitor shipments into the US for counterfeits, infringing use of your mark on products and packaging, or other unauthorized use of your registered marks.

5. **Collect evidence of suspected counterfeiting, brand infringement, rebranding, price gouging, or other unauthorized or abusive practices that could damage your brand.** In the pre-COVID times an aggressive response to stop or remedy brand-damaging acts might have been a no-brainer, but such a full throttle approach may be difficult or unaffordable in the COVID-restricted economy and environment. If your usual preventive or remedial course of action is not feasible, consult with counsel or other advisors to determine and take those minimum steps necessary to preserve your rights in order to mitigate damage and seek recourse at a later time, and collect evidence for future action.
6. **Review your website, terms of use and online policies.** Check your IP notifications, the limitations on the rights of website users and other protective restrictions, privacy notifications, and for your correct use of “®”, “™”, and “©” or other copyright and trademark notices.

Brand Protection Is an Important Element of Supply Chain Protection

This is a uniquely challenging time to maintain and protect your brand value in a disrupted supply chain environment. And the corollary also holds: this is an important time to protect your brand to strengthen and protect your supply chain. The global supply chain risk assessment firm, RiskMethods, identifies the top three supply chain risks as: (1) supply chain partner viability (2) natural disasters, and (3) reputational and compliance risk. The natural biological disaster, COVID-19 and resulting global economic response have impaired or shut down many businesses, disrupting supply chains for products and services on local and global scales. Clear evidence of reputational and compliance risk is emerging, both caused by supply chain disruption *and* further endangering supply chains – an alarming positive feedback loop of potentially accelerating adverse effect that could blow up weakened supply chains.

Taking aggressive steps to protect its brand and stem damage to its distribution chain, the 3M Company, a dominant global manufacturer of N95 respirator masks, recently filed lawsuits against several companies alleging trademark infringement and dilution resulting from the defendant companies’ misleading use of the 3M marks and price gouging. As explained in 3M’s complaint, consumers rely on the 3M trademarks as an indicator of source and quality. In the strained PPE market, “[n]ot only does such price-gouging further strain the limited resources available to combat COVID-19, but such conduct justifiably has caused public outrage, which threatens imminent and irreparable harm to 3M’s brand as Defendant and similar pandemic profiteers promote an improper association between 3M’s marks and exploitative pricing behavior.” Without active policing of its brand necessitated in part by the irregularities in PPE availability due to supply chain disruption, the improper use of the 3M brand would further destabilize the markets and thus cause further damage to the 3M PPE supply and distribution networks.

In this time of COVID-19 disruption, your brand protection strategy may differ from 3M’s, but protecting your brand now may be no less important to you in order to protect your product supply chain and business. You can take reasonable steps now to mitigate the risks of counterfeits, trademark infringement, and brand erosion. Your brand vigilance will help to protect your supply chain and position your goods and services for greater brand security in the face of significant supply chain disruption as the world economy comes to grips with COVID-19.

Please reach out to Lathrop GPM’s trademark attorneys if you have further questions.