



~~Forfeiture of a trademark or the decline of the Mongol empire revisited~~

In Autumn 2008 a US district court ordered the forfeiture of marks owned by a gang known as the Mongols on the grounds that the gang engaged in illegal activities. While the forfeiture of property is provided for under various US statutes, this case raises more than its fair share of legal and constitutional issues

On October 22 2008 the US District Court for the Central District of California granted an outlandish injunction following the arrest of a number of members of the Mongol gang who had been indicted for racketeering. Allegedly, the gang frequently engages in a number of illegal activities, such as robbery and drug trafficking.

Apart from prohibiting the distribution, licensing or sale of any material bearing the gang's trademarks, the court also ordered the surrender of products and materials bearing these trademarks.

The main objective of the court's action is the acquisition of the trademarks through forfeiture, which raises issues with regard to constitutionality and continuation of use, among other things. However, bearing in mind the 'first sale doctrine' (ie, the fact that trademark rights are exhausted after the first sale), it is also

questionable whether the government can prevent people from wearing clothes bearing the MONGOLS trademarks. There are thousands of Mongol members who have not been indicted, not to mention their families and non-members who might want to wear clothes or other products featuring the mark or logo. It is arguable that even if the government becomes the trademark owner, it cannot prevent anyone from using or wearing a legally acquired item purchased before that ownership came into force.

This article attempts to analyze the legality of the aforementioned decision, while taking into account the questions raised thereby.

Background

There are two trademarks involved in the *Mongol Case*, both of them registered in the US Patent and Trademark Office (USPTO):

- The word mark MONGOLS is registered for "associated services, namely promoting the interests of persons interested in the

recreation of riding motorcycles"; and

- An image depicting a Mongol warrior riding a motorcycle and wearing sunglasses, together with the letters 'MC' is registered for jackets and t-shirts.

The initial applicant for the trademarks was Mongol Nation, described in the USPTO as a non-profit association. The trademarks were granted in January 2005. However, the current owner is a company named Shotgun Productions LLC, which is not mentioned in the indictment.

Under US federal racketeering laws introduced in 1970 to counter organized crime, any property, real or personal, "affording a source of influence over any enterprise which the person has established, operated, controlled, conducted, or participated in the conduct of, in violation of Section 1962" can be forfeited from indictment for specific criminal activity (Section 1963). Likewise, any property (again, real or personal) "constituting, or derived from, any proceeds which the person obtained, directly or indirectly, from racketeering activity or unlawful debt collection in violation of Section 1962" is also subject to forfeiture.

The abovementioned provisions of the US Code are part of the Racketeering Influenced and Corrupt Organizations (RICO), a federal statute enacted in 1970 as Title IX of the Organized Crime Act of 1970. Importantly, the US Supreme Court stated that the broader goal of such statute was to "remove the profit from organized crime by separating the racketeer from his dishonest gains" (*Russello v United States*, 464 US 16, 1983).

The *Mongol Case* is not the first US decision on forfeiture. One paradigmatic example is *State ex rel Napolitano v Gravano* (60 P 3d 246, Ariz Ct App, 2002). Here, the defendant, Salvatore Gravano, had engaged in racketeering activity – namely, murder and drug dealing. Following his arrest in 2000, the trial court ordered the forfeiture of the royalties derived from his biographical book.

On appeal, Gravano argued that the court order violated his freedom of speech. The Arizona Court of Appeals, however, noted that Arizona's forfeiture statutes were content-neutral, their purpose being solely to withdraw the financial income allowing racketeers to carry out their activities. The court further underlined that there was a causal connection between the racketeering activity of the defendant and the success of the book. Hence, the court determined that the royalties were a consequence of the racketeering activity of the defendant.

Moreover, the court pointed out that the state's statutes on forfeiture applied only to the proceeds of racketeering, a causal connection being needed in this context. Therefore, according to the court, the freedom of speech was not put at risk.

Does a rising tide lift all boats?

The forfeiture of royalties in *Gravano* bears substantial differences in relation to the seizure of the MONGOLS trademark. First and foremost, whereas the former concerns the expropriation of what can be said to be the by-product (royalties) of a right (copyright), the latter involves the appropriation of the right itself (trademark).

It is arguable that this difference derives from the different nature of the rights – trademark and copyright are dissimilar in their core and their respective rationales differ from one another. Nevertheless, one cannot help but wonder whether this line of thought cannot be turned around: if trademark and copyright stand that much apart, should not then the judiciary take those disparities into consideration when issuing forfeiture orders?

On the other hand, the aforementioned passages of Section 1963 clearly set the need for a link – as frail as it might be – between the property to be forfeited and the racketeering activity. In fact, if due



account is taken of Sections 1963(2) and (3), such property has to be either a cause or a consequence of racketeering (or at least it has to influence it). Thus, the question arises: can this be upheld in the *Mongol Case*? The author does not think so. The trademarks do not cause the defendants to engage in illegal activities. Nor do they influence those. In other words, as far as the causal part is concerned, it is the author's view that a simple test could be set forth: absent the trademarks, would the racketeering activity decrease? Surely the answer is negative.

Similarly, the consequence function is also not tenable here. Obviously, the trademarks concerned do not derive from the proceeds of any racketeering activity.

Yet let us assume that none of the previous remarks is valid. Does the rising tide lift all the boats? Or, to put it another way, does the good that undoubtedly can come from this order really benefit society? In order for those queries to be answered, concerns relating to constitutionality and to limits within trademark law must be addressed.

With regard to constitutionality problems, the main issue relates to the First and Eighth Amendments (the former protects freedom of speech and the latter prohibits the federal government from imposing excessive bail, excessive fines or cruel and unusual punishments). Cases relating to the First Amendment abound. They provide some lessons, perhaps the most important of which is the corollary from the bumpy evolution of the Son of Sam laws.

The Son of Sam law was first created in 1977 in the state of New York after the murders committed by a serial killer who called himself Son of Sam. The law established that all income deriving from a contract between the publisher of a book or other work describing a crime and a person accused or convicted of that crime should be handed in to the Crime Victims Board. This board was then bound to deposit the corresponding money in an account for purposes of payment to any victim who, within five years, obtained a civil judgement against the criminal. The fund was also deemed to benefit other creditors of the accused or convicted person.

After the original Son of Sam law, many other states and even the federal government enacted similar laws. Despite the slight variations among them, the core was common: the delivery of revenue related to storytelling of criminal offences to the victims.

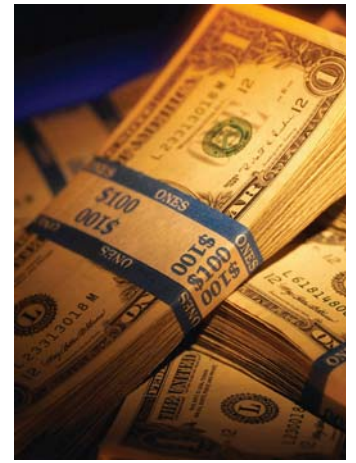
The main goal of this type of legislation was apparent: it both served the interests of the victims and helped the state to accomplish its duty of compensating them. However, in *Simon & Schuster Inc v Members of the New York State Crime Victims Boards* (502 US 105, 1991), the Supreme Court found the Son of Sam law to be inconsistent with the First Amendment and thus unconstitutional. The main reason for this finding was the fact that the law was not content-neutral.

As a consequence, the state of New York changed its law. The version currently in force applies to the economic benefit generated as a result of having committed a crime. Concomitantly, and probably fearing similar challenges to their laws, other states followed the New York example and modified their statutes.

Yet the order of special forfeiture laid down in the US Code (18 US Code Section 3681) retains its overreaching character. It still



While the Mongol gang's criminal activities warranted the forfeiture of its trademarks in theory, it is questionable whether the US government can prevent people from wearing clothes bearing the MONGOLS trademarks



establishes the forfeiture of proceeds from a “contract relating to a depiction of such crime in a movie, book, newspaper, magazine, radio or television production, or live entertainment of any kind, or an expression of that defendant’s thoughts, opinions, or emotions regarding such crime”. Needless to say, the unconstitutionality of this provision was never raised and doubts remain as to whether it can survive First Amendment challenges.

Despite the fact that the *Mongol Case* was decided on the basis of different statutes, the obvious similarity between the laws used in that case and the Son of Sam laws cannot be overlooked. Even absent all the deficiencies pointed above, there is no neutrality to the court’s order in *Mongol*. Therefore, the main lesson to be learned is that the First Amendment is a strong argument that should also be upheld in cases such as *Mongol*. Everyone should have the right to own a trademark that is not offensive *per se* or that is not registered to distinguish inadmissible activities. Anything that goes beyond such limits can indeed conflict with the First Amendment.

In what concerns the Eighth Amendment, one should ponder whether the *Mongol* court’s order violates the excessive fine clause contained therein. In *Von Hofe v United States* (492 F3d 175, 2d Cir, 2007), the court, in an asset forfeiture case interpreting the Civil Asset Forfeiture Reform Act of 2000, stated that “the greater the property’s involvement in the offence – both in terms of its temporal and spatial reach and the other uses to which the property was being put – the stronger the argument that the forfeiture is not excessive”. Again, account should be taken of the fact that there are non-members and non-indicted members of the Mongol gang wearing clothes bearing the Mongol logo. In addition, the logo is not material to the performance of the offences.

Finally, one should take into consideration some barriers posed by trademark law itself. Trademark protects both individual and collective interests – the latter coming down to the correct functioning of the market. One of the consequences of this premise is the first sale doctrine. Hence, a lawful buyer cannot be prevented from, for instance, using or reselling the good by the trademark owner. Certainly, like most principles and rules, this one also admits exceptions. However, those are quite well defined and not applicable here. It is exactly at this point that rests the main problem with the *Mongol* decision – it is a blatant violation of the first sale doctrine.

Altogether, a rising tide does not lift all boats. The advantages of this decision cannot overcome the strains and drawbacks it brings to basic principles – especially when those derive from constitutional proviso and from a conflicting statute.

Practical implications

While forfeiture of intellectual property has not seen its debut in the *Mongol Case*, one is used to considering forfeiture as an instrument at the trademark owner’s disposal – for instance, following a situation of counterfeit items. In other words, trademark owners frequently rely on forfeiture when their rights are infringed.

However, should the government seek the forfeiture of a trademark itself following misconduct on the part of the respective owner, the forfeiture issue must be looked at from a different

perspective. Hence, one should consider the steps a trademark owner can take in cases such as the one presented here.

Importantly, the ownership of the trademark ought to be the central question. As previously stated, Mongol Nation is no longer the owner of the trademark. So for the court’s order to stand, the new owner should be indicted. Of course, this would stop the order from the start – if the link between the racketeering activities of the gang and the trademark is already flimsy, the one between the former and a third party is non-existent.

Still, let us assume, for the sake of argument, that there is no problem concerning ownership. Typically, forfeited property can be destroyed, used or sold. In the case of intellectual property, however, the options are narrowed down. Because of the specific characteristics of these goods, specific rules apply to them.

The first problem that the government will face is the continuation of use. One can barely imagine the government using the trademark MONGOLS for “associated services, namely promoting the interests of persons interested in the recreation of riding motorcycles”. Even if such scenario would occur, the enforcement of the right would encompass further problems as far as likelihood of confusion is concerned.

On the other hand, the lack of use can end up in abandonment. Once abandoned, the trademark may be freely used by others again – including, ironically, other gangs or associations of bikers. In short, the government is deemed to be trapped in this endless paradox.

In any case, it must be underlined that the new owner of a trademark can control the distribution of any product bearing the protected sign. Nonetheless, as stated above, it will always have the limits imposed by the first sale doctrine. The owner can change the future, but not the past.

Finally, morality and ethics play a role only at a very early stage in the context of trademark law. For example, in the United States a trademark which “consists of or comprises immoral, deceptive, or scandalous matter” can be refused registration (§1052 (a), Section 2 of the Lanham Act). Likewise, in the European Union, a trademark which is “contrary to public policy or to accepted principles of morality” shall not be registered as a Community trademark (Article 7(1)(f) of the Community Trademark Regulation (40/94)). This policy option sends out a clear message: there should be some *ex ante* conformation to social and ethical standards, but *ex post* control is ruled out – especially where the social and ethical considerations tend to focus on activities related to the trademark (as blameful as those might be), but not on the trademark itself. The reason for this is also quite understandable: one needs to draw the line somewhere and to make an existing trademark dependent on such volatile criteria would imperil legal certainty.

All these fragilities, together with the constitutionality problems previously mentioned, make the *Mongol* decision an easy target for the trademark owner. It is the author’s view that the order can be challenged without much effort. Nevertheless, if against all odds the order stands, it sets a dangerous precedent and an unjustifiable build-up of the government’s sphere of action. WTR

Ana Ramalho is a guest researcher at the Max Planck Institute anabramalho@gmail.com