

**THE SHOP SAFE ACT: STEMMING THE RISING
TIDE OF UNSAFE COUNTERFEIT PRODUCTS ONLINE**

HEARING

BEFORE THE

SUBCOMMITTEE ON COURTS, INTELLECTUAL
PROPERTY, AND THE INTERNET

OF THE

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C O N T E N T S

THURSDAY, MAY 27, 2021

	Page
OPENING STATEMENTS	
The Honorable Henry C. “Hank” Johnson, Jr. a Representative in the Congress from the State of Georgia, Chairman, Subcommittee on Courts, Intellectual Property, and the Internet	1
The Honorable Darrell Issa, a Representative in the Congress from the State of California, and Ranking Member, Subcommittee on Courts, Intellectual Property, and the Internet	3
Prepared Statement	6
The Honorable Jerrold Nadler, a Representative in the Congress from the State of New York, Chairman, Committee on the Judiciary	9
WITNESSES	
Ms. Kari Kammel, Assistant Director of Education and Outreach, Center for Anti-Counterfeiting and Product Protections, Michigan State University	
Oral Testimony	12
Prepared Statement	14
Ms. Meredith Simpson, Vice President, Federal Government Relations and External Relations, Personal Care Products Council	
Oral Testimony	29
Prepared Statement	31
Mr. Jonathan Berroya, Senior Vice President and General Counsel, Internet Association	
Oral Testimony	37
Prepared Statement	40
Ms. Natasha Reed, Partner, Co-Chair, Trademark, Copyright & Unfair Competition Practice, Foley Hoag, LLP	
Oral Testimony	49
Prepared Statement	51
LETTERS, STATEMENTS, ETC., SUBMITTED FOR THE HEARING	
A letter from Engine to Members of the Subcommittee on Courts, Intellectual Property, and the Internet for the record submitted by the Honorable Henry C. “Hank” Johnson, Jr., a Representative in the Congress from the State of Georgia, Chairman, Subcommittee on Courts, Intellectual Property, and the Internet	82
A letter from Matt Schruers, President, Computer & Communications Industry Association for the record submitted by the Honorable Henry C. “Hank” Johnson, Jr., a Representative in the Congress from the State of Georgia, Chairman, Subcommittee on Courts, Intellectual Property, and the Internet	85
A statement from American Apparel & Footwear Association for the record submitted by the Honorable Henry C. “Hank” Johnson, Jr., a Representative in the Congress from the State of Georgia, Chairman, Subcommittee on Courts, Intellectual Property, and the Internet	89
A letter from Alliance for Safe Online Pharmacies, ASOP Global for the record submitted by the Honorable Henry C. “Hank” Johnson Jr., a Representative in the Congress from the State of Georgia, Chairman, Subcommittee on Courts, Intellectual Property, and the Internet	92

IV

	Page
A letter from undersigned organizations representing U.S. property Intellectual Property rights holders for the record submitted by the Honorable Henry C. "Hank" Johnson, Jr., a Representative in the Congress from the State of Georgia, Chairman, Subcommittee on Courts, Intellectual Property, and the Internet	94
A letter from Chris Netram, Vice President, Tax and Domestic Economic Policy, National Association of Manufacturers for the record submitted by the Honorable Henry C. "Hank" Johnson, Jr., a Representative in the Congress from the State of Georgia, Chairman, Subcommittee on Courts, Intellectual Property, and the Internet	96
A statement from the National Fire Protection Association for the record submitted by the Honorable Henry C. "Hank" Johnson, Jr., a Representative in the Congress from the State of Georgia, Chairman, Subcommittee on Courts, Intellectual Property, and the Internet	98
A letter from Christine Burdick-Bell, Executive Vice President, General Counsel & Corporate Secretary, Pharmavite LLC, for the record submitted by the Honorable Henry C. "Hank" Johnson, Jr., a Representative in the Congress from the State of Georgia, Chairman, Subcommittee on Courts, Intellectual Property, and the Internet	99
A statement from Lezlee Westine, President and Chief Operating Officer, Personal Care Product Council, for the record submitted by the Honorable Henry C. "Hank" Johnson, Jr., a Representative in the Congress from the State of Georgia, Chairman, Subcommittee on Courts, Intellectual Property, and the Internet	101
A statement from Steve Pasierb, President & Chief Operating Officer, The Toy Association for the record submitted by the Honorable Henry C. "Hank" Johnson, Jr., a Representative in the Congress from the State of Georgia, Chairman, Subcommittee on Courts, Intellectual Property, and the Internet	102
A statement from Jeffrey P. Hardy, Director-General, Transnational Alliance to Combat Illicit Trade for the record submitted by the Honorable Henry C. "Hank" Johnson, Jr., a Representative in the Congress from the State of Georgia, Chairman, Subcommittee on Courts, Intellectual Property, and the Internet	106

APPENDIX

Questions for the record to Ms. Kari Kammel Assistant Director of Education and Outreach, Center for Anti-Counterfeiting and Product Protections, Michigan State University, submitted by the Honorable Steve Chabot, a Representative in the Congress from the state of Ohio, Member, Subcommittee on Courts, Intellectual Property, and the Internet	108
A response to questions for the record from Ms. Kari Kammel Assistant Director of Education and Outreach, Center for Anti-Counterfeiting and Product Protections, Michigan State University	109

**THE SHOP SAFE ACT: STEMMING THE RISING
TIDE OF UNSAFE COUNTERFEIT PRODUCTS
ONLINE**

Thursday, May 27, 2021

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON COURTS, INTELLECTUAL PROPERTY, AND THE
INTERNET

COMMITTEE ON THE JUDICIARY

Washington, DC

The Committee met, pursuant to call, at 2:04 p.m., in Room 2141, Rayburn House Office Building, Hon. Hank Johnson [chairman of the subcommittee] presiding.

Members present: Representatives Nadler, Johnson of Georgia, Jones, Deutch, Lieu, Stanton, Bass, Ross, Issa, Chabot, Gohmert, Massie, Bishop, Fischbach, and Bentz.

Staff present: John Doty, Senior Advisor; Moh Sharma, Director of Member Services and Outreach & Policy Advisor; Cierra Fontenot, Chief Clerk; John Williams, Parliamentarian; Merrick Nelson, Digital Director; Jamie Simpson, Chief Counsel for Courts & IP; Mary Beth Walker, Detailee for Courts & IP; Rosalind Jackson, Professional Staff Member for Courts & IP; John Lee, Minority USPTO Detailee; Andrea Woodard, Minority Professional Staff Member; and Kiley Bidelman, Minority Clerk.

Mr. JOHNSON of Georgia. I now call to order the Subcommittee. Without objection, the chair is authorized to declare recesses of the Subcommittee at any time.

Welcome to this afternoon's hearing on the SHOP SAFE Act, stemming the rising tide of unsafe counterfeit products online.

Before we begin, I'd like to remind Members that we have established an email address and distribution list dedicated to circulating exhibits, motions, or other materials that Members might want to offer as part of our hearing today, and if you'd like to submit materials, please send them to the email address that has been previously distributed to your offices and we will circulate the materials to Members and staff as quickly as we can.

I'd also ask all Members to mute your microphones when you are not speaking. This will help prevent feedback and other technical issues. You may unmute yourself anytime you seek recognition.

I will now recognize myself for an opening statement. I'm pleased to convene today's hearing on the Stopping Harmful Offers on Plat-

forms by Screening Against Fakes in E-Commerce Act of 2021, also known as the SHOP SAFE Act.

It has been a pleasure to work with the full Committee Chairman Nadler, Subcommittee Ranking Member Issa, and Representative Cline in reintroducing this important legislation.

Brand owners have been sounding the alarm about dangerous counterfeit products plaguing the internet for years and we are no longer in the era of fake watches and handbags being sold out of car trucks.

As consumers have moved online, counterfeit—counterfeiters have embraced the internet also. Their tools are becoming more sophisticated and their targeted products becoming more wide ranging as they dupe unwitting consumers into purchasing fakes.

Last Congress, this Subcommittee examined the issue of unsafe counterfeits closely, and in July of 2019 we held a hearing during which we heard about the dangers that counterfeits can and have caused.

In that hearing, we were able to see, among other things, the devastating consequences that can result when counterfeit car products do not meet the safety standards of authentic products.

We also heard how frustrated brand owners are with the challenges in enforcing their trademarks online. Endless counterfeit storefronts have turned brand protection into a game of whack-a-mole and repeat counterfeiters seem to continually reappear.

Insufficient vetting of these third party sellers leaves brand owners with false or incomplete seller information, which means they have no avenue for recourse against the counterfeit sellers that hide behind this false information.

Platforms' reactive measures are inefficient and their voluntary efforts are inconsistent and insufficient to address this growing consumer safety and brand protection problem.

The SHOP SAFE Act is a legislative solution that builds on our July 2019 hearing and on the outreach we have continued since that time. In 2019, the need for congressional action was clear. This past year has further highlighted the importance of addressing this issue head on.

Throughout the COVID-19 pandemic consumers turned to online shopping in increasing numbers and counterfeiters took full advantage.

During the height of the pandemic, reports found online counterfeiters hawking knock off respiratory masks, gloves, and sanitizer. One report estimated that listings of illegitimate hygiene-related projects on online platforms had increased by more than 270 percent over the previous year. The platforms promote their voluntary efforts to combat counterfeiting.

The purported goal of these programs is commendable, but I have concerns about the lack of transparency in these efforts. We do not know how universally they are applied. Because they are voluntary, there is no requirement that the programs apply evenly across all listings or to all brands, and many of the brand protection programs offered by the platforms come with terms of service a brand owner must accept before receiving the benefits of those programs.

As the adage goes, the best defense is a good offense. It is clear that the fight against dangerous fakes in e-commerce requires proactive measures by the platforms. SHOP SAFE takes an important step in ensuring that what consumers see online is what they will get.

The bill would create a universal standard for proactive screening measures to be undertaken by platforms to keep dangerous counterfeits off the platforms from the start, guaranteeing that they will never reach consumers.

The legal framework in the SHOP SAFE Act is a balanced one. In exchange for undertaking the best practices set forth in the bill, platforms are immunized from liability for counterfeit products sold by third party sellers.

The bill is expressly directed at those products that affect the health and safety of the consumers who buy them. Brand owners would continue to play a role in the process as well.

I want to thank the witnesses for their participation today and I look forward to hearing their perspectives on the SHOP SAFE Act.

Now it's my pleasure to recognize the Ranking Member of the Subcommittee, the gentleman from California, Mr. Issa, for his opening statement.

Mr. ISSA. Thank you, Mr. Chairman. You said it all and you said it extremely well. This hearing and this legislation is balanced. It's narrow. It's been an outreach for now several years, and I'm delighted to join in the effort to finalize it, get it to the Senate, and make it law.

Today we'll hear from witnesses. Virtually anyone who's bought online becomes a witness. My own legislative staff includes people who have used makeup that made them break out only to find out it wasn't real.

I have two Advils here. One is real. One is not. Which one do you take for a headache? Here is, and very expensive, it's called SK-II face treatment. This one is real.

This one comes in the perfect box, looks identical, except this one is from Japan, made in Japan, and shipped from Japan. This one, perfectly knocked off or nearly perfectly, is shipped directly from China for a few dollars less on one of the major platforms.

These are not the most dangerous. As Chairman said, over the last several years we have had to deal—or year—we have had to deal with fake N-95 masks, some of them bearing the 3M brand name, that came by the millions from plants mostly in China, but some from other parts of the world.

A mass that does not work, in fact, very well could have taken lives from those 600,000 who died of COVID. The list goes on. This bill is narrow because it is only dealing with health and safety.

In a perfect world, we would deal with every counterfeit, including, quite frankly, those Gucci handbags. But we're not. We're dealing with the ones for today where we want to see the industry rise to the standard that they should have.

If I were to go to Walmart, walk in, and purchase a good from the shelf and it turned out to be counterfeit, there would be no question at all but that under the intellectual property that the

rights holder has, they would be able to sue, plus, of course, the injured party who got the fraud.

As soon as it's online, many companies say, we don't know and we can't. Many of these companies take into their vast warehouses the products, see the country of origin on it, in many cases even participate in the logistics of bringing it from a country that, in fact, may not even be the country of origin of the authentic good.

So, today what we're going to do is we're going to hear from witnesses a little further on the current State of damage that these fakes can cause. We're going to hear from the rights holders whose names and brands are diminished every day by counterfeits that, of course, do not perform and hurt the reputation even if they do not hurt the health or safety of the individual.

Mr. Chairman, probably the one that is most egregious might not even be one that I've brought today. Every day, there are real toys and fake toys. The real toys pass rigorous tests to make sure they won't burn or be swallowed by an infant.

The fakes, of course, do not. Every day in America, some child playing with a fake toy does not get the protection and might very well lose an eye or their—or their life as a result of it.

We, in Congress, need to do just what you're doing with your leadership and that is take steps to encourage and require that we all work together to narrow this kind of fake activity. It will not eliminate it, but it certainly will give the rights holders and the public an opportunity for the first time in years to at least curtail the massive growth.

Mr. Chairman, I look forward to our witnesses, I look forward to moving the legislation, and I want to be maybe the second to say here today there's no more bipartisan piece of legislation, no more cooperative between our staffs and our Members legislation than this one, and I'm proud to be a co-sponsor, and candidly, just great that you've allowed me to participate.

So, Mr. Chairman, with that, I ask that my entire statement be placed in the record, and I yield back.

[The statement of Mr. Issa follows:]

MR. ISSA FOR THE OFFICIAL RECORD

Opening Statement
Ranking Member Issa

House Judiciary Committee
Subcommittee on Courts, Intellectual Property, and the Internet

**“The SHOP SAFE Act: Stemming the
Rising Tide of Unsafe Counterfeit Products Online”**

Thursday, May 27, 2021, 11:00 a.m.PT/2:00 p.m. ET

- Counterfeit goods cause enormous harm to American consumers and the nation’s business sector –and the problem is getting worse.
- Every year, businesses and consumers lose billions to counterfeiters who defraud consumers with fake products.
- This harm works another way: A counterfeit product also damages the reputation and customer goodwill that legitimate businesses work so hard to cultivate.

Beyond financial loss and reputation damage, however, fake products also pose significant dangers to consumers and their families, including exposure to toxic chemicals, unsafe construction, and risks of fire or electrocution.

- I experienced many of these issues firsthand as a business owner.

- *Counterfeiters targeted my company's products, and consumers who unwittingly bought them were understandably angry when they received defective products. (Can go more in depth if desired)*
 - As the rights holder, businesses invest significant time and money dealing with the problems caused by the counterfeiters.
- The criminals who create these counterfeits are causing similar problems for countless American manufacturers and for those who buy the products.
- These issues are made worse when it comes to online sales. Without a doubt, the growth of e-commerce has expanded the audience of buyers, especially during COVID. However, it has also benefited counterfeiters.
- Criminal counterfeiters don't think twice about faking pictures, falsifying identities, or providing any limit of other misleading or false information. All of which is easier to do online.
- As all too many buyers can testify, they rarely have the opportunity to verify their purchase until they've already paid for and received the product.

- And the #1 culprit when it comes to counterfeit goods? China.
- According to the CBP, 80-90 percent of counterfeit products imported into the United States come from China.
- Counterfeiting is yet another way China is taking advantage of us, and I look forward to discussing the ways China is hurting the United States in its production of counterfeit products.
- I want to be clear – I understand and recognize that many online marketplaces have taken more aggressive steps to fight counterfeiting on their platforms. But more can be done.
- Mr. Chairman, I appreciate your and Chairman Nadler’s willingness to work across the aisle to put forth bipartisan legislation to address this serious problem.
- I am looking forward to hearing from the witnesses today on this counterfeiting issue and how the SHOP SAFE Act can help fight against it.
- I am also interested to hear any perspectives on how the legislation might be improved and safeguarded against potential abuse.
- I want to thank all the witnesses for taking the time to testify this afternoon, and I yield back.

Mr. JOHNSON of Georgia. I thank the gentleman from California and his modesty must be recognized. He has been a long-time proponent of protection for intellectual property owners, and we appreciate his contribution to what we're doing today.

Now, I'm pleased to recognize Chairman of the full Committee and the author of this legislation, the prime sponsor, the gentleman from New York, Mr. Nadler, for his opening statement.

Mr. Nadler, you may begin.

Chairman NADLER. Well, thank you, Mr. Chairman, and thank you for holding the hearing on this important bill. I was proud to reintroduce the bipartisan SHOP SAFE Act last week with you, Ranking Member Issa, and Mr. Cline, and I'm pleased to see that a bipartisan Senate companion was introduced yesterday by Senators Coons and Tillis.

From toys to contact lenses to cosmetics, no industry is immune from counterfeiting. While attempting to appear legitimate to unsuspecting consumers, counterfeit products avoid the health and safety standards with which authentic products must comply.

What results? Counterfeit airbags that deploy fractions of a second too late, counterfeit bike helmets that break in half upon impact, and counterfeit batteries that explode from poor construction.

The internet and e-commerce have revolutionized the way products are marketed and sold. A decade ago, just over 20 percent of Americans reported making purchases online. Today, nearly 80 percent of Americans have made purchases online.

Americans spent more than \$790 billion in e-commerce in 2020, driven in part by the global COVID-19 pandemic. Online sales to U.S. consumers were up more than 30 percent in 2020 over 2019.

At the same time, the products Americans were purchasing online were exactly the type for which compliance with health and safety standards are most critical—masks, gloves, and cleaning supplies, for example, and counterfeiters were quick to move in, too. Reports of counterfeit personal protective equipment and other COVID-19 essentials sprung up almost immediately.

Whether a purchase is made online or in a brick and mortar store, consumers must be able to be confident that what they see is what they will get.

In a brick and mortar store, consumers can see firsthand what they're purchasing, and the liability structure for brick and mortar retailers incentivizes those companies to thoroughly vet their supply chains to ensure that the products they sell are authentic.

In the online world, however, without the benefit of the look and feel opportunity before purchase, consumers are at the mercy of the accuracy of the online listing information and the scruples of the seller.

Consumers may never become aware that they have purchased a counterfeit product, particularly if a sales listing included misleading images of the authentic product or fake reviews that made the listing appear more legitimate—unaware, that is, but still susceptible to the worst case scenario in which a product they believe to be legitimate actually poses a threat to their health or safety.

Most marketplace platforms know that they have a counterfeiting problem. They tout anti-counterfeiting measures and profess their commitment to keeping counterfeits off their website.

As reports of dangerous fakes become nearly constant, many platforms seem to have settled into a status quo that puts the brunt of the burden on policing counterfeiters on brand owners, and that leaves consumers unsafe.

It is clear, now more than ever, that we cannot be merely reactive when it comes to combating counterfeits in online marketplaces. That is especially true when counterfeit products implicate the health and safety of the consumers who buy them.

The current liability structure for online marketplace dates back more than a decade. It has not proven to be up to the task of preventing significant counterfeiting on e-commerce platforms.

Similarly, the anti-counterfeiting measures imposed by the platforms themselves have not sufficiently addressed the problem, either.

In general, a platform must take down a listing once it's informed by a brand owner of that specific listing's infringement. The platform is not legally obligated to take corrective action, even when there's general knowledge that, for example, the majority of a particular brand's products sold on the platform are counterfeit.

This means that brand owners must consistently play a game of whack-a-mole as they constantly monitor marketplace platforms in search of counterfeit products.

It is past time to revise this structure to address today's realities in electronic commerce. The SHOP SAFE Act takes a balanced approach to solving this problem.

It imposes legal liability on e-commerce companies if counterfeit products affecting health and safety are sold on their platform, but it holds these companies immune if they adopt proactive best practices to keep dangerous counterfeits out of the hands of consumers.

These best practices include greater vetting, transparency, screening, information sharing, and standardized enforcement measures.

Under this framework, platforms would be incentivized to take proactive steps to prevent counterfeit sales and protect consumers while receiving a safe harbor if they take the steps set forth in the bill.

We explored the issue of unsafe counterfeit products in a 2019 hearing when I first introduced the SHOP SAFE Act in the 116th Congress just over a year ago. The reintroduction of this legislation last week came after much work, including outreach to stakeholders impacted by the legislation and I appreciate their valuable input.

I look forward to hearing from today's witnesses as we continue to consider this important consumer protection issue, and I hope that today's hearing will serve as a stepping stone on the path to moving this critical legislation forward.

I yield back the balance of my time.

[Pause.]

Mr. BISHOP. You're muted, Mr. Chairman.

Chairman NADLER. Hank, you're muted.

Mr. JOHNSON of Georgia. I'm sorry. I thank the gentleman from New York for his opening statement and I'll now introduce the witnesses.

Ms. Kari Kammel is the Assistant Director for Education and Outreach at Michigan State University's Center for Anti-Counterfeiting and Product Protection, where she runs the Center's Executive Education Program and the United States' first professional certification program for anti-counterfeiting and brand protection.

Ms. Kammel is also an Adjunct Professor at Michigan State University's College of Law, teaching courses on trademark counterfeiting, food counterfeits, and international intellectual property.

Ms. Kammel received her BA from the University of Chicago, her MA from the American University in Cairo, and her JD from DePaul University College of Law.

Welcome, Ms. Kammel.

Meredith Simpson is Vice President of Federal Government affairs and external relations for the Personal Care Products Council, the PCPC.

In her role, she leads PCPC's Federal Government relations effort and stakeholder outreach, and helps lead the cosmetic industry's public policy development. She joined PCPC in 2009 from TechNet, where she served as director of political outreach and previously served on the—on then Representative Marsha Blackburn's professional staff.

Ms. Simpson graduated from the University of Mississippi with a degree in political science and minors in business and journalism. Welcome, Ms. Simpson.

Jonathan Berroya is the Senior Vice President and General Counsel for the Internet Association. There, he leads the Internet Association's legal, policy, and regulatory initiatives, including its anti-counterfeiting policies.

Prior to joining the Internet Association, Mr. Berroya worked as legal director for Yahoo, senior director of global internet enforcement for BSA, the Software Alliance and, most recently, vice President of legal affairs for the Entertainment Software Association.

Mr. Berroya holds a Bachelor of Arts in American government from Georgetown University and a JD from Boston College Law School. Welcome, Mr. Berroya.

Natasha Reed is a Partner at Foley Hoag LLP and serves as the Co-Chair of the firm's trademark, copyright, and unfair competition practice. At the firm, Ms. Reed's practice covers all aspects of trademark and copyright law with a focus on global brand protection.

Ms. Reed specializes in intellectual property enforcement and anti-counterfeiting and anti-piracy litigation, and is the Co-Editor of Foley Hoag's trademark and copyright law blog. She earned her BA from Amherst College and her JD from Pepperdine University.

Welcome, Ms. Reed.

Before we proceed with testimony, I hereby remind the witnesses that all of your written and oral statements made to the Subcommittee in connection with this hearing are subject to penalties of perjury pursuant to 18 USC 1001.

Please note that your written statements will be entered into the record in its entirety. Accordingly, I ask that you summarize your testimony in five minutes. There is a timer in Zoom to help you stay within that time limit.

Ms. Kammel, you may begin, and I hope I'm pronouncing your name correctly. Kammel, is it not?

Ms. KAMMEL. It's Kammel, but that's okay. Thank you.

Mr. JOHNSON of Georgia. All right. Thank you, and sorry.

Ms. KAMMEL. No problem.

STATEMENT OF KARI KAMMEL

Ms. KAMMEL. Chairman Johnson, Ranking Member Issa, and Members of the subcommittee, thank you for inviting me to speak on the problem of the sale of counterfeit goods by third party sellers on online marketplaces and the SHOP SAFE Act.

My name is Kari Kammel. I'm the assistant director for education and outreach at the Center for Anti-Counterfeiting and Product Protection, or the A-CAPP Center at Michigan State University, and an adjunct professor of law at MSU College of Law.

My remarks draw on our research on online trademark counterfeiting as well as my work with brand protection industry professionals. At the A-CAPP Center, I and my colleagues focus on research, education, and outreach around trademark counterfeiting and brand protection.

We work both with intellectual property rights owners and governments as well as online marketplaces, social media platforms, and other industry experts across the field, giving us the unique ability to examine this significant problem holistically from a neutral academic perspective.

Today, I'll give an overview of online counterfeit sales by third party sellers and the current State of secondary liability, and make two recommendations.

One, I support the SHOP SAFE Act and I have some recommendations that could be considered as the bill moves forward.

Two, I recommend continued collaboration, data sharing, and the funding and expansion of research on the trade in counterfeit goods and anti-counterfeiting responses.

I would like to start by painting a picture of what is occurring in online marketplaces and the legal landscape for secondary liability for trademark counterfeiting.

Counterfeit goods impact national economies as well as companies of all sizes. The sale of goods in online marketplaces, both authentic and counterfeit, has exploded in the past decade. The financial impact is staggering. Counterfeit goods have been estimated to have displaced, roughly, over \$500 billion dollars' worth of global sales in 2016, and the onset of COVID-19 has led to increased online shopping as well as a risk of purchasing counterfeits.

Counterfeiters' success by using other companies on a product or package and rely on their reputation without authorization, and sell a fake and usually substandard or even dangerous good.

They also take advantage of the opportunity online marketplaces provide and rely on brands' goodwill and products to reach often unwitting consumers who cannot examine the goods before purchase, which is dealt with by online marketplaces in varying ways.

In order for a counterfeit to be sold to a consumer on an e-commerce platform, there must be a meeting in time and space between, one, the consumer, two, the counterfeiter's posting, and three, the e-commerce platform.

While reactive removal of the postings after they're listed is still necessary, it also means that the posting has already reached consumers. The most effective way to disrupt this is to remove one of these factors from the situation proactively before they ever reach that meeting at the same time and place on the platform.

This can be done through a variety of activities that could include the e-commerce platform protecting an e-commerce selling space to keep counterfeit postings out, to protecting and educating consumers, as well as many more.

However, the current State of the law rests primarily on the 2010 2nd Circuit case of *Tiffany v. eBay*. This created the current legal standard, which is that an e-commerce platform only is required to react after a posting is already live, and they have specific knowledge from a brand as to which listing is infringing or will infringe in the future, known as the contemporary knowledge requirements.

This is problematic because—as there is no legal obligation on an e-commerce platform to do anything to prevent counterfeits from being listed or to monitor their own platforms for counterfeit, even though they are in the best position to do so and have the most control over that space and time of where the consumer and counterfeiter meet on their platform.

The SHOP SAFE Act helps to protect consumers and brands by requiring activities for e-commerce platforms to undertake to disrupt the meeting of consumers and counterfeiters on their platform and has some strengths and some opportunities to improve the language, which I note in my written testimony.

Two of the top strengths of the Act are, one, requiring e-commerce platforms to implement at no cost to the registrant reasonable proactive technological measures for screening goods, and two, requiring the conspicuous display of each listing, the country of origin and manufacturer of the goods, and identity and location of the seller.

Three of my suggestions for consideration are, one, to remove the limit on protection only to goods that implicate health and safety so as to not create a two-class system of counterfeit marks, and if it is not removed, to clarify the provision to include any good, counterfeit or genuine, that would implicate health and safety.

Two, edit the language to include proactive measures including technology but not limited to only technological measures.

Three, add a requirement for e-commerce platforms to have a clear easy-access mechanism for consumers to report suspected counterfeiting.

I also recommend continued and expanded collaborations regarding data sharing between marketplaces, brands, the IPR Center and academia, and to expand research on the trade in counterfeit goods and anti-counterfeiting responses.

Thank you for the opportunity to participate in this hearing for property rights holders and U.S. consumers and I look forward to answering your questions.

[The statement of Ms. Kammel follows:]

U.S. House of Representatives Committee on the Judiciary
Subcommittee on Courts, Intellectual Property, and the Internet

Hearing on The SHOP SAFE Act: Stemming the Rising Tide of Unsafe Counterfeit
Products Online on May 27, 2021

Written Statement

Submitted by Kari Kammel
Assistant Director, Center for Anti-Counterfeiting and Product Protection
Michigan State University

May 21, 2021

Chairman Johnson, Ranking Member Issa, and Members of the Subcommittee, thank you for inviting me to testify on the problem of the sale of counterfeits by third party sellers on online marketplaces. I am representing myself at today's hearing. The views I express are my own.

I am the Assistant Director for Education and Outreach at the Center for Anti-Counterfeiting and Product Protection ("the A-CAPP Center) at Michigan State University and an adjunct professor of law at MSU College of Law, where I teach intellectual property courses, including one of the only classes in the country on trademark counterfeiting law. I research and publish about trademark counterfeiting, as well as work with brand protection practitioners in the field focusing on the Center's outreach and education. My remarks draw on our recent and ongoing research on trademark counterfeiting in the online space.

1. The Center for Anti-Counterfeiting and Product Protection at Michigan State University

My colleagues and I at the A-CAPP Center focus our work upon the complex global issues of anti-counterfeiting and brand protection of products, across all industries, in

all markets.¹ We seek to provide multi-disciplinary academic research on this ever-growing problem of trademark counterfeiting, of which there is little research. I also work closely with our industry advisory board, made up of multinational brands from a variety of industries, and a Homeland Security Liaison, the Director of the National Intellectual Property Rights Center (the IPR Center). In addition to intellectual property rights owners and government, I also work with online marketplaces, social media platforms, service and technology providers, law firms, investigators and other professionals in the field of brand protection with my colleagues so that we can examine the problem from a neutral academic perspective.

I also focus on the practical impact of the Center's research, translating it into best practices for industry, through outreach and education to enable the sharing of information with students, industry professionals and the public. I oversee our executive education trainings and the first online professional brand protection certificate.²

2. Problem of Trademark Counterfeiting on Online Marketplaces

The sale of goods in online marketplaces, both licit and illicit goods has grown exponentially in the past decade³ and particularly since the onset of COVID-19, consumers have increased online shopping.⁴ With virtual storefronts and online transactions, online marketplaces give businesses of all sizes opportunity for global profits and reach consumers they might not have been able to access previously, as well

¹ Center for Anti-Counterfeiting and Product Protection, <https://a-capp.msu.edu>; We rely on our academic expertise with Michigan State University's College of Law, the School of Criminal Justice, the School of Packaging, the Department of Supply Chain, the Department of Engineering, the International Business Center, the Department of Advertising and Public Relations, the Forensic Chemistry lab, and the Media, Advertising and Psychology lab at MSU, as well as academic partners across the country and world to research counterfeiting and its impact on brands and consumers.

² Brand Protection Professional Certificate, <https://a-capp.msu.edu/bp-certificate/>. We also run a digital industry journal highlighting best practices, Brand Protection Professional Journal, <https://a-capp.msu.edu/outreach/brand-protection-professional-bpp/>

³ Kari Kammel, Jay Kennedy, Daniel Cermak, and Minelli Manoukian, *Responsibility for the Sale of Trademark Counterfeits Online: Striking a Balance in Secondary Liability While Protecting Consumers*, 49 AIPLA Q. J. 221, 224 (Spring 2021); Saeed Fayyaz, *A Review on Measuring Digital Trade & E-Commerce as New Economic Statistics Products*, STATISTIKA (2019), https://www.czso.cz/documents/10180/88506450/32019719q1_057.pdf/37dfdce8-0aca-4859-b774-641d7c9c40f3?version=1.0

⁴ Jay Kennedy, *COVID-19 is driving consumers online and illicit pharmacies are waiting*, Forbes.com (2020).

as giving consumers access to products delivered to their door that they would not have previously. Counterfeiters also take advantage of the opportunity online marketplaces provide them and they rely on the brands' goodwill and products to reach often unwitting consumers. Their sale of counterfeit goods remains low risk to the sellers--much lower risk than selling in a brick-and-mortar venue. Counterfeit items previously sold in flea markets and on the street or in bodegas are now sold in volume on online marketplaces, social media pages and the dark web.⁵

The volume of counterfeits is staggering but also difficult to measure for a variety of reasons. First, it is an illicit activity that is often focused on deception. Second, the most accurate data we have is from seizure data. The size of the problem is often calculated based on seizure data, or takedown data, which does not reflect the universe of counterfeit goods.⁶ Third, data sharing between brands, platforms, law enforcement and academia has always been a struggle. Brands may have their own investigatory data; platforms may have their take down data; but this data is usually not shared, even with researchers. One major online marketplace reported that its proactive efforts have removed over one million suspected bad actors before these individuals could publish a listing for even a single product, while blocking an additional three billion suspected counterfeit listings.⁷

Still, counterfeiting remains a growing threat as consumers have been increasingly moving online, placing them at heightened risk for interacting with counterfeiters on third-party marketplaces.⁸ Additionally, online marketplaces have varying levels of proactive and reactive efforts to deal with counterfeits as reported by marketplaces and brands who deal with counterfeits of their marks, in particular, Small, and Medium Enterprises (SMEs).

⁵ Kammel et al, *supra* note 3, at 226; Jay Kennedy, *Counterfeit Products Online*, 1-24 in THE PALGRAVE HANDBOOK OF INTERNATIONAL CYBERCRIME AND CYBERDEVIANCE (eds. Thomas J. Holt & Adam Bossler 2019).

⁶ Jay P. Kennedy, Matthew R. Maher, and Asia Q. Campbell, *Citizens' Support for Local Law Enforcement Anti-Counterfeiting Activities*, 44 AM. J. CRIM. JUST. 914-937 (2020).

⁷ Department of Homeland Security, *Combating Trafficking in Counterfeit and Pirated Goods: Report to the President of the United States* 5 (2020).

⁸ DHS Report 2020, *supra* note 7; Jay P. Kennedy, *Consumers should take notice: Counterfeiters don't take holidays!* Forbes.com (2020); Alliance for Safe Online Pharmacies, *New Survey Reveals Dangerous Disconnect in American Perceptions of Online Pharmacies: More Consumers Buy Medicine Online Despite Not Knowing the Risks of Illegal Internet Drug Sellers* (2020), available at <https://buysaferx.pharmacy/oct-19-survey-release/>.

Financially, counterfeit goods impact national economies, as well as companies of all sizes. Counterfeit goods have been estimated to have displaced roughly \$509 billion worth of global sales in 2016.⁹

From a business standpoint, from the moment an intellectual property rights owner exposes itself to sales benefits of the online marketplace, the brand also faces increased challenges related to illicit online actors. Even if a brand owner does not intend to sell online or may be in the early stages of a start-up, it may find that its products or counterfeit versions of its products are already being sold online, filling consumer demand for their products. Online marketplaces can foster a perception of legitimacy from the consumer perspective, shielding, albeit possibly unintentionally, counterfeit goods from consumer scrutiny, removal, and punitive action.¹⁰

We are seeing this frustration manifested at the consumer level, as well. Consumers often are unaware that they are buying counterfeit, struggle to be able to report counterfeit to an online marketplace (as opposed to just general dissatisfaction with a purchased good or seller interaction), or cannot find the third-party seller for service of process for a lawsuit if they are injured or killed by a product, which has led to a series of strict liability cases being filed against marketplaces in the past 2 years.¹¹

Additionally, the impact of counterfeiting is not accurately reflected due to the lack of information and research on this phenomenon. A 2017 report estimated the retail value of the global illicit trade in counterfeit and pirated goods at \$923 billion to \$1.13 trillion, by comparison the global drug trafficking market was estimated at \$426 to \$652 billion.¹² Despite this relative scale, there is a paucity of information and research on the issue of counterfeit goods and response efforts as compared to what is available on drug trafficking and other social and economic problems, resulting in policymaking and creation of best practices in an information deficient environment.

⁹Kammel, et al, *supra* note 3, at 225; OECD, TRENDS IN TRADE AND COUNTERFEIT GOODS (2019).

¹⁰See Kammel et al, *supra* note 3, at 228; Kennedy, *supra* note 5, at 7, 14.

¹¹See Kammel et al, *supra* note 3, at 256-61; John H. Zacharia & Kari Kammel, *Congress's Proposed E-Commerce Legislation for Regulation of Third-Party Sellers: Why It's Needed and How Congress Should Make It Better*, 21 U.C. DAVIS BUS. L. J. 91, 97-102 (discussing recent strict liability cases).

¹²Channing May, *Transnational Crime and the Developing World* (Global Financial Integrity 2017) <https://gfintegrity.org/report/transnational-crime-and-the-developing-world/>

3. Current State of Secondary Liability for Trademark Counterfeiting and Opportunity Structure

In an article that highlights our multidisciplinary efforts that I authored with Jay Kennedy,¹³ Daniel Cermak,¹⁴ Minelli Manoukian,¹⁵ we discuss the legal landscape that currently exists in respect to secondary liability for trademark counterfeiting and why it does not apply to the current state of sales of counterfeit goods by third party sellers online.¹⁶ First, secondary liability for trademark infringement was initially created to address infringement in a brick-and-mortar setting. The current doctrine of secondary liability is based on *Inwood Labs v. Ives*¹⁷ and was later applied to other cases involving “service providers”, such as flea markets.¹⁸

Here, in our research, we introduce social science theory related to the opportunity structure of persistent risky activities to understand where secondary liability for trademark counterfeiting should apply.¹⁹ Applying this theory, we explain how the opportunity structure for counterfeiting occurs when consumers and counterfeiters potentially interact in spaces where guardianship to protect the consumer, and by extension the brand, is weak.

¹³ Jay P. Kennedy is the Assistant Director of Research for the Center for Anti-Counterfeiting and Product Protection and an Assistant Professor in the School of Criminal Justice at Michigan State University.

¹⁴ Daniel Cermak, Esq. is Court Officer/Research Clerk for the 30th Circuit Court in Michigan and is a recent graduate of Michigan State University College of Law and previously worked as a Legal Researcher for the Center for Anti-Counterfeiting and Product Protection.

¹⁵ Minelli E. Manoukian, Esq., is a Deputy Prosecuting Attorney in Allen County Indiana, is a recent graduate of the Michigan State University College of Law, and previously worked as a Legal Researcher for the Center of Anti-Counterfeiting and Product Protection.

¹⁶ See Kammel et al, *supra* note 1(acknowledging the research assistance of Deepu Karchalla (MSU, BA expected 2021); Joseph Longo (MSU, BA 2020), and Tyler Armstrong (J.D. expected 2022)).

¹⁷ *Inwood Labs. v. Ives Labs.*, 456 U.S. 844 (1981) (discussing “if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.” *Id.* at 854.

¹⁸ Kammel et al, *supra* note 3, at 237 (discussing *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1143 (7th Cir. 1992)).

¹⁹ Kammel et al, *supra* note 3, at 229.

a. Brick-and-Mortar Space: Guardians

In the brick-and-mortar space, the entity that is best suited for guardianship is the place manager, since they control the physical space of the flea/market or mall.²⁰ Others of course can help educate consumers, or report counterfeiting, but secondary liability here should rest with the entity that should have the most responsibility for control in this space.

b. Brick and Mortar Space: Disrupting Opportunity

When viewed as an opportunity structure, disruption of a counterfeiting scheme requires that only one leg of the triangle be removed in order to substantially decrease the likelihood that the counterfeiter will be successful in their scheme.²¹ Disruption can be done through guardians either protecting the consumer (through education/awareness), protecting the brick-and-mortar location such as the flea market/mall (through monitoring, walk throughs, surveillance, responses to complaints) or protecting against the counterfeiters (through pre-screening, monitoring for repeat counterfeiters, checking IDs or other activity).²² However, in spite of high levels of guardianship, some motivated offenders will continue to persist with their schemes.²³

It does not mean that every instance of a counterfeit in a flea market or mall equates to secondary liability for trademark counterfeiting, but this concept sets a standard for the brick-and-mortar marketplace to take care to protect registered marks and consumers. The example of this application to the case law can be seen in *Hard Rock Cafe v. Concessions Services*.²⁴

²⁰ *Id.* at 239.

²¹ *Id.* at 239-240.

²² *Id.*

²³ *Id.*

²⁴ *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1143 (7th Cir. 1992) (using the Restatement of Torts to note that the flea market owners would be liable for torts committed on their property when they knew or had reason to know that someone on the property was using it tortiously) at 1148-49 (citing RESTATEMENT (SECOND) OF TORTS § 877(c), cmt. d (AM. LAW INST. 1979)).

c. The Tiffany v. eBay Case

In 2010, the Second Circuit decided the *Tiffany v. eBay* case.²⁵ In *Tiffany*, the court noted the extension of the *Inwood* test to service providers, such as the flea market owners in *Hard Rock*, and then also noted that they were the first to apply this test to an online marketplace.²⁶ The standard set here for secondary liability for an online marketplace was if the service provider “[c]ontinues to supply its [service] to one whom it knows or has reason to know is engaging in trademark infringement” —and “[s]ome contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary —”²⁷ otherwise known as the contemporary knowledge requirement.²⁸ The e-commerce platform eBay was found not liable for secondary trademark infringement.²⁹

d. Practical Impact of Tiffany

From a legal liability perspective under the current state of the law, there is no obligation on any party to proactively address sellers’ listings online. Some online marketplaces understand that there is a problem and remove postings that are reported to them or found through internal self-investigation by technology or otherwise, what we would refer to as a reactive response. A few may proactively vet sellers or postings, but these are not the majority, nor is this required by the law. However, under the *Tiffany* standard, they must only remove them reactively, or when they have “specific knowledge.”

A brand owner, however, does not want injury to its reputation, or injury to its consumers,³⁰ so practically they must monitor and notify the online marketplace to

²⁵ *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010); *see also* Kammel et al, *supra* note 3, at 241-44 (discussing *Tiffany v. eBay*).

²⁶ *Tiffany*, 600 F.3d at 105; Kammel, et al, *supra* note 3, at 243.

²⁷ *Tiffany*, 600 F.3d at 107; Kammel, et al, *supra* note 3, at 243.

²⁸ *Tiffany*, 600 F.3d at 106 (citing *Inwood Lab’ys, Inc. v. Ives Lab’ys, Inc.*, 456 U.S. 844, 854 (1982)), 108-09; Kammel, et al, *supra* note 3, at 243

²⁹ *Tiffany*, 600 F.3d at 109.

³⁰ Kammel, et al, *supra* note 3, at 252 (citing See Stefanie Wood Ellis, *Brand Protection in the Digital World*, WORLD TRADEMARK REV. (Apr. 23, 2020), <https://www.worldtrademarkreview.com/anti-counterfeiting/brand-protection-in-the-digital-world> [<https://perma.cc/V8DY-7K4E>] (describing how counterfeit products can negatively affect a brand when an inferior product is thought to be the real product, and the lower quality is now associated with the brand or when an unsafe counterfeit hurts individuals).

remove a suspicious listing or a seller that could be selling an illicit or unauthorized product, even though the counterfeit product is not theirs. For every listing that a brand owner successfully petitions to have removed from an online marketplace, many more illicit listings will likely take its place³¹—leading to what is called in the industry the “whack-a-mole” problem. Because this has become so time consuming but needs to be addressed, an entire industry of online anti-counterfeiting providers selling their services and technologies to brands, as well as law firms expanding their practices, has developed to search the web, e-commerce sites, and social media platforms for counterfeits using artificial intelligence, machine learning, or other technologies and skills.³² Finally, transparency is lacking in regard to seller identification and location, details on systems for vetting sellers, products, removals of listings, where counterfeits go after they have been reported or taken down, how repeat sellers of counterfeit are removed, how warehousing might work and other details that are important for both the intellectual property rights owner, law enforcement, and an informed consumer, as they have not been required by law.

Many platforms have created extensive tools for brands to register their marks, work to identify counterfeit listings for take down efforts, participate in joint efforts with the IPR Center and other law enforcement agencies, and some have even begun to partner in joint lawsuits and referrals for criminal prosecution.³³ These are all positive steps and should continue in conjunction with any legislation.

d. Disrupting Counterfeiting Opportunity in an Online Marketplace

We revisit the opportunity structure to see how it can apply to the online marketplaces and can shift given technology’s impact. The opportunity structure for trademark counterfeiting on an online marketplace consists of trademark counterfeiters in the role of motivated infringers, consumers in the role of suitable targets/potential victims, and

³¹ Kammel, et al, *supra* note 3, at 254 (citing Daniel C.K. Chow, *Alibaba, Amazon, and Counterfeiting in the Age of the Internet*, 40 NW. J. INT’L L. & BUS. 157, 161 (2020)).

³² Kammel, et al, *supra* note 3, at 252.

³³ Zacharia & Kammel, *supra* note 11, at 107-109 (discussing recent initiatives IPR Center E-Commerce initiative, available at <https://www.iprcenter.gov/file-repository/ipu-e-commerce.pdf/view>; <https://press.aboutamazon.com/news-releases/news-release-details/ipr-center-amazon-launch-operation-fulfilled-action-stop>); Amazon Establishes Counterfeit Crimes Unit to Bring Counterfeiters to Justice, BUSINESS WIRE (June 24, 2020), <https://www.businesswire.com/news/home/20200624005161/en/Amazon-Establishes-Counterfeit-Crimes-Unit-Bring-Counterfeiters>.

the platform itself as the place wherein infringer and target meet and interact.³⁴ The motivated counterfeiter operates as an “unseen competitor” to legitimate companies, using the e-commerce platform as a place to hide from detection and reap illicit economic benefits.³⁵

In the opportunity structure triangle, e-commerce platforms have varying levels of influence over product counterfeiting schemes by de-motivating sellers of counterfeits on their sites, protecting consumers by deterring potential infringers or assisting consumers in protecting themselves from victimization, and controlling the conditions that allow illicit actors and consumers to come together and interact.³⁶ As a result, when one or more of these three roles are not undertaken and fulfilled in an online marketplace, the opportunity for interaction between the counterfeiter and consumer increases, via the offered sale of a counterfeit good, thereby making counterfeit transactions more likely.³⁷

The operators of online marketplaces can significantly mitigate opportunities for the sale of counterfeit goods on their platforms by acting as guardians or controllers, engaging in proactive activities and implementing policies that target motivated sellers of counterfeit goods and suitable targets.³⁸ With regard to addressing motivated sellers of counterfeits, platforms have the ability to identify potentially infringing listings and proactively embargo or reject these listings.³⁹ These activities can disrupt the opportunity for third party sellers to sell counterfeits to consumers. See Figure 1.

³⁴ See generally Kammel et al, *supra* note 3, at 248.

³⁵ Kammel et al, *supra* note 3, at 30 (citing Jeremy M. Wilson & Rodney Kinghorn, *A Total Business Approach to the Global Risk of Product Counterfeiting*, 10 GLOBAL EDGE BUS. REV. No.1, 1-6 (2016)).

³⁶ Kammel, et al, *supra* note 3, at 231.

³⁷ *Id.*

³⁸ *Id.* at 248-249 (citing to John E. Eck et al., *Risky Facilities: Crime Concentration in Homogeneous Sets of Establishments and Facilities*, 21 CRIME PREVENTION STUDS. 225, 240 (2007); Jay P. Kennedy, *Sharing the Keys to the Kingdom: Responding to Employee Theft by Empowering Employees to Be Guardians, Place Managers, and Handlers*, 39 J. CRIME & JUST. 512, 519 (2015)).

³⁹ *Id.* at 249.

Figure 1. Disruption of Opportunity Structure for Counterfeit Goods in E-Commerce



However, these activities alone will not entirely prevent counterfeiters from listing their illegal goods online as many counterfeiters have adopted a strategy built around inundation – posting a large volume of listings to hedge against takedown efforts. It is not reasonable to expect a platform to possibly know every legitimate mark for every product of every brand possibly sold on the sites it operates. Accordingly, brands will need to be responsible for some type of recordation of marks in a way that is made available to the platform.

Consumers play a large part in the success of product counterfeiting schemes as well.⁴⁰ Because consumer decision making is something outside of the platform’s full control, place management strategies designed to make websites less conducive to counterfeit trade are also essential.⁴¹ Many of these strategies have been implemented in traditional brick and mortar stores or markets and can be adapted to e-commerce platforms. The challenge for e-commerce platform operators is to remain cognizant of, if not ahead of, the curve being set by trademark counterfeiters by taking active steps to protect consumers, engaging in place management strategies designed to make their sites less

⁴⁰ *Id.* at 255.

⁴¹ *Id.*

conducive to counterfeit trade, and remaining aware and ahead of the ever-changing curve set by trademark counterfeiters, which any legislation should seek to encourage.

4. Law Disruptive Technology

As I have described the online marketplace phenomena as law disruptive technology,⁴² I believe it is important that the proposed legislation needs to take this into account in several ways. First, we should anticipate rapid, exponential, technological growth and change. Second, sizes of online marketplaces will vary, grow, expand, and may even look very different ten years from now with what we see today. Their profits, access to technology and how much they proportionally decide to invest in it to deter counterfeiters will also vary widely. Most importantly, any new laws should take this into consideration, so online marketplaces can respond with iterative changes in protecting consumers and brands using appropriate current technology and other methods, as to not simply become a compliance check.

5. SHOP SAFE Addresses Many Issues Regarding Secondary Liability; Some Suggestions for Improvement.

In an article that I co-authored with John Zacharia⁴³ in late 2020, we compared the recent legislation addressing the sale of counterfeits in e-commerce, namely SHOP SAFE of 2020, INFORM Consumers of 2020 and the SANTA Act.⁴⁴ SHOP SAFE helps to address (1) how to identify third party sellers of counterfeit, and (2) how to require a proactive approach to prevent counterfeiters from posting their goods on online marketplaces.⁴⁵

⁴² Kari Kammel, *Examining Trademark Counterfeiting Legislation, Free Trade Zones, Corruption and Culture in the Context of Illicit Trade: The United States and United Arab Emirates*, 28 MICH. STATE INT'L L. REV. 210-235 (2020); William Sowers, *How do you Solve a Problem like Law-Disruptive Technology?*, 82 L. & CONTEMP. PROBS. 193-214 (2019); Zacharia & Kammel, *supra* note 11, at 121.

⁴³ John H. Zacharia is the Founder of Zacharia Law PLLC, a law firm dedicated to helping victims of intellectual property crimes and cybercrimes protect their rights and is a Professorial Lecturer in Law at the George Washington University Law School. He is also a member of the A-CAPP Center's Brand Protection Professional Editorial Board.

⁴⁴ Zacharia & Kammel, *supra* note 11.

⁴⁵ *Id.* at 117

Positive Parts of the Bill Include:

In my opinion, positive parts of SHOP SAFE of 2021 include:

1. Proactive activities for online marketplaces to prevent counterfeiter by expeditiously disabling or removing listings from even placing ads at no cost to brand owners; three strikes rule for sellers of counterfeits;⁴⁶
2. Requirement for marketplaces to investigate and periodically confirm that a “third-party seller designated a registered agent in the U.S. for service of process” or if U.S. based, has a verified address for service of process;⁴⁷
3. Display of sellers’ information, location, identity;⁴⁸
4. Proactive steps by e-commerce marketplaces to proactively screen and verify authenticity of the goods offered for sale;⁴⁹ screening to address the whack-a-mole issues;⁵⁰ and
5. Imposition of secondary liability for trademark counterfeiting if these actions are not taken in a reasonable time and manner.⁵¹

Suggestions to Strengthen the Bill:

In my opinion, I would suggest the following to strengthen SHOP SAFE of 2021:

1. **Harmonize Type of Goods-** SHOP Safe is limited to goods that implicate health and safety⁵² and I recommend that the type of goods be harmonized.⁵³ It is not clear from the language as to who will be the determiners of whether a good implicates health and safety. I would advocate that the classification be removed and be applied to the sale of any counterfeit goods for several reasons, and if it cannot be removed that a broad interpretation of ‘goods that implicate health and safety’ is adapted.

⁴⁶ SHOP SAFE Act of 2021, at (4)(A)(ix); Zacharia & Kammel, *supra* note 11, at 116.

⁴⁷ SHOP SAFE Act of 2021, at (4)(A)(iv), (4)(A)(x); Zacharia & Kammel, *supra* note 11, at 115.

⁴⁸ SHOP SAFE Act of 2021, at (4)(A)(v); Zacharia & Kammel, *supra* note 11, at 115.

⁴⁹ SHOP SAFE Act of 2021, at (4)(A)(viii); Zacharia & Kammel, *supra* note 11, at 116.

⁵⁰ SHOP SAFE Act of 2021, at (4)(A)(x), (4)(A)(xi); Zacharia & Kammel, *supra* note 11, at 117.

⁵¹ SHOP SAFE Act of 2021, at (4)(A); Zacharia & Kammel, *supra* note 11, at 115.

⁵² SHOP SAFE Act of 2021, at (4)(A), (4)(B)(iii); Zacharia & Kammel, *supra* note 11, at 117.

⁵³ Zacharia & Kammel, *supra* note 11, at 120.

- a. **Determination by Online Marketplaces-** First, it appears that this would require marketplaces to determine whether each individual product that is posted for sale implicates ‘health and safety’. This could become incredibly onerous,⁵⁴ and inconsistent, instead of applying it across the board to any product to which a trademark is affixed.
 - b. **Two Classes of Goods Under the Lanham Act-** Second, it would create two classes of types of counterfeit goods for liability under the Lanham Act. The provisions of the Lanham Act regarding trademark and service marks are protecting the intellectual property rights’ holders’ goodwill and reputation. This would give a message that many mark holders, including SMEs who are already struggling with this issue, are not entitled to the same level of protection on e-commerce sites and may create a prioritization system within e-commerce sites.
 - c. **Drive Counterfeiting to Certain Industries-** Third, in addition to possibly creating classes of goods on the e-commerce platforms, it may also drive counterfeiters to certain industries that do not implicate health and safety; thus, potentially increasing the counterfeit problem for certain industries.
 - d. **If the Language is Adopted, Interpret ‘Health and Safety’ Broadly-** In the space of counterfeits, a good that might not normally implicate health and safety may in fact implicate it due to construction with materials not appropriate for intended use, or poor quality materials. Although we know that there is immediate and high risk from counterfeit goods that implicate health and safety (pharmaceuticals, food, etc.), we also know that the absolute lack of regulation, safety standards, working standards, sanitary and hazardous work conditions can make any counterfeit risky to use.
2. **Verification and Identification Requirements.** Additionally, the verification of seller’s identities can be strengthened beyond a governmental ID, or other documentation, which might be challenging to verify with overseas sellers. I suggest some additional forms of identifications⁵⁵ and even suggest open general language for the online marketplace to be able to adjust and iterate their policies as the counterfeit sellers’ behaviors change to avoid detection at this stage and as

⁵⁴ Zacharia & Kammel, *supra* note 11, at 117.

⁵⁵ Zacharia & Kammel, *supra* note 11, at 118.

technology continues to change, keeping in mind that the point is to provide consumers, brand owners and law enforcement with information needed to pursue counterfeiters and for marketplaces to avoid secondary liability.

3. **Location from Where Goods are Shipped.** I suggest that if the goods are first shipped to a platform warehouse, which is now sometimes the case, they still are required to note the country where the goods originated before shipment to the platform warehouse. Many counterfeiters hide behind the platform warehouse's veil of legitimacy and the consumer cannot tell the difference.
4. **Technology Neutral.** As we have described the online marketplace phenomena as law disruptive technology,⁵⁶ we believe that the proposed legislation needs to take into account by not requiring technology or specific technology, but instead requiring "proactive measures, including technological" to encompass any current best practices or iterative solutions that can address ever changing technology as well as rapidly changing counterfeiter behavior. In a similar vein to the verification of seller's identities above, such measures should take into account the rapidly changing practical landscape to ensure that the law will remain effective in the time to come and not just a compliance effort.
5. **Definition of Third-Party Seller-** Should include: "person, persons, and entities"⁵⁷
6. **Focus on Consumers-** One of the primary purposes of this bill is protecting consumers from purchasing counterfeits online, in addition to the protection of mark holders. However, seemingly absent are some actions that can be taken to disrupt the opportunity triangle on the consumer side. I would suggest perhaps required consumer education and awareness of counterfeiting sales by third party sellers—what to look for, how to protect yourself when online shopping. Additionally, a required clear, easy to access mechanism for consumers to report suspected counterfeit goods, in the way they might currently be able to complain about a billing problem, or a shipment that never arrived.

⁵⁶ Kammel, *Examining Trademark Counterfeiting Legislation*, *supra* note 42; Sowers, *supra* note 42; Zacharia & Kammel, *supra* note 11, at 121.

⁵⁷ SHOP SAFE Act of 2021, at (4)(B)(iv).

Recommendations

My recommendations are to:

1. Support the SHOP SAFE Article with essential changes:
 - a. Harmonize the types of goods to not create two classes of counterfeit marks;
 - b. Keep verification and identification requirements general as to encompass the latest best practices in verifying sellers; and
 - c. Keep the language as technology or task neutral to encourage modeling practices that are iterative and not merely for compliance but with a focus on protecting the brand and the consumer;
2. Support continued and expanded collaborations regarding data sharing between marketplaces, brands, IPR Center and academia and develop methods of data sharing that share the burdens related to the exchange of information; Support efforts to share data that support legislative initiatives; and
3. Expand knowledge on the trade in counterfeit goods and anti-counterfeiting responses. A critical need exists to support research on the global trade in counterfeit goods, including the nature and scope of the sale of counterfeit goods on the online marketplace, to better inform policy. Such research has overlapping interest for multiple government agencies, including the Departments of Commerce, Homeland Security, Justice, State and Health and Human Services.

Thank you for the opportunity to participate in this hearing on this very important issue for intellectual property rights holders and U.S. consumers.

Mr. JOHNSON of Georgia. Thank you, Ms. Kammel.
Next we will hear from Ms. Simpson for five minutes. The floor is yours, Ms. Simpson.

STATEMENT OF MEREDITH SIMPSON

Ms. SIMPSON. Chairman Nadler, Chairman Johnson, Ranking Member Issa, and distinguished Members of the Subcommittee, thank you for the opportunity to testify today on behalf of the Personal Care Products Council on our support of the SHOP SAFE Act and the subcommittee's efforts to address the critical and growing risk of online sales of counterfeit products, including cosmetics and personal care products.

My name is Meredith Simpson. I'm Vice President of Federal Government affairs for the Personal Care Products Council, the leading national trade association representing global cosmetics and personal care products companies.

E-commerce platforms create valuable opportunities for legitimate companies to grow, reach new consumers, and provide buyers with numerous choices and convenience.

However, the current structure is vulnerable to exploitation and contributes significantly to a rise in illegal trade. Global trade in counterfeit and pirated goods is expected to reach \$991 billion by next year.

Counterfeit products are fraud. They damage businesses, are a drain on the economy and, most importantly, threaten consumers' health and safety. Our member companies are committed to product safety, quality, and innovation.

The average consumer uses 12 personal care products each day and trusts the makers of those products to supply them and their families with safe and high quality products.

The U.S. cosmetics industry invests nearly \$3 billion each year in scientific research and development to evaluate and ensure the safety of their products before they reach the consumer.

The cosmetics industry loses more money to counterfeit products each year than any other industry, with annual losses of approximately \$5.4 billion to fraudulent sellers. One of our member companies reports that all of their 30 brands have been counterfeited, everything from nail polish to fragrance to shampoo to eye shadow.

Counterfeit products pose health risks to consumers since they're produced illegally without adherence to federal or State safety and quality requirements.

Counterfeit cosmetics can be tampered with, expired, and contain materials not of cosmetic grade, meaning consumers may be applying adulterated or impure ingredients directly to the skin, lips, eyes, and other sensitive areas including products indicated for children's use.

In a January 2020 report, the U.S. Department of Homeland Security noted that counterfeit cosmetics can often contain elements such as arsenic, mercury, and aluminum, and have been found to be contaminated with substances from harmful bacteria to human waste.

Consumers are at a risk of purchasing a dangerous counterfeit product because they can't tell the difference between an authentic and counterfeit product when shopping online, as sellers will often

use brand owners' own product images and trademarks in online offers.

The burden of enforcing against counterfeit goods on online platforms falls on the makers of the authentic products rather than the platforms.

A single personal care product's company may spend as much as \$15 million annually to fight counterfeits, including monitoring the platforms and social media sites, enforcing against counterfeits through notice and takedown processes, test buys and lab testing of purchases, and working and sharing information with competitors and federal, state, and local law enforcement, including training to better detect counterfeits. Many smaller companies lack the necessary resources to tackle online counterfeit.

While we applaud some platforms' efforts to address counterfeits in recent years, many do not have any proactive measures in place, and the ones that do are often not transparent about their counterfeit prevention policies and processes and there's a lack of standardization.

Brand owners continue to have significant difficulty accessing verified information on sellers that have been known counterfeiters from the platforms. For example, one of our member companies employs 10 external firms to manage their online platform notice and takedown processes.

Another brand has seen notice and take downs more than double over the last year. Despite the personal care products industry's aggressive efforts to mitigate the harms of counterfeit goods through direct engagement with the platforms, too often our Members cannot keep up with the sheer number of counterfeit listings or hindered by a lack of cooperation from the platforms and by the difficulty in identifying sellers who can too easily hide and change their information.

All the while, consumers are put at risk from these potentially dangerous products. PCPC strongly supports the SHOP SAFE Act's establishment of a framework to advance best practices for online platforms, incentivize platforms to address the sale of counterfeits on their channels, and help ensure that products sold online are safe, authentic, and comply with U.S. laws and regulations and, most importantly, protect unsuspecting consumers from unsafe products.

We look forward to working with this Committee and other stakeholders to advance the SHOP SAFE Act. Thank you again for the opportunity to testify, and I look forward to your questions.

[The statement of Ms. Simpson follows:]

Meredith Simpson, Vice President, Federal Government Affairs and External Relations, Personal Care Products Council

House Judiciary Subcommittee on Courts, Intellectual Property, and the Internet: Virtual hearing on The SHOP SAFE Act: Stemming the Rising Tide of Unsafe Counterfeit Products Online

May 27, 2021

Chairman Johnson, Ranking Member Issa, and distinguished members of the Subcommittee, thank you for the opportunity to testify today on behalf of the Personal Care Products Council (PCPC) on our support for the SHOP SAFE Act and the Subcommittee's efforts to address the critical and growing risk posed by online sales of counterfeit products, including cosmetics and personal care products.

My name is Meredith Simpson, and I am Vice President, Federal Government Affairs and External Relations for the Personal Care Products Council (PCPC). PCPC is the leading national trade association representing global cosmetics and personal care products companies. Founded in 1894, PCPC's approximately 600 member companies manufacture, distribute, and supply the vast majority of finished personal care products marketed in the U.S. – a \$488 billion global industry. PCPC appreciates the Subcommittee holding this hearing and is pleased to offer our views on the importance of ensuring consumers always enjoy the same health and safety protections for products purchased online as those purchased in brick-and-mortar stores.

E-commerce platforms create valuable opportunities for legitimate companies to grow, reach new consumers, and provide buyers with numerous choices and convenience. However, the current structure is vulnerable to exploitation and contributes significantly to a rise in illicit trade. Our member companies invest substantial resources to ensure the safety and quality of their products and to meet federal and state safety and quality requirements. Counterfeit personal care products are fraud – they damage businesses, drain the economy, and – most importantly – threaten consumer health and safety. We strongly support provisions in the SHOP SAFE Act that advance best practices for online platforms to help ensure products sold on these platforms are safe and authentic.

Our Role in Strengthening Communities and the Economy

Cosmetics and personal care products companies are proud of their essential role in creating jobs, generating income, and making our communities stronger. In 2018, the personal care products industry was responsible for 3.9 million direct and indirect jobs representing 1.9% of total U.S. employment and \$64.8 billion in tax payments at the federal, state, and local levels. Personal care products exports were more than 35% higher than imports, representing the second largest trade surplus in the manufacturing sector.¹

Small businesses are the heart of the personal care products industry. Companies with fewer than 10 employees account for 34% of the industry's employment, and those with fewer than 50 employees account for nearly 70%. Women make up nearly 77% of the industry's workforce and people of color, 33%.

Like other industries, the beauty and personal care sector has felt the tremendous impact of the COVID-19 pandemic, from supply chain and manufacturing disruptions to declining sales. Throughout, our primary focus has been on the health and safety of our employees, our customers, and our communities. Many member companies quickly shifted their manufacturing lines to produce alcohol-based hand sanitizers for distribution to medical professionals; donated soap, personal hygiene, and household cleaning products to organizations operating on the front lines; and provided more than \$150 million dollars in cash support to a range of relief and charitable organizations.

¹ Personal Care Products Council - *Driving the Economy, Shaping the Future: Economic & Social Contributions Report 2020*. (2020) https://www.personalcarecouncil.org/wp-content/uploads/2020/09/PCPC_EcoReport_2020.pdf

Our Commitment to Safety, Quality, and Innovation

As the makers of a diverse range of products millions of consumers rely on every day — from sunscreens, toothpaste, and shampoo to moisturizer, hand soap, and fragrance — personal care products companies are global leaders committed to product safety, quality and innovation. The average consumer uses 12 personal care products each day and trusts the makers of those products to supply them and their families with safe, high-quality products that meet all applicable regulatory requirements.

Cosmetics and personal care products are regulated by the U.S. Food & Drug Administration (FDA). Among other requirements, the Federal Food, Drug & Cosmetic Act requires that every product and its individual ingredients are safe before they are put on the market. Companies that manufacture or market cosmetics have a legal responsibility to ensure their products are safe and properly labeled, and current federal law provides penalties for failure to meet these requirements. Our member companies take their responsibility to make safe products very seriously. Consumer and product safety are top priorities for our industry, with careful and thorough scientific research and development serving as the foundation for everything we do.

The U.S. cosmetics industry invests nearly \$3 billion every year in scientific research and development. As a result, approximately 2,000 innovative new products are launched annually. The industry employs nearly 6,000 scientific and technical professionals dedicated to ensuring product and ingredient safety. Companies also work with a number of scientific and medical experts – chemists, toxicologists, microbiologists, dermatologists, epidemiologists, environmental scientists, and other technical experts – to evaluate and ensure the safety of products before they reach the consumer.

Counterfeiting and Online Platforms

The volume of counterfeit goods reaching consumers, including via online platforms, is increasing.¹ While global trade in counterfeit and pirated goods represented \$200 billion in 2005 (equating to 1.9% of global trade), this figure reached \$509 billion in 2016 and is predicted to increase to \$991 billion by 2022.¹ In 2019, U.S. Customs and Border Protection (CBP) seized 27,599 shipments containing goods violating intellectual property rights, which, if genuine, would have had an estimated MSRP of nearly \$1.5 billion – up from \$1.4 billion in 2018.³ Counterfeit goods are also estimated to result in a fiscal loss of \$270 billion worldwide by 2022, with global employment losses ranging between 4.2 and 5.4 million, a non-negligible consideration in the context of the current global pandemic and its economic repercussions.⁴

Notably, according to a report from the Organization for Economic Cooperation and Development (OECD), the cosmetics industry loses more money to counterfeit products than any other industry, with

¹ OECD, EUIPO, *Illicit Trade – Trends in Trade and in Counterfeit and Pirated Goods* (2019); OECD, *The Economic Impact of Counterfeit and Piracy* (2008); EUROPOL and EUIPO, *2019 Intellectual Property Crime Threat Assessment Report* (2019).

³ U.S. Customs and Border Protection, *Operation Mega Flex Stops Hundreds of Illicit “Made in China” Shipments at LAX* (October 30, 2020), <https://www.cbp.gov/newsroom/local-media-release/operation-mega-flex-stops-hundreds-illicit-made-china-shipments-lax>.

⁴ INTA and ICC-BASCAP, *The Economic Impacts of Counterfeiting and Piracy* (2017).

losses of approximately \$5.4 billion each year to fraudulent sellers.¹ This means \$5.4 billion of products that very likely do not meet FDA's safety, efficacy, and labeling requirements are sold to consumers each year. Contrary to the popular perception of counterfeited products, luxury personal care products are not the only category at risk as there is a low barrier to entry online for all personal care products given that counterfeiters do not strive to meet the same safety and quality requirements as legitimate manufacturers. Oftentimes, consumers cannot tell the difference between an authentic and counterfeit product when shopping online, as sellers will even utilize brand owners' product images and trademarks in online offers. One of our members reports that every one of the more than thirty brands the company owns has been counterfeited – everything from nail polish and fragrance to shampoo and eye shadow palettes. The problem of online counterfeits is not exclusive to the platforms, as the personal care industry is increasingly seeing counterfeits offered on social media sites as well.

As highlighted in a 2020 Department of Homeland Security (DHS) Report, consumers in the United States, in particular, face an increasing risk of exposure from the sale of online counterfeits.² In the second quarter of 2019, total year-over-year retail sales grew by only 3.2%, while e-commerce grew 13.3%.³ Amidst this growth in e-commerce, there has been a corresponding growth in the number of dangerous counterfeits being imported year after year.⁴ COVID-19 has only exacerbated and highlighted the severity of counterfeit availability on platforms due to the increase in online shopping. Counterfeit sales have proliferated during the pandemic; between March and April of 2020 alone, counterfeit sales increased by 38%.⁶ According to a study led by McKinsey & Company, more people have been making, and are expected to continue making, a portion of their purchases online post-COVID-19 than before.⁷

Beyond the health risks to the individual consumer using a counterfeit product, counterfeiting has repeatedly been tied to organized crime, encompassing terrorism, human trafficking, illegal weapons, and drug trafficking.⁸

Consumer Health Risks from Counterfeit Cosmetics

Since they are produced illegally and without adherence to federal or state safety and quality requirements, counterfeit products inherently pose health risks to consumers. Counterfeit cosmetics may be adulterated, tampered with, expired, and contain impurities or materials not of cosmetic grade, meaning consumers may be applying dangerous ingredients not approved for topical use directly to the skin, lips, eyes, and other sensitive areas, including products indicated for children's use. In a January 2020 report to the President, the DHS noted that counterfeit cosmetics often contain elements such as arsenic, mercury, and aluminum and counterfeit personal care items have been found to be contaminated with substances from harmful bacteria to human waste.⁵

¹ OECD, EUIPO, *Illicit Trade – Trends in Trade and in Counterfeit and Pirated Goods* (2019); OECD, *The Economic Impact of Counterfeit and Piracy* (2008); EUROPOL and EUIPO, *2019 Intellectual Property Crime Threat Assessment Report* (2019).

² U.S. Department of Homeland Security, *Combatting Trafficking in Counterfeit and Pirated Goods, Report to the President of the United States* (January 24, 2020) https://www.dhs.gov/sites/default/files/publications/20_0124_plcy_counterfeit-pirated-goods-report_01.pdf

³ International Chamber of Commerce, *Guide to Managing Counterfeiting and Piracy Risks in the COVID-19 Era*, July 2020. [Link.](#)

⁴ *Survey: US Consumer Sentiment During the Coronavirus Crisis*, McKinsey & Company (December 8, 2020), <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/survey-us-consumer-sentiment-during-the-coronavirus-crisis>.

⁵ Union des Fabricants (UNIFAB), *Counterfeiting & Terrorism – Edition 2016* (2016), https://www.unifab.com/wp-content/uploads/2016/06/Rapport-A-Terrorisme-2015_GB_22.pdf.

The dangers to consumers from counterfeit products are not limited to the type of non-authentic goods that typically come to mind – illicit products created entirely by a counterfeiter in a clandestine factory. Personal care products sold without their original packaging can also pose risks to consumers. Counterfeit packaging may contain dangerous metals, paints, chemicals, plastics, or other substances and lack FDA-required ingredient disclosure information.

Industry Efforts to Mitigate Counterfeit Products on E-Commerce Platforms

At present, the burden of monitoring and enforcing against counterfeit goods on online platforms falls on the makers of the authentic products, rather than on the platforms themselves. Brand owners engage directly and regularly with the online platforms to address counterfeits. A single personal care product company may spend as much as \$15 million annually to combat counterfeits, including monitoring the platforms and social media sites; enforcing against counterfeits through resource- and time-consuming notice and takedown processes; test buys and lab testing of purchases; and working and sharing information with competitors and federal, state, and local law enforcement. Smaller companies, however, often lack the resources needed to combat online counterfeits in the same way.

Many companies employ robust brand protection teams to combat counterfeits, utilizing artificial intelligence and third-party monitoring services. Companies work closely with law enforcement – including CBP agents, Federal Bureau of Investigation (FBI), Department of Justice (DOJ), DHS, and local police officers – and some even put resources toward training the platforms and law enforcement to better detect counterfeits. Companies utilize multiple avenues to disrupt counterfeiters in the supply chain and anti-diversion efforts through multi-layered solutions built into product design – constantly innovating to try to stay ahead of counterfeiters.

The notice and takedown process is expensive and burdensome. One of our member companies, for example, employs 10 external firms to manage online platform notice and takedown processes; another brand owner has seen online platform notice and takedowns more than double over the last year – exemplifying the growing problem. Even if the platforms comply with the notice and takedown process, it is impossible to keep up with the number of counterfeit listings. Oftentimes, even when a listing or seller is removed, both could pop back up under new identities. When brand owners want to take action, the process is incredibly difficult – as many times these sellers are unknown entities.

The level of engagement of various online platforms related to counterfeits is increasing and we applaud several of these platforms for implementing programs to address illegal products and counterfeits. Platforms have the technology to identify and take down counterfeit listings. However, many platforms still do not have proactive measures in place, and those that purport to are often not transparent about their counterfeit prevention policies and processes, and there is a lack of standardization of counterfeit prevention policies and processes that all companies should follow. Brand owners, for example, have significant difficulty accessing verified information on sellers from the platforms. There is a need for a level playing field and not a long, burdensome process to hold these counterfeiters accountable.

In addition, our members also incur costs addressing reputational harm. Brand owners are inundated with complaints from consumers regarding counterfeit products purchased through online platforms, all of which brands must try to investigate and respond to in order to maintain and protect their reputation for quality goods and services and to help ensure the safety of their customers.

To date, despite aggressive efforts on the part of the personal care products industry to mitigate the harms of counterfeit goods, too often our members are stymied by a lack of cooperation from the platforms and difficulty in identifying sellers who can too easily hide and change their information – leading to a costly game of “whack-a-mole.” In the meantime, consumers continue to be put at risk from these potentially dangerous counterfeits.

Advancing Responsible Solutions: SHOP SAFE Act

PCPC supports the establishment of a framework to advance best practices for online platforms and sales to help ensure products sold on online platforms comply with U.S. laws and regulations. We applaud the introduction of the SHOP SAFE Act to establish provisions incentivizing e-commerce platforms to address the sale of counterfeits online and protect unsuspecting consumers from unsafe products being sold through these channels.

The SHOP SAFE Act includes many elements that PCPC members have stated would be helpful for combating online sales of counterfeit products, including:

- Broad scope of platform definition to capture counterfeits where they are offered online, including social media
- Practices to prevent occurrence of counterfeit goods before they are made available online, including:
 - Verification of seller information;
 - Displaying seller identity, location, and contact information (with exceptions for personal information); and
 - Screening for counterfeits before listing;
- Repeat infringer policies;
- Screening sellers to prevent terminated sellers from rejoining;
- Provide verified information on infringing sellers to brand owners, when requested;
- Prohibition of certain selling practices, such as the use of generic images rather than photographs of the actual item being sold; and
- Potential for liability for platforms that do not adopt the best practices.

We wanted to highlight a few considerations for the Committee:

- Consumer notification after a platform removes an illegal product that has been reported – consumers have a right to know they have purchased what could be a dangerous product;
- Clarity in the legislation to ensure the processes and steps outlined in the bill work in practice for the platforms and brand owners - to achieve what is intended – preventing and mitigating counterfeits getting in hands of consumers, and;
- Recognition that all counterfeits cause harm or have potential to be dangerous – efforts to distinguish between those that could cause health and safety risks and those that may not could be confusing for consumers and cause impediments to effective implementation.

In closing, we strongly support provisions in the SHOP SAFE Act that advance best practices for online platforms to help ensure that products sold on these platforms are authentic and safe. We look forward to continuing our engagement with this Committee and with other stakeholders, including online platforms, government regulators and law enforcement to advance solutions to combat counterfeit products online and establish strong consumer protections.

Thank you again for the opportunity to testify.

Mr. JOHNSON of Georgia. Thank you, Ms. Simpson.
And now we will proceed to Mr. Berroya.
Mr. Berroya, you may begin.

STATEMENT OF JONATHAN BERROYA

Mr. BERROYA. Subcommittee Chairman Johnson, Ranking Member Issa, and Members of the Subcommittee, thank you for the opportunity to appear before you today to discuss the SHOP SAFE Act.

My name is Jonathan Berroya and I'm the Senior Vice President and general counsel at Internet Association (IA). IA represents over 40 of the world's leading internet companies and is the only trade association that exclusively represents leading global internet companies on matters of public policy.

We can all agree that protecting consumers from harmful counterfeit products, no matter how they enter the supply chain, is an important priority.

While a small percentage of online sellers are bad actors who use the internet to market and sell counterfeit goods, internet companies including IA Members have been working with trademark owners and law enforcement officials to protect consumers from counterfeits for many years.

Because professional counterfeiters are incredibly resourceful and adept at circumventing enforcement activities, it is also critical to examine and understand the unintended consequences of proposed solutions.

Ultimately, the experiences of IA's Members demonstrate that online marketplaces are adequately incentivized to collaborate with brands to fight counterfeiting and that existing trademark doctrine strikes the right balance between protecting consumers and brand owners from counterfeit goods, while also allowing the online economy to thrive.

While mass scale counterfeiting, obviously, did not begin with the internet, the complexity of the modern supply chain makes trademark enforcement incredibly challenging, and all stakeholders have important and complementary roles to play in the fight to protect consumers from harmful counterfeit goods.

Trademark holders possess unique knowledge that is essential to determining whether an item is counterfeit or genuine.

Retailers and online platforms must use that information to identify counterfeit goods and prevent them from entering or remaining in the stream of commerce, and law enforcement officers must have reliable leads from brands, retailers, and online platforms in order to investigate counterfeiting operations and bring manufacturers of illegal products to justice.

If any of these stakeholders are unable to fulfill their roles, the consequences can be dire. Internet companies understand this fact and have every incentive to support IP enforcement activities because their businesses depend on consumer and brand trust in order to succeed.

The law does not shield online services from liability when they know that a particular listing is infringing or a service is willfully blind to infringing listings. Trust is an even more compelling busi-

ness reason for online services to collaborate with brands and protect their customers from counterfeit goods.

To put it plainly, customers who were duped into purchasing fake goods through a particular service will vote with their dollars and shop elsewhere, and trademark owners will refrain from entering into partnerships with services that fail to take counterfeiting seriously.

IA Members have demonstrated their commitment to protecting consumers from counterfeit goods in several ways, including by investing millions of dollars each year to stem the flow of counterfeits on their platforms and by going far beyond what the law requires to collaborate with brand owners and other stakeholders.

IA member companies have taken the lead by implementing clear anti-counterfeiting policies and by proactively creating transparent and innovative counterfeit reporting prevention tools that allow third parties to identify counterfeit items listed for sale and remove them in a timely manner.

IA Members have also developed close relationships with law enforcement agencies to combat counterfeit goods, like U.S. Customs and Border Protection and the National Intellectual Property Rights Center, as well as other federal and State enforcement agencies.

Online services regularly report misconduct to law enforcement agencies and several have proactively created training programs to ensure that law enforcement officers understand how their services work and are aware of evolving online infringement and investigative techniques.

Despite the fact that major online platforms already work closely and productively with brand owners and law enforcement officials, the SHOP SAFE Act would drastically change the roles and responsibilities of stakeholders.

For example, the bill would replace trademark holders' actual expertise and judgment in differentiating between legitimate products and fakes with a vague reasonable awareness standard that platforms would have to apply in the absence of any specific knowledge about the underlying trademark goods.

Rather than keep these judgment calls in the hands of the IP owners who have this expertise, SHOP SAFE would effectively push platforms to toss the baby with the bath water by removing millions of listings posted by sellers who are making permissible use of trademarks in an effort to eradicate a small minority of listings posted by bad actors who will not easily be deterred in their efforts to circumvent detection.

The bill would also require platforms to verify the identity of every single third party seller, presumably using government identification that the platforms are not in a position to physically inspect or properly verify.

They would also be required to investigate and periodically confirm the physical address of each seller or their U.S.-based registered agent to determine that the address exists and, presumably, its nexus to the seller.

In conclusion, IA and its member companies share the subcommittee's goal of promoting consumer health and safety, which is why our Members have created a range of tools and programs

to help brands police the misuse of their marks and work productively with law enforcement agency prosecuting intellectual property crimes.

The internet industry understands that counterfeiting is a significant global problem, and we will continue to engage with this Subcommittee to confront existing and emerging challenges.

Thank you.

[The statement of Mr. Berroya follows:]



Written testimony of

**JONATHAN BERROYA
SENIOR VICE PRESIDENT AND GENERAL COUNSEL
INTERNET ASSOCIATION**

before the

**SUBCOMMITTEE ON COURTS, INTELLECTUAL PROPERTY, AND THE INTERNET
JUDICIARY COMMITTEE
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.**

The SHOP SAFE Act: Stemming the Rising Tide of Unsafe Counterfeit Products Online

Thursday, May 27, 2021

Subcommittee Chairman Johnson, Ranking Member Issa, and members of the Subcommittee.

Internet Association¹ (IA) appreciates the opportunity to testify at today's subcommittee hearing on behalf of the association and its members about the SHOP Safe Act.

IA represents over 40 of the world's leading internet companies. IA is the only trade association that exclusively represents leading global internet companies on matters of public policy. IA's mission is to foster innovation, promote economic growth, and empower people through the free and open internet. The internet creates unprecedented benefits for society, and as the voice of the world's leading internet companies, we ensure stakeholders understand these benefits.

Internet companies, including IA's members, are at the forefront of protecting consumers from counterfeits. The experiences of IA's members demonstrate that anti-counterfeiting policy must reflect the necessary partnership between brands and marketplaces, and focus on measures that encourage effective technology and target bad actors. A thriving online economy benefits all stakeholders, including millions of innocent small and medium-sized businesses that are able to access global customers thanks to IA's member companies.

We can all agree that protecting consumers from harmful counterfeit products - no matter how they enter the supply chain - is an important priority. But because professional counterfeiters are incredibly resourceful and adept at circumventing enforcement activities, it is also critical to examine and understand the unintended consequences of proposed solutions.

I. COUNTERFEITING IS NOT UNIQUE TO THE INTERNET

In the last two decades, U.S. internet services have become a significant driver of the U.S. economy. The internet sector contributes 10.1 percent of the U.S. GDP and 4.0 percent of jobs (non-farm employment). IA estimates the internet sector supported another 13.1 million indirect jobs and that the sector invested over \$60 billion into the

¹Members, Internet Association, <https://internetassociation.org/our-members/> (last visited Dec. 22, 2020).



economy.² Since the mid-90s, consumers have increasingly been shopping online. In 2017, global e-retail sales amounted to \$2.3 trillion and projections show a growth of up to \$4.48 trillion in 2021.³

A small percentage of bad actors misuse online marketplaces to offer counterfeit goods. But counterfeiting did not begin with the internet. Spurious trademarks are as old as trademarks themselves; by the early 1980s, long before the commercial internet, 30 percent of businesses responding to an ITC questionnaire reported that their goods had recently been subject to counterfeiting.⁴ Nor did counterfeiting through brick and mortar stores end with the growth of online services. Some of the most significant recent secondary liability trademark cases in the United States involved physical storefronts, not online companies.⁵

Even as the sale of goods has moved increasingly online, physical markets continue to play the dominant role in facilitating the trade in counterfeit goods, including markets in China, Russia, and Vietnam, among other places. In 2019, the Organisation for Economic Co-operation and Development (“OECD”) released a report titled *Illicit Trade: Trends in Trade in Counterfeit and Pirated Goods*, which provides a comprehensive, “quantitative analysis of the value, scope and magnitude of world trade in counterfeit and pirated products.”⁶ The report demonstrates the complex issues with tracking and identifying counterfeit goods. The problem is only compounded as “parties that engage in the trade of counterfeit and pirated products tend to ship infringing products via complex routes, with many intermediary points... to facilitate falsification of documents in ways that camouflage the original point of departure, establish distribution centers for counterfeit and pirated goods, and repackaging or re-label goods.”⁷ This often makes it nearly impossible for external experts, and even trained government officials, to spot counterfeit goods.

Efforts to stem the flow of counterfeit goods should not focus solely on online marketplaces. To protect consumers, any proposal must also take into account the dominant role that physical marketplaces continue to play, and should also be directed at the sources of counterfeits manufacturing.

II. IA'S MEMBERS INVEST MILLIONS OF DOLLARS A YEAR TO COMBAT COUNTERFEITING

Nobody benefits when counterfeit goods are sold online: not consumers, not online marketplaces or their users, and not trademark owners. IA's member companies depend on consumers' trust. Any suggestion that internet companies are uninterested in combating counterfeiting, or are inadequately incentivized to support enforcement efforts by brand owners and law enforcement agencies, is simply false.

Internet companies are thoroughly incentivized to help brands combat intellectual property crimes, because they depend on consumer and brand trust to succeed. People who are duped into purchasing fake goods through a particular online marketplace will vote with their dollars and shop elsewhere, and brand owners will refrain from entering into partnerships with services that fail to take counterfeiting seriously.

As a result, IA members have made protecting consumers from counterfeit goods a top priority, investing millions of dollars a year in these efforts, and going far beyond what the law requires to collaborate with brand owners and others

² Christopher Hooton, *Measuring the U.S. Internet Sector: 2019*, Internet Association (Sept. 26, 2019), <https://internetassociation.org/publications/measuring-us-internet-sector-2019/>

³ Nina Angelovska, *Top 5 Online Retailers: 'Electronics and Media' Is The Star of E-commerce Worldwide*, Forbes (May 20, 2019, 11:45 AM), <https://www.forbes.com/sites/ninaangelovska/2019/05/20/top-5-online-retailers-electronics-and-media-is-the-star-of-e-commerce-worldwide/>

⁴ *The Effects of Foreign Product Counterfeiting on U.S. Industry*, United States International Trade Commission, at ix (Jan. 1984), <https://www.usitc.gov/publications/other/pub1479.pdf> (“Of a total of 274 responses, 82 were affirmative.”).

⁵ See, e.g., *Luxottica Grp., S.p.A. v. Airport Mini Mall, LLC*, 932 F.3d 1303 (11th Cir. 2019) (contributory trademark infringement case against the owners of a mall); *Coach, Inc. v. Goodfellow*, 717 F.3d 498, 499 (6th Cir. 2013) (contributory liability case against a flea market operator).

⁶ *Illicit Trade: Trends in Trade in Counterfeit and Pirated Goods*, OECD, at 11 (Mar. 18, 2019), <https://www.oecd-ilibrary.org/docserver/g2g9f533-en.pdf?expires=1608660670&id=id&accname=guest&checksum=ADC423225F0E85F444F7F5BE78CD0E3>.

⁷ Id.



to stem the flow of counterfeits. IA member companies have taken the lead by implementing clear policies, proactively creating transparent and innovative counterfeit reporting and prevention tools that allow third parties to identify counterfeit items listed for sale on their online marketplace and remove them in a timely manner.

Internet services have also developed close relationships with law enforcement to combat counterfeit goods, including active engagement with the U.S. Customs and Border Protection, the National Intellectual Property Rights Center, and other federal and state enforcement agencies. Services regularly report misconduct and respond to ongoing law enforcement investigations, and several have proactively created training programs to ensure that law enforcement officials understand how their services work, and to provide information about evolving internet-based investigative techniques, and other emerging trends. IA member companies also encourage users to report illegal activities to appropriate authorities and have created links to facilitate such reporting.

IA's members have implemented transparent and innovative practices. The following are a few examples, but IA could list many more.

A. Amazon

Amazon strictly prohibits the sale of counterfeit products, invests heavily in prevention, and takes proactive steps to reduce the number of counterfeits offered in Amazon's online stores to zero. In 2020, Amazon's global proactive efforts successfully prevented over 6 million suspected bad actor accounts from offering a single product for sale in their stores and blocked over 10 billion suspected bad listings from being published on its stores. Fewer than 0.01% of all products sold on Amazon received a counterfeit complaint from customers. Those complaints were investigated for accuracy and acted upon as appropriate. Every claim of potential counterfeit is investigated thoroughly, and in the rare instance where a bad actor gets through, Amazon takes swift action, including removing the allegedly infringing items, permanently banning bad actors, pursuing legal action, and working with law enforcement when appropriate.

In 2017, Amazon launched Brand Registry, a free service that gives a brand owner—regardless of whether they sell in Amazon's store—access to a set of powerful tools that help them manage and protect their brand and intellectual property rights. More than 500,000 brands were enrolled in Brand Registry in 2020, and on average, they reported 99% fewer suspected infringements than before the launch of the service.⁸

In 2018, Amazon launched Transparency, a serialization service that protects each individual product unit. Brands apply a unique 2D code, similar to a QR code, to their products, and Amazon scans the code to verify authenticity before shipping it to a customer. In 2020, more than 15,000 brands were using Transparency, and the service has enabled the protection of more than 500 million product units.

Additionally, Amazon's Project Zero provides brands with the ability to directly remove counterfeit product listings from the store in near real-time. In 2020, there were more than 18,000 brands enrolled in Project Zero. For every listing removed by a brand through the self-service counterfeit removal tool, automated protections removed more than 600 listings through scaled technology and machine learning that proactively addresses potential counterfeits and stops those listings from appearing in the store.

Other programs like IP Accelerator, the Utility Patent Neutrality Program, and the Counterfeit Crimes Unit have also recently launched to attack the issue from multiple angles. In short, Amazon's policies and innovative tools help customers feel confident in their purchases on Amazon stores.

B. eBay

As threats against consumers and rights holders evolve, eBay continuously seeks to improve its efforts to fight against counterfeiters and bad actors. eBay invests millions of dollars annually to fight unlawful listings, proactively deploying

⁸ Amazon brand registry, Amazon, <https://brandregistry.amazon.com/> (last visited Dec. 22, 2020).



sophisticated technologies and investing heavily in partnerships with rights holders and governments across the globe to help protect consumers and support rights holders against bad actors. eBay partners with more than 40,000 rights holders through its Verified Rights Owner (VeRO) program, which allows rights holders to quickly and easily report instances of alleged intellectual property infringement.⁹ eBay also works closely with governments and law enforcement around the globe to help ensure the safety of consumers and protect rights holders.

In addition to those partnerships, eBay has multiple teams and tools in place focused on enforcing its policies and proactively identifying and addressing any generally suspicious or potentially harmful seller behavior. These efforts help eBay flag and remove potentially problematic sellers, including sellers of counterfeit goods, or prevent these harmful actors from obtaining an eBay account in the first place. eBay's policies, teams, partnerships, and tools help create a global commerce platform that enables sellers, including hundreds of thousands of American entrepreneurs and small businesses, to sell their inventory, and buyers to find and purchase items, virtually anytime and anywhere. eBay's core purpose, since its founding in 1995, is to safely connect buyers and sellers through its marketplace and help American entrepreneurs, including small and micro-businesses, reach markets around the world. eBay's commitments to consumer safety and rights owner protection are longstanding and are at the center of its corporate values.

C. Etsy

Etsy is committed to maintaining an environment that promotes trust and safety for its vibrant community of buyers and sellers. When sellers open a shop on Etsy, they agree to Etsy's Seller Policy,¹⁰ which outlines their rights as well as the platform's expectations. This includes adhering to the Prohibited Items Policy, which asks users to consider the safety of others when listing goods. Beyond Etsy's seller policies, it also seeks to reinforce appropriate product safety practices, which are reflected in its Product Safety Pledge.¹¹

In 2020, Etsy received close to 4 million flags regarding potentially noncompliant listings, a 400% increase in flags from 2019; breaches of its handmade policy were among the most commonly flagged violations. This increase is in large part due to the exponential growth of the marketplace last year. The vast majority of flags were generated by Etsy's internal automated systems and our enforcement scaled with the marketplace. In 2020, 20% of shop and listings flags came from users in comparison to the 80% generated from our tools – a proportion that remained consistent with 2019. Overall, Etsy saw a 58% increase in the number of intellectual-property related takedowns compared to 2019.¹²

In addition to upholding Etsy's commitment to transparency, it has worked to scale its policy enforcement resources, allowing it to better detect and remove prohibited items. In the last two years, Etsy has nearly doubled the size of its Trust & Safety team, adding more monitoring capabilities. This includes growing its Content Moderation team by five times (5x) and adding a new Handmade & Counterfeit team dedicated to fighting counterfeits and handmade violations.

Since the beginning of last year, Etsy has significantly increased its investments in Trust & Safety technology, including building a dedicated trust and safety machine learning engineering team and exploring computer vision technology, with the goal of using powerful algorithms to drive improvements in the precision of automated risk detection. Etsy has taken steps to ensure that Etsy sellers are positioned for success by making its policies easy to understand, refining its violation notification process, and providing resources so that sellers can get help when they have questions about their compliance.¹³

⁹ Verified Rights Owner Program, eBay, <https://pages.ebay.com/seller-center/listing-and-marketing/verified-rights-owner-program.html> (last visited Dec. 22, 2020).

¹⁰ Etsy's Seller Policy, <https://www.etsy.com/legal/section/sellers>

¹¹ Product Safety Pledge, <https://medium.com/etsy-impact/etsy-joins-eu-product-safety-pledge-46e22b608eea>

¹² Etsy 2020 Transparency Report, <https://blog.etsy.com/news/2021/etsy-releases-2020-transparency-report/>

¹³ <https://blog.etsy.com/news/2021/our-commitment-to-the-trust-and-safety-of-the-etsy-marketplace/>



D. Facebook

As part of its IP protection program, Facebook has established dedicated channels for rights holders to report infringing content, including a specific counterfeit channel.¹⁴ Reports of alleged infringement are handled by a global IP Operations team that provides around-the-clock multilingual coverage, promptly removing reported content—often within minutes. Facebook’s Commerce & Ads IP Tool goes further, offering enrolled rights holders a streamlined interface to easily identify and report infringing content. Built based on rights holder feedback, the tool provides the ability to search text and images and to report counterfeit, trademark or copyright infringement in ads on Facebook or Instagram, Shops content, Instagram posts with product tags, Marketplace posts, and group sale posts.¹⁵ Facebook also maintains comprehensive repeat infringer policies to disable profiles, pages, and groups on Facebook, along with accounts on Instagram, where appropriate.

Additionally, IP infringements are strictly prohibited in Facebook’s and Instagram’s respective Terms of Service and Terms of Use,¹⁶ as well as more specialized policies relating to ads¹⁷ and commercial posts.¹⁸ Consistent with these policies, Facebook has collaborated closely with rights holders and invested heavily to build numerous measures to combat counterfeits. This enforcement is done both in response to rights holders’ IP reports as well as proactively—that is, before a rights holder ever needs to see an infringement and often before it even goes live. As part of its commitment to making its platforms safer for people and businesses to connect, share, buy, and sell, in 2019 Facebook launched a new dedicated website¹⁹ describing its range of IP protection and anti-counterfeiting measures.

Facebook has launched several other proactive measures that target counterfeits. These include a pre-publication review of ads and Marketplace posts, that uses technologies such as artificial intelligence and machine learning to identify suspicious indicators like keywords and discounts and, based on these indicators, to proactively block suspected counterfeits before they go live. Facebook also takes measures proactively to disable and/or reduce the visibility of suspected counterfeits on its organic products as well, such as Facebook Pages and groups, and Instagram content, hashtags, and accounts. In May 2021, Facebook published its semiannual Transparency Report,²⁰ which for the first time included data relating to the amount of content it removes proactively as potentially infringing IP rights. Notably, the data show that from July to December 2020, the vast majority of content Facebook took action on for counterfeit-related violations was removed proactively.

III. BRAND OWNERS AND ONLINE SERVICES MUST WORK TOGETHER TO APPROPRIATELY ENFORCE ANOTHER COMPANY’S TRADEMARKS

Anyone who has enforced IP rights can tell you that identifying counterfeit goods can be difficult - if not impossible - unless you have a high level of expertise and familiarity with the brand and products that are being counterfeited. Trademark owners often hire employees and consultants who are solely focused on expertly identifying the subtle differences between genuine products and counterfeits in support of their enforcement efforts. These individuals work with a host of federal, state, and local agencies, including the U.S. Department of Justice (“DOJ”), U.S. Customs and Border Protection (“CBP”), and state and local police departments, as well as district attorneys’ offices that have staff

¹⁴ Counterfeit Report Form, Facebook, <https://www.facebook.com/help/contact/counterfeitform> (last visited Dec. 22, 2020); Counterfeit Report Form, Instagram, <https://help.instagram.com/contact/instagramcounterfeitform> (last visited Dec. 22, 2020).

¹⁵ https://www.facebook.com/business/help/828925381043253?locale=en_US

¹⁶ Terms of Service, Facebook, <https://www.facebook.com/terms.php> (last visited Dec. 22, 2020); Terms of Use, Instagram, <https://help.instagram.com/581066165581870> (last visited Dec. 22, 2020).

¹⁷ Advertising Policies, Facebook, <https://www.facebook.com/policies/ads> (last visited Dec. 22, 2020);

¹⁸ Commerce Policies, Facebook, <https://www.facebook.com/policies/commerce> (last visited Dec. 22, 2020).

¹⁹ How Facebook helps protect against counterfeits, Facebook for Business, <https://www.facebook.com/business/tools/anti-counterfeiting/guide> (last visited Dec. 22, 2020).

²⁰ Intellectual Property Transparency Report, <https://transparency.facebook.com/intellectual-property> (last visited May 25, 2021).



dedicated to enforcing criminal anti-counterfeiting laws.²¹

Regardless of whether enforcement activities are occurring online or offline, U.S. trademark law puts the onus of identifying counterfeit goods on those who have the requisite expertise to accurately perform that task: brand owners and their agents. Brand owners are in the best position to know when a product being sold online is counterfeit; online services cannot have expertise in every trademark. For example, online services don't know whether a particular seller is authorized by the brand owner or not, nor whether a listing for a product depicts a counterfeit product. Indeed, identifying counterfeits based on the quality, design and specifications of a product is often, if not exclusively, within the expertise of the brand itself. Further, since many online services never possess the counterfeit goods, they cannot examine the goods for obvious signs of counterfeiting, even if such signs were known to them. Nor would they know what to look for concerning any particular problem. And as hard as detecting counterfeiting is for large companies, that problem is even worse for small- and medium-sized companies, who cannot afford to build systems to police all possible counterfeiting on their sites.

However, it would be a mistake to conclude that online services can get off scot-free anytime a counterfeit product is sold via their services. On the contrary, even though identifying counterfeit goods can be incredibly difficult for anyone other than a trademark owner—especially online services which might never come into physical contact with the products—the law today does not exempt an online service from liability where a service knows that a particular listing is infringing, or where a service is willfully blind to infringing listings. IA's members have invested heavily in developing collaborative and productive relationships with brands across industries and around the world, and worked cooperatively with brand owners to take down infringing listings and make the online environment as safe as possible for consumers.

Accordingly, existing trademark law protections, coupled with the natural incentive to maintain a trustworthy environment for consumers and business partnerships, encourage online service providers to work proactively to support enforcement by brand owners and remove listings for counterfeit products whenever they are identified.

IV. REMOVING PROTECTIONS FOR ONLINE SERVICE PROVIDERS IS NOT THE SOLUTION TO THE COUNTERFEITING PROBLEM.

Changing the secondary liability standards, as SHOP Safe does, will not address the true cause of counterfeiting—the actual infringer. A company that delivers the products consumers order from third parties may have no way to know whether the third-party seller of those products, in turn, bought them from a legitimate supplier. Cloud storage companies have no way to tell whether documents stored on their sites violate a third party's trademark rights. But all could be subject to incredibly onerous obligations if this overbroad legislation becomes law.

Instituting a strict legislative regime could backfire. Currently, online services are working cooperatively with rights holders and the government to stop counterfeiting; but in the face of a legislative mandate, companies may hesitate to do anything other than what the law requires to avoid the risk of future liability. For example, companies may not explore alternative counterfeiting solutions, even if those solutions would ultimately be *more* effective at getting counterfeits off of the internet than the legislative framework. That would help nobody—not the brand owner, not the online service, and not the consumer. People who commit intellectual property crimes are adept at adjusting their sales and distribution methods to evade detection as intellectual property enforcement techniques improve. Because enforcement can be such a cat-and-mouse endeavor, flexibility and good faith collaboration, not legislative mandates, are most likely paths to effective solutions.

There is no one-size-fits-all solution for all of these companies. Trying to create one would effectively penalize companies for counterfeiting activity that they cannot reasonably detect or control. For example, a search engine

²¹ See, e.g., U.S. Dep't of Justice Office of Public Affairs, *22 Charged With Smuggling Millions of Dollars of Counterfeit Luxury Goods From China Into the United States*, Justice News (Aug. 16, 2018), <https://www.justice.gov/opa/pr/22-charged-smuggling-millions-dollars-counterfeit-luxury-goods-china-united-states>.



merely indexes web pages a webmaster has designated as searchable in the search index. It indexes trillions of web pages and has no direct contact with the seller of the counterfeit item. It would make no sense to hold the search engine liable if, after running a search, a user purchases a counterfeit item from the site of an unrelated third party.

Payment processors are another example. Payment processors offer services that individuals may use to facilitate the purchase of counterfeit goods, but they are neither the seller nor the buyer of the goods at issue, and they generally have no visibility into whether the underlying payment is for a product or a service, much less whether a product is genuine or counterfeit. Yet payment processors who have done nothing more than unknowingly process payments to infringers have *already* faced lawsuits²²—and at least one judge would have allowed a case to go forward merely because he concluded that the allegedly infringing website could not “operate without the use of credit cards.”²³

Changing the secondary liability standards also does not address the true cause of counterfeiting—the actual infringer. Although several U.S. agencies have the authority to investigate criminal counterfeiting (as noted above), only 229 counterfeiters were referred to the U.S. Sentencing Commission in the 2019 fiscal year.²⁴ Indeed, the U.S. Sentencing Commission reported that counterfeit offenses *decreased* by 37.4 percent between the Fiscal Year 2015 and Fiscal Year 2019.²⁵ But law enforcement agencies—not online services—have the expertise and mandate to investigate criminal counterfeiting. Accordingly, IA respectfully suggests that it might be more impactful to focus legislative efforts on increasing resources allocated to agencies that are charged with investigating and enforcing existing laws against the counterfeiters themselves (an effort that IA’s members are already helping with) than to change the standards for secondary liability.

Another key issue not addressed is that while most brand owners act in good faith, some abuse the system. For example, brand owners have brought trademark infringement lawsuits to stop the sale of parody products,²⁶ or labeled as counterfeiting the resale of their genuine branded products to control distribution channels in contravention of perfectly legal and valid commercial activity as to authentic goods.²⁷

In addition, so-called “trademark bullying” is a well-recognized problem. Trademark bullies are brand owners (often large companies) who use the threat of trademark infringement lawsuits to pressure smaller companies or individuals to stop engaging in lawful activity that the brand owner does not like.²⁸ Trademark bullying reduces competition and harms free speech, imposing real costs on both companies and consumers.²⁹ Because smaller companies and individuals lack the resources to fight a large brand owner, they are often forced to comply with the brand owner’s demands, no matter how frivolous.³⁰ Changing the secondary trademark liability standards could make bullying

²² See, e.g., *Gucci Am. v. Frontline Processing Corp.*, 721 F. Supp. 2d 228 (S.D.N.Y. 2010) (lawsuit brought by Gucci against companies who provide online credit card processing services); see also *Nike, Inc. v. Wu*, No. 13 Civ. 8012 (CM), 2020 WL 257475 (S.D.N.Y. Jan. 17, 2020) (motion brought by Nike to hold banks in contempt based on their failure to comply with asset restraints imposed by the court on defendant counterfeiters and those acting “in concert or participation” with the counterfeiters).

²³ See *Perfect 10, Inc. v. Visa Int’l Serv. Ass’n*, 494 F.3d 788, 806–808 (9th Cir. 2007); *id.* at 822–823 (Kozinski, J., dissenting).

²⁴ See *Quick Facts: Counterfeit Offenses*, U.S. Sentencing Commission, https://www.uscc.gov/sites/default/files/pdf/research-and-publications/quick-facts/Counterfeiting_FY19.pdf (last visited Dec. 22, 2020).

²⁵ *Id.*

²⁶ See, e.g., *VIP Prod. LLC v. Jack Daniel’s Properties, Inc.*, 953 F.3d 1170 (9th Cir. 2020) (declaratory judgment case brought by the maker of “Bad Spaniels” dog toy following a cease and desist letter sent by Jack Daniels); *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252 (4th Cir. 2007) (lawsuit brought by Louis Vuitton against the maker of the “Chewy Vuiton” dog chew).

²⁷ *Williams-Sonoma, Inc. v. Amazon.com, Inc.*, Case No. 3:18-cv-07548-EDL, Dkt. No. 39 at 9 (N.D. Cal. May 2, 2019) (denying Amazon’s motion to dismiss in a case brought by Williams-Sonoma but observing that Williams-Sonoma’s theory that Amazon had set up a counterfeit Williams-Sonoma website was not plausible).

²⁸ See, e.g., Irina D. Manta, *Bearing Down on Trademark Bullies*, 22 *Fordham Intellectual Prop. Media & Entm’t L. Journal* 853 (2012); Leah Chan Grinvald, *Shaming Trademark Bullies*, 2011 *Wis. L. Rev.* 625 (2011).

²⁹ Leah Chan Grinvald, *Shaming Trademark Bullies*, 2011 *Wis. L. Rev.* 625, 650–653 (2011).

³⁰ See *id.* at 645–649.



behaviors worse.

Combating counterfeiting is incredibly important. But so is ensuring the continued availability of online commerce to many individuals and small businesses that depend on it as a core source of their income. The goal of the law must be to balance those concerns.

V. UNINTENDED ISSUES WITH THE SHOP SAFE ACT

The SHOP Safe Act establishes that an electronic commerce platform shall be liable for contributory trademark infringement by a third-party seller of goods that “implicate health and safety” unless the platform takes certain actions. In addition to the fact that almost any product could “implicate health and safety” as that phrase is defined in the bill text, several other provisions included in the language would impose unworkable compliance obligations. While IA strongly encourages the committee to confer with individual e-commerce platforms to discuss their specific concerns with the legislation, we have included a non-comprehensive list of examples of unintentional problems the SHOP Safe Act would create.

The bill would require platforms to verify the identity of each third-party seller, presumably using government identification that the platforms are not in a position to physically inspect or properly verify. They would also be required to investigate and periodically confirm the physical address of each seller or their US-based registered agent to determine that the address exists and, presumably, its nexus to the seller.

The SHOP Safe Act would create significant and unreasonable impediments for small and “micro” businesses that rely on platforms to sell and resell products to other businesses and consumers. The bill would make it difficult for such businesses to use trademarks to describe the products they are offering, by requiring platforms to use reasonable technological tools to scan nearly every third-party listing or advertisement that includes a trademark, and to rely on such automated processes to make determinations that brand-trained experts are expected to make in every other legal context, including in alleging copyright infringement under the DMCA. Technology is not perfect, and by threatening platforms with legal liability if they fail to take action to remove potential “false positives,” the bill would incentivize overenforcement at a potentially massive scale. The bill would also require companies to impose punitive consequences on sellers who have used trademarks that are presumed to be counterfeit—including permanently banning them from the platform, but the draft language is remarkably devoid of any semblance of due process to allow sellers to confront brand owners and assert that their use of a trademark was valid.

There are several additional problems with the legislation that should be reviewed. The bill includes a provision that would appear to require platforms to prevent any sellers who have been terminated—regardless of whether the termination is related to the use of counterfeit trademarks—from rejoining or remaining on the platform. The legislation indicates that platforms must determine that sellers have designated a registered agent in the U.S. or risk facing liability. This could be quite burdensome, requiring periodic searches of various secretary of state registries. Another new provision states that “reasonable awareness [of counterfeits/IP infringements]. . . may be inferred based on information regarding the use of a counterfeit mark on the platform generally, general information about the third-party seller, identifying characteristics of a particular listing, or other circumstances as appropriate.”³¹ This clarification is highly problematic in that it essentially defines constructive knowledge in terms of general knowledge, which is the opposite of how the law had previously handled it.

Finally, the legislation would introduce unnecessary confusion into the Lanham Act by establishing requirements that are, in some cases, unhelpfully specific, and in other cases concerningly broad and vague. The legislation targets only one sector even though its goal is to address an economy-wide problem that requires all stakeholders to work together in good faith to stop bad actors. The bill also “requires each third-party seller to use images that the seller owns or has permission to use.” IA members already prohibit sellers from using images that they do not have rights to use, but the unlawful use of copyrighted images is already covered by the DMCA, and adding copyright protections into a trademark

³¹ SHOP Safe. See (a)(4)(A)(ix). https://judiciary.house.gov/unloadedfiles/shop_safe_act_bill_text.pdf (last visited May 26, 2021).



law could create confusion between the two statutes with no added benefit. The bill also fails to precisely define the term "electronic commerce platform." The definition of that term is so vague that it would include websites well beyond online marketplaces including social media platforms, discussion communities, cloud services, video chat services, and even email service providers. If the scope of the bill is intended to be that broad, it would be difficult for many of the impacted companies to comply with several of the enumerated obligations.

VI. CONCLUSION

IA appreciates the opportunity to provide comments on behalf of its member companies and to highlight some of the proactive policies they have implemented. IA's member companies share the Subcommittee's goal of promoting consumer health and safety, which is why they have created a range of tools and programs to help brand owners police the misuse of their trademarks, and developed strong working relationships with law enforcement officers who investigate and prosecute intellectual property crime. IA strongly encourages the committee to work with individual e-commerce platforms to talk through concerns with the SHOP Safe Act. The internet industry looks forward to continuing to engage with the Subcommittee members on these matters in the future.

Mr. JOHNSON of Georgia. Thank you, Mr. Berroya.
Ms. Reed, the time is now yours. You may begin.

STATEMENT OF NATASHA N. REED

Ms. REED. Thank you, Chairman Johnson, Ranking Member Issa, and Members of the Subcommittee. I appreciate the opportunity to testify before you today concerning the challenges that brand owners currently face under the current legal framework when holding third party sellers liable for counterfeiting products on e-commerce marketplaces and how the best practices set forth in the SHOP SAFE Act will actually help to protect against these issues.

My name is Natasha Reed and I'm a partner at the law firm Foley Hoag. I have the privilege of representing both large and small businesses in a variety of fields in connection with trademark and copyright enforcement, brand protection, and anti-counterfeiting litigation.

These companies invest a substantial amount of time and resources into building consumer confidence in the safety and quality of their products associated with their brands, but they encounter counterfeit versions of their products, sometimes on a daily basis, on various e-commerce marketplaces.

Counterfeits thrive on e-commerce marketplaces in particular for a variety of reasons, including the relatively low barrier to establish an online storefront and the fact that these marketplaces give the sellers an air of legitimacy and because sellers can often operate anonymously under aliases, fake names, and even stolen identities.

Brand owners will often utilize the reporting mechanisms offered by the marketplaces as an initial enforcement action to stop the counterfeiters by filing takedown complaints. It's not uncommon for these sellers to be taken down by the marketplaces, only to pop up again under a different storefront name on the same marketplace or transfer to a different marketplace.

The counterfeiters will also often operate multiple storefront accounts at the same time on the same marketplace using aliases, different mailing addresses and different financial accounts so that one of its storefronts, when it's taken down for counterfeiting, it will already have another backup storefront ready to continue its counterfeit sales.

This leads to a never ending game of whack-a-mole for brand owners who are forced to file takedown requests day after day, often against some of the same sellers. Some brand owners will decide to bring a court action against these counterfeit sellers, but these cases often present procedural issues.

First, without an accurate name and address, brand owners are often forced to file John Doe actions against these sellers, and they will need to seek early and expedited discovery by issuing subpoenas to force the online marketplaces to produce information about the sellers' identities and their financial accounts.

As noted earlier, counterfeiters often provide these marketplaces with false names and false contact information. So this leaves the brand owners with the burden of trying to verify their identities,

and it makes it very difficult to freeze these counterfeiters' assets when the names don't match the financial accounts.

The use of false addresses also makes it virtually impossible to—particularly for online counterfeiters to serve these defendants with process unless the court allows the brand owners to serve by email or by some alternative means.

Establishing personal jurisdiction against the third party marketplace sellers can also present challenges. Courts often question whether these defendants use the online marketplaces to reach the forum in a meaningful way or purposeful way, since it is the online marketplaces and not the sellers themselves that actually control the interactivity of the websites.

Even if favorable judgments are obtained in a lawsuit, including a permanent injunction and monetary damages, counterfeiters, especially those overseas, often ignore them, popping up on marketplaces again under different names and moving any assets that they may have had in the U.S. overseas, and this presents challenges because it's very difficult to enforce these judgments overseas, especially if the seller's identity has not been verified.

I believe many of the best practices in the SHOP SAFE Act will help to address these challenges. However, the current scope of the Act is limited only to goods that would implicate health and safety.

While, arguably, most counterfeit goods would implicate health and safety if they're not manufactured based on the brand owners' quality controls and policies, I believe determining whether certain products qualify may be difficult for marketplaces, and there will be gray areas that could expose the marketplaces to liability if they make the wrong determination.

Also, having two separate best practice standards in place for the marketplaces for certain goods but not others will cause confusion, and so for that reason, I would recommend broadening the scope of the products covered under the SHOP SAFE Act to include all goods.

Thank you.

[The statement of Ms. Reed follows:]

Testimony of
Natasha N. Reed
Partner and Co-Chair, Trademark, Copyright & Unfair Competition Practice Group
Foley Hoag LLP
Before the
U.S. Senate Judiciary Committee
Subcommittee on Courts, Intellectual Property, and the Internet
hearing on
“The SHOP SAFE Act: Stemming the Rising Tide of Unsafe Counterfeit Products Online”

May 27, 2021

Chairman Johnson, Ranking Member Issa, and distinguished members of the Subcommittee, I appreciate the opportunity to testify before you today concerning the challenges that brand owners currently face when seeking to hold third-party sellers liable under the current legal framework for the sale of counterfeit products on e-commerce marketplaces, how this ultimately disadvantages and harms both consumers and brand owners, and how the best practices set forth in the SHOP SAFE Act would help to address these challenges.

My name is Natasha Reed and I am a partner with the law firm Foley Hoag LLP. I am based in the firm's New York office. I have been practicing intellectual property law for over 15 years, with an emphasis on trademarks and copyrights. My practice focuses on trademark and copyright enforcement, brand protection, and anti-counterfeiting litigation. I have the privilege of representing both large and small businesses in a variety of fields, including apparel and footwear, luxury goods, personal care and cosmetics, and publishing, to name a few. These companies invest substantial time and resources into building consumer confidence in the safety and quality of the products associated with their brands. Many of these businesses encounter counterfeit versions of their products, sometimes on a daily basis, being offered for sale by third-parties on various e-commerce marketplaces. My testimony today represents my professional experience in connection with assisting businesses combatting counterfeit sales on e-commerce marketplaces.

I. The Growth of E-Commerce Marketplace Sales

It is predicted that global e-commerce sales will hit close to \$4.2 trillion this year, with U.S. consumers accounting for approximately one-quarter of that spending.¹ Half of these online

¹ *Adobe Digital Economy Index*, Adobe Analytics - Q1 2021, available at <https://business.adobe.com/resources/digital-economy-index.html>.

purchases will likely be made through online marketplaces like Amazon.com, eBay.com and others.² The COVID-19 pandemic has accelerated the online shopping trend. Just this past March, U.S. e-commerce spend was estimated at approximately \$78 billion.³

As online purchases have grown substantially over the last year, so to have sales of counterfeit products. Counterfeiters thrive online, and in particular, on online marketplace platforms. This is for a variety of reasons. For one, virtually anyone can set up a storefront on an online marketplace. Unlike brick and mortar stores, there is a relatively low barrier to establishing an online storefront, with low startup costs and opportunities to sell products nationwide or even worldwide. Online marketplaces tend to give sellers an air of legitimacy, even if they are bad actors selling counterfeit goods. Sellers can also often operate anonymously on e-commerce platforms. For the most part, they do not need to have a corporate presence in the United States or a registered business to offer products to U.S. consumers through these marketplaces. Further, in my experience, it is not uncommon to encounter sellers using false names and contact information, and even stolen identities, when operating their third-party storefronts. Being anonymous means there is an increased opportunity to compete unfairly, including by selling counterfeit goods, especially if a seller may be located outside of the United States, with no assets in the U.S. to attach in a litigation proceeding. Many overseas counterfeit sellers on e-commerce marketplaces operate as if they are untouchable.

The proliferation of online counterfeiting has forced both brand owners and online marketplaces to double their efforts to combat the sales of counterfeit products. I commend e-

² Michael O'Grady, *Half Of Online Retail Spending Came From Marketplaces In 2016* (Sept. 28, 2017), available at <https://go.forrester.com/blogs/half-of-online-retail-spending-came-from-marketplaces-in-2016>.

³ See *infra* note 1.

commerce marketplaces that have voluntarily taken steps over the last few years to try to minimize the number of counterfeits on their platforms. Unfortunately, however, counterfeit sales continue, and locating counterfeiters to hold them liable in a meaningful sense is an arduous and expensive task for brand owners.

II. Combatting Counterfeiting On Online Marketplaces - A Game of Whack-a-Mole

Some online marketplaces do not require storefront owners to display their business names, personal names, or physical addresses publicly, making it often difficult for brand owners to investigate or contact these sellers through demand letters. Because of this, many brand owners are usually left with two options: (1) file infringement notices with the online marketplaces, or (2) commence litigation in court. Given the expense of litigation, many brand owners will often utilize the reporting mechanisms offered by e-commerce marketplaces as an initial course of action, by filing takedown complaints after confirming the counterfeit nature of the products offered by the marketplace's third-party sellers. However, it is not uncommon for the sellers to be taken down by the e-commerce marketplaces, only to pop up again later under a different storefront name on the same marketplace, or to resurface on a different marketplace. These bad actors will also often operate multiple storefront accounts at one time on the same marketplace, using a different alias, mailing address, and different financial accounts, so that if one of its storefronts is taken down for counterfeiting, it will already have another backup storefront ready to continue its counterfeit sales. This leads to a never ending game of whack-a-mole for brand owners, who are forced to file take down requests day-after-day, often against some of the same sellers.

III. Litigation Challenges For Brand Owners

In some cases, brand owners will find that they have no other choice but to commence legal action in court to try to hold these third-party marketplace sellers liable for trademark counterfeiting. However, bringing judicial proceedings in federal court for trademark counterfeiting against third-party marketplace sellers, particularly those located outside of the United States, presents challenges.

A. Anonymity and False Information

First, without a name and address, brand owners are often forced to file John Doe actions against these third-party marketplace sellers. While John Doe lawsuits can proceed, they are often more expensive, and sometimes cost prohibitive, particularly for smaller businesses. To be effective, these lawsuits will often require seeking *ex parte* relief from a federal district court, moving for a temporary restraining order, preliminary injunction, and an asset freeze order, in addition to early and expedited discovery by way of subpoenas to force the online marketplaces to produce information concerning the identities of their sellers and their financial accounts. However, as noted earlier, it is not uncommon to discover that the counterfeit sellers provided false names and contact information to the marketplaces, leaving brand owners with the burden of trying to verify the identities of these sellers, and making it difficult to freeze the counterfeit sellers' assets when the names do not match the names associated with the financial accounts at banks or with online payment service providers. This process can be time consuming and arduous, particularly when sellers are located overseas in countries like China, India, and other countries. The use of false names and addresses also makes service of process difficult, particularly if the court does not allow the brand owner to serve the defendants by email, or via other alternative means.

B. Establishing Personal Jurisdiction

Before a court may enjoin even the most flagrant counterfeiters, it must have personal jurisdiction over them, and plaintiffs have the burden of pleading and establishing personal jurisdiction. In cases where counterfeiters sell on their own websites, establishing personal jurisdiction is relatively straightforward. Courts will apply a “sliding scale” test to determine whether the operation of the website was accessible in the forum state to constitute purposeful availment, and thus the transaction of business in that state. The more “interactive” the website, such that it solicits information from potential buyers in the state, the more likely a court will find that the counterfeiter transacted business through its website in the state and is thus subject to the court’s jurisdiction.⁴

However, when counterfeit sellers operate on online marketplaces, courts often question whether these defendants used the online marketplace to reach into the forum in some meaningful and purposeful way, since it is the online marketplace owner and not the sellers, who actually control the interactivity of the website and its marketing efforts.⁵ While a brand owners’ prior test purchase of counterfeit products shipped by the seller to the forum can establish personal jurisdiction⁶, sometimes, brand owners sue numerous defendants at one time without making test purchases from each and every defendant prior to bringing the lawsuit. This is because brand owners might rely on other evidence to support its trademark counterfeiting claims, like complaints from its customers who received the counterfeit products from the third-

⁴ *Chloe v. Queen Bee of Beverly Hills, LLC*, 616 F.3d 158,170 (2d. Cir. 2010).

⁵ *EnviroCare Techs., LLC v. Simanovsky*, Civ. No. 11-CV-3458(JS)(ETB), 2012 U.S. Dist. LEXIS 7808, at *12 (E.D.N.Y. Jun. 4, 2012).

⁶ *Spin Master, Ltd. v. 158*, 463 F. Supp. 3d 348, 363 (2d. Cir. 2020); *Chloe*, 616 F.3d at 166.

party marketplace sellers, but where those products may not have been shipped to the forum state, or customer reviews on the sellers' storefront profile page, where customers indicate that the seller is offering fake versions of the brand owner's products. However, in the absence of a massive, and often expensive, pre-lawsuit investigation involving mass test purchases, or factual allegations of a counterfeiting conspiracy ring among related defendants, brand owners suing numerous counterfeit sellers can face difficulties establishing personal jurisdiction against all of them.⁷ With sometimes hundreds of John Doe defendants named in a single lawsuit, the process of test purchasing is expensive, which often leaves smaller businesses unable to effectively sue third-party marketplace counterfeiters. Even for brand owners willing to take on this expense, counterfeiters will often cancel orders that they may suspect are test purchases, making it difficult to collect the necessary evidence prior to bringing the lawsuit, and ultimately, making it difficult to establish personal jurisdiction.

C. Enforcing Judgments Against Overseas Counterfeiters

Counterfeiters, particularly those located overseas, will often ignore enforcement actions, leaving brand owners with little recourse against them, even if favorable default judgments are obtained. By their absence in the lawsuit, they make it extremely difficult for brand owners to obtain information about them and the source of the counterfeit goods. While a judgment will likely require the e-commerce marketplaces to permanently remove the particular storefront owners from their platforms, these storefront owners often resurface under different aliases, even after a permanent injunction is issued. Further, even when courts award brand owners millions of dollars in statutory damages for violations of the Lanham Act, brand owners are often unlikely

⁷ *Spin Master*, 463 F. Supp. 3d at 364-366.

to collect the full amount of those damages from the bad actors, particularly if the counterfeit sellers were able to move any assets they may have had in the United States, to financial accounts overseas. Enforcing these judgments overseas where the counterfeiters and their assets are usually located, presents separate challenges, and in cases where the online marketplace or brand owner could not verify the sellers' identity, it is virtually impossible to enforce those judgments.

IV. The SHOP SAFE Act of 2021

A. Best Practices for E-Commerce Marketplaces

There are specific "best practices" provisions set forth in the SHOP SAFE Act that will help to address the challenges discussed above. First, ensuring that online marketplaces verify, publish and maintain accurate names, addresses, and other contact information for their sellers would benefit all involved, namely consumers, brand owners, and the online marketplaces. Brand owners could, if they decided it was more appropriate, contact the sellers before or in lieu of filing take down complaints or commencing litigation, so that the parties could attempt to resolve their dispute amicably, potentially giving brand owners an opportunity to obtain information concerning where the storefront owner obtained the counterfeit products. This is particularly true in cases where the sellers are not the source of the counterfeit goods, and may not have even known they were selling counterfeit products. Having verified, accurate seller names and addresses also means that brand owners may be able to more effectively enforce judgments, both domestically and overseas, against sellers who deal in counterfeit goods. Further, it allows consumers to have some confidence that they can easily contact a seller if there is a problem with a particular product they purchased from a seller's storefront. Finally, the platforms can have confidence that they can reach their sellers, and if necessary, hold them liable

for violating the platform's terms and conditions and seller policies, including violations relating to counterfeit sales.

Requiring third-party marketplace sellers to also consent to personal jurisdiction and have a verified U.S. address for service of process in the U.S., or to appoint an agent in the U.S. for service of process, removes the barriers that brand owners face commencing legal action, serving marketplace sellers with process, and establishing personal jurisdiction over them.

Many of the other best-practices set forth in the SHOP SAFE Act serve as a very good start in reducing the whack-a-mole effect that brand owners face when combating third-party marketplace sellers dealing in counterfeits, including requiring online marketplaces to terminate sellers that repeatedly list or sell counterfeit goods on their platform, screening sellers to prevent terminated sellers from popping up under the same or different aliases and storefronts, and providing brand owners, upon their request, with the counterfeit seller's verified name and contact information.

B. Goods That Would Implicate "Health and Safety"

The current scope of the SHOP SAFE Act covers goods that would implicate health and safety, which is defined as "goods the use of which can lead to illness, disease, injury, serious adverse event, allergic reaction, or death if produced without compliance with all applicable Federal, State, and local health and safety regulations and industry-designated testing, safety, quality, certification, manufacturing, packaging, and labeling standards." Arguably, most counterfeit goods could implicate health and safety if they are not manufactured based on the brand owners' quality controls and policies. However, determining whether a product falls within this meaning may be difficult for e-commerce marketplaces, and there will be gray areas, which could expose the marketplaces to liability if they fail to make the proper determination.

Also, having two separate best practices standards in place for the marketplaces for certain goods but not others will cause confusion. For that reason, I would recommend broadening the scope of products covered under the SHOP SAFE Act to include all goods.

V. Final Points

Counterfeiting harms consumers, erodes competitiveness, and disincentivizes innovation. The SHOP SAFE Act, which establishes best practices for vetting and verifying third-party marketplace sellers, their listings, removing repeat offenders, and other best practices for online marketplaces, is a step in the right direction to better protect the health and safety of consumers and to protect intellectual property owners. I am grateful for the time, resources, and leadership that this subcommittee has devoted to these issues, and for your continued attention to the challenges facing consumers and brand owners from the sale of counterfeit goods on e-commerce platforms.

Mr. JOHNSON of Georgia. Thank you, Ms. Reed, and we will now proceed under the five-minute Rule with questions. I will begin by recognizing myself for five minutes.

Ms. Simpson, your written testimony includes some staggering figures about the money and resources that your member companies expend to combat counterfeits.

You mentioned, for example, that a single personal care products company can spend up to \$15 million a year on combating counterfeits. You also noted that one of your member companies has 10 outside firms managing its notice and takedown processes.

Now, that's remarkable. Your testimony also references the critical role that small businesses play in the personal care products industry.

Can you give us any additional details about how these smaller businesses manage the online counterfeiting problem and what particular hurdles they face?

Ms. SIMPSON. Absolutely. I think counterfeit personal care products are fraud. They damage businesses, they're a drain on the economy and, most importantly, threaten consumers' health and safety.

According to a report from the OECD, the cosmetics industry loses more money to counterfeiters than any other industry, \$5.4 billion annually. Small businesses make up two-thirds of the personal care products sector.

Small personal care companies often don't have the resources to employ brand protection efforts. The best practices outlined in this legislation would help prevent counterfeits from ever being offered for sale, and set in place a process for removal of counterfeit listings and infringing sellers, therefore, protecting small companies' brands and their consumers from potentially harmful counterfeits.

Mr. JOHNSON of Georgia. Thank you. In what ways do you see the best practices that are outlined in the SHOP SAFE Act easing the burden for your Members and other brand owners?

Ms. SIMPSON. We think paramount is the verification of these third party sellers. Also, the screening efforts in place. These proactive measures would go a long way.

Also, if there are counterfeits listing having clear processes in place for take downs for repeat—to address repeat infringers and terminations of those accounts, we think would go a long way in preventing counterfeits from ever getting into the hands of consumers.

Mr. JOHNSON of Georgia. Thank you.

Ms. Reed, you have extensive experience on the front lines of brand enforcement and in litigating counterfeiting and trademark infringement cases. You've testified about the challenges your clients have experienced in trying to identify and pursue claims directly against third parties.

Do you, and if so, how do you see the best practices in the SHOP SAFE Act helping to address those challenges?

Ms. REED. In a variety of ways. First of all, I think the verification requirement will go a long way. One of the issues that I addressed in my full testimony is that brand owners often have the burden of verifying these sellers after they have filed lawsuits—John Doe lawsuits—and then subpoenaed the online mar-

marketplaces for the actual names and addresses of these sellers, only to learn that some of these names are completely false and addresses are completely false, which leads to a very lengthy process of trying to actually locate these sellers.

Oftentimes, we never do, and they get away with counterfeiting, and they know this. They operate almost as if they're untouchable and this is why the counterfeits are able to proliferate.

In addition to verification, also requiring that the sellers have an agent for service of process in the United States or have a U.S. location or address will also go a long way.

Again, as I mentioned, it's very difficult sometimes to serve these individuals with process. Obviously, if we don't have a real address we cannot serve them. So that will absolutely go a long, long way as well.

Other provisions in the SHOP SAFE Act that will be helpful in litigating these cases include—or not just even litigating, just for protection on a daily basis include the proactive measures that brand owner of that marketplace will need to take to ensure that these counterfeits don't ever make their way on the marketplaces.

The whack-a-mole game is also very expensive. Many small businesses cannot afford to have brand protection agents or multiple agents monitoring the websites and then filing numerous take downs day after day against some of the same sellers.

So, I think that will also go a long way as well.

Mr. JOHNSON of Georgia. All right, thank you. I'll yield the remainder of my time.

We'll next call upon the gentleman from California, the Ranking Member of the subcommittee, Mr. Issa, for five minutes.

Mr. ISSA. Thank you, Mr. Chairman.

I'm going to pick up where Chairman left off. Ms. Reed, I'm going to take advantage of your legal practice and go through a couple of quick questions.

Earlier, I was showing real and fake medicines. Let me just go through a real example that most people haven't seen.

So, this is a skateboard, and that is a registered trademark and actually a facsimile of a piece of artwork. This was sold at JC Penney some years ago. Filed a suit against JC Penney because, of course, it was trademark infringement and copyright.

They had a choice of paying countless hundreds of thousands of dollars or quickly settling. They settled. If today we were to have this same product—let's say one is being sold at Walmart and the other is being sold at *walmart.com*, would it be fair to say that you could sue Walmart, but you couldn't sue *walmart.com* because they would say it's somebody else's product—we're simply passing it through?

Ms. REED. It is fair to say that. If you're buying the product or if the brand owner, obviously, has confirmed that it's counterfeit on a marketplace and the actual seller is not considered the marketplace but, instead, a third-party seller, it would be very difficult to hold that marketplace liable.

Mr. ISSA. So many of the marketplaces would say that they don't know the product. Isn't it true that some of the largest warehouses, larger than even Walmart's warehouses, are owned by Amazon?

That, in fact, countless hundreds of millions of products go in and out of their warehouses every day for fulfillment, including probably more than half of all the beauty and health care products actually are fulfilled through Amazon and, currently, you would not be able to sue them without this legislation?

Ms. REED. That is accurate. Yes. Many of these marketplaces, Amazon in particular, operate and maintain large warehouses where they store these products for third-party sellers and move these products and ship them directly to the consumers.

Mr. ISSA. Mr. Berroya, you sort of get the less than envious opportunity to sort of pick up from there. We have worked with all of your Members. Almost all of them have had their general counsels on the phone with us and today you, basically, said the standard was vague.

This reasonableness had ambiguity. Many of those changes that are in the current law, or the current bill are the result of that negotiation.

So, I'm going to follow back on. If you don't like this bill as it is and if Ms. Reed is correct that, in fact, a brick and mortar facility that passes through a product is sueable while, currently, many of your Members pass through, have in their warehouses, logistically assist in the product coming in and out, know its country of origin, but currently are allowed to take a blind eye to these counterfeits, even if notified, what would you have us do?

If you could be brief and just tell us what it is that caused us to negotiate, only to find ourselves with no support from the companies in a way in which we could do this without, essentially, you're saying, no, we can't do it?

Mr. BERROYA. Thank you for the question, Ranking Member Issa. I'll do my best to be brief but forgive me if I stretch it a little bit, because I want to be thorough as well.

Mr. ISSA. Well, but I will narrow the question. This question of, let's just say, Amazon—a product comes in and out of their warehouse and, currently, they get to treat it like they've never seen it when, in fact, they logistically manage it.

If we limited the legislation only to a possession passing through, would that cure it for you? Or would you still object, based on the fact that you don't take ownership, perhaps?

Mr. BERROYA. I would have to refer a specific question about how one of my member companies would handle a particular scenario to one of my member companies, and I would be happy to ask them for—

Mr. ISSA. Okay. Let's do that. I've got one last question, which is for Ms. Kammel. For both of the first witnesses. Currently, we are limited to health and safety and, currently, we don't have an anti-trust exemption for companies working together.

In your suggestions, would you say that those are two critical items, potentially lifting the health and safety, making it more uniform?

The second one and probably the bigger one, an anti-trust exemption allowing companies to, essentially, share information so that they could be more proactive in fighting these counterfeits?

Mr. JOHNSON of Georgia. The time has expired, so please be brief with your answers.

Ms. KAMMEL. Thank you for the question. I do believe it is essential to harmonize the type of goods to include any good under that.

I think without that it's going to make it more onerous, both for the brands and for the e-commerce platforms, but also create two goods under the Lanham Act and actually drive counterfeiting to different industries if there's more attention paid to one or the other.

I'm not one to speak on issues of anti-trust. Thank you.

Mr. ISSA. Thank you, Mr. Chairman.

Mr. JOHNSON of Georgia. Thank you. Next, we will turn to the gentleman from New York, Chairman of the full committee, Chairman Nadler, for five minutes.

Chairman NADLER. Thank you, Mr. Chairman.

Before I begin with my questions, I wanted to thank all the witnesses for their testimony today.

Mr. Berroya, I understand that, generally speaking, many marketplace platforms have taken the position that SHOP SAFE is unnecessary because, in their view, their voluntary measures are sufficient to combat the counterfeiting problem on their websites.

Some have gone even further and suggest that SHOP SAFE will undermine voluntary practices because platforms will be disincentivized to go beyond the practices set out in the bill.

I find both positions hard to square with reality, that we continue to see and hear reports of dangerous counterfeit products being sold by third party sellers on those sites.

In the current landscape, how can consumers and brand owners be assured that the platforms are applying their brand protection and counterfeiting policies uniformly?

Mr. BERROYA. Thank you for the question, Chairman Nadler.

Our member companies are using industry best practices to work with brand holders, collaborate with them, and rely on those brand holders' expertise in order to identify infringing products.

There are somewhere between 2 and 3 million trademarks actively in use in the United States alone, and one of the big challenges here is that the onus in this bill would shift from trademark owners who have expertise and can identify and differentiate between genuine and fake products to online platforms that have zero expertise in doing that type of work.

Nevertheless, our companies are committed to doing work. In some cases, our companies have created training programs for law enforcement. They've worked to create different programs to flag infringing products, and our goal as an industry is to remove these products that are dangerous to consumers before consumers are harmed.

We don't want to wait until after somebody is harmed and worry about liability. We want to work collaboratively with brands to remove these things before they are in the full stream of commerce or pull them out of the stream of commerce when they are identified as counterfeit.

Chairman NADLER. Can you explain how setting a level playing field that requires minimum best practices would discourage platforms from doing more, as they currently claim they are?

Mr. BERROYA. I'm sorry, Chairman. Would you mind repeating that question? I didn't quite understand that.

Chairman NADLER. Can you explain how setting a level playing field that requires minimum best practices would discourage platforms from doing more, as they currently claim they are?

Mr. BERROYA. Well, Chairman, the practices that are used differ from platform to platform. These platforms aren't sort of a single approach to providing services to sellers or buyers.

So they have to be a little bit different in how they handle things, and they're working with brand owners. This is an evolutionary process. You've got counterfeiters who are constantly—it's not just whack-a-mole.

This is cat and mouse, and I'm somebody who has spent nearly a decade enforcing IP online myself. It is incredibly challenging, and it requires collaboration and commitment on the part of all stakeholders, including law enforcement, to work with one another in trying to identify these bad actors who are in this space.

They are a small minority, and while they are a small minority they're, nevertheless, very important to identify and deal with before consumers are feeling the harm it has cost.

Chairman NADLER. Thank you. Thank you.

Ms. Kammel, I have a related question for you. Based on your research and experience, do you share the concern that enacting the SHOP SAFE Act could be a step backward in combating the counterfeit problem in online marketplaces, and why or why not?

Ms. KAMMEL. Thank you for the question.

No, I believe that it prevents—presents actually a uniform approach to what some platforms may already be doing in various capacities. As has been mentioned, it's voluntary. So, it's not always transparent and it is not required by the law.

So at any time, they could discontinue the practice if they wanted to. I do think the Act provides a baseline and guidance on some of these proactive as well as some reactive measures.

I also believe the language is open ended to allow for an iterative process on behalf of the platforms to continue with their ongoing efforts or technological advances in their work.

Thank you.

Chairman NADLER. Thank you.

Ms. Reed, you have testified about your significant experience in litigating counterfeiting cases. Can you talk about how your practice and your clients' experience with online counterfeits has changed over the course of your career?

In particular, have there been any notable more recent changes that you think might be relevant for our consideration of the issue of counterfeits sold by third party sellers on marketplace platforms?

Ms. REED. Thank you for the question.

So my practice has changed over the 15 years that I've been handling these types of cases, for obvious reasons, because counterfeits were offline previously and now they're online. Then they were on websites; now they're on marketplaces.

I would say the most challenging part of the change relates to personal jurisdiction. When counterfeiters are selling on their own websites, it's a lot easier to establish jurisdiction because they actually control the websites, whereas on online marketplaces, courts will sometimes find that there is no personal jurisdiction because

the sellers did not necessarily ship products to the forum, and it becomes very difficult to prove that they did without subpoenaing the marketplaces and it becomes a very expensive task to establish personal jurisdiction.

So, I think that's the biggest difference from moving from, you know, brick and mortar to websites and now to marketplaces.

Chairman NADLER. Thank you. My time has expired so I yield back.

Mr. CHABOT. Hello, can you hear me?

Chairman NADLER. I can hear you.

Mr. CHABOT. Okay. Now—okay. Sorry about that. I lost my—

Mr. JOHNSON of Georgia. I'm sorry. I was on mute. I do want to now extend this to you. The gentleman from Ohio for five minutes.

Mr. CHABOT. Thank you, Mr. Chairman. I thought you were just messing with me there.

So, one of our most important responsibilities as elected representatives is to enact legislation that protects our constituents. As the Ranking Member of the Foreign Affairs Subcommittee on Asia and the Pacific, I've studied the immense threat that the PRC, China, poses to our country.

Whether it's opioids, particularly fentanyl, coming in to our country and killing just an untold number of Americans efforts by the Chinese Communist Party to sabotage our democratic elections or steal our intellectual property or flood our online marketplaces with illegal and often dangerous counterfeit materials, as we're discussing here this afternoon, it seems that there's virtually nothing that they'll stop at that can harm our citizens and our businesses and our overall economy.

While unscrupulous sellers continue to appear and reappear on our online marketplaces with counterfeit products that mostly originate in China, sites like Alibaba, one of the largest online marketplaces operating in China, seems to be able to keep those same counterfeit products off those sites.

Now, American companies like Procter & Gamble, which happens to be headquartered in my district, as well as businesses all across the country, collectively, lose huge amounts of money, as we have already talked about today, each year due to the presence of counterfeited and pirated products.

This not only has a negative impact on our economy but also introduces products into our communities which can often be hazardous and sometimes deadly to American consumers.

Ms. Simpson, let me begin with you, if I can, and thank you and thank all of you for being with us today. I think your testimonies have been great, really.

Given that we know that 80 to 90 percent of counterfeit products originate in China, could you discuss what we know about how closely—how aware the government is? I mean, there's no doubt in my mind nothing happens substantially in China without the government knowing about it, if not being involved in it.

Could you could you discuss that element? What role do you believe the government plays in what we're discussing here on the counterfeit products?

Ms. SIMPSON. I'm not sure what role, are you talking about the Chinese government plays.

Mr. CHABOT. I am, yes.

Ms. SIMPSON. We know that according to the OECD report from 2019 the majority of fake goods picked up in Customs checks originate in mainland China and Hong Kong.

I would say, the SHOP SAFE Act addresses country of origin and platforms are required to display information on the seller, location of where the product is shipping from and manufactured to consumers, and additional the contact information.

So we are pleased to see the legislation address that point and think it would be helpful in preventing counterfeit products from getting into the hands of consumers.

Mr. CHABOT. Thank you. Would any of the other witnesses like to take a shot at that? Just how much do you believe the government there is aware of what's going on here?

[No response.]

Mr. CHABOT. I'll take by the silence that none of the witnesses necessarily either wants to comment or can't comment on that. So I'll move on.

Ms. Reed, let me ask you this. What are the main obstacles that American businesses face in trying to enforce their trademarks and block counterfeits from overseas, particularly from China?

Ms. REED. Thank you for the question. There are many obstacles. I mean, the main obstacle, I would say, is because these counterfeits proliferate on online marketplaces and they can potentially be purchased by thousands, if not millions, of U.S. consumers and global consumers, brand owners really have a difficult time in educating the consumers about counterfeits.

They have a difficult time in actually holding those third party sellers liable. If they're in China or other countries outside of the U.S., they often have assets that are not in the U.S. and it's difficult to actually hold them monetarily liable, and often that's really the only way to stop them is to take their money away. When you can't do that, it becomes extremely difficult to disincentivize them to just stop counterfeiting.

Mr. CHABOT. Thank you.

Mr. Chairman, my time is expired. I'll yield back.

Mr. JOHNSON of Georgia. Thank you, sir. I will next turn to the gentleman from California, Mr. Ted Lieu, for five minutes. You are recognized, Mr. Lieu.

Mr. LIEU. Thank you, Chairman Johnson and Ranking Member Issa, for holding this important hearing.

A question for Ms. Simpson. I'm curious, for personal care products and for your member companies, on average, how long does it take you to figure out that a product is being counterfeited?

Ms. SIMPSON. That's a great question. I think our member companies work very closely with the platforms to—and are constantly monitoring social media sites, monitoring the platforms and working to identify what could be potential counterfeits, and work directly with them on the notice and takedown process, which I mentioned earlier, which can vary from platform to platform.

So, as soon as they see potential infringing content, they will file that notice and takedown with the individual platform which the various requirements could vary from platform to platform.

Then it will go get turned over to a brand protection team there and then it determines whether or not they remove the infringing listing. So that's the general process.

Mr. LIEU. In your experience, when they do this notice and take-down on their online platforms, are they generally responsive? Are we talking about a day? Are we talking about five weeks? So what are we talking about here?

Ms. SIMPSON. That's a great question. Sometimes it's immediate, but I've heard from our member companies it could even take several months and even involve a back and forth with the sellers or with the platforms.

The number of notice and take downs really only increasing from—one of our member companies from 2019 to 2020 saw over a 211 percent increase in their notice and take downs, over 110,000 of those in the U.S. alone, and a third of those from social media sites.

Mr. LIEU. Great. Thank you.

Mr. Berroya, I have a question for you. So, can you tell us what is it that your online platforms do to verify a seller before they can start selling?

Mr. BERROYA. Thank you for the question, Congressman Lieu.

It really depends from platform to platform. All platforms do some level because otherwise you wouldn't be able to register as a seller.

Mr. LIEU. Tell me about the platform that does the least. What do they do?

Mr. BERROYA. I couldn't tell you what platform does the least.

Mr. LIEU. If you could provide that information to the committee, that would be great. I'd be interested in knowing what is the minimum needed for a seller to just start selling stuff to the American people on one of the internet platforms.

Mr. BERROYA. We'll do our best to pull that information together for you, Congressman Lieu. I guess on that point, though, if you would permit, I think one of the big challenges with this bill is the verification aspect of it.

We're talking about professional counterfeiters, and the idea somehow is that online platforms will have an ability to verify credentials that they never touch and handle to confirm the identities and physical locations of individuals who are selling goods virtually.

These are counterfeiters. They have ability to get access to counterfeit identification, and without being able to look at a hologram on an ID or even having expertise in the verification of an ID, it is difficult for me personally to understand how that process is going to result in the value proposition of this bill, which is an important one, which is protecting consumers before they are harmed by these problematic products.

Mr. LIEU. So let me sort of try—I'm just trying to understand the issue. I'd like to follow up on what Ranking Member Issa said.

Let's say Walmart sells a counterfeit item. My understanding is that Walmart can get sued. If *walmart.com* sells the exact same counterfeit item, they cannot get sued. Am I understanding that correctly?

Mr. BERROYA. That is my understanding as well.

Mr. LIEU. Okay. Do you see a problem with that?

Mr. BERROYA. That Walmart and *walmart.com* can be sued? I'm sorry, I didn't understand the question.

Mr. LIEU. Yeah, because isn't really the only difference that Walmart—maybe they have an additional store clerk that might place the item on the shelf and maybe someone in inventory that takes the item out of a box and gives it to that store clerk.

It's not clear to me why Walmart brick and mortar has any more knowledge of this counterfeit item than *walmart.com* would.

Mr. BERROYA. Right. I think as compared to the platforms that I represent, the difference could be that the platform itself never has physical possession of the product. They can't independently verify nor do they have specific knowledge about the characteristics of the underlying IP.

Again, there's 2 to 3 million trademarks in use in the United States alone. That's just U.S. trademarks. There is no way any single platform would be able to have the requisite knowledge.

In some cases, it comes down to the quality of thread used for stitching that is the difference between the types of products that Ranking Member Issa was demonstrating at the beginning of his opening statement that are legitimate versus the ones that are fake, and there is no specialized knowledge on the part of these platforms.

That specialized knowledge resides with the trademark holders, which is why it's so important that online platforms collaborate with them to understand how to identify these products and take them out of the stream of commerce before anyone is harmed.

Mr. LIEU. Thank you. My time is up and I yield back.

Mr. JOHNSON of Georgia. Thank you. If the gentleman from Texas, Mr. Gohmert, chooses to invoke his video, he will be recognized for five minutes.

The gentleman from Texas, my friend, Judge Gohmert.

Mr. GOHMERT. Okay. Thank you very much, and I appreciate everybody's input.

On a trip some years back that some Members of Congress made to China, our group met with a top Chinese government bureaucrat that assured us that the Chinese government took violations of patent, copyright, and trademark very seriously.

A couple of us met privately with another bureaucrat, who was very nice, and he said, yeah, they could probably do more. That's an understatement, of course.

They had over 500 arrests of violations of patent, copyright, and trademark and they had seized so much illegal material, and when asked, what did you do with all those illegal products, said, well, he believed that it's against Chinese law to just dispose of things that had value, so they were probably sold.

We're not getting a lot of help out of the Chinese government. They're taking us to the cleaners so many different ways.

To your knowledge, any—and this is to any of our witnesses—what is the Biden Administration doing to enforce our current patent, trademark, and copyright laws with China?

[No response.]

Mr. GOHMERT. Wow.

Mr. JOHNSON of Georgia. Was that directed at any particular witness, Judge Gohmert?

Mr. GOHMERT. No, just anybody that might have had an answer. If you know what's being done and, apparently, as we used to say picking juries, I take it from your silence you don't know of anything.

So, well, and one of the things that we have dealt with in the overall Judiciary Committee and in prior sessions, it's been an important bicameral and bipartisan issue trying to reform our criminal laws. We, supposedly, have over 5,000, and nobody really knows—they hadn't been put together. They're not all in 18 USC.

So, I get a little reluctant to pass laws we may not need if we enforced existing law. So, if you're aware of any websites that are truly successful in keeping counterfeit products off their websites, then is that something that we could use existing law to require more thoroughly?

Are there any solutions besides new legislation? Again, that's to anyone on the panel witnesses.

[No response.]

Mr. GOHMERT. Well—

Mr. BERROYA. Representative Gohmert, this is John Berroya. Let me take a stab at that one.

So, best practices in this space are constantly evolving, and I think one of the things that is helpful for the Subcommittee to understand is exactly that. My member companies are on—day after day, month after month, year after year trying to improve the types of solutions and tools that they make available to brand owners to remove access to infringing products.

I don't know that anybody's doing it perfectly and I can't remember which one of the Members who gave an opening statement, but acknowledged that it's impossible to aim for perfect, essentially, because that's a boiling the ocean kind of approach.

I think one of the things, to your point about concerns with the international source of counterfeiting, however, is the Department of Justice has a lot of very strong programs that are used to identify infringement, work with foreign governments, and then bring the manufacturers of infringing products to justice, including the intellectual property law enforcement coordinators, the computer crime and intellectual property section within the Department of Justice, and within U.S. Customs and Border Patrol you've got the national IPR Center.

I think any work that this Subcommittee or Congress generally could do to increase resources to those and other entities within the Federal Government that are tasked with identifying and prosecuting trademark crime and IP crime, generally, would be things that every member of this panel would support.

I don't mean to speak for others, but, certainly, our industry would 100 percent support that.

Mr. GOHMERT. I see my time is expired.

Mr. Chairman, thank you very much.

Mr. JOHNSON of Georgia. Thank you, Judge Gohmert.

It's now my pleasure to recognize the distinguished gentleman from New York and the Co-Chair of the Subcommittee on Courts,

Intellectual Property, and the Internet, Mr. Mondaire Jones for five minutes.

Mr. JONES. Thank you so much for your leadership, Mr. Chairman, and I'm grateful for the opportunity to participate in what is a bipartisan hearing on protecting the health and safety of our constituents from counterfeit products sold online.

I thank our witnesses for their testimony today, and I especially thank Chairman Nadler and Chairman Johnson, of course, for reintroducing the SHOP SAFE Act this Congress.

As the COVID-19 pandemic has illustrated, millions of us turn to online retailers for products that affect our health and safety, from masks to medications. When we shop online for these necessities, the stakes are as high as it gets.

The difference between real and counterfeit medicine, for example, can be the difference between life and death. Everyone should be able to shop online for what they need to stay healthy in confidence that they are getting what they have paid for.

So, I'm glad to see this bill make that our top priority. I have a question for all of the witnesses. In your written testimony, each of you has suggested that the bill's definition of goods that implicate health and safety may be too vague.

If the Committee wants to focus on health and safety, how would you suggest defining that phrase? What kinds of goods should the bill reach?

Ms. Simpson, let's start with you.

Ms. SIMPSON. Sure. From our perspective, all counterfeits are fraud. They all count—cause harm and have potential to be dangerous. Efforts to distinguish between those that could cause health and safety risks and those that may not could be confusing for consumers and cause potential impediments to effective implementation.

So, we want to see legislation here that really does address this issue of counterfeits in works and practice, and we look forward to continuing to work with the Committee on that.

Mr. JONES. Okay. Mr. Berroya?

Mr. BERROYA. Thank you for the question, Representative Jones.

I'll be honest, I don't envy the committee. This is difficult work. It is very difficult to tightly define some things that it covers, just the types of products that you want to cover for all of the reasons that other panelists acknowledged.

Health and safety can touch almost any product, and where the edges of that are very blurry lines. We'd be happy to continue our engagement with the Subcommittee and with the sponsors of the bill, as discussions move forward, to try and hem in or cordon off the specific types of products that you're most concerned about.

Mr. JONES. I'm hoping someone will be more specific.

Ms. Kammel, would you please give it a try?

Ms. KAMMEL. Thanks for the question.

So, from my perspective, I think it should cover all types of counterfeit marks and not be limited to it. If it is limited to health and safety that it should be health and safety of any good, genuine or counterfeit.

So, as we know from a lot of industries or even product lines that might not on their face look like they implicate health and safety,

we hear lots of stories from brand owners about what happens when they actually purchase a counterfeit of a product that, upon first glance, we might think implicates health and safety.

Lots of testing has been done by brand owners, everything from toxicity to safety testing on the counterfeits and it shows that a lot of these products can actually harm the consumer.

So, to differentiate, it should include—if that language is going to stay in, from my perspective, that it would include health and safety concerns for either genuine or counterfeit products.

Thank you.

Mr. JONES. Thank you.

Ms. Reed?

Ms. REED. Yes, I agree with Ms. Kammel. I do see improvement as it relates to a limitation on products that implicate health and safety, particularly because it forces the marketplaces to make that determination, and for all intents and purposes, it would hold them liable if they get it wrong.

I believe virtually all counterfeits implicate health and safety because they're not being made under the same quality controls as the brand owners' quality controls. Counterfeiters are just not going to do that. They're not going to test products.

So, for an example, an apparel company may test its garments to ensure that the materials used aren't harmful. Counterfeiters won't do that, and a marketplace would have to make the determination about whether apparel would be the type of product that could be harmful.

So I see that as a gray area, and I would hope that there is a consideration to expanding the meaning to all products.

Mr. JONES. Thank you very much.

Mr. Chairman, I yield back.

Mr. JOHNSON of Georgia. Thank you.

We next turn to the gentleman from Kentucky, Mr. Massie, and also the winner of today's most scenic backdrop. We recognize you for five minutes.

Mr. MASSIE. Thank you, Chairman Johnson. That's my farm back there.

There are things to like about this bill that seem kind of common sense. Maybe a third party seller should have to list an address. I like the fact that the country of origin label for things would be listed.

I think this bill may have problems that the other bills in this same category have, which the category is bills that try to solve crimes before they happen or bills that assume that everybody who's doing business is doing it unscrupulously until they can prove that they are scrupulous.

Mr. Berroya, I want to address you with most of my questions but, generally, I want to cover some issues or talk about some issues that I'm concerned about in this bill.

One is will this bill solve the problem that we're trying to solve? I mean, any legislation that should be the first question, does it solve the problem.

I would think that providing a fake government ID or a fake address would be the easiest thing a counterfeiter has ever done. That's probably a warm-up exercise for most counterfeiters who are

trying to design printed circuit boards or fabrics and have them manufactured.

So, I'm not sure that putting that onus on the platforms is going to solve the problem. The other thing is will this cause other problems? Is the scope too broad? Do we understand how broad the scope is?

For instance, if somebody's selling a device that has a Bluetooth symbol on it and they haven't submitted it to the Bluetooth special interest group for certification, are they a counterfeiter?

Because that would probably make, you know, 90 percent of Bluetooth products out there counterfeits right now. So that's how broad is this? What doesn't touch health or safety?

Is everything that's got an Underwriters Laboratory symbol affixed to it, is that health and safety? Are the tractor parts that I'm going to buy online to work on this farm, are those covered under it?

That gets me to another thing. Why is there even a small business exemption in here? It's at \$500,000. If you were making 10 percent profit as a platform, you would make \$50,000 a year. You would have one—you wouldn't even be able to pay for one employee and have benefits and make the minimum wage for your one single employee.

Furthermore, the small business exemption has a problem in that it says it goes away if you've been served notice 10 times.

Well, if you've been served notice 10 times, as I understand it, you're already covered under the existing law. You could already be liable for selling counterfeit goods.

So anyways, I just wonder is this bill going to be applied equally? Do we understand how broadly it's going to be applied?

Why don't we have a real small business exemption that could cover a small profitable business instead of a small hobby exemption, which is what this is, and it's not even really an exemption?

So, I just want to lay those thoughts out there and ask you, Mr. Berroya, if you could speak to any of them.

Mr. BERROYA. Sure. So there was a lot there, and I don't disagree with any of your assessments, Representative Massie.

In terms of will this bill solve the problem, the problem of counterfeit goods that are injuring and harming consumers, I don't believe that it will.

It is very broad. It is massively broad in a variety of different ways, including the definition of electronic commerce platforms themselves. That definition is so broad that it can include email service providers, and I don't know how email service providers would go about doing some of the best practices that are identified in the list.

Furthermore, I can't help but agree with the point that you made that the verification process is something that I think sophisticated counterfeiters are going to easily overcome and that will not stop them from putting harmful products out there.

We'll solve this problem and we'll—it's an iterative process. It requires a lot of collaboration is anything that puts more resources in the hands of law enforcement, anything that encourages further collaboration, and there's a lot of collaboration going on already.

Further collaboration between online platforms, traditional retailers, and brands, because it is the brands who understand what is and is not infringing. They have specific knowledge.

They can identify and they can let both retailers and online platforms know how to identify these products. They can share URLs and say this is infringing.

They can say, this is the text of a template that it appears this individual is using on five different websites—can we use this to kind of initiate a takedown process or work with you to identify these bad actors?

So, all those things need to happen. They are happening. They need to continue to happen.

Mr. MASSIE. Thank you. My time has expired. I yield back, Mr. Chairman.

Mr. JOHNSON of Georgia. Thank you, sir.

Next, we will turn to be distinguished gentlewoman from the great State of North Carolina, Congresswoman Ross, for five minutes.

Ms. ROSS. Thank you, Chairman Johnson, and it's great to see you twice, virtually, in a day. We have been very active on the Judiciary Committee today. Thank you very much to the witnesses for testifying.

Like my colleagues, I'm deeply concerned about the proliferation of counterfeit goods.

The perpetrators of the counterfeiting crime really commit two crimes. They steal from innovators and then they endanger consumers, and so I see this is a two-pronged problem.

In my home State of North Carolina, authorities have seized counterfeit goods ranging from clothing to medicine and even to air bags. Counterfeiting is not a victimless crime.

Unknowing consumers put themselves and their families at significant risk and our economy suffers when intellectual property is stolen. Legitimate businesses lose sales and governments lose tax revenue.

I represent the Research Triangle area of North Carolina where a number of pharmaceuticals are tested and made and where we have personal care products. We're the home to Virtue Labs. I don't know if you know about Virtue Labs, but fantastic products.

So, my first question is for Ms. Simpson. Your Members' personal care products are sold in brick and mortar stores as well as online.

What types of issues have your Members seen arise in counterfeit versions of the products? Can you discuss the stringent safety and quality standards your Members' products have to meet to be sold in the brick and mortar stores and how those differ from what online platforms currently require?

Ms. SIMPSON. Absolutely. Cosmetics and personal care products are regulated by the Food and Drug Administration. The Food, Drug, and Cosmetic Act requires that every product and its individual ingredients are safe before they're put on the market, and cosmetics companies have a legal responsibility to ensure that products are safe and properly labeled and current federal law provides for penalties for failure to meet these requirements.

Our member companies take their responsibility to make safe products very seriously. Consumer and product safety are top prior-

ities for our industry with careful scientific research and development serving as the foundation for everything we do.

The U.S. cosmetics industry invests nearly \$3 billion annually in scientific research and development. In terms of counterfeit products, inherently they pose health risks to consumers since they're produced illegally without adherence to federal or State safety and quality requirements.

Counterfeit products could be adulterated. They could be tampered with. They could be expired. They could contain materials not of cosmetic grade, meaning consumers could be applying adulterated or impure products directly to the skin, lips, eyes, and other sensitive areas, including products indicated for children's use.

A 2020 Department of Homeland Security report noted that counterfeit cosmetics often contain elements such as arsenic, mercury, and aluminum, and that counterfeit personal care items have been found contaminated with substances from harmful bacteria to human waste.

Ms. ROSS. Thank you very much.

My next question has to do with some of the transparency in the SHOP SAFE Act that would ensure consumers and brand owners have accurate information available to them, things like listing who the seller is, where they're located, where you can contact them, where the products are shipped from.

Ms. Reed, how would having this information aid your Members and clients, and are there certain red flags that consumer brands would be able to point to if they got this information?

Ms. REED. Thank you for the question.

So, this information would aid my clients in a number of ways. Usually, when my clients come to me, it's either because they've already confirmed counterfeits, they've done their own take downs for brand protection agents and the take downs have not been successful, meaning they were taken down but they popped up again, and my clients want to litigate.

Having verified names and addresses would help us investigate. So, we would likely commence a full-blown investigation prior to filing a lawsuit. It would help us in—and that would and it might include visiting the locations where these counterfeiters might be because they might actually be the source of the counterfeits, meaning they might be manufacturing, which would be highly relevant for my clients.

Requiring that the sellers have an agent for service of process would make the process of serving these individuals a lot easier and, ultimately, I believe the transparency and being able to verify and then know that the contact names are accurate would give clients confidence that they can successfully litigate against these individuals without facing motions to dismiss for lack of jurisdiction and other procedural issues.

Ms. ROSS. Thank you very much, Mr. Chairman. I yield back.

Mr. JOHNSON of Georgia. Thank you. Today we are favored to have not just one but two distinguished people from North Carolina—Congress people. Next, I present to you the distinguished Mr. Dan Bishop for five minutes.

Mr. BISHOP. Thank you, Mr. Chairman, and I guess maybe I should note that not only did Congresswoman Ross and I graduate in the same class at the University of North Carolina Law School, we were in the same small section together.

Who could have known, right, Deborah?

I'm going to offer to yield my time to the Ranking Member, Mr. Issa. Did you have an additional question?

[Laughter.]

Mr. BISHOP. Darrell's coming alive. Give him a second to react. If you'd like to ask additional questions, Mr. Issa.

Mr. ISSA. I'm in shock. I'm in shock. Thank you. I thank the gentleman for yielding.

Let me go through a couple of things because I want to make sure we characterize the legislation in an appropriate way, and I think I'll actually ask it this way.

Is there anyone here that thinks that the Digital Millennium Copyright Act is a failure, overly burdensome, or in some other way has done nothing to deal with counterfeits of music and the like on the internet?

[No response.]

Mr. ISSA. Hearing none, basically, let's use Ms. Simpson. Would you contrast this bill with the DMCA—DMCA requiring notice and takedown and it's worked for, if you will, intangibles versus these tangible items?

Ms. SIMPSON. I can't speak to specifics of the DMCA, but just aware of the current system that we're working on for counterfeits right now and that our Members are facing for notice and take downs.

Just would say that, currently, that system, isn't working. They're unable to keep up and get this verified information.

Mr. ISSA. Right. DMCA has worked fairly well for music. Mr. Berroya, would you say that your Members, they deal with that every day. Amazon is probably one of the largest music providers. Have they been able to verify the legitimacy of the—what they sell online?

Mr. BERROYA. Thank you for the question, Ranking Member Issa. I can't speak to Amazon's specific experience. As somebody who's been a practitioner of IP enforcement for almost a decade, I can tell you that the DMCA works but there's also stark differences between the legislative regime that was created by the DMCA and what is here.

For example, notice and takedown in the DMCA requires the rights holder to identify infringement and this SHOP SAFE Act it's the opposite. The burden is—

Mr. ISSA. Let's go through that. Under this Act, there is a requirement—it's, basically, three strikes and you're out. If someone says something's a counterfeit, don't they have to show more than one event to even cause the takedown?

Mr. BERROYA. With due respect, Ranking Member Issa, the Act also has provisions that require platforms to implement automated processes, essentially, notice and stay down, which is something that was rejected by the Copyright Office within the last year when they were reviewing section 512.

Mr. ISSA. Let's go through that. Notice and stay down, in this case, is for a counterfeit tangible good, correct?

Mr. BERROYA. It would be, but it also assumes that the online platform is capable of identifying something as counterfeit. So, the difference between enforcing for Scott paper products and Scott bicycles, the two—

Mr. ISSA. Sure. Let's go through and I'm using the gentleman's time. I want to use it wisely.

You said that it's burdensome to deal with this—the origin. In other words, the authenticity of the vendor, and you talked about seeing his identification and we wouldn't be able to. After all, they're counterfeiters.

Isn't it almost universally true that your Members, in fact, collect the money or participate in the money and ensure that they get their share of it, either because they collect it and pass the remainder on to the source or they have to guarantee that they're going to get what they're entitled to from that source?

So, let me just ask a simple question just as a plain old country businessman. If they can verify the source well enough to make sure they get paid dollars, millions of dollars, whatever amount, why is it that it's so difficult to verify the source for purposes of who they are?

Mr. BERROYA. Well, Representative Issa, one doesn't need to have the name, the address, to be able to verify that those things are exactly true in order to make a one-to-one connection between one bank account and another bank account.

Mr. ISSA. Well, let's go to Ms. Reed. When you're trying to find an entity and he's already said, basically, he's okay, knowing that they have a U.S. bank account.

Is that a significant step that you would see in this legislation that these companies already have, which is they're holding money, they're transferring money to an entity, and under international law and U.S. law, they have to verify that entity for purposes of fraud is a real entity, don't they?

Mr. JOHNSON of Georgia. Mr. Bishop, your time has expired.

Mr. ISSA. Thank you, Mr. Bishop.

Mr. JOHNSON of Georgia. We won't hold it against you. Will the witness please answer the question succinctly?

Ms. REED. Yes, sure. Thank you for the question.

Yes. In terms of the marketplaces having access to receive payment and to make payments, my understanding is that—and these payments are usually either with payment service providers or banks—ultimately, these payments—there's a third party involved.

There is an intermediary. There's a financial institution who likely has some information that would verify the identity of the sellers.

In fact, when I litigate these cases and I subpoena the marketplaces, they provide the bank financial details. I then subpoena the banks and then I get the actual names. That's how we sometimes get to the actual identity.

So, it is possible to know who these people are because they want to get paid. The counterfeiters want to get paid, and they have to pay also Amazon or eBay or whoever it is that they're doing business with.

Mr. ISSA. Thank you, Mr. Chairman.

Mr. JOHNSON of Georgia. Thank you.

We now have the opportunity to view the backdrop of the gentleman from Oregon, Mr. Bentz, should he choose to show it. He will not be able to compete with Mr. Massie on the backdrop, unfortunately.

You're recognized, sir, for five minutes.

Mr. BENTZ. Thank you so much, Mr. Chair, and having not had the opportunity to participate in these discussions over the last year, I fear my questions would be an embarrassment, particularly to me. That gives me an opportunity to yield to Ranking Member Issa yet again, since it seems like he wasn't quite yet done.

Mr. ISSA. Well, let's—thank you. I really appreciate that.

Ms. Reed, let's go through that again. You've got a history of litigation. Let's just use, hypothetically, eBay and Amazon just as straw companies.

If they must have the financial information and they have it, if they know the banks and if they, quite frankly, these intermediaries, they work with them thousands or tens of thousands of times, if this legislation were passed, wouldn't it be relatively simple for them to ensure that this one more step in the law, which is a domestic service point were added, would it be burdensome to those companies?

We'll get to small companies later. To those companies, do you see anything burdensome there?

Ms. REED. In terms of the—

Mr. ISSA. The process of service.

Ms. REED. I don't. I don't see that being burdensome at all. I actually see that as being one of the easiest things to require the businesses' chief sellers to do and for the sellers to actually implement it.

Mr. ISSA. We were—it was suggested to us during the markup or pre-markup of this legislation that they could even—potentially, we could include in the law a recognition that they would accept service by email.

We didn't put it into the law because there were some questions about whether or not that would be sufficient in the courts, and we're checking it.

From a standpoint of if a company wants to do business in the United States, asking them to have someplace that they would accept service would seem to be the source.

Let me go back. Let's just say we don't have that service and the—if you will, these major carriers tell us that they can't get it, isn't the real meat of this bill the question of whether or not they take down the infringer in a timely fashion?

So, even if that wasn't in the bill, isn't the real meat the fact that this, for the first time, says if you don't cooperate when you're being informed about counterfeits three times or 10 times, depending upon the size of the company, that you can take liability? Isn't that really what we're discussing here today?

Ms. REED. Is that question for me?

Mr. ISSA. Yes, as a litigator.

Ms. REED. I think that—yes, I think the contributory liability portion is the meat and bones of the legislation. Yes, I agree.

Mr. ISSA. So, briefly, on behalf of all of them—anyone I’ll let take it—if, in fact, what we’re doing is trying to have this for those who don’t and then create a safe harbor, any of you want to ask the question of why is it we have had a very difficult time with these online platforms defining the safe harbor they would like rather than simply telling us that they don’t like whatever we legislate?

Ms. Reed, I’m going to go back to you again. You’ve been a very good witness. Would you say that you could write the safe harbor as well or better and, simply, these companies are choosing to say they don’t want a safe harbor—they just don’t want the legislation?

Ms. REED. Well, I don’t know if I would characterize it that way, and I do believe that marketplaces have similar goals that they want to get these counterfeits off of their platforms and I know that there are marketplaces that proactively are doing things.

I do think that, ultimately, the issue is whether they want it to be voluntary or required, and then that’s really the issue.

Mr. ISSA. Well, and as a litigator, when we put in this bill—this legislation 14 times the word “reasonable” I know that is considered vague. Isn’t every one of those an impediment to your litigation in that we have made this a piece of legislation that is not easy to overcome? You’ll have to show repeatedly that people were unreasonable if this legislation becomes law.

Ms. REED. That’s right. I mean, there is a standard and the standard has to be argued in a court of law in terms of whether the marketplace is acting reasonably or not. So, that is accurate.

Mr. ISSA. Thank you. I yield back.

Mr. JOHNSON of Georgia. Thank you.

Ladies and gentlemen, that concludes today’s hearing. Unless there’s someone on the Zoom call that I’m not recognizing that needs to be recognized, speak now or forever hold your peace.

[No response.]

Mr. JOHNSON of Georgia. So, assuming that there is none, we are at the bottom of the hearing. I want to thank the witnesses for their testimony today, thank the Members of the Subcommittee for their attendance today.

Without objection, all Members will have five legislative days to submit additional written questions for the witnesses or additional materials for the record.

With that, and with no gavel, the hearing is adjourned. Thank you.

[Whereupon, at 3:51 p.m., the Committee was adjourned.]

APPENDIX



May 28, 2021

Dear Members of the Subcommittee on Courts, Intellectual Property, and the Internet,

Changes to how alleged trademark infringement is handled online—including those proposed in the SHOP SAFE Act—could have an outsized impact on e-commerce startups. For example, requiring companies to use upload filters to monitor for potential infringement would create substantial costs and risks, raising new barriers to entry. We urge you to consider startups as you evaluate any potential changes to trademark law or contributory liability. And we hope the Subcommittee will carefully and thoroughly evaluate SHOP SAFE's proposals, both taking a holistic view of the e-commerce ecosystem and appreciating technological realities.

Engine is a non-profit that works with government and a community of thousands of high-tech, growth-oriented startups across the nation to support technology entrepreneurship through research, policy analysis, and advocacy. We appreciate the opportunity to submit this letter to the record of the Subcommittee's hearing on *The SHOP SAFE Act: Stemming the Rising Tide of Unsafe Counterfeit Products Online*. Startups are major drivers of economic growth, innovation, and U.S. competitiveness. Current or potential e-commerce startups and their customers and users are critical stakeholders here.

The doctrine of contributory liability currently applied by U.S. courts is balanced and largely working well,¹ and such areas of the law—which address the legal exposure companies can face over their user's actions—are especially important to Internet startups and smaller online platforms. Most platforms experience little, if any, alleged trademark infringement.² Changing the law to increase the costs and risks platforms face would therefore catch little, if any, additional infringement.³ But the costs and risks to innovation of a shift in liability would be substantial.⁴ Any such changes in the law could reduce the viability of existing and prospective startups—potentially forcing them out of the market—which would also restrict the options for content creators and small businesses who rely on diverse e-commerce offerings.

¹ Engine has previously articulated similar positions, for example in, e.g., Comments of Engine Advocacy in Response to Secondary Trademark Infringement Liability in the E-Commerce Setting, Docket No. PTO-T-2020-0035 (Dec. 28, 2020), available at <https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/5ff37a915abd827cadbf968f/1609792145348/20.12.28.Comments+to+Docket+PTO+T+2020+0035.pdf>.

² E.g., 2019 Transparency Report, Etsy (2020), https://extfiles.etsy.com/advocacy/Etsy_2019_Transparency_Report.pdf (of 65 million items for sale, fewer than 34,000 takedown requests, of which fewer than half pertained to trademark); compare Shapeways Fact Sheet, Shapeways (2018), <https://static1.sw-cdn.net/files/cms/press/Shapeways-Fact-Sheet-2018-Q3.pdf> with 2018 Transparency Report, Shapeways, <https://www.shapeways.com/legal/transparency/2018> (last visited Dec. 23, 2020) (of over 45,000 postings, platform only received 331 takedown notices that involved trademark).

³ See, e.g., Katja Weckström, *Liability for Trademark Infringement for Internet Service Providers*, 16 Marquette Intel. Prop. L. Rev. 1, 45 (2012) (“[e]xposing [platforms] to a multitude of claims that demand high transaction costs to settle seems inefficient and disproportionate . . .” and “counterfeiting will likely persist, regardless of efforts or liability”).

⁴ See, e.g., Daphne Keller, *Toward a Clearer Conversation About Platform Liability*, Knight First Amendment Institute (Apr. 6, 2018), <https://knightcolumbia.org/content/toward-clearer-conversation-about-platform-liability> (“When platform liability risks expand, wealthy incumbents can hire lawyers and armies of moderators to adapt to new standards. Startups and smaller companies can’t.”).

One particular concern with the proposed SHOP SAFE language revolves around the mandate to filter all user-posted products for potential counterfeit marks.⁵ Adopting such a proposal would create an impossible and unaffordable task for all but the largest, established e-commerce platforms—putting early-stage companies at a distinct disadvantage.⁶ For one, startups would be forced to try and constantly monitor user posts to detect potentially infringing ones. This would include expenses startups, operating on thin margins, could not cover, such as hiring teams of content moderators, developing or purchasing imperfect yet costly filtering technology,⁷ and setting aside litigation reserves to cover future legal exposure for user conduct.⁸

As we have previously explained in the copyright context:

Technology and filters have many inherent limitations which make them incapable of fully addressing online infringement. Filtering technology is imperfect, with often high false positive rates. It is categorically incapable of answering fact-specific questions of infringement, like fair use [and] licensing But these filters are also out of reach for most startups. The most sophisticated tools are so expensive that the development costs are orders of magnitude above what a startup could afford. Off-the-shelf tools, which cannot screen much content on a multimedia platform, are also too expensive for early-stage companies to license and maintain. All filters are limited in the type of content they screen. And for many types of content, there are no filters.⁹

Indeed, as Engine and other smaller companies have noted, there are no existing filters to accurately identify infringement on “sites that allow users to sell physical goods.”¹⁰

The limits of filters—which will fail sometimes (likely often)—and the fact that startups would be incapable of identifying and removing all infringement on their own also brings substantial litigation cost and risk. Expanding platform liability over users’ alleged IP infringement could put early-stage companies at risk of being sued out of existence. It could also discourage entrepreneurs and investors from developing new technology or pursuing new e-commerce business models. Internet platforms, in particular, have been able to innovate and launch because they do not have to hire teams of lawyers to brace for litigation when users are

⁵ E.g., Press Release: Nadler, Collins, Issa & Cline Introduce Bipartisan SHOP SAFE Act (May. 20, 2021), <https://judiciary.house.gov/news/documentsingle.aspx?DocumentID=4566> (full bill text and section by section analysis include § 1114(4)(A)(viii) which would require platforms to use “technological measures for screening goods before displaying the goods to the public”).

⁶ While beyond the scope of this letter, counterfeiters already find ways around the measures e-commerce platforms deploy to try and prevent trademark infringement. See, e.g., B. Bruce Rich & David Ho, *Sound Policy and Practice in Applying Doctrines of Secondary Liability Under U.S. Copyright and Trademark Law to Online Trading Platforms: A Case Study*, 32 *Intel. Prop. & Tech. L.J.* 1, 9 (2020) (noting that even on platforms spending the most, and deploying the most sophisticated technology, it is impossible to keep trademark infringers off; for example, counterfeiters can just change their name or repost infringing items under a new name or different account).

⁷ See, generally Evan Engstrom & Nick Feamster, *The Limits of Filtering: A Look at the Functionality & Shortcomings of Content Detection Tools* (Mar. 2017), <https://www.engine.is/the-limits-of-filtering> (discussing limitations of filtering technology).

⁸ See, e.g., Jennifer M. Urban et al., *Notice and Takedown in Everyday Practice* 64 (UC Berkeley Public Law Research Paper No. 2755628, Mar. 30, 2016), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2755628 (noting that some small platforms already struggle to comply with the DMCA’s notice and takedown procedure for copyright, and that “[t]he struggle increased further if pressure to implement [proactive] measures arose.”).

⁹ *Is the DMCA’s Notice-and-Takedown System Working in the 21st Century?: Hearing Before the Subcomm. on Intellectual Property of the S. Comm. on the Judiciary*, 116th Congress 2 (2020) (testimony of Abigail A. Rives), available at <https://www.judiciary.senate.gov/imo/media/doc/Rives%20Testimony.pdf>.

¹⁰ Letter to John Kerry, United States Secretary of State, Penny Pritzker, United States Secretary of Commerce, and Michael Froman, United States Trade Representative (Dec. 16, 2016) (on file).

accused of infringement. And investors would be reluctant to fund emerging e-commerce platforms if they knew the money would go to cover liability for user infringement.¹¹

Even under the current, relatively balanced approach to contributory liability, the high costs of monitoring and covering legal risk are already seen to confer competitive advantage. For example, eBay invests as much as \$20 million per year in trust and safety efforts—including running searches, deploying filters, and implementing buyer protection programs—with over 200 employees focused on combating potential infringement.¹² Alibaba has likewise developed technology to try and identify potential infringement, after significant investment, and takes further steps to monitor posts, look for anomalous transactions, assist law enforcement, etc.¹³ While these and numerous other e-commerce platforms do more than notice-and-takedown, the costs of doing so are far more than what a startup could afford.¹⁴ Changing the law to increase those costs and risk, by imposing more liability on platforms, could entrench incumbents and defeat the ability of nascent companies to compete. As scholars have noted:

[W]hile the eBays of the world can afford to spend millions of dollars combating counterfeiting, this may not be the case for smaller-scale market participants. Requiring “mom and pop” online brokers to wage a million-dollar war against counterfeiting would likely drive these retailers out of business, undesirably narrowing consumer choice.¹⁵

Finally, while the current doctrine of contributory liability is largely working well, there is still abuse of the system and few opportunities for startup e-commerce platforms and users wrongfully accused of infringement to fight back. Abusive trademark assertion or enforcement has an especially “deleterious effect on startups and smaller platforms that may lack the resources to respond properly to a dispute” between a purported mark owner and the user accused of infringement.¹⁶ This puts a fine point on the value of balanced frameworks, and strongly cautions against adopting any new legal doctrines which would make abuse easier or more profitable. And shifting more liability onto e-commerce platforms would end up escalating the removal of more legitimate posts and goods, which would hurt small businesses and creators who have posts improperly removed.¹⁷

* * *

Thank you for your consideration. Startups are an essential component of our innovation economy, and it is critical to weigh their interests in policy decisions. Engine is committed to engaging with the Subcommittee on these and other important issues.

¹¹ See, e.g., Matthew C. LeMerle et al., *The Impact of Internet Regulation on Early Stage Investment* (Nov. 2014), <https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/572a35e0b6aa60fe011dec28/1462384101881/%20EngineFifthEraCopyrightReport.pdf>.

¹² *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 98-99 (2d Cir. 2010).

¹³ Rich, *supra* note 6, at 9.

¹⁴ See, e.g., Weckström, *supra* note 3, at 48 (noting “many smaller actors that cannot afford efforts like those of eBay”); Engine, *supra* note 1, Part II; cf. Jennifer M. Urban et al., *Notice and Takedown: Online Service Provider and Rightsholder Accounts of Everyday Practice*, 64 J. Copyright Soc’y U.S.A. 371, 397-402 (2017) (noting that shifts toward DMCA-plus are already viewed as a competitive advantage for established platforms, and can affect market entry and startup success).

¹⁵ Sonia K. Katyal & Leah Chan Grinvald, *Platform Law and the Brand Enterprise*, 32 Berkeley Tech. L.J. 1135, 1149-50 (2017) (quoting Jordan Teague, *Promoting Trademark’s Ends and Means through Online Contributory Liability*, 14 Vand. J. Ent. & Tech. L. 461, 491 (2012)).

¹⁶ Katyal, *supra* note 15, at 1165.

¹⁷ For more detailed discussion of such abuse, including examples, see, e.g., Engine, *supra* note 1, at 5-7.



May 26, 2021

The Honorable Henry C. "Hank" Johnson, Jr.
Chairman
House Committee on the Judiciary
Subcommittee on Courts, Intellectual
Property, and the Internet
Washington, DC 20515

The Honorable Darrell Issa
Ranking Member
House Committee on the Judiciary
Subcommittee on Courts, Intellectual
Property, and the Internet
Washington, DC 20515

Re: May 27th Subcommittee Hearing: The SHOP SAFE Act: Stemming the Rising Tide of Unsafe Counterfeit Products Online

Dear Chairman Johnson and Ranking Member Issa:

On behalf of the Computer & Communications Industry Association (CCIA)¹, I write to submit the following observations for the Subcommittee's consideration, and request that this statement be included in the record of the hearing. CCIA members invest significant resources in enforcing their terms of service to combat counterfeit goods online, above and beyond what U.S. trademark law requires, including voluntary initiatives to protect consumers against unsafe counterfeit products. H.R. 3429 (the Stopping Harmful Offers on Platforms by Screening Against Fakes in E-Commerce Act) is not only unnecessary, but as drafted would harm industry and users.

I. Background on Secondary Trademark Liability

CCIA's members include companies that offer e-commerce services. These types of services do not permit, and indeed have no tolerance for, the use of their platforms for any unlawful activity, including the sale of counterfeit goods. The distribution of counterfeit goods through e-commerce sites reduces the confidence of consumers in e-commerce. Accordingly, e-commerce companies have a strong incentive to eliminate counterfeit goods from their services, and they invest heavily in anti-counterfeiting measures, working closely with brand owners to remove counterfeit goods from their distribution systems.²

The existing doctrine of secondary trademark infringement liability correctly recognizes that trademark owners are in the best position to accurately and efficiently distinguish counterfeit products from authentic goods. Shifting legal responsibility to e-commerce sites, online

¹ CCIA is an international, not-for-profit trade association representing a broad cross section of communications and technology firms. For nearly fifty years, CCIA has promoted open markets, open systems, and open networks. CCIA members employ more than 1.6 million workers, invest more than \$100 billion in research and development, and contribute trillions of dollars in productivity to the global economy. For more, visit www.cciagnet.org.

² See CCIA Comments to the Department of Commerce, Report on the State of Counterfeit and Pirated Goods Trafficking and Recommendations, Docket No. DOC-2019-0003 (July 29, 2019), <https://www.cciagnet.org/wp-content/uploads/2019/07/DOC-2019-0003-0001-CCIA-Comments-Counterfeiting-Pirated-Goods-Trafficking-Report.pdf>, at 2-5 (discussing current practices to address counterfeits online including examples of collaboration with brand owners).

marketplaces, or other third-party intermediaries through new secondary liability rules would stifle innovation, reduce cooperation, and fail to prevent counterfeiting.

The current doctrine of secondary liability in trademark law achieves the proper balance, fostering a fair and robust online marketplace to the principal benefit of consumers. When services fail to act upon specific knowledge of infringement (for example, when a brand owner has notified an online service of a counterfeit product), courts have generally held services liable. The existing secondary trademark infringement liability regime has helped provide the legal framework to grow a robust secondary market for safe, genuine goods at competitive prices. Consumers derive enormous value from secondary markets, where they have the opportunity to sell products they no longer need, or purchase genuine products at a discount.

Changing secondary liability rules could encourage trademark owners to engage in anticompetitive practices and pursue secondary market goods that may not be counterfeit but may be competing with the trademark owner's products. This would result in the diminution of the secondary market, harming consumers; to avoid increased liability, e-commerce sites would significantly change their policies and enforcement measures, such as by allowing only sellers authorized by the trademark owner.

Additionally, changes to the secondary liability framework would not address the problem of counterfeit goods. Infringement analysis is often too fact-specific to permit wide-scale removal by services while maintaining a fair and robust marketplace. Liability for e-commerce sites and marketplaces would instead incentivize trademark owners to go after intermediaries instead of the actual bad actors: the counterfeiters.

II. Concerns with H.R. 3429

The Internet has opened new distribution channels for small businesses to sell goods online. While CCA shares the sponsors' underlying goals of preventing counterfeits from proliferating online and harming consumers, the bill as drafted will not achieve these goals and could create a new regulatory framework that could harm bona fide sellers and fuel litigation rather than innovative tools to detect and deter counterfeits. As currently drafted, H.R. 3429 threatens that economic progress by making digital services much less willing to enable the millions of small businesses and individual entrepreneurs who use Internet services to do business in the global marketplace. To reduce the significant risk the legislation places on them, existing e-commerce businesses may be compelled to provide a marketplace only for larger, more established firms. Moreover, the legislation's onerous requirements would create a barrier to entry for new e-commerce companies.

A. Ambiguous Definitions Will Disadvantage Smaller Sellers

Digital services already take responsible action when it comes to counterfeit goods that are harmful to consumers. But the burdens the proposed framework would place on online businesses would lead to a reduction in the digital services available to the public. While the bill's sponsors may not intend to regulate all services, and may seek to address a subset of online businesses, this legislation would broadly sweep in a wide variety of digital services. In particular, the bill lacks proportionality, which would disadvantage smaller sellers, and is not carefully tailored in how it defines online marketplaces and their proposed responsibilities.

For example, this legislation proposes an extremely broad and ambiguous definition of “electronic commerce platform.” The proposed requirements are highly specific and burdensome for marketplaces in particular, but will broadly impact many types of digital services, with these prescriptions disadvantaging smaller players especially. There are significant distinctions in types of e-commerce services, and reasonable proactive obligations will necessarily vary by scale, vertical, and type. It is also not clear if “goods that implicate health and safety” is limited to physical goods or also implicates digital goods, which would sweep in a wide variety of businesses facilitating transactions in the latter. This broad definition could also include food, drugs, cosmetics, toys, appliances, electronics, tools, and more. Similarly, the country of origin provision is problematic and difficult to verify. For both large and small volume sellers, the standard would be impracticable. Making digital services strictly liable for noncompliance with prescriptive requirements creates a species of strict contributory liability, which is rare in U.S. law, for good cause.

B. The Bill As Drafted Presents Administrative Challenges for Multiple Parties

This bill has many challenges and inconsistencies, and the examples provided in this subsection are just a sampling of CCIAs’ concerns with H.R. 3429. For example, requiring termination of a third-party seller for “repeated use of a counterfeit mark,” broadly defined as “use of a counterfeit mark by a third-party seller in three separate listings within one year,” is ambiguous and potentially onerous for large businesses that sell thousands of products.³ This provision could also invite costly, time-consuming litigation or encourage burdensome investigations over what is considered “reasonable mitigating circumstances” and decisions about whether to reinstate. Any ‘repeat infringer’ policies should be left flexible for each service to apply reasonably, similarly to the DMCA. An inflexible policy is inadvisable given how services continue to innovate and remove greater numbers of listings without a rights owner notice. Though proactive, automated brand protections reduce infringement and the burden of the brand of filing notices, it means services also remove items with less certainty than a notice would provide that the item is counterfeit. Businesses need the flexibility to weigh different takedowns differently in evaluating account level enforcement.

Legitimate brand holders, entrepreneurs, and other affected “third-party sellers” would also not have a mechanism to defend themselves from foreign squatters and unscrupulous competitors, providing brands unchecked power to remove listings. This gives overwhelming power to rights owners to dominate without any recourse for legitimate entrepreneurs or new brands. Some brands try to use narrow trademark rights to prevent any use of the names of particular cities or other geographic areas that are in the public domain. Bad actors file spurious notices to disrupt established U.S. brands using trademark registrations, and could take down or permanently ban even major brands or authorized resellers or licensees from a particular service. Exposing “electronic commerce platforms” to statutory damages will also incentivize trolling by plaintiffs’ lawyers.

³ “Counterfeit mark” as defined by 15 U.S.C. § 1116(d)(1)(B) turns on non-public information about (a) when manufacture occurred and (b) whether it was licensed at the time. With no way of proactively determining whether a seller was licensed a particular product at a point in the past, digital services cannot plausibly administer this definition without possessing information controlled by brand owners.

C. Success Requires Cooperation Between Digital Services and Brand Owners

Ultimately, only brand owners know what goods are authentic and what goods are counterfeit. It is difficult for digital services of all sizes — especially smaller firms — to detect and confirm the authenticity of goods. Although digital services like online marketplaces are committed to working with brands to implement strong anti-counterfeiting measures, brands and rightsholders' cooperation is needed to make the enforcement tools effective at the detection of counterfeit products. By requiring the implementation of such measures without compelling brands to participate, the bill would require digital services to guess the extent of brands' IP rights and licensing strategies. While services embrace responsibility, and many proactively remove postings that appear to violate IP rights, brands also must be proactive in utilizing the mechanisms developed to protect brand owners' rights, and providing the necessary information to enable those systems.

Sincerely,

Matt Schruers
President
Computer & Communications Industry Association
25 Massachusetts Avenue NW, Suite 300C
Washington, DC 20001



740 6th Street, NW • Washington, DC 20001 | P: 202-853-9080 | www.aafaglobal.org

Advocacy that fits.

American Apparel & Footwear Association Statement for the Record
“The SHOP SAFE Act: Stemming the Rising Tide of Unsafe Counterfeit Products Online”
 House Judiciary Committee; Subcommittee on Courts, Intellectual Property, and the Internet
 May 27, 2021

On behalf of the member companies of the American Apparel & Footwear Association (AAFA), we appreciate this opportunity to submit a statement for the record for the Subcommittee’s hearing on the “Stopping Harmful Offers on Platforms by Screening Against Fakes in E-commerce Act of 2021” or the “SHOP SAFE Act of 2021.”

AAFA is the national trade association representing apparel, footwear, travel goods, and other sewn products companies, and their suppliers, which compete in the global market. Representing more than 1,000 world famous name brands, AAFA is the trusted public policy and political voice of the apparel and footwear industry, its management and shareholders, its nearly four million U.S. workers, and its contribution of more than \$400 billion in annual U.S. retail sales.

AAFA’s Brand Protection Council (BPC) vigorously pursues brand protection efforts, with a focus on the global war against counterfeit apparel, footwear, accessories, and other supplier products. Counterfeiting is a big business; a 2017 report forecast the global trade in counterfeit and pirated products to reach a possible \$2.81 trillion by 2022.¹ This represents an increase of almost 150% from the estimated \$1.13 trillion from 2013. As counterfeiters have shifted online, the BPC has similarly focused its attention on the proliferation of counterfeit goods found on e-commerce platforms, specifically online third-party marketplaces.

The growth of e-commerce² has connected consumers across the world to brands, platforms, marketplaces, and other consumers, which has many positive benefits. At the same time, the rise of e-commerce has connected U.S. consumers with an ever-growing network of criminal counterfeiters. Online marketplaces provide an ideal setting for counterfeiters—anonymity, easier distribution, a low cost of entry, and various ways to reduce exposure to legal liability.³

The foundation of our trademark system predates global, nearly instantaneous e-commerce and is not equipped to address the online counterfeiting issues experienced today. Under the current legal framework, online intermediaries are generally not liable for the products sold on their platforms by third parties. This often creates a disincentive for those intermediaries to proactively stop the sale of counterfeits and other harmful products. Instead, many online marketplaces have a huge financial

¹ The Economic Impacts of Counterfeiting and Piracy: Report prepared for BASCAP and INTA, *available at* https://www.inta.org/wp-content/uploads/public-files/perspectives/industry-research/2017_Frontier_Report.pdf.

² An estimated 14% of all retail sales in the United States in 2020 took place online, an increase of 32% from 2019. See <https://www2.census.gov/retail/releases/historical/ecommm/20q4.pdf>.

³ DEPARTMENT OF HOMELAND SECURITY, COMBATING TRAFFICKING IN COUNTERFEIT AND PIRATED GOODS: REPORT TO THE PRESIDENT OF THE UNITED STATES (Jan. 24, 2020) https://www.dhs.gov/sites/default/files/publications/20_0124_plcy_counterfeit-pirated-goods-report_01.pdf.

incentive to allow these sales, while enjoying extremely low risk of legal liability— they make a profit off each sale and they benefit from the “network effect” of scale that discourages robust seller vetting.

It is readily apparent that there is a need for legislation to address the issue of counterfeit goods sold on e-commerce platforms. Online counterfeiting continues to be a growing issue for AAFA members, and the COVID-19 pandemic has only exacerbated this problem. The pandemic has disrupted supply chains worldwide and forced physical stores and markets to close repeatedly or for long periods of time, drastically driving consumer traffic to online channels. While we embrace the growth of e-commerce, unfortunately, counterfeiters have as well, taking advantage of these circumstances globally and flocking to sell their fake goods online.

The SHOP SAFE Act is a step in the right direction to level the online playing field and finally address the growing problem of counterfeits sold by third-party sellers on online marketplaces. Today, the burden of online enforcement disproportionately rests on trademark owners, who have to incur great cost to police a growing range of e-commerce sites. This creates a burden – felt particularly hard by small businesses – that does not exist in the brick-and-mortar retail environment. The SHOP SAFE Act would obligate online platforms to take greater responsibility for the products they sell by creating a set of best practices, including provisions on seller and individual product vetting, ensuring expeditious removal of counterfeit listings, and requiring termination of seller accounts repeatedly found to be selling counterfeit goods. Ultimately, these best practices would establish a floor that all e-commerce platforms would have in place to address the sale, offering for sale, distribution, and advertising of counterfeit goods online. Not only would this reduce burdens on small businesses, but it would establish parity of liabilities between brick-and-mortar and the online retail space.

Additionally, the SHOP SAFE Act would require that third-party sellers who sell into the U.S. market consent to jurisdiction in U.S. courts and designate an agent for service of process in the United States. A common defense among third-party sellers – especially foreign sellers – is that there is lack of personal jurisdiction and improper service of process. The SHOP SAFE Act would explicitly provide statutory clarity to defeat these defenses.

At present, the proposed scope of the SHOP SAFE Act is limited only to “goods that implicate health and safety.” However, by adopting this narrow approach, this distinction means some of the most often counterfeited products and some of the most prolific counterfeiters will remain beyond the scope of the law’s standards. Such a limitation not only overlooks potential but less obvious product safety and health risks of certain products, it also devalues the function of a trademark and signals a lack of willingness to protect all trademark owners and all consumers. Moreover, this would also impose more difficult judgement evaluations on platforms as to whether a particular product falls within the scope and what steps must be taken with regard to that particular product. For this reason, AAFA encourages the Subcommittee to consider broadening the scope of the bill beyond “goods that implicate health and safety.” AAFA also hopes to see the Subcommittee strengthen the preventive system outlined in proposed (§ 1114(4)(A)(viii)). Platforms should ensure that screening systems incorporate the type of information outlined in subparagraph “ix” that could give a platform “reasonable awareness” of use of a counterfeit mark. After all, an ounce of prevention is worth a pound of cure.

Thank you for your immediate attention to this important issue. AAFA looks forward to working with the Subcommittee on Courts, Intellectual Property, and the Internet to ensure that the SHOP SAFE Act not only sets standards for e-commerce, but that it also creates a more effective and balanced framework and promotes a culture of continuous improvement that is needed to stay one-step ahead of counterfeiters.

Passage of a properly structured SHOP SAFE Act presents the opportunity to ensure that the United States remains the global leader in protecting IP-intensive companies and their consumers; it is imperative that we get it right.

Sincerely,

Christina Mitropoulos

Christina Mitropoulos
Director, Brand Protection & Manufacturing Initiatives
AAFA



May 25, 2021

Chairman Henry C. "Hank" Johnson
Subcommittee on Courts, Intellectual
Property, and the Internet
U.S. House of Representatives
Washington DC, 20515

Ranking Member Darrell Issa
Subcommittee on Courts, Intellectual
Property, and the Internet
U.S. House of Representatives
Washington DC, 20515

Dear Chairman Johnson and Ranking Member Issa,

On behalf of the [Alliance for Safe Online Pharmacies' \(ASOP Global\)](#), thank you for holding a hearing on "SHOP SAFE Act: Stemming the Rising Tide of Unsafe Counterfeit Products Online" on Thursday, May 27, 2021. ASOP Global supports the SHOP SAFE Act's passage as it helps to ensure transparency, accountability and consumer safety online.

ASOP Global, a decade-old nonprofit organization headquartered in Washington, D.C. with activities in U.S., Canada, Europe, Latin America and Asia, is dedicated to protecting consumers, ensuring safe online access to medications, and combating illegal online drug sellers. With more than 75 participating organizations around the world, ASOP Global prioritizes efforts to better promote a safe and legitimate online environment for patients, caregivers and healthcare providers.

To date, U.S. policy has failed to protect Americans from the widespread internet drug sellers who profit at the expense of patients' safety. Roughly [95 percent](#) of the over [35,000 online pharmacies worldwide](#) operate illegally, selling medicines without a prescription and peddling fake and dangerous medicinal alternatives in violation of state and federal law as well as pharmacy practice standards. The COVID-19 pandemic has exacerbated this crisis, with online criminals preying on consumers by peddling illicit drugs as products to treat or prevent the disease. By establishing trademark liability for online marketplace platforms when a third-party sells a counterfeit product that poses a risk to consumer health and safety, the SHOP SAFE Act is an important step toward ensuring the internet is a safe place for consumers to shop for products. If enacted, it will incentivize platforms to adequately vet sellers and products, shutdown repeat offenders, and provide consumers with vital information so they can make informed purchases.

ASOP Global has advocated for policies that put online patient safety first, including [increasing internet accountability](#) through targeted reforms to Section 230 of the Communications Decency Act, safeguarding online transparency by restoring access to accurate WHOIS data, and stopping domain name registries and registrars from facilitating online crime by requiring them to [lock and suspend suspicious sites](#).

While more must be done at the federal level to protect Americans from criminals peddling dangerous drugs online through marketplaces, social media, and websites, ASOP Global is proud to support the bipartisan SHOP SAFE Act's policy goals. We believe it is time to take a comprehensive approach to

Alliance for Safe Online Pharmacies (ASOP)

www.BuySafeRx.pharmacy

Page 1



ensure consumers' safety and well-being in this online ecosystem and the SHOP SAFE Act is a substantial leap in the right direction.

Thank you for your continued leadership in Congress and for introducing the SHOP SAFE Act. ASOP Global looks forward to continuing to work with Committee to see the SHOP SAFE Act advance and ultimately enacted this Congress. Please know that we stand ready to work with you to ensure that federal policies that safeguard public health, like the SHOP SAFE Act, become law along with any internet policies that are aimed at curbing the ongoing opioid epidemic.

Respectfully,

A handwritten signature in black ink, appearing to read "John B. Hertig", is written over a light blue horizontal line.

John B. Hertig, PharmD, MS, CPPS, FASHP
Board President, ASOP Global Board of Directors
Vice-Chair and Associate Professor, Department of Pharmacy Practice
Butler University College of Pharmacy and Health Sciences
jhertig@butler.edu

cc: Judiciary Committee Chairman Jerrold Nadler
Representative Ben Cline



June 2, 2021

Rep. Hank Johnson
2240 Rayburn HOB
Washington, DC 20515

Rep. Darrell Issa
2300 Rayburn HOB
Washington, DC 20515

Sen. Thom Tillis
113 Dirksen Senate Office Building
Washington, DC 20510

Sen. Chris Coons
218 Russell Senate Office Building
Washington, DC 20510

Dear Representative Johnson, Representative Issa, Senator Coons, and Senator Tillis:

On behalf of the undersigned organizations representing U.S. intellectual property (IP) rights holders, manufacturers, and public health organizations, we welcome the introduction of the "Stopping Harmful Offers on Platforms by Screening Against Fakes in E-commerce Act of 2021" (SHOP SAFE Act of 2021). We applaud the bipartisan efforts in the House and Senate to set forth a seminal set of provisions incentivizing e-commerce platforms to address the sale of counterfeits online and to protect consumers from unsafe, unreliable, and unregulated products sold through these channels.

The last year has elevated the urgency of our collective concerns regarding the volume of counterfeit products sold online. The pandemic-driven shift to online shopping has emphasized that e-commerce platforms continue to be major sources for the sale of fake products. The accelerating magnitude of online fraud provides evermore urgency to establish definitive rules that ensure safe and secure online shopping. As the Subcommittee continues its efforts to advance this important piece of legislation, our organizations stand ready to support you.

We collectively wish to emphasize the following points regarding the SHOP SAFE Act:

- We call for the SHOP SAFE Act to proceed with its due diligence and accountability system fully intact to hold e-commerce platforms contributorily liable for trademark infringement when a platform does not follow certain best practices. We are fully supportive of best practices that would require platforms to verify and vet third-party sellers as well as require platforms to enforce

effective policies to expeditiously remove counterfeit listings and to terminate the accounts of repeat offenders.

- We endorse the emphasis on consumer health and safety as a priority. The U.S. Department of Homeland Security Report, *Combating Trafficking in Counterfeit and Pirated Goods*,¹ delineates a long list of counterfeits that can have significant and direct negative impacts on consumer health and safety. The United States has a long-standing track record of protecting consumers from commercial hazards and these protections should be extended immediately to consumers shopping online.
- At the same time, we call for the scope of the SHOP SAFE Act to be expanded to include the wider category of counterfeit products that violate or contravene U.S. trademark law. Again, referencing the DHS report, "*Harmful Offers*" on platforms go beyond products that carry consumer product safety risks. There are far deeper harms to America from illegal sales of counterfeits that cause widespread damage to U.S. economic competitiveness and compound threats to national security and public safety.² It would be irresponsible to only address one form of intellectual property crime, while permitting the balance of counterfeiting to persist on e-commerce platforms.

We offer the continued collaboration between ourselves, the brand owners we represent, and e-commerce platforms and other third-party intermediaries essential to providing greater consumer protection. However, it is time to move beyond relying solely on differing and voluntary approaches and on to a more comprehensive means to assuring a safe environment for this online ecosystem.

With this letter, we pledge our continued support and public advocacy of your efforts on the SHOP SAFE Act.

Sincerely,

Alliance for Safe Online Pharmacies (ASOP Global)
 Automotive Anti-Counterfeiting Council (A2C2)
 American Apparel & Footwear Association (AAFA)
 Association of Home Appliance Manufacturers (AHAM)
 Communications Cable & Connectivity Association (CCCA)
 Consumer Healthcare Products Association (CHPA)
 Halloween Industry Association (HIA)
 Juvenile Products Manufacturers Association (JPMA)
 Natural Products Association (NPA)
 Personal Care Products Council (PCPC)
 TIC Council Americas
 Toy Association
 Transnational Association to Combat Illicit Trade (TRACIT)

cc: House and Senate Judiciary Committee Members

¹ DEPARTMENT OF HOMELAND SECURITY, COMBATING TRAFFICKING IN COUNTERFEIT AND PIRATED GOODS: REPORT TO THE PRESIDENT OF THE UNITED STATES (Jan. 24, 2020)

https://www.dhs.gov/sites/default/files/publications/20_0124_plcy_counterfeit-pirated-goods-report_01.pdf.

² *Id.*



Chris Netram
Vice President, Tax and Domestic Economic Policy

May 27, 2021

The Honorable Hank Johnson
Chairman
Subcommittee on Courts, Intellectual
Property, and the Internet
House Committee on the Judiciary
6310 O'Neill House Office Building
Washington, DC 20515

The Honorable Darrell Issa
Ranking Member
Subcommittee on Courts, Intellectual
Property, and the Internet
House Committee on the Judiciary
2142 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Johnson and Ranking Member Issa:

On behalf of the National Association of Manufacturers, I write to thank you for holding today's hearing, "The SHOP SAFE Act: Stemming the Rising Tide of Unsafe Counterfeit Products Online." The NAM is the nation's largest industrial trade association, representing nearly 14,000 manufacturers, large and small, in every industrial sector and in all 50 states.

Manufacturers are deeply concerned about growing sales of fake and counterfeit products, particularly online, which cost the U.S. economy nearly \$131 billion and more than 325,000 jobs in 2019 alone.¹ Counterfeiting has harmed manufacturers, American workers and consumers for years. The problem has gotten worse, however, with the explosive growth of e-commerce. Over the past 14 months, COVID-19 brought this threat to the forefront as bad actors abused online platforms to peddle fake tests, dangerous vaccines and ineffective personal protective equipment.

Small and medium-sized manufacturers are particularly hard-hit by counterfeiting, as they have fewer resources available to monitor illicit activity on a growing range of online platforms and are less able to absorb the blow when counterfeiters target their products. That is why the NAM has led the charge for manufacturers in their fight against fake and counterfeit goods. In July 2020, the NAM released a white paper² that details how fake products, particularly those sold through online channels, are harming manufacturers, consumers and public health. The white paper also provides specific policy solutions that Congress and the administration should adopt to address the issue, such as (1) requiring e-commerce platforms to reduce the availability of counterfeits; (2) modernizing enforcement laws and tactics to keep pace with counterfeiting technology; (3) streamlining government coordination to tackle counterfeit items; and (4) empowering consumers to avoid counterfeit goods.

The NAM has repeatedly called for Congress and the administration to require e-commerce platforms to enact a series of specific steps to prevent the sale of counterfeits by third-party sellers or face contributory liability for infringement caused by those third-party sellers on their

¹ NAT'L ASS'N OF MANUFACTURERS, COUNTERING COUNTERFEITS: THE REAL THREAT OF FAKE PRODUCTS (July 2020), https://www.nam.org/wp-content/uploads/2020/07/CounteringCounterfeits.vF_.pdf.

² NAM, COUNTERING COUNTERFEITS: THE REAL THREAT OF FAKE PRODUCTS.

platforms.³ The SHOP SAFE Act would implement this framework and provide critical incentives for e-commerce platforms to utilize and improve on best practices to screen potential vendors to prevent the entry of counterfeit products onto their platforms.

The NAM appreciates the clear, practical approach reflected in the SHOP SAFE Act. As your subcommittee considers this legislation, we urge you to further strengthen this legislation by ensuring that the list of best practices that platforms must adopt is both clear and flexible enough to adapt to new tactics that counterfeiters may develop in the future.

On behalf of the millions of men and women who make things in America, thank you for your attention to this important issue. We would welcome the opportunity to engage further with you on this legislation and more broadly on counterfeiting concerns.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Netram". The signature is fluid and cursive, with a large initial "C" and "N".

Chris Netram
Vice President, Tax and Domestic Economic Policy
National Association of Manufacturers

³ Comments of the Nat'l Ass'n of Manufacturers re: U.S. Patent & Trademark Office Docket No. PTO-T-2020-0035: Comment Request: Secondary Trademark Infringement Liability in the E-Commerce Setting, 85 Fed. Reg. 72635 (filed Dec. 23, 2020), http://documents.nam.org/IEA/NAM_Comment_Letter_USPTO_PTO-T-2020-0035_12.23.20.pdf.



NATIONAL FIRE PROTECTION ASSOCIATION
The leading information and knowledge resource on fire, electrical and related hazards

NFPA SHOP SAFE Act Statement

The National Fire Protection Association (NFPA) is a self-funded nonprofit that develops over 300 safety standards. Unfortunately, we know all too well the dangers to the public of counterfeits of our publications being sold online. That's why we appreciate the attention the U.S. House Committee on the Judiciary is giving to this important matter, especially as it relates to consumer health and safety.

People in the United States and around the world rely on NFPA standards to keep them safe from fire and electrical hazards, but bad actors are jeopardizing their safety by selling pirated publications online bearing counterfeit copies of NFPA's federally registered trademarks. These fakes are substandard and, in many cases, dangerous. For example, some counterfeit NFPA standards have been sold with missing pages, which is particularly problematic for people unfamiliar with the content. Other fake NFPA standards have been sold with erroneous numerical values in tables used to make calculations for safety purposes, or incorrectly using "in" for inches when the measurement should be "m" for meters. There have also been versions of safety standards that do not exist at all being sold under the NFPA brand.

This is an issue with potentially life-threatening consequences. Individuals rely on NFPA standards for everything from properly installing electrical wiring in homes to preventing wildfires, so it's critical that the standards they're using are accurate and complete. As an example of the real-world implications of not following evidence-based safety standards, home fires involving electrical failure or malfunction caused an estimated average of 440 civilian deaths and 1,250 civilian injuries each year from 2012-2016, as well as an estimated \$1.3 billion annually in direct property damage.

The counterfeit issue has become so significant for our organization that we took legal action against nearly 200 operators of online storefronts selling pirated copies of NFPA safety standards, many of which had dangerous errors and omissions. The defendants were doing business on Amazon.com, eBay.com and other online marketplaces, and the vast majority of the online pirates were based in India, were notorious repeat offenders, and used false and unverified identities and fake contact information with the marketplaces to avoid detection.

Our ability to sue for copyright infringement, in addition to trademark counterfeiting, is an important tool to advocate for public safety and against counterfeiters, which is one reason why copyright protection of our standards is so important. It's also important because NFPA relies on our ability to sell and license our intellectual property so that we can be fully independent and always put safety first. Without copyright protections, NFPA wouldn't be able to continue funding our important work, which would lead to a disjointed and expensive patchwork of safety standards in the U.S. and around the world. It would also further embolden bad actors who profit from NFPA's intellectual property at the expense of public safety.

Our work fighting against counterfeits is far from over. Unscrupulous sellers continue to appear on sites like Amazon and eBay, threatening the health and safety of those who rely on NFPA standards and our organization's ability to continue developing them. Again, we appreciate the Committee's time and attention on this important matter and would welcome the opportunity to further educate its members on NFPA's experience with counterfeits and the implications for consumer health and safety, as well as our broader efforts to keep the public safe for the past 125 years.

ATTACHMENT: *National Fire Protection Association, Inc. v. Swets Information Services Private Limited, et al.*



May 20, 2021

The Honorable Jerry Nadler
Chairman, House Committee on the Judiciary
2138 Rayburn House Office Building
Washington, DC 20515

The Honorable Jim Jordan
Ranking Member, House Committee on the Judiciary
2138 Rayburn House Office Building
Washington, DC 20515

RE: SHOP SAFE Act

Dear Chairman Nadler, Ranking Member Jordan, and Members of the Committee:

Pharmavite LLC, the manufacturer and marketer of Nature Made® dietary supplements, writes in support of the “Stopping Harmful Offers on Platforms by Screening Against Fakes in E-Commerce (SHOP SAFE) Act”—legislation that would amend the Trademark Act of 1946 to provide for contributory liability for certain electronic commerce platforms (e-tailers) for use of a counterfeit mark by a third party on such platforms, and for other purposes.

There is significant and growing demand for online purchases of consumer goods and, unfortunately, counterfeit products have proliferated exponentially in response. While some e-tailers have taken aggressive actions, problems remain that put consumers in jeopardy as many counterfeit products are not produced under required regulatory conditions and pose a substantial health and safety risk. This bill aims to increase online marketplace transparency and accountability.

No one benefits from a scenario in which responsible companies and consumers are harmed by online access to counterfeit products which lack appropriate oversight and guidance. A clear regulatory framework for the internet marketplace will better protect consumers from bad actors.

For fifty years, Pharmavite has made and distributed high quality vitamins, minerals, herbs, and other dietary supplements that promote wellness and help maintain good health. Pharmavite is headquartered in West Hills, CA and has manufacturing and distribution facilities in San Fernando and Valencia, CA, and in Opelika, AL and has over 1400 employees.

We are proud to support the SHOP SAFE Act of 2021 and thank you for your interest and attention to this important issue. Please don't hesitate to contact us if we may be of any assistance as you craft and move policy in this arena.

Sincerely,

A handwritten signature in cursive script that reads "Christine Burdick-Bell". The signature is written in black ink on a white background.

Christine Burdick-Bell
EVP, General Counsel & Corporate Secretary

cc: The Honorable Hank Johnson, Jr.
The Honorable Darrell Issa
The Honorable Ben Cline



FOR IMMEDIATE RELEASE
May 20, 2021

Contacts: Lisa Powers, (202) 466-0489, powersl@personalcarecouncil.org
 Stefanie Harrington, (202) 615-6558, harringtons@personalcarecouncil.org
 Jamie Kurke, (202) 454-0316, kurkej@personalcarecouncil.org

**Statement by Lezlee Westine, President and CEO, Personal Care Products Council,
 on the Introduction of the SHOP SAFE Act of 2021**

Washington, D.C. — “The Personal Care Products Council (PCPC) and its member companies appreciate House Judiciary Committee Chairman Jerrold Nadler (D-NY); Subcommittee on Courts, Intellectual Property, and the Internet Chairman Henry C. “Hank” Johnson, Jr. (D-GA); Subcommittee on Courts, Intellectual Property, and the Internet Ranking Member Darrel Issa (R-CA); and Rep. Ben Cline (R-VA) for introducing the Stopping Harmful Offers on Platforms by Screening Against Fakes in E-Commerce (SHOP SAFE) Act of 2021. We strongly support its passage.

“E-commerce platforms create opportunities for legitimate companies to grow and reach new consumers, providing them with more choices and greater convenience. However, the current structure is vulnerable to exploitation and contributes significantly to a rise in illicit trade. Counterfeit personal care products damage businesses, disregard regulatory protections and more importantly threaten consumers’ health and safety.

“Consumers should have the same assurance that the products they purchase online are as safe and effective as the products they purchase in a brick and mortar store. Our member companies invest substantial resources to ensure the safety and quality of their products and U.S. laws hold our members accountable for doing so. The SHOP SAFE Act would even the playing field.

“We encourage Congress to establish a system that makes online marketplaces and others responsible for ensuring that products on their e-commerce platforms comply with U.S. laws and regulations. Legislation should also establish a minimum threshold for submission and validation of identification, banking and product authentication documentation to provide consumers greater confidence that the products they purchase are authentic and safe.

“We look forward to working with members of Congress and other stakeholders to raise awareness and develop solutions to combat the online sale of counterfeit products and establish stronger consumer protections.”

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Based in Washington, D.C., the Personal Care Products Council (PCPC) is the leading national trade association representing the global cosmetic and personal care products industry. Founded in 1894, PCPC’s 600 member companies manufacture, distribute and supply the vast majority of finished personal care products marketed in the U.S. As the makers of a diverse range of products millions of consumers rely on every day, from sunscreens, toothpaste and shampoo to moisturizer, makeup and fragrance, personal care products companies are global leaders committed to product safety, quality and innovation.



1200 G Street NW • Suite 200 • Washington, DC 20005
 t. 202.459.0354 • e. info@toyassociation.org

WRITTEN STATEMENT OF THE TOY ASSOCIATION
 THE HOUSE SUBCOMMITTEE ON COURTS, INTELLECTUAL PROPERTY
 AND THE INTERNET HEARING

“THE SHOP SAFE ACT: STEMMING THE RISING TIDE OF UNSAFE COUNTERFEIT PRODUCTS ONLINE”
 MAY 27, 2021

On behalf of the Toy Association, I submit for the hearing record our written statement supporting the *Stopping Online Harmful Offers on Platforms by Screening Against Fakes* (Shop Safe) Act. We applaud House Judiciary Committee Chairman Jerrold Nadler, Subcommittee on Courts, Intellectual Property, and the Internet Chairman Henry C. “Hank” Johnson, Jr., Subcommittee on Courts, Intellectual Property, and the Internet Ranking Member Darrell Issa, and Representative Ben Cline for crafting this important legislation to incentivize e-commerce platforms to address the sale of counterfeits online and to protect consumers from unsafe, unreliable, and unregulated products sold through these channels.

As background, The Toy Association represents more than 1,000 businesses – toy manufacturers, importers and retailers, as well as toy inventors, designers, licensors and studios – all involved in bringing safe, fun and educational toys and games for children to market. With an annual positive U.S. economic impact of \$98.2 billion, the U.S. toy industry supports 627,110 U.S. jobs and generates \$13.1 billion in state and federal tax revenue each year. Approximately 3 billion toys are sold in the U.S. each year, totaling \$27 billion at retail, and our members account for approximately 90% of this market. Importantly, over 95% of toy manufacturers, wholesalers, distributors in the United States are small businesses.

Curbing the flow of counterfeit goods in ecommerce is an issue of critical importance to the U.S. toy industry due to the safety concerns of counterfeit toys. Legitimate toy manufacturers and brick-and-mortar retailers of children’s products must obtain safety certifications and comply with over 100 federal safety standards, while online marketplaces are currently not held to these same standards – providing an opportunity for illicit third-party sellers to easily operate in online marketplaces and take advantage of consumer faith by selling counterfeit or stolen products that may or may not comply with federal safety standards.

It is widely recognized that counterfeit trade continues to increase¹ and that online shopping has a widespread risk of counterfeits.² The Toy Association explored the factors contributing to the rise in counterfeit goods sold through ecommerce platforms and recommended possible solutions in its 2020 white paper “Taking Fake Toys Offline” submitted for the record as part of our statement. Given that online marketplaces create an environment in which sellers are able to be anonymous and remain outside the reach of US jurisdiction, opportunities are abundant and risks are few for counterfeiters. The fact that counterfeit trade is growing and that counterfeiters are prospering despite heightened awareness and efforts by stakeholders, government and

¹ International counterfeit trade was \$509 billion in 2016, up from \$461 billion in 2013. OECD/EUIPO (2019), Trends in Trade in Counterfeit and Pirated Goods, Illicit Trade, <https://doi.org/10.1787/g2g9f533-en>.

² In the U.S., the “growth in e-commerce has contributed to a shift in the sale of counterfeit goods in the United States, with consumers increasingly purchasing goods online and counterfeiters producing a wider variety of goods that may be sold on websites alongside authentic products.” GAO, *Intellectual Property: Agencies Can Improve Efforts to Address Risks Posed by Changing Counterfeits Market* (Jan. 2018), <https://www.gao.gov/assets/690/689713.pdf>.

the marketplaces, demonstrates that the current system is inadequate and that the legal framework should be revised to incentivize online marketplaces to be more proactive and accountable.

1. The Burden of Enforcement is Disproportionately Reactive and Placed on the Rights Holder

Currently, online marketplaces lack an effective, proactive, transparent process for screening sellers or products that are offered by sellers. Instead, under the current legal regime, the burden of enforcement disproportionately relies on rights holders and consumers to police and report infringement. The current system places no responsibility on the seller or the marketplace and instead requires that rights holders scour online marketplaces and investigate, report, and prove infringement to the marketplace before counterfeit items are removed. This causes delay, allows sales of counterfeits to unsuspecting consumers, and puts the responsibility and expense on brand owners. This problem is compounded because marketplace processes vary, forcing rights holders to constantly navigate different, and often changing, marketplace enforcement procedures. This process removes the initial burden from the seller and without basis further gives the sellers the benefit of the doubt, to the detriment of rights holders and consumers.

a. Reactive Measures Will Never Keep up with Counterfeiters and Proactive Screening Must be the First Line of Defense

While online marketplaces continue to grow and provide benefits to legitimate companies looking to more easily reach consumers, by not adequately screening sellers or products, these same marketplaces allow bad actors and sellers to prosper. Without proactive approaches, bad actors remain a step ahead and continue to flourish. Without seller screening, sellers can provide inaccurate or fake information, making it impossible for online marketplaces to track and suspend bad actors, or for rights holders, law enforcement, or consumers, to enforce their rights. Importantly, there is no amount of resources rights holders can expend to adequately neutralize bad actors if marketplace approaches are disproportionately reactive in nature.

Proactive procedures must be the first line of defense. Every marketplace must implement a proactive system to verify whether a product being sold on its platform is counterfeit and whether it meets regulations such as labeling requirements and consumer product safety regulations. While marketplaces do not act as traditional brick-and-mortar retailers that curate goods to sell to consumers, this should not absolve the online marketplace from all responsibility for the goods from which they profit.

Some marketplaces have argued that thorough verification is not possible because of the volume of sellers or products on their marketplaces. This volume of sellers and products is not inevitable though; rather, it is a business decision that online marketplaces themselves make. If a marketplace is unable to verify the identity of its sellers or products because of the high volume, that is a result of its own creation.

b. Marketplace Brand Protection Programs are Inconsistent

Many online marketplaces tout their brand protection programs and investments made. Some marketplaces claim to have expanded the ability to implement different filters and rule systems to proactively block counterfeits and some online marketplaces have begun offering more robust collaborative programs for rights holders to more easily report and submit enforcement claims.

Unfortunately, to date, it appears that these have had little impact on counterfeiters. In part, this may be because they are inconsistently applied, and they remain largely reactive. Toy Association member experience is that certain tools are only made available to brands that have registered for particular marketplace enforcement programs that may have onerous terms; some are only available at a cost to the brand owner; and some may only be available to accepted brands after application to the marketplace. Further, they are not uniform across marketplaces.

Another hinderance is that marketplace shipping practices can create further enforcement challenges. At least one marketplace that fulfills third party orders will ship product from the warehouse closest to the consumer, regardless of whether it is the seller from which the consumer ordered. If shipped from a seller that is different than the one from which the consumer purchased, this creates another layer of obfuscation, removes consumer choice, and hinders seller identification, investigation, verification, and enforcement.

c. A Lack of Transparency and Verification of Seller Identity Undermines Enforcement

Transparency of seller information remains inadequate, resulting in a lack of information available to consumers making purchasing decisions, and to rights holders and law enforcement attempting to track and enforce against counterfeiters. Some online marketplaces are beginning to increase access to seller information, such as through brand owner programs. However, access is often inconsistent across marketplaces, providing a variety of different information depending on the program.

Further, even when marketplaces do offer such information that is necessary for subsequent enforcement actions, it is often incomplete or incorrect due to inadequate preliminary verification. Without complete or verified information, rights holders cannot take the necessary next steps and are often forced to expend time and valuable resources chasing dead ends.

2. The Current Doctrine of Secondary Infringement Liability is Ineffective in Combatting the Sale of Counterfeit Goods in the E-Commerce Setting

To protect consumers, some liability must rest with the marketplaces. Even if sellers are verified, they often remain outside the jurisdiction of the United States, meaning that a remedy for counterfeiting or for selling an unsafe product is unavailable to consumers or brand owners, or the cost of obtaining such a remedy is extremely burdensome. If an unsafe counterfeit product were to harm a child, requiring parents to seek a remedy from a counterfeiter in a faraway land is unreasonable and not fair; yet, if marketplaces are not liable, this is the result.

In its current state, the doctrine of secondary trademark infringement is inadequate and lacks clear standards for holding online marketplaces liable for counterfeit goods sold on their platforms. Under the current doctrine, a trademark owner may only bring a secondary infringement action against an online marketplace once it has shown that the online marketplace has been put on notice of the counterfeit or infringing goods and failed to take down the listings. As such, the doctrine fails to incentivize online marketplaces to take proactive measures in preventing counterfeit and infringing listings from being posted at the outset, and inequitably shifts the burden to trademark owners to expend significant efforts to monitor and notify online marketplace platforms.

Moreover, with e-commerce being a relatively new retail platform, application of the doctrine to this emerging field is scarce and has left ambiguity as to when an online marketplace may be held liable for its role in the sale of counterfeit goods. Critically, the question of what level of knowledge suffices to find online marketplaces contributorily liable remains open. Clarity is needed here to ensure online marketplaces are held accountable, especially where they have acknowledged the widespread sale of counterfeit goods on their platforms or are willfully blind to it. As it is, online marketplaces have largely been able to skirt liability, so long as they lack particularized knowledge of the counterfeit or infringing goods.

3. The SHOP SAFE Act Provides a Practical Legal Framework for Secondary Liability in the E-Commerce Setting

Additional mandates are crucial to ensure online marketplaces are taking steps to effectively safeguard against the sale of counterfeit and infringing goods. To the extent a platform obtained revenue from the sale of product, responsibility and liability should exist.

The SHOP SAFE Act establishes clear contributory trademark infringement liability for e-commerce platforms unless the platform implements certain best practices. In this way, it strives to combat the proliferation of unsafe counterfeit goods for sale on online marketplaces by incentivizing marketplaces to engage in a set of best practices for vetting sellers and goods, punishing repeat offenders, and ensuring that consumers have the best, most accurate information available to them when making purchases online.

The Toy Association believes SHOP SAFE provides a workable legal framework for holding online marketplaces accountable and distributes the burden of enforcement more equitably without stifling online marketplaces' ability to develop inventive solutions to combating counterfeit goods or hinder the growth of online businesses.

CONCLUSION

Under the current legal framework, the significant and serious issue of counterfeit and non-compliant products offered online seems only to be growing, thereby harming consumers, legitimate companies, and the American economy. We appreciate that platforms have been willing to engage with us on these concerns and have taken some meaningful steps in a positive direction. However, as it stands today, legitimate toy brands selling through local toy stores are playing by one set of rules and foreign sellers that exploit marketplaces are playing by another set of rules or are not playing by the rules at all. The Toy Association respectfully submits these comments with hopes of a modernized legal framework that provides brand owners with effective avenues for enforcing their rights in the e-commerce setting while allowing online marketplaces to continue to grow and evolve. The Toy Association looks forward to continuing its work with the House Judiciary Committee, online marketplaces, and our members to combat this detrimental phenomenon.

Thank you for your consideration. If you have any questions, please contact Leigh Moyers, Senior Manager, Federal Affairs at lmoyers@toyassociation.org.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Pasierb". The signature is stylized and cursive.

Steve Pasierb
President & CEO

Enclosure



WRITTEN STATEMENT OF THE TRANSNATIONAL ALLIANCE TO COMBAT ILLICIT TRADE
BEFORE THE HOUSE SUBCOMMITTEE ON COURTS, INTELLECTUAL PROPERTY
AND THE INTERNET
“THE SHOP SAFE ACT: STEMMING THE RISING TIDE OF UNSAFE COUNTERFEIT PRODUCTS
ONLINE”
MAY 27, 2021

On behalf of the Transnational Alliance to Combat Illicit Trade (TRACIT), I submit for the hearing record our written statement strongly supporting the *Stopping Online Harmful Offers on Platforms by Screening Against Fakes* (Shop Safe) Act. Mr. Chairman, we applaud you, along with Chairman of the House Judiciary Committee Jerrold Nadler, Congressmen Darrell Issa, Henry C. “Hank” Johnson and Ben Cline for stepping forward to protect consumers with legislation that provides incentives and incorporates best practices to keep counterfeiters and illicit traders from exploiting ecommerce marketplaces.

The exponential growth of ecommerce during the pandemic is a harbinger of consumer retail markets of the future – and the significant, ever-increasing market shares that ecommerce companies will command. This development has intensified the mandate of the Shop Safe Act: to ensure that the business practices of ecommerce platforms sufficiently prevent bad actors from selling unregulated, unsafe or otherwise fraudulent products to American consumers. Consequently, we are pleased that:

- The Shop Safe Act uniquely limits safe harbor from contributory liability to those ecommerce platforms that earn such protections through proactive steps to keep sellers of fraudulent products from setting up shop in their ecommerce marketplaces.
- The Shop Safe Act shines a bright light on the illicit traders—the people behind the crimes—and requires them to supply identification credentials similar for conducting any sort of business transaction in the United States—online or offline. By concentrating on “who,” this Bill will immediately crack down on the relatively small number of sellers who are responsible for posting billions of fake listings. In terms of operational feasibility, this approach targets the more manageable number of sellers instead of policing billions of product listings that have already gone online.
- This legislation also for the first time would require foreign sellers to set up a registered seller in the US or otherwise have a US address, which could help significantly to reduce the number of fly-by-night sellers that traditionally hide from responsibility and consumer or legal recourse.

We are concerned, however, about the scope of the bill being limited to goods that implicate safety and health, for several reasons:

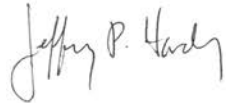
- Legislation should avoid creating categories that may ultimately require the judicial system to undertake lengthy and contentious processes to establish parameters around the vague concept of “safety and health.” For example, fraudulent printer ink may not be found to affect the health of the consumer, but consumers should be protected from damage to their printers caused by the counterfeit product.
- Consumers should be protected from all forms of counterfeit fraud, especially opaque online fraud, not just products that might fit the safety and health definition.

Consequently, the scope of the SHOP SAFE Act should be expanded to include the wider category of counterfeit products that violates or contravenes U.S. trademark law. Referencing the DHS report, “*Harmful Offers*” on platforms go beyond products that carry consumer product safety risks. There are far deeper harms to America from illegal sales of counterfeits that cause widespread damage to U.S. economic competitiveness and compound threats to national security and public safety.¹ *It would be irresponsible to only address one form of intellectual property crime, while permitting the balance of counterfeiting (and associated fraud) to persist on e-commerce platforms.*

Given the ground-breaking nature of this legislation, we also encourage you to minimize vague and abstract provisions—such as the recurrent use of the word “reasonable”—that may push resolution of any contest to the judicial system. *The seminal value of SHOP SAFE is that it establishes clear rules that obviate much of the need for judicial interpretation of future litigation.*

We look forward to working with you.

Respectfully submitted,



Jeffrey P. Hardy, Director-General

The Transnational Alliance to Combat Illicit Trade (TRACIT) is an independent, non-profit business trade association to drive change to mitigate the economic and social damages of illicit trade by strengthening government enforcement mechanisms and mobilizing businesses across industry sectors most impacted by illicit trade. TRACIT works across 11 industry sectors and addresses human and wildlife trafficking. For more information, please visit www.TRACIT.org

¹ US Department of Homeland Security, Combating Trafficking in Counterfeit and Pirated Goods, Report to the President of the United States, January 24, 2020

Questions for the Record for Kari Kammell submitted by Rep. Chabot

1. Why has China become the global center for counterfeiting activity? What about it is so conducive to counterfeiters?
2. To what extent is the Chinese government aware of the scope of counterfeiting operations in China, and at what levels of the government?
3. What is the attitude of the leaders of the Chinese Communist Party toward counterfeiting? Do they see it as a problem that needs to be addressed, or do they turn a blind eye or even see it as useful?
4. What steps have the Chinese government taken in recent years to curb counterfeiting operations? Have those steps been at all effective in fighting counterfeiting?

Questions for the Record for Kari Kammel submitted by Rep. Chabot

1. Why has China become the global center for counterfeiting activity? What about it is so conducive to counterfeiters?

Question 1 Response: This is not within the area of my personal expertise.

2. To what extent is the Chinese government aware of the scope of counterfeiting operations in China, and at what levels of the government?

Question 2 Response: This is not within my area of personal expertise.

3. What is the attitude of the leaders of the Chinese Communist Party toward counterfeiting? Do they see it as a problem that needs to be addressed, or do they turn a blind eye or even see it as useful?

Question 3 Response: This is not within my area of my personal expertise.

4. What steps have the Chinese government taken in recent years to curb counterfeiting operations? Have those steps been at all effective in fighting counterfeiting?

Question 4 Response: This is not within the area of my personal expertise.