

Back to School with the SHOP SAFE Act: Protecting Our Families from Unsafe Online
Counterfeits

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Written Statement

Submitted by

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Chair Coons, Ranking Member Tillis, and Members of the Sub-Committee, thank you for inviting me to testify on the problem of the sale of counterfeit goods on online marketplaces. I am representing myself at today's hearing. The views I express are my own.

I am the Director of the Center for Anti-Counterfeiting and Product Protection ("the A-CAPP Center") at Michigan State University, where I oversee and run the Center's research, education and outreach programming, which is focused on meeting practice with research. I also research and publish about trademark counterfeiting, teach trademark counterfeiting law, and have worked with hundreds of companies and organizations with brand protection practitioners in the field focusing on the A-CAPP Center's work. My remarks today are based on my work, and that of the Center, on the problem of the sale of counterfeit goods by third parties in the online space.

1. The Center for Anti-Counterfeiting and Product Protection ("A-CAPP Center") at Michigan State University

At the A-CAPP Center, we research the complex global issue of trademark counterfeiting and brand protection of products, across multiple industries and markets.¹ We provide multidisciplinary academic research on the exponentially growing problem of trademark counterfeiting, as well as education and outreach on the topic. 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 working with intellectual property rights owners, government, and

¹ Center for Anti-Counterfeiting and Product Protection, <https://a-capp.msu.edu>; We have academic expertise with faculty partners across Michigan State University's various departments and programs, as well as academic partners across the country and world to research counterfeiting and its impact on brands and consumers.

law enforcement, I also work with other brand protection professionals and stakeholders, including online marketplaces, social media platforms, service and technology providers, law firms, investigators and other professionals with my colleagues so that we can examine the problem from an academic, yet practical, perspective.

In the Center's portfolio, in addition to multidisciplinary research, we 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, including our executive education training and the first online professional brand protection certificate, Brand Protection Professional Magazine, and Brand Protection Stories Podcast and student internship/mentorship program in brand protection.²

2. Problem of Trademark Counterfeiting on Online Marketplaces

While trademark counterfeiting has been around for many years, the scope of the problem has changed dramatically with the advent of online shopping. The sale of goods in online marketplaces, both licit and illicit goods, has grown exponentially in the past decade;³ and particularly since the onset of COVID-19, consumers have increasingly shopped online.⁴

The United States leads the world in total e-commerce sales and business to business sales, and is second in the world in business to consumer sales.⁵ With virtual storefronts and easy online transactions, online marketplaces give businesses of all sizes the opportunity to achieve global profits and reach previously inaccessible consumers, and also give consumers access to products delivered to their door that they might not be able to find in local markets.

However, counterfeiters also take advantage of the opportunity online marketplaces provide them and rely on the brands' goodwill and reputation to create counterfeit products to reach often unwitting consumers. The sale of counterfeit goods remains low risk to the counterfeit 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, apps, and the dark web.⁶

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).

⁴ OECD, *Misuse of E-Commerce for Trade in Commerce* (October 2021) (noting that between 2018 and 2020, online retail sales, a subset of the business to consumer sales total, rose by 41% in major economies, compared to less than a 1% rise in total retail sales).

⁵ OECD, *supra* note 4 at Table 2.1. World e-commerce in 2019 (citing UNCTAD)

⁶ 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).

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 U.S. Customs and Border Protection’s Intellectual Property Rights Seizure Statistics report for the 2021 fiscal year reported that CBP had 102,490 seizures with an estimated manufacturer’s suggested retail price (MSRP) of over \$3.3 billion.⁷ The size of the problem is often calculated based on seizure data, or takedown data, which does not fully reflect the universe of counterfeit goods.⁸ Third, data sharing between brands, platforms, law enforcement and academia has always been a struggle. However, despite these limitations, estimates of counterfeiting profits globally by Global Financial Integrity state that it is financially the largest criminal enterprise in the world, approximately \$923 billion to \$1.13 trillion a year—a higher amount than either drugs (\$426-652 billion) or human trafficking (\$150.2 billion).⁹ Financially, counterfeit goods impact national economies; counterfeit and pirated goods in international trade have been estimated to amount to as much as USD 464 billion in 2019, or 2.5% of world trade that year.¹⁰

Brands may have their own investigatory data, and platforms may have their take down data. This data, however, is usually not shared beyond some cursory statistics, even with researchers. Additionally, many goods that are reported by consumers to e-commerce marketplaces that are or could be counterfeit instead are reported as a quality issue since there is no option to report counterfeits.

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.¹¹ 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.

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

⁷ U.S. Customs and Border Protection, Intellectual Property Seizure Statistics, FY 2021, available at <https://www.cbp.gov/document/annual-report/fy-2021-ipr-seizure-statistics>.

⁸ 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).

⁹ Transnational Crime and the Developing World (March 2017), available at https://gfintegrity.org/wp-content/uploads/2017/03/Transnational_Crime-final.pdf

¹⁰ Kammel, et al, *supra* note 3, at 225; OECD, TRENDS IN TRADE AND COUNTERFEIT GOODS (2019).

¹¹ Channing May, Transnational Crime and the Developing World (Global Financial Integrity 2017) <https://gfintegrity.org/report/transnational-crime-and-the-developing-world/>

marketplaces.¹² Additionally, online marketplaces have varying and inconsistent 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-size enterprise (SME) brands.

While INFORM Consumers requirement of e-commerce platforms to get basic identifying information for high-volume third-party sellers on their sites,¹³ providing seller information will create some transparency for consumers and others. However, transparent seller information will not in and of itself will not stop proliferation of sales of counterfeits by third party sellers, nor will it balance the burden of disrupting the meeting of consumers and counterfeit listings.

From a business standpoint, from the moment an intellectual property rights owner exposes itself to sales benefits of the online marketplace, they also face increased challenges related to illicit online actors. Even if an intellectual property rights 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.

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

In a research paper I authored with former A-CAPP Center colleagues,¹⁴ we discussed the legal landscape that currently exists in respect to secondary liability for trademark counterfeiting and why it should not apply to the current state of sales of counterfeit goods by third party sellers online.¹⁵ First, secondary liability for trademark infringement was initially created to address infringement within the a brick-and-mortar setting by a manufacturer or distributor within the brick-and-mortar supply chain. The current doctrine of secondary liability is based on *Inwood Labs v. Ives*,¹⁶ which referred to manufacturers and distributors in the supply chain and was later applied to other cases involving “service providers,” such as flea markets.¹⁷

¹² DHS Report 2020, *supra* note 9; 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/>.

¹³ Consolidated Appropriations Act of 2023, H.R. 2617, 117th Cong. Div. BB, Title III, § 301 (2022), <https://www.govinfo.gov/content/pkg/BILLS-117hr2617enr/pdf/BILLS-117hr2617enr.pdf> (“INFORM Consumers Act”).

¹⁴ Kammel et al, *supra* note 3.

¹⁵ See Kammel et al, *supra* note 3.

¹⁶ *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.

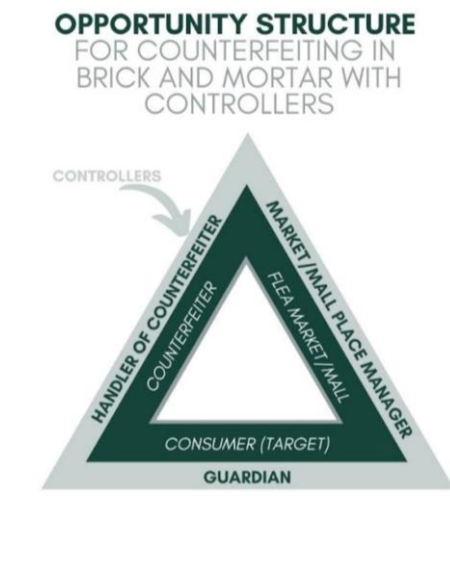
¹⁷ Kammel et al, *supra* note 3, at 237 (discussing *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1143 (7th Cir. 1992)).

In our research paper, we combined the social science theory related to the opportunity structure of persistent risky activities to understand where the legal doctrine of secondary liability for trademark counterfeiting should apply in the online supply chain.¹⁸ Applying this theory to the doctrine, we explain how the opportunity structure for counterfeiting occurs when consumers and counterfeiters interact in online marketplaces where guardianship to protect the consumer, and by extension the brand, is weak in the online shopping experience.

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.¹⁹ Guardianship of the physical space can mean protecting shoppers, preventing counterfeit sellers from setting up shop and generally protecting the physical marketplace.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. The opportunity structure is seen as a meeting in time and place of the potential infringer (the counterfeit seller) and the consumer.²¹ See Figure 1.

Figure 1: Opportunity Structure for Counterfeit Sales, Brick and Mortar



¹⁸ Kammel at al, *supra* note 3, at 229.

¹⁹ *Id.* at 239.

²⁰ *Id.* at 219-220.

²¹ *Id.* at 219.

b. Brick and Mortar Marketplaces: 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 sale of the counterfeit goods to the consumer.²² See Figure 2.

Figure 2: Disruption of the Opportunity Structure for the Sale of Counterfeit Goods, Brick and Mortar²³



Disruption can be done by guardians either protecting the consumer (through education/awareness), protecting the brick-and-mortar location through proactive activities 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).²⁴

It does not mean that every instance of a counterfeit sale 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*, a case before the 7th Circuit in 1992 where the court found 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.²⁵

²² *Id.* at 239-240.

²³ *Id.* at 220 (citing to Figure 4. The disruption of triangle by owners and manager in a brick-and-mortar setting).

²⁴ *Id.* at 219, 228.

²⁵ *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

The case law thus reflects that in the brick-and-mortar marketplaces, the owner of the market is the appropriate entity that bears responsibility for protecting their marketplaces, protecting consumers in their marketplace and preventing counterfeit sellers.

c. **Online Marketplaces: Lack of Guardians**

However, we do not see this theory being applied in the online marketplace space. Instead, the current case law leaves a gap by not requiring e-commerce marketplaces to take responsibility for guardianship and protection of consumers on their sites.

i. **The *Tiffany v. eBay* Case**

In 2010, the Second Circuit in the *Tiffany v. eBay* case²⁶ noted the extension of the *Inwood* test to service providers, such as the flea market owners in *Hard Rock*,²⁷ and then also noted that they were the first to apply this test to an online marketplace.²⁸ The standard set here for secondary liability for an online marketplace was that 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—”²⁹ otherwise known as the contemporary knowledge requirement.³⁰ The e-commerce platform eBay was found not liable for secondary trademark infringement because they had responded to specific suspected counterfeit postings reported by Tiffany and they had no onus to search proactively for counterfeit postings.³¹

ii. **Practical Impact of *Tiffany***

From a liability perspective under the current state of the law, there is no obligation on any party to proactively address online counterfeit postings. Some online marketplaces understand that there is a massive problem with counterfeit postings and remove some counterfeit postings that are reported to them (notice and take down) or found through internal self-investigation by technology or otherwise (before the intellectual property rights holder reports the posting)—what I would refer to as a reactive response.

RESTATEMENT (SECOND) OF TORTS § 877(c), cmt. d (AM. LAW INST. 1979)); *see also* *Coach v. Gata Corp.*, No. 10-cv-141-LM, 2011 WL 2358671, at *6-8 (D.N.H. June 9, 2011 (finding the flea market contributory liable because they exercised “substantially more control over potential direct infringers than the defendants in *Tiffany*, *Inwood*, *Sony*.” *See* Kammel, et al, *supra* note 3, at 225.

²⁶ *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*).

²⁷ *Hard Rock*, *supra* note 227.

²⁸ *Tiffany*, 600 F.3d at 105; Kammel, et al, *supra* note 3, at 243.

²⁹ *Tiffany*, 600 F.3d at 107; Kammel, et al, *supra* note 3, at 243.

³⁰ *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

³¹ *Tiffany*, 600 F.3d at 109.

A few may proactively vet sellers or postings, but these are not the majority. Under the recently passed INFORM Consumer act, e-commerce platforms must collect basic information from high-volume third-party sellers,³² but platforms are not required to vet sellers' postings, nor to proactively monitor their own platform for counterfeit goods. Further, this is not required by the law. Under the *Tiffany* standard, they must only remove them reactively, or when they have “specific knowledge.”

A intellectual property rights owner, however, does not want injury to its reputation, or injury to its consumers,³³ so, practically that owner tries to monitor and notify the online marketplace or social media platform to remove a suspicious listing, counterfeit listing, or a seller that is selling an illicit, counterfeit, or unauthorized product, even though the counterfeit product does not belong to the intellectual property rights owner. For every listing that a brand owner successfully petitions to have removed from an online marketplace, many more illicit listings will likely take its place³⁴—leading to what is called in the industry the “whack-a-mole” problem.

Because the search for online counterfeit listings has exploded, an entire industry of online anti-counterfeiting providers and law firms selling their services and technologies to intellectual property rights holders 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.³⁵ While “law disruptive technology,”³⁶ such as artificial intelligence, or even online sales of goods, continues to expand, new laws addressing the continued expansion of counterfeiting should take into consideration the impact and rapid change in technology to expand with technological improvement. Many platforms use artificial intelligence or machine learning to remove counterfeit postings. We do know however, that bad actors are also using AI and machine learning to either increase the number of postings or evade detection by intellectual property rights owners, platforms, vendors and law enforcement.³⁷ Most importantly, new legislation should allow for online marketplaces to respond with iterative changes in protecting

³² Consolidated Appropriations Act of 2023, H.R. 2617, 117th Cong. Div. BB, Title III, § 301 (2022), <https://www.govinfo.gov/content/pkg/BILLS-117hr2617enr/pdf/BILLS-117hr2617enr.pdf> (“INFORM Consumers Act”).

³³ 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).

³⁴ 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’LL. & BUS. 157, 161 (2020).

³⁵ Kammel, et al, *supra* note 3, at 252.

³⁶ See 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)

³⁷ Intellectual Property Rights Center, HSI, Working Group on AI, roundtable held jointly with A-CAPP Center September 2023

consumers and intellectual property rights owners using appropriate current technology and other methods, so as to not simply become a compliance check.

Finally, while INFORM Consumers should give consumers and intellectual property rights holders some transparency regarding seller self-reported identification and location, numerous other critical details remain missing. These include details on systems for vetting products by platforms, how consumers and intellectual property rights owners are contacted upon a discovery of a counterfeit and how many counterfeit products were actually sold, process for removal of listings, where counterfeits go after being reported or taken down if they have been warehoused or returned, 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 consumers, as they have not been required by law.

Many platforms have created extensive tools for brands to register their marks (a type of recordation), work to identify counterfeit listings for take down efforts, and collaborate with law enforcement agencies and intellectual property rights owners.³⁸ While I referred to these activities in 2020 and 2021, we have not seen a decrease in counterfeit sales online, but the opposite with intellectual property rights owners' frustrations growing and more consumers in the U.S. being exposed to the purchase and sale of counterfeit goods.

d. Online Marketplaces: Disrupting Counterfeiting Opportunity

Revisiting the opportunity structure for trademark counterfeiting in brick-and-mortar marketplaces and how it applies to e-commerce platforms, using online counterfeit sellers in the role of motivated infringers, online consumers in the role of suitable targets/potential victims, and the e-commerce platform itself as the place wherein infringer and target meet and interact.³⁹ The motivated counterfeit seller operates as an “unseen competitor” to legitimate companies, using the e-commerce platform as a place to hide from detection and fool consumers, while reaping illicit economic benefits.⁴⁰

In the opportunity structure triangle for trademark counterfeiting, e-commerce platforms should have varying levels of influence over counterfeiting schemes by 1) de-motivating sellers of counterfeits on their sites, 2) protecting consumers by deterring potential infringers or assisting consumers in protecting themselves from victimization, and 3) controlling the conditions that

³⁸ Zacharia & Kammel, *supra* note 14, 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>.

³⁹ See generally Kammel et al, *supra* note 3, at 248.

⁴⁰ 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)).

allow illicit actors and consumers to come together and interact.⁴¹ As a result, when an e-commerce platform fails in one of more of these three activities, and the counterfeit seller and consumer meet on their platform, counterfeit sales on the platform are more likely.⁴²

The operators of e-commerce platforms 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 counterfeit sellers and consumer targets.⁴³ With regard to addressing motivated sellers of counterfeits, platforms have the ability to identify potentially infringing listings and proactively embargo or reject these listings.⁴⁴ These activities can disrupt the opportunity for third party sellers to sell counterfeits to consumers. See Figure 1.

Figure 3. Disruption of Opportunity Structure for Counterfeit Goods in E-Commerce⁴⁵



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. While platforms cannot know every possible trademark worldwide, they have access to publicly registered marks through the USPTO and should be aware of high selling products on their platform, particularly those of which the counterfeit version can impact health and safety.

⁴¹ Kammel, et al, *supra* note 3, at 231.

⁴² *Id.*

⁴³ *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)).

⁴⁴ *Id.* at 249.

⁴⁵ *Id.* at 229 (citing to Figure 6).

Consumers can play a large part in the success of trademark counterfeiting schemes as well.⁴⁶ 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.⁴⁷ 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 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.

Finally, educating consumers of the risk of counterfeits, what a counterfeit is, and how to report a counterfeit on a platform remains paramount to have consumers be empowered to protect themselves as well on the platform.

e. Impact on Consumers

In addition to the impact on IP rights holders, we are seeing the impact manifested at the consumer level as well. 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.⁴⁸

Consumers often are unaware that they are buying counterfeit goods, struggle to be able to report counterfeits to an online marketplace (as opposed to just general dissatisfaction with a purchased good or seller interaction) or they or their estate cannot find the third-party seller for service of process for a lawsuit if they are injured or killed by a product. This has led to a series of strict liability cases being filed against marketplaces in recent years.⁴⁹

A recent A-CAPP Center research study launched in September of 2023 examining consumer behavior and responses in 17 countries when online shopping and encountering counterfeits is

⁴⁶ *Id.* at 255.

⁴⁷ *Id.*

⁴⁸ See Kammel et al, *supra* note 3, at 228; Kennedy, *supra* note 6, at 7, 14.

⁴⁹ See 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). 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.

telling.⁵⁰ In the U.S., our study noted that: nearly two-thirds (66%) bought counterfeits without knowing it.⁵¹

More than one in 10 participants (13.4%) of the US sample in our survey expressed that they have experienced a negative health effect after using a counterfeit product and 15.6% said they experienced a personal injury.⁵² Other negative consequences included loss of money and compromising of personal information.

About a third of participants in our survey indicated they have purchased counterfeits through e-retail platforms, and 35% did so on social media.⁵³ Though nearly half of the U.S. sample bought counterfeits for personal use, with about 55% of them having shared their counterfeit purchase with others, including gifting behavior.⁵⁴

Finally, our findings in the U.S. market show that consumers see no clear mechanism for what to do with products bought online after they find out they are counterfeit.⁵⁵ A quarter of consumers in our survey (27%) kept the product, 25% returned to the seller, and 20% returned to the manufacturer, and only 16% disposed of the counterfeit product.⁵⁶

The risk to consumers of using a counterfeit good varies widely, is unpredictable, and spans multiple industries and products, including but not limited to clothing and apparel, shoes, watches, electronic, medical devices, pharmaceuticals, pet care products and food, toys, computers, personal care products, automobile parts, airplane parts, and numerous other consumer facing products.

For example, in the pharmaceutical industry a wide range of toxins and chemicals have been found in counterfeit pharmaceuticals purchased online.⁵⁷ Counterfeit airbags, cosmetics, bike

⁵⁰ Saleem Alhabash, Anastasia Kononova, Pat Huddleston, Jeijin Lee, and Moldir Moldagaliyeva, Global Anti-Counterfeiting Consumer Survey 2023 (A-CAPP Center Report 2023).

⁵¹ *Id.* Around 55% non-deceptively bought counterfeit goods and collectively, 71% of U.S. consumers indicated they bought counterfeits online in the past year, knowingly and/or unknowingly.

⁵² *Id.*

⁵³ *Id.* The top social commerce platforms where they purchased counterfeits were Facebook (27%), YouTube (20%), WhatsApp (18.3%) and Instagram (22.1%); three of which are Meta-owned platforms. *Id.*

⁵⁴ *Id.*

⁵⁵ *Id.*

⁵⁶ *Id.* at 40. Other strategies consumers used focused on electronic word of mouth (writing social media reviews and online reviews) were not pervasive.

⁵⁷ Association for Safe Online Pharmacies (ASOP), Toxins Found in Counterfeit and Falsified Medicines, <https://buysaferx.pharmacy/for-the-media/toxins-found-in-counterfeit-and-falsified-medicines/> (spanning toxins from concrete to car paint to rat poison).

helmets, baby carriers,⁵⁸ toys,⁵⁹ and automotive parts, clothing and apparel, and many other goods can have harmful or even deadly results.

On a personal note, despite working in this field for some time, even my family is impacted by counterfeit goods. My mother is a 72-year-old retired public school teacher. Three weeks ago she was informed that a vitamin that she ordered on a well-known e-commerce platform that allows third party sellers was counterfeit and she had experienced some health side effects for months while taking the product. While she did get a refund, the notification and subsequent communications from the platforms were confusing to the average person, let alone someone who had a family member who works in anti-counterfeiting— she could not get access to what was in the counterfeit, and had difficulty getting the contact information from the platforms for the seller. She was told by customer service at the e-commerce platform that she would get a refund and could dispose of it, *give it away or donate it*. Despite listing a local U.S. address, the counterfeit sale of this product continued for some time. This is just a brief personal example of what consumers and intellectual property rights owners are facing on a daily basis and the ongoing threat of the sale of counterfeits by third party sellers.

4. SHOP SAFE Addresses Issues Regarding the Imbalance of Preventing 3rd Party Sales of Counterfeit Goods on E-Commerce Platforms

From my perspective, a proactive requirement for e-commerce platforms that allow third party sales and responsibility for “constructive knowledge” of counterfeit sales will help balance the burden between intellectual property rights owners and platforms.

to pursue those who have created an online supply chain but for the sale on their e-commerce platform a counterfeit of their goods would have not reached a consumer. An e-commerce platform’s reactive efforts after the sale of a counterfeit is not enough to stop the proliferation of sales of counterfeit goods by third party sellers.

A holistic, collaborative approach to dealing with this issue is required and legislation is part of this approach and essential to (1) balance the obligations of intellectual property rights owners and e-commerce platforms in this space, (2) address “law disruptive technology”, or the imbalance due to the shift from brick and mortar environments to an online e-commerce space that the law did not foresee, and (3) provide consumers more protection and avenues in which to report suspected counterfeit goods.

⁵⁸ ICE, Counterfeit Goods: A Danger to Public Safety (2020), <https://www.ice.gov/features/dangers-counterfeit-items>

⁵⁹ The Toy Association, The Real Threat of Fake Toys, https://www.toyassociation.org/App_Themes/toyassociation_resp/downloads/research/whitepapers/intellectual-property.pdf

Recommendations

My recommendations are to:

1. Continue to address the ever-growing sale of counterfeit goods by third party sellers in online marketplaces through legislation and other means.
2. Support continued and expanded collaborations and method development regarding data sharing between academia and other stakeholders, including e-commerce platforms, that support legislative initiatives; and
3. Expand research and knowledge on the trade in counterfeit goods, brand protection, and anti-counterfeiting responses in order to address the critical gap in 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.

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