

U.S. Senate Committee on the Judiciary

Hearing on Cleaning Up Online Marketplaces: Protecting Against Stolen, Counterfeit, and Unsafe Goods on November 2, 2021

Written Statement

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Chair Durbin, Ranking Member Grassley, and Members of the 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 Assistant Director for Education and Outreach and Senior Academic Specialist 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**

At the A-CAPP Center, we focus our work upon the complex global issues of anti-counterfeiting and brand protection of products, across all industries, in all markets.<sup>1</sup>

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<sup>1</sup> 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

We seek to provide multidisciplinary 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 training and the first online professional brand protection certificate.<sup>2</sup>

## **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 decade.<sup>3</sup> Particularly since the onset of COVID-19, consumers have increased online shopping.<sup>4</sup> The U.S. leads the world in total e-commerce sales and B2B sales, and is second in the world in B2C.<sup>5</sup> With virtual storefronts and online

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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.

<sup>2</sup> 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/>

<sup>3</sup> 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](https://www.czso.cz/documents/10180/88506450/32019719q1_057.pdf/37dfdce8-0aca-4859-b774-641d7c9c40f3?version=1.0)

<sup>4</sup> OECD, *Misuse of E-Commerce for Trade in Commerce* (October 2021) (noting that between 2018 and 2020, online retail sales, a subset of the B2C total, rose by 41% in major economies, compared to less than a 1% rise in total retail sales).

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

transactions, online marketplaces give businesses of all sizes the opportunity to achieve global profits and reach consumers they might not have been able to access previously, as well 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.<sup>6</sup>

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 2020 fiscal year reported that "CBP made 26,503 seizures with an estimated manufacturer's suggested retail price (MSRP) of over \$1.3 billion."<sup>7</sup> The size of the problem is often calculated based on seizure data, or takedown data, which does not reflect the universe of counterfeit goods.<sup>8</sup> 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. 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. However, we do know that the postings proliferate, as 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

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<sup>6</sup> 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).

<sup>7</sup> U.S. Customs and Border Protection's Intellectual Property Rights Seizure Statistics FY 2020 (posted September 21, 2020 and last modified September 30, 2021), available at [https://www.cbp.gov/sites/default/files/assets/documents/2021-Sep/101808%20FY%202020%20IPR%20Seizure%20Statistic%20Book%2017%20Final%20spreads%20ALT%20TEXT\\_FINAL%20%28508%29%20REVISED.pdf](https://www.cbp.gov/sites/default/files/assets/documents/2021-Sep/101808%20FY%202020%20IPR%20Seizure%20Statistic%20Book%2017%20Final%20spreads%20ALT%20TEXT_FINAL%20%28508%29%20REVISED.pdf).

<sup>8</sup> 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).

counterfeit listings.<sup>9</sup> The recent OECD report, however, runs six qualitative exercises to show counterfeit customs seizures and using a regression analysis shows a positive correlation between “various e-commerce proxies and illicit trade indicators.”<sup>10</sup>

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.<sup>11</sup> 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.

Financially, counterfeit goods impact national economies, as well as companies of all sizes. 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.<sup>12</sup>

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.<sup>13</sup>

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 counterfeits 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

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<sup>9</sup> Department of Homeland Security, *Combating Trafficking in Counterfeit and Pirated Goods: Report to the President of the United States 5* (2020).

<sup>10</sup> OECD, *supra* note 4 at Section 3.

<sup>11</sup> 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/>.

<sup>12</sup> Kammel, et al, *supra* note 3, at 225; OECD, *TRENDS IN TRADE AND COUNTERFEIT GOODS* (2019).

<sup>13</sup> See Kammel et al, *supra* note 3, at 228; Kennedy, *supra* note 6, at 7, 14.

of strict liability cases being filed against marketplaces in the past 2 years.<sup>14</sup> The risk of to consumers of the impact of using a counterfeit good varies widely, is unpredictable, and spans multiple industries and products.

For example, in the pharmaceutical industry a wide range of toxins and chemicals have been found in counterfeit pharmaceuticals purchased online.<sup>15</sup> Counterfeit airbags, cosmetics, bike helmets, baby carriers,<sup>16</sup> toys,<sup>17</sup> and many other goods can have harmful or even deadly results.

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.<sup>18</sup> 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.

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<sup>14</sup> 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.

<sup>15</sup> 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).

<sup>16</sup> ICE, *Counterfeit Goods: A Danger to Public Safety* (2020), <https://www.ice.gov/features/dangers-counterfeit-items>

<sup>17</sup> The Toy Association, *The Real Threat of Fake Toys*, [https://www.toyassociation.org/App\\_Themes/toyassociation\\_resp/downloads/research/whitepapers/intellectual-property.pdf](https://www.toyassociation.org/App_Themes/toyassociation_resp/downloads/research/whitepapers/intellectual-property.pdf)

<sup>18</sup> Channing 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 I authored with Jay Kennedy,<sup>19</sup> Daniel Cermak,<sup>20</sup> Minelli Manoukian,<sup>21</sup> 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.<sup>22</sup> 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*<sup>23</sup> and was later applied to other cases involving “service providers”, such as flea markets.<sup>24</sup>

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.<sup>25</sup> 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.

#### 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.<sup>26</sup> Others of

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<sup>19</sup> 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.

<sup>20</sup> Daniel Cermak, Esq. is Court Officer/Research Clerk for the 30<sup>th</sup> 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.

<sup>21</sup> 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.

<sup>22</sup> See Kammel et al, *supra* note 3 (acknowledging the research assistance of Deepu Karchalla (MSU, BA expected 2021); Joseph Longo (MSU, BA 2020), and Tyler Armstrong (J.D. expected 2022)).

<sup>23</sup> *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.

<sup>24</sup> 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)).

<sup>25</sup> Kammel et al, *supra* note 3, at 229.

<sup>26</sup> *Id.* at 239.

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.<sup>27</sup> 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).<sup>28</sup> However, in spite of high levels of guardianship, some motivated offenders will continue to persist with their schemes.<sup>29</sup>

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*.<sup>30</sup>

### **c. The Tiffany v. eBay Case**

In 2010, the Second Circuit decided the *Tiffany v. eBay* case.<sup>31</sup> 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

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<sup>27</sup> *Id.* at 239-240.

<sup>28</sup> *Id.*

<sup>29</sup> *Id.*

<sup>30</sup> *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)).

<sup>31</sup> *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*).

marketplace.<sup>32</sup> 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—”<sup>33</sup> otherwise known as the contemporary knowledge requirement.<sup>34</sup> The e-commerce platform eBay was found not liable for secondary trademark infringement.<sup>35</sup>

#### **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;<sup>36</sup> so, practically they must monitor and notify the online marketplace to 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 place<sup>37</sup>—leading to what is called in the industry the

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<sup>32</sup> *Tiffany*, 600 F.3d at 105; Kammel, et al, *supra* note 3, at 243.

<sup>33</sup> *Tiffany*, 600 F.3d at 107; Kammel, et al, *supra* note 3, at 243.

<sup>34</sup> *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

<sup>35</sup> *Tiffany*, 600 F.3d at 109.

<sup>36</sup> 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).

<sup>37</sup> 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)).

“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.<sup>38</sup> 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.<sup>39</sup> 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 the platform itself as the place wherein infringer and target meet and interact.<sup>40</sup> The motivated counterfeiter operates as an “unseen competitor” to legitimate companies,

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<sup>38</sup> Kammel, et al, *supra* note 3, at 252.

<sup>39</sup> 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>.

<sup>40</sup> See generally Kammel et al, *supra* note 3, at 248.

using the e-commerce platform as a place to hide from detection and reap illicit economic benefits.<sup>41</sup>

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.<sup>42</sup> 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.<sup>43</sup>

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.<sup>44</sup> With regard to addressing motivated sellers of counterfeits, platforms have the ability to identify potentially infringing listings and proactively embargo or reject these listings.<sup>45</sup> These activities can disrupt the opportunity for third party sellers to sell counterfeits to consumers. See Figure 1.

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<sup>41</sup> 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)).

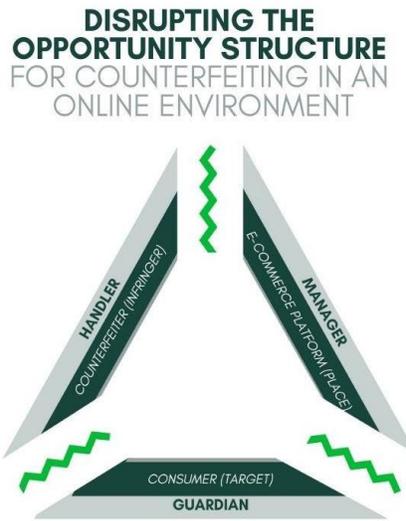
<sup>42</sup> Kammel, et al, *supra* note 3, at 231.

<sup>43</sup> *Id.*

<sup>44</sup> *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)).

<sup>45</sup> *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.<sup>46</sup> 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.<sup>47</sup> 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.

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<sup>46</sup> *Id.* at 255.

<sup>47</sup> *Id.*

#### 4. Law Disruptive Technology

As I have described the online marketplace phenomena as law disruptive technology,<sup>48</sup> I believe it is important that 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. INFORM Consumers and SHOP SAFE Address Issues Regarding the Imbalance of Preventing 3rd Party Sales of Counterfeit Goods on E-Commerce

Three pieces of legislation have recently been introduced that reflect the growing urgency for Congress to address the issue of the sale by third party sellers of counterfeits on e-commerce: the INFORM Consumers Act (S. 936 / H.R. 5502), the SHOP SAFE Act (S. 1843 / H.R. 5374), and the SANTA Act (S. 3073 in the 116<sup>th</sup> Congress).<sup>49</sup> While all different, they all seek to require e-commerce platforms to proactively take action to stop third party sellers from selling counterfeits.<sup>50</sup> These bills should not be considered as competitive with each other, but as multiple avenues for tackling this complex issue.

For example, both INFORM Consumers and SHOP SAFE provide provisions for marketplaces to identify sellers and to share this information with consumers with

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<sup>48</sup> 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 14, at 121.

<sup>49</sup> See generally, Zacharia & Kammel, *supra* note 14.

<sup>50</sup> Zacharia & Kammel, *supra* note 14, at 93.

some limitations for size of sellers and privacy concerns.<sup>51</sup> Additionally, both of these bills have protection of consumers in mind, but have different enforcement mechanisms.<sup>52</sup> Both bills also have reporting mechanisms not now available for consumers to report suspected counterfeit product.<sup>53</sup> From my perspective, one of the single most important perspectives on both INFORM Consumers and SHOP SAFE is the proactive requirements, as the current state of the law only requires response to “specific knowledge” or a notice and takedown procedure,<sup>54</sup> which as stated above does not help to disrupt the opportunity triangle for the sale of counterfeit goods, but only reacts to it once that meeting in time and space has occurred.

While legislation is never the entire solution and a holistic, multi-pronged approach to dealing with this issue is required, legislation is essential to (1) balance the obligations of brand 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.

## **Recommendations**

My recommendations are to:

1. Support the INFORM Consumers and SHOP SAFE bills.
2. Support continued and expanded collaborations and method development regarding data sharing between academia and other stakeholders in this space to share the burden related to the exchange of information that support legislative initiatives; and

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<sup>51</sup> INFORM Consumers Act, H.R. 5502 (2021), at Sec. 1 (verification and disclosure requirements), Sec. 1(b)(2) (exceptions); SHOP SAFE Act of 2021, S. 1843, (2021), at Sec. 2(a) (verifying documentation).

<sup>52</sup> INFORM Consumers, *supra* note 51 (providing a violation of Unfair and Deceptive Acts or Practices under the Federal Trade Commission Act (15 U.S.C. 57a(a)(1)(B)) to be heard before the Federal Trade Commission); SHOP SAFE, *supra* note 51, at Sec. 2 (providing a cause of action for contributory liability for trademark infringement as an amendment to the Lanham Act for e-commerce platforms to be litigated with civil suits).

<sup>53</sup> INFORM Consumers, *supra* note 51, at Sec. 1(b)(3) ; SHOP SAFE, *supra* note 51, at Sec. 2.

<sup>54</sup> See Kammel et al, *supra* note 3, at 254.

3. Expand 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.