



January 25, 2020

The Honorable Drew Hirshfeld
Under Secretary of Commerce for Intellectual Property and
Director, United States Patent and Trademark Office
600 Dulany Street
Alexandria, VA 22324

Re: Secondary Trademark Infringement Liability in the E-Commerce Setting (PTO-T-2020-0035)

Dear Director Hirshfeld:

The Transnational Alliance to Combat Illicit Trade ([TRACIT](https://www.tracit.org)) is an independent, private sector trade association focused solely on mitigating the economic and social damages of illicit trade by strengthening government enforcement mechanisms and mobilizing businesses across industry sectors most impacted by illicit trade. Our [member companies](#) are multi-national corporations.

Clearly, the world of e-commerce has changed in the last twenty years and has been hyper-accelerated during this pandemic. Our government, brand owners, SMEs and consumers all stand to benefit from growing the online economy. Unfortunately, consumers are at risk to fraud by bad actors who are selling counterfeit, pirated and illicit goods. It is time to apply traditional legal doctrines that protect consumers in the brick-and-mortar world to the online marketplace.

Continued collaboration between brand owners, e-commerce platforms, other third-party intermediaries and law enforcement is essential to providing greater consumer protection. For example, some online marketplaces have stepped up and voluntarily are providing more tools to protect consumers and brands. Brand owners are investing in supply chain strategies, identification and reporting counterfeit products and working with e-platforms and law enforcement on this critical problem. Some e-marketplaces and brands also are working with consumers to raise awareness and to identify fraudulent products.

TRACIT advocates that it is time to move beyond relying solely on differing and voluntary approaches toward a more comprehensive means to assuring a safe environment for e-commerce. Business and consumers need harmonized rules that assure the same safe and accountable shopping experience online as they enjoy in the brick-and-mortar world. TRACIT supports a standardized “floor” of protections as discussed below that ensures a level of due diligence and accountability, while encouraging innovation in providing higher and higher levels

of protections that, again, approximate the consumer protections currently governing offline sales and transactions.

We start from the premise that our joint goal should be to stop fake, pirated and illicit goods from being offered in the first place.

Specific to the questions posed in this survey, TRACIT supports the conditional exemption from the application of contributory liability and/or vicarious trademark infringement liability (secondary infringement liability) to e-commerce, social media and other online platforms and marketplaces, if they rigorously protect consumers and ensure fair trade on their platforms. Conversely, the safe harbor from liability should not apply to any e-commerce, social media or other third-party online provider when their platforms facilitate counterfeiting or illicit trade.

1. Is the doctrine of secondary infringement liability, as currently applied by the courts, an effective tool in addressing the problem of the online sale of counterfeit goods? If not, please identify the shortcomings in this approach to combatting counterfeits sold online, including whether the shortcomings are general to all goods and modes of e-commerce or whether they are specific to a particular type of goods or e-commerce.

Online marketplaces currently have limited enforceable incentives to police, monitor or otherwise vet their sellers and the products that are being offered on their platforms, in compliance with their terms of service. Brand owners and consumers are left to rely on a range of differing, self-imposed and voluntary processes and procedures offered but not always enforced by marketplaces, many of which have had limited success in halting on-line counterfeiters and infringers.

If further progress is to be made identifying and taking down counterfeits and otherwise illicit product offerings, then laws clarifying the responsibility of platforms for proactive and timely action are essential, along with further cooperation between brand owners and platforms. In this regard, the doctrine of secondary infringement liability is a helpful tool, but it has its limitations. On-line marketplaces should have some legal obligations to make their sites safer for consumers and provide more transparency as to the identity of their sellers.

The year 2020 has demonstrated the imminent need for legislative change. Consumer shopping behavior continues to shift, dramatically, from offline to online and e-commerce players are heavily investing in improving technologies that are already capable of predicting, monitoring, and influencing user behavior.

Laws such as the Shop Safe Act and INFORM Consumers Act, discussed further in answers below, are an essential start to balancing these trends, clarifying secondary infringement liability online, and promoting the safety and security of all goods and services across all types of e-commerce.

2. Have you pursued or defended secondary trademark infringement claims against an e-commerce platform, online third-party marketplace, or other online third-party intermediary where the claim was that the intermediary facilitated the sale of counterfeit goods, including counterfeit goods offered by a third-party seller? If so, what challenges did you face in pursuing or defending these claims under a secondary infringement theory, and what was the result.

TRACIT has not directly engaged in court cases.

3. If you have chosen not to pursue a potential claim or defend against a claim for secondary trademark infringement against an e-commerce platform, online third-party marketplace, or other online third-party intermediary for reasons related to the current interpretation of the doctrine of secondary infringement, please explain how your decision-making was affected by the state of the law and how a different interpretation might have led to a different decision.

No response.

4. To the extent you have identified shortcomings in the current application of the doctrine of secondary infringement in your answers to the above questions, please explain how you would recommend resolving those shortcomings.

Consumers are entitled to an online browsing and shopping experience that is safe and secure from fraud. Online platforms connecting people and those that profit from commerce over their websites should be responsible, comply with the law and recognize the ethical/moral responsibility to assure consumers a safe and trusted environment. It is important to note that preventing the appearance of illegal goods online is about protecting consumers and assuring fair competition amongst traders, and not about restricting freedom of expression.

Similar—and in some cases more stringent—consumer protections that exist for the brick-and-mortar stores should be applied to online marketplaces to ensure only legitimate and compliant products and services are offered on these sites. Therefore, we advocate for legislated consumer protections to resolve conflicting sets of obligations for eCommerce platforms – both commercial and social – and to better enable them to step up and take responsibility for maintaining safe and legitimate product sales.

The clearest immediate step forward is adoption of the Shop Safe Act as well as the INFORM Consumers Act. These Acts improve protection for consumers yet allow for commercial activity to occur.

Specifically, TRACIT puts forward the following recommendations:

Improve verification and disclosure requirements of e-Commerce platforms

Consumers deserve to know basic identifying information about who is selling the products they buy and use, and they should have a way to contact a seller in case a consumer product appears

to be stolen, counterfeit or potentially unsafe. Brick-and-mortar retailers have clearly identifiable names and business addresses and consumers are readily able to approach those retailers to raise concerns. However, online marketplaces do not always require third party sellers on their platforms to provide similar transparency for consumers.

To more effectively stop counterfeit/infringing product listings before they are offered online, to strengthen effectiveness of Notice-and-Takedown (NTD) programs and to address recidivism and the endless cycle of takedown requests, we recommend requiring online platforms to:

1. Prominently publish a list of what can and cannot be sold on the eCommerce marketplace for sellers and buyers.
2. Condition the seller's use of the platform on agreeing not to sell illegal products and to otherwise comply with the law and consenting to being sued or criminally prosecuted.
3. For business accounts, require and verify the seller's identity, physical address, contact information, banking details and other identity checks (e.g., business license, chamber of commerce registration ID), along with where the goods are made and from where the goods will be shipped.
 - a. If a platform allows users to have multiple accounts, these should be linked so that if one account is found to be selling counterfeits, the other accounts can be readily reviewed.
 - b. Identity verification should be refreshed for accuracy at regular intervals, and when an account has been flagged as high risk.
 - c. Require the seller to verify and attest when its goods are regulated in destination markets and that they are in compliance with destination market regulations and requirements.
 - d. Require the seller to attest they are authorized to use the images on its product listing sites, and they accurately depict the goods sold.
4. Display the seller's identity, location, and contact information.
5. Use technology to actively screen for illegal products or products prohibited by the eCommerce market's terms of use before a seller's goods appear on the platform.
6. Develop appropriate proactive control mechanisms to verify the compliance of sellers with their terms and conditions.
7. Implement a speedy and efficient takedown and stay-down process for removing listings for counterfeit and illicit goods.

Put in place post-discovery requirements

While we prefer measures and regulations that pro-actively prevent counterfeiters from listing counterfeit and illicit products on eCommerce platforms, once a counterfeit has been discovered

we believe that consumer protection measures should be put in place to guard against repeat activity. These post-discovery measures would require platforms to:

- Implement a system (e.g., two-strike or three-strike) that terminates and permanently bans sellers that have listed or sold counterfeit and illicit goods, regardless of whether this was done through one or several seller accounts.
- Prevent terminated sellers from rejoining or remaining on the platform under a different alias or storefront.
- Notify: (i) consumers that have bought a product from the seller to enable the customer to pursue a return or avoid the seller in future transactions; (ii) e-commerce platform coalitions so that (other) platforms are aware of illicit sellers already flagged or identified as high risk; (iii) law enforcement of sellers who have been permanently removed from the platform; and (iv) the owner of the registered trademark, upon request.
- Destroy, or deliver to law enforcement, goods held in warehouses/fulfillment centers following the removal of a corresponding listing.
- Share consumer complaints about counterfeit products with affected brand.

Address fraudulent advertising online

Fraudulent advertising is rapidly emerging as a new risk to consumers shopping online – presenting a new gateway to the massive world of counterfeiting and piracy and substandard/unsafe products available throughout the Internet. The lack of sufficient policies and procedures to verify users’ true identity and to conduct the necessary vetting and due diligence during the onboarding process is a system weakness across multiple Internet-based platforms for social networking and shopping. Consequently, we recommend the following:

- Require e-commerce marketplaces to monitor and prevent fraudulent advertising on their platforms. Care should be given to vetting customer posted reviews to ensure that those reviews associated with fraudulent advertisements and products are not comingled with customer reviews of legitimate products.
- Establish enhanced “Know Your Business Customer” protocols.
- Allow brands to access, monitor, and verify who, where and how their brands are used for advertising.
- Conduct rigorous review of advertisements prior to publication.
- Enforce effective reactive measures against fraudulent advertisers.
- Ensure consumers and rights holders can report and share information about fraudulent advertisers.
- Require post-discovery measures.

Establish a new benchmark for contributory liability for selling counterfeit goods on behalf of third-party sellers

Safe harbor from contributory infringement should be reserved for platforms that follow a set of measures. Online marketplaces should be held liable when their platforms enable counterfeiting, according to the role they play in facilitating the sale of counterfeit goods and with regards to the existence and efficiencies of controls they have implemented to prevent and to react to issues. Specific provisions should hold online platforms liable when their platforms:

- Help users engage in unlawful conduct relative to specific categories of products that are highly regulated.
- Take possession of and stock counterfeit products.
- Facilitate payments for those products.
- Package, ship, and handle administration for selling counterfeit products.
- Promote or sponsor illegal products; any product a marketplace puts forward as “sponsored,” “our choice,” “recommended” needs to be vetted as safe and legal.

5. Please provide any studies or other information in your possession that demonstrate whether or not a change in the law of secondary liability for trademark counterfeiting with respect to e-commerce platforms, online third-party marketplaces, and other online third-party intermediaries would be effective in reducing online sales of counterfeit goods, or whether it would pose any risks.

As highlighted by the 2020 Department of Homeland Security Report prompting this survey, U.S. consumers face an increasing risk of exposure from the sale of online counterfeits that are hazardous to health and safety.¹ In the second quarter of 2019, total year-over-year retail sales grew by only 3.2% while e-commerce grew 13.3%.² Amidst this growth in e-commerce, a corresponding growth in the number of dangerous counterfeits being imported has grown year after year.³ These hazardous goods are not limited to the most obvious examples of pharmaceuticals and electronics, but also those that can contain “hidden toxins”, such as counterfeit clothing, jewelry, purses,⁴ and cosmetics (which in particular can contain high levels of heavy metals)⁵. Such infringements pose not only a health risk but also an economic risk; in 2019, Customs and Border Patrol seized 27,599 shipments containing goods violating intellectual

¹ Department of Homeland Security (DHS), Office of Strategy, Policy & Plans, *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 p. 7.

² Department of Commerce, U.S. Census Bureau, Economic Indicators Division, *Quarterly Retail E-Commerce Sales 2nd Quarter 2019* (19 August 2019). <https://www2.census.gov/retail/releases/historical/ecomm/19q2.pdf>.

³ E.g., US Customs and Border Protection, *Fake Goods, Real Dangers* (October 24, 2019), <https://www.cbp.gov/FakeGoodsRealDangers>.

⁴ DHS, *supra* note 11, at 15-16.

⁵ DHS, *supra* note 11, at 17.

property rights, which if genuine would have had an estimated MSRP of nearly \$1.5 billion – up from \$1.4 billion in 2018.⁶

In July 2020, TRACIT and the American Association of Footwear and Apparel published a joint report, *Fraudulent Advertising Online: Emerging Risks and Consumer Fraud*, demonstrating that consumers increasingly are exposed to fraudulent advertisements that take them to illegitimate e-commerce websites that sell counterfeit products or offer deceitful services. Fraudulent advertisements fool innocent consumers by providing a false impression of authenticity. Not only is the brand that is imitated impacted with loss of sales and reputational risk, but consumers are harmed with goods that do not meet quality or regulatory standards that must be applied in the brick-and-mortar retail setting. It is important to protect consumers against fraudulent advertising on various social media platforms that lures consumers to illegal websites.

In sum, clear legal mandates that increase proactive measures to keep illegal goods—that impose negative impacts on the economy, society, security and human rights—from being accessible to the public online are essential.

6. Are there any other areas of law or legal doctrines that could help inform or supplement the standard for secondary trademark infringement to reduce online sales of counterfeit goods?

There are currently at least two specific pieces of relevant legislation that could be helpful:

- **Shop Safe Act:** TRACIT recommends broadening its scope to protect consumers of all goods, not just those that may implicate health and safety. While pharmaceutical drugs as well as other ingestible products may pose an obvious physical threat to consumers, the counterfeit world at large is heavily tied to organized crime, terrorism, unregulated and unsafe labor conditions, as well as environmental and health hazards. As recent months have shown, effects on the health and safety of human beings are not only derived from obvious physical harm but are often tied to long term regulatory and trade exploitation.
- **INFORM Consumers Act:** This Act improves transparency for consumers about sellers by requiring e-commerce platforms to collect, verify and disclose to consumers various contact information of high-volume third-party sellers of consumer products on their platforms. TRACIT recommends a lower threshold in order to protect consumers from high-volume and lower-volume sellers. Counterfeit rings are often spread out through a vast network of independent sellers. To track these sellers to one source would require the same type of information for lower-volume sellers.

More broadly, the need for further legislative assistance to combat the presence of intellectual property infringement online is being recognized across all areas of IP.

In May 2020, the United States Copyright Office released a study reviewing the efficacy of Section 512 of the 1998 Digital Millennium Copyright Act, which addresses the enforcement of

⁶ US 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>.

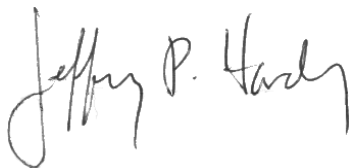
online infringement. The study found that some operations of Section 512 were out of sync with Congress' original intent codified 22 years ago, and the Act may benefit from legislative "fine-tun[ing]".⁷

The study published many conclusions echoing our own suggestions. The first is the Report's finding that *publicly available* repeat infringer policies would seem to be an appropriate *minimum* requirement for certain obligations and to deter infringement.⁸ Another is the Report's stance that it could be beneficial for Congress to clarify the distinction between actual and red flag knowledge of infringement, with a "reasonable" knowledge test at a minimum.⁹ It is easy to draw parallels between the simultaneous conversations surrounding trademark and copyright liability online: technological and cultural shifts over the years demand reanalysis that will impose greater proactive requirements of online service providers to protect the public from illegal content. This mutual recognition underscores the need for passing legislation that will facilitate greater and clearer secondary trademark infringement liability online.

Additionally, we recognize this is a global marketplace and consistent regimes are essential for business and consumers. We encourage review of the European Union's (EU) Digital Services Act and note many of the recommendations we have set forth in this response are comparable with the EU's approach.

In sum, online providers need to be held to at least as high a standard as brick-and-mortar contemporaries: they are largely more easily able to monitor content; the industry has the economic resources; and the volume and correlated harm will completely outpace that of goods and services offline. A clearer liability regime and some proactive horizontal legislation turning some voluntary practices into horizontal standards can help. Legislation seems the best way to achieve a system that is predictable, implementable in practice, that mitigates unwanted consequences and that generally makes the system workable for all. Very importantly: both platforms and brands need regulatory authorities and law enforcement to contribute significantly more than today to prevent, detect, sanction and deter.

Sincerely,



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⁷ United States Copyright Office, *Section 512 Study*, (May 21, 2020), <https://www.copyright.gov/policy/section512/>.

⁸ United States Copyright Office, *Section 512 of Title 17, A Report of the Register of Copyrights*, (May 21, 2020), <https://www.copyright.gov/policy/section512/section-512-full-report.pdf> p. 3.

⁹ *Id.*