



May 28, 2021

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

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

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

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

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

<sup>2</sup> *E.g.*, 2019 Transparency Report, Etsy (2020), [https://extfiles.etsy.com/advocacy/Etsy\\_2019\\_Transparency\\_Report.pdf](https://extfiles.etsy.com/advocacy/Etsy_2019_Transparency_Report.pdf) (of 65 million items for sale, fewer than 34,000 takedown requests, of which fewer than half pertained to trademark); *compare Shapeways Fact Sheet*, Shapeways (2018), <https://static1.sw-cdn.net/files/cms/press/Shapeways-Fact-Sheet-2018-Q3.pdf> with 2018 Transparency Report, Shapeways, <https://www.shapeways.com/legal/transparency/2018> (last visited Dec. 23, 2020) (of over 45,000 postings, platform only received 331 takedown notices that involved trademark).

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

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

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

As we have previously explained in the copyright context:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<sup>13</sup> Rich, *supra* note 6, at 9.

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

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

<sup>16</sup> Katyal, *supra* note 15, at 1165.

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