



WRITTEN STATEMENT OF THE TOY ASSOCIATION  
THE HOUSE SUBCOMMITTEE ON COURTS, INTELLECTUAL PROPERTY  
AND THE INTERNET HEARING  
“THE SHOP SAFE ACT: STEMMING THE RISING TIDE OF UNSAFE COUNTERFEIT PRODUCTS ONLINE”  
MAY 27, 2021

On behalf of the Toy Association, I submit for the hearing record our written statement supporting the *Stopping Online Harmful Offers on Platforms by Screening Against Fakes* (Shop Safe) Act. We applaud House Judiciary Committee Chairman Jerrold Nadler, Subcommittee on Courts, Intellectual Property, and the Internet Chairman Henry C. "Hank" Johnson, Jr., Subcommittee on Courts, Intellectual Property, and the Internet Ranking Member Darrell Issa, and Representative Ben Cline for crafting this important legislation to incentivize e-commerce platforms to address the sale of counterfeits online and to protect consumers from unsafe, unreliable, and unregulated products sold through these channels.

As background, The Toy Association represents more than 1,000 businesses – toy manufacturers, importers and retailers, as well as toy inventors, designers, licensors and studios – all involved in bringing safe, fun and educational toys and games for children to market. With an annual positive U.S. economic impact of \$98.2 billion, the U.S. toy industry supports 627,110 U.S. jobs and generates \$13.1 billion in state and federal tax revenue each year. Approximately 3 billion toys are sold in the U.S. each year, totaling \$27 billion at retail, and our members account for approximately 90% of this market. Importantly, over 95% of toy manufacturers, wholesalers, distributors in the United States are small businesses.

Curbing the flow of counterfeit goods in ecommerce is an issue of critical importance to the U.S. toy industry due to the safety concerns of counterfeit toys. Legitimate toy manufacturers and brick-and-mortar retailers of children’s products must obtain safety certifications and comply with over 100 federal safety standards, while online marketplaces are currently not held to these same standards – providing an opportunity for illicit third-party sellers to easily operate in online marketplaces and take advantage of consumer faith by selling counterfeit or stolen products that may or may not comply with federal safety standards.

It is widely recognized that counterfeit trade continues to increase<sup>1</sup> and that online shopping has a widespread risk of counterfeits.<sup>2</sup> The Toy Association explored the factors contributing to the rise in counterfeit goods sold through ecommerce platforms and recommended possible solutions in its 2020 white paper “Taking Fake Toys Offline” submitted for the record as part of our statement. Given that online marketplaces create an environment in which sellers are able to be anonymous and remain outside the reach of US jurisdiction, opportunities are abundant and risks are few for counterfeiters. The fact that counterfeit trade is growing and that counterfeiters are prospering despite heightened awareness and efforts by stakeholders, government and

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<sup>1</sup> International counterfeit trade was \$509 billion in 2016, up from \$461 billion in 2013. OECD/EUIPO (2019), Trends in Trade in Counterfeit and Pirated Goods, Illicit Trade, <https://doi.org/10.1787/g2g9f533-en>.

<sup>2</sup> In the U.S., the “growth in e-commerce has contributed to a shift in the sale of counterfeit goods in the United States, with consumers increasingly purchasing goods online and counterfeiters producing a wider variety of goods that may be sold on websites alongside authentic products.” GAO, *Intellectual Property: Agencies Can Improve Efforts to Address Risks Posed by Changing Counterfeits Market* (Jan. 2018), <https://www.gao.gov/assets/690/689713.pdf>.

the marketplaces, demonstrates that the current system is inadequate and that the legal framework should be revised to incentivize online marketplaces to be more proactive and accountable.

## **1. The Burden of Enforcement is Disproportionately Reactive and Placed on the Rights Holder**

Currently, online marketplaces lack an effective, proactive, transparent process for screening sellers or products that are offered by sellers. Instead, under the current legal regime, the burden of enforcement disproportionately relies on rights holders and consumers to police and report infringement. The current system places no responsibility on the seller or the marketplace and instead requires that rights holders scour online marketplaces and investigate, report, and prove infringement to the marketplace before counterfeit items are removed. This causes delay, allows sales of counterfeits to unsuspecting consumers, and puts the responsibility and expense on brand owners. This problem is compounded because marketplace processes vary, forcing rights holders to constantly navigate different, and often changing, marketplace enforcement procedures. This process removes the initial burden from the seller and without basis further gives the sellers the benefit of the doubt, to the detriment of rights holders and consumers.

### **a. Reactive Measures Will Never Keep up with Counterfeiters and Proactive Screening Must be the First Line of Defense**

While online marketplaces continue to grow and provide benefits to legitimate companies looking to more easily reach consumers, by not adequately screening sellers or products, these same marketplaces allow bad actors and sellers to prosper. Without proactive approaches, bad actors remain a step ahead and continue to flourish. Without seller screening, sellers can provide inaccurate or fake information, making it impossible for online marketplaces to track and suspend bad actors, or for rights holders, law enforcement, or consumers, to enforce their rights. Importantly, there is no amount of resources rights holders can expend to adequately neutralize bad actors if marketplace approaches are disproportionately reactive in nature.

Proactive procedures must be the first line of defense. Every marketplace must implement a proactive system to verify whether a product being sold on its platform is counterfeit and whether it meets regulations such as labeling requirements and consumer product safety regulations. While marketplaces do not act as traditional brick-and-mortar retailers that curate goods to sell to consumers, this should not absolve the online marketplace from all responsibility for the goods from which they profit.

Some marketplaces have argued that thorough verification is not possible because of the volume of sellers or products on their marketplaces. This volume of sellers and products is not inevitable though; rather, it is a business decision that online marketplaces themselves make. If a marketplace is unable to verify the identity of its sellers or products because of the high volume, that is a result of its own creation.

### **b. Marketplace Brand Protection Programs are Inconsistent**

Many online marketplaces tout their brand protection programs and investments made. Some marketplaces claim to have expanded the ability to implement different filters and rule systems to proactively block counterfeits and some online marketplaces have begun offering more robust collaborative programs for rights holders to more easily report and submit enforcement claims.

Unfortunately, to date, it appears that these have had little impact on counterfeiters. In part, this may be because they are inconsistently applied, and they remain largely reactive. Toy Association member experience is that certain tools are only made available to brands that have registered for particular marketplace enforcement programs that may have onerous terms; some are only available at a cost to the brand owner; and some may only be available to accepted brands after application to the marketplace. Further, they are not uniform across marketplaces.

Another hinderance is that marketplace shipping practices can create further enforcement challenges. At least one marketplace that fulfills third party orders will ship product from the warehouse closest to the consumer, regardless of whether it is the seller from which the consumer ordered. If shipped from a seller that is different than the one from which the consumer purchased, this creates another layer of obfuscation, removes consumer choice, and hinders seller identification, investigation, verification, and enforcement.

### **c. A Lack of Transparency and Verification of Seller Identity Undermines Enforcement**

Transparency of seller information remains inadequate, resulting in a lack of information available to consumers making purchasing decisions, and to rights holders and law enforcement attempting to track and enforce against counterfeiters. Some online marketplaces are beginning to increase access to seller information, such as through brand owner programs. However, access is often inconsistent across marketplaces, providing a variety of different information depending on the program.

Further, even when marketplaces do offer such information that is necessary for subsequent enforcement actions, it is often incomplete or incorrect due to inadequate preliminary verification. Without complete or verified information, rights holders cannot take the necessary next steps and are often forced to expend time and valuable resources chasing dead ends.

## **2. The Current Doctrine of Secondary Infringement Liability is Ineffective in Combatting the Sale of Counterfeit Goods in the E-Commerce Setting**

To protect consumers, some liability must rest with the marketplaces. Even if sellers are verified, they often remain outside the jurisdiction of the United States, meaning that a remedy for counterfeiting or for selling an unsafe product is unavailable to consumers or brand owners, or the cost of obtaining such a remedy is extremely burdensome. If an unsafe counterfeit product were to harm a child, requiring parents to seek a remedy from a counterfeiter in a faraway land is unreasonable and not fair; yet, if marketplaces are not liable, this is the result.

In its current state, the doctrine of secondary trademark infringement is inadequate and lacks clear standards for holding online marketplaces liable for counterfeit goods sold on their platforms. Under the current doctrine, a trademark owner may only bring a secondary infringement action against an online marketplace once it has shown that the online marketplace has been put on notice of the counterfeit or infringing goods and failed to take down the listings. As such, the doctrine fails to incentivize online marketplaces to take proactive measures in preventing counterfeit and infringing listings from being posted at the outset, and inequitably shifts the burden to trademark owners to expend significant efforts to monitor and notify online marketplace platforms.

Moreover, with e-commerce being a relatively new retail platform, application of the doctrine to this emerging field is scarce and has left ambiguity as to when an online marketplace may be held liable for its role in the sale of counterfeit goods. Critically, the question of what level of knowledge suffices to find online marketplaces contributorily liable remains open. Clarity is needed here to ensure online marketplaces are held accountable, especially where they have acknowledged the widespread sale of counterfeit goods on their platforms or are willfully blind to it. As it is, online marketplaces have largely been able to skirt liability, so long as they lack particularized knowledge of the counterfeit or infringing goods.

## **3. The SHOP SAFE Act Provides a Practical Legal Framework for Secondary Liability in the E-Commerce Setting**

Additional mandates are crucial to ensure online marketplaces are taking steps to effectively safeguard against the sale of counterfeit and infringing goods. To the extent a platform obtained revenue from the sale of product, responsibility and liability should exist.

The SHOP SAFE Act establishes clear contributory trademark infringement liability for e-commerce platforms unless the platform implements certain best practices. In this way, it strives to combat the proliferation of unsafe counterfeit goods for sale on online marketplaces by incentivizing marketplaces to engage in a set of best practices for vetting sellers and goods, punishing repeat offenders, and ensuring that consumers have the best, most accurate information available to them when making purchases online.

The Toy Association believes SHOP SAFE provides a workable legal framework for holding online marketplaces accountable and distributes the burden of enforcement more equitably without stifling online marketplaces' ability to develop inventive solutions to combating counterfeit goods or hinder the growth of online businesses.

### **CONCLUSION**

Under the current legal framework, the significant and serious issue of counterfeit and non-compliant products offered online seems only to be growing, thereby harming consumers, legitimate companies, and the American economy. We appreciate that platforms have been willing to engage with us on these concerns and have taken some meaningful steps in a positive direction. However, as it stands today, legitimate toy brands selling through local toy stores are playing by one set of rules and foreign sellers that exploit marketplaces are playing by another set of rules or are not playing by the rules at all. The Toy Association respectfully submits these comments with hopes of a modernized legal framework that provides brand owners with effective avenues for enforcing their rights in the e-commerce setting while allowing online marketplaces to continue to grow and evolve. The Toy Association looks forward to continuing its work with the House Judiciary Committee, online marketplaces, and our members to combat this detrimental phenomenon.

Thank you for your consideration. If you have any questions, please contact Leigh Moyers, Senior Manager, Federal Affairs at [lmoyers@toyassociation.org](mailto:lmoyers@toyassociation.org).

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Pasierb". The signature is stylized and cursive.

Steve Pasierb  
President & CEO

Enclosure