

Testimony of

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Before the

U.S. Senate Judiciary Committee

Subcommittee on Courts, Intellectual Property, and the Internet

hearing on

“The SHOP SAFE Act: Stemming the Rising Tide of Unsafe Counterfeit Products Online”

May 27, 2021

Chairman Johnson, Ranking Member Issa, and distinguished members of the Subcommittee, I appreciate the opportunity to testify before you today concerning the challenges that brand owners currently face when seeking to hold third-party sellers liable under the current legal framework for the sale of counterfeit products on e-commerce marketplaces, how this ultimately disadvantages and harms both consumers and brand owners, and how the best practices set forth in the SHOP SAFE Act would help to address these challenges.

My name is Natasha Reed and I am a partner with the law firm Foley Hoag LLP. I am based in the firm's New York office. I have been practicing intellectual property law for over 15 years, with an emphasis on trademarks and copyrights. My practice focuses on trademark and copyright enforcement, brand protection, and anti-counterfeiting litigation. I have the privilege of representing both large and small businesses in a variety of fields, including apparel and footwear, luxury goods, personal care and cosmetics, and publishing, to name a few. These companies invest substantial time and resources into building consumer confidence in the safety and quality of the products associated with their brands. Many of these businesses encounter counterfeit versions of their products, sometimes on a daily basis, being offered for sale by third-parties on various e-commerce marketplaces. My testimony today represents my professional experience in connection with assisting businesses combatting counterfeit sales on e-commerce marketplaces.

## **I. The Growth of E-Commerce Marketplace Sales**

It is predicted that global e-commerce sales will hit close to \$4.2 trillion this year, with U.S. consumers accounting for approximately one-quarter of that spending.<sup>1</sup> Half of these online

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<sup>1</sup> *Adobe Digital Economy Index*, Adobe Analytics - Q1 2021, available at <https://business.adobe.com/resources/digital-economy-index.html>.

purchases will likely be made through online marketplaces like Amazon.com, eBay.com and others.<sup>2</sup> The COVID-19 pandemic has accelerated the online shopping trend. Just this past March, U.S. e-commerce spend was estimated at approximately \$78 billion.<sup>3</sup>

As online purchases have grown substantially over the last year, so to have sales of counterfeit products. Counterfeiters thrive online, and in particular, on online marketplace platforms. This is for a variety of reasons. For one, virtually anyone can set up a storefront on an online marketplace. Unlike brick and mortar stores, there is a relatively low barrier to establishing an online storefront, with low startup costs and opportunities to sell products nationwide or even worldwide. Online marketplaces tend to give sellers an air of legitimacy, even if they are bad actors selling counterfeit goods. Sellers can also often operate anonymously on e-commerce platforms. For the most part, they do not need to have a corporate presence in the United States or a registered business to offer products to U.S. consumers through these marketplaces. Further, in my experience, it is not uncommon to encounter sellers using false names and contact information, and even stolen identities, when operating their third-party storefronts. Being anonymous means there is an increased opportunity to compete unfairly, including by selling counterfeit goods, especially if a seller may be located outside of the United States, with no assets in the U.S. to attach in a litigation proceeding. Many overseas counterfeit sellers on e-commerce marketplaces operate as if they are untouchable.

The proliferation of online counterfeiting has forced both brand owners and online marketplaces to double their efforts to combat the sales of counterfeit products. I commend e-

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<sup>2</sup> Michael O'Grady, *Half Of Online Retail Spending Came From Marketplaces In 2016* (Sept. 28, 2017), available at <https://go.forrester.com/blogs/half-of-online-retail-spending-came-from-marketplaces-in-2016>.

<sup>3</sup> See *infra* note 1.

commerce marketplaces that have voluntarily taken steps over the last few years to try to minimize the number of counterfeits on their platforms. Unfortunately, however, counterfeit sales continue, and locating counterfeiters to hold them liable in a meaningful sense is an arduous and expensive task for brand owners.

## **II. Combatting Counterfeiting On Online Marketplaces - A Game of Whack-a-Mole**

Some online marketplaces do not require storefront owners to display their business names, personal names, or physical addresses publicly, making it often difficult for brand owners to investigate or contact these sellers through demand letters. Because of this, many brand owners are usually left with two options: (1) file infringement notices with the online marketplaces, or (2) commence litigation in court. Given the expense of litigation, many brand owners will often utilize the reporting mechanisms offered by e-commerce marketplaces as an initial course of action, by filing takedown complaints after confirming the counterfeit nature of the products offered by the marketplace's third-party sellers. However, it is not uncommon for the sellers to be taken down by the e-commerce marketplaces, only to pop up again later under a different storefront name on the same marketplace, or to resurface on a different marketplace. These bad actors will also often operate multiple storefront accounts at one time on the same marketplace, using a different alias, mailing address, and different financial accounts, so that if one of its storefronts is taken down for counterfeiting, it will already have another backup storefront ready to continue its counterfeit sales. This leads to a never ending game of whack-a-mole for brand owners, who are forced to file take down requests day-after-day, often against some of the same sellers.

### **III. Litigation Challenges For Brand Owners**

In some cases, brand owners will find that they have no other choice but to commence legal action in court to try to hold these third-party marketplace sellers liable for trademark counterfeiting. However, bringing judicial proceedings in federal court for trademark counterfeiting against third-party marketplace sellers, particularly those located outside of the United States, presents challenges.

#### ***A. Anonymity and False Information***

First, without a name and address, brand owners are often forced to file John Doe actions against these third-party marketplace sellers. While John Doe lawsuits can proceed, they are often more expensive, and sometimes cost prohibitive, particularly for smaller businesses. To be effective, these lawsuits will often require seeking *ex parte* relief from a federal district court, moving for a temporary restraining order, preliminary injunction, and an asset freeze order, in addition to early and expedited discovery by way of subpoenas to force the online marketplaces to produce information concerning the identities of their sellers and their financial accounts. However, as noted earlier, it is not uncommon to discover that the counterfeit sellers provided false names and contact information to the marketplaces, leaving brand owners with the burden of trying to verify the identities of these sellers, and making it difficult to freeze the counterfeit sellers' assets when the names do not match the names associated with the financial accounts at banks or with online payment service providers. This process can be time consuming and arduous, particularly when sellers are located overseas in countries like China, India, and other countries. The use of false names and addresses also makes service of process difficult, particularly if the court does not allow the brand owner to serve the defendants by email, or via other alternative means.

## ***B. Establishing Personal Jurisdiction***

Before a court may enjoin even the most flagrant counterfeiters, it must have personal jurisdiction over them, and plaintiffs have the burden of pleading and establishing personal jurisdiction. In cases where counterfeiters sell on their own websites, establishing personal jurisdiction is relatively straightforward. Courts will apply a “sliding scale” test to determine whether the operation of the website was accessible in the forum state to constitute purposeful availment, and thus the transaction of business in that state. The more “interactive” the website, such that it solicits information from potential buyers in the state, the more likely a court will find that the counterfeiter transacted business through its website in the state and is thus subject to the court’s jurisdiction.<sup>4</sup>

However, when counterfeit sellers operate on online marketplaces, courts often question whether these defendants used the online marketplace to reach into the forum in some meaningful and purposeful way, since it is the online marketplace owner and not the sellers, who actually control the interactivity of the website and its marketing efforts.<sup>5</sup> While a brand owners’ prior test purchase of counterfeit products shipped by the seller to the forum can establish personal jurisdiction<sup>6</sup>, sometimes, brand owners sue numerous defendants at one time without making test purchases from each and every defendant prior to bringing the lawsuit. This is because brand owners might rely on other evidence to support its trademark counterfeiting claims, like complaints from its customers who received the counterfeit products from the third-

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<sup>4</sup> *Chloe v. Queen Bee of Beverly Hills, LLC*, 616 F.3d 158,170 (2d. Cir. 2010).

<sup>5</sup> *EnviroCare Techs., LLC v. Simanovsky*, Civ. No. 11-CV-3458(JS)(ETB), 2012 U.S. Dist. LEXIS 7808, at \*12 (E.D.N.Y. Jun. 4, 2012).

<sup>6</sup> *Spin Master, Ltd. v. 158*, 463 F. Supp. 3d 348, 363 (2d. Cir. 2020); *Chloe*, 616 F.3d at 166.

party marketplace sellers, but where those products may not have been shipped to the forum state, or customer reviews on the sellers' storefront profile page, where customers indicate that the seller is offering fake versions of the brand owner's products. However, in the absence of a massive, and often expensive, pre-lawsuit investigation involving mass test purchases, or factual allegations of a counterfeiting conspiracy ring among related defendants, brand owners suing numerous counterfeit sellers can face difficulties establishing personal jurisdiction against all of them.<sup>7</sup> With sometimes hundreds of John Doe defendants named in a single lawsuit, the process of test purchasing is expensive, which often leaves smaller businesses unable to effectively sue third-party marketplace counterfeiters. Even for brand owners willing to take on this expense, counterfeiters will often cancel orders that they may suspect are test purchases, making it difficult to collect the necessary evidence prior to bringing the lawsuit, and ultimately, making it difficult to establish personal jurisdiction.

### ***C. Enforcing Judgments Against Overseas Counterfeiters***

Counterfeiters, particularly those located overseas, will often ignore enforcement actions, leaving brand owners with little recourse against them, even if favorable default judgments are obtained. By their absence in the lawsuit, they make it extremely difficult for brand owners to obtain information about them and the source of the counterfeit goods. While a judgment will likely require the e-commerce marketplaces to permanently remove the particular storefront owners from their platforms, these storefront owners often resurface under different aliases, even after a permanent injunction is issued. Further, even when courts award brand owners millions of dollars in statutory damages for violations of the Lanham Act, brand owners are often unlikely

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<sup>7</sup> *Spin Master*, 463 F. Supp. 3d at 364-366.

to collect the full amount of those damages from the bad actors, particularly if the counterfeit sellers were able to move any assets they may have had in the United States, to financial accounts overseas. Enforcing these judgments overseas where the counterfeiters and their assets are usually located, presents separate challenges, and in cases where the online marketplace or brand owner could not verify the sellers' identity, it is virtually impossible to enforce those judgments.

#### **IV. The SHOP SAFE Act of 2021**

##### ***A. Best Practices for E-Commerce Marketplaces***

There are specific "best practices" provisions set forth in the SHOP SAFE Act that will help to address the challenges discussed above. First, ensuring that online marketplaces verify, publish and maintain accurate names, addresses, and other contact information for their sellers would benefit all involved, namely consumers, brand owners, and the online marketplaces. Brand owners could, if they decided it was more appropriate, contact the sellers before or in lieu of filing take down complaints or commencing litigation, so that the parties could attempt to resolve their dispute amicably, potentially giving brand owners an opportunity to obtain information concerning where the storefront owner obtained the counterfeit products. This is particularly true in cases where the sellers are not the source of the counterfeit goods, and may not have even known they were selling counterfeit products. Having verified, accurate seller names and addresses also means that brand owners may be able to more effectively enforce judgments, both domestically and overseas, against sellers who deal in counterfeit goods. Further, it allows consumers to have some confidence that they can easily contact a seller if there is a problem with a particular product they purchased from a seller's storefront. Finally, the platforms can have confidence that they can reach their sellers, and if necessary, hold them liable



for violating the platform’s terms and conditions and seller policies, including violations relating to counterfeit sales.

Requiring third-party marketplace sellers to also consent to personal jurisdiction and have a verified U.S. address for service of process in the U.S., or to appoint an agent in the U.S. for service of process, removes the barriers that brand owners face commencing legal action, serving marketplace sellers with process, and establishing personal jurisdiction over them.

Many of the other best-practices set forth in the SHOP SAFE Act serve as a very good start in reducing the whack-a-mole effect that brand owners face when combating third-party marketplace sellers dealing in counterfeits, including requiring online marketplaces to terminate sellers that repeatedly list or sell counterfeit goods on their platform, screening sellers to prevent terminated sellers from popping up under the same or different aliases and storefronts, and providing brand owners, upon their request, with the counterfeit seller’s verified name and contact information.

***B. Goods That Would Implicate “Health and Safety”***

The current scope of the SHOP SAFE Act covers goods that would implicate health and safety, which is defined as “goods the use of which can lead to illness, disease, injury, serious adverse event, allergic reaction, or death if produced without compliance with all applicable Federal, State, and local health and safety regulations and industry-designated testing, safety, quality, certification, manufacturing, packaging, and labeling standards.” Arguably, most counterfeit goods could implicate health and safety if they are not manufactured based on the brand owners’ quality controls and policies. However, determining whether a product falls within this meaning may be difficult for e-commerce marketplaces, and there will be gray areas, which could expose the marketplaces to liability if they fail to make the proper determination.

Also, having two separate best practices standards in place for the marketplaces for certain goods but not others will cause confusion. For that reason, I would recommend broadening the scope of products covered under the SHOP SAFE Act to include all goods.

## **V. Final Points**

Counterfeiting harms consumers, erodes competitiveness, and disincentivizes innovation. The SHOP SAFE Act, which establishes best practices for vetting and verifying third-party marketplace sellers, their listings, removing repeat offenders, and other best practices for online marketplaces, is a step in the right direction to better protect the health and safety of consumers and to protect intellectual property owners. I am grateful for the time, resources, and leadership that this subcommittee has devoted to these issues, and for your continued attention to the challenges facing consumers and brand owners from the sale of counterfeit goods on e-commerce platforms.