



May 26, 2021

The Honorable Henry C. “Hank” Johnson, Jr.
Chairman
House Committee on the Judiciary
Subcommittee on Courts, Intellectual
Property, and the Internet
Washington, DC 20515

The Honorable Darrell Issa
Ranking Member
House Committee on the Judiciary
Subcommittee on Courts, Intellectual
Property, and the Internet
Washington, DC 20515

Re: May 27th Subcommittee Hearing: The SHOP SAFE Act: Stemming the Rising Tide of Unsafe Counterfeit Products Online

Dear Chairman Johnson and Ranking Member Issa:

On behalf of the Computer & Communications Industry Association (CCIA)¹, I write to submit the following observations for the Subcommittee’s consideration, and request that this statement be included in the record of the hearing. CCIA members invest significant resources in enforcing their terms of service to combat counterfeit goods online, above and beyond what U.S. trademark law requires, including voluntary initiatives to protect consumers against unsafe counterfeit products. H.R. 3429 (the Stopping Harmful Offers on Platforms by Screening Against Fakes in E-Commerce Act) is not only unnecessary, but as drafted would harm industry and users.

I. Background on Secondary Trademark Liability

CCIA’s members include companies that offer e-commerce services. These types of services do not permit, and indeed have no tolerance for, the use of their platforms for any unlawful activity, including the sale of counterfeit goods. The distribution of counterfeit goods through e-commerce sites reduces the confidence of consumers in e-commerce. Accordingly, e-commerce companies have a strong incentive to eliminate counterfeit goods from their services, and they invest heavily in anti-counterfeiting measures, working closely with brand owners to remove counterfeit goods from their distribution systems.²

The existing doctrine of secondary trademark infringement liability correctly recognizes that trademark owners are in the best position to accurately and efficiently distinguish counterfeit products from authentic goods. Shifting legal responsibility to e-commerce sites, online

¹ CCIA is an international, not-for-profit trade association representing a broad cross section of communications and technology firms. For nearly fifty years, CCIA has promoted open markets, open systems, and open networks. CCIA members employ more than 1.6 million workers, invest more than \$100 billion in research and development, and contribute trillions of dollars in productivity to the global economy. For more, visit www.ccianet.org.

² See CCIA Comments to the Department of Commerce, Report on the State of Counterfeit and Pirated Goods Trafficking and Recommendations, Docket No. DOC-2019-0003 (July 29, 2019), <https://www.ccianet.org/wp-content/uploads/2019/07/DOC-2019-0003-0001-CCIA-Comments-Counterfeiting-Pirated-Goods-Trafficking-Report.pdf>, at 2-5 (discussing current practices to address counterfeits online including examples of collaboration with brand owners).

marketplaces, or other third-party intermediaries through new secondary liability rules would stifle innovation, reduce cooperation, and fail to prevent counterfeiting.

The current doctrine of secondary liability in trademark law achieves the proper balance, fostering a fair and robust online marketplace to the principal benefit of consumers. When services fail to act upon specific knowledge of infringement (for example, when a brand owner has notified an online service of a counterfeit product), courts have generally held services liable. The existing secondary trademark infringement liability regime has helped provide the legal framework to grow a robust secondary market for safe, genuine goods at competitive prices. Consumers derive enormous value from secondary markets, where they have the opportunity to sell products they no longer need, or purchase genuine products at a discount.

Changing secondary liability rules could encourage trademark owners to engage in anticompetitive practices and pursue secondary market goods that may not be counterfeit but may be competing with the trademark owner's products. This would result in the diminution of the secondary market, harming consumers; to avoid increased liability, e-commerce sites would significantly change their policies and enforcement measures, such as by allowing only sellers authorized by the trademark owner.

Additionally, changes to the secondary liability framework would not address the problem of counterfeit goods. Infringement analysis is often too fact-specific to permit wide-scale removal by services while maintaining a fair and robust marketplace. Liability for e-commerce sites and marketplaces would instead incentivize trademark owners to go after intermediaries instead of the actual bad actors: the counterfeiters.

II. Concerns with H.R. 3429

The Internet has opened new distribution channels for small businesses to sell goods online. While CCIA shares the sponsors' underlying goals of preventing counterfeits from proliferating online and harming consumers, the bill as drafted will not achieve these goals and could create a new regulatory framework that could harm bona fide sellers and fuel litigation rather than innovative tools to detect and deter counterfeits. As currently drafted, H.R. 3429 threatens that economic progress by making digital services much less willing to enable the millions of small businesses and individual entrepreneurs who use Internet services to do business in the global marketplace. To reduce the significant risk the legislation places on them, existing e-commerce businesses may be compelled to provide a marketplace only for larger, more established firms. Moreover, the legislation's onerous requirements would create a barrier to entry for new e-commerce companies.

A. Ambiguous Definitions Will Disadvantage Smaller Sellers

Digital services already take responsible action when it comes to counterfeit goods that are harmful to consumers. But the burdens the proposed framework would place on online businesses would lead to a reduction in the digital services available to the public. While the bill's sponsors may not intend to regulate all services, and may seek to address a subset of online businesses, this legislation would broadly sweep in a wide variety of digital services. In particular, the bill lacks proportionality, which would disadvantage smaller sellers, and is not carefully tailored in how it defines online marketplaces and their proposed responsibilities.

For example, this legislation proposes an extremely broad and ambiguous definition of “electronic commerce platform.” The proposed requirements are highly specific and burdensome for marketplaces in particular, but will broadly impact many types of digital services, with these prescriptions disadvantaging smaller players especially. There are significant distinctions in types of e-commerce services, and reasonable proactive obligations will necessarily vary by scale, vertical, and type. It is also not clear if “goods that implicate health and safety” is limited to physical goods or also implicates digital goods, which would sweep in a wide variety of businesses facilitating transactions in the latter. This broad definition could also include food, drugs, cosmetics, toys, appliances, electronics, tools, and more. Similarly, the country of origin provision is problematic and difficult to verify. For both large and small volume sellers, the standard would be impracticable. Making digital services strictly liable for noncompliance with prescriptive requirements creates a species of strict contributory liability, which is rare in U.S. law, for good cause.

B. The Bill As Drafted Presents Administrative Challenges for Multiple Parties

This bill has many challenges and inconsistencies, and the examples provided in this subsection are just a sampling of CCIA’s concerns with H.R. 3429. For example, requiring termination of a third-party seller for “repeated use of a counterfeit mark,” broadly defined as “use of a counterfeit mark by a third-party seller in three separate listings within one year,” is ambiguous and potentially onerous for large businesses that sell thousands of products.³ This provision could also invite costly, time-consuming litigation or encourage burdensome investigations over what is considered “reasonable mitigating circumstances” and decisions about whether to reinstate. Any ‘repeat infringer’ policies should be left flexible for each service to apply reasonably, similarly to the DMCA. An inflexible policy is inadvisable given how services continue to innovate and remove greater numbers of listings without a rights owner notice. Though proactive, automated brand protections reduce infringement and the burden of the brand of filing notices, it means services also remove items with less certainty than a notice would provide that the item is counterfeit. Businesses need the flexibility to weigh different takedowns differently in evaluating account level enforcement.

Legitimate brand holders, entrepreneurs, and other affected “third-party sellers” would also not have a mechanism to defend themselves from foreign squatters and unscrupulous competitors, providing brands unchecked power to remove listings. This gives overwhelming power to rights owners to dominate without any recourse for legitimate entrepreneurs or new brands. Some brands try to use narrow trademark rights to prevent any use of the names of particular cities or other geographic areas that are in the public domain. Bad actors file spurious notices to disrupt established U.S. brands using trademark registrations, and could take down or permanently ban even major brands or authorized resellers or licensees from a particular service. Exposing “electronic commerce platforms” to statutory damages will also incentivize trolling by plaintiffs’ lawyers.

³ “Counterfeit mark” as defined by 15 U.S.C. § 1116(d)(1)(B) turns on non-public information about (a) when manufacture occurred and (b) whether it was licensed at the time. With no way of proactively determining whether a seller was licensed to manufacture a particular product at a point in the past, digital services cannot plausibly administer this definition without possessing information controlled by brand owners.

C. Success Requires Cooperation Between Digital Services and Brand Owners

Ultimately, only brand owners know what goods are authentic and what goods are counterfeit. It is difficult for digital services of all sizes — especially smaller firms — to detect and confirm the authenticity of goods. Although digital services like online marketplaces are committed to working with brands to implement strong anti-counterfeiting measures, brands and rightsholders' cooperation is needed to make the enforcement tools effective at the detection of counterfeit products. By requiring the implementation of such measures without compelling brands to participate, the bill would require digital services to guess the extent of brands' IP rights and licensing strategies. While services embrace responsibility, and many proactively remove postings that appear to violate IP rights, brands also must be proactive in utilizing the mechanisms developed to protect brand owners' rights, and providing the necessary information to enable those systems.

Sincerely,

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