



SHOP SAFE ACT

December 14, 2021

SPONSORING COMMITTEE: U.S. Subcommittee of the Legislation and Regulation Committee

RESOLUTION:

WHEREAS, INTA encourages voluntary cooperation to combat sales of counterfeit goods on online platforms through the adoption of best practices for companies providing Internet-based services and for brand owners;

WHEREAS, INTA first published its *Best Practices for Addressing the Sale of Counterfeits on the Internet* (“*Best Practices*”) in 2008, which were recently updated by a cross-committee task force that included members of the Anticounterfeiting, Enforcement, and Internet Committees, and were presented to the Board in May 2021;

WHEREAS, key stakeholders from all relevant sectors were involved in the development of the *Best Practices*, including search engines (advertising/services), online trading platforms, payment service providers, brand owners, logistics companies, social media sites, registrars, and registries;

WHEREAS, the U.S. Congress is considering legislation titled the SHOP SAFE Act to amend the U.S. Trademark Act of 1946 that would establish contributory liability for “electronic commerce platforms” in a civil action when a third-party seller uses in commerce a counterfeit mark on that platform in connection with the sale, offering for sale, distribution, or advertising of “goods that implicate health and safety” unless the platform demonstrates it took each of a series of steps before any infringing act by the third-party seller, including: verifying sellers’ identity and contact information; requiring sellers to verify the authenticity of goods on or in connection with which a registered mark is used; imposing contractual requirements on sellers not to use counterfeit marks on the platform; displaying on the platform sellers’ verified principal place of business and the origin of the goods; enabling proactive measures for screening goods before they are displayed to the public; expeditiously disabling or removing any listing for which a platform

has reasonable awareness of use of a counterfeit mark; and terminating sellers who have repeatedly sold counterfeits;

WHEREAS, the SHOP SAFE Act includes provisions that limit its application to products that “implicate health and safety” and to certain e-commerce platforms; impose liability and damages for making any knowing, material misrepresentation in a notice to an electronic commerce platform that a counterfeit mark was used in a listing by a third party seller; and provide a cause of action for a platform against those making such misrepresentations with statutory damages up to \$75,000 per notice; and

WHEREAS, during the drafting of the legislation, INTA advised congressional staff that many provisions were ambiguous and overbroad, and would lead to unintended consequences, and although some text was revised to address INTA’s concerns, many of the provisions remain unclear, especially with respect to the definitions of “health and safety” and “e-commerce platform”

BE IT RESOLVED, that the International Trademark Association supports in principle enactment by the U.S. Congress of the SHOP SAFE Act as reported by the Judiciary Committee of the U.S. House of Representatives if amendments are made to address ambiguous and overbroad provisions, and unclear text.

BACKGROUND:

The sale of counterfeit goods on the Internet has exploded with the proliferation of marketplace sites and social media. Brand owners have the primary responsibility for enforcing their marks against all infringement, including counterfeits. Nonetheless, the ability of counterfeiters to remain anonymous online and avoid consequences for selling counterfeits has allowed them to flourish, making it almost impossible for brand owners to go it alone in this fight.

Recognizing the issue early on, INTA urged its members who were stakeholders in the exponential rise in e-commerce – namely auction sites, search engines, and payment providers – to engage with brand owner members to develop a set of best practices to address the scourge of Internet counterfeit sales. The result was the *Best Practices for Addressing the Sale of Counterfeits on the Internet*. As counterfeiters became more elusive and adapted to enforcement mechanisms put in place by e-commerce platforms and others, INTA’s *Best Practices* were updated under the direction of its Board, most recently in May 2021.

As the plague of counterfeit sales over the Internet showed no signs of abating and indeed grew worse, the U.S. Congress introduced numerous bills that took different approaches to the problem. One approach gaining traction is amending the U.S. Trademark Act of

1946 to hold e-commerce platforms contributorily liable for the sale by third parties of counterfeit goods unless the platforms take a series of steps to redress the problem. This approach is reflected in the SHOP SAFE Act. The version in the U.S. House of Representatives, H.R. 5374, has been reported by the House Judiciary Committee and is under consideration by the full House. Meanwhile, activity is also building in the U.S. Senate to address online counterfeits. On November 2, 2021, the Senate Judiciary Committee conducted a hearing, “Cleaning Up Online Marketplaces: Protecting Against Stolen, Counterfeit and Unsafe Goods,” highlighting issues that SHOP SAFE and another bill, the INFORM Consumers Act, are designed to address.

INTA participated in discussions with the House Judiciary Committee on the legislation. With input from INTA’s Enforcement and Internet Committees, the U.S. Subcommittee of the Legislation and Regulation Committee pointed to problems with the drafting of the legislation and the potential unintended consequences that the legislation could have not only for Internet-related companies and consumers but for brand owners as well. Using INTA’s *Best Practices* as the standard for analyzing the legislative proposals, the Subcommittee identified five major issues with the most recent version of the SHOP SAFE Act: the limitation of the legislation to counterfeit goods “that implicate health and safety”; the definition of “electronic commerce platform”; the application of anticounterfeiting remedies based on whether a platform is large or small; ambiguity in terms of physical versus email addresses for service of process; and the establishment of a legal cause of action and statutory damages for knowingly making misrepresentations regarding third-party listings.

Limitation to Counterfeit Goods “that Implicate Health and Safety”

INTA’s *Best Practices* do mention the threat to “health and safety” caused by counterfeit goods. However, they do not distinguish between enforcement of different types of goods, as the SHOP SAFE Act does. In addition, the 2019 INTA Model Trademark Law Guidelines provide that “the courts should not focus their enforcement efforts only on counterfeit goods which represent a health or safety risk, but give equal attention to fighting other types of counterfeiting which cause economic or social harm.” (Guideline 14.7)

The Subcommittee understands and appreciates the goal of protecting the health and safety of consumers. However, there are inherent difficulties in determining which goods “implicate health and safety.” This limitation is overly vague and would include all products in practice. For example, one could easily argue that almost any goods can directly or indirectly implicate health and safety - counterfeit shirts or perfumes could cause a rash, counterfeit shoes could create a slip and fall risk, the sale of counterfeits could be funding the drug trade or terrorism, etc. As such, it is likely that platforms would need to take the provided measures for all goods to ensure compliance and avoid contributory liability.

Definition of “Electronic Commerce Platform”

While the definition of “electronic commerce platform” was narrowed in the reported bill, it remains overbroad and includes entities that may not be able to comply with all of the listed requirements in the proposed statute.

Large vs. Small Platforms

INTA’s *Best Practices* support the implementation of anti-counterfeiting safeguards by all online marketplaces. They do not support the very specific requirements that were added in the reported bill to clarify which online platforms are impacted by the law. Not only does the latest revision of the SHOP SAFE Act fail to include safeguards by all marketplaces, but it also creates unintended consequences that are counter to the purposes of the Act.

The Act does not apply to all e-commerce platforms. Instead, it only applies to e-commerce platforms with “sales on the platform” from the previous calendar year of \$500,000 or more and to e-commerce platforms with lower sales numbers but which have had at least 10 notices of abuses. Two of its requirements – (iii) and (vi) – do not, however, apply to sellers with less than \$5,000 in goods on the platform with a total of 5 or less “goods of the same type.” The Subcommittee assumes that the goal of this provision is to capture large volume sellers as well as those lower volume sellers with a history of counterfeiting complaints. However, the categorizations used do not meet those goals and appear to be unnecessary.

INTA’s *Best Practices* do not distinguish between online marketplaces by their sales numbers. Instead, the *Best Practices* state that all online marketplaces should put into practice both preventative and reactionary measures to help end online counterfeiting sales. In the current bill, putting aside the issue of whether the cut-off should be \$500,000 or some other amount, and putting aside whether that amount should reflect sales, revenue, profit, or some other determination, there should be no specific amount at all. The law should apply to all e-commerce platforms as defined by the Act (see above definition revision proposal). The Act already takes into account the size and technology of the platform when directing courts to determine the reasonability of the platform’s activities.

Further, the inclusion of any entity with 10 complaints has foreseeable but likely unintended consequences. It is very likely that any online marketplace could receive 10 complaints within a month, much less a longer period. Brand owners aside, well-meaning, disgruntled consumers could reach that number of complaints in a day. Even taking into account the very particular requirements of the notice, as noted below, this bar is low enough to be without any meaningful distinction. Therefore, the apparent goal of reaching only repeat offenders would not be met.

The law also requires that each of the 10 required complaints specifically reference this particular *paragraph* of the proposed law and specifically notify the platform that the notice counts as one of the 10 official notices. Smaller brand owners and consumers are unlikely to fit their complaints within these specific parameters. This effectively eliminates complaints from all but trademark attorneys who have read this law. The Subcommittee does not believe that was the intent of the drafters because it could eliminate a platform that has received a large number of consumer complaints but only a few that knew to use the magic language.

Finally, the new revision makes an exemption from two of the requirements in the statute for third-party sellers offering less than \$5,000 on a site with 5 or fewer goods “of the same type” under the same mark in one year. Again, these very specific requirements appear to be arbitrary and would have unintended consequences. The determination of whether the goods are “of the same type” creates a rather vague additional hurdle. Are phones “of the same type” as smart appliances because they both have electronic components? Further, third-party sellers would be motivated by this law to sell up to \$4,999 of counterfeit goods across multiple websites, thereby making them harder to find and stop. This clearly is not the goal of the Act nor is it in keeping with INTA’s *Best Practices*’ stated goal of stopping the online sale of counterfeit goods.

Physical Address vs. Email Address for Service of Process

The current language in the Act states that platforms must confirm that “in the case of a third-party seller located in the United States that has not designated a registered agent . . . the third-party seller has designated a verified address for service of process in the United States.” It is unclear whether this section is limited to physical addresses or whether an email address is sufficient.

New Misrepresentation Claim

INTA’s Best Practices: There is some support in INTA’s *Best Practices* for the idea that platforms should be able to state a claim against misleading representations. They state “that a party accused of infringing any IP can and should have recourse to challenge the scope and validity of the asserted right.” (p. 16) Platforms “should provide tools that allow verified brand owners with a history of good faith takedowns to trigger counterfeit listing removals. Platforms may employ appropriate policies and procedures to deter the use of these tools to limit lawful secondary sales or other abuse.” (p. 16) In addition, brand owners requesting takedowns must take “reasonable measures to verify that the material is not authorized” (p. 19) and must state “under penalty of perjury” that they have a good faith belief that material is unauthorized. (p. 20)

However, INTA’s *Best Practices* do not mention or suggest a legal cause of action for misrepresentation from the third-party seller or the platform, both of which are provided for in the reported version of the bill. Additionally, INTA’s *Best Practices* do not provide

for damages against rights holders, including statutory damages. The reported bill provides for statutory damages against rights holders with a minimum award higher than the current minimum award for trademark counterfeiting.

Broad Set of Defendants: The cause of action and claim for statutory damages can be filed against “any person” who knowingly makes a material misrepresentation in a notice that a counterfeit mark was used in a third party’s listing. This would include claims against consumers or other third-party sellers who send misleading notifications to the platform. The Subcommittee wants to be sure this result is what was intended.

Accordingly, INTA supports in principle enactment by the U.S. Congress of the SHOP SAFE Act as reported by the Judiciary Committee of the U.S. House of Representatives if amendments are made to address ambiguous and overbroad provisions, and unclear text.