

**Questions from Senator Tillis
for Matthew Schruers**

**Witness for the Senate Committee on the Judiciary Subcommittee on Intellectual Property
Hearing “Back to School with the SHOP SAFE Act: Protecting Our Families from
Unsafe Online Counterfeits”**

1. What challenges do platforms face when it comes to screening products before these products are allowed to be offered for sale to consumers?

Not all platforms and services are alike. While some marketplaces sell physical goods and may have the ability to screen products, not all services play the same role. Many services do not directly sell these products to consumers nor do they have direct access to the third-party sellers. Even among marketplaces, no company is the same and each has its own unique business model. These mechanisms vary from site to site, including whether pre-screening products is even possible. It’s important that websites maintain the flexibility to implement measures that work for a particular business model versus having a one-size-fits-all approach.

Furthermore, while some marketplaces may already have proactive tools for screening, these programs are most effective when brands are participating and offering information. Many brands have so many products and variations that sites would need information about all of the products in granular detail to effectively screen products. Proactive automated screening will not have 100% success, and may lead to incidental false positives, including non-infringing fair uses that automated tools are not in a position to make determinations on, as well as stifle legitimate businesses, and occasionally miss counterfeit products.

Additionally, unless a listing is explicit about offering counterfeits or there are other fairly clear signals the product is a knockoff, screening is by no means a complete solution. In most cases listings will look facially valid as it doesn’t behoove a seller to suggest they’re selling fakes. That’s why confirmation or input from the brand owner remains critical to helping combat counterfeits, which SHOP SAFE undermines.

2. Consumers may choose one product over another because they viewed an ad and assumed that the ad or methods platforms use to spotlight certain products mean that the product has been verified as legitimate. How do platforms approach product ads? Is there any vetting done to ensure that counterfeiters aren’t buying ads to increase their visibility over legitimate products?

Companies that advertise on e-retail sites also sell goods on the same sites. Under the INFORM Consumers Act (INFORM), “high-volume third party sellers” — who are the vast majority of advertisers — are verified on the front end.

3. When a product order is “fulfilled by” a platform does the platform take extra steps to ensure those products are legitimate? Why should a platform not be held liable for their actions?

Many marketplaces do not offer fulfillment services. Marketplaces that are 100% third-party sellers almost never touch the actual goods themselves and sometimes only touch them for authentication purposes. But the fulfillment method shouldn't be the area of focus here. What's important is that marketplaces have proactive and reactive measures in place, and most established marketplaces do have that. The same legal standard of *Tiffany v. eBay* governs and the independent third-party businesses remain responsible.

4. How have online platforms implemented the INFORM Consumers Act? Have platforms placed new requirements on sellers who use their platforms?

Online marketplaces and sellers have invested significant time and resources to implement the INFORM Consumers Act. It will take time to understand how INFORM impacts both marketplaces and especially small and medium-sized sellers. Lawmakers should give INFORM time to work before pushing legislation that is more burdensome and harmful to online sellers.

Because of INFORM, covered “online marketplaces” have placed additional identification, verification, and disclosure requirements on sellers. This will help prevent bad actors from selling through online marketplaces and give stakeholders improved tools against repeat offenders. In addition, INFORM will help boost collaboration between digital services, industry stakeholders across the online ecosystem, and with law enforcement.

INFORM will also help protect small business sellers who are running legitimate businesses online by helping to weed out bad actors and give consumers more confidence online.

5. If SHOP SAFE were enacted, would platforms place new requirements on sellers to assist with enforcement? If so, what kind of requirements might be implemented?

CCIA's testimony outlines the many outsized and unbalanced burdens the bill would place on small sellers, which are often operating with no overhead and limited resources.

For example, SHOP SAFE would not only require “electronic commerce platforms” to place burdensome new requirements on sellers, but it would also force covered businesses to permanently ban sellers who have had three counterfeit notices in one year with no clear mechanism for reinstatement. This is particularly problematic because many platforms have already seen that brands are abusing notice and takedown regimes to report products that are perfectly legitimate and are often sourced directly from the brands via outlets or clearance sales.

Under SHOP SAFE, there is no recourse for sellers or platforms who fall victim to fraudulent or abusive rights owners. As currently structured, SHOP SAFE will put legitimate sellers at risk of losing their livelihood. Once blacklisted with three reports there are no mechanisms for small sellers to remove themselves from SHOP SAFE's reporting requirements — or for them to be

reinstated given inflexible provisions — which are ironically more extensive for small sellers than for large sellers.

SHOP SAFE also gives brands more power to erroneously report listings as a means to control distribution channels, which will eliminate competition and lead to fewer choices and higher prices for consumers.

6. To your knowledge, are there any practices that are more current than the practices listed in the SHOP SAFE Act or that should be sufficient to avoid secondary liability that are not covered by the bill?

Regulations enshrined in statute that deal with fast-moving technologies should be flexible and technology-neutral. Best practices today may be obsolete in just a few years with new technological advances. The list in the bill is highly prescriptive and would freeze innovation in 2023.

However, one practice that can and should be enshrined is encouraging collaborative relationships between rights owners and e-retailers. Because rights owners are the experts of their own brands and products, they are the most equipped to identify counterfeit products. The more the rights holders share details of their products, the better sellers can combat fakes. Unfortunately, SHOP SAFE lacks any obligations on brands to share this important information and has the unintended consequence of discouraging brands from sharing information with online marketplaces.

Many sites have invested heavily in AI and machine learning to identify and remove counterfeits. These technologies and capabilities are evolving quickly and policymakers should make sure any regulations are flexible enough to consider evolving standards and avoid overly prescriptive measures. The best measures used today may be obsolete tomorrow and Congress should instead consider referencing practices that take into account, for example, size and capabilities of sellers.

7. Should platforms be required to notify consumers when they remove a listing because it appeared to be selling counterfeit products?

Many services do this already, but any requirements would need to be carefully calibrated to accommodate different business models and the different definitions of listings across platforms. At a minimum, if a service is compelled to repeat to consumers a claim that a merchant trafficked in counterfeit goods, the alleging party should be required to make their allegation under penalty of perjury.

8. Should any revisions be made to the definition of “goods that implicate health and safety?”

The definition of the term “good that implicates health and safety” in SHOP SAFE is incredibly broad and would likely encompass millions, and perhaps the majority, of products of everyday use in consumers’ homes.

The definition currently includes “a consumer product, the use of which can lead to illness, disease, injury, serious adverse event, allergic reaction, or death, if the consumer product is 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.”

A witness in the hearing postulated that the presence of “buttons” on a product might implicate health and safety. The broad language should be cabined to legitimately dangerous and unsafe products. Traditional luxury brand items such as purses, clothes, and similar products should not be considered to legitimately impact health and safety.

9. Are there any additional best practices platforms should implement to help prevent infringing use by third party sellers on their platforms?

E-retailer anti-counterfeiting best practices are constantly evolving with new innovative solutions being proposed regularly by sellers. Such new practices include serialization of products, improved scanning of products, and some retailers even allow trusted brands who share detailed information with sellers to strike counterfeit products off of sites directly and independently of sellers.

However, since the size and capacity of e-retailers are fundamentally different, there should not be a one-size-fits-all best practices regime as currently exists in SHOP SAFE. Each online marketplace is unique and knows best how to build systems that work with their unique business models. This will encourage sites to innovate and adapt without being required to implement prescriptive programs that could be ineffective depending on the business model.

It would be a mistake for Congress to impose statutory best practices that may significantly change and evolve over the next ten years, as they have certainly changed over the last ten years. Instead Congress and courts should evaluate retailer practices based on published industry baseline standards.

Finally, rights owners should be encouraged to avoid material misrepresentations and only submit notices for known violations, with penalties for fraudulent notices.

10. Are there any additional changes that you would like to see made to the SHOP SAFE Act and why?

CCIA’s testimony outlined the Association’s significant concerns with SHOP SAFE that would create secondary liability where none exists today, undermining current trademark law and the *Tiffany v. eBay* precedent.

CCIA has serious concerns with the bill’s broad and ambiguous definitions, which would seemingly include any and all products for sale on e-commerce, and any and all websites where they are sold. Refining the definitions, including at a minimum harmonizing them with INFORM, could reduce confusion about who is covered in these very similar pieces of

legislation and ensure it only covers marketplaces with legitimate knowledge of customers, merchants, and products.

As previously discussed, the structure of SHOP SAFE creates enormous new burdens on e-commerce sellers without any new requirements for brand owners. If stopping counterfeiting is the goal, brand owners must be required to share relevant and detailed information about their marks. E-retailers will use this information to improve their automatic filters and train personnel to better identify counterfeit listings.

The legislation places prescriptive and inflexible requirements on sellers and lacks a true safe harbor, instead requiring sellers to meet specified conditions or they are held liable. These conditions are not based on an investigation or understanding of current anticounterfeiting industry practices by sellers.

The lack of a true safe harbor will incentivize endless litigation and would lead large brands to sue both online services and sellers of all sizes including small businesses with only a few employees. The Digital Millennium Copyright Act (DMCA) provides clear steps in the event of a copyright takedown notice and if the online service provider complies, there is little threat of litigation. Conversely, under SHOP SAFE sites would have to affirmatively prove they reasonably implemented the requirements. While SHOP SAFE allows a reasonableness defense, such an expensive defense would require in each case full discovery and fact finding by a jury.

Congress also must ensure that sellers that are operating in good faith are not overly burdened by new regulations. Companies that only have a few employees could be put out of business by improper demands by brand owners whereby legitimate products on sale are reported by brand owners who seek to control the distribution channels for their goods. As currently written, SHOP SAFE would empower brands to erroneously report listings that would eliminate competition and lead to fewer choices and higher prices for consumers.

We also oppose the three-strikes policy that would require covered platforms to permanently ban sellers as especially small businesses should be given opportunities to cure and brand owners should be punished for bad-faith takedown requests. Instead SHOP SAFE should include a small seller exception for casual sellers and microbusinesses and the thresholds in SHOP SAFE should align with thresholds in INFORM for consistency.

It also lacks proportionality for sellers of all sizes. For example, some sellers may be quite large with a huge inventory and have a track record for being a responsible player for an extended period of time. Three strikes with no recourse would cause them true commercial harm. On the flip side, in some instances a one-strike policy may be more suitable if a seller's inventory appears to be dedicated to counterfeits. It may not make sense to give such sellers three chances. This is another downside of the bill's current rigid and prescriptive approach.

11. What more can Congress do to help stem the sale of counterfeit goods online?

Fighting counterfeits is a shared mission and policymakers should consider the retail market in its totality, including e-commerce and traditional brick-and-mortar stores, while ensuring that

American small businesses do not shoulder a disproportionate burden. Everyone in the retail ecosystem has an important role to play and the problem of counterfeiting should be examined holistically by Congress including issues such as 1) consumer demand for counterfeit goods, 2) improved enforcement globally through engagement with our trading partners, and 3) information sharing between stakeholders, including brands, marketplaces, law enforcement, and consumer groups.

INFORM entered into force only a few months ago and shares many of the same goals as SHOP SAFE without many of the harmful impacts on sellers. We continue to encourage lawmakers to give INFORM more time to work while taking the time to collaborate, perhaps through roundtables with stakeholders to garner suggestions, feedback, and additional solutions to combating counterfeits. Such collaboration could develop workable and targeted solutions that could combat counterfeits without hurting small sellers.

SHOP SAFE must place affirmative obligations on trademark owners if additional progress is going to be made in anti-counterfeiting. Brand owners are best-placed to ultimately know what goods are authentic and what goods are counterfeit. SHOP SAFE does away with trademark owners' critical role in identifying counterfeits, assigning little to no role for them, such as providing sellers detailed information on their marks, including licensing agreements, in the same granular detail as they provide anti-counterfeiting actors like Red Points. If there are data gaps that can only be populated with non-public information then Congress should ensure that brand owners share this data. Unfortunately SHOP SAFE does not balance burdens between digital commerce sites and brands.

Policymakers should also encourage trademark owners to participate in programs designed by sellers to stop counterfeits because with information sharing and close cooperation, even more counterfeits will be stopped. Some sellers have announced plans to serialize branded products and if trademark owners join and cooperate with these efforts it could eliminate much existing counterfeiting.

In addition, lawmakers should include penalties on bad-faith takedown requests, as earlier versions of SHOP SAFE included, so brands cannot intimidate small sellers for legal resale of goods. Small and medium-sized businesses simply do not have the bandwidth and resources to spend multiple days investigating such claims and could be forced out of business for an incorrect challenge from a brand.

Lastly, Congress should also increase resources for law enforcement that would help finance additional legal action to put more bad actors out of business.