

LEGAL

New US SHOP SAFE bill holds online platforms liable for counterfeits. Next steps luxury brands must take

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Online platforms such as Amazon and Alibaba have become the biggest counterfeiting problem for many companies, including luxury goods and fashion companies.



For this reason, many luxury goods companies have refused to offer items on these platforms.

U.S. law has made it very difficult to hold online platforms liable for sales of counterfeits.

In early March, a bipartisan bill, named the SHOP SAFE Act, was introduced that would hold selling platforms liable in many cases, and, it is hoped, would spur them to take aggressive actions to prevent offerings of counterfeits.

How is this proposed bill supposed to work? What does this bill mean for the luxury goods industry? And what should the luxury goods industry be lobbying for?

Prior law

A seller of counterfeit goods is generally liable for trademark infringement this is what the law calls direct infringement. No special knowledge is needed. Even an innocent seller is liable.

What about someone who helps the seller such as an online platform that provides services that enable sales? That is called "contributory liability," the civil equivalent of aiding and abetting a crime.

The law has long required that to hold the aiding party liable, it must be shown that that party had knowledge that the goods were counterfeit.

In 2010, a federal appeals court, in the case *Tiffany v. eBay*, decided that this knowledge must be *specific* knowledge, meaning that it was not enough that Tiffany showed that eBay was generally aware that it had many counterfeits on its site.

Rather, Tiffany had to show that eBay had knowledge that *each specific offering* was counterfeit. Until eBay had

such specific knowledge, it was not responsible for such counterfeits on its site.

The effect of the *Tiffany* decision was to place the burden of controlling online counterfeits on trademark owners, by monitoring sites and sending notices one-by-one to platforms such as eBay and Amazon.

To be sure, these sites do offer some tools to trademark owners to streamline the process, but the main burden still rests with the brand. The result, predictably, is that platforms are rife with counterfeits.

SHOP SAFE bill

The SHOP SAFE bill, introduced in March, turns this legal regime around.

The core provision of the bill imposes contributory liability on online platforms for third-party sales of counterfeits, *unless* they show that they took a series of steps to minimize counterfeits on their platforms.

This is far less than a guarantee that their platforms are counterfeit free, but it does put the onus on platforms to take active anti-counterfeiting steps. Direct sales by the platforms which Amazon and other platforms do engage in are not affected by this bill.

What kinds of goods are covered?

As written, the SHOP SAFE Act does not apply to all kinds of goods, only to "goods that implicate health and safety."

Clearly the sponsors did not have luxury goods in mind, but rather things such as drugs, child car seats and appliances.

Yet the definition of "goods that implicate health and safety" has been broadly defined to include any goods that could cause illness or injury if produced without compliance with all applicable governmental regulations *and* industry-designated safety standards.

Potentially, this could include many product categories sold by luxury goods companies.

Many of the types of items sold by luxury goods companies, such as apparel, jewelry, watches and handbags, have been the subject of safety recalls by the Consumer Products Safety Commission. So, arguably, each of these types of items potentially can be a safety hazard, and thus would all be covered by the bill.

In fact, it is hard to think of what product types would *not* be included in the current definition.

The escape clause

So what do platforms such as Amazon and Alibaba have to do under the SHOP SAFE bill to escape liability?

The bill includes a laundry list of 12 steps the platforms must take to show they have made efforts to prevent counterfeit offerings:

- Third-party seller must be available to be sued and served in the United States
- Platform has to verify seller's identity and place of business
- Platform must require that seller verify authenticity of the goods
- Platform must require that seller agree not to use counterfeit trademarks
- Platform must require that seller consent to jurisdiction in U.S. courts
- Platform must display place of business and contact information of the seller on the site, and place from where the goods are being shipped
- Platform must require that seller use images of the goods that it owns or has permission to use
- Platform must implement "proactive technical measures" to screen out counterfeits
- Platform must implement, at no cost to trademark owners, automated takedown programs
- Platform must implement a three-strikes-you're-out rule for repeat sellers of counterfeits
- Platform must implement screening methods to ensure that banned sellers do not rejoin under a new name
- Platform must provide information about sellers of counterfeits to law enforcement and trademark owners

These hodge-podge of steps seems not particularly well thought out.

Some of them are likely ineffectual what seller is *not* going to verify that its goods are authentic?

Some requirements are not defined. What exactly are "proactive technical measures," and what is the minimum that a platform must do to qualify?

Others do not comport with current practices.

For example, the requirement that a seller use its own images of the goods being offered. Currently, Amazon, the leading online platform, requires that all sellers of the same item use the same image (keyed to Amazon's stock number, or ASIN, for that item), generally being the manufacturer's image.

Others, such as the automated takedown and disclosure of seller information, might well be valuable to anti-counterfeiting enforcement by brand owners.

What should luxury goods makers do?

Despite its flaws, this bill should be viewed as a positive development.

The creation of online marketplaces has created a huge counterfeiting problem, and the prior law placed almost all of the burden of dealing with it on brands.

The core of this bill turns that around platforms now have the responsibility for what sellers do on their platforms, unless they are proactive in preventing counterfeits. This shift in paradigm should be a welcome message to all brand owners, including in the luxury goods space.

The luxury goods industry should lobby for changes in the bill. Platforms will no doubt oppose it, or seek substantial modifications in their favor.

One obvious change is to cover *all* goods in the bill's provisions, not just goods "that implicate health and safety."

As we discussed, most luxury goods are probably already included anyway, and the current definition will just lead to wasteful litigation fights about what is or is not covered.

Second, the industry should work with those who are experts at counterfeiting enforcement to come up with a more effective list of steps that online platforms must do to avoid liability.

Such a list should be based on two considerations.

One, the steps need to match both the realities of ecommerce practices, and what has proven to be effective in anti-counterfeiting enforcement.

Second, some provision should be made to update the list to reflect changing ecommerce practices and evolving technology. The online world moves very quickly, and what might constitute reasonable efforts by an online platform today to control counterfeits could be outdated or even counterproductive in several years.

TO SUMMARIZE, the SHOP SAFE Act should be viewed as a welcome development, in that it seeks to require online selling platforms to take on much more of the burden of anti-counterfeiting enforcement.

But it needs significant improvements, and the luxury goods industry should be lobbying to make those improvements.

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