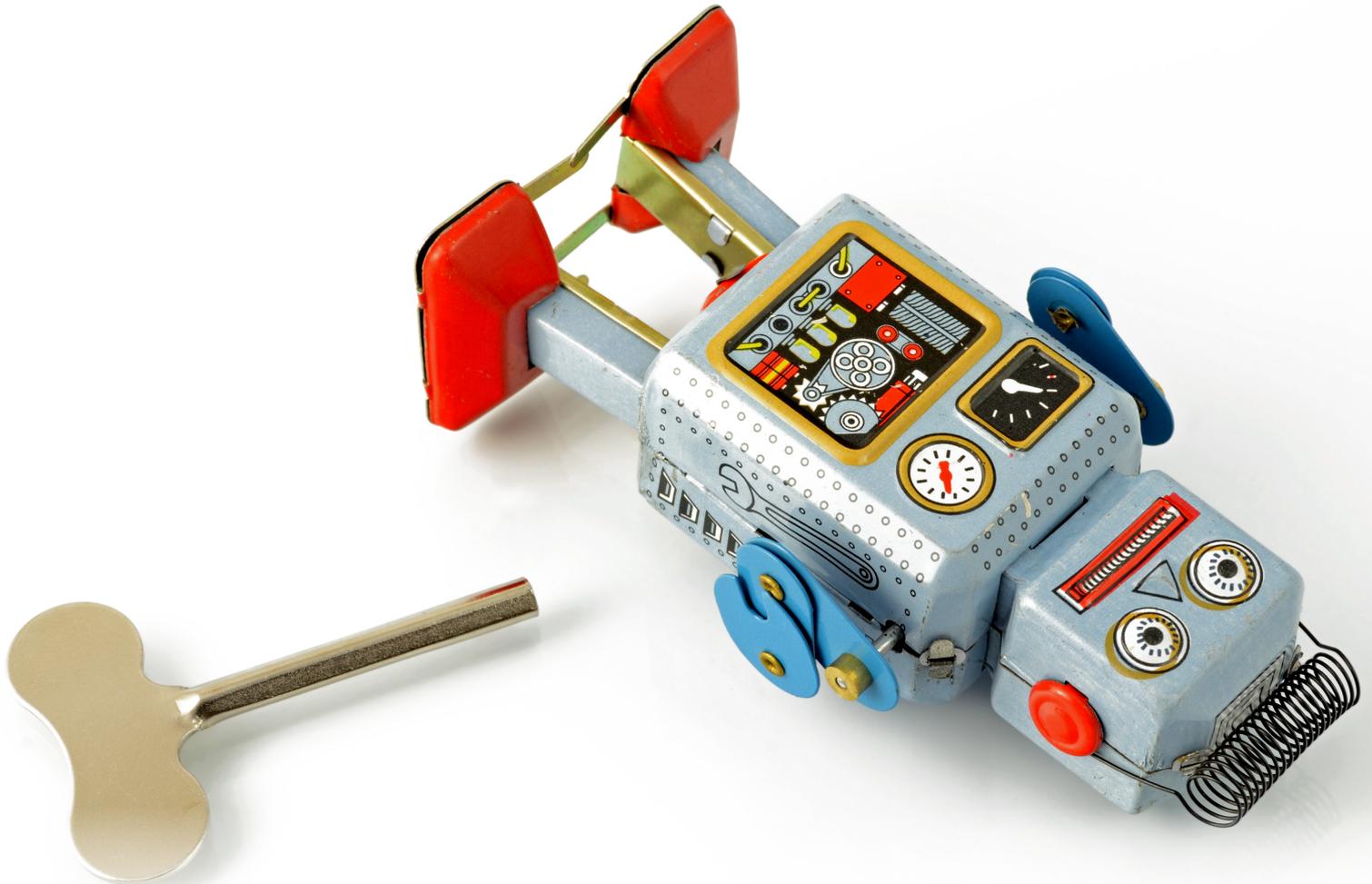


Taking Fake Toys Offline:

A 2020 Focus on Proactive Measures to
Reduce Counterfeits and Unsafe Toys
Sold on Online Marketplaces



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EXECUTIVE SUMMARY

Counterfeit and non-compliant toys sold through online marketplaces continue to threaten consumer health and safety. In 2020, Toy Industries of Europe (TIE) and the British Toy & Hobby Association (BTHA) published toy safety reports. TIE assessed 193 non-branded toys for compliance with the EU toy safety standard. Of these, 97 percent were non-compliant and thus illegal in the European market despite being purchased across seven EU member nations on four major platforms.¹ Similarly, for its latest toy safety study, BHTA purchased 100 randomly-selected toys from well-known online marketplaces and found that 60% were unsafe for children and that 86% of the toys were illegal to sell in the UK.²

International counterfeit trade has increased³, and online shopping has a widespread risk of counterfeits. In the U.S., the “growth in e-commerce has contributed to a shift in the sale of counterfeit goods in the United States, with consumers increasingly purchasing goods online and counterfeiters producing a wider variety of goods that may be sold on websites alongside authentic products. For example, 20 of 47 items [the Government Accountability Office] purchased from third-party sellers on popular consumer websites were counterfeit, according to testing by the products’ rights holders, highlighting potential risks to consumers.”⁴



Consumers, however, are largely unaware of this growing problem. The Toy Association conducted a study of 1,000 toy-buying parents in 2019 and found that nearly 1 in 3 incorrectly believed counterfeit toys are not sold on major online marketplaces, representing a blind spot through which non-compliant toys can slip into households.⁵

Consumers are shifting to online shopping at an accelerated rate. More than nine in 10 shoppers chose their retailer based on convenience, driving the consumer shift to online shopping⁶ and the events of this year have hastened the online shopping trend. The U.S. Census Bureau estimated that retail e-commerce sales during the second quarter were \$211.5 billion, representing a 44.5% increase from the same quarter a year ago.⁷ Indeed, U.S. toy sales experienced double-digit monthly growth from March through June 2020, despite lockdown restrictions, thanks in large part to the strength of the online channel during that time.⁸

In 2019, the Toy Association issued its White Paper, *The Real Threat of Fake Toys*,⁹ which discussed the three contributing factors and various potential solutions to this increasingly pervasive problem. While there has been some good progress in the last year, much more remains to be done to decrease unsafe and counterfeit toys online. This 2020 paper reviews the three factors contributing to counterfeit toys sold online and expands on the proposed solutions:

1. **There remains a low hurdle to sellers due to the lack of seller or product verification.** At a minimum, online marketplaces should collect and verify seller information through government identification and other official documents. Online marketplaces should also be required to implement proactive systems to verify whether product offered on their sites meets applicable regulations such as labeling requirements and consumer product safety regulations. Furthermore, online marketplaces should aggressively use and enhance their available proactive tools and filtering capabilities to prevent counterfeit product from being offered on their sites.
2. **Enforcement of counterfeits is a reactive process and the burden is disproportionately placed on rights holders and consumers.** More proactive procedures must be the first line of defense. Additionally, the reporting process must be streamlined, and the presumption shifted to rights holders.
3. **Consumers must be provided with information so they can make informed purchasing decisions.** It has become increasingly difficult to differentiate between legitimate and counterfeit product on marketplaces because counterfeiters are adept at blending in on the sites. Marketplaces must be more transparent with verified seller and product information to enable consumers to make informed purchasing decisions and avoid falling victim to counterfeit products. Consumers and brands should be notified when counterfeit products are identified on marketplace platforms.

These issues and proposed solutions continue to evolve as online shopping changes. Increased reliance on online shopping, the proliferation of social media marketplaces, targeted advertisements, and the growth of fake reviews and fake storefronts are new concerns that Association members have identified for future review. While some of the solutions identified may resolve some of these emerging trends, we anticipate an ongoing adaptive approach will be needed to fully address the prevalence of counterfeit toys sold online.



TOY ASSOCIATION AND ITS EFFORTS TO PREVENT COUNTERFEIT AND UNSAFE TOYS

1. About The Toy Association

Founded in 1916, The Toy Association, Inc. is the trade association representing businesses that design, produce, license, and deliver toys and youth entertainment products. With over 1,000 members, the organization has a long history of propelling the health and growth of the toy industry. The Toy Association's members drive the annual \$27 billion U.S. domestic toy market, which has an annual U.S. economic impact of \$98.2 billion. The toy industry supports an estimated 627,110 jobs (FTE) generating more than \$31.1 billion in wages for US workers. The toy industry generates \$13.2 billion in tax revenue each year.

The Toy Association advocates on behalf of its members, and for more than 40 years has been a global leader in toy safety. It helped develop the first toy safety standard and remains committed to working with medical experts, government, consumers, and industry on ongoing safety programs and outreach. The Toy Association is also the industry's voice on the developmental benefits of play, promoting play's positive impact on childhood development.

2. The Real Threat of Fake Toys

A significant and serious issue facing consumers and The Toy Association's members is the growing phenomenon of counterfeit and non-compliant products being sold online.



In 2019, The Toy Association issued a White Paper, *The Real Threat of Fake Toys*, which discussed contributing factors and potential solutions to this increasingly pervasive problem. Namely, the 2019 White Paper articulated three categories of contributing factors to this steady growth of infringing products online, particularly as it relates to online marketplaces:

- E-commerce creates a low hurdle to sellers;
- The burden of enforcement is disproportionately reactive and on the rights holder; and
- Consumers are largely unaware of the scope of infringing product offered on online marketplaces

This framework remains suitable for analyzing the continuing problem of counterfeit and non-compliant products sold on online marketplaces.

The 2019 White Paper articulated potential solutions to combat each of these factors.



To neutralize the low hurdle to sellers, The Toy Association proposed that online marketplaces proactively screen and collect verified contact information for sellers, and proactively screen products, requiring that sellers demonstrate legitimacy of the products and provide Children’s Product Certificates (CPC) to ensure safety.



To more appropriately balance the burden of enforcement, The Toy Association proposed that online marketplaces work collaboratively with industry organizations to create programs that give the presumption to rights holders, provide more streamlined removal processes, provide direct points of contact for the industry, provide trainings to industry groups on best practices, and provide more transparency to stop bad actors.



To facilitate consumer awareness and education, The Toy Association proposed that online marketplaces better identify legitimate or verified products and sellers.

3. Toy Association Engagement and Advocacy

The Toy Association has been engaged with online marketplaces, including Amazon, Alibaba, Walmart, eBay and others, to work collaboratively on behalf of its members and consumers. The Toy Association has held meetings and calls connecting rights owners and e-commerce marketplaces to address specific and technical concerns. Amazon and Walmart are both Toy Association members and are on The Toy Association’s IP Committee. The above-mentioned marketplaces have worked collaboratively with The Toy Association and its members during this process.

The Toy Association has also been engaged in extensive advocacy, including testifying before Congress, meeting with Administration officials, participating in roundtables, conducting regular meetings with legislators, and engagement in proposed legislation.



Since the 2019 White Paper, the Toy Association's engagement and advocacy has contributed to some important progress, including:

- Introduction of three bills that would implement requirements on marketplaces and sellers to address many of the problems identified by Toy Association members;
- Publication of the Department of Homeland Security Report, *Combating Trafficking in Counterfeit and Pirated Goods*, that echoed many of The Toy Association's proposed solutions;
- Most major online marketplaces have provided or committed to providing points of contact to help address Toy Association members' specific concerns and questions, and have increased resources to provide brand owners with additional tools to identify and remove counterfeits;
- Some marketplaces have begun to publicly share basic seller identifying information such as the seller's location;
- Some marketplaces have implemented or are considering the implementation of additional safety measures, such as requiring Children's Product Certifications for some toys sold on their respective marketplaces; and
- Amazon has committed to stop, for children's products, the shipping practice whereby it ships product from the warehouse closest to the consumer, regardless of whether that product is from the seller from which the consumer ordered the product.

CONTINUED PROLIFERATION OF COUNTERFEIT, NON-COMPLIANT AND UNSAFE TOYS

1. Safety of Toys Sold Online Continues to be a Growing Public Concern

Despite work by The Toy Association, heightened engagement by government, increased awareness by consumers, and somewhat improved removal procedures on many online marketplaces, there are still numerous examples of unsafe and non-compliant toys being sold through online marketplaces. While some of these products are counterfeit and others are knockoffs or infringe on other aspects of registered intellectual property, some are simply non-compliant. These offerings reflect what has become a manufacturing industry that seeks to fill consumer demand wherever it arises. Given the unregulated nature of online marketplaces and the lack of enforcement of products sold online, opportunities are abundant and risks are few for sellers who do not know how to comply with international toy safety standards or who see compliance with international toy safety standards as an unnecessary cost. The examples of non-compliant product are pervasive.

In 2020, Toy Industries of Europe (TIE) and the British Toy & Hobby Association (BTHA) published toy safety reports. TIE assessed 193 non-branded toys for compliance with the EU toy safety standard. Of these, 97 percent were non-compliant and thus illegal in the European market despite being purchased across seven EU member nations on four major platforms.¹⁰ Similarly, for its latest toy safety study, BHTA purchased 100 randomly-selected toys from well-known online marketplaces and found that 60% were unsafe for children and that 86% of the toys were illegal to sell in the UK.¹¹

More broadly, in August 2019, the *Wall Street Journal* presented an in-depth review of the counterfeit products sold on online marketplaces.¹² The investigation and article focused on Amazon, but the premise and outcome are applicable to most online marketplaces. The article states, "In practice, Amazon has increasingly evolved like a flea market. It exercises limited oversight over items listed by millions of third-party sellers, many of them anonymous, many in China, some offering scant information." The article explained that its investigation uncovered over 4,000 items for sale on Amazon that had been declared unsafe by federal agencies, many of which were toys and other children's products. This included items that had been specifically banned by the FDA as being unsafe for children.

Every day, there are examples of listings for unsafe and non-compliant toys being offered and sold on online marketplaces. Listings frequently include products with battery compartments without a locking mechanism, toys marketed to children under the age of three that pose choking hazards, or toys without small parts warning labels. [On their face, these products blatantly violate safety regulations, yet they are ubiquitously offered on popular mainstream online marketplaces and marketed as intended for children.](#) These products are not third-party tested and certified compliant as required by the Consumer Product Safety Improvement Act (CPSIA). Unlike legitimate toy brands that ensure the safety of their toys before they reach the market, without testing and certification, no such assurances exists and there is no way for a consumer to know whether the products are safe.

A recent example involves dangerous magnets being marketed to children. Federal toy safety standards prohibit the use of certain powerful magnets, known as rare earth magnets, in any toy part that is small enough to be swallowed and is intended for children under 14 years old. Rare earth magnets pose a serious risk to children if they are swallowed and they should never be given to young children, especially those under the age of three. However, many online listings for "toys" promote products to children that include rare earth magnets, increasing the likelihood of a child swallowing and being severely injured by these very powerful magnets.¹³ Below are examples from a search run in October 2020 on three mainstream e-commerce platforms, Alibaba, Amazon and Walmart, for "magnet putty." Notably, each of the listings from a third-party seller show a rare earth magnet on the face of the listing and each listing indicates that it is a children's toy, with one even suggesting an age range of "4 months and up."

Another recent example involves 3D printing pens marketed to children that reach temperatures that cause a burn risk. One Toy Association member produces the 3Doodler Pen, which provides compliant product that maintains a lower temperature to ensure it does not pose a burn risk to children. However, with the popularity of these pens, there are now numerous listings on popular online marketplaces for pens that heat and melt filaments made of the plastics ABS and PLA, which melt at temperatures of 190-230°C. To melt those plastics, the tip of those devices get as hot as 180-200°C, which could easily burn a child and is not suitable for children under the relevant safety regulations.



A compliance testing lab provided the following feedback on toys purchased through a popular online marketplace. All these products were still available online at the time of drafting:

- **Wooden Jigsaw Puzzle FAIL.** Item is being marketed as appropriate for children ages 1 year and older. There were small parts as received, which is not allowed in toys for children under 3 years of age.
- **Kanga Roo Flashing LED Light Up Toys FAIL.** During tension testing, the rings ripped open and exposed the battery compartment within. For all toys, batteries that are small parts cannot be accessible within the battery compartment without the use of a coin, screwdriver, or other common household tool.
- **Pull Back Trucks FAIL.** Components of the car released during use and abuse testing (specifically the torque test). These components revealed sharp points. The tire and axle released from the sample during tension testing. This resulted in sharp points on the axle, as well as a projection point (sharp point on axle still attached to one tire, with that tire acting as a sturdy base).
- **Black Magnetic Putty Slime FAIL.** Magnet toys such as this are typically appropriate for children at ages 8 years and older. This is being marketed as appropriate for all ages. The magnet is a small part as received, and has a flux reading of greater than 50 kG²mm² (617.2 kG²mm²), deeming it a hazardous magnet.

In the most tragic examples, these non-compliant products can result in severe injury and risk of death. In December 2018, a four-year-old boy broke knock-off Magformers magnetic building blocks and swallowed several loose magnets. As the magnets tried to connect to each other within his body, they caused significant intestinal damage and the incident resulted in hospitalization and surgery to repair and remove his damaged intestine.¹⁴ The genuine Magformers toys are subjected to regular safety testing to ensure the small magnets are encapsulated safely and will not come loose even with a reasonable level of abuse during play. This is not the case with the non-compliant products, which led to this tragic example.

2. The Criminal Connection to Counterfeit Products

In addition to the safety concerns raised by counterfeit products, numerous reports link counterfeit activity to criminal enterprises, including terrorist activity. The Department of Homeland Security highlighted this link in its 2019 report, *Strategic Framework for Countering Terrorism and Targeted Violence*, explaining that law enforcement efforts have identified links between terrorist groups and the sale of counterfeit goods and illicit material in e-commerce.¹⁵ The United Nations Security Council also identified the connection between organized crime, including counterfeiting, and terrorist activities.¹⁶



One study from Michigan State University aptly explained: “Despite its outward appearance, product counterfeiting is far from being a stand-alone crime, and the large financial returns to be gained likely attract a host of illicit actors ... counterfeiting will likely be a supplementary criminal activity intended to generate a consistent flow of cash through relatively low-profile, yet, highly profitable activities.”¹⁷

Indeed, officials report that many terrorist organizations and their activities are directly funded in part by sales of counterfeit product. In analyzing the funding of al Qaeda, the National Commission on Terrorist Attacks Upon the United States explained that the “list of purported al Qaeda funding sources is legion: counterfeit trademarked goods, consumer coupon fraud, drug trafficking, insider trading, support from Gulf-area governments, and conflict diamonds are the most common.”¹⁸ A 2016 report prepared by the Union des Fabricants (UNIFAB) detailed this connection, specifically identifying terrorist organizations that have been shown to have funded their organizations by selling counterfeit product, including the IRA in Ireland, the Basque separatist group ETA, the Colombian guerilla group FARC, as well as Hezbollah, Hamas, al Qaeda, and others.¹⁹ The group responsible for the 2004 Madrid train bombings was also reported to have been funded in part by sales of pirated CDs and Hezbollah was reported to be funded in part by counterfeit Viagra.²⁰ It is reported that terrorists who attacked the French magazine Charlie Hebdo in 2015 financed their weapons partly by selling fake Nike sneakers.²¹

THE FACTORS CONTRIBUTING TO THE CONTINUING PROLIFERATION OF COUNTERFEIT AND NON-COMPLIANT PRODUCTS AND POTENTIAL SOLUTIONS

1. The Criminal Connection to Counterfeit Products

a. First Contributing Factor: Low Hurdle to Sellers

While e-commerce and online marketplaces continue to grow and provide significant benefits to legitimate companies looking to more easily reach consumers, these same marketplaces allow bad actors and sellers to prosper. Initial entry to online marketplaces can be as simple as creating a seller account with a unique email address, creating a low hurdle to entry and a high hurdle for stopping bad actors and sellers at the source. In order to neutralize the low hurdle to sellers that allows bad actors to thrive, The Toy Association proposed in its 2019 White Paper that online marketplaces proactively screen sellers.

I. **There Remains Inadequate Seller Information Gathering and Verification**

While some marketplaces require additional credentials, often these credentials are inaccurate, incomplete, and unverified. Based on seller information provided by some marketplaces, it is apparent that there is an inconsistent collection and verification of seller data. As a result, sellers can provide online marketplaces with inaccurate or fake information, making it impossible for online marketplaces to track and suspend bad actors, or for rights holders, law enforcement, or consumers, to enforce their rights. Indeed, if there is no verified contact information, there is no ability for a rights holder, consumer, or law enforcement to trace and enforce at the source.

Proactively screening sellers requires more than simply collecting more information from sellers. Seller information must also be verified prior to allowing an account, just as any other retailer would require, and marketplaces must improve their vetting of sellers, suppliers, and products by implementing more stringent requirements that validate seller credentials.

At a minimum, prior to allowing a seller account, online marketplaces should collect and verify through government identification and other official documents, the seller's contact information and banking information. This should include at a minimum: name, physical address, email address, phone number, business registration, bank account information, and W9 form or tax EIN, or another applicable unique government-issued identifier.

Admittedly, government identification and other official documentation can also be falsified, but that does not mean that marketplaces should not at least attempt to meet the threshold requirement to verify using the best means possible. Since verification and authentication are a moving target, continued evaluation of the best methods is encouraged.

Some online marketplaces have invested in verifying sellers through machine learning tools and innovative pilot programs, like picture and video conference verification. However, some have also argued that thorough verification is not possible because of the volume of sellers on their marketplaces. This volume of sellers is not inevitable though; rather, it is a business decision that online marketplaces themselves make. If a marketplace is unable to verify the identity of its sellers because a high volume of sellers are permitted into that marketplace, that is a result of its own creation.

Consumers and rights holders alike would benefit from a collective effort of all online marketplaces to expand the practice of collecting and verifying information. In addition to stopping the counterfeiters from providing non-compliant products to consumers in the first place, obtaining verified contact and banking information would allow the online marketplace to better track, triangulate, and decrease the reappearance of the same bad actors under new accounts.

Once seller information is appropriately gathered and verified, online marketplaces should also make certain information is easily available to consumers and rights holders, as discussed in more detail below. Without transparency, counterfeits will only continue to increase.

II. Marketplaces Do Not Proactively Screen Products

Currently, most online marketplaces lack an effective, proactive process for screening products that are offered by sellers. All marketplaces play a direct role in providing and selling products to consumers, regardless of whether the online marketplace obtains physical control over the product being sold through fulfillment services or only connects a buyer and a seller. While marketplaces do not act as traditional brick-and-mortar retailers that curate goods to sell to consumers, this should not absolve the online marketplace from all responsibility for the goods from which they profit.

Online marketplaces should be required to implement a proactive system meant to verify whether a product being sold on its website is counterfeit and whether it meets regulations such as labeling requirements and consumer product safety regulations. In its 2019 White Paper, The Toy Association proposed that sellers should be required to demonstrate the legitimacy and safety of their products, and that a process should be instituted to improve tracking of products to sellers. However, it does not appear that there have been sufficient strides in increasing the seller burden to verify the source of products, or to authenticate or confirm the safety of products being sold. Because brick-and-mortar retailers are liable for the products sold in their stores, this level of due diligence is standard practice for them.

The 2019 White Paper proposed that online marketplaces should collect Children's Product Certificates (CPC) from sellers offering children's products. Marketplaces have indicated they can request the CPC from sellers, but to date, this has not been required of all sellers, contrary to what brick-and-mortar retailers require of their sellers. Instead, some online marketplaces have implemented proactive approaches, but only for those products that the marketplace deems riskier, such as those that pose a higher risk of non-compliance, are subject to more counterfeiting, or could pose a higher risk to health and safety.



Online marketplaces, like brick-and-mortar retailers, should collect and authenticate CPCs for all children’s products to ensure the safety of the toys offered through their marketplaces. In addition, we propose the following best practices for CPC collection:

- **Certification requests should be limited to just the certification and should not include the test reports, unless there is a reasonable suspicion that the certificate is invalid or has been altered or forged.**
- **Requesting test reports may also be a part of a periodic audit of certifications conducted by the marketplace.**
- **No amount of certification or testing can replace a vigorous screening program for sellers and products before the products are available for purchase online.**
- **For those products that have been verified compliant to the applicable safety requirements, we suggest the listing have a “verified seller” or “verified product” distinction. Any products that are recommended or promoted by the marketplace should be “verified.”**
- **The product should be compliant with the product safety requirements that apply to the jurisdiction in which the consumer is located.**
- **The marketplace should conduct periodic test buys to ensure that the certification information correlates with the product that is being certified.**
- **Products manufactured outside of the mandatory certification document retention period do not need to have certification. The seller is required to prove that the product was manufactured out of the scope.**
- **Certification requests should be limited to and align with requirements in 16 CFR Parts 1107, 1109 and 1110. This includes allowing for certifications to be based on component part tests.**
- **A point of contact should be provided for safety concerns, whether with the product listing itself or with the description of the product, regardless of affiliation with the seller.**
- **Manufacturers and brands will provide certification only to the original purchaser; subsequent sale of that product (e.g. closeouts, overstocks, etc.) does not obligate the manufacturer to certify product to someone to whom they did not sell it and with which they have no business relationship or ability to verify the product identity.**

- **At the outset, certification asks should be done in phases over an extended period, focusing on product categories that pose the most risk.**

Incorporating these best practices would allow for assurances about the regulatory compliance of the seller and the product offered and would provide extensive information about the product if there were claims of infringement or regulatory violations and safety concerns. At a minimum, online marketplaces should implement these practices when sellers hit a volume of sales that indicates the seller is a commercial seller, and for products that could present a greater safety risk to children if there is a violation, such as those products marketed to children under the age of three.

III. There is Inconsistent Application of Proactive Measures

Online marketplaces have touted the ability to implement different filters and rule systems to proactively block counterfeits. This includes rules that are set by price point, seller location, and brand name, or other markers that allow the marketplace to identify known or likely counterfeits. Using these filters, marketplaces can automatically block items and prevent counterfeit product from being offered on their sites.

Despite the apparent availability of these tools, they are not used with regularity or consistency. For example, certain tools are only made available to brands that have registered for particular marketplace enforcement programs that may have onerous terms; some are only available at a cost to the brand owner; and some may only be available to accepted brands after application to the marketplace. As a result, marketplaces are inconsistently filtering out counterfeit products.

Online marketplaces should use their proactive tools and filtering capabilities widely to block non-compliant items and prevent counterfeit product from being offered on their sites. The online marketplaces are developing sophisticated filtering and AI technology, and this technology can offer a clear benefit to consumers: identifying and eliminating counterfeit and non-compliant product. Once developed, that technology should be widely used by marketplaces to prevent counterfeit product and sellers from appearing on their sites.

b. Second Contributing Factor: The Burden of Enforcement is Disproportionately Reactive and Placed on the Rights Holder

I. The Process Remains Reactive, Disproportionately Relying on Enforcement by Rights Holders and Consumers

The burden of enforcement disproportionately relies on rights holders and consumers to police and report infringement. Rights holders are required to scour online marketplaces and investigate, report, and prove infringement to the marketplace before counterfeit items are removed. This problem is compounded by the fact that each marketplace has different processes and procedures in place for handling infringement claims, forcing rights holders to

constantly navigate different, and often changing, marketplace enforcement procedures. This process removes the initial burden from the seller and further gives the sellers the benefit of the doubt.

At the core, it is evident that reactive measures will never keep up with bad actors and more proactive measures are required. Indeed, proactive procedures must be the first line of defense. If the focus is on reactive efforts rather than proactive approaches, bad actors will continue to flourish. Importantly, there is no amount of resources rights holders can expend to adequately neutralize bad actors if marketplace approaches are disproportionately reactive in nature.

II. Brand Protection Programs That Shift the Presumption and Streamline Removal are Inconsistent

While some online marketplaces have begun offering new and more robust collaborative programs for rights holders to more easily report and submit enforcement claims, Toy Association member experience is that these measures are inconsistently implemented, with certain brand owners receiving preferential treatment depending on existing business relationships with the marketplace. Further, they are not uniform across marketplaces, forcing rights holders to navigate the different, and often changing, marketplace policies and procedures. Finally, many of these programs are highly burdensome, either requiring payment from the rights holder or sharing extensive amounts of data by the rights holder with the marketplaces.

A process that instead gives the presumption to rights holders and delists a product (even temporarily) upon notification of infringement would appropriately place the burden on the seller. As proposed in The Toy Association's 2019 White Paper, a solution that would allow a registered rights holder to submit a simple and streamlined "challenge" as to a seller or listing (rather than requiring that the rights holder prove the infringement in response to such a challenge) would more appropriately balance the burden of enforcement. Effectively, a product listing would be removed until the seller demonstrated that the product was legitimate, such as through a chain of title, license, or other documentation allowing sale of the product.

III. Fulfillment Methods Should Have Transparency

Marketplaces vary on their inventory and warehouse practices. Some take a "hands off" approach and do not at any point take possession of or facilitate the transfer of goods from the marketplace seller to the consumer. In other cases, marketplaces play a more involved role in shipping, warehousing, or transferring ownership of the goods. In the latter example, in order to speed shipping and reduce environmental impact, at least one marketplace that fulfills third party orders will ship product from the warehouse closest to the consumer, regardless of whether it is the seller from which the consumer ordered. This practice means that a consumer may purchase from one seller but receive product from a different seller.

While this practice may increase speed and efficiency in shipping, making it an attractive option for marketplaces to consider, it presents numerous problems for consumer protection as it allows for another layer of obfuscation by hindering seller identification, investigation, verification, and enforcement. For those investigating potential infringing products, it undermines the integrity of test buys that are critical to enforcement investigations. Purchasers have no idea whether they are receiving inventory from the target of their test buy and investigation, making it near impossible to track and identify bad actors. Any policies that add an additional layer of uncertainty in terms of identifying the sellers behind products is a step in the wrong direction and only serves to create additional burdens for rights holders.

To date, Amazon is the only marketplace that members are aware of that has used this process. Alongside the ongoing engagement with The Toy Association, Amazon has stated that it no longer conducts this practice for toy products sold worldwide. This was an important development and The Toy Association urges other marketplaces to exercise caution should they consider doing the same and also encourages Amazon to cease the practice for all products or, at the very least, ensure that the purchaser be conspicuously notified at the time of purchase that they will receive product from a different seller than the seller from whom they are purchasing.

IV. Transparency to Seller Identity and Contact Information Remains Inadequate

Transparency of seller information is inadequate, resulting in a lack of information available to consumers making purchasing decisions, and to rights holders and law enforcement attempting to track and enforce against counterfeiters.

Some online marketplaces are beginning to increase access to seller information, such as through brand owner programs. However, access is often inconsistent across marketplaces, providing a variety of different information depending on the program. Further, even when marketplaces do offer such information that is necessary for subsequent enforcement actions, it is often incomplete or incorrect due to inadequate preliminary verification.



Without complete or verified information, rights holders cannot take the necessary next steps and are often forced to expend time and valuable resources chasing dead ends. Unverified information and the existence of fake email addresses or physical addresses can also lead to stolen identity problems, which result in rights holders acting against the wrong individual or entity. Not only does this harm those who have mistakenly been tagged as bad actors, but any delay in the enforcement process benefits unscrupulous actors.

Marketplaces must improve transparency and information sharing regarding the seller. To start, marketplaces should collect, verify, and provide conspicuous identity, contact information, and location for all sellers on the face of the listing. This allows consumers to make more informed purchasing decisions and allows consumers to easily contact those sellers if any problem or question arises. It also eases enforcement by rights holders and law enforcement.

Additional seller information, such as an IP address, bank information and sales data, should be shared with rights holders and law enforcement. Information sharing about bad actors with law enforcement, U.S. Customs and Border Control, Homeland Security Investigation, brand owners, or other stakeholders is necessary to ensure that counterfeits are stopped at the source. Total sales information also allows rights holders and law enforcement to be better able to determine the more egregious infringers and where to focus time and resources when targeting the source of counterfeit products. Sales data should be made transparent for all sellers, with additional seller information to be provided to a rights holder following a successful take down notice. Marketplaces should make this information sharing part of their terms of service to which sellers agree to be bound.

Transparency should also be extended to the take-down appeals process. During the appeal of takedowns, marketplaces often shield correspondence with sellers, meaning that bad actors can correspond with the marketplace arguing why their products are not counterfeit without any input from rights holders or law enforcement. This allows for misrepresentations to go unchecked and frequently leads to counterfeit product being relisted. Further, some marketplaces withhold seller identity from rights owners during the appeal process, which can lead to enforcement delays.

Information sharing among marketplaces can also be extremely beneficial, allowing rights holders and law enforcement to act more proactively and target the source. The Intellectual Property Rights Center (IPR Center) has made great efforts and strides with information sharing and collaboration among marketplaces and such collaborative activity should continue and grow.

V. A Point of Contact with Specialized Knowledge of an Industry will Continue to Improve Consistency, Transparency, and Collaboration

In response to the 2019 White Paper, many online marketplaces now provide a point of contact to assist rights holders, which has improved the takedown experience. Expanding this practice whereby marketplaces employ personnel who are focused on an industry, such as the toy industry, would be beneficial not only for creating specialized knowledge and

spotting patterns of bad actors, but for strengthening partnerships between rights holders and online marketplaces.

c. Third Contributing Factor: Consumers Remain Largely Unaware of the Scope of Infringing Product Offered on Online Marketplaces

Online marketplaces are ubiquitous, and many have an established and trusted brand image equal to brick-and-mortar retailers due to their high volume of sales and extensive consumer exposure. As a result, consumers have developed a comfort with and trust in online marketplaces, just as they trust brick-and-mortar retailers. Consumers remain largely unaware of the scope of counterfeit or non-compliant product available on online marketplaces, which can result in consumers unknowingly providing children with non-compliant and potentially unsafe toys.

It has also become increasingly difficult to differentiate between compliant and non-compliant product on the marketplaces because counterfeiters are adept at blending in and hiding on the sites, including by categorizing the product under a rights holder's brand name, piggybacking on legitimate listings, using keywords, and pricing at the same or even higher than legitimate products. Some of these practices may be assisted by marketplace algorithms, search results, and other practices. Identifying counterfeit toys is particularly challenging as the purchaser is not the end user child and therefore may not have as much engagement with the product or brand.



Marketplaces must better educate consumers to enable them to make sound purchasing decisions and avoid falling victim to counterfeit products. Consumer education can be accomplished by transparency and honest communication about products and sellers, including **conspicuous identification of the sellers**, such as location and contact information.

Further, marketplaces should **notify consumers who have or may have received counterfeit product**. Once a marketplace is aware that a seller has sold counterfeit product, the marketplace should inform all consumers who have purchased that product from the seller that they may have received counterfeit and unsafe product. The marketplace should also investigate other products sold by that seller as part of their proactive measures, and if they are determined to also be counterfeit, notify consumers of those counterfeit products as well.

PROPOSED LEGISLATIVE AND GOVERNMENT-LED SOLUTIONS

There was an uptick in government involvement in 2019 to identify potential solutions to the problem of counterfeits sold online. Perhaps most significantly, at the direction of the White House, the Department of Homeland Security released a new report, “Combating Trafficking in Counterfeit and Pirated Goods,” calling for “prompt attention to illicit trade that erodes U.S. economic competitiveness and catalyzes compounding threats to national security and public safety.”²² The report concludes that current government enforcement efforts and private sector actions have thus far been insufficient to stem the flow of counterfeit products sold to U.S. consumers. It further identifies strengthened regulatory, legislative, and enforcement efforts, and marketplace best practices, echoing many of The Toy Association’s concerns and solutions raised in the 2019 White Paper and in comments submitted to the Department of Commerce.

While several bills have been introduced in the past targeting counterfeit enforcement efforts at ports of entry, at the end of 2019 and beginning of 2020, legislative proposals were introduced at the federal and state levels to attempt to address counterfeit products offered specifically on online marketplaces. Each includes one or more solutions also proposed by The Toy Association’s 2019 White Paper.

The Toy Association endorses all these bills as likely to reduce the number of counterfeits sold online.



a. [H.R. 6058 – SHOP SAFE Act](#)

The Stopping Harmful Offers on Platforms by Screening Against Fakes in E-Commerce (“SHOP SAFE”) Act was introduced by Rep. Jerry Nadler (D-NY) on March 3, 2020 to the House Judiciary Committee. The bill is cosponsored by Rep. Doug Collins (R-GA), Rep. Henry “Hank” Johnson, Jr. (D-GA), Rep. Martha Roby (R-AL), Rep. Theodore Deutch (D-FL), Rep. Ben Cline (R-VA), Rep. Greg Stanton (D-AZ), and Rep. W. Gregory Steube (R-FL). The bill would amend the Trademark Act of 1946 to provide for contributory liability for certain e-commerce platforms for use of a counterfeit mark by a third party on such platforms, and for other purposes.

This bill seeks to combat the proliferation of unsafe counterfeit goods for sale on e-commerce websites by incentivizing platforms to engage in a set of best practices for vetting sellers and goods, punishing repeat offenders, and ensuring that consumers have the best, most accurate information available to them when making purchases online. SHOP SAFE applies to goods with a health and/or safety impact, as counterfeit goods in this category pose the most serious consequences for consumers. Online retail platforms that follow SHOP SAFE's best practices may be immunized from contributory liability for trademark infringement.

b. [S. 3073 – SANTA Act](#)

Senator Bill Cassidy (R-LA), together with cosponsors Senator Thom Tillis (R-NC), Senator Robert Menendez (D-NJ), and Senator Dick Durbin (D-IL) introduced the Stopping All Nefarious Toys in America ("SANTA") Act on December 17, 2019. This bipartisan bill requires online marketplaces to verify and disclose the identity of a seller of children's products to consumers. An online marketplace must obtain a seller's bank account information, a government-issued photo identification, and business contact information. Online marketplaces must then disclose each seller's name, business address, phone number, and email address to consumers. Marketplaces must also disclose if they are shipping from a seller that is different from whom the consumer purchased.

c. [S. 3431 – INFORM Consumers Act](#)

The INFORM Consumers Act requires online marketplaces to disclose certain verified information regarding high-volume third-party sellers of consumer products. The bill was introduced by Senators Cassidy (R-LA), Durbin (D-IL), Perdue (R-GA), and Hirono (D-HI) on March 10, 2020. The bill will require certain disclosures from third parties that sell their goods on e-commerce platforms. In addition to providing increased transparency for consumers, the INFORM Consumers Act will allow law enforcement to better identify high-frequency sellers suspected of trafficking stolen and counterfeit goods. Consumers will be also provided information regarding whether a given seller is a manufacturer, retailer, importer, or reseller of consumer products. With greater volume of available information on online sellers provided under this scheme, informed consumers can better avoid purchasing goods from unscrupulous and criminal actors in the online marketplace and combat Organized Retail Crime (ORC).

CONCLUSION AND ADDITIONAL ISSUES

In addition to the concerns raised above, The Toy Association and its members are watching and aware of other ongoing and developing issues and encourage preemptive consideration of these issues as anti-counterfeiting policies are developed:

The increased reliance on online shopping in the age of COVID-19. As a result of stay-at-home orders, consumers' already growing reliance on online shopping has increased exponentially. This change in consumer buying behavior is not likely to be undone, particularly given the strain it has placed on traditional brick-and-mortar retailers, many of which have shuttered or transitioned to increased online sales.

The proliferation of social media marketplaces. As part of the growth and evolution of e-commerce, social media marketplaces are gaining in popularity. Social media marketplaces connect sellers and consumers from all over the world and allow counterfeiters direct access to unsuspecting consumers. From 2016 to 2019, counterfeit-goods listings on social media sites increased by about 171%.²³ These marketplaces are even more challenging to monitor than typical e-commerce marketplaces given the lack of vetting, the direct peer-to-peer connections and communications, and the prevalence of private groups on those platforms.

The increased availability of counterfeits through search engines. According to an INCOPRO study, when inputting a product name as a search term, up to 60 percent of the returned sites are either counterfeit or infringe upon intellectual property. The study reports that three in nine search results for a brand name baby teether included potentially harmful products that misuse the trademark.²⁴ Counterfeiters are using fake storefronts and the multitude of online marketplaces to compete with legitimate brands and put consumers in danger.

The increase of targeted advertisements. Targeted advertising is focused on certain traits so that the consumers who are likely to have a strong preference for a product will receive the message instead of those who have no interest and whose preferences do not match a product's attribute. These traits can be demographic (e.g., gender, economic status, age, education, or income level), psychographic (e.g., values, interests, lifestyle, personality), or behavioral (e.g., browser history, purchase history, and other recent activity). This allows counterfeiters to specifically target consumers with preference for the legitimate product or to target consumers more likely to be unsuspecting or susceptible to falsification.

The rise of fake reviews. Fake reviews are becoming more prevalent as sellers connect with individuals and offer them free product or other benefits for posting fake reviews. There are reports that there is now a vast black market of sellers offering free products, and in some cases commission, in exchange for fake five-star reviews.²⁵ Often the sellers use private social media groups to solicit potential reviewers with free product offers. This practice makes it even more challenging for consumers to vet the sellers from which they are purchasing.

The significant and serious issue of counterfeit and non-compliant products offered online seems only to be growing, thereby harming consumers, legitimate companies, and the American economy, while also encouraging criminal enterprise and funding terrorism. Despite the many challenges, The Toy Association has identified numerous potential solutions to combat each of these factors if stakeholders work collaboratively. The Toy Association looks forward to continuing its work with online marketplaces, legislators, its members, and consumers to combat this detrimental phenomenon.

*This report has been prepared by Meaghan H. Kent of Venable LLP working with and on behalf of The Toy Association and the members of its IP Steering Committee.

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² BTHA, *Don't Toy with Children's Safety* (Oct, 2020), <https://www.btha.co.uk/wp-content/uploads/2020/10/Report-BTHA-Toy-Safety-Campaign.pdf>.

³ International counterfeit trade was \$509 billion in 2016, up from \$461 billion in 2013. OECD/EUIPO (2019), *Trends in Trade in Counterfeit and Pirated Goods, Illicit Trade*, <https://doi.org/10.1787/g2g9f533-en>.

⁴ GAO, *Intellectual Property: Agencies Can Improve Efforts to Address Risks Posed by Changing Counterfeits Market* (Jan. 2018), <https://www.gao.gov/assets/690/689713.pdf>.

⁵ The Toy Association, *1 in 3 Parents Don't Know that Counterfeit Toys are Lurking Online* (Nov. 2019) <https://www.prnewswire.com/news-releases/1-in-3-parents-dont-know-that-counterfeit-toys-are-lurking-online-300949751.html>.

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¹⁰ Toy Industries of Europe, *EU Toy Safety: the problem of un reputable sellers on online marketplaces* (June 2020), <https://www.toyindustries.eu/wp-content/uploads/2020/06/Executive-Summary-Online-Marketplaces-6-1.pdf>

¹¹ BTHA, *Don't Toy with Children's Safety* (Oct, 2020), <https://www.btha.co.uk/wp-content/uploads/2020/10/Report-BTHA-Toy-Safety-Campaign.pdf>.

¹² Wall Street Journal, August 23, 2019, *Amazon Has Ceded Control of Its Site. The Result: Thousands of Banned, Unsafe or Mislabeled Products*, <https://www.wsj.com/articles/amazon-has-ceded-control-of-its-site-the-result-thousands-of-banned-unsafe-or-mislabeled-products-11566564990>.

¹³ Washington Post article, December 25, 2019, *Number of children swallowing dangerous magnets surges as industry largely polices itself*, https://www.washingtonpost.com/business/economy/number-of-children-swallowing-dangerous-magnets-surges-as-industry-largely-polices-itself/2019/12/25/77327812-2295-11ea-86f3-3b5019d451db_story.html

¹⁴ <https://fox6now.com/2018/12/28/mom-warns-others-after-boy-swallows-13-magnets-from-popular-kids-toy/>

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