



January 25, 2021

Via Electronic Submission: <https://www.regulations.gov>

Holly Lance  
Attorney-Advisor  
Office of Policy and International Affairs  
United States Patent and Trademark Office  
P.O. Box 1450  
Alexandria, VA 22314

**Re: Docket No. PTO-T-2020-0035, Office of Policy and International Affairs, Comment Request**

Dear Ms. Lance:

The Toy Association, Inc. (“Toy Association”) welcomes the opportunity to submit comments in response to the United States Patent and Trademark Office’s (“USPTO”) request for comments on Secondary Trademark Liability in the e-commerce setting. This comment letter examines: (1) the underlying contributing factors, including that the disproportionate burden of enforcement against counterfeits is placed on rights holders; (2) the inadequacies in the doctrine of secondary infringement liability; and (3) other legal doctrines that provide a workable legal framework for secondary liability in the e-commerce setting.<sup>1</sup>

Founded in 1916, The Toy Association is the trade association representing businesses that design, produce, license, and deliver toys and youth entertainment products. The Toy Association is a global leader in toy safety, having helped develop the first toy safety standard and remaining committed to working with medical experts, government, consumers, and industry on ongoing safety programs and outreach.

It is widely recognized that counterfeit trade continues to increase<sup>2</sup> and that online shopping has a widespread risk of counterfeits.<sup>3</sup> Given that online marketplaces create an environment in which sellers are able to be anonymous and remain outside the reach of US jurisdiction, opportunities are abundant

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<sup>1</sup> Please also see enclosed 2020 Toy Association Whitepaper for additional details.

<https://www.toyassociation.org/ta/research/reading/papers/toys/research-and-data/reading-room/white-papers.aspx?hkey=8623f248-da28-4039-a80d-bb353cc31b3f>

<sup>2</sup> 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>.

<sup>3</sup> 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.” 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>.

and risks are few for counterfeiters. Counterfeiters do not submit their fake products to safety testing and counterfeit products by their very nature are non-compliant with safety regulations. Indeed, examples of unsafe and non-compliant toys being sold through online marketplaces are pervasive.<sup>4,5</sup>

The fact that counterfeit trade is growing and that counterfeiters are prospering despite heightened awareness and efforts by stakeholders, government and the marketplaces, demonstrates that the current system is inadequate and that the legal framework should be revised to incentivize online marketplaces to be more proactive and accountable.

## **1. Marketplaces Do Not Proactively Screen Products or Sellers and The Burden of Enforcement is Disproportionately Reactive and Placed on the Rights Holder**

Currently, online marketplaces lack an effective, proactive, transparent process for screening sellers or products that are offered by sellers. Instead, under the current legal regime, the burden of enforcement disproportionately relies on rights holders and consumers to police and report infringement. The current system places no responsibility on the seller or the marketplace and instead requires that rights holders scour online marketplaces and investigate, report, and prove infringement to the marketplace before counterfeit items are removed. This causes delay, allows sales of counterfeits to unsuspecting consumers, and puts the responsibility and expense on brand owners. This problem is compounded because marketplace processes vary, forcing rights holders to constantly navigate different, and often changing, marketplace enforcement procedures. This process removes the initial burden from the seller and without basis further gives the sellers the benefit of the doubt, to the detriment of rights holders and consumers.

### **a. Reactive Measures Will Never Keep up with Counterfeiters and Proactive Screening Must be the First Line of Defense**

While online marketplaces continue to grow and provide benefits to legitimate companies looking to more easily reach consumers, by not adequately screening sellers or products, these same marketplaces allow bad actors and sellers to prosper. Without proactive approaches, bad actors remain a step ahead and continue to flourish. Without seller screening, sellers can provide 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. Importantly, there is no amount of resources rights holders can expend to adequately neutralize bad actors if marketplace approaches are disproportionately reactive in nature.

Proactive procedures must be the first line of defense. 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 make that information conspicuously available to consumers, law enforcement and rights holders. Further, every marketplace must implement a

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<sup>4</sup> Toy Industries of Europe (TIE) determined that 97 percent of the 193 non-branded toys it purchased from four major online marketplaces were non-compliant with the EU toy safety standard. 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>

<sup>5</sup> The British Toy & Hobby Association (BTHA) 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. 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>.

proactive system to verify whether a product being sold on its platform is counterfeit and whether it meets regulations such as labeling requirements and consumer product safety regulations. 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.

Some marketplaces have argued that thorough verification is not possible because of the volume of sellers or products on their marketplaces. This volume of sellers and products 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 or products because of the high volume, that is a result of its own creation.

#### **b. Marketplace Brand Protection Programs are Inconsistent**

Many online marketplaces tout their brand protection programs and investments made. Some marketplaces claim to have expanded the ability to implement different filters and rule systems to proactively block counterfeits and some online marketplaces have begun offering more robust collaborative programs for rights holders to more easily report and submit enforcement claims.

Unfortunately, to date, it appears that these have had little impact on counterfeiters. In part, this may be because they are inconsistently applied, and they remain largely reactive. Toy Association member experience is that 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. Further, they are not uniform across marketplaces.

Another hinderance is that marketplace shipping practices can create further enforcement challenges. 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. If shipped from a seller that is different than the one from which the consumer purchased, this creates another layer of obfuscation, removes consumer choice, and hinders seller identification, investigation, verification, and enforcement.

#### **c. A Lack of Transparency and Verification of Seller Identity Undermines Enforcement**

Transparency of seller information remains 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.

## **2. The Current Doctrine of Secondary Infringement Liability is Ineffective in Combatting the Sale of Counterfeit Goods in the E-Commerce Setting**

To protect consumers, some liability must rest with the marketplaces. Even if sellers are verified, they often remain outside the jurisdiction of the United States, meaning that a remedy for counterfeiting or for selling an unsafe product is unavailable to consumers or brand owners, or the cost of obtaining such a remedy is extremely burdensome. If an unsafe counterfeit product were to harm a child, requiring parents to seek a remedy from a counterfeiter in a faraway land is unreasonable and not fair; yet, if marketplaces are not liable, this is the result.

In its current state, the doctrine of secondary trademark infringement is inadequate and lacks clear standards for holding online marketplaces liable for counterfeit goods sold on their platforms. Under the current doctrine, a trademark owner may only bring a secondary infringement action against an online marketplace once it has shown that the online marketplace has been put on notice of the counterfeit or infringing goods and failed to take down the listings. As such, the doctrine fails to incentivize online marketplaces to take proactive measures in preventing counterfeit and infringing listings from being posted at the outset, and inequitably shifts the burden to trademark owners to expend significant efforts to monitor and notify online marketplace platforms.

Moreover, with e-commerce being a relatively new retail platform, application of the doctrine to this emerging field is scarce and has left ambiguity as to when an online marketplace may be held liable for its role in the sale of counterfeit goods. Critically, the question of what level of knowledge suffices to find online marketplaces contributorily liable remains open. Clarity is needed here to ensure online marketplaces are held accountable, especially where they have acknowledged the widespread sale of counterfeit goods on their platforms or are willfully blind to it. As it is, online marketplaces have largely been able to skirt liability, so long as they lack particularized knowledge of the counterfeit or infringing goods.

## **3. The SHOP SAFE Act Provides a Practical Legal Framework for Secondary Liability in the E-Commerce Setting**

Additional mandates are crucial to ensure online marketplaces are taking steps to effectively safeguard against the sale of counterfeit and infringing goods. To the extent a platform obtained revenue from the sale of product, responsibility and liability should exist.

In 2020, federal lawmakers introduced the [Stopping Harmful Offers on Platforms by Screening Against Fakes in E-Commerce \(“SHOP SAFE”\) Act](#). This bill establishes clear contributory trademark infringement liability for e-commerce platforms unless the platform implements certain best practices. In this way, it strives to combat the proliferation of unsafe counterfeit goods for sale on online marketplaces by incentivizing marketplaces 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. Specifically, The SHOP SAFE Act would require e-commerce platforms to:

- Verify (through government ID or other reliable documentation) the identity, principal place of business and contact information of the third-party seller;

- Require sellers to verify and attest to the authenticity of their goods on or in connection with which a registered mark is used;
- Require sellers to contractually agree not to sell or promote counterfeit goods;
- Require sellers to contractually consent to the jurisdiction of United States courts with respect to claims related to the seller's participation on the platform;
- Conspicuously display the verified place of business, contact information, and identity of the third-party seller, as well as the country of origin and manufacture of the goods, and the location from which the goods will be shipped;
- Require each third-party seller to only use images they own or have permission to use and that accurately depict the goods offered for sale on the platform;
- Proactively screen goods for counterfeit trademarks;
- Expeditiously disable or remove any listings that appear to use counterfeit marks;
- Terminate accounts of third-party sellers who have offered or advertised counterfeit goods on more than three occasions;
- Implement measures to ensure that sellers who have been terminated from the platform do not rejoin or remain under a different identity or alias; and
- When requested, provide information on counterfeit sellers to law enforcement agencies.

The Toy Association believes SHOP SAFE provides a workable legal framework for holding online marketplaces accountable and distributes the burden of enforcement more equitably without stifling online marketplaces' ability to develop inventive solutions to combating counterfeit goods or hinder the growth of online businesses.

### **CONCLUSION**

Under the current legal framework, 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. The Toy Association respectfully submits these comments with hopes of a modernized legal framework that provides brand owners with effective avenues for enforcing their rights in the e-commerce setting while allowing online marketplaces to continue to grow and evolve. The Toy Association looks forward to continuing its work with the USPTO, online marketplaces, legislators, its members, and consumers to combat this detrimental phenomenon.

Thank you for your consideration. If you have any questions, please contact Ed Desmond at [edesmond@toyassociation.org](mailto:edesmond@toyassociation.org) or Leigh Moyers at [lmoyers@toyassociation.org](mailto:lmoyers@toyassociation.org).

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Pasierb". The signature is fluid and cursive, with the first letter "S" being particularly large and stylized.

Steve Pasierb  
President & CEO

Enclosure