the toy association
Inspiring Generations of Play

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September 27, 2019

Rebecca Mond Responses to Questions for the Record Submitted by Members of the Subcommittee on Courts, Intellectual Property, and the Internet

As you note in your testimony, manufacturers of children's toys must follow stringent safety regulations and undergo testing before appearing on the shelves in brick-and-mortar stores, while counterfeiters using e-commerce platforms get to play by a different set of rules. In what ways could e-commerce platforms best address this loophole, and how should Congress assist in those efforts?

To demonstrate safety, online marketplaces should require that sellers provide Children's Product Certificates (CPC) and set up a process to verify the legitimacy of the CPC. Pursuant to the Consumer Product Safety Improvement Act (CPSIA), retailers may request a CPC from any manufacturer, which includes citations to the tested safety regulations, the province and country of manufacturer, the importer, a contact person (who maintains test records), and the testing lab information. Brick and mortar retailers typically require CPCs or similar documentation and have robust product safety requirements in place that go well beyond statutory requirements. Online marketplaces should take it upon themselves to request these CPCs and take additional measures to ensure the authenticity of the CPCs and the safety of the toys offered through their marketplaces. This would allow for assurances as to regulatory compliance by the seller and the product being offered, and would provide extensive information about the particular product if there were claims of infringement or regulatory violations and safety concerns. Alternatively, the Consumer Product Safety Commission could consider revisions that would require online marketplaces be bound to the same product safety obligations under CPSIA as other brick and mortar retailers. These would include the duty to report unsafe products to the CPSC.

Under the current system, rights owners typically bear the burden of policing individual marketplaces for counterfeits and submitting takedown complaints, which rights holders consider resource-intensive and ineffective at scale. What incentives could Congress provide to meaningfully change this system to one where e-commerce platforms play a larger role in proactively addressing the proliferation of counterfeit goods?

Ninety five percent of the toy industry is made up of small businesses and these small businesses are at a significant disadvantage when it comes to tackling counterfeits as they have to register with each ecommerce platform to perform takedowns – a costly and time-intensive process. While platforms have established programs to help brands remove counterfeit listings, many of these programs are reactive and require the constant vigilance and engagement of the brand owner to identify counterfeit listings.

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Moreover, some platforms offer more protection to "more important brands" than they offer to others putting small businesses at a further disadvantage. Platforms should instead tier protections based on categories that are most likely to be subject to IP infringement and categories that pose a health and safety threat. For example, platforms could proactively require that marketplace sellers provide Children's Product Certifications, which are required for all toys sold in the U.S. demonstrating compliance with toy safety standards. We encourage Congress to explore whether marketplaces should have greater liability to ensure the authenticity and the safety of the products they sell similar to their brick and mortar counterparts. Without liability, the incentive for platforms to police their own marketplace is weak as they are profiting from the sales of counterfeit goods with little to no risk.

Are there changes to the statutory standard for liability in counterfeiting cases that Congress should consider to effectively address the proliferation of counterfeit goods?

Yes, marketplaces should be liable for products the same way as brick and mortar retailer for third party products in their stores. New legislation may be needed to accomplish this. As to existing law that should be reviewed and potentially revised, we see the following:

Copyright Act §512: Marketplaces rely on the Copyright Act §512 or the "internet service provider safe harbor" to limit their responsibilities for copyright infringing materials posted by sellers. This provision must be updated based on the realities of rampant infringing goods sold online and the role marketplaces play in selling and promoting copyright infringing goods. As a preliminary matter, we would argue that section 512 should have limited applicability to the sale of hard goods through online marketplaces. To start, section 512 requires that a service provider "does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity..." 17 U.S. Code § 512 (c)(1)(b). Many online marketplaces sell and profit from infringing materials/products, whether by charging for a listing or by directly participating in the transaction, advertisement revenue, warehousing fees, supply chain fees, etc. In other words, they make money from selling services and access to their platforms that not only enable but enhance the sale of illicit goods. Moreover, marketplace platforms are engaged in the transit, storage, advertisement, sale or underlying financial transaction of goods that infringe copyrights – these activities go well beyond the types of service providers identified in 512. In other words, the ability of platforms to provide A-Z lifecycle services to support the range of services necessary for infringing products to enter into the stream of commerce was not clear and present during contemplation of the 512 safe harbor 20 years ago. We therefore suggest this provision be updated to clarify the responsibilities marketplaces have when it comes to the sale of copyright infringing goods.

In addition, there are problems with the counternotification process from section 512, which was not designed for the hard goods sales context. Systems based on 512 allow the infringer to send a counternotification without any proof and then require the owner must file suit to stop the product from being relisted. Even a handful of counternotices can be a significant financial burden for a small company. With the sheer number of infringing products, in the absence of a "loser pays" provision for such suits and because many infringers are often based outside the U.S. and are functionally judgement-proof, filing litigation for each counternotification is often not feasible.

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Communications Decency Act §230: Online retailers use this section to avoid liability for a variety of harms caused by sellers on their marketplaces such as sales of fraudulent or unsafe goods, and false statements made by sellers about counterfeit products on its site. Using section 230 as such perverts the purpose of the Communications Decency Act, which was in fact intended to allow the sites to restrict objectionable content. Section 230 has allowed that "No provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider." Based on this language, online marketplaces are not considered the speaker or publisher of false statements about products posted by sellers. However, this language should not shield platforms from other types of liability that might normally apply in a commercial transaction – especially when the platform itself "endorses" illicit product as a result of an advertising program from which it also makes money, or is engaged in the transit, storage, advertisement sale or underlying financial transaction of the illicit goods.

Lanham Act and Trademark Infringement: The Tiffany v. eBay decision in 2010 (Second Circuit decision and Supreme Court denied certiorari) has allowed rampant trademark infringement and counterfeiting on online marketplaces to grow because it allowed for the sites to turn a blind eye even when they have general knowledge of infringement; instead it laid the burden of enforcement on the brand owner to alert the online marketplace to create knowledge of specific infringing sales before they are required to act. Placing the burden of enforcement on rights holders, rather than the ecommerce marketplaces, ignores the reality that the level of data collection undertaken by the marketplaces in the routine course of their business gives them a much greater knowledge base to identify the bad sellers and infringing products. The vast amounts of seller data the marketplaces collect (such as selling history, history of NOCIs and other marketplace rules violations, financial information, country of manufacture, number of infringing listings associated with certain products and sellers, use of certain keywords or metatags, etc.) weigh in favor of requiring online marketplaces to take greater responsibility for stopping the advertisement, sale and transit of infringing goods than when the Tiffany v. eBay decision was rendered. As an example, even the simple addition of proactive text filters can prevent thousands of listings every month. These are the kinds of methods platforms should be required to utilize, not just in special cases or for special partnerships. This decision should be overturned by a change to the Lanham Act.

What specific measures should e-commerce platforms use to better vet sellers and products? Is there a role Congress can play in assisting or incentivizing these efforts?

More must be done to ensure the legitimacy of the sellers and to provide transparency into who is selling on marketplaces. Virtual sellers that are engaging in commercial-scale activity in the U.S. should be treated no different from businesses that sell through brick-and-mortar and are required to obtain business licenses, tax IDs, have registered agents for service, etc. We encourage Congress to explore requiring a similar system for commercial foreign sellers that sell on ecommerce marketplaces. Increased and *effective* vetting of sellers prior to joining marketplaces, consistent data requirements across marketplaces, verifying data prior to opening accounts and information-sharing among marketplaces, brand owners and enforcement agencies would all be additional possible solutions to reduce the number of infringing goods sold online. Payment processers and financial institutions also play a critical role here as bank accounts often serve as a link between multiple illicit sellers.

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Furthermore, turning off access to an illicit sellers' profits can be an extremely effective tool to shutting down counterfeiters.

What is a rights holder's recourse when a third-party counterfeit seller cannot be accurately identified, located, or served with a complaint? Who, if anyone, should be liable in these instances?

As it stands today, a rights holder does not have any recourse in the above described situation. Even accurately identifying, locating and serving a complaint is incredibly resource intensive and many of U.S. toy companies (the overwhelming of which are small businesses) do not have the ability to do so. In these instances, marketplaces and other third-party intermediaries that profit from the sale of these counterfeits but have little to no incentive to know who the seller is, should be liable.