

## Public hearing highlights political momentum behind SHOP SAFE Act

Howard S Hogan and Colleen O Devine  
*Gibson Dunn & Crutcher*  
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*Gibson, Dunn & Crutcher's Howard S Hogan and Colleen O Devine report on the US Senate's Intellectual Property Subcommittee hearing on the proposed SHOP SAFE Act, where senators from both parties have made clear that the bill will move forward.*

While most eyes in Washington have been fixed on the recent drama surrounding the office of House Speaker, a bipartisan group of senators on the other end of Capitol Hill has made clear that they are serious about

moving forward new legislation that could provide the most significant update to counterfeiting law in decades. On 3 October, the Senate's Intellectual Property Subcommittee held a hearing on the proposed SHOP SAFE Act which was formally introduced the week before by Senators Chris Coons (D-DE) and Thom Tillis (R-NC).

The current bill updates a proposal that passed the US House of Representatives in 2020 but failed to garner majority support in the Senate. At the hearing, both chair Coons and ranking member Tillis made clear that they intend to work together to push the bill forward, with Senator Tillis noting that “if anyone thinks they will slow this down, then they need to think again”.

The bill promises to have far-reaching effects for brand owners and online commerce platforms, depending on how the legislation develops.

## **The problem with online counterfeiting, and where the SHOP SAFE Act comes in**

The SHOP SAFE Act aims to reduce the number of counterfeit products sold through online commerce platforms by “incentivizing online platforms to adopt best practices that will prevent third-party sellers from listing counterfeit products for sale” (as described in a statement released on Senator Coons' website). The bill would replace the framework established by the US Court of Appeals for the Second Circuit in *Tiffany Inc v eBay Inc*, and create contributory trademark liability for platforms that allow third-party sellers to offer counterfeit products for sale.

Importantly, the bill is also designed to create a “safe harbour” from liability for platforms that:

- adopt designated best practices to vet sellers;
- remove counterfeit listings;
- ban sellers who repeatedly sell counterfeits; and
- require accurate images of listings.

The panellists at last week's hearing were all in agreement that online counterfeiters pose a threat to consumers. A number of the senators and panellists discussed personal stories, describing how members of their households had been affected by their unwitting purchase of counterfeit goods online.

While acknowledging that the scope of the problem could be debated, Senator Coons cited statistics from the USPTO and the National Crime Prevention Office indicating that counterfeit products make up "a 2 trillion dollar industry".

## Leveling the playing field

One key aim of the SHOP SAFE Act, then, is to level the playing field between brick-and-mortar stores which face contributory liability for trademark infringement and online commerce platforms, where the legal landscape is not as clear.

Senator Coons said that if he bought a counterfeit computer at a brick-and-mortar store, and it started on fire, the store could face liability. But if the same computer was purchased on an online commerce platform, it would be harder to seek restitution. That view was echoed by Kari Kammel, director and senior academic specialist at the Michigan State University Center for Anti-counterfeiting and Product Protection, who described the difference between the framework that was created for in-person merchants by the Seventh Circuit opinion in *Hard Rock Café Licensing Corp v Concession Services Inc* (955 F.2d 1143 (7th Circuit 1992)) in the context of a flea-market, versus the framework established for online platforms in *Tiffany v eBay*.

Kammel said that since the *Tiffany* case was decided in 2010, changes in technology, particularly AI, have now made it more reasonable to expect online platforms to police counterfeiting activities to the same extent as brick-and-mortar stores.

Stephen Lamar, president and CEO of the American Apparel & Footwear Association, lauded the act's attempt to create a standardise set of best

practices for platforms. Lamar said that the SHOP SAFE Act will provide platforms with clear federal guidelines for how they need to approach US consumers. He also praised the safe harbor provisions of the act for introducing a proactive approach to addressing counterfeit products, rather than the current reactive “game of whack-a-mole” brand owners now face.

## **Concern in the tech space**

Another witness at the hearing took the senators up on their invitation to raise concerns and propose improvements to the bill. Speaking for online platforms, Computer and Communications Industry Association president Matthew Schruers warned that shifting the legal responsibility to police counterfeiters to platforms could “stifle legitimate commerce innovation” and “reduce ongoing cross-sector cooperation”. He said that the compliance burdens created by the act’s safe harbor provision might be particularly burdensome for small and medium-sized platforms.

Schruers added that shifting the burden towards platforms could “dry up the marketplace” for the current “thriving e-commerce sector located in the United States” and that brand owners are in a better position to police online counterfeiting because they know their products better than online platforms.

Brand owners have also offered potential amendments to the bill. In 2020, the board of INTA passed a resolution that expressed support for the concept of the earlier SHOP SAFE bill, but questioned whether it makes sense to limit liability only to products that “implicate health and safety” and proposed other improvements, such as language that would make it easier for brands to serve formal legal process on the merchants responsible for specific counterfeit products.

The senators from both parties that attended the hearing made clear that the SHOP SAFE bill will be moving forward in one form or another. As a result, brand owners and platforms should consider Senator Tillis’ invitation that “everyone on either side” of the SHOP SAFE Act contribute to the debate.

## **Howard S Hogan**

Author | Partner

[hogan@gibsondunn.com](mailto:hogan@gibsondunn.com)

*Gibson, Dunn & Crutcher*

## **Colleen O Devine**

Author | Litigation Associate

[cdevine@gibsondunn.com](mailto:cdevine@gibsondunn.com)

*Gibson, Dunn & Crutcher*