

Does the U.S. SHOP SAFE Act Go Too Far in Shifting Liability?

May 2024

By 2025, online marketplaces are predicted to account for up to 50% of e-commerce sales in the United States. Counterfeiters have sought to exploit the rise of online marketplaces, leading to new debates around how to identify and prevent counterfeits from reaching consumers and who should hold this responsibility.

The most widely followed case discussing marketplace liability—the *Tiffany v eBay* decision decided in 2010 by the U.S. Court of Appeals for the Second Circuit—held that online marketplaces are contributorily liable for counterfeit goods on their sites only if they knew, or should have known, the goods were counterfeit. In practice, the *Tiffany* standard has meant that brand owners have primary responsibility for policing their marks and identifying counterfeits to marketplaces. Lawmakers are now questioning whether the standard should change.

Beginning in 2020, bipartisan legislators have introduced versions of the Stopping Harmful Offers on Platforms by Screening Against Fakes in E-Commerce (SHOP SAFE) Act and the Integrity, Notification, and Fairness in Online Retail Marketplaces for Consumers (INFORM Consumers) Act. Both bills are intended to address counterfeit goods on online marketplaces. But only the more limited INFORM Consumers Act, which requires certain marketplaces to collect information from high-volume third-party sellers, has so far become law.

The provisions of the SHOP SAFE Act have far-reaching implications for the operators of online marketplaces. In this article, we dig into some of the key provisions of the SHOP SAFE Act and discuss:

- The current state of the law governing online marketplace liability for counterfeits;
- How the SHOP SAFE Act would change the existing law, in particular, by broadly regulating both products and marketplaces—including social medial marketplaces—and shifting the existing burden of combatting counterfeits; and

- How the Act's provisions, though rightfully aimed at stopping the influx of counterfeits, are not well-tailored to address the reality of counterfeiting activity on online marketplaces.

While the SHOP SAFE Act is an applaudable effort by Congress to address the serious concerns that counterfeiting brings, the provisions in the current draft go too far. A more balanced approach would better help protect the public against counterfeiting and would also promote efficiency in terms of where the responsibility for monitoring and enforcing against counterfeits lies. A joint effort—where all involved parties share responsibility—will be the best chance of protecting against these potential harms.

Reshaping Liability and Safe Harbour Requirements

The SHOP SAFE Act was reintroduced in September 2023 after failing to get a floor vote in prior Congresses. Unlike the INFORM Consumers Act, the SHOP SAFE Act would substantively amend existing trademark law governing marketplaces' liability for counterfeits. Today, under *Tiffany v eBay*, online marketplaces that merely facilitate transactions generally cannot be held directly liable for counterfeits sold on their platform. They can be held contributorily liable if they had specific knowledge of (or were wilfully blind to) counterfeits being sold on their platform. This is a high standard for liability.

The SHOP SAFE Act would change this standard and make online marketplaces contributorily liable for counterfeits sold by third parties, even if the platform had no reason to believe that counterfeits were being sold. The only way online marketplaces could escape this strict liability would be to comply with the act's extensive safe harbour provisions, which, as of the current version, require marketplaces to:

- gather and confirm certain information about every third-party seller;
- proactively screen every seller and every listing before it is posted;
- ensure that every third-party seller only uses images that “accurately depict” the goods offered for sale;
- implement “a program to expeditiously disable or remove” any counterfeit products;
- provide a way for trademark owners and consumers to alert the platform to counterfeit product listings;

- provide a way for a trademark owner to contact a third-party seller directly regarding counterfeit products; and
- implement a publicly available, written policy that requires termination of third-party sellers who are repeatedly flagged for counterfeit sales.

The SHOP SAFE Act would apply to any electronic platform (“e-commerce platform”) directed at consumers that allows, enables, or facilitates third-party sellers to sell products. Though the act is limited to platforms with over \$500,000 in sales in a calendar year, this low threshold captures virtually all online marketplaces, and even platforms with fewer sales will be covered six months after receiving a total of 10 notices of counterfeit listings.

The SHOP SAFE Act's Broad and Vague “Health and Safety” Definition

The SHOP SAFE Act purports to be limited in scope, applying only to consumer products “that implicate health and safety”. But these terms are defined so broadly that, in practice, it is likely marketplaces would have to behave as though all products are covered by the act.

Under the act, a consumer product implicates health and safety if use can lead to “illness, disease, injury, serious adverse event, allergic reaction, or death”. A 2020 Department of Homeland Security report on combatting trafficking in counterfeit goods provided extensive examples of these types of goods including toys, cosmetics, sports jerseys, jewellery, purses, and iPhone adapters. Indeed, virtually all consumer goods could cause injury if they are not produced safely, so this definition would have few practical limits. A counterfeit LEGO could pose a choking hazard. A counterfeit t-shirt could be made or washed with dangerous chemicals. Counterfeit perfumes could cause allergic reactions.

Though the act is rightfully concerned with the potential dangers associated with counterfeit products, these expansive and vague definitions leave marketplaces in a grey zone of not knowing exactly what will be covered.

Changing the Landscape for Social Media Marketplaces and Small Businesses

A number of social media platforms have launched their own marketplaces in recent years. In 2016, Meta launched Facebook Marketplace, which is now used by approximately 250 million sellers every month. In September 2023, TikTok launched

TikTok Shop, a dedicated e-commerce site. Other social media sites, like Pinterest, YouTube and Instagram, allow sellers to integrate their social media accounts with their storefronts and host live sales, so consumers can shop and pay without leaving the platform.

These social media marketplaces are very different from traditional online marketplaces like Amazon or eBay. And though there are legitimate concerns about the proliferation of counterfeit sales on social media, applying the current version of the SHOP SAFE Act to these social media marketplaces could stifle small businesses, jeopardise individual privacy, and raise free expression concerns.

Because so many social media accounts are personal, social media marketplaces naturally attract more individual sellers and small businesses. But the SHOP SAFE Act does not distinguish between sellers who make only occasional or infrequent sales, such as through their individual accounts on these social media platforms, and more robust businesses. Platforms are likely to pass at least some of the cost of compliance with the act along to sellers, which on social media are more likely to be individuals and small businesses. These increased costs could heavily burden people who are selling locally to recoup the cost of an unused item or make a modest profit. Though the act reasonably requires platforms to know who their sellers are, it also requires platforms to give brand owners a way to directly contact any third-party seller the brand owner believes is selling counterfeits. Individual sellers may similarly be dissuaded by overzealous takedown notices or even the threat of being forced to share personal information widely.

Social media marketplaces, unlike traditional online marketplaces like eBay, blur the line between selling products and sharing expressive content, and applying the current version of the SHOP SAFE Act to them could raise free expression concerns. Social media marketplaces, fearful of liability under the SHOP SAFE Act, may remove content which is expressive and does not actually enable the sale of counterfeit items. For example, a makeup influencer might post a TikTok video that includes expressive content (e.g., a video blog about their day), but in this video, they describe a cheaper, genuine makeup product as a “dupe”—a product that performs the same—of a more expensive version made by a large fashion brand and link to a listing for the product on TikTok Shop (or allow the viewer to purchase it with one click on the video). If the brand tells TikTok the “dupe” is a counterfeit, TikTok may be forced to delete the entire video despite its expressive content

Shifting the Burden of Detecting Counterfeits

The SHOP SAFE Act's safe harbour provisions provide some reasonable requirements of marketplaces: for example, encouraging programmes to quickly remove suspected counterfeit listings and terminating sellers who repeatedly list counterfeit products. But the overall scheme creates a new and untested landscape by shifting the burden for policing for counterfeits from brand owners onto marketplaces. There are substantial technological limitations to screening technology, and platforms are often not well positioned to know every product a brand has made and how to identify every counterfeit that might be out there. To combat counterfeiting, platforms need to implement policies for screening and terminating listings and sellers and brand owners need to provide platforms with the information to effectively do so.

In its current form, the act requires that marketplaces ensure sellers use images that accurately depict the goods sold and use "identifying characteristics" of listings and sellers to determine if goods are counterfeit, but it does not require trademark owners to provide a way for marketplaces to know what authentic goods should look like. Instead, the act only requires the trademark owner to provide the notice of its mark and a point of contact. It expressly prohibits requiring that trademark owners "participate in any program specific to the electronic commerce platform" such as an information-sharing programme. Without reliable information about brands' products and trademarks, platforms cannot possibly implement successful screening measures and may be forced to remove non-infringing listings for fear of liability.

Though AI tools are being developed that may have the future ability to compare logos and trademarks used in listings to those provided by brands, those tools may yield false positives and false negatives and will lack the context and judgement to identify legitimate activity that is protected by doctrines like fair use. To avoid engaging in costly inquiries, marketplaces may simply overcorrect by removing any suspect listings, sweeping in authentic products as well. While all parties should be engaged in the fight against counterfeits, shifting the burden entirely onto marketplaces in this way will harm all parties—the marketplaces, trademark owners, sellers and consumers.

The Path Forward

It is unclear whether the SHOP SAFE Act will move forward in a divided Congress during an election year. Regardless, while there is a real need to find a way to fight the influx of counterfeit goods, the act's provisions on the whole are not realistically tailored to address the reality of counterfeiting activity on online marketplaces.

Some of the act's provisions would codify current best practices for online marketplaces; for example, marketplaces should collect enough information to be able to identify sellers, and have policies in place to suspend sellers who repeatedly try to sell counterfeit products. But the act's vague definitions and onerous strict liability provisions could harm consumers and stifle competition by encouraging platforms to over-police to avoid the expense and uncertainty of liability stemming from borderline cases.

One significant potential fix would be to use a more precise definition of consumer products that "implicate health and safety," with guidelines that will allow marketplaces to know what falls within this definition. Or, if Congress is looking to stop counterfeits more broadly, it could remove the "health and safety" limitation and address directly how the Act's provisions would affect marketplaces more widely.

Due to the heightened anonymity of online transactions and the fact that most counterfeits come from overseas, holding counterfeit sellers accountable is often virtually impossible. The act recognises that some responsibility should fall on marketplaces that have the ability to monitor and terminate listings and third-party sellers. However, the act fails to recognise that marketplaces SPECIAL REPORTS Q1 2024 SPECIAL REPORTS Q1 2024 13 are not positioned to know—in the absence of information uniquely known by brand owners—what every legitimate product looks like and how to distinguish real from counterfeit. Instead of fostering much-needed collaboration between brand owners and marketplaces, the act ties the hands of marketplaces by prohibiting them from requiring brand owners to provide that information and share enough information for marketplaces to police listings effectively.

In order to accurately screen listings and sellers, marketplaces need access to information that is uniquely known by brand owners—what authentic products look like, what technology (such as Radio Frequency Identification) identifies authentic products, or what quantities of the product were released in various regions—to allow platforms to check for patterns and inconsistencies. For example, too much product coming out of sellers based in China would be evidence that the product is counterfeit, and listings could be targeted more specifically. Or platforms could compare distinguishing features of a verified image of a product to see if product listings do not match up.

As counterfeits have increased, and the e-commerce landscape has changed since *Tiffany v eBay* was decided, there is room for brands and platforms to collaborate to protect consumers from counterfeiting. The SHOP SAFE Act, as currently written, does not help social media companies and other marketplaces (or brand owners) develop the tools needed to make a meaningful dent in the problem of counterfeiting. Real solutions

to the problems caused by counterfeiting require cooperative efforts and information sharing so that the goals of the SHOP SAFE Act can be realised.

* * *

Please do not hesitate to contact us with any questions.

This article was [first published](#) by *World Trademark Review* in April 2024.



Megan K. Bannigan
Partner, New York
+1 212 909 6127
mkbannigan@debevoise.com



Christopher S. Ford
Counsel, San Francisco
+1 415 738 5705
csford@debevoise.com



Kate Saba
Associate, New York
+1 212 909 6760
ksaba@debevoise.com

This publication is for general information purposes only. It is not intended to provide, nor is it to be used as, a substitute for legal advice. In some jurisdictions it may be considered attorney advertising.