



September 29, 2021

Dear Members of the House Committee on the Judiciary,

Engine is concerned that the changes proposed in the SHOP SAFE Act would have an outsized, negative impact on e-commerce startups and interactive websites—and would also not have any demonstrable impact on resolving the problems of unsafe counterfeit goods. For example, increasing the amount of litigation and effectively requiring companies to use upload filters to monitor for potential infringement would create substantial costs and risks, raising new barriers to entry. We urge you to consider startups and the third-party entrepreneurs that rely on them as you evaluate any potential changes to trademark law or contributory liability. And we hope the Committee will carefully and thoroughly evaluate SHOP SAFE’s proposals, taking a holistic view of the e-commerce ecosystem.¹

Engine is a non-profit that works with government and a community of thousands of high-tech, growth-oriented startups across the nation to support technology entrepreneurship through research, policy analysis, and advocacy. We appreciate the opportunity to submit this letter to the record of the Committee’s markup of H.R. 5374, the Stopping Harmful Offers on Platforms by Screening Against Fakes in E-commerce Act of 2021 or the SHOP SAFE Act of 2021. Startups are major drivers of economic growth, innovation, and U.S. competitiveness. Current or potential e-commerce startups and their customers and users are critical stakeholders here.

The doctrine of contributory liability currently applied by U.S. courts—which address the legal exposure companies can face over their user’s actions—are especially important to Internet startups and smaller online platforms. Most platforms experience little, if any, alleged trademark infringement.² Changing the law to increase the costs and risks platforms face would therefore catch little, if any, additional infringement.³ But

¹ Engine has previously articulated similar positions, for example in, *e.g.*, Written Responses to SHOP SAFE Roundtable Questions (June 23, 2021), *available at* https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/60d37b0a01fcdc1af077f8cd/1624472330935/2021.06.23_Engine+Responses+for+Roundtable+on+SHOP+SAFE.pdf; Letter to Members of the Subcomm. on Courts, Intellectual Property, and the Internet from Engine (May 28, 2021), *available at* https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/60b0d9a9c74bdb53c673bba0/1622202794314/2021.05.28_Engine+Letter+re+SHOP+SAFE.pdf; Comments of Engine Advocacy in Response to Secondary Trademark Infringement Liability in the E-Commerce Setting, Docket No. PTO-T-2020-0035 (Dec. 28, 2020), *available at* https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/5ff37a915abd827caddf968f/1609792145348/2020.12.28_Comments+to+Docket+PTO+T+2020+0035.pdf.

² *E.g.*, 2019 Transparency Report, Etsy (2020), https://extfiles.etsy.com/advocacy/Etsy_2019_Transparency_Report.pdf (of 65 million items for sale, fewer than 34,000 takedown requests, of which fewer than half pertained to trademark); *compare Shapeways Fact Sheet*, Shapeways (2018), <https://static1.sw-cdn.net/files/cms/press/Shapeways-Fact-Sheet-2018-Q3.pdf> with 2018 Transparency Report, Shapeways, <https://www.shapeways.com/legal/transparency/2018> (last visited Dec. 23, 2020) (of over 45,000 postings, platform only received 331 takedown notices that involved trademark).

³ *See, e.g.*, Katja Weckström, *Liability for Trademark Infringement for Internet Service Providers*, 16 Marquette Intel. Prop. L. Rev. 1, 45 (2012) (“[e]xposing [platforms] to a multitude of claims that demand high transaction costs to settle seems inefficient and disproportionate . . .” and “counterfeiting will likely persist, regardless of efforts or liability”).

the costs and risks to innovation of a shift in liability would be substantial.⁴ Any such changes in the law could reduce the viability of existing and prospective startups—potentially forcing them out of the market—which would also restrict the options for content creators and small businesses who rely on diverse e-commerce offerings.

One particular concern with the proposed SHOP SAFE language revolves around the mandate to proactively screen all user-posted products for potential counterfeit marks.⁵ Adopting such a proposal would create an impossible and unaffordable task for all but the largest, established e-commerce platforms—putting early-stage companies at a distinct disadvantage.⁶ For one, startups would be forced to try and constantly monitor user posts to detect potentially infringing ones. This would include expenses startups, operating on thin margins, could not cover, such as hiring teams of content moderators, developing or purchasing imperfect yet costly filtering technology,⁷ and setting aside litigation reserves to cover future legal exposure for user conduct.⁸

Likewise, SHOP SAFE’s proposal to measure this proactive screening according to a reasonableness standard brings substantial litigation cost and risk, making it fraught from a startup perspective. Determining whether a startup’s screening efforts are “reasonable” would be a fact-specific inquiry assessed on a case-by-case basis in court. For a startup e-commerce platform to definitively know if it had complied with SHOP SAFE, the company would have to defend itself in a full jury trial.⁹ The cost of proceeding just to summary judgment in an intermediary liability lawsuit can exceed \$500,000,¹⁰ and taking IP cases to trial is easily in the seven-figure range.¹¹ By contrast, the average seed-stage startup raises \$1.2 million, a sum that is expected to cover its costs for nearly two years.¹² And most startups do not have even close to that much money. If it costs more than a

⁴ See, e.g., Daphne Keller, *Toward a Clearer Conversation About Platform Liability*, Knight First Amendment Institute (Apr. 6, 2018), <https://knightcolumbia.org/content/toward-clearer-conversation-about-platform-liability> (“When platform liability risks expand, wealthy incumbents can hire lawyers and armies of moderators to adapt to new standards. Startups and smaller companies can’t.”).

⁵ E.g., Proposed § 1114(4)(A)(viii), available at <https://docs.house.gov/meetings/JU/JU00/20210929/114092/BILLS-117HR5374ih.pdf> (last visited Sept. 27, 2021) (requiring platforms to use “proactive measures for screening goods before displaying the goods to the public”).

⁶ While beyond the scope of this letter, counterfeiters already find ways around the measures e-commerce platforms deploy to try and prevent trademark infringement. See, e.g., B. Bruce Rich & David Ho, *Sound Policy and Practice in Applying Doctrines of Secondary Liability Under U.S. Copyright and Trademark Law to Online Trading Platforms: A Case Study*, 32 Intel. Prop. & Tech. L.J. 1, 9 (2020) (noting that even on platforms spending the most, and deploying the most sophisticated technology, it is impossible to keep trademark infringers off; for example, counterfeiters can just change their name or repost infringing items under a new name or different account).

⁷ See, generally Evan Engstrom & Nick Feamster, *The Limits of Filtering: A Look at the Functionality & Shortcomings of Content Detection Tools* (Mar. 2017), <https://www.engine.is/the-limits-of-filtering> (discussing limitations of filtering technology).

⁸ See, e.g., Jennifer M. Urban et al., *Notice and Takedown in Everyday Practice* 64 (UC Berkeley Public Law Research Paper No. 2755628, Mar. 30, 2016), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2755628 (noting that some small platforms already struggle to comply with the DMCA’s notice and takedown procedure for copyright, and that “[t]he struggle increased further if pressure to implement [proactive] measures arose”).

⁹ Cf. *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102 (9th Cir. 2007) (reasonableness of repeat infringer policy a question of fact); see also *Tran v. State Farm Mut. Auto. Ins. Co.*, 999 F. Supp. 1369, 1372 (D. Haw. 1998) (“An analysis of what is reasonable is almost always de facto a question for the jury.”).

¹⁰ Evan Engstrom, *Primer: Value of Section 230*, Engine (Jan. 31, 2019), <https://www.engine.is/news/primer/section230costs>.

¹¹ Malathi Nayak, *Costs Soar for Trade Secrets, Pharma Patent Suits, Survey Finds*, Bloomberg Law (Sept. 10, 2019), <https://news.bloomberglaw.com/ip-law/costs-soar-for-trade-secrets-pharma-patent-suits-survey-finds> (median cost of patent suit with \$1-10M at stake is \$1.5M, and cost of patent case with over \$15M at risk is \$4M).

¹² *The State of the Startup Ecosystem*, Engine 17 (2021), <https://engineis.squarespace.com/s/The-State-of-the-Startup-Ecosystem.pdf>.

startup has to prove it was in compliance with SHOP SAFE, then the proposed structure for avoiding contributory liability would have little (if any) practical value.¹³

Even under the current, relatively balanced approach to contributory liability, the high costs of monitoring and covering legal risk are already seen to confer competitive advantage. For example, eBay invests as much as \$20 million per year in trust and safety efforts—including running searches, deploying filters, and implementing buyer protection programs—with over 200 employees focused on combating potential infringement.¹⁴ Alibaba has likewise developed technology to try and identify potential infringement, after significant investment, and takes further steps to monitor posts, look for anomalous transactions, assist law enforcement, etc.¹⁵ While these and numerous other e-commerce platforms do more than notice-and-takedown, the costs of doing so are far more than what a startup could afford.¹⁶ Changing the law could entrench incumbents and defeat the ability of nascent companies to compete. As scholars have noted:

[W]hile the eBays of the world can afford to spend millions of dollars combating counterfeiting, this may not be the case for smaller-scale market participants. Requiring “mom and pop” online brokers to wage a million-dollar war against counterfeiting would likely drive these retailers out of business, undesirably narrowing consumer choice.¹⁷

In addition, the SHOP SAFE Act is written to apply to e-commerce platforms that experience annual sales of \$500,000 and those that have received ten notices alleging the use of counterfeit marks by third-party sellers.¹⁸ We are concerned that SHOP SAFE has created a structure that applies to virtually any company (regardless of size) by excluding only the very smallest of websites and creating an easy way for outside third-parties to subject a company to the law.

Finally, while the current doctrine of contributory liability is largely working well, there is still abuse of the system and few opportunities for startup e-commerce platforms and users wrongfully accused of infringement to fight back. We applaud the consideration of legislation that would combat improper takedown notices.¹⁹ Yet shifting more liability onto e-commerce platforms and relying on technology-based filters to detect and remove content would end up escalating the removal of more legitimate posts and goods, which would hurt small businesses and creators who have posts improperly removed.²⁰

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Thank you for your consideration. Startups are an essential component of our innovation economy, and it is critical to weigh their interests in policy decisions. Engine remains committed to engaging with the Committee on these and other important issues.

¹³ Cf. Engstrom & Feamster, *supra* note 7, at 25.

¹⁴ *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 98-99 (2d Cir. 2010).

¹⁵ Rich, *supra* note 6, at 9.

¹⁶ See, e.g., Weckström, *supra* note 3, at 48 (noting “many smaller actors that cannot afford efforts like those of eBay”); Engine, *supra* note 1, Part II; cf. Jennifer M. Urban et al., *Notice and Takedown: Online Service Provider and Rightsholder Accounts of Everyday Practice*, 64 J. Copyright Soc’y U.S.A. 371, 397-402 (2017) (noting that shifts toward DMCA-plus are already viewed as a competitive advantage for established platforms, and can affect market entry and startup success).

¹⁷ Sonia K. Katyal & Leah Chan Grinvald, *Platform Law and the Brand Enterprise*, 32 Berkeley Tech. L.J. 1135, 1149-50 (2017) (quoting Jordan Teague, *Promoting Trademark’s Ends and Means through Online Contributory Liability*, 14 Vand. J. Ent. & Tech. L. 461, 491 (2012)).

¹⁸ Proposed § 1114(4)(B)(i).

¹⁹ See proposed § 32A.

²⁰ For more detailed discussion of such abuse, including examples, see, e.g., Engine PTO Comments, *supra* note 1, at 5-7.