

FEATURE

Leveeing a Flood of Counterfeits on Amazon

By Matthew J. Clark

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The Internet's ubiquitous influence on today's culture is clear; people want things fast and easy. In no area of life is this more of an imperative for businesses than in shopping. Instead of dealing with the headaches of traffic, "other" people in retail shops and malls, or clunky catalog mail order forms, consumers are increasingly choosing the convenience of shopping online. And why shouldn't they? Consumers have instant access to virtual retail shops and marketplaces anywhere and at any time via multiple electronic devices including computers, tablets, and phones. Consumers can even order items on the fly by talking to a speaker-enabled virtual assistant (*I'm still waiting for the Bobcat Goldthwait voice option*). Online shops and marketplaces have further fueled and satisfied the consumer's need for instant gratification with various features that make online shopping faster and more convenient, such as maintaining user profiles, accepting payments from digital wallets, predictive searching features, and autofill functions. In case there was any doubt, U.S. Department of Commerce reports evidence the ever-increasing importance of e-commerce, with total e-commerce sales steadily rising from an estimated \$32.6 billion in 2001 to \$453.5 billion in 2017.¹



| Getty Images

Amazon has, undoubtedly, been a leader in streamlining e-commerce transactions, including 1-click buying and same-day delivery, and a driving force in e-commerce's growth in the United States. In 2017, Amazon's gross merchandise value (GMV) was \$186 billion.² Amazon's e-commerce sales in 2017 comprised 70 percent of the growth in U.S. online sales from 2016 and 34 percent of the growth in total U.S. retail market sales from 2016.³ Businesses, large and small, sell on Amazon to reach its massive customer base of over 300 million active customers.⁴ In addition, like other virtual shops and marketplaces, Amazon sellers can access a global market. Amazon is particularly convenient and appealing to startups and small and medium-sized businesses (SMBs) because Amazon will, for a fee, undertake the complex logistics of packing, delivery, customer service, and returns,⁵ as well as provide step-by-step guidance on international regulations, registrations, and taxes.⁶

Being at the forefront of e-commerce growth also means being at the forefront of the darker side of this growth—counterfeits. Red Points, a brand protection firm, conducted a study in 2017 of 10 websites (primarily comprised of online marketplaces such as AliExpress, Alibaba, eBay, and Taobao) and found Amazon ranked third in most counterfeit merchandise.⁷ Some well-known brands have stopped selling or declined to sell directly through Amazon, such as Birkenstock and Swatch, respectively, because of the growing number of counterfeits on the platform.⁸

Amazon's Counterfeit Problem

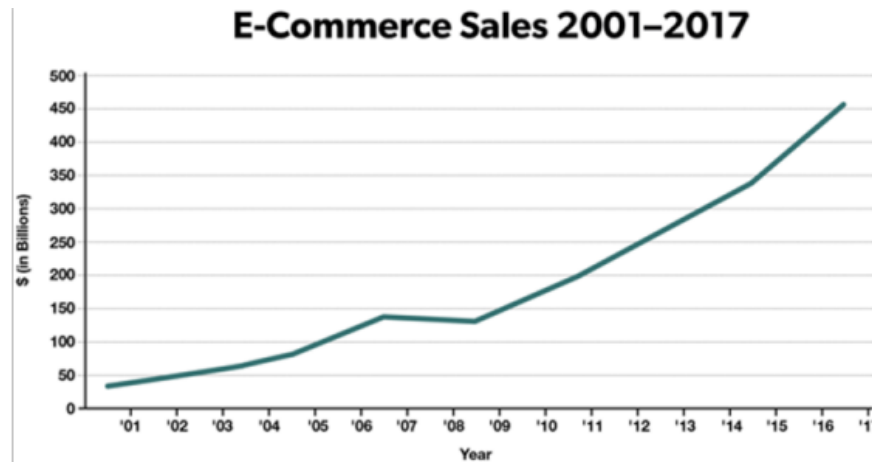
As e-commerce has grown over the years, the trade in counterfeits has been on a steady and frightening rise for brand owners. A recent report estimated the value of international trade in counterfeit and pirated products in 2013 was \$461 billion, an 80 percent increase from the estimated value in 2008, and forecasted the value of international trade in counterfeit and pirated products in 2022 could reach \$991 billion.⁹

Online sales are naturally conducive to the counterfeit trade for several reasons. The Internet allows counterfeiters to reach the same global audience as legitimate businesses, but with the additional benefit of largely avoiding the reach of foreign law enforcement.¹⁰ In addition to gaining access to Amazon's massive customer base, counterfeiters selling on Amazon have learned to exploit certain features of the platform. First, counterfeiters often use the brand owner's own product photographs and descriptions on the listing page so that the counterfeit items appear legit to consumers.¹¹ Second, counterfeiters can remain anonymous by using false business names and providing fake or inaccurate business contact information,¹² making it difficult for law enforcement and brand owners to stop the counterfeits. Third, counterfeiters often have multiple seller accounts so that if one account is removed, the counterfeiter can continue to sell through another account.¹³

Another reason for the onslaught of counterfeits on Amazon may be Amazon's decision in 2015 to register its China division as an ocean freight forwarder with the Federal Maritime Commission.¹⁴ This registration allowed Amazon to cut out the shipping middlemen and gave Chinese merchants the ability to ship products directly to Amazon warehouses throughout the world.¹⁵ As a result, overseas sales for Chinese merchants on Amazon doubled within the same year.¹⁶ Roughly 67 percent of counterfeit seizures worldwide come from China,¹⁷ and Chinese counterfeiters quickly took advantage of this new open door. Today, many Chinese counterfeiters use Amazon's "Fulfilled by Amazon" program, which commingles inventory from various merchants, to get their illegal products into Amazon warehouses.¹⁸ Consequently, unless a manufacturer affirmatively opts out of commingled inventory, a consumer could receive a counterfeit product even when purchasing from the manufacturer's legitimate Amazon listing.¹⁹

As brand owners know only too well, counterfeits can inflict major harm: they steal sales and profits from the brand owner; they harm the brand's goodwill when consumers have a bad experience with a poorly made counterfeit; and that harm is amplified when dissatisfied consumers post bad reviews. Some SMBs that initially experience great success have attributed

steep sales decline to a tsunami of counterfeits.²⁰ In order to stem the tide of counterfeits, Amazon makes two tools available to brand owners: the Amazon Brand Registry and Transparency programs.



E-Commerce Sales 2001-2017

Amazon Brand Registry

Amazon Brand Registry is an online command center where brand owners can search for and report violations of intellectual property rights and address other brand-related issues. To gain access to the dashboard, a brand owner must have an active trademark registration in at least one qualifying country. Amazon presently accepts trademark registrations from Australia, Brazil, Canada, the European Union, France, Germany, India, Italy, Japan, Mexico, Spain, the United Kingdom, and the United States. Significantly, these countries correspond with countries having an Amazon website, e.g., amazon.ca, amazon.com.mx, amazon.co.uk, etc.

To qualify for the Brand Registry, a U.S. trademark must be registered on the Principal Register of the United States Patent and Trademark Office. Additionally, the trademark must fit one of two categories:

- 1 word mark or text-based registration
- 2 design mark or image-based registration *with* words, letters, or numbers

ABE

| word mark or text-based registration



| design mark or image-based registration with words, letters, or numbers

Amazon does not currently accept trademark registrations that consist solely of design elements without words, letters, or numbers.

A brand owner with a qualifying trademark registration can use its seller central login to enroll in the Brand Registry. Notably, brand owners that do not sell on Amazon can also use the Brand Registry by creating a free Amazon account and providing contact information for an attorney or notary to vouch that the account holder is the trademark owner of the enrolled brand.

When enrolling a brand, brand owners will need to provide the brand name matching an active registered trademark, the trademark registration number, a list of requested product categories, and a list of countries where the brand's goods are manufactured and distributed. After a brand owner has submitted the enrollment information, Amazon will send the trademark correspondent listed on the applicable government trademark office records for the identified registration a verification code in order to complete the enrollment process. Once enrolled, a brand owner receives access to the Brand Registry dashboard. The dashboard has links to four main areas: (1) violation reports, (2) support, (3) submission history, and (4) case log.

Reporting a violation requires three steps: searching, reporting, and verifying. A brand owner first selects its enrolled brand, if it has more than one, and the Amazon website that it wishes to search for infringing goods. Once selected, the brand owner can search by keywords, custom-listed ASINs,

and product URLs. The Brand Registry allows brand owners to search by image as well, which is particularly helpful for those brand owners looking for infringing products that use their design mark. Brand owners can submit claims regarding violations of trademark, copyright, patent, and design rights found in the search. The France Amazon website allows additional claims for unauthorized distribution, i.e., violations of a selective or exclusive distribution system, and book price law violations. The Spain Amazon website also allows claims for book price law violations.

It is important to note that, for most trademark²¹ and patent claims, the brand owner must have a registration in the country where it seeks to enforce such rights. For example, a U.S. trademark registration could not be used to take down a listing for a counterfeit item on the Brazil Amazon website. The U.S. and Canada Amazon websites allow claims for infringement of unregistered trademarks. Accordingly, while a brand owner needs a trademark registration to get access to the Brand Registry dashboard, it is not precluded from submitting claims based on unregistered trademark rights for other marks on the U.S. and Canada Amazon websites. As to copyright claims, a registration is not necessary. Instead, the brand owner can either provide a website link to the work or describe the work.

Overall, the Brand Registry provides a much more streamlined process for brand owners to find and report intellectual property rights violations and other issues. However, it is not a magic tool for brand owners to remove a counterfeit listing by checking a few boxes. An individual investigator reviews each report submitted via the Brand Registry portal, and investigators start with the presumption that each seller and listing is legit.

Therefore, it is important for brand owners to make the case why the product or product listing is not legitimate or otherwise violates its intellectual property rights. Doing a test buy to confirm the accused product is a counterfeit and describing the counterfeit in the report can improve the chances of takedown. While test buys can be costly for higher priced goods or where there are multiple counterfeiters, according to Brand Registry representatives, brand owners can request a refund for test buys by submitting an “A-to-z” claim. Amazon’s “A-to-z Guarantee” gives purchasers a full refund for items that are in poor condition and different than expected or where the purchaser never receives the item. A review of seller forums indicates that many sellers have received refunds for test buys using the “A-to-z Guarantee.” However, other sellers report instances where they did not get a refund.

When an infringer is using the brand owner’s mark on different types of goods than the brand owner, the claim becomes more uncertain. If the counterfeit goods still fall under the same

international class of goods or category of products as the brand owner's, then the investigator is more likely to accept the claim. For example, where a brand owner has only registered and used its mark on shirts, the investigator may accept an infringement claim where the mark is used on underwear because shirts and underwear both fall within international class 25. However, if the infringer is using the mark on portable speakers, which fall in a different international class, the investigator may take no action to remove the reported listing on the grounds that the accused items "do not correspond to the registration classes of the trademark."

Overall, the Brand Registry is an efficient tool for finding and reporting infringements. However, it has its limitations, as discussed above, and investigators can be inconsistent; a report accepted by an investigator one day will not necessarily be accepted by a different investigator on another day.

Transparency

Amazon's second tool to combat counterfeits is a new program that started in the spring of 2017 called "Transparency." In short, Transparency allows brand owners to purchase encrypted alphanumeric nonsequential codes that are placed on product units and can be scanned by Amazon Fulfillment Centers as well as consumers to verify a product's authenticity.

After a brand owner enrolls a product into the program, Amazon will provide the brand owner with a list of Transparency codes.²² The purchase price is roughly 1 cent to 5 cents for each code depending on the quantity of purchased codes.²³ The manufacturer places the code on the product packaging for each unit, and Amazon Fulfillment Centers scan the Transparency code to determine if the product is authentic before sending it to a consumer. A consumer can scan the Transparency code using the Amazon shopping app or the Transparency app to verify a product's authenticity.

At the time of this writing, Amazon was still vetting the Transparency program and offering it within the United States and by invitation only. Invited brand owners must have a Global Trade Item Number (GTIN) and the ability to apply the Transparency codes on each unit of an enrolled product.

Time will tell, but the Transparency program seems promising for brand owners who can absorb the cost to purchase the codes from Amazon and apply them to products during manufacture. And, given the Transparency program is in its infancy, the cost of participating in the program could decline over time.

Conclusion

Amazon has been an important contributor to the growth of e-commerce. Brand owners who want to take advantage of this powerful platform should anticipate listings with counterfeit goods and have a plan to address them. While Amazon provides certain tools to assist brand owners, namely the Brand Registry and Transparency, the onus is on brand owners to use those tools in an effective manner to protect their brands and to understand their limitations.

Endnotes

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Authors



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