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H. David Starr and Gregory Bennett on Alibaba and the Forty Thousand Thieves: Combating Counterfeiting on B2B Websites

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The Problem

So it has been months, possibly years in development and you have just unleashed the next product that is taking the world by storm: the Widget.

Production from your manufacturer in China has been heavy and is ever increasing. Expecting world domination, you have secured exclusive agreements with distributors all over the world.

You had the foresight to seek broad intellectual property rights (“IPR”). You applied for domestic and foreign trademarks, trade dress, utility patents, design patents, and copyrights on every conceivable aspect of the Widget. The U.S. trademarks and design patent have issued; the utility patents and copyrights are mired for months more in prosecutorial limbo; the foreign IP is proceeding along.

You and the Widget are well on your way. Your sense of euphoria is quickly dashed, however, when you dutifully conduct an Internet search for the Widget.

“What’s this?” you ask yourself. You have come across page after page of Business-to-Business (“B2B”) websites—mainly originating from China—offering the Widget for sale in large volumes. You conclude that all of the offers are being made by various unauthorized manufacturers of the Widget.

You step back. “Is this a problem? Are these entering the U.S. market and those of my foreign distributors?” You quickly check the various domestic auction-based shopping websites. Your heart sinks. You reveal hundreds of listings for the Widget being sold at final costs below half of the normal retail price. “Uh oh.”

You have just discovered a full-blown counterfeit network.

Counterfeiting is huge business problem on a global scale. Since 2005, US Customs has seized just under \$1 Trillion of counterfeit goods. That says nothing of the untold

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trillions of dollars in counterfeit goods that go undetected. In 2009 alone, Customs seized over \$260 Million in counterfeit goods, 79% of that coming in from China, and 10% from Hong Kong.

Despite the statistics and scope of the problem world-wide, however, all you care about is how to stem the tide in your case: how to stop the manufacture, import, and sale of counterfeit Widgets.

Minimizing counterfeiting of your product will take many stages. The first of these is to secure as airtight an IPR portfolio as possible. In this case, you have done that. The product name, logos, and taglines have all been registered as trademarks. The design and ornamental features of the product are pending for appropriate copyright, trade dress and design patent protection. Its novel features and functions are patent pending. But all the IPR in the world will not stem the tide of counterfeiting (or other infringement) until your portfolio is flexed. You must wield your latent IPR as a sword.

As a starting point, be sure to duly record your registered trademarks (and any trade dress and copyrights that issue) with U.S. Customs and Border Protection and with customs of the country of manufacture and import of the Widget. The customs databases include information regarding all recorded marks, including images of these marks. Customs officers actively monitor imports to prevent the importation of goods bearing infringing recorded.

The bulk of your anti-counterfeiting energy, however, will be spent undertaking Internet enforcement. You will—either manually or through an automated software program—scour the Internet and submit takedown requests everywhere you find the counterfeit Widgets appearing. At the manufacturer end, that will mean reviewing the B2B websites; at the retail end that will mean reviewing the auction sites and the independent Business-to-Consumer ("B2C") websites.

B2Bs Notice and Takedown Procedures. Business-to-business websites are nothing new. Nor are they inherently evil. On the other hand, as platforms for independent, generally unscreened third-parties to host pages and list offerings of goods, the B2B websites are frequently and ever-increasingly host to vast counterfeiting. Fortunately, however, most of these websites have implemented formal procedures for requesting the takedown of allegedly infringing links ("Notice and Takedown"). The Notice and Takedown processes are modeled on the procedures established by the Digital Millennium Copyright Act ("DMCA"). As its name suggests, the DMCA relates to copyright infringe-

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ment requests, but the B2B websites have instituted the procedures for trademark and patent infringement as well.

Here's how the Notice and Takedown process generally works: you find a link that you believe contains infringing material, be it based on your trademark, copyright, or patent rights. You submit a takedown request along with the allegedly infringing link and proof of your supporting IPR. The B2B team will review the link based on your claim, and if they agree, they will remove the link. They will also notify the company who posted the link and provide them an opportunity to show why the link did not contain infringing material. Oftentimes, the B2B will also have a policy that will suspend or ban repeat offenders.

The nitty gritty of the B2B enforcement activity therefore begins with establishing a working list of the several B2B sites where the Widget frequently appears. In our experience the following B2Bs have active counterfeiters posting links on them: Alibaba.com, AliExpress.com, En.China.Cn, China-Direct-Buy.com, DHGate.com, DIYTrade.com, EC21.com, ECPlaza.net, ECVV.com, GlobalSources.com, Made-in-China.com, MadeInChina.com, Sulit.com.ph, Tootoo.com, Tradekey.com, and in the Chinese language China.Alibaba.com.

You will also compile a list of search terms that uncover links to the Widget. It is critical that you search more broadly than just for the trademarks or product name. After having their listing removed once or twice, Counterfeiters tend to reappear with misspellings or merely keywords in their offers in hopes of avoiding further takedowns.

You will next need to submit the Notice and Takedown request. For the first request, you will need to strictly adhere to the method prescribed by the particular site: some require the first request to be faxed; others emailed; still others have no particular procedure and you will have to submit it through a generic "Contact Us" interface. Once the first request has been made, however, most B2Bs will contact you by email and allow subsequent requests by email.

It is best practice to carefully track your requests through spreadsheets, which should include to whom and when a request was made, the names of the infringing companies and the links themselves. This is useful in tracking the responsiveness of the B2Bs and the general proliferation of infringement on them. The spreadsheets also help identify repeat offenders within a single B2B or across all of them. These repeat offenders should be targets for further legal action.

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Finally, directly contact each identified counterfeiter with a cease and desist letter in its native language. While response levels will vary, this process ensures that the counterfeiters know that you are aware of their particular activity and puts them on notice for further legal action. And as the one-time offender is the exception, having at the ready cease and desist letters of increasing intensity and aggressiveness for the repeat offender is very useful.

Beyond Notice and Takedown: Turning Up the Temperature. B2Bs are sometimes slow to react or truculent regarding blocking repeat offenders. When frustrations come to a head, consider alternative approaches to improve cooperation.

First, contacting the B2B's General Counsel office directly will turn up the temperature in a hurry. In so proceeding, it is important to point out that the B2B's activities *are different* from Ebay-type activities, and that they would not be protected by the landmark ruling in *Tiffany (NJ) Inc. v. Ebay, Inc.* On appeal, Ebay was held free of contributory trademark liability in spite of the rampant counterfeiting Tiffany was battling on the auction giant's site. The key to the decision was that Ebay had no specific knowledge that any given listing was counterfeit and thus had no duty to remove such links before being asked to do so by Tiffany.

Here's the difference. By their very nature, B2B websites are significantly different from auction-based websites, which are typically offering single or low-quantity goods to end-consumers. The listings on the B2Bs, on the other hand, are generally posted by manufacturers, and typically boast manufacturing capacity in the hundreds of units, coupled with minimum purchases in equal volume. These offers are not made to the Widget's end user, but to a Widget retailer, ordering three-, four-, or five-hundred pieces later to be sold on Ebay or through its own B2C site.

Thus, by and large, *every* offering on a B2B site of consumer goods (by someone other than your authorized distributor) is for counterfeit goods and is infringing. In many cases, you will not even have an authorized distributor in China or Hong Kong (where the overwhelming majority of the counterfeit manufacturers are located) and you can bet that all of the offers on these B2Bs are infringing. Once pointed out to the B2B that a particular seller is counterfeiting, the B2B is charged now with specific knowledge that further similar postings by that seller are offering counterfeit as well. Again, specific knowledge is the key to contributory infringement.

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This is an argument that can have traction from time to time with the B2Bs. When counterfeiting of your particular product becomes rampant in spite of diligent responsiveness to your takedown requests, the B2B's cage can be rattled once in a while by reminding them of this. Such an argument must be revealed cautiously, however, since acting on it means hauling a typically-Chinese company in to court.

Finally, an alternative approach is to motivate your marketing team. Do not underestimate the effectiveness of a carefully worded press release. Alibaba.com, with its Yahoo! ownership stake, and its ongoing attempt to position itself in the United States and globally as a legitimate company, is particularly responsive to the threat of bad publicity. Its competitors are similarly motivated.

Such an approach can grab attention and motivate the B2B to action in your favor. Be reminded, however, to take great care to steer clear of slander and libel.

Summary

Though B2B enforcement may feel like a frustrating game of whack-a-mole, through persistent and thoughtful effort, you can effectively eliminate the venues and exposure time for counterfeit manufacturers to advertise illegal copies of your product. Vigilance and patience is the key.

If you have the next hot thing on your hands, then you also will have a counterfeiting problem on them too. A complete counterfeiting enforcement program will include flexing your intellectual property rights by utilizing customs agencies worldwide, targeting specific manufacturers for civil and criminal suits, and stemming the flow of counterfeit goods through auction-based shopping websites and business-to-consumer websites. Perhaps the most important activity, however, is a vigilant and thoughtful attack of the manufacturers on the various business-to-business websites through notice and takedown requests. By striking close to the source, you will severely limit the volume of counterfeit goods finding their way to our shores and into the consumer market.

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About the Authors. H. David Starr is a Senior Associate with The Nath Law Group where he manages the firm's Trademarks and Copyrights Department.

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Mr. Starr advises a wide array of domestic and global clients across all aspects of trademark, unfair competition and copyright law. His practice focuses on: prosecution of U.S. and foreign trademarks; IP portfolio management and strategies; Internet enforcement; licensing and transactional matters; and client counseling. He may be reached at dstarr@nathlaw.com.

Gregory Bennett is an Associate Attorney in the Trademarks and Copyrights Department of The Nath Law Group. His practice includes all facets of trademark and copyright counseling, prosecution, and enforcement for clients worldwide, with particular emphasis on customs and Internet enforcement. He may be reached at gbennett@nathlaw.com.

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