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COUNTERFEITS AND CLUTTERING: EMERGING THREATS TO THE INTEGRITY OF THE TRADEMARK SYSTEM AND THE IMPACT ON AMERICAN CONSUMERS AND BUSINESSES

HEARING

BEFORE THE

SUBCOMMITTEE ON COURTS, INTELLECTUAL PROPERTY, AND THE INTERNET

OF THE

COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTEENTH CONGRESS

FIRST SESSION

JULY 18, 2019

Serial No. 116–40

Printed for the use of the Committee on the Judiciary



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COUNTERFEITS AND CLUTTERING: EMERGING THREATS TO THE INTEGRITY OF THE TRADEMARK SYSTEM AND THE IMPACT ON AMERICAN CONSUMERS AND BUSINESSES

THURSDAY, JULY 18, 2019

HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON COURTS, INTELLECTUAL PROPERTY, AND THE INTERNET

COMMITTEE ON THE JUDICIARY

Washington, DC.

The subcommittee met, pursuant to call, at 8:59 a.m., in Room 2141, Rayburn House Office Building, Hon. Henry C. "Hank" Johnson, Jr. [chairman of the subcommittee] presiding.

Present: Representatives Johnson of Georgia, Deutch, Lieu, Correa, Roby, Collins, Chabot, Ratcliffe, Johnson of Louisiana, Biggs, and Cline.

Staff Present: Jamie Simpson, Chief Counsel, Subcommittee on Courts, Intellectual Property, and the Internet; Susan Jensen, Parliamentarian; Lisette Morton, Director of Policy, Planning and Member Services; MaryBeth Walker, Detailee, Counsel; Matthew Robinson, Counsel, Subcommittee on Courts, Intellectual Property, and the Internet; Danielle Johnson, Counsel, Subcommittee on Courts, Intellectual Property, and the Internet; Madeline Strasser, Chief Clerk; Moh Sherma, Member Services and Outreach Advisor; Rosalind Jackson, Professional Staff Member, Subcommittee on Courts, Intellectual Property, and the Internet; Thomas Stoll, Minority Chief Counsel; and Andrea Woodard, Minority Professional Staff Member.

Mr. JOHNSON of Georgia. The subcommittee will come to order.

Without objection, the Chair is authorized to declare recesses of the subcommittee at any time.

Welcome to this morning's hearing on Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses. I will now recognize myself for an opening statement.

Good morning, and welcome to the House Judiciary Subcommittee on Courts, Intellectual Property, and the Internet's hearing on Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses.

Today's hearing will elicit critical information regarding the state of trademark protection in the United States. Trademarks are the foundation of a successful commercial marketplace. Trademarks ensure that consumers know whose product they are buying, in turn the trademark system rewards companies that invest in quality which consumers then associate with that company. This adds up to an intellectual property system that brings tremendous value to our economy according to Forbes, the 100 most valuable brands are worth a cumulative $2.33 trillion today.

But it is not just large corporations that benefit from trademark protection. About one-third of trademark applicants are small businesses or individuals. Threats to the trademark system, therefore, impact businesses of all sizes as well as consumers. Today's hearing will examine three emerging challenges for the trademark system.

First, we will examine the problem that we are running out of new trademarks or, at least, good marketable ones. This problem is being exacerbated by the number of marks on the register that are not being used, a key legal requirement of the United States.

These unused marks or clutter may be standing in the way of others who might want to use some version of that same word or phrase for their own trademark. This problem is being made worse by a recent spike in fraudulent trademark applications, many of which originate in China.

Second, we will look at some courts' reluctance to award injunctive relief to trademark owners who win an infringement lawsuit. This is often the key remedy for trademark owners because it makes sure that a trademark too close to their own is off the market. Moreover, allowing similar marks to stay on the market could ultimately lead to more consumer confusion, the exact opposite of what the trademark system is designed to produce.

Third, we will examine the misuse of trademarks and counterfeit goods sold by third parties through online platforms. Instead of hawking fake goods on the street, counterfeiters are now becoming sellers on online marketplaces where the barrier to entry is low and the mechanisms for misleading consumers are plenty. Consumers might not be aware that they are buying fakes much less ones that could pose safety risks.

With e-commerce sales expected to reach more than $4 trillion globally in 2020, this is not a problem that Congress can ignore. Last month I held a roundtable with brand owners and online platforms so that we could begin to explore these challenges.

I am pleased that this discussion will continue today. While these threats to the trademark system are a problem for all stakeholders, I am particularly concerned about the impact of these issues on small businesses. An inaccurate and overcrowded trademark register will prevent small businesses from easily registering their marks and getting the benefits of Federal registration. The prevalence of online counterfeiting means a successful small business operating online runs the risk of having its products copied and sold diverting sales.

While online platforms offer some tools for companies to report and remove infringing listings, this often becomes a game of whack-a-mole where as soon as you remove one counterfeit seller

another appears. Small businesses have the least amount of resources to engage in this constant monitoring. I look forward to hearing from our distinguished witnesses on this important day, on these important topics.

On our first panel, I am pleased to welcome the Commissioner of Trademarks from the Patent and Trademark Office. I know that the office takes these issues seriously and I look forward to hearing more about its work on these topics.

Our second panel has witnesses from industry, the legal community, and academia. For the topic of online counterfeits while no larger online marketplaces were able to physically attend today's hearing as witnesses, a few have submitted statements for the record. I am encouraged and hope that they will continue to engage with the subcommittee going forward.

We all have a stake in making sure that this vibrant sector of our economy does not have its reputation tarnished by being overrun by counterfeit goods.

To all of our distinguished witnesses, thank you for coming here today and I look forward to your testimony.

And it is now my pleasure to recognize the Ranking Member of the Subcommittee, the gentlelady from Alabama, Congresswoman Roby for her opening statement.

Mrs. ROBY. Thank you, Chairman Johnson, and I want to thank each of our witnesses for taking the time to share their expertise with us today. I think it is amazing when we decide to go shopping for a particular product, all we have to do is search for it on our computer or our phone and with a few clicks, we can buy it and have it delivered at our door. We can do all this from the comfort of our home, on a beach, traveling in a car, or wherever we are—for us, on an airplane.

Online shopping has revolutionized the shopping experience for all consumers. Worldwide e-commerce sales are expected to reach over 4 trillion by 2020. Any commerce retail sales are expected to reach nearly 15 percent of overall global retail spending in 2020. Amazon, eBay, Apple, Walmart, Home Depot, and countless others are making shopping almost effortless and show that the popularity and convenience of online retail is continuing to increase, but with all of that convenience comes risk and responsibility.

As the GAO detailed in its 2018 report on counterfeits, along with an increase in opportunities for consumers to find products they want, online marketplaces are also providing opportunities for counterfeiters to reach a much broader customer base. The report indicates that the volume, value, and variety of counterfeit goods entering the United States increases each year.

The GAO reports that counterfeits exploit third-party online marketplaces to gain an appearance of legitimacy by posting pictures of authentic goods on websites and posting fake reviews of their products, all to trick consumers into buying their knock-offs.

In addition to inflicting economic harm, counterfeit goods may pose a risk to health and safety of consumers. Twenty of the 47 phone chargers purchased by GAO from third-party sellers on popular e-commerce websites were counterfeit. Some were so defective that they posed a significant risk of catching fire or even electrocuting a consumer.

Custom and Border Protection has seized counterfeit versions of personal care products such as contact lenses, perfumes, hair removal devices, hair curlers, and skin cleansing devices. Any of these products should they contain bacteria or dangerous chemicals could cause significant damage to a consumer's skin or eyes.

On a personal note, I mean, I have used online marketplaces to purchase cosmetic products, and as I have learned more and more about the risks posed by counterfeit cosmetics in connection with investigating this issue, I am having to reconsider my own purchasing decisions.

At our counterfeits roundtable we held in June, which I thought was great, we heard what happened to a few consumers who bought products that posed a significant health or safety risk. A contact lens contaminated with bacteria injured one person, a counterfeit air bag killed a driver, a faulty toy with magnets that caused a child to undergo surgery. We cannot let counterfeit products which undergo none of the rigorous safety testing often required here in the U.S. to be sold to unwitting U.S. consumers.

I look forward to hearing from our witnesses whether marketplaces are taking all of the steps that they should to protect consumers from counterfeits or if there are additional steps they must take to protect us all.

I want to know if Congress needs to act to mandate that marketplaces establish certain practices designed to protect consumers from counterfeits, or if there are any other recommendations for Congress to take on combating this issue.

Another issue that we are addressing today is the substantial increase in trademark filings. I have read reports that subsidies issued by the Chinese Government to promote the registration of marks in the United States has directly led to a dramatic increase in the number of U.S. Trademark applications. Many of these trademarks have been registered by the USPTO and even though these applicants misrepresented that the mark was actually used on products for sale in the U.S.

Today we need to hear from all of our witnesses how to best deal with these fraudulent trademark registrations, whether the USPTO is doing all that it can to prevent these filings from being registered, what, if any, new authority the USPTO needs to remove fraudulently obtained registrations.

Finally, I know that the courts are split on whether trademark owners who prove a likelihood of confusion should be entitled to a presumption of irreparable harm, making it much easier to obtain an injunction.

In trademark cases, injunctions are the primary source of relief. That is because measuring the dollar amount to attach to a trademark infringement, the harm to reputation can be very difficult to approximate. I want to hear from the witnesses whether Congress needs to resolve this circuit split.

As the Ranking Member of the subcommittee and the co-chair of the Congressional Trademark Caucus, I want to make sure our trademark system is working effectively. I look forward to delving into these very important issues today and I want to, again, thank all of our witnesses for being here.

And I thank you, Chairman Johnson, and I yield back.

Mr. JOHNSON of Georgia. Thank you Representative Roby. I ask unanimous consent that the statement of the Honorable Jerrold Nadler, the Chair of the Committee on Judiciary, that his statement be introduced for the record without objection.

And without objection, so ordered.

[The statement of Mr. Nadler follows:]

Statement of the Honorable Jerrold Nadler, Chair, Committee on the Judiciary, for the Hearing on "Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses" before the Subcommittee on Courts, Intellectual Property, and the Internet

Thursday, July 18, 2019, at 9:00 a.m.
2141 Rayburn House Office Building

Thank you, Mr. Chairman, for this opportunity to examine the trademark system in the United States. Trademarks are unique among intellectual property in that they serve both to reward the owner and to protect the public. Federal trademark registration gives trademark owners important benefits, including the ability to claim nationwide rights in their marks. And consumers benefit from having greater confidence in the products they are buying.

The trademark system has functioned well for both trademark owners and consumers under the status quo for many years. But over the past few decades, the internet has revolutionized the way goods and services are marketed and sold, and it is reasonable to assess whether the trademark system should be updated to take this into account.

In 2018, U.S. e-commerce sales reached an estimated $513 billion, and e-commerce sales represented just more than half of all retail sales growth. These changes have made the public-protection role of trademarks even more critical today. But at the same time, the significant expansion of e-commerce and technological advances have created both the opportunity and the incentive for bad actors to take advantage of the system.

To have a well-functioning trademark system, the federal register must accurately reflect the trademarks currently in use. Changes in technology have made submitting trademark applications with false documentation of the trademark's use much easier, and at the same time, much harder to detect by the untrained eye.

I am particularly troubled by reports that the number of such fraudulent applications submitted to the Patent and Trademark Office is on the rise, including an apparent dramatic increase in such filings from China. These developments are compounding an already-existing problem at the USPTO of there being many unused marks on the register, which can needlessly block new trademark applicants.

Nevertheless, I am encouraged by the efforts of the USPTO to address some aspects of the problems presented by false use claims and fraudulent applications. For example, a final rule to require U.S.-licensed attorneys for trademark applications filed by foreign-domiciled applicants will go into effect August 3.

I commend the USPTO for taking these issues seriously, and for looking for solutions to address these concerns. But I would also like to know if there is more that can be done.

I also have serious concerns about the growth of counterfeit goods being sold by third parties through online marketplaces. As retail continues to shift online, counterfeiters are using new strategies to deceive consumers and evade detection as third-party sellers through online platforms.

These new strategies make it hard for brand owners to identify and keep up with what seems like an infinite pool of potential counterfeiters.

While online platforms have rolled out anti-counterfeiting enforcement tools, there are growing concerns that these efforts are not enough and that more proactive measures are needed, such as better vetting of sellers and more stringent policies to keep repeat offenders offline.

Counterfeiters are attacking almost every industry, and these low-quality products can pose significant threats to public health and safety. For a recent report, the Government Accountability Office purchased 47 products from third-party sellers through online platforms, and 20 turned out to be counterfeit.

These counterfeit products can present life-threatening safety hazards, such as cosmetics that contain harmful chemicals, medicines that are adulterated, and counterfeit cellphone batteries that pose fire and burn hazards to consumers.

These counterfeits also have devastating impacts on businesses, which lose sales to counterfeit products because many of them often appear alongside the authentic product on these platforms at a lower price. In addition, when a counterfeit product is defective, it unfairly harms the legitimate seller's brand.

And while there are attempts to obtain legal recourse against these illegitimate sellers, fake identities and incomplete seller information can prevent such recourse. I am curious to hear from today's witnesses how Congress can help assist with this growing issue.

And, finally, I would like the witnesses to share their suggestions on ways brand owners could best protect their rights through the court system. The effects of consumer confusion and reputational harm are hard to quantify, so brand owners have long sought injunctive relief against parties that infringed their trademarks. Prompted by a Supreme Court case in the patent context, however, recent case law has shown courts taking divergent views as to when and if such injunctive relief should be granted. Accordingly, I look forward to hearing what approach best serves the trademark system.

There are many nuances in the trademark system. Ensuring each of these facets is functioning properly is vital for protecting American businesses and American consumers.

I am pleased that we are examining these important issues today and thank the witnesses for their participation today. I yield back the balance of my time.

Mr. JOHNSON of Georgia. I will now introduce the witness, Mary Boney Denison is the commissioner for trademarks at the United States Patent and Trademark Office, the USPTO. In her role, Commissioner Denison oversees all aspects of the trademarks organization, including policy, operations, and budget relating to trademark examination, registration, and maintenance.

Commissioner Denison joined the USPTO in 2011 as deputy commissioner for trademark operations where she was responsible for the USPTO's trademark application, legal examination, and registration processes.

Before joining the USPTO, Commissioner Denison practiced law in the area of trademark prosecution and litigation as a founding partner of Manelli, Denison and Selter in Washington, D.C. She also served as a member of the Board of Directors of the International Trademark Association and as a member of USPTO's Trademark Public Advisory Committee.

Commissioner Denison holds degrees from Duke University and the University of North Carolina School of Law, and we welcome Commissioner Denison and thank her for participating in today's hearing.

I also understand that Ms. Denison's term as commissioner ends later this year. As this may be her last appearance before the subcommittee, I wish to thank Commissioner Denison for her productive partnership with us and for her nine years of public service. We are grateful that she chose to bring her extensive trademark expertise to the Federal Government from which we have all benefited. I thank you.

And before proceeding with testimony, I hereby remind all witnesses that all of your testimony, written and oral, made to the subcommittee in connection with this hearing are subject to penalties of perjury, pursuant to 18 U.S.C., Section 1001, which may result in the imposition of a fine or imprisonment of up to 5 years or both should the individual be found guilty.

Please note that your written statement will be entered into the record in its entirety; accordingly, I ask that you summarize your testimony in 5 minutes. To help you stay within that time, there is a timing light on your table. When the light switches from green to yellow, you have 1 minute to conclude your testimony. When the light turns red, it signals that your 5 minutes have expired.

Commissioner Denison, you may begin.

STATEMENT OF MARY BONEY DENISON, COMMISSIONER FOR TRADEMARKS, UNITED STATES PATENT AND TRADEMARK OFFICE

Ms. DENISON. Chairman Johnson, Ranking Member Roby, members of the subcommittee, good morning and thank you for holding this hearing to highlight the problem of inaccurate trademark filings, the USPTO's aggressive efforts to address this problem and the USPTO's efforts to well combat counterfeits, I have worked on these issues for a number of years and the USPTO welcomes the subcommittee's attention to these important issues.

The U.S. trademark system is the global gold standard and is a fundamental component of our economy and a driver of economic growth and job creation. The USPTO is committed to maintaining

the integrity of the trademark system and all its benefits for businesses, consumers, and the U.S. economy that an accurate trademark register brings.

Generally, a trademark is eligible for registration if it is used in commerce. Apart from limited exceptions for a mark to be federally registered, the applicant must provide an example called a specimen. That specimen must show how their mark is actually being used in commerce in connection with the goods or services in the application.

In addition, to maintain a registration, the registration owner periodically has to file a sworn declaration listing all of the goods and services in the registration for which the mark continues to be in use in commerce and they must also include a specimen of use.

Unfortunately, in recent years, the USPTO has seen a significant increase in the number of applicants who are not fulfilling their legal and ethical obligations to file accurately and in good faith. Specifically, the USPTO has increasingly been receiving trademark filings involving false use claims and fake or digitally altered specimens that purport to, but do not actually show, use of the mark in commerce as required by law.

While some of these problematic filings are domestic, a significant and increasing number come from overseas, primarily from China. Often those applicants are represented by unauthorized Chinese individuals who evade USPTO sanctions. Because there is no one silver bullet to solve these issues, we have taken a multipronged approach to combat this problem, including, number one, requiring foreign domiciled applicants to be represented by U.S. counsel. The USPTO will have a U.S. lawyer who can be held accountable for improper filings even when those applications are filed from overseas.

Number two, auditing post registration maintenance filings to ensure that the mark is being used in commerce in connection with all of the goods and services in the registration.

Number three, updating examination guidance and training on questionable specimens of use that instructs examiners to issue refusals when they discover fake or suspicious specimens of use rather than just requesting additional specimens as was the past practice.

And four, creating a special task force to develop and implement additional policies, procedures, and technology solutions.

And we plan to do more, including building an electronic database of specimens to help examiners locate specimens that use virtually identical pictures for different trademarks from different applicants.

Number two, revising the requirements for specimens.

Number three, proposing additional incentives for trademark owners to voluntarily update their registrations when they are no longer using their marks on particular goods and services.

And fourth, providing more education to applicants and their lawyers on what use in commerce is.

As you can see, the USPTO is aggressively working to address these problems. To my left and in front of each of you in your packages are examples of specimens in five different applications for different marks we received, real and fake. As you can see, the

digitally altered images are quite sophisticated. Through our updated specialized examination training, our examiners were able to reject the fake specimens in these examples. The USPTO is taking every step within the current statutes to fashion solutions to the problem of false claims of use in commerce. We are doing all we can to ensure that the U.S. trademark system remains the world gold standard.

My written testimony also details USPTO's efforts to combat domestic and international counterfeiting. The USPTO is actively involved in the policy development process within the administration related to combating online counterfeiting including the report required by President Trump's memorandum on combating trafficking.

It also continues its strategy to provide technical advice and capacity building to foreign governments and to provide public outreach in education, including through the IP attache program and the China team.

Thank you for this opportunity to testify about these important matters. I look forward to answering your questions.

[The statement of Ms. Denison follows:]

STATEMENT OF

MARY BONEY DENISON

COMMISSIONER FOR TRADEMARKS
UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE

SUBCOMMITTEE ON COURTS, INTELLECTUAL PROPERTY, AND THE INTERNET
COMMITTEE ON THE JUDICIARY
UNITED STATES HOUSE OF REPRESENTATIVES

"Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses."

July 18, 2019

I. Introduction

Chairman Johnson, Ranking Member Roby, Chairman Nadler, Ranking Member Collins, and Members of the Subcommittee:

Good morning. Thank you for this opportunity to discuss the state of the U.S. trademark system, which is strong. The U.S. trademark system is the best in the world, and offers robust protections and enforcement mechanisms for those who obtain registrations.

The United States Patent and Trademark Office (USPTO) continues to work hard to ensure that America's trademark system remains the global standard, including through the USPTO's aggressive efforts to strengthen the accuracy and integrity of the U.S. trademark register.

The recent rise in improper trademark submissions and bad faith behavior are very concerning, as is the proliferation of counterfeit goods in the marketplace. I am honored to be here with you today to share the work the USPTO has been doing to address these issues.

II. Improper Filings and Bad Faith Behavior

Trademarks and brand protection are critically important to the economy, trade, and job creation. The USPTO's primary mission as it relates to trademarks is to register marks that comply with the requirements of U.S. trademark law. Trademark rights in the United States are predicated on use of the mark in commerce, and, apart from limited exceptions, U.S. trademark law requires applicants to demonstrate use of the applied-for mark in commerce as a condition for federal

registration. Furthermore, while trademarks are indefinitely renewable, continued use of the mark in commerce is required to maintain a trademark registration. Between the 5th and 6th years after the date a trademark is registered, and every 10 years thereafter, a registrant must file a renewal document in which the registrant must swear that the mark is still being used in connection with all goods or services in the registration and provide a specimen for each class of goods or services in the registration that demonstrates that the mark is in use in commerce for each class of goods or services.

The USPTO creates and maintains the federal register of trademarks that now includes approximately 2.4 million registrations. The register itself provides notice to applicants, other trademark owners, and our examining attorneys of the registrant's claim of ownership in a mark and allows them to search the register to determine the availability of marks for registration in the United States. The register is a valuable tool in making business decisions, and its accuracy is paramount. When businesses are selecting names for new products, they turn to the register to figure out whether their chosen mark is available for their use and registration. But, for the register to be useful, it must accurately reflect marks that are in use in the United States for the goods and services identified in the registrations. If the register is filled with marks that are not in use, or features registrations obtained by improper means, it makes trademark clearance more difficult, time-consuming and expensive. An inaccurate register also leads to expensive opposition and cancellation proceedings, or federal court litigation, to correct inaccurate registrations and to enforce rights. And, in turn, it may cause companies to alter business decisions, often at significant cost.

Unfortunately, in recent years, the USPTO has seen a significant increase in the number of applicants who are not fulfilling their legal and ethical obligations to file accurately and in good faith, particularly with respect to claims that the mark is in use in commerce. The USPTO increasingly has been receiving trademark application and registration maintenance filings involving false or inaccurate use claims and submission of fake or digitally altered specimens that do not actually show use of the mark in U.S. commerce in the ordinary course of trade as required by law. Many of these applicants appear to be filing these questionable applications on the advice, or with the assistance of, foreign individuals and entities who are not authorized to practice law in the U.S. and therefore should not be representing trademark applicants before the USPTO. The USPTO also has seen increases in unauthorized changes of correspondence addresses in our electronic database, as well as fraudulent consent agreements and assignments of ownership.

The USPTO is very concerned about bad faith submissions, regardless of who files them. While some of the filings with inaccurate or possibly fraudulent claims of use of the mark are domestic, a significant and increasing number of these come from overseas, primarily from mainland China. Often, those applicants are improperly represented by unauthorized Chinese practitioners who evade USPTO sanctions.

China leads all foreign countries in the number of trademark applications filed at the USPTO, with 11% of total application filings. For perspective, the second highest foreign filer is Canada, at 2% of filings. China also leads other countries in the number of trademark applications filed

pro se, *i.e.*, without an attorney, at 80%. Germany is a distant second with 51% of filings being pro se filings.

Furthermore, filings from China have increased exponentially since 2014, jumping from approximately 5,161 applications in fiscal year 2014 to approximately 54,064 in fiscal year 2018. This dramatic rise in applications coincides with the rise in inaccurate and fraudulent claims of use that threaten to undermine the reliability of the trademark register. The USPTO will continue to combat the inaccurate and fraudulent claims of use that threaten to undermine the reliability of the trademark register.

The U.S. trademark system is a gold standard. It is a fundamental component of our economy and a driver of economic growth and job creation, and the USPTO is committed to maintaining its integrity. The USPTO is aggressively taking steps to combat the various threats to our trademark system. The USPTO has consulted with stakeholders and implemented a number of measures designed to strike the right balance between deterring bad conduct and avoiding the imposition of excessive new burdens on those who operate in good faith, who still make up the vast majority of applicants.

III. USPTO Actions to Curb Abuses

The USPTO is aggressively using its existing statutory authority to attack the problems from multiple angles, working within the parameters of its existing statutory authority.

a. Actions taken

The USPTO is devoting considerable resources to implementing measures aimed at combatting improper applications and inaccurate use claims. These measures include the following:

Requiring foreign-domiciled applicants to be represented by U.S. counsel

Earlier this month, and after considering public comments on the proposed rule, USPTO published its final rule to require foreign trademark applicants and registrants to be represented by a U.S. licensed attorney (84 FR 31498; July 2, 2019). Under the final rule, which goes into effect on August 3, 2019, the Trademark Rules of Practice will require applicants, registrants, and parties to Trademark Trial and Appeal Board (TTAB) proceedings with a foreign domicile to have a lawyer licensed to practice law in the United States represent them in any trademark matter at the USPTO. Requiring a local licensed representative to prosecute trademark applications on behalf of foreign applicants is a common requirement that many other countries, including China, have had in place for years. The USPTO believes that the final rule's requirement for foreign-domiciled trademark filers to be represented by a U.S. licensed attorney at the USPTO will increase the accuracy of the submissions to the USPTO and will decrease the incidence of foreign trademark attorneys and agents engaging in the unauthorized practice of law before the USPTO. In addition, the Commissioner for Trademarks has issued orders excluding a number of apparently Chinese citizens who have abused our laws from appearing before the USPTO in trademark matters.

Creating a Special Task Force

Earlier this year, the USPTO created a Special Task Force within the Trademark Operations to focus on improper behavior related to trademark applications and registrations. The Task Force is ongoing and consists of personnel with examination and IT expertise who coordinate to identify improper activity and evaluate appropriate actions to take in response. The goals of the Task Force include developing and implementing policies, procedures, and technology solutions to effectively address fake specimens, false use claims, unauthorized Trademark Electronic Application System (TEAS) submissions, and other efforts to circumvent the USPTO's Rules of Practice in Trademark Cases.

Auditing post-registration maintenance filings

This year, the USPTO has doubled the number of trademark registrations it audits through its random audit program to 5,000 per year and has increased the number of USPTO staff members working on the program. In 2012, the USPTO implemented the Proof of Use Audit Program. Through that program the USPTO audits the accuracy of claims of use made by registrants in their post-registration maintenance filings, which must be made between the 5th and 6th year and every 10 years after registration. Once a registration is randomly selected for audit, the owner is required to submit proof that the mark is in use for additional goods and services in the registration. Audited registrations with unsubstantiated claims may be cancelled or unsupported goods and services may be removed from the registration. Thus far, over 50% of the audited registrations have resulted in at least some goods or services being deleted from the registration because the registrant could not provide proof of use for those good or services.

Updating examination guidance and issuing refusals based on lack of evidence of use in commerce

The USPTO continues to provide multiple training sessions for its examining attorneys (most recently in June) on how to identify digitally created or altered specimens of use. In the past, when a specimen did not appear to show sufficient evidence of use in commerce, the USPTO simply allowed an applicant to submit a substitute specimen. However, the USPTO recently updated its examination guidance to now require that examining attorneys issue a refusal in such circumstances and request additional information about and evidence of the mark's use in commerce. The USPTO has also directed examining attorneys to request additional information and evidence about the applicant's use of the mark where a specimen appears to be fake or suspicious. Last week, the USPTO issued Exam Guide 03-19, Examination of Specimens for Use in Commerce: Digitally Created or Altered and Mockup Specimens, which the USPTO plans to incorporate into the Trademark Manual of Examining Procedure in our next update. The guide is publicly available on the USPTO's website at: https://www.uspto.gov/sites/default/files/documents/Exam%20Guide%2003-19.pdf.

Piloting programs to allow third parties to provide evidence in examination and expedite *inter partes* non-use challenges

The USPTO established a Specimen Protest email box to allow third parties to submit evidence to the USPTO that a particular specimen submitted in a pending application is digitally created or altered. Evidence submitted by third parties through the specimen protest program has aided detection and examination of fake specimens.

The USPTO is also exploring other ways that registrations for unused marks can be removed from the trademark register as quickly as possible, including a 2018 TTAB pilot program to expedite resolution of cancellation proceedings involving a claim of non-use or abandonment of the registered mark.

b. Additional efforts

The USPTO is also aggressively working on a number of additional initiatives to bolster its efforts to protect the integrity of the trademark register.

Building a database of specimens

The USPTO is investigating IT solutions that would, for example, flag potential improper filings at the time of filing and create a database of specimens that can be searched by examining attorneys to identify multiple applications with virtually identical specimens for different marks filed by different applicants.

Revising the specimen rule

The USPTO is planning to amend the trademark rule concerning specimens of use by setting criteria for electronic submissions in accordance with precedential case law for specimens of use, including requiring that webpages show the URL and access or print date. The amendments will require that the specimen show use of the mark placed on the goods, on containers or packaging for the goods, or on labels or tags affixed to the goods.

Proposing incentives for accuracy

The USPTO is considering creating incentives for registrants to ensure that their registrations are and remain accurate regarding the goods or services for which the mark is in use, without waiting until the maintenance filing to do so. For example, the USPTO is considering charging a "zero fee" to file a request to delete unused goods/services outside of the Proof of Use Audit Program or a TTAB proceeding. Furthermore, the USPTO is considering charging a fee to amend a registration when goods or services are deleted from a registration as a result of an audit.

Providing more education on use in commerce

The USPTO's ongoing post-registration Proof of Use Audit program has demonstrated that 79% of those audited were represented by counsel and, of those audited who had a lawyer, 52% have been required to delete goods or services for which they previously swore the mark was in use. These statistics are troubling to say the least and suggest a lack of care, knowledge of what the law requires, or both, by mark owners and their counsel. In egregious cases, the USPTO may refer attorneys to the USPTO's Office of Enrollment and Discipline (OED) for investigation of misconduct. But, to ensure that mark owners and their counsel understand U.S. use requirements and their mutual obligations under the USPTO's rules to confirm that the submissions they make to the USPTO are accurate and that claims of use have evidentiary support, we are developing educational materials for our website and will be adding information to our notices. We are hopeful that providing materials that explain what use in commerce is, the importance of use in commerce to having trademark rights and a valid registration, the steps lawyers and clients should be taking to confirm the facts of use, combined with the U.S. counsel requirement, will help improve the accuracy of submissions to the USPTO.

Requiring log-in to use our trademark filing systems and other IT enhancements

The USPTO's open and accessible trademark electronic systems have encouraged filers to use them to protect their trademark rights in the U.S. through registration, but have also opened them up to abuse by bad actors. We have seen a rise in instances of parties who have filed forms through the Trademark Electronic Application System (TEAS) to make unauthorized changes to trademark records. The USPTO is fighting back to prevent these unauthorized changes. The problem affects a very small number of total applications and registrations, and USPTO staff manually intercepts the vast majority of unauthorized changes. By late 2019, we hope to be able to eliminate this problem through (1) enhancements to our electronic systems that will move all of our electronic forms behind a firewall and (2) requiring users to have a MyUSPTO.gov account and login to file forms through TEAS. We also hope to implement proof of identity requirements for each individual's MyUSPTO account in early 2020.

IV. Anti-Counterfeiting Efforts

The USPTO has also directed its resources to initiatives aimed at protecting consumers, intellectual property rights owners, and businesses from another very real threat to intellectual property—counterfeits. By counterfeiting, bad actors attempt to trade on the goodwill and strong reputations of lawful trademark owners to the detriment and often peril of both consumers and the U.S. economy.

Presidential Memorandum on Combatting Trafficking in Counterfeit and Pirated Goods

The USPTO is actively involved in the policy development process within the Administration related to combatting online counterfeiting. On April 3, 2019, President Trump issued a Presidential Memorandum on Combatting Trafficking in Counterfeit and Pirated Goods. In the

Memorandum, the President explained that "[c]ounterfeit trafficking impairs economic competitiveness by harming United States intellectual property rights holders and diminishing the reputations and trustworthiness of online markets; cheats consumers and poses risks to their health and safety; and may threaten national security and public safety through the introduction of counterfeit goods destined for the Department of Defense and other critical infrastructure supply chains." The President directed an interagency group, led by the Department of Homeland Security, to prepare and submit a report this fall that will assess the current state of counterfeiting and piracy conducted through online marketplaces and intermediaries and "identify appropriate administrative, statutory, regulatory, or other changes, including enhanced enforcement actions, that could substantially reduce trafficking in counterfeit and pirated goods or promote more effective law enforcement regarding trafficking in such goods.".

USPTO's Ongoing Anti-counterfeiting Efforts

In addition to working in the policy development of the Administration's online anti-counterfeiting efforts, the USPTO has long been engaged in combatting counterfeits. There are three prongs of USPTO's anti-counterfeiting efforts:

1. Technical advice

The USPTO engages with government officials in the U.S. and abroad to improve domestic and foreign IP laws and regulations. Domestically, we provide policy and technical advice to the Administration on legislation impacting civil, criminal, and border enforcement of intellectual property laws. We work in coordination with the Administration's Intellectual Property Enforcement Coordinator (IPEC) and also partner with the National Intellectual Property Rights Coordination Center (IPR Center). Internationally, the USPTO provides technical and policy guidance on foreign laws, regulations, and practices that impact the effective enforcement of civil, criminal, and border provisions to combat trafficking in counterfeit goods.

2. Training/capacity building

The USPTO's Office of Policy and International Affairs works with countries around the world, including through our embassies, to provide technical assistance/capacity building programs on a government-government basis. These programs are designed to promote effective enforcement of civil, criminal, and border provisions to combat trafficking in counterfeit goods.

3. Public outreach and education

The USPTO is also working to raise awareness about counterfeiting and its impacts on multiple levels. For example, the USPTO held a video contest on the topic of "Consumers Combat Counterfeits" – with six winners from a range of age groups from across the country. The USPTO plans to use the winning videos to raise public awareness about the dangers of counterfeits. In addition, on June 6, 2019, the USPTO held a public forum with the McCarthy Institute to discuss challenges facing brand owners and how public and private organizations can help in this fight. The USPTO also just launched a multi-year, nationwide public awareness

campaign with the National Crime Prevention Council in a joint effort to educate U.S. consumers about the dangers of counterfeit goods.

In addition, at the 2018 Annual Meeting in Seoul, South Korea, the TM5 Partners (US, EU, Korea, Japan and China) adopted a new anti-counterfeiting project focused on raising public awareness about trademark infringement that will commence in late 2019.

China Team

The USPTO's Office of Policy and International Affairs has a team dedicated to China, including IP attachés stationed in three cities in China at the U.S. Embassy and two consulates. The China Team works to assist U.S. businesses navigating the trademark protection and enforcement processes in China. The Team also engages with e-commerce platform operators in China and the U.S. to raise concerns, for example, about slow and ineffectual take down procedures. Here in the United States, the USPTO offers China IP Roadshows to teach U.S. businesses about how to register and enforce their rights in China as well as how to deal with Chinese counterfeits arriving in the United States.

V. Conclusion

Chairman Johnson, Ranking Member Roby, Chairman Nadler, Ranking Member Collins, and Members of the Subcommittee, we appreciate your continued support of the goals, priorities, operations and employees of the USPTO. We look forward to working with you to address abuses of our nation's trademark laws and to promote the strong and balanced protection of intellectual property rights.











Images used are for educational purposes only.

Mr. JOHNSON of Georgia. Thank you, Commissioner Denison. We will now proceed under the 5-minute rule with questions. I will begin by recognizing myself for 5 minutes.

Commissioner Denison, I am concerned about the rise of fraudulent trademark applications. What happens if a trademark application with a fake specimen has already gone through registration and can the USPTO pull that registration back, on its own, if it becomes aware of the problem?

Ms. DENISON. Thank you, Chairman Johnson, for that question. We do our best to register high-quality trademarks. We issued about 270,000 registrations in fiscal year 2018. In the event that we discover a mistake that we made in examination in a timely fashion, we will correct the mistake. However, for the most part, the statute requires that third parties petition to cancel problematic registrations at the Trademark Trial and Appeal Board.

Mr. JOHNSON of Georgia. When you say you correct the mistake, what do you mean?

Ms. DENISON. For example, if we find something before the registration has issued, then we are able to stop it from issuing.

Mr. JOHNSON of Georgia. But after it is issued, there is basically no statutory authority for you to do anything?

Ms. DENISON. We largely rely on third party's ability to cancel registrations at the TTAB, the Trademark Trial and Appeal Board.

Mr. JOHNSON of Georgia. Thank you. I understand that it can take a year or more for a trademark application to be examined and that an existing application will block a later filed application for a similar mark. Part of the reason it can take a year is because of the 6-month response period when the PTO issues a refusal. Does the PTO have any flexibility with that 6-month response period?

Ms. DENISON. Thank you for the question. The 6 months for response to an office action is provided for in the statute, so we do not have flexibility to change that.

Mr. JOHNSON of Georgia. Do you have flexibility to lessen the 6-month response period?

Ms. DENISON. No, Chairman Johnson, we do not have flexibility to change that. That is a statutory mandate.

Mr. JOHNSON of Georgia. All right. Thank you.

Commissioner Denison, what are the consequences of lying in a trademark application or registration and can applicants be sanctioned for lying to the PTO?

Ms. DENISON. Registration is subject to cancellation if it was obtained by false material statements and the registrant could be subject to civil penalties. They do file declarations under penalty of perjury. If there was an attorney who was involved in the case, be—and they made material false statements, they could be subject to an investigation by the U.S. Patent and Trademark Offices, Office of Enrollment and Discipline, and they could face sanctions such as exclusion before—from practicing before the USPTO.

Mr. JOHNSON of Georgia. So what about if the registration has been issued and then the PTO learns thereafter that the registrant has lied. Does the PTO have any authority to take away the registration at that point?

Ms. DENISON. At that point we have to rely on third parties to seek a cancellation at the Trademark Trial and Appeal Board.

Mr. JOHNSON of Georgia. Thank you. That concludes my questions for this witness.

I will now turn to the Ranking Member for her questions.

Mrs. ROBY. Thank you, Chairman.

Commissioner Denison, thank you again for being here. Does the PTO know how many applications that it filed in the wave of filings from China that it granted but that now has determined that they should not have?

Ms. DENISON. Thank you for that question. Unfortunately, we have no way of tracking what registrations may have been issued with fake specimens. We receive more than 400,000 applications a year with about 60,000 of those coming in from China. Of those, about half of the Chinese applications received either a refusal to register or an additional request for information.

In fiscal year 2017, we issued about 20,000 registrations to Chinese applicants and in fiscal year 2018 we issued about 38,000 registrations. Hopefully most of those were for legitimate businesses.

Mrs. ROBY. So the PTO stated that from 2013 to 2017 applications from China increased by a thousand percent.

Ms. DENISON. I believe it was actually 1,200 percent.

Mrs. ROBY. Okay. So while this increase in numbers is not in and of itself proof of fraudulent filings, did this not set off any red flags or alarm bells within the PTO?

Ms. DENISON. Absolutely, it did, and we have been taking quite a few steps to address the issues.

Mrs. ROBY. Okay. So now that the PTO has registered an unknown number of trademarks based on—per your own testimony just now, an unknown number of trademarks potentially based on fraudulent evidence of use, many from China, what can the PTO do to remove those fraudulently obtained trademarks?

Ms. DENISON. Well, as I mentioned, there have been thousands of registrations to Chinese applicants and many of those are for legitimate businesses, so we have to balance the large amount of work that would be required to review every single registration issued to a Chinese applicant and consider that even if we were to find certain registrations should not have been issued, we would have to rely on a third party to seek cancellation at the Trademark Trial and Appeal Board.

Mrs. ROBY. So it is my understanding, and this is just putting an exclamation point on it, that the application fees for a large number of fraudulent trademarks were paid for by only three credit cards, so is the PTO not able to review all of the trademarks paid for by those credit cards since it seems that there is a high likelihood that they are fraudulent?

Ms. DENISON. Yes. The three credit cards did set off alarm bells at the PTO and we are taking this very seriously. We have formed a special task force and their job is to look at the whole problem; we have IT people working on it, we have lawyers working on it in a team, and their goal is to identify problems as they come in and to propose solutions for us. I get a weekly report.

Mrs. ROBY. Is there a timeframe under which this task force is operating?

Ms. DENISON. It will be ongoing.

Mrs. ROBY. Okay. So what I would just ask, Mr. Chairman, is that we get pretty regular updates about the progress of that task force. I think that would be helpful for us in light of our line of questioning here this morning.

But my next question is, does the PTO need additional statutory authority to remove fraudulent trademarks it mistakenly registered?

Ms. DENISON. Thank you for that question. We administer the laws that you pass, and we are happy to provide technical assistance to you and we have been doing that on a variety of topics.

Mrs. ROBY. So we are just asking if there is roadblocks based on the chairman's questions, if there are things that are inhibiting you from doing so that you do offer those recommendations to us so that we could make changes, if necessary, so that we could be helpful in that.

Several of the examples that I have seen for incorrectly registered trademarks have clearly doctored photos and very obvious indications that the application is fraudulent, so what is the PTO doing to ensure that examiners are properly trained and have the resources to avoid registering these trademarks going forward?

Ms. DENISON. We have been doing specialized training for the examining corps. They are faced with a very difficult situation as you can see from these examples here. It is hard to tell. One will come in and they will have to look at it very carefully, and they are on production, so they don't have 3 hours to spend on this.

I think they are doing a great job doing this, and we have issued an examination guide, it is number 3–19 and it gives them a list of things that they should look for.

For example, is there pixelization around the wording, does the mark appear to float over the product, that kind of thing? We have a long list of things that they are now taking into account and in the past, we have asked them if they saw something suspicious to ask for more information.

Now, we are saying, if you see something suspicious, issue a refusal and then you can also ask for more information, we are being more aggressive now about this.

Mrs. ROBY. Good. So my time is expired, but again, Mr. Chairman, I would just ask that in light of the task force that you mentioned that this committee be given somewhat regular follow-up on the progress of that task force, I think, is very important for us to be aware of any progress and then look forward to your recommendations of how Congress can be helpful.

So thank you. I apologize for going over. I yield back.

Mr. JOHNSON of Georgia. Thank you, Representative. Next we will have questionings from Mr. Ted Deutch, the gentleman from Florida.

Mr. DEUTCH. Thank you, Chairman Johnson, for holding this hearing and thanks Commissioner Denison for taking time to be here with us. As co-chair of the congressional trademark caucus with my friend and judiciary colleague Martha Roby, we know that trademarks play a critical role in enhancing innovation and helping our economy grow and thrive and that we have got to be vigilant

in protecting intellectual property to ensure the health of our innovative system.

I want to go back to where Congresswoman Roby left off and the combination of the task force that you have created and the training you identify, this specimen rule. Can you tell us either the role that technology is playing in this task force, the attention paid to it, who has been brought in with the technological expertise?

And the reason I ask is, because I think it certainly sounds worthwhile to have some guidance that talks about floating marks and pixelization and how to identify them, but it certainly seems as if this is the kind of thing that we ought to be able to use technology in a very serious and advanced way to help identify.

Can you just speak to that, please?

Ms. DENISON. Yes, thank you for that question. In fact, we have been piloting some software that we hoped we could give to examiners so they could run a specimen through it to see if it worked or not. What we have found is that you kind of need to be a computer expert to interpret the results, so we are continuing to work with the software company and just yesterday I saw a chart showing that they could rank it as to how much it had been altered and that kind of thing.

So right now we don't have a technology solution that is usable on a widespread basis by our examining corps, but we are continuing to work on that solution. We are also able currently to use reverse image searching, so if the examiner sees an image, they can use a reverse image tool and see if there is something highly similar on the internet.

Mr. DEUTCH. Okay. I appreciate that.

Ms. DENISON. Could I raise one other thing?

Mr. DEUTCH. Sure. Of course.

Ms. DENISON. We have a database of trademarks. We have never had a database of specimens of use and so we are also working towards building a database of specimens. That would mean that if we had that, then we could see that the scarf on the left in the poster, that actually looks like a good specimen, but it is not a good specimen because it came in with ten different files from ten different applicants for ten different marks and the database of specimens will help us to find that.

Mr. DEUTCH. Have you, at this point in the work that has been done, have you been able to detect any commonalities in the suspicious specimen applications?

Ms. DENISON. What do you mean by "commonalities"? Many of them are coming from Shenzhen.

Mr. DEUTCH. In this case you have identified the same image used in multiple applications. Are there other commonalities that have come up perhaps geographical, perhaps in the image itself.

Ms. DENISON. Yes. Okay. So if you see the bottle on the lower right, that is a computer-generated image, again, not showing the mark in use in commerce, so that is another way that they are doing things.

If you look at the Instamarket photograph on the right, that is one that was—I believe we have a specimen protest pilot where people can send in images to us, and so that was picked up by a third party. They sent it to us and it turns out that it was a

Walmart store and they had taken Walmart off of it and put Instamarket up there, so those are three different examples.

Mr. DEUTCH. Under your existing authority, Section 9043.3, examiners have the authority to issue refusals rather than inquiries where an item or specimen doesn't appear to show actual use in commerce in the U.S. market. Have you considered reviewing pending or approved registrations to confirm that they are in use in the U.S. as a method to declutter the register?

Ms. DENISON. We have instructed examining attorneys to refuse now if the specimen is suspicious. Due to the volume of work, I would say we have not discussed going through every single one—we get over 400,000 applications a year, going through every single one to see—to do a second check on it. We have to trust the examiners to get it right. There are quality checks done, however.

Mr. DEUTCH. I am hopeful that as you go forward that decluttering the existing granted trademarks should be a priority as well because it takes so long in order for an actor to file a challenge to a pending application, I hope this is a focus of your efforts as well.

And I thank you for being here.

Ms. DENISON. Thank you.

Mr. JOHNSON of Georgia. Thank you. The committee will next hear from the Ranking Member of the full committee, the gentleman from Georgia, Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman. I appreciate that.

Before I get started on my statement basis—this is going to be a statement because this is something that we have—I am glad the Chairman and the Ranking Member have such passion in this and this is something we need to be talking about.

But I am also going to be talking about who is not here. And I do this not in any other way except we need to have everybody to the table, so I know that Amazon, eBay, and Walmart are listening. They are friends. We know each other, but we cannot hide from this discussion, and I need them to be a part of the discussions at the table. This is not new for this subcommittee, it is not new for this committee, and it is definitely not new for anybody who knows me that the way you solve problems is not by avoidance, but by actually taking the issues on and I want to help that. It will be something that we can do, but we cannot discuss issues around issues when we don't have a lot of times the players here. And I am so glad the PTO office is always here. It is always good to see you guys as being a part.

Those are the kinds of things that we need to talk about. One of the things I am concerned about many times is when we avoid things, then we have misunderstandings. We could clear those up early in the process and we could also remember that while we are doing it, it is just not only for these companies that I named and not out of shame or anything else, but why shouldn't you be here because we are trying to make this better for you and for the end result and for the customer who is at the bottom line our constituents and we need to be a part of that as well.

So with that, I appreciate the opportunity and what we have to understand is the rampant sale of counterfeits online is not just a threat to U.S. jobs and innovation. It also poses a threat to con-

sumers. Through the third-party marketplaces platforms are selling contact lenses contaminated with bacteria, bacteria that catches fire, cheaply made toys that allow children to swallow magnets and force them to undergo surgery, and even air bags that kill a driver.

The list of counterfeit products as being sold online is endless, so just imagine how often we exposed ourselves and our loved ones to harm when we are tricked into buying counterfeits online. Online marketplaces have the choice to aggressively protect consumers from counterfeits show respectful for other property rights, but brand owners argue some of making merely a cosmetic effort.

Certainly, marketplaces could do more to stop their sites from being used to sell counterfeits, which is why we would need to hear from them.

We recently held a roundtable to hear from brand owners and platforms on this issue which platform has demonstrated it is truly committed to stopping the sale of counterfeit and by protecting consumers by most account it is Alibaba.

At the roundtable we learned that Alibaba's anticounterfeiting policies and programs are significantly more effective than their U.S. counterparts. They are working very closely with all complaining brand owners and are using cutting-edge technology to scan for and detect counterfeits. I find it shocking the U.S. platforms are so far behind.

Marketplaces must aggressively protect U.S. customers and IP rights holders from sellers who seek to trick consumers into buying counterfeits. Marketplaces must have effective policies and products to detect, block the sale of counterfeits automatically and are immediately responsive to complaints by consumers and brands quickly remove counterfeiters from their sites and detect and prohibit confirmed counterfeiters from returning under another name.

The marketplace must apply these anticounterfeiting policies and practices with equal rigor to protect all brands, particularly our small businesses, and not reserve their best protections for a few companies that bring huge profits to the marketplace.

Platforms must do a better job of vetting sellers and sharing information with brands, consumers, and law enforcement so these thieves can be brought before U.S. courts. Marketplace should not allow sellers to trick consumers into buying a counterfeit by using a product's image without the brand owners' consent.

Marketplaces should not promote counterfeit sellers' products by highlighting the products to sellers offering the same item at a counterfeit price. These solutions are well within the grasp of our large online marketplaces and practices they should have already implemented on their own.

I hope the witnesses will—wish that we had the witnesses here to also talk about this, which we don't, and I say that just from an encouraging way so we can find a way forward.

And I appreciate the work that the PTO office has done on this. I will continue to encourage what you are doing because we have to find an answer.

At the end of the day, this is not about—and from my perspective and for those who have worked with me, this is not about labeling bad and good. This is about labeling that we have a problem; let's

fix it. We have issues that need to be discussed. Let's discuss them. It is not about avoidance, and when we have avoidance, then we have misunderstanding.

Misunderstanding leads to bad law. Bad law means that I have to sit through hearings after hearings after hearings on this while we have bad law. So let's get it right the first time. Let's have it right the first time, let's have honest conversation, and let's do this the right way to begin with.

I thank the Chairman, I thank the Ranking Member of the Subcommittee who have done outstanding work together on this and I appreciate the witnesses that are going to be showing examples of that today, and, of course, always the friends at the PTO office.

And with that, I yield back.

Mr. JOHNSON of Georgia. Thank you, sir.

With that, we will now hear from the gentleman, Mr. Stanton, for 5 minutes.

Mr. STANTON. Thank you very much, Chairman, and I agree with the Ranking Member Collins, a lot of things he just said and about the need to get the right players here, and to get this right. Obviously, today's testimony is mostly about the trademark system closely related to counterfeits online, so those are very appropriate comments.

Look, I want to thank the witness for being here today, Commissioner Denison. It is essential for big business, small business, all business to be able to successfully apply and receive appropriate trademarks. There are important mechanisms by which companies can identify themselves to consumers and within the marketplace and, of course, consumers can build trust with the business in part by way of appropriate trademarks.

When that trust is broken by counterfeit or fraudulent trademarks, a great deal of harm can be done, not only to the business, but to the consumer marketplace as well. It is important that Congress address these issues head on and that we work with stakeholders to make appropriate changes to ensure that our American trademark system is the best in the world and is as effective as possible.

Commissioner, the fiscal year 2018 USPTO performance and accountability report indicated a trademark quality would be a top concern for the department. What is the goal for trademarks in fiscal year 2019 and will you provide updates to this committee on the progress to address this important issue?

Ms. DENISON. Thank you for that question. Yes, we will be happy to provide updates to the committee and we are highly focused on quality. As I mentioned earlier, we have had advanced examiner training on specimen detection and we had that in June. We had it previously and we had it again in June, and we are bringing all the examiners into the office in August and we will have training again on specimens at that point.

In addition, we have issued the examination guide I referenced earlier, Examination Guide 3–19, which has now been issued to the public and you can see a list of things that we are carefully looking for in addition to looking for IT that can help us enhance our quality. We are always looking to improve.

Mr. STANTON. You mentioned IT in your recent report indicating that you are trying to transform USPTO with next generation technology and services. Talk about those technology and services. Do they allow you to keep track of the bad actors that continue to submit fraudulent trademark applications?

Ms. DENISON. Yes. We know who the bad guys are. We don't really have jurisdiction over many of them, but yes, we generally know who they are. We do have a sort of a whack-a-mole problem. I have issued exclusion orders and people change their names.

Mr. STANTON. When a trademark is found to be fraudulent, what is the remedy? What is the system for a remedy of that currently?

Ms. DENISON. Well, if there is a specimen that is submitted, the examiner reviews it. If they think the specimen is suspicious, they will refuse registration.

Mr. STANTON. And what about fines? Is there fines imposed upon the fraudulent actor?

Ms. DENISON. We do not have the ability to impose fines.

Mr. STANTON. Is that something you would like to have?

Ms. DENISON. If Congress would like to give it to us, we would be happy to talk to you about it.

Mr. STANTON. Have you had a chance to calculate the effect of fraudulent trademarks from actors in other countries in relation to lost revenue for businesses in the United States?

Ms. DENISON. No. I would say I do not have that information, perhaps someone in my office would. I would have to get back to you on that.

Mr. STANTON. And then talk to us about the process of third-party reporters, companies that see fraudulent trademarks or doctored specimen, what is the process for them to report that to you?

Ms. DENISON. We have something that we started more than a year ago, I think about a year and a half ago, called a specimen protest pilot. So they can send—say they see the Walmart—the Instamarket photo up there, that was something that came in through the specimen protest pilot, because they—somebody saw that and knew it was a Walmart building that had been digitally altered. And so they sent that into our mailbox. In addition, if they want to go more formal, they could file a letter of protest and that is during the application process.

If the register—if it has already been registered, then they could seek cancelation. Oh, and there is one more option. If it has been published but not yet registered, they could seek to oppose it at the Trademark Trial and Appeal Board.

Mr. STANTON. Thank you for your testimony. I yield back.

Mr. JOHNSON of Georgia. Thank you. We will now recognize Representative Biggs for 5 minutes.

Mr. BIGGS. Thank you, Mr. Chairman.

Commissioner, thank you for being here. I am just going to—I want to get to a very rudimentary level because that is where I operate most of my life, so I was looking at your testimony summarizing it. We are talking about China leads in the number of pro se filings, 80 percent, why is that?

Ms. DENISON. I can't give you a definite answer. I suspect it is because of the filing factories that are coming in. I am not sure how familiar you are with the situation, but we believe that there

are filing factories that have been set up to obtain subsidies that are being offered by certain regional and local governments in China and those filing factories may be Chinese lawyers, may be Chinese paralegals, may just be people off the street. I don't know who they are.

Mr. BIGGS. Thank you for getting there, because that is where I wanted to go for part of this any way. The filing factories, they are supported by reasonable and local government in China with subsidies. Is that correct?

Ms. DENISON. The filing factories per se are not. The filing factories—excuse me—the regional subsidies or local subsidies that come from a number of different places in China, not just Shenzhen, they offer these subsidies and they are quite high, and so I suspect that the filing factories grew up as a result of the subsidy, but I don't really have any information to support that.

Mr. BIGGS. Okay. So let's—you mentioned incentives and I want to talk about incentives for a second. Obviously, the large scale economy of America, largely reliant on trademarks to do business, what incentives do we have in place besides our markets and what you have described is enforcement seems to be weak, not necessarily your fault, but what we have done, what other incentives are out there for people to file fraudulent marks?

Ms. DENISON. Well, with regard to China, my understanding is that the central committee in China sort of put out an edict. We want people to protect IP and that then led the regional/local governments to do this. And so that is one incentive that is driving this. The Chinese Government is so into this that now apparently the Chinese equivalent of the SAT, the Gao Kao now has IP questions on it. It is a college entrance exam.

But, in addition, you have to couple this with the rise of purchasing on the internet. So there are many legitimate companies that want to be part of this that just want to sell on the internet to U.S. consumers and so there is a legitimate business reason that Chinese citizens would want to file here. In addition I am told, this is anecdotal that it is very prestigious in China to say that you have a U.S. trademark registration, but that is just anecdotal.

Mr. BIGGS. So along that line we have heard from companies like Target, which is the largest trademark filer in the U.S., that when the PTO allows fraudulent trademarks to be registered, those registrations block companies from legitimately using those trademarks. While big companies can afford to hire law firms to file applications for their marks, what is a small business with a limited budget supposed to do?

Ms. DENISON. I am sorry. I didn't catch the last part of—what is a small business what?

Mr. BIGGS. Supposed to do if they have a limited budget. They can't go around like Target can and just create a new mark.

Ms. DENISON. Well, we are doing everything we can to stop the fake specimens from getting through and we have to give people 6 months once something comes in to respond to us, so we are doing everything we can. We also have many staff working on outreach to small businesses and they go around the country and help them understand what their rights are and what they need to do.

Mr. BIGGS. And so what is the remedy for a small business that is—basically, they are denied registration based on a mark that is falsely registered? What are they supposed to do——

Ms. DENISON. They could oppose it if it was in the opposition period or they could seek cancelation at the Trademark Trial and Appeal Board.

Mr. BIGGS. And how long does that take and what does that cost?

Ms. DENISON. The filing fee I think is $400 U.S. and you could be pro se if you wanted to. One of the things that we are doing to remedy some of these problems is, the U.S. counsel rule, are you familiar with that yet, sir?

Mr. BIGGS. Yes.

Ms. DENISON. So what we are trying to do is have all foreign domiciled applicants have a U.S. lawyer and that way there will be somebody acting as a filter and someone we can talk to and someone over whom we have jurisdiction to help us with this very important problem.

In addition, we are auditing some of the registrations; we started this a while back, and we found that over 50 percent of the time people were deleting goods they had just sworn were in use, so that is another one of our programs that is very important.

Mr. BIGGS. Thank you.

Mr. JOHNSON of Georgia. We will now recognize the gentleman from California for 5 minutes, Mr. Lieu.

Mr. CORREA. Thank you, Mr. Chairman, and Commissioner Denison, thank you very much for being here and testifying. Very important issue for my small businesses, growing businesses in my county, my State, my district and, of course, for this country. It is interesting listening to the questions and your testimony and the issue of foreign filers, the issue of cancelation proceedings, and I think to myself, you got a small entrepreneur sinks in their pension, a lot of work, and to coming up with trademark brand protection and all of a sudden they have got to go through a cancelation proceeding, probably is going to break their back.

And now you are talking about foreigners, China, filing factories, China's policy of moving ahead and encouraging people in China to file and yet I am going to follow some of the questions that my colleague from Arizona had which is the remedy.

Now you are asking that they be represented by American attorneys, win or lose, what is the remedy? Can you enforce a judgment? Can you enforce damages on a China, a foreign-based firm beyond that attorney? Is that close—think about an attorney, they have maybe errors and omissions insurance, but beyond that, how do you guarantee, how do you assure, what is the legal environment that we can come up with to protect Americans that have worked really hard to come up with these inventions, trademarks, and all of a sudden they have no protection?

Ms. DENISON. Thank you for that question. Just for your information in these nonuse challenges at the TTAB, in the majority of the cases there is a default, so you would file a paper and they would default and that would be the end of it, so it would not, in most cases, be an expensive litigation, but we do not have the authority to award damages to anyone. That is not something that the USPTO trademark operation or the TTAB has the ability to do.

Mr. CORREA. Let me interrupt you. I think what we have here is your agency—and you recognize the importance of free flow of commerce, trade, entrepreneurship, and you assume everybody comes in with good faith and is going to file this paperwork and is moving ahead, yet we have a situation now that, for lack of a better term, we have a trade war going on and maybe there is governments that are encouraging their firms in helping them and China, it is very blurry to talk about government versus the private sector. I don't think there is a difference.

You don't have that in the U.S., so I am trying to figure out how we put our American firms on equal footing when it comes to these trade wars. You don't have a lot of authority. You are talking about putting together a special task force.

Do you work with the FBI now? Do you work with Interpol, some of these other organizations? Do you have, lack of a better term here, databases where you can figure out—you got three credit cards that were the source of payment to a lot of these applications.

You are investigating. We should have been doing this a long time ago. I am not saying it is your fault. I am saying that maybe our attitude, our disposition to the new environment is not one that we are responding to fast enough.

Ms. DENISON. Well, we are trying to do everything we can within our current power to help people——

Mr. CORREA. And that is really the key, within your current power, so I would almost ask Mr. Chairman here and I will ask him, can we come up with our own perspective on what powers you need to be an effective enforcer to protect U.S. free commerce within an open free market system where people have to have consequences when you abuse the system, whether it is criminal or other kinds of liability.

Ms. DENISON. Thank you for that. We very much appreciate your support and we have been brainstorming with the committee staff to talk about different options that you would like us to pursue, so, of course, we are happy to continue to cooperate and offer any kind of technical assistance we can to you on remedies.

Mr. CORREA. And finally, Mr. Chairman, I would like to offer this letter from Target, for the record, and I also have some questions as well that I would like to have answered.

And seeing my time almost out, again, I just want to thank you, Commissioner, for being here and look forward to working with you to protect American ingenuity, entrepreneurship, and job growth in this country.

Thank you very much.

Ms. DENISON. Thank you. We welcome your cooperation.

Mr. JOHNSON of Georgia. Without objection, so ordered.

[The information follows:]

MR. CORREA FOR THE RECORD

July 16, 2019

The Honorable Hank Johnson
Chairman
House Judiciary Subcommittee on Courts,
Intellectual Property, & the Internet
2138 Rayburn House Office Building
Washington, DC 20515

The Honorable Martha Roby
Ranking Member
House Judiciary Subcommittee on Courts,
Intellectual Property, & the Internet
2138 Rayburn House Office Building
Washington, DC 20515

Attention: Comments for Hearing on Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses

Chairman Johnson and Ranking Member Roby:

Thank you for holding a hearing to focus on emerging threats to the integrity of the trademark system and the impact on American consumers and businesses. My name is Stephen Lee and I am the Chief IP Counsel at Target. Target is the leading trademark filer in the United States over the past two years and we are one of the top five trademark filers globally. We are concerned about fraudulent filers flooding the U.S. trademark registers with applications and registrations that effectively block our legitimate efforts to trademark our owned brand products that we develop with our teams in-house. It is imperative to maintain the integrity of our U.S. trademark system and not let these bad actors prevent legitimate actors from adopting trademarks in one of the largest markets in the world.

By way of background, Target is a U.S. based retailer where 85 percent of Americans shopped last year through Target's digital channels and in our more than 1,800 stores in all 50 states. Target employs nearly 320,000 team members, 99 percent of whom are located in the U.S. We're also a growing company, investing billions in new stores, hiring people, raising wages, and developing new products. From our headquarters in Minneapolis, Minnesota, Target has been moving with exceptional speed to bring a number of new owned brand lines to market. Several of these brands are individually valued at over $2 billion. Some of Target's most well-known brands include Cat & Jack, Goodfellow & Co., Threshold, and Up & Up, Universal Thread and many more across apparel and home goods categories.

A number of divisions at Target are involved in bringing these brands to market, working approximately 18 months prior to the products being available in stores. Approximately 1000 team members are involved across Merchandising, Marketing, Creative, Product Design & Development, Sourcing, Legal, and Stores. When a consumer sees a brand for the first time, we have about 3 seconds to communicate to them what the brand is about and each brand's identity has to be intentional and easy for the guest to understand. For each brand, it takes hundreds, sometimes thousands of names to ultimately land on the right one. We consider dozens of factors, including how that name will resonate with our guests, and how likely it is that Target will be able to quickly secure a trademark. In many cases, you have to secure trademark rights before you can even start sourcing and manufacturing products. The process to create, develop and adopt a new owned brand is time-consuming and the related costs are significant.

At Target, we became aware of the fraudulent filing problem when we were in the process of selecting a new trademark for an upcoming product launch. We landed on a preferred name, but our trademark search uncovered a prior application that would likely block our adoption of the name. We considered trying to purchase the application, but additional research showed that the prior mark was not in use in the U.S. We retained a trademark investigative firm, and they could not find the company, name, or contact information. We could not locate this applicant because all of the contact information did not lead to an actual company or person. We had little recourse and moved on to another mark, costing us millions of dollars in wasted time and expense. Given the current system, it would take over a year to oppose the application or cancel the eventual registration. When you are doing over ten brands each year that are set to be brought to market timed with seasons and holidays, you don't have at 18 months to pursue the expungement process.

After this experience, we audited a representative sampling of recent trademark searches and, in nearly all cases, at least one bad faith filing was cited as a potential block to our proposed mark. Entities and individuals submitted images that were digitally altered and, again, we were not able to identify the entity or individual who filed these trademark applications nor find evidence the trademarks are or have ever been in use in the U.S. Most searches contained more than one such citation. Fraudulent filer hallmarks include using nonsensical words and letter pairings, complemented by images that are blatantly digitally altered or otherwise suspicious. Further investigation uncovered duplicative images where only the brand tags are altered used to support applications by supposedly different companies. We realized at that point we had stumbled across a systemic problem.

In addition to our internal review, we retained outside counsel with trademark and analytics expertise to review pending applications on the trademark register, taking a representative sample of 500 filings per month in 2019. To date, they identified over 27,000 single class trademark applications made by foreign entities in apparel and home categories where the applicants stated that the marks are in use in the U.S. market. Over 42 percent of the monthly samples had easily detectable image defects. In addition to digitally altered images, we determined that certain groups of filing entities were using stock images to file across multiple marks and to post these same images via online marketplaces to assert their sale in the U.S. This deception is easily detected by reverse image searches on all standard browser interfaces. Other egregious behavior noted includes filing images with other trademarks clearly visible, alteration of labels on the same item for

multiple marks, and price tags reflecting foreign currency, among other patterns. We look forward to sharing this data with the Committee within a month.

The USPTO is aware of the problem and deserves appropriate recognition for beginning to address fraudulent filers. The 1,200 percent increase in four years is documented in their annual report. In addition, the USPTO prompted the local counsel rule that will require all foreign filers to retain U.S. based counsel for trademark applications. Target wrote a letter in support of this rule change because it will provide some recourse for legitimate actors to pursue remedies against bad actors.

While Target is supportive of the proposed local counsel rule, Target is aware of efforts already underway by bad faith applicants to undermine this proposed rule. For example, several law firms with which we work have been approached by foreign applicants requesting to use their address and other filing information for the purpose of appearing to use local counsel without actually creating an attorney-client relationship. We are also aware of at least one U.S. entity that was created to make it appear that foreign applicants are domiciled in the U.S. We encourage the USPTO to develop vigilant enforcement mechanisms, as bad actors will be creative in looking for ways to circumvent methods to protect the U.S. trademark register.

The USPTO has developed several approaches that have had limited impact. Current opposition and cancellation proceedings can be costly and take too long for a business to utilize effectively. In many cases, the timelines are simply too long and create too much uncertainly, effectively forcing businesses like Target to move away from otherwise viable trademarks. We may simply choose another trademark, rather than filing an opposition or cancellation action because the USPTO process does not take into account the timing pressures businesses face. Being forced to adopt a different mark because a first choice is blocked by a bad faith application or registration significantly adds to the cost of adopting a new trademark. The cost of delaying a brand launch for years pending the outcome of an opposition or cancellation action, however, is much greater, and, in most cases, not feasible.

Target supports some of the legislative changes under discussion, but changes in practices at the USPTO and to their current legal authority must focus on addressing the nature of the cause of fraudulent filers. The current U.S. system does not create a sufficient disincentive for bad actors. In addition, examiners and the USPTO seem challenged to detect problems, which leads to an inaccurate trademark register at best and blocks legitimate, innovative companies from securing a trademark at worst. The USPTO needs to change examination practices using people, process, and technology to mitigate the successful registration of fraudulent trademarks that we believe is occurring at a widespread rate.

Target recommends the committee consider the following concepts:

- **Modernize the USPTO toolkit for reviewing for systemically problematic applications.** The nature of an examiner is to view individual applications, not to look for systemic problems. The USPTO needs to create a specialized review team to protect the integrity of the system. There is a need to assess applications coming from a known source of bad faith or fraudulent filing, trademark classes that are the subject of rampant abuse, submission of digitally altered images or single images submitted for multiple products,

and cases where the same images are used to support multiple trademark applications for different marks. Examiners are not currently rejecting applications that seem fraudulent on their face and more rigorous examination is needed.

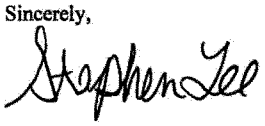
- **Add additional requirements for applicants who submit digital images.** In our evaluation many applicants apply for trademarks in several apparel, home, and other categories while only submitting one image showing purported use on one product. Additional images on more than one product supporting this broad use should be required. In addition, examiners should require proof of sales in the U.S. of the mark on the product(s) before allowing the application to move on to registration.

- **Give the USPTO the flexibility to review an application in less than six months.** Today, the USPTO must allow applicants six months to respond to an Office action, or inquiry by an examiner because of statutory limitations. Shortening the time to respond from six months to 90 days or less would keep pending applications from cluttering the system and give companies a timely opportunity to challenge pending fraudulent applications.

- **Allow a third party to object to pending applications.** Today, a company or third party can only file a letter of protest to a pending application, but the letter does not have the grounds to stop the approval of an application. Today's opposition/cancellation proceedings are too slow and too costly. Allowing third parties to submit evidence of bad faith and raise challenges to bad faith applications earlier on and on an expedited basis could become a viable means of removing an obstacle the adoption of a new brand. If applications were easier to challenge, this would be an indirect means of weakening the publicly reported incentives for filing fraudulent applications.

In closing, thank you for providing me an opportunity to comment on the proceedings. We want to reiterate our support for the Committee's efforts and want to continue working with you as you develop legislation. In particular, we appreciate the partnership with the USPTO as concepts are considered.

Sincerely,



Stephen Lee
Chief Intellectual Property Counsel
Target

Mr. JOHNSON of Georgia. We will now hear 5 minutes of questions from the gentleman from Louisiana, Mr. Johnson.

Mr. JOHNSON of Louisiana. Thank you, Mr. Chairman, and thank you, Commissioner, for being here today.

I used to be a constitutional law attorney, practice in that area and it is hard not to just remark on the brilliance of the founders' vision about all this, you know, when they gave us Congress under Article I, the ability to creative laws, to protect American intellectual property.

And it is really because of that vision that we have been the extraordinary exceptional Nation that we are in part because we take care of that creativity and ingenuity and it has become part of the American identity, so your work is really important. We appreciate it.

Of course, trademarks are a key national asset and I know you are doing what you can to protect that in this brave new world that we are in. You have been asked some great questions.

I want to followup on a couple of those things. First line of question is about the local counsel rule. You were asked about the enforcement mechanisms, but for those back home here watching, this is the proposal requires each foreign-based trademark filer to hire a U.S. attorney, the idea is, the attempt is to ensure that future applications don't contain doctored evidence, but as you know there has been some critics of this and some people say, well, this is just the PTO just looking to other people to help solve the problem.

How do you respond to that? Do you respond to the people who say, well, those resources, that time, that attention might be better used if they would just develop better tools and systems inside rather than, sort of, farming it out to other attorneys? What is the response to that?

Ms. DENISON. We are not farming it out to anybody. What we are trying to do is trying to stop these people who come in appearing to be pro se who are actually engaged in the unauthorized practice of law and we believe that by bringing in a U.S. attorney they will be able to review filings and they will ensure more likelihood of compliance with the law.

So we feel very strongly that the U.S. bar can help us. We are not dumping this on them. We are trying to ensure that the trademark system is as decluttered as possible and that people are actually complying with the laws and their ethical obligations which is not the case right now.

Mr. JOHNSON of Louisiana. So it is a bit ironic, but, you know, there is some cases already, there is some articles we researched and read about how signatures of U.S. attorneys are being forged on these things, right? So now you need a whole new mechanism to try to prevent that.

So what are you doing about that or what is the plan there?

Ms. DENISON. The law's not in effect yet, first of all. It is not going into effect until August 3rd, but we are keenly aware that the U.S. Counsel Rule is not going to solve every problem and we are aware that people could forge signatures, people who want to do bad things spend all day long thinking of new ways to be cre-

ative criminals, and so that is just—so we are certainly aware of that and we are talking.

Mr. JOHNSON of Louisiana. Apparently, there is already been some examples cited. I know it doesn't go into effect until August 3rd, but there are people preparing already to break the new rule, so here we go. Regarding the task forces you have piqued our interest on that.

Have you engaged or has the task force engaged directly with private sector stakeholders or to what extent have they done that so far.

Ms. DENISON. No, it has not yet at this point. It is internal to trademarks right now. It has members who are IT gurus and then we have trademark lawyers also working together and so we have not engaged with the private sector yet.

Mr. JOHNSON of Louisiana. I am sure you would agree that if there are—going forward, if there are more avenues for stakeholders to engage directly with your office that we can have, I guess, better recommendations to meet the IP rights—the needs of the IP rights holders, so I hope that is in the plans, you know. We would encourage that.

Ms. DENISON. We can certainly discuss that. Thank you.

Mr. JOHNSON of Louisiana. You mentioned earlier that you are developing software to help catch bad actors. Has the task forced explored using artificial intelligence or other real-time methods if you covered that already?

Ms. DENISON. Yes, that is under discussion.

Mr. JOHNSON of Louisiana. Okay. And do you have a time line for when your software that you mentioned will be finished and ready to be engaged with by the marketplace?

Ms. DENISON. No, I do not have that because so far it is not ready so it is hard for me to predict when the IT development would satisfactorily be concluded.

Mr. JOHNSON of Louisiana. You mentioned you don't have jurisdiction over many of the bad actors. I know that is a great point of frustration. Do you think there are steps that Congress, that we ought to take to strengthen enforcement? I know that is kind of the spirit, the idea of this hearing, but if you had to boil it down to a couple of bullet points, what would you say?

Ms. DENISON. Well, I would say that we enforce the laws that Congress has passed and we are continuing to brainstorm with the staff to think about what would be the best approaches. Thank you.

Mr. JOHNSON of Louisiana. Thank you. I am out of time. I yield back.

Mr. JOHNSON of Georgia. Thank you.

The gentleman yields back.

We will next hear from the other gentleman from California, Mr. Lieu, for 5 minutes.

Mr. LIEU. Thank you, Mr. Chair, for holding this hearing.

And thank you, Commissioner Denison, for being here.

I have always thought protecting intellectual property is one of the most important things that legislatures can do, because our economy, in part, relies on intellectual property. It is something that America can do well.

And when I was in the California State legislature, one of the laws I passed allowed prosecutors to use a nuisance statute to take down counterfeit goods. It made it much easier to prosecute those kinds of cases.

I am also now co-chair of the Toy Caucus in Congress. And we know that there has now been a significant rise in e-commerce. According to a recent survey, 79 percent of Americans have made a purchase online. And we also know there is an increase in counterfeiting in e-commerce.

So my first question to you is: What has your engagement been with e-commerce platforms, specifically around the fraudulent use of trademarks when it comes to toys?

Ms. DENISON. Well, as you know, President Trump issued a memorandum on combating online counterfeiting of trademarks and that there is a—I believe it is DHS that is in charge of preparing a report, but the USPTO is heavily involved in developing that report.

And that report is going to cover quite a few things. It is going to identify how online platforms are used to facilitate counterfeits, identify what those platforms are doing to minimize counterfeits, evaluate the effectiveness of the U.S. Government and foreign government actions, recommend changes to data collection, and identify changes that could reduce trafficking.

So I think that that report is going to be very helpful, and that will be out, I believe, October 30. So that is one of the things that we are doing right now on the counterfeit front.

Another thing that we are doing on the counterfeit front is we have just engaged the National Crime Prevention Council, and we are going to do a multiyear, nationwide campaign to educate consumers about what to look for. We think that it is really important for us to have an educated consumer base.

In addition, we work with foreign governments on capacity-building and technical guidance for foreign statutes.

Mr. LIEU. Thank you.

As you know, it is not just businesses that lose money from counterfeits from other countries; it is also a safety issue. A Tennessee family had their home burn down when there was a counterfeit hoverboard that they bought.

So let me ask you right now, let's say you know that a particular hoverboard is fake or it is a fake trademark, it is a counterfeit. What do you do? What is the process?

Ms. DENISON. If we find that there is a fake specimen in the file, the examiner will refuse registration and request additional information. That is what we would do, is refuse the registration.

Mr. LIEU. Let's say it has——

Ms. DENISON. We would also——

Mr. LIEU [continuing]. Already been registered——

Ms. DENISON. Okay.

Mr. LIEU [continuing]. And then you realize later it is fraudulent or fake. Then what is the process?

Ms. DENISON. The process is for a third party to file a cancellation proceeding at the Trademark Trial and Appeal Board.

Mr. LIEU. And we have been given some evidence from various businesses in America that that proceeding can take quite a long

time and it is somewhat cumbersome. So how long would it take to get that fake item removed?

Ms. DENISON. Well, as I mentioned a moment ago, there are about—I think more than 50 percent of those cases go through to default, and so that will not take very long. It would just take a few months.

If it were to go through the process—I would have to get you the statistics. I don't recall what the average is. I think it is more than a year, but, honestly, I don't recall that figure.

Mr. LIEU. Now, let's say someone registers a trademark and doesn't use it for, let's say, 2 years. Does anything happen? Are they allowed to keep it there forever?

Ms. DENISON. For—did you say 2 years?

Mr. LIEU. Two years.

Ms. DENISON. Three years is the golden standard. So, after 3 years, someone could seek to cancel it and remove it from the register.

Mr. LIEU. I see. But if no one moves to cancel it, it just sort of sits there.

Ms. DENISON. That is correct. And then they are required to file a document between the fifth and sixth year after registration. And if they fail to file that or if their filing is rejected, then it would be removed from the register.

Mr. LIEU. Thank you.

And then my last question to you is: Are there any changes in the law that you think would make your life easier and make it easier to deal with counterfeits?

Ms. DENISON. Well, again, we are brainstorming with your staff and would be happy to work with you on any technical assistance that we could provide.

Mr. LIEU. Okay. Thank you.

I yield back.

Mr. JOHNSON of Georgia. Thank you.

We will now hear from the gentleman from Virginia, Mr. Cline, for 5 minutes of questions.

Mr. CLINE. Thank you, Mr. Chairman.

Thank you, Ms. Denison, for being here.

I want to pick up on something that was just alluded to by Mr. Lieu, the report between the fifth- and sixth-year filing, and how effective that is, in light of the recent audits that you all have made permanent.

And I think that that can be an effective tool, but the audits are—as the audits are making clear, what you have are situations where people are complying in the fifth and sixth year, producing specimens, and then you have, for whatever reason, a very high percentage of the inability to verify use for at least some of the goods or services in the registration, upwards of 50 percent.

Can you lead me through a timeline? Because I am relatively new. You began the 2-year pilot program in 2012. Is that correct?

Ms. DENISON. Correct.

Mr. CLINE. Okay. So, in 2014, what happened to the program? Because I am reading that it wasn't made permanent until 2017. What happened between 2014 and 2017?

Ms. DENISON. So we started the program with 500 post-registration documents that we pulled, 500 different files, randomly chosen. And those files all had to go through the process. So I am not sure if it was 2014 or 2015 that they all went through the process. After that, we had to analyze the data. We also had to meet with stakeholders.

And after we did all that, we decided to propose a rulemaking, so then we had to go through the rulemaking process. So, as you know, the government can't always move as quickly as we might like. So that is what happened in terms of making it permanent.

So we started November 1 of 2017 with the permanent program. And we started off with, I believe, 10 staff working on it, and we have recently increased that to 19 so that we can audit more registrations.* So we believe that, going forward, we will have approximately 5,000 of the post-registration filings pulled each year. And so we hope that that will be a deterrent.

We are also considering whether to charge people what we will call a zero fee if they delete prior to an audit or prior to the Trademark Trial and Appeal Board, you know, saying they aren't using something and then charging them a fee for each item they have to delete if they are caught.

Mr. CLINE. Uh-huh. So November 1 of 2017, 10 staff started. Did 2018 see 5,000 pulled?

Ms. DENISON. No. We have probably pulled—I don't have an exact number for you. I believe it is in the range of 6,500 to date. But, as I said, moving forward, it will be approximately 5,000 per year. Because we have just recently double the staff, a couple months ago.

Mr. CLINE. That is great.

The note I have says the results of the permanent audit programs have continued with approximately the same results. Do you have results from 2018? Are you seeing just——

Ms. DENISON. We are still—over 50 percent of the people are deleting goods. So we do not know whether that is from ignorance. Some people, you know—maybe it is sloppiness. Maybe they are trying to cheat. It is really not clear. Some people have come to us and said, "Well, my client is really selling this, but they can't be bothered to go and find all the specimens. It is too much work."

You know, I don't know what the answer is, but it is a problem.

Mr. CLINE. Sounds like the fee or the fine or whatever you are considering might be the appropriate response there.

So thank you. That sounds like a good program. And I am glad to hear you are increasing staff and increasing efforts in that area.

Mr. Chairman, I yield back.

Mr. JOHNSON of Georgia. Thank you.

This concludes the first panel of today's hearing. I want to thank Commissioner Denison for participating in this hearing.

We will now take a short recess to set up our second panel of witnesses. The subcommittee will stand in recess for 5 minutes.

[Recess.]

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*While the number of staff varies, these are part time work assignment that currently result in approximately 125 staff hours per week dedicated to post-registration audits.

Mr. JOHNSON of Georgia. The Subcommittee will reconvene to hear testimony of our second panel.

To follow up on the comments from the Ranking Member, Mr. Collins, I would like to submit the fact that we received from eBay and Walmart statements that I would like to enter into the record, without objection. And we appreciate their engagement with the subcommittee. And, without objection, those comments will be submitted for the record.

[The information follows:]

MR. JOHNSON (GA) FOR THE RECORD



July 17, 2019

Chairman Hank Johnson
Subcommittee on Courts, Intellectual Property, and the Internet
House Committee on the Judiciary
2240 Rayburn House Office Building
Washington, DC 20515

Ranking Member Martha Roby
Subcommittee on Courts, Intellectual Property, and the Internet
House Committee on the Judiciary
504 Cannon House Office Building
Washington, DC 20515

Dear Chairman Hank Johnson and Ranking Member Martha Roby,

Thank you for holding this important hearing addressing the critical fight against counterfeits. On behalf of eBay Inc., I submit the following for the record.

eBay is a global commerce platform that utilizes technologies and services to enable sellers, including hundreds of thousands of American entrepreneurs and small businesses, to sell their inventory, and buyers to find and purchase it, virtually anytime and anywhere. We empower 180 million buyers globally on our marketplaces with users in more than 190 markets. eBay's core purpose, since its founding in 1995, is to connect buyers and sellers through our marketplace. eBay's commitment to consumer safety and rights owner protection is longstanding and a central value to our company.

As threats against consumers and rights owners continue to evolve, eBay continuously seeks ways to improve our efforts to fight against counterfeiters and bad actors. We invest millions of dollars annually to fight unlawful listings, including counterfeit goods, that appear on the platform. While the vast majority of our listings come from honest, law-abiding sellers, counterfeits are simply not welcome on eBay. In addition to the employees at eBay who work on anti-infringement issues, including anti-counterfeiting, we deploy sophisticated technologies and invest heavily in our partnerships with rights owners and governments across the globe in order to help protect consumers and support rights owners against bad actors.

Notice and Take-Down – Verified Rights Owner (VeRO) Program

Central to eBay's anti-counterfeiting efforts is our partnership with over 40,000 registered rights owners through our Verified Rights Owner ("VeRO") program. Participation in the VeRO program, which was launched in 1998, enables rights owners to report potentially unlawful listings to eBay, including copyright and trademark infringement and counterfeit goods claims. eBay promptly removes a listing once it is reported and notifies the seller and any bidders on the auction, and the reported listings are usually removed in less than 24 hours.



In order to support rights owners who are monitoring our site and notifying us of potential infringement, we have invested in several tools, including the VeRO Reporting Tool (VRT), the Bulk Reporting Tool (BRT) and VeRO API. These tools have simplified the rights owners' enforcement efforts on eBay. For example, while a Notice of Claimed Infringement (NOCI) must be submitted each time a rights owner wants to report items, by downloading eBay's VRT a "Report Listing" button will appear for that rights owner on every eBay listing. In order to report the listing to eBay, a rights owner need only click the button, select the appropriate code associated with the claimed infringement and send the report. The report is automatically sent to eBay's VeRO team and directed into the right working queue – which facilitates the prompt processing and removal of reported listings.

eBay also recognizes that it may be useful for rights owners to obtain personal information regarding a seller of counterfeit goods (e.g., in order to institute legal proceedings, inform law enforcement agencies, etc.). eBay supports these enforcement efforts by providing rights owners with the ability to obtain certain user information through our Personal Information Agreement ("PIA"), where allowed by law. eBay users agree to disclose this information (e.g., name, address, telephone number and email address) through the eBay User Agreement and Privacy Policy that each user accepts before using eBay's services. In instances where rights owners require transactional information regarding seller accounts, eBay complies with legal processes.

eBay Community Reporting

eBay recognizes that our community of users is a valuable resource in the fight against counterfeit goods. Each listing page on eBay contains a "Report item" button that every registered eBay user can use to report a potentially counterfeit or otherwise objectionable item. Community access to this reporting form has been in place for years.

In addition to referrals we receive via the "Report item" button, we have identified several hundred members of the eBay Community who have demonstrated an ability to report counterfeit or potentially infringing listings with a high degree of accuracy and who have been granted enhanced reporting capabilities to assist us in identifying and removing problematic listings. These members of the eBay Community help to identify an additional set of listings for removal each month.

Proactive Efforts

In addition to the removal of listings reported by rights owners and the eBay community, eBay works to proactively remove potentially problematic listings.

Listings are flagged proactively, and are either blocked, removed or flagged for review by internal personnel. These are items flagged by our complex rules and models that automatically search for and flag listings that may be counterfeit or infringing in some manner. eBay continues to develop new technology focused on the proactive detection of infringement, including image recognition technology.



In addition to focusing on issues with individual listings, we have multiple teams and tools in place focused on proactively identifying and addressing any generally suspicious or potentially harmful seller behavior. This includes everything from the use of proprietary technology to monitor and flag potentially suspicious seller behavior, to checks on the veracity of information provided by users, such as street address, email address and telephone number. These measures, along with many others, help us flag potentially problematic sellers, including sellers of counterfeit goods, and remove them or prevent them from obtaining an eBay account in the first place.

eBay Personnel

eBay has teams around the world who work on maintaining the trust and safety of our trading platforms. We have no inventory and do not handle the goods listed for sale on our sites, so in order to provide a safer buying and selling experience for our customers, we have human resources and technical tools and mechanisms in place to ensure eBay users follow our rules and only legitimate, legal products are sold through our services.

Some of these teams are dedicated specifically to combating the sale of counterfeit or infringing goods on our sites, while others focus on combating a range of harmful and potentially illegal practices that in some cases involve the sale of illegitimate goods. We currently have employees around the globe who are dedicated to combating the sale of counterfeit and infringing goods on our sites worldwide. Some of these employees are focused on infringement-related policy issues, while others are dedicated solely to investigating the potential sale of counterfeit goods on eBay and taking action against implicated sellers or administering the VeRO program and other anti-counterfeiting efforts. Other teams are dedicated to the development and maintenance of our proactive efforts to combat the sale of infringing goods.

Policies

Our approach to protecting the eBay community and preventing the sale of unlawful products, including counterfeit goods, is not limited to policing our sites for potentially harmful listings, removing bad sellers, and supporting law enforcement investigations and prosecutions. We also commit resources to prevention and education, and thus provide a range of information to our users to educate them about items that are prohibited or restricted on eBay, including intellectual property laws and the requirement that they respect intellectual property rights on eBay.

Prior to any use of our services, each user must read and accept the terms and conditions in eBay's User Agreement as well as eBay's Privacy Policy. The User Agreement explicitly requires that users refrain from violating any laws, including third party rights, and/or eBay policies. Additional policies that are integrated in the extended sections are additional terms that constitute an integral part of the User Agreement and are likewise binding on eBay users. By integrating laws and third parties' rights in the User Agreement in this way, eBay preserves the discretion to impose contractual sanctions (e.g. cancel listings, suspend accounts, etc.) in cases where eBay determines users may have violated those laws and third parties' rights. Among other topics, the policies contain a special section dedicated to intellectual property rights which explains the concept of infringement and provides details about pertinent intellectual property



rights. In addition to acting as an educational resource for users, our policies are designed to help eBay identify and remove, on a purely policy basis, potentially infringing listings. Since eBay users have been informed that such listings are not allowed under eBay policy, we can remove items that violate these policies without determining whether such items are, in fact, infringing.

eBay's policies also empower us to address risky or problematic sellers in an appropriate manner. For instance, we apply a range of consequences to questionable seller accounts that vary depending on a number of different factors and include a range of actions from warnings to restrictions, and up to and including suspension from our site. These policies exist to deter repeat issues from the same seller. In another example, counterfeit exports from China have been a longstanding, critical concern for intellectual property rights owners and law enforcement alike. eBay has a number of seller policies in China designed to curtail and prevent the sale of counterfeit goods by Chinese sellers, including robust seller vetting and onboarding processes, the imposition of selling limits on new accounts until a threshold level of trust has been achieved, and the use of reputable third-party shipping partners to screen for problematic goods during the export process.

User Education

eBay has created help pages and instructional resources to ensure our users comply with applicable policies. For example, eBay has created interactive tutorials designed to educate users and help them to better understand the subject matter so that they can ensure their listings comply with applicable laws and eBay policies. As a general rule, these tutorials are voluntary, but they may be used as a compulsory educational instrument in appropriate cases.

eBay also encourages law enforcement agencies, rights owners, rights owner associations, and consumer protection organizations to directly educate users by creating their own home page on eBay, which is called a VeRO participant profile page. These pages are made available in order to provide stakeholders with an opportunity to advise users regarding frequently asked questions involving their intellectual property and to inform users about products and/or the company's position on relevant legal issues. When eBay removes listings at the request of law enforcement or rights owners, it is our practice to inform sellers of the complaint and removal of the listing, and to provide users with a direct link to relevant VeRO participant profile page in cases where the rights owner has created one.

eBay's Feedback System

The eBay feedback system is designed to help buyers evaluate potential transactions based on the experiences other buyers have had with a given seller. The feedback system and other icons allow buyers to further inform themselves about potential trading partners and consider comments from previous buyers about their satisfaction with a particular seller. The eBay feedback system is a cornerstone of a trusted eBay buying experience, and we continually work to improve upon the effectiveness and reliability of this functionality.

eBay's Money Back Guarantee Program



When buyers claim their item was not received or the item they received is different from what was described in a listing and the parties are unable to resolve the dispute themselves, eBay will step in and manage the dispute resolution process through its eBay Money Back Guarantee program. This is the primary avenue for settling disputed eBay transactions and is designed to help buyers and sellers resolve disputes in fewer steps and provide buyers with the assurance that they will get the item they ordered or their money back, on virtually all items.

eBay Authenticate

eBay Authenticate is a service whereby independent experts verify, list and sell certain brands of luxury handbags, watches, jewelry and sneakers. This service helps to enhance customer confidence in selling and buying designer merchandise on eBay.

Approach to Prohibited Items in the Infringement Context

eBay not only strongly enforces its policy against counterfeit goods, but also considers potential health and safety concerns when deciding whether to prohibit or restrict an entire category of products. There are several examples of products where eBay has taken such action. For instance, new airbags may only be listed on eBay by vetted, pre-approved sellers that have provided evidence they received the new airbag from the original equipment manufacturer. In addition, all pill presses and their constituent parts, such as dies and molds, are prohibited on eBay due to regulations on the import of these products and their potential use in making counterfeit drugs. Finally, the sale of new batteries for iPhones is prohibited, as these products are not sold directly to consumers and counterfeit versions have been shown to present safety concerns. Implementing such expansive measures requires ongoing input, collaboration and support from rights owners, industry associations and law enforcement.

Collaboration with Rights Owners

For over a decade, eBay has recognized the importance of maintaining strong, collaborative relationships with third-party brands and trade associations to help enhance eBay's efforts to combat counterfeits in its marketplace. eBay has a dedicated team whose primary purpose is to establish strong relationships with brand owners and trade associations not only to help educate external stakeholders about eBay's efforts to combat counterfeits, but to also actively collaborate in creating a safe online environment for consumers. This is accomplished through having an open dialogue about new and ongoing issues and sharing information that is critical for identifying bad products and actors, including information about "trending" infringing products or sellers; the efficacy of eBay's current enforcement measures; and shared best practices for anti-counterfeiting processes. eBay does not restrict its interactions to specific industries or categories of brands and has instead always been open to cooperation with a full spectrum of stakeholders, including those from the automotive, electronics, and fashion (clothing, shoes and accessories) industries.

This collaboration has taken many forms. For example, for the past seven years, eBay has successfully worked with a luxury clothing brand on a number of counterfeit-related concerns through the exchange of specific product information and trends, up to and including hosting the



brand on-site to facilitate a number of trainings to educate eBay's employees about counterfeit issues. This form and level of collaboration between eBay and a diverse array of rights owners is common. eBay also has partnered with a number of industry associations that represent discrete rights owners to strategize on ways to resolve industry-wide counterfeit issues, conduct visits to our site to learn more about our efforts to keep consumers safe, and bi-laterally exchange information to continually evolve and adapt to the online practices of professional counterfeiters. We believe collaboration between rights owners and eBay has been key to enhancing our efforts to combat the sale of counterfeit goods on our sites.

Collaboration with Law Enforcement

eBay not only has teams focused specifically on anti-infringement and anti-counterfeiting efforts, we also have investigations teams in place globally to provide support to law enforcement agencies in investigations and prosecution of cases impacting eBay's services, including the sale of counterfeit goods. Our teams not only support law enforcement reactively by providing relevant records upon request, but also conduct their own investigations into misuse of our platform and proactively refer counterfeit goods cases to law enforcement for potential investigation and prosecution – in particular, where the counterfeit items pose a health or safety risk to eBay's users. eBay is an especially active partner with the US Dept. of Homeland Security's Intellectual Property Rights ("IPR") Center and has referred a variety of cases to them over the past few years, in addition to referrals to other partners such as the FBI, U.S. Postal Inspection Service, and IPR Office in the UK. eBay has invested more time and resources to the investigation of suspected counterfeit sales on the platform, which, over the past three years, has resulted in a six-fold increase in the number of cases referred to law enforcement agencies and has involved sellers in the US, UK, Germany, Australia, China, and Hong Kong. In addition, eBay also has helped spearhead and support the IPR Center's 'E-Commerce Working Group', which is exploring ways to share data on bad actors among participants. Finally, the investigations teams often work closely with rights owners who are the true subject matter experts on their products and can help eBay build a strong case for referral to law enforcement. We will continue to work both proactively and reactively with law enforcement on cases involving the sale of counterfeit goods.

eBay Inc. is deeply committed to our users' protection. We look forward to continuing to work with you as you further examine ways to ensure consumers safety and the protection of rights owners. If I can be of further assistance, please do not hesitate to contact me.

Sincerely,

Michael Dabbs
Senior Director, Americas Government Relations
eBay Inc.



701 8th Street, NW
Suite 200
Washington, DC 20001
Phone: 202.434.0999
Fax: 202.737.6069
www.walmart.com

July 17, 2019

The Honorable Jerrold Nadler
Chairman
Committee on the Judiciary
U.S. House of Representatives
2138 Rayburn House Office Building
Washington, DC 20515

The Honorable Doug Collins
Ranking Member
Committee on the Judiciary
U.S. House of Representatives
2142 Rayburn House Office Building
Washington, DC 20515

The Honorable Hank Johnson
Chairman
Subcommittee on
Courts, Intellectual Property, and the Internet
Committee on the Judiciary
U.S. House of Representatives
2138 Rayburn House Office Building
Washington, DC 20515

The Honorable Martha Roby
Ranking Member
Subcommittee on
Courts, Intellectual Property, and the Internet
Committee on the Judiciary
U.S. House of Representatives
2142 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Nadler, Ranking Member Collins, Representative Johnson, and Representative Roby:

I want to thank you for your continued interests in combatting counterfeits on marketplaces and, in particular, for holding tomorrow's hearing entitled, "Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses." We appreciate the Committee's interest in addressing this critical issue. As the Committee prepares for this hearing, I want to provide a brief overview of Walmart.com's Marketplace and its best practices for combatting counterfeit sales.

Walmart Inc. helps people around the world save money and live better - anytime and anywhere - in retail stores, online, and through their mobile devices. While others have built more globally open marketplaces, Walmart U.S. eCommerce has thoughtfully designed its Marketplace with a goal of maintaining our customers' trust in the authenticity of the products offered.

Walmart.com's Marketplace in the United States ("Walmart Marketplace") is a closed marketplace where prospective sellers must satisfy a number of criteria to be approved to sell items on Walmart.com, including: having an existing online presence; being a business entity (not an individual); and having the ability to meet customer demand and provide customer support. As a result of these criteria, Walmart Marketplace tends to have relatively larger, more established sellers than some of its competitors.

Walmart

During seller application and before sellers can list items on the platform, Walmart Marketplace takes reasonable steps to collect and verify seller contact information. Walmart Marketplace also verifies additional data points for categories with a higher risk of counterfeits.

Walmart Marketplace has a limited number of international sellers which are subject to additional vetting, and we currently require all international sellers to have business operations in the United States.

To address concerns related to counterfeit and pirated goods, Walmart Marketplace recommends the below platform best practices.

1. **Seller Application Vetting**: Walmart Marketplace recommends verification of the following data points submitted in seller applications deemed high risk.
    i. Seller Name(s)
    ii. Business Name(s)
    iii. Business Contact(s) Name(s)
    iv. Physical Address(es)
    v. Email Address(es)
    vi. Website(s)
    vii. EIN Tax ID(s)

    Walmart Marketplace currently vets seller applications.

2. **Category Vetting**: Walmart Marketplace recommends preventing sellers from selling goods in high-risk categories until the platform has verified the appropriate vetting for these sellers. Walmart Marketplace currently conducts category vetting.

3. **International Seller Vetting**: Walmart Marketplace recommends requiring sellers to disclose any international business ownership and/or to disclose any fulfillment outside of the United States to sell on the platform in the United States. Walmart Marketplace currently conducts international seller vetting.

4. **Customer Counterfeit Reporting**: Walmart Marketplace recommends offering robust means for consumers and rights holders to identify and report to platforms instances of counterfeit goods both before and after purchase. Walmart Marketplace currently offers customer counterfeit reporting.

5. **Counterfeit Claims**: Walmart Marketplace recommends removing offers upon receipt of counterfeit reports by rights holders, provided counterfeit reports are submitted with appropriate detail and care. Removed offers may be reinstated in cases where sellers provide evidence of item authenticity. Walmart Marketplace currently moves offers upon receipt of counterfeit reports.

6. **Counterfeit Report Review**: Walmart Marketplace recommends reviewing all counterfeit reports as soon as is practical following submission by consumers and rights holders and to

Walmart

promptly take appropriate action. Walmart Marketplace currently reports all counterfeits as soon as is practical.

7. **Customer Refund & Notification**: Walmart Marketplace recommends assisting consumers who unintentionally purchase counterfeit goods on the platform.

    a. **Confirmed Counterfeits:** Walmart Marketplace recommends notifying affected customers; refunding all known confirmed counterfeit orders in cases where rights holders have provided overwhelming and compelling evidence that an offer is counterfeit, including providing evidence of test purchases, investigation findings, and order numbers for such test purchases; and instructing customers not to return the item to sellers.

    b. **Other Refunds**: Walmart Marketplace recommends refunding customers who may have purchased suspect counterfeit items upon customer request.

8. **Marketplace Data Sharing**: Walmart Marketplace recommends that the industry develop a centralized database of terminated sellers to enable marketplaces to identify and address appropriately sellers suspected to be engaged in the trade of counterfeit products. Participating marketplaces would adhere to key principles with regards to usage, cost sharing, access, data contribution, and database management.

9. **Annual Platform Counterfeit Report**: Walmart Marketplace recommends that marketplaces release key counterfeit performance indicators (KPIs) as identified by key government and industry stakeholders in an annual report, publicly reported within six months of the next calendar year.

Thank you for the opportunity to provide information about Walmart Marketplace and its current and suggested best practices for combatting counterfeits. If you have further questions or need additional information, please contact Sara Decker (Sara.Decker@walmart.com) with Walmart Federal Government Affairs.

Sincerely,

Bruce C. Harris
Vice President, Federal Government Affairs
Walmart Inc.

CC: Members, U.S. House of Representatives, Committee on the Judiciary

Mr. JOHNSON of Georgia. I will now introduce our second panel of witnesses.

Professor Jeanne Fromer is a professor of law at New York University School of Law, where she specializes in intellectual property, including copyright, patent, trademark, trade secret, and design protection laws, and is a faculty co-director of the Engelberg Center on Innovation Law and Policy.

She has written extensively in all fields of intellectual property law. Some of her recent and forthcoming scholarship studies trademark registrations empirically to examine whether we are running out of effective trademarks.

Before joining NYU, Professor Fromer served as a law clerk for Justice David H. Souter of the U.S. Supreme Court and for Judge Robert D. Sack of the U.S. Court of Appeals for the Second Circuit. She also worked at Hale and Dorr, now WilmerHale, in the area of intellectual property law.

Thank you for being here.

Professor Fromer has degrees from Harvard Law School, Barnard College, and the Massachusetts Institute of Technology.

Mr. Peter Brody is a partner at the law firm Ropes & Gray, LLP. He is an expert on intellectual property law and has been successfully litigating IP cases for more than 30 years.

As a Member and Former Chair of Ropes & Gray's intellectual property litigation group, Mr. Brody has wide-ranging experience with all types of IP cases—patent, copyright, trade secret, trademark, and false advertising.

Mr. Brody writes extensively, including on intellectual property, and is an editorial advisor to Bloomberg BNA. Mr. Brody also serves as chair of the Legislation and Regulation Committee of the International Trademark Association.

Mr. Brody holds degrees from Princeton University and Harvard Law School.

Thank you for being here, sir.

Joseph Cammiso is the president of the Automotive Anti-Counterfeiting Council, the A2C2, and brand protection manager at Toyota Motor North America, headquartered in Plano, Texas.

In 2015, Mr. Cammiso was instrumental in the formation of A2C2 and is a champion of the council's mission to promote cooperation among automakers to eliminate the sale of counterfeit parts that can be dangerous to U.S. consumers and threaten public health and safety.

In his current roles, Mr. Cammiso has worked with Homeland Security investigations, U.S. Customs and Border Protection, and other law enforcement agencies to help stop the flow of counterfeit parts into the U.S. He has engaged online market places to increase awareness of the risks of counterfeits, promote consumer safety, and enhance efforts to keep counterfeit parts, especially counterfeit airbag parts, off marketplaces entirely.

Mr. Cammiso earned his master's degree in business administration and management from California State University, Long Beach, and has nearly 25 years of automotive operations and supply-chain experience.

Welcome, sir.

Mr. Robert Barchiesi is president of the International AntiCounterfeiting Coalition, IACC, where he joined the leadership team in 2008.

Mr. Barchiesi works with numerous organizations, both foreign and domestic, to stem the tide of counterfeit products that can harm consumers. He serves on the board of Europol's IP Crime Coordinated Coalition and on the editorial panel for the World Intellectual Property Organization.

Before joining IACC, Mr. Barchiesi was in law enforcement, working in various capacities throughout the country. Mr. Barchiesi holds degrees from John Jay College of Criminal Justice and the University of Alabama.

Thank you for being here, sir.

And last but not least is Rebecca Mond, who is vice president of Federal Government affairs at The Toy Association, a not-for-profit trade association that represents businesses that design, produce, license, and deliver toys for children in the United States.

In her capacity at The Toy Association, Ms. Mond has led on issues relating to counterfeit and unsafe toys entering the U.S. market. Ms. Mond has engaged with the Federal Government in numerous ways to ensure that toys are safe for children by reducing the sale of counterfeit and knockoff toys.

Ms. Mond received a bachelor's degree in government from Georgetown University and a certificate in advanced product safety management from Saint Louis University.

Thank you for being here, Ms. Mond.

We welcome all of our distinguished witnesses and thank them for participating in today's hearing.

Before proceeding with testimony, you are hereby reminded that all of your testimony and written and oral statements made to the subcommittee in connection with this hearing are subject to penalties of perjury pursuant to 18 U.S.C. Section 1001, which may result, upon conviction, in the imposition of a fine or imprisonment of up to 5 years or both.

Please note that each of your written statements will be entered into the record in its entirety. Accordingly, I ask that you summarize your testimony in 5 minutes. To help you stay within that time, there is a timing light on your table. When the light switches from green to yellow, you have 1 minute to conclude your testimony. When the light turns red, it signals your 5 minutes have expired.

Professor Fromer, you may begin.

STATEMENTS OF JEANNE FROMER, PROFESSOR OF LAW, NEW YORK UNIVERSITY SCHOOL OF LAW; PETER M. BRODY, PARTNER, ROPES & GRAY, LLP; JOSEPH CAMMISO, PRESIDENT, AUTOMOTIVE ANTI-COUNTERFEITING COUNCIL, INC.; ROBERT BARCHIESI, PRESIDENT, INTERNATIONAL ANTICOUNTERFEITING COALITION; AND REBECCA MOND, VICE PRESIDENT, FEDERAL GOVERNMENT AFFAIRS, THE TOY ASSOCIATION

STATEMENT OF JEANNE FROMER

Ms. FROMER. Chairman Johnson, Ranking Member Roby, and members of the subcommittee, thank you for inviting me to be a witness today. I am Jeanne Fromer, professor of law at New York University School of Law, where I teach and publish on intellectual property.

My remarks on trademark depletion and clutter draw on research with Professor Barton Beebe, also of NYU School of Law. Along with our written testimony, I have submitted our recent Harvard Law Review article, "Are We Running Out of Trademarks? An Empirical Study of Trademark Depletion and Congestion."

"Trademark depletion" is the term we use in our article to describe the decreasing supply of unclaimed competitively effective trademarks available to new market entrants.

Although trademark law has operated on the assumption that there exists an inexhaustible supply of unclaimed trademarks, the empirical results we report confirm the opposite. It is becoming increasingly difficult for new businesses to find a trademark that is competitively effective but that has not yet been claimed by another business.

To give you a sense, now, nearly three-quarters of the time we speak, we are using a word that someone has already claimed as a trademark. Also, a majority of Americans carry a surname that is already claimed as a mark, meaning that they might have been born too late to claim their own name as a mark.

Even using a conservative similarity-matching protocol, nearly all the words we use on a daily basis and the surnames of a high proportion of American people are already registered or are confusingly similar to an already-registered mark.

Meanwhile, new applicants are increasingly shifting toward coined words and longer, more complex, and, thus, less effective marks.

Yet even these efforts are increasingly failing. PTO refusal rates for confusing similarity to an already-registered mark continue to rise. This problem is particularly acute for small businesses, which typically lack the sophistication and resources to find unclaimed competitively effective marks and prosecute those marks to registration.

Trademark depletion undermines trademark law's goal of promoting fair competition by raising entry barriers for new businesses with regard to finding and claiming unclaimed competitively effective marks.

Trademark depletion has been exacerbated in recent years by an inflow of applications originating from China. Media reports sug-

gest that a significant number of these applications contain fraudulent statements of use and, therefore, fail to meet trademark law's use-in-commerce requirements.

In fact, commercially available reverse-image-search technology reveals that some of these specimens of use being filed are clearly fraudulent yet are not detected as such by the PTO.

When these applications are allowed to proceed to registration, they contribute to clutter on the register. "Clutter" is the term trademark law uses to describe marks that are registered but are not actually used in commerce.

It is important to declutter the trademark register, both to abate rates of trademark depletion and to maintain the register's integrity. Doing so ensures that barriers to entry are not heightened in a way that protects incumbent businesses at the expense of new entrants and protects large businesses at the expense of smaller ones.

To address the problems of trademark depletion and clutter, we support a mix of reforms to trademark law, including less costly processes than current possibilities for reexamination, cancellation, or opposition, which typically cost in the six figures; to clear the register of marks that are not being used in commerce; increase fees charged to non-small-businesses to register, maintain, and renew their marks; and the institution of a lower standard for fraud on the PTO rather than the current heightened standard.

Thank you, and I look forward to your questions.

[The statement of Ms. Fromer follows:]

COVER PAGE

Name:	Jeanne Fromer
Position:	Professor of Law, New York University School of Law; Faculty Co-Director, Engelberg Center on Innovation Law & Policy
Date:	July 16, 2019
Title of the Hearing:	Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses (July 18, 2019)

Statement of Professors Barton Beebe and Jeanne Fromer,
New York University School of Law

Before the
U.S. House of Representatives, Committee on the Judiciary
Subcommittee on Courts, Intellectual Property, and the Internet

on
"Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses"

July 18, 2019

Chairman Johnson, Ranking Member Roby, and Members of the Subcommittee, thank you for inviting this testimony on trademark depletion and clutter.

We are law professors at New York University School of Law, where we each teach intellectual property courses, including those covering trademark law. We both publish extensively in the area. Our remarks draw on our recent and ongoing research on trademark depletion and congestion in the United States. Along with this testimony, we submit our recent *Harvard Law Review* article, *Are We Running Out of Trademarks? An Empirical Study of Trademark Depletion and Congestion*.[1] This article reports the results of our statistical study of all 6.7 million trademark applications filed at the U.S. Patent and Trademark Office ("PTO") from 1982 through 2016.

"Trademark depletion" is the term we use in our article to describe the decreasing supply of unclaimed, competitively effective trademarks available to new market entrants. The empirical results we report in the article confirm what a variety of anecdotal evidence from the marketing world has suggested:[2] that it is becoming increasingly difficult for new commercial entities, and particularly small businesses, to find a trademark that is competitively effective (in that the mark is reasonably marketable) but that has not yet been claimed by another commercial entity. The problem of trademark depletion has been exacerbated in recent years by an inflow of applications originating from China. Media reports suggest that a significant number of these applications contain fraudulent statements of use.[3] When these applications are allowed to proceed to registration, they contribute to a problem closely related to the problem of trademark depletion, which is the problem of "clutter"

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[1] Barton Beebe & Jeanne C. Fromer, *Are We Running Out of Trademarks? An Empirical Study of Trademark Depletion and Congestion*, 131 HARV. L. REV. 945 (2018).

[2] *See, e.g.*, Justin Fox, *We're Going to Run Out of Company Names*, BLOOMBERG VIEW (Jan. 13, 2017, 1:00 PM), https://www.bloomberg.com/view/articles/2017-01-13/we-re-going-to-run-out-of-companynames; Neal Gabler, *The Weird Science of Naming New Products*, N.Y. TIMES, Jan. 15, 2015, https://nyti.ms/2jD7Hh7 ("Almost every naturally occurring word has been claimed, which is why namers so often arrive at portmanteaus (Accenture derives from 'accent' and 'future') or drop vowels (Flickr and Tumblr) or change letters (Lyft).").

[3] *See, e.g.*, Jacob Gershman, *Flood of Trademark Applications from China Alarms U.S. Officials*, WALL ST. J., May 5, 2018, https://www.wsj.com/articles/flood-of-trademark-applications-fromchinaalarms-u-s-officials-1525521600; Nikkei Staff Writers, *Chinese Trademark Filings Flood Foreign Markets*, NIKKEI ASIAN REV., June 14, 2018, https://asia.nikkei.com/Business/Business-trends/Chinese-trademark-filings-flood-foreign-markets.

on the Principal Register, the primary register of trademarks maintained by the PTO. "Clutter" is the term that trademark law uses (both in the United States and abroad) to describe marks that are registered but that are not actually used in commerce.[4] To address the problems of trademark depletion and clutter on the Principal Register, we support a mix of reforms to trademark law that will help to preserve the proper functioning of the trademark system and further its core purposes of promoting competition and enhancing consumer welfare.

In Part I of what follows, we provide a brief overview of certain relevant points of American trademark law. In Part II, we set out the main empirical findings of our article to show the extent of the problem of trademark depletion. In Part III, we focus on the recent influx of Chinese applications and on certain characteristics of trademark registration applications by small businesses. In Part IV, we discuss the costs of trademark depletion and clutter on the Principal Register. Part V discusses reforms that should help to improve the efficiency, integrity, and fairness of the trademark registration system.

I. Overview of Trademark Law

Trademark law protects designations of commercial source, which almost always appear in the form of words as brand names, but may also manifest in other indicia of source including symbols, images, and sometimes a product's packaging or design.[5] For example, the word APPLE is a registered trademark of Apple Computer, Inc.,[6] as is the bitten apple symbol that the company uses.[7] The canary yellow color of Post-it Notes is a registered trademark of 3M Company Corporation.[8]

A. The Purpose of Trademark Protection

A properly functioning trademark system is crucial to a fair and efficient marketplace.[9] The theory underlying trademark law is that producers will invest in product quality only if they can benefit from the reputation-related rewards of that investment.[10] Trademarks enable producers to

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[4] *See, e.g.*, GEORG VON GRAEVENITZ ET AL., TRADE MARK CLUTTERING: AN EXPLORATORY REPORT 5 (2012), https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/312092/ipresearch-tmcluttering.pdf.

[5] 15 U.S.C. § 1127 (defining trademarks to include "any word[s], name[s], symbol[s], or device[s], or any combination thereof"); Wal-Mart Stores, Inc. v. Samara Bros., 529 U.S. 205, 216 (2000) (holding that nonutilitarian product design or packaging might constitute a protectable trademark). *See generally* Deven R. Desai, *From Trademarks to Brands*, 64 FLA. L. REV. 981 (2012) (discussing protecting brands as a unifying principle for the modern Lanham Act).

[6] *See, e.g.*, U.S. Registration No. 1,078,312.

[7] *See, e.g.*, U.S. Registration No. 4,885,796.

[8] U.S. Registration No. 2,390,667.

[9] *See* Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 NOTRE DAME L. REV. 1839, 1844–46 (2007) (describing this conventional view of trademark law).

[10] *See* Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813, 818 (1927) ("The true functions of the trademark are ... to identify a product as satisfactory and thereby to stimulate further purchases by the consuming public.").

build goodwill, and trademark protection prevents others from trading on that goodwill.[11] Trademarks also allow consumers to quickly and assuredly find the products they seek.[12] A trademark serves as shorthand for the complex of qualities of which a product consists, qualities that are often difficult to discern before purchase or use[13]—and sometimes even after use, as with some pharmaceuticals.[14] Trademarks reduce consumer search costs—consumers' costs of finding product characteristics of interest—because consumers can search for the easily perceivable trademark rather than a product's often more elusive characteristics.[15] Trademark law, then, benefits both consumers and businesses. The primary way it does so is by preventing any firm from using a trademark that is so similar to another firm's mark that consumers will be confused as to the true source of one or both of the firms' goods.

B. Qualifying for Trademark Registration

To qualify for registration at the PTO, a trademark must meet three basic requirements. First, it must be "distinctive" of the source of the goods or services with which it is used.[16] A mark is considered to be distinctive if consumers perceive it as a designation of source. The law considers a mark to be distinctive if it inherently has a relatively weak semantic connection with the relevant goods or services (such as AMAZON for online retail services) or, if the mark describes the goods or services, consumers have nevertheless learned that it is a designation of source through advertising and use in the marketplace (such as IPHONE for mobile phones).[17]

Second, the mark must be used in commerce.[18] The use-in-commerce requirement ensures that only those making actual use of a trademark can claim property rights in it. This requirement is of the utmost importance in preventing the "warehousing" or "squatting" of registered but unused

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[11] *See* Robert G. Bone, *Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law*, 86 B.U. L. REV. 547, 549 (2006); *see also* Stacey L. Dogan & Mark A. Lemley, *Trademarks and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777, 786–88 (2004).

[12] Dogan & Lemley, *supra* note 11, at 787-88.

[13] William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 268-69 (1987).

[14] *See, e.g.*, Charles J. Walsh & Marc S. Klein, *From Dog Food to Prescription Drug Advertising: Litigating False Scientific Establishment Claims Under the Lanham Act*, 22 SETON HALL L. REV. 389, 399 (1992) ("Drugs are true 'credence' goods because they possess qualities that cannot be evaluated through normal use.").

[15] Landes & Posner, *supra* note 13, at 269-70.

[16] *See* 15 U.S.C. § 1052(f).

[17] *See* Abercrombie & Fitch Co. v. Hunting World, Inc., 537 F.2d 4, 9–11 (2d Cir. 1976).

[18] *See* 15 U.S.C. § 1051(a)(1) (providing for registration of a mark "used in commerce"); *id.* § 1051(d) (providing for registration of a mark filed on an intent-to-use basis upon filing of a statement that the mark is "used in commerce"). Certain foreign applications need not meet the use-in-commerce requirement to receive registration. *See id.* § 1126(e) (providing for registration of a mark already registered in certain foreign jurisdictions provided that the applicant has a bona fide intention to use the mark in commerce in the United States, but specifying that "use in commerce shall not be required prior to registration"); *id.* § 1141f(a) (providing for registration of a mark under the Madrid Protocol system provided that the applicant has a bona fide intention to use the mark in commerce in the United States). Applications filed under § 1126(e) (so-called "Section 44(e) applications") are rare. The PTO data indicate that of the 385,249 Principal Register trademark applications filed in 2016, 5,585 were filed on this basis. Applications filed under § 1141f(a) (so-called "Section 66(a) applications") are also rare. There were 15,374 such applications filed in 2016.

marks.[19] In this respect, it ensures that the Principal Register is not cluttered with trademark registrations by businesses that are not actually using their marks in commerce.

Third, the mark must not violate any of the Lanham Act's various statutory bars to protection.[20] For present purposes, the most important bar to registration is the section 2(d) bar against the registration of any mark that is confusingly similar to an already-registered mark. Section 2(d) of the Lanham Act bars the registration of a mark that so resembles an already-registered mark "as to be likely, when used on or in connection with the goods of the applicant, to cause confusion, or to cause mistake, or to deceive."[21] Among the factors the PTO considers to decide whether an applied-for mark is confusingly similar to an already-registered mark are "[t]he similarity or dissimilarity of the marks in their entireties as to appearance, sound, connotation and commercial impression" and "[t]he similarity or dissimilarity and nature of the goods or services as described in an application or registration or in connection with which a prior mark is in use."[22]

Among other things, to register a mark, a trademark applicant must specify the goods and services in connection with which the applicant claims the exclusive right to use the mark.[23] The applicant must do so in the form of a written description of the goods and services and also by reference to one or more of the forty-five categories of goods and services contained in the *International Classification of Goods and Services for the Purposes of the Registration of Marks*, otherwise known as the "Nice Classification" after the French city where it was established in 1957.[24] As shown in Figure 1, the most important classes, as measured by active trademark registrations, are Class 9 (electronic goods), Class 16 (printed matter and publications), Class 25 (apparel goods), Class 35 (business administration services), Class 41 (education, entertainment, and cultural and sporting activities services), and Class 42 (computer-related services).

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[19] *See* Major League Baseball Properties, Inc. v. Sed Non Olet Denarius, Ltd., 817 F. Supp. 1103, 1129 (S.D.N.Y. 1993) ("Rights in a trademark are lost when trademarks are 'warehoused.'"); Intrawest Fin. Corp. v. W. Nat. Bank of Denver, 610 F. Supp. 950, 959 (D. Colo. 1985) ("Mere warehousing of marks is impermissible under the Lanham Act."). *See also* Landes & Posner, *supra* note 13, at 282 ("Basing the property right on use fits in with the social function of trademarks in identifying and distinguishing goods. If the good is not available for sale, the trademark confers no benefit. Thus, conditioning trademark rights on use is a way of limiting the use of scarce enforcement resources to situations in which the rights in question are likely to yield net social benefits.").

[20] *See* 15 U.S.C. § 1052.

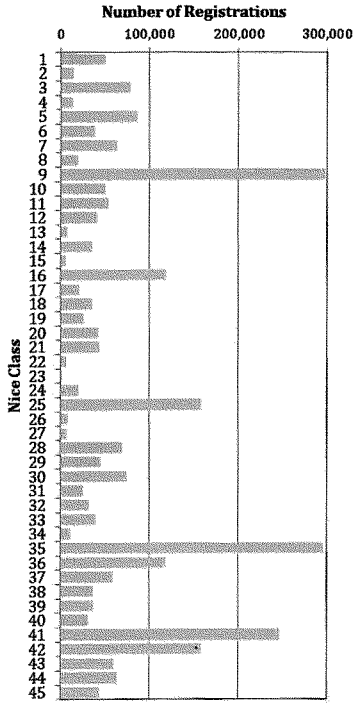
[21] *Id.* § 1052(d).

[22] *In re* E.I. du Pont de Nemours & Co., 476 F.2d 1357, 1361 (C.C.P.A. 1973).

[23] *See* 15 U.S.C. § 1051(a)(2).

[24] U.S. PATENT & TRADEMARK OFFICE, U.S. DEP'T OF COMMERCE, TRADEMARK MANUAL OF EXAMINING PROCEDURE § 1401.03 (Oct. 2018) [hereinafter TMEP] (citing Requirements for a Complete Trademark or Service Mark Application, 37 C.F.R. § 2.32(a)(7)); *see* Nice Classification, WORLD INTELL. PROP. ORG. (2019), http://www.wipo.int/classifications/nice/en/.

Figure 1: Active Registrations in 2016 by Nice Class of Goods or Services



If the PTO determines that a trademark application satisfies all requirements for registration, including that it does not conflict under section 2(d) with an already-registered mark, the PTO will approve the mark for publication in the *Official Gazette*.[25] The public then has thirty days from the date of publication to oppose the registration.[26] If no opposition is brought or succeeds, use-based applications (applications based on the applicant's current use of the mark) will automatically proceed to registration.[27]

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[25] 15 U.S.C. § 1062(a).

[26] *Id.* § 1063(a).

[27] *Id.* § 1063(b). Applications based on an intent to use the mark require that a statement of actual use be filed before the registration will issue. *Id.* § 1051(d). Herein, we frequently focus on publication rates rather than registration rates because many intent-to-use applications succeed to publication, but then fail to register because the applicant fails to file a statement of use. *See* Barton Beebe, *Is the Trademark Office a Rubber Stamp?*, 48 HOUS. L. REV. 751, 773, 774 tbl. 9 (2011).

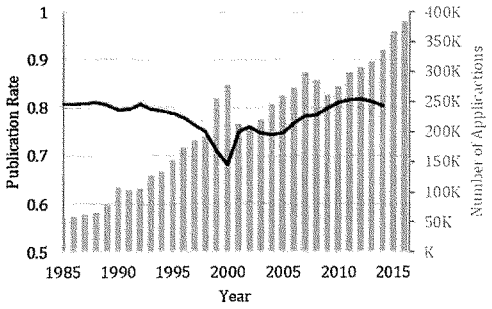
C. The Advantages of Trademark Registration

A trademark need not be registered to be protected by the Lanham Act.[28] Nonetheless, the law provides several important incentives to encourage trademark owners to register their marks. Registration confers on the mark a prima facie presumption of validity and of the registrant's ownership of the mark.[29] It also confers on the registrant nationwide priority in the mark as of the date of application.[30] Furthermore, only registered marks may qualify for incontestable status and only the owners of registered marks may qualify for statutory damages against counterfeiters of those marks.[31]

D. Trademark Applications to the PTO Have Dramatically Increased in Number

As shown in Figure 2, there has been an extraordinary increase in the annual rate of trademark applications over recent decades (represented by the bars and right axis in the figure). Annual publication rates have nonetheless remained steady (represented by the line and left axis in Figure 2). Even during the internet boom, which largely accounts for the spike in applications in 1999 and 2000, publication rates declined only from 0.75 in 1998 to 0.68 in 2000, and then quickly recovered. The implication is that many more mark applications are proceeding to publication over time.

Figure 2: Applications and Publication Rate by Filing Year, 1985–2016



[28] *See* 15 U.S.C. § 1125(a) (providing anticonfusion protection to both registered and unregistered marks).
[29] *See id.* §§ 1057(b), 1115(a).
[30] *See id.* §§ 1057(c), 1072.
[31] *See id.* § 1065 (possibility of the mark becoming incontestable after five years); *id.* § 1117(a)–(b) (enhanced remedies).

II. The Problem of Trademark Depletion

A. The Conventional Wisdom: The Supply of Trademarks Is Inexhaustible

American trademark law has long operated on the assumption that there exists an inexhaustible supply of unclaimed trademarks that are at least as competitively effective as those already claimed. With respect to word marks in particular, the conventional wisdom espoused by courts and commentators holds that we will always enjoy a surplus of preexisting words, and in any case trademark adopters can simply coin new words, the supply of which is thought to be effectively "infinite."[32] This empirical assumption—that the supply of good, competitively effective trademarks is inexhaustible—has long formed the foundation of important theoretical conjectures at the core of trademark law and policy.[33] The most significant of these is that when we grant exclusive rights in a trademark, the cost to competitors, consumers, and more generally to the public domain is inconsequential.

B. The New Reality: Chronic Levels of Trademark Depletion

In empirical work published in the *Harvard Law Review*, we show that this conventional wisdom is no longer true—if it ever was. Our data show that the trademark system has already reached chronic levels of "trademark depletion," particularly in important economic sectors. By trademark depletion, we refer to the process by which a decreasing number of potential trademarks remain unclaimed by any trademark owner. Due to trademark depletion, new trademark applicants are increasingly being forced to resort to second-best, less competitively effective marks. Yet

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[32] *See, e.g.*, Florence Mfg. Co. v. J.C. Dowd & Co., 178 F. 73, 75 (2d Cir. 1910) ("It is so easy for the honest business man, who wishes to sell his goods upon their merits, to select from the entire material universe, which is before him, symbols, marks and coverings which by no possibility can cause confusion between his goods and those of competitors ...."); Lettuce Entertain You Enters., Inc. v. Leila Sophia AR, LLC, 703 F. Supp. 2d 777, 791 (N.D. Ill. 2010) ("[T]here are infinite other names [than 'lettuce'] under which defendants may continue to operate their restaurant."); Aveda Corp. v. Evita Mktg., Inc., 706 F. Supp. 1419, 1429 (D. Minn. 1989) ("An inference of an intent to trade upon the plaintiff's good will arises if the defendants, with knowledge of plaintiff's mark, chose a mark similar to that mark from the infinite number of possible marks."); Stephen L. Carter, Comment, *The Trouble with Trademark*, 99 YALE L.J. 759, 769 (1990) (discussing the widespread assumption that "the set of marks appropriate to a given product category is practically infinite"); Landes & Posner, *supra* note 13, at 274 ("[T]he distinctive yet pronounceable combinations of letters to form words that will serve as a suitable trademark are as a practical matter infinite, implying a high degree of substitutability and hence a slight value in exchange."); Schechter, *supra* note 10, at 833 ("All the rest of infinity is open to defendant." (quoting Coca-Cola Co. v. Old Dominion Beverage Corp., 271 F. 600, 604 (4th Cir. 1921))).

[33] Stated in its most basic, unqualified form, the conjecture that the supply of trademarks is inexhaustible is, like the claim that there are infinitely many numbers, trivial. Firms can obviously coin new words or phrases of ever-increasing length to avoid conflicts with already-registered marks. But it is just as obvious that given the limits of human cognition and communication, incumbent firms using shorter, less complex, more familiar, more easily pronounced, and more evocative marks will enjoy a significant competitive advantage over new firms that must resort to brand names that are less effective along these dimensions and for that reason remain unclaimed. *Cf.* Landes & Posner, *supra* note 13, at 268-69 ("Suppose you like decaffeinated coffee made by General Foods. If General Foods's brand had no name, then to order it in a restaurant or grocery store you would have to ask for 'the decaffeinated coffee made by General Foods.' This takes longer to say, requires you to remember more, and requires the waiter or clerk to read and remember more than if you can just ask for 'Sanka.'").

registration refusal rates also continue to rise. The result is an increasingly crowded Principal Register that in turn leads to mounting barriers to entry for those seeking to register new marks.

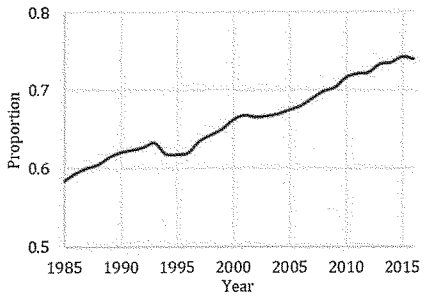
C. Empirical Results

We briefly review here certain of our study's main findings. These findings are derived from six datasets. The most important of these is the PTO's own Trademark Case Files Dataset, which provides detailed information about all 6.9 million trademark applications filed at the PTO from 1982 through 2016.[34] To evaluate the extent of trademark depletion, we analyzed all trademark applications filed during this period in light of the most frequently used words and syllables in American English and the most frequently occurring surnames in the United States.[35]

1. Identical Matches

Considering first identical matches, the data show a steady increase over time in the proportion of word usage in American English consisting of words claimed as single-word trademarks in at least one class of goods or services (Figure 3). To give a sense of how many of the most frequently used words are thereby claimed, in 2016, 20,295 (23.5%) of the 86,408 most frequently used words in American English were claimed as single-word marks. These 20,295 words account for 74.0% of all word usage. We have now reached a stage where, in effect, when we use our language, nearly three-quarters of the time we are using a word that someone has claimed as a trademark.

Figure 3: Proportion of All Word Usage Consisting of Words Claimed as Single-Word Marks by Year, 1985–2016

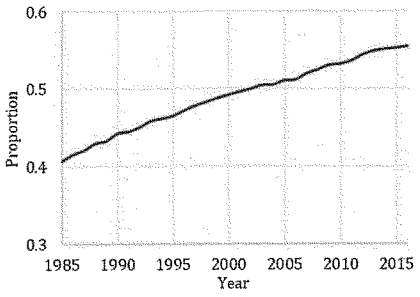


[34] The dataset also provides more limited information on the 208,105 trademarks already registered at the PTO as of 1982 that were based on applications filed before 1982.

[35] Although trademarks can take many forms, including images, a very high proportion of registered trademarks consist in whole or part of text. As of the end of 2016, there were 2,094,051 active trademark registrations on the PTO's Principal Register. Of these, 95.7% included text; 75.6% consisted only of text. We therefore focus our study on marks containing text.

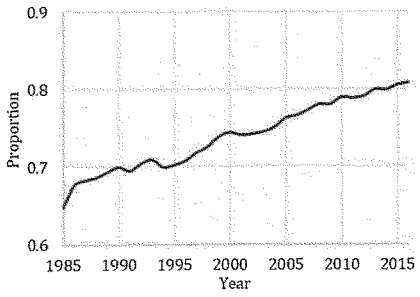
The data also show a steady increase in the proportion of the U.S. population carrying a surname claimed as a single-word trademark (Figure 4). We estimate that at least 55.4% of Americans currently carry a surname that is already claimed as a single-word mark.

Figure 4: Proportion of U.S. Population Carrying a Surname Registered as a Single-Word Trademark by Year, 1985–2016



It is often assumed that new businesses can simply coin new words if currently existing words are already claimed. However, the data show that a large proportion of the most competitively effective neologisms are already claimed. Of the 10,753 most frequently used syllables in American English, 52.4% are already claimed as single-word marks, and these 5,632 syllables account for 80.8% of all syllable usage in our language. As with frequently used words and frequently occurring surnames, the data show a steady increase over time in the proportion of syllable usage consisting of syllables registered as single-word marks (Figure 5).

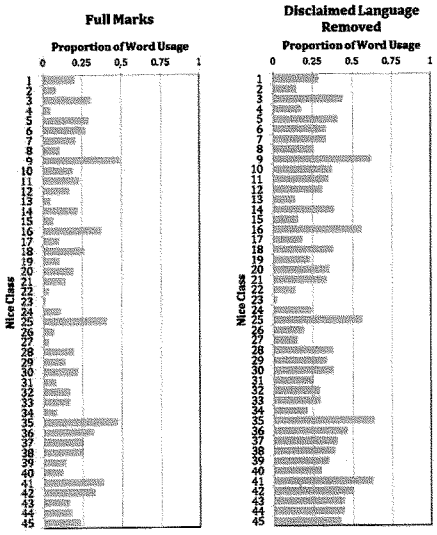
Figure 5: Proportion of All Syllable Usage Consisting of Syllables Registered as Single-Word Trademarks by Year, 1985–2016



While these proportions tend to decrease when we investigate these data at a class-specific level, the more crowded classes, such as Class 9 (electronics goods, including software), Class 25

(apparel goods), and Class 35 (business administration services), have comparably high proportions of claimed words, surnames, and syllables, as illustrated by our data on the proportion of all word usage consisting of words registered as single-word marks in 2016 by Nice Class (Figure 6).

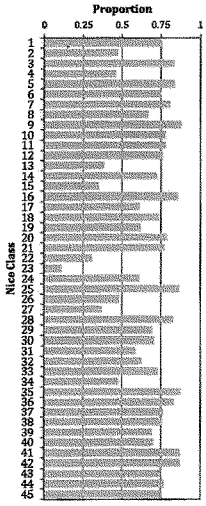
Figure 6: Proportion of All Word Usage Consisting of Words Identically Matching an Active Registration by Nice Class of Goods or Services in 2016, Full Marks and Marks with Disclaimed Language Removed



2. Confusingly Similar Matches

When we move from an analysis of the data based on identical matching to an analysis based on confusing similarity, the extent of trademark depletion is shown to be even more concerning. In our study, we use a very conservative measure of similarity between two words based on edit distance (the number of changes that must be made to transform one word into another). We estimate that 97.1% of the 86,408 most frequently used words in American English are confusingly similar with a mark already registered in at least one class of goods or services. These words account for 89.1% of all word usage in American English. These results are striking even when limited to specific classes of goods or services (Figure 7). In Class 9, covering electronics and software, 88.5% of all word usage consists of words confusingly similar with trademarks currently registered in that class. Similarly, in Class 25, covering apparel, currently registered marks are confusingly similar with words constituting 87.2% of all word usage. Our results are similar for confusing similarity for the most frequently occurring surnames.

Figure 7: Proportion of All Word Usage Consisting of Words Triggering Jaro-Winkler Similarity Matches with Active Registrations in 2016 by Nice Class of Goods or Services



3. Trends in Applicant Conduct and Section 2(d) Refusal Rates

Given these conditions, new applicants are increasingly resorting to suboptimal marks. The data indicate that applicants are applying less often for standard English words and common surnames and more often for more complex marks, as measured by character, syllable, and word count. Our data show the increasing length in word count of applied-for and registered word marks over time. The average word count of all applications in 1985 was 1.94 words, and of all such applications that resulted in registration, it was 1.86 words. By 2014, these averages had increased to 2.26 words for all applications filed that year and 2.23 words for all such applications that have resulted in registration (Figure 8). Consistent with these results, applications for single-word marks in particular have declined from a high of 47.1% of all word mark applications in 1985 to a low of 38.1% of all such applications in 2005 and continuing at roughly that level through 2016. Registrations for single-word marks follow the same trend. Our data also similarly show the increasing length in syllable and character count of applied-for and registered word marks over time (Figures 9 and 10).

Figure 8: Length in Mean Word Count of Applied-For and Registered Marks by Filing Year, 1985–2016

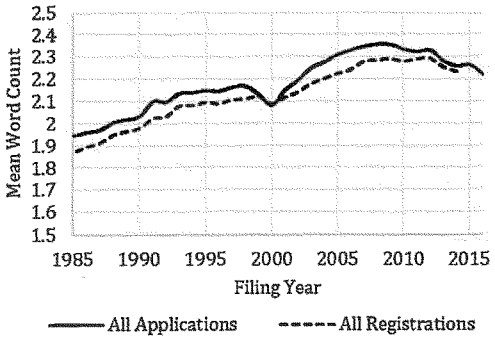


Figure 9: Length in Mean Syllable Count of Applied-For and Registered Marks by Filing Year, 1985-2016

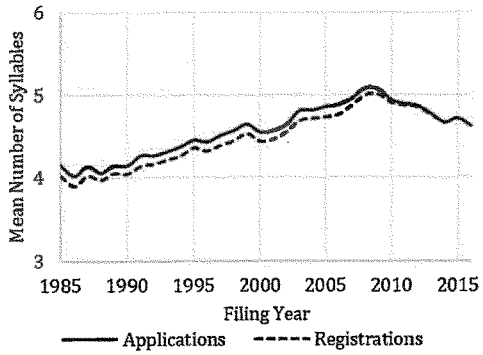
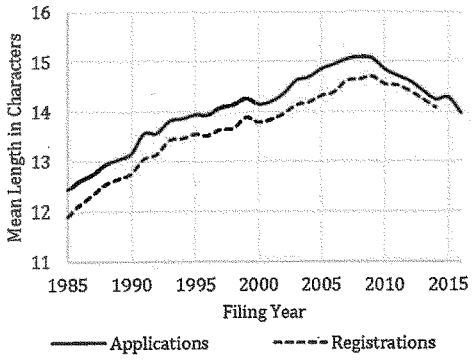
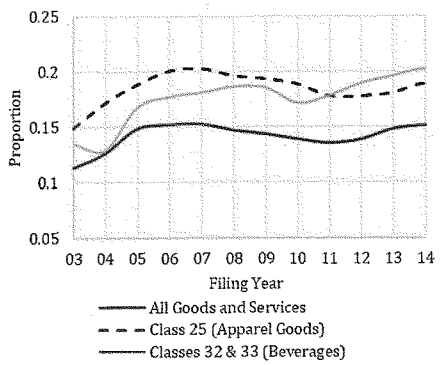


Figure 10: Length in Mean Character Count of Applied-For and Registered Marks in 1985-2016



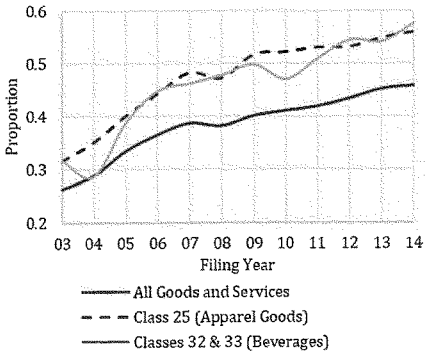
We think that applicants are modifying their conduct in this manner primarily to avoid applying for marks that the PTO would refuse to register on the basis of section 2(d) of the Lanham Act, which denies the registration of a mark that due to its similarity with an already registered mark would confuse consumers as to source. Yet applicants appear to be increasingly unsuccessful in avoiding such refusals. Working from a dataset of all 2.1 million trademark office actions issued by the USPTO from 2003 through 2016, our study reports the increasing rate at which the PTO is refusing applied-for marks on the basis of section 2(d) (Figures 11–12). Despite these trends, one class of applicants appears to be doing fine. Incumbent applications (those based on previous registrations) continue to enjoy very low section 2(d) refusal rates.[36]

Figure 11: Proportion by Filing Year of Applications Containing Text that Triggered a Section 2(d) Refusal, 2003–2014



[36] Beebe & Fromer, *supra* note 1, at 1009.

Figure 12: Proportion of Applications Failing to Publish that Received a Section 2(d) Refusal by Filing Year, 2003–2014



4. Summary

These findings urge a rethinking of many of the fundamental assumptions underlying trademark law. Most importantly, they emphasize that the granting of trademark rights imposes real costs on the ecology of the trademark system, and that as we begin to test the limits of this ecology, these costs are mounting. Even using a conservative similarity-matching protocol, nearly all the words we use on a daily basis are already registered or are confusingly similar to an already-registered mark. The same is true with respect to the surnames of a very high proportion of American people. Even potential neologisms show high levels of depletion. Across all classes, the evidence shows increasing levels of depletion within each class, with certain important classes experiencing especially severe depletion: Class 9 (electronic goods), Class 25 (apparel goods), Class 35 (general business administration services), Class 41 (education, entertainment, and cultural and sporting activities services), and Class 42 (computer-related services). Meanwhile, new applicants are increasingly shifting toward neologisms and longer, more complex, and thus less effective, marks. Yet even these efforts are increasingly failing. Section 2(d) refusal rates for confusing similarity continue to rise. The evidence is particularly compelling because we are studying only registered marks. There is still the broad population of "common law" marks that, though unregistered, nevertheless enjoy federal protection and can preclude or severely limit new registrations that conflict with them.

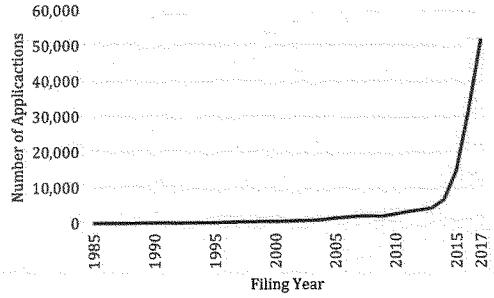
III. Application Patterns: Filings from China and from Small Businesses

Alongside these overall trends that indicate increasing rates of trademark depletion, we note two other important aspects of application patterns over time: first, the dramatic increase in (questionable) applications originating from China, and second, the significant challenges that small businesses confront in registering their trademarks.

A. The Increase in Applications Originating from China

Since 1985, when trademark applications from China represented just over 0.07% of PTO trademark applications (or 42 overall applications), Chinese filings have increased dramatically. As of 2017, they represent 10.5% of PTO trademark applications (or 51,312 overall applications). Figure 13 depicts the runup in Chinese filings from 1985–2017. Some explain this change in filing patterns as nothing other than that more Chinese-branded goods and services are being sold in the American market.[37] Yet there is broad suspicion that a significant part of this rise is attributable to fraudulent applications with false specimens of use that do not comply with U.S. trademark law's requirement that a mark be used in commerce in connection with goods or services to be registered.[38]

Figure 13: Number of Applications for Trademark Registration Originating from China by Filing Year, 1985–2017



B. Applications from Small Businesses

The data suggest that an increasing proportion of trademark registration applications at the PTO are coming from small businesses. We focus on applications from filers who have filed only a single application at the PTO from 1985 through 2016 as a proxy for small-business applicants. Figure 14 shows that since the mid-1990s, the proportion of single-filer applications has been steadily increasing, to nearly one in three in 2016. The data indicate that such applicants are less successful in registering their trademarks. From 1985 through 2016, single-filers achieved a publication rate of 67.6%, while non-single-filers (that is, entities filing more than one trademark application during the period) achieved a significantly higher publication rate of 78.9%. Single-filers also suffered higher section 2(d) refusal rates. Over the period, 14.9% of single-filer applications

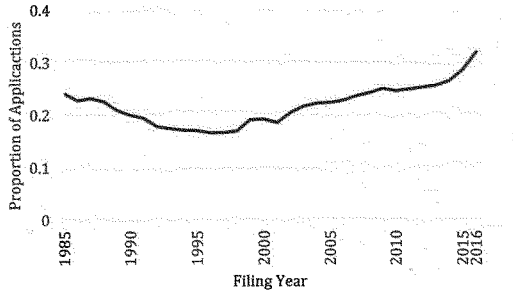
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[37] Anandashankar Mazumdar, *Chinese Trademark Surge Signals Possible U.S. Market Entry*, BLOOMBERG LAW, Nov. 16, 2018, https://www.bna.com/chinese-trademark-surge-n57982093952.

[38] *Id.*; *see also* Gershman, *supra* note 3; Tim Lince, *US Trademark Filings from China Soar, But Law Firms Struggle to Capitalise Amid Warnings of Suspicious Activity*, WORLD TRADEMARK REV., Nov. 10, 2017, http://www.worldtrademarkreview.com/Blog/detail.aspx?g=bf017ce0-493f-419e-bdb7-cf196c183d53; Nikkei Staff Writers, *supra* note 3.

received a section 2(d) refusal, while only 12.8% of non-single-filer applications did so. These differences are both substantially and statistically significant.[39]

Figure 14: Proportion by Filing Year of Applications for Trademark Registration Originating from Single-Filers, 1985–2016



Many factors may account for these differences, but we think that the depletion of available, competitively effective trademarks from which new businesses can choose has played a significant role in making it more difficult for firms to register new marks. This is particularly true for small businesses, which typically lack the sophistication and resources to find unclaimed, competitively effective marks and to prosecute those marks to registration.

IV. The Costs of Trademark Depletion and Clutter on the Principal Register

There are a series of practical implications that flow from increasing rates of trademark depletion and clutter on the principal register.

A. The Costs of Trademark Depletion

Consider first trademark depletion. Trademark depletion is a problem because it undermines trademark law's goals of promoting efficient and fair competition and minimizing consumer search costs. In particular, as depletion worsens, entrants face higher costs than incumbents had faced earlier in locating or devising a mark that is not confusingly similar with already registered marks and that is competitively effective. Moreover, entrants are generally constrained to settle for less effective marks, such as longer and more complex marks, that minimize the advertising power of these marks. New entrants also do not enjoy an additional advantage of incumbents. Having registered their mark in a particular class of goods or services, incumbents may more easily leverage that registration into new registrations within that class or in other classes.

Although new firms are still finding trademarks to register and are still managing to compete, an insidious quality of depletion is that it proceeds gradually, and even though its pace has quickened

[39] Publication rates: N = 6,692,934, $p < 0.001$; section 2(d) refusal rates: N = 4,129,253; $p < 0.001$.

in recent years, it remains a chronic rather than acute condition. We should expect no tipping point or moment of crisis in which there are suddenly no trademarks left at all and competition grinds to a halt. Instead, we should expect what the data report: a continuous process in which individual applicants are still able to find usable marks, but at ever greater cost in pursuit of ever less benefit. Trademark depletion also increases consumer search costs—and in a similarly gradual way—because consumers must cope with less efficient marks and a more crowded field of marks in the marketplace.

The effects of trademark depletion on small businesses in particular are particularly troubling. As shown above, small businesses tend to have more difficulty registering their trademarks on the Principal Register. As the supply of unclaimed, competitively effective marks continues to decline, these difficulties will only increase.

B. The Costs of Clutter on the Principal Register

Trademark depletion causes harmful effects even when all registered trademarks are in compliance with trademark law's requirements, including use in commerce. Compounding these problems, however, is that it has become clear that some sizeable portion of registered marks are not in such compliance. Specifically, in 2012, the PTO instituted a two-year pilot program that randomly audited a sample of trademark registrations to determine if they actually met the statutory requirement of use with respect to all or even any of the goods or services specified in the registration.[40] The PTO justified the program out of concern that the trademark register was cluttered with unused marks that new entrants might otherwise wish to adopt, a concern that aligns with the harms caused by depletion:

> The accuracy of the trademark register as a reflection of marks that are actually in use in the United States for the goods/services identified in the registration serves an important purpose for the public. The public relies on the register to clear trademarks that they may wish to adopt or are already using. Where a party searching the register uncovers a similar mark, registered for goods or services that may result in confusion of consumers, that party may incur a variety of resulting costs and burdens, such as changing plans to avoid use of the mark, investigative costs to determine how the similar mark is actually used and assess the nature of any conflict, or cancellation proceedings or other litigation to resolve a dispute over the mark. If a registered mark is not actually in use in the United States, or is not in use on all the goods/services recited in the registration, these types of costs and burdens may be incurred unnecessarily. Thus, accuracy and reliability of the trademark register help avoid such needless costs and burdens, and thereby benefit the public.[41]

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[40] Changes in Requirements for Specimens and for Affidavits or Declarations of Continued Use or Excusable Nonuse in Trademark Cases, 77 Fed. Reg. 30,197 (May 22, 2012) (codified at 37 C.F.R. §§ 2.161, 7.37).

[41] *Id.* at 30,197.

At the conclusion of the two-year pilot period, the PTO reported the results of the audit program.[42] Of the 500 audited registrations, approximately half could not be verified as being in use as claimed.[43] As a result, 16% of the audited registrations were cancelled and an additional 34% were amended to narrow the registration's specification of the goods or services in connection with which the registered mark was claimed to be used.[44] In light of the significant proportion of "deadwood" registrations that the pilot program revealed, the PTO recently finalized a rule change that makes its auditing efforts permanent. Under the rule, the PTO will each year randomly audit up to 10% of continuing-use affidavits filed that year "in which the mark is registered for more than one good or service per class."[45]

In all, it is important to declutter the trademark register both to decrease—or at least not increase—rates of trademark depletion and to maintain the register's integrity. These results are important for competition, in particular for ensuring that barriers to entry are not increasingly heightened over time in a way that protects incumbent businesses at the expense of new entrants and protects large businesses at the expense of smaller ones. A decluttered register also ensures that the Principal Register can be trusted and can be used as a reliable resource by businesses searching it to see which marks have already been claimed.

V. Helpful Reforms to Trademark Law

Because of the extent of trademark depletion and clutter and the harsh implications for the integrity of the register and the effects on competition and small businesses, we support a number of reforms to trademark law that build upon proposals for which we advocated in our *Harvard Law Review* article. These reforms will help to clear the Principal Register of unused marks and thereby mitigate troublesome historical trends we identify in our article's empirical study that reduce competition and that hurt consumers.

Two such reforms we support are new processes for ex parte reexamination of registered marks and expungement of registered marks that were never used in commerce and should not have been registered in the first instance. Trademark law currently provides third parties with two opportunities to ensure that a mark is not improperly on the Principal Register: opposition and cancellation. Both are deficient in important respects. Opposition, discussed above, provides an opportunity for third parties to prevent a mark from being registered in the first instance.[46] Any party that believes it would be harmed by the registration may file an opposition to the registration of the mark within thirty days of the mark's publication.[47] If the registration is successfully opposed, the mark does not proceed to registration.[48] For all marks that proceed to registration, for a five-year

[42] U.S. PATENT & TRADEMARK OFFICE, POST REGISTRATION PROOF OF USE PILOT STATUS REPORT (2014), http://www.uspto.gov/trademarks/notices/Post_Registration_Proof_of_Use.doc.

[43] *Id.* at 1.

[44] *Id.*

[45] Changes in Requirements for Affidavits or Declarations of Use, Continued Use, or Excusable Nonuse in Trademark Cases, 82 Fed. Reg. 6,259, 6,262 (Jan. 19, 2017) (codified at 37 C.F.R. §§ 2.161, 7.37).

[46] *Supra* section I.B.

[47] *See* 15 U.S.C. § 1063. Oppositions are very rare. For applications filed from 1985 through 2014, only 2.10% were opposed and only 0.90% were opposed successfully.

[48] *Id.*

period following the date of registration, a third party may petition to cancel the registration on any basis.[49] After five years have passed from the date of registration, a third party may petition to cancel a registration for only a limited number of reasons.[50] At this juncture, a third party cannot petition to cancel the registration on the ground that the mark is merely descriptive (and consumers have not learned that it is a designation of source) or on the ground that the registered mark is confusingly similar with a previously used mark.

Opposition and cancellation are insufficient in crucial ways, including the short time period in which an opposition can be filed and the limited grounds for cancellation after five years of registration. But their biggest limitation is their high cost, which can be burdensome to smaller businesses. One study reports that the average cost of a trademark opposition in the United States ranges from $150,000 to $500,000,[51] whereas another estimates the median cost of a U.S. opposition or cancellation proceeding to be $95,000.[52] According to the author of one of these studies, cancellation as it stands "entails such significant costs that it may deter smaller companies ... from pursuing or defending opposition proceedings, and might lead to unnecessary or ill-advised settlements that do not benefit or protect consumers."[53] This study also finds that "opposition proceedings in the United States are vastly more expensive than in Australia, Brazil, Canada, China, the European Union (OHIM), India and Japan."[54]

To help diminish rates of trademark depletion and bolster the integrity of the register, we therefore support the provision of less expensive ex parte proceedings that are available more comprehensively to allow third parties to remove improperly registered trademarks from the register. It is crucial that trademark law make it easier to cull marks from the Principal Register that are not in use, that have been abandoned, or that otherwise do not warrant registration, freeing them for use by others. Businesses could then have a broader pool of competitively effective marks from which to choose new marks, both benefiting competition and lowering consumer search costs. Moreover, such reforms would boost the integrity of the register.

Because it would also help mitigate rates of trademark depletion and clutter, we further support the institution of a "knew or should have known" standard for fraud on the PTO. In 2009, the U.S. Court of Appeals for the Federal Circuit established a new, extremely high standard for fraud on the PTO in *In re Bose Corp.*[55] The *Bose* court held that "a trademark is obtained fraudulently under

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[49] *Id.* § 1064(1).

[50] *Id.* § 1064(3).

[51] Paul F. Kilmer, *The Value Equation of Trademark Oppositions: A Multinational Comparison of Costs and Perceived Benefits*, INTABULLETIN, Mar. 1, 2013, https://www.inta.org/INTABulletin/Pages/TheValueEquationofTrademarkOppositionsAMultinationalComparisonofCostsandPerceivedBenefits.aspx.

[52] AIPLA, REPORT OF THE ECONOMIC SURVEY 2015, at 39 (2015), http://files.ctctcdn.com/e79ee274201/b6ced6c3-d1ee-4ee7-9873-352dbe08d8fd.pdf.

[53] Kilmer, *supra* note 51; *accord* Glynn S. Lunney, Jr., *Two-Tiered Trademarks*, 56 HOUS. L. REV. 295, 329 n.129 (2018) (observing that "this cost [of opposition or cancellation] remains above the level that some small businesses will be able to afford").

[54] Kilmer, *supra* note 51.

[55] 580 F.3d 1240 (Fed. Cir. 2009). The Trademark Trial and Appeal Board had previously established a "knew or should have known" standard for fraud on the PTO in *Medinol Ltd. v. Neuro Vasx, Inc.*, 67 U.S.P.Q.2d 1205 (T.T.A.B. 2003).

the Lanham Act only if the applicant or registrant knowingly makes a false, material representation with the intent to deceive the USPTO."[56] Since *Bose*, only one claim of fraud has succeeded before the Trademark Trial and Appeal Board, in a case in which there was overwhelming evidence of the applicant's intent to deceive the PTO.[57] Otherwise, as a leading treatise on trademark law has characterized the situation, "[t]he bottom line after *Bose* is that it is nearly impossible to prove a claim of fraud before the Board."[58] Particularly in light of an influx of fraudulent applications from China, a "knew or should have known" standard is necessary to stem trademark depletion and clutter and ensure the integrity of the Principal Register. Furthermore, unlike in the patent context, where the cancellation of a patent is fatal to the patentee's property rights, a trademark registrant may still rely on its "common law" unregistered rights to prevent infringement. The effect of a finding of fraud on the PTO is not nearly as harsh in the trademark context as it is in the patent context.

We also advocate that trademark law be reformed to require the PTO to be more cautious, as Rebecca Tushnet advocates, in granting incontestability to registered marks.[59] Trademark law allows a registered mark in continuous use for five years following registration to become incontestable, so long as certain conditions are met, such as the absence of a final decision adverse to the mark's continuing registration.[60] Once a mark achieves incontestable status, it is susceptible to invalidation only on a limited number of grounds.[61] Most importantly, the mark can no longer be invalidated for being descriptive and lacking the requisite secondary meaning.[62] Tushnet presents evidence of marks undeserving of incontestability status that are allowed to claim it due to the PTO's lack of substantive examination of incontestability claims made to the PTO.[63] This is troublesome generally and particularly so for descriptive marks. Given the severe costs associated with trademark depletion, trademark law should be reformed to require substantive examination of at the PTO of claims of incontestability; prevent wrongful assertions of incontestability by registrants that were not entitled to claim it; and possibly further limit the availability of incontestable status for descriptive marks.

We further advocate that the PTO consider returning to a system in which trademark examiners specialize in particular Nice classes of goods or services. As of November 3, 2002, the PTO switched from a system in which incoming trademark applications were assigned to examiners who specialized in particular classes of goods or services specified in the application to a system in which incoming applications were randomly assigned to non-specialized examiners.[64] Our data indicate that more experienced trademark examiners tend to approve for publication a higher proportion of the applications they review than do less experienced examiners. As Figures 15 and 16 indicate, this effect became especially pronounced after the November 2002 shift to non-specialized examiners. This may be symptomatic of a situation in which non-specialized examiners are permitting applications to go forward that specialized examiners would have refused. On this basis, we think

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[56] 580 F.3d at 1245.

[57] *See* Nationstar Mortgage LLC v. Ahmad, 112 U.S.P.Q.2d 1361 (T.T.A.B. 2014).

[58] 3 JEROME GILSON & ANNE GILSON LALONDE, GILSON ON TRADEMARKS § 13.04 (2019).

[59] Rebecca Tushnet, *Fixing Incontestability: The Next Frontier?*, 23 B.U. J. SCI. & TECH. L. 434 (2017).

[60] 15 U.S.C. § 1065.

[61] *Id.* § 1115(b).

[62] Park 'N Fly, Inc. v. Dollar Park & Fly, Inc., 469 U.S. 189, 196–97 (1985).

[63] Tushnet, *supra* note 59, at 440-49.

[64] *See* STUART GRAHAM ET AL., U.S. PATENT & TRADEMARK OFFICE, THE USPTO TRADEMARK CASE FILES DATASET: DESCRIPTIONS, LESSONS, AND INSIGHTS 18 (2013), https://www.uspto.gov/sites/default/files/ip/officechiefecon/Trademark_Case_File_Data_Documentation_31January2013_final.pdf.

that it would be valuable further to evaluate whether a specialized examiner system might improve the quality of trademark registrations.

Figure 15: Specialized Examiners: Examiner Publication Rate by Number of Applications Reviewed, Jan. 1, 1990 – Nov. 2, 2002

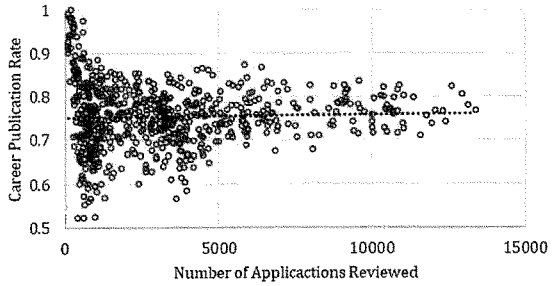
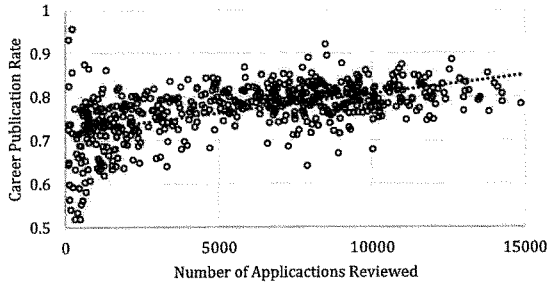


Figure 16: Randomly-Assigned Examiners: Examiner Publication Rate by Number of Applications Reviewed, Nov. 3, 2002 – Dec. 31, 2014



We also are supportive of a host of other potential reforms that would improve the problems of trademark depletion and clutter, including:

- Increased fees, particularly for maintenance (currently only $125 per class for online filings that attest to continued use of the trademark[65]), renewal (currently only $300 per class for online filings[66]), and incontestability (currently only $200 per class for online filings[67]);

[65] 37 C.F.R. § 2.6(a)(12)(ii).
[66] *Id.* § 2.6(a)(5)(ii).
[67] *Id.* § 2.6(a)(13)(ii).

- A two-tiered fee structure, with a set of higher fees for non-small businesses and another set of lower fees for small businesses;
- A form of "congestion pricing," in which those seeking registration, maintenance, or renewal of marks in classes with higher degrees of depletion pay a higher fee, to ensure that registrants in especially depleted areas internalize some of the costs that they are imposing on the trademark system by adding to that depletion or to dissuade firms from adopting marks that would significantly increase depletion;[68]
- Have the PTO focus its efforts in auditing registrations most substantially on those areas of the trademark system that are most in need of clearing, namely, areas with high levels of depletion;
- Tighten the relatively permissive standard allowing the extension of time in which an intent-to-use applicant must file a statement of use;[69] and
- Insist on more robust and direct evidence that applied-for descriptive marks have acquired distinctiveness, which can currently be established circumstantially, through evidence of advertising expenditures, sales, prior registrations, and long-term use of the mark in commerce,[70] and through weak evidence.

Although we are sensitive to an argument that trademark registrants have settled expectations in the continued registration of their marks, we think those arguments hold little to no weight in the face of the challenges of trademark depletion and clutter on the Principal Register. For one thing, any settled expectations that trademark law has fostered in registrations occurred long ago based on very different background assumptions: that the supply of competitively effective trademarks was inexhaustible and that there were no resource constraints in granting new trademark rights. The increasing and alarming rate of trademark depletion shows that these assumptions are no longer justified, if they ever were. Moreover, there should be no settled expectations in trademark rights that were never warranted or are no longer warranted based on trademark law's clear substantive requirements, such as that a mark be used in commerce. If a registrant is not using a mark in commerce, the mark does not deserve to remain on the Principal Register.

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[68] *Cf.* Jonathan Remy Nash, *Economic Efficiency Versus Public Choice: The Case of Property Rights in Road Traffic Management*, 49 B.C. L. REV. 673, 694–739 (2008) (analyzing the economic advantages of congestion pricing over building new roadways to address road traffic).

[69] *See* 15 U.S.C. § 1051(d) (establishing a six-month period, extendable upon application for an additional thirty months, in which an intent-to-use applicant must file a statement of use).

[70] TMEP, *supra* note 24, §§ 1212, 1212.04–1212.04(e), 1212.05(d), 1212.06–1212.06(b).

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ARTICLES

ARE WE RUNNING OUT OF TRADEMARKS? AN EMPIRICAL STUDY OF TRADEMARK DEPLETION AND CONGESTION

Barton Beebe & Jeanne C. Fromer

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ARE WE RUNNING OUT OF TRADEMARKS? AN EMPIRICAL STUDY OF TRADEMARK DEPLETION AND CONGESTION

*Barton Beebe** *& Jeanne C. Fromer***

American trademark law has long operated on the assumption that there exists an inexhaustible supply of unclaimed trademarks that are at least as competitively effective as those already claimed. This core empirical assumption underpins nearly every aspect of trademark law and policy. This Article presents empirical evidence showing that this conventional wisdom is wrong. The supply of competitively effective trademarks is, in fact, exhaustible and has already reached severe levels of what we term trademark depletion and trademark congestion. We systematically study all 6.7 million trademark applications filed at the U.S. Patent and Trademark Office (PTO) from 1985 through 2016 together with the 300,000 trademarks already registered at the PTO as of 1985. We analyze these data in light of the most frequently used words and syllables in American English, the most frequently occurring surnames in the United States, and an original dataset consisting of phonetic representations of each applied-for or registered word mark included in the PTO's Trademark Case Files Dataset. We further incorporate data consisting of all 128 million domain names registered in the .com top-level domain and an original dataset of all 2.1 million trademark office actions issued by the PTO from 2003 through 2016. These data show that rates of word-mark depletion and congestion are increasing and have reached chronic levels, particularly in certain important economic sectors. The data

* John M. Desmarais Professor of Intellectual Property Law, New York University School of Law.

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further show that new trademark applicants are increasingly being forced to resort to second-best, less competitively effective marks. Yet registration refusal rates continue to rise. The result is that the ecology of the trademark system is breaking down, with mounting barriers to entry, increasing consumer search costs, and an eroding public domain. In light of our empirical findings, we propose a mix of reforms to trademark law that will help to preserve the proper functioning of the trademark system and further its core purposes of promoting competition and enhancing consumer welfare.

INTRODUCTION

American trademark law has long operated on the assumption that there exists an inexhaustible supply of unclaimed trademarks that are at least as competitively effective as those already claimed. With respect to word marks in particular, the conventional wisdom holds that we will always enjoy a surplus of preexisting words, and in any case trademark adopters can simply coin new words, the supply of which is thought to be effectively "infinite."[1] This empirical assumption — that the supply of good, competitively effective trademarks is inexhaustible — has long formed the foundation of important theoretical conjectures at the core of trademark law and policy. The most significant of these is that when we grant exclusive rights in a trademark, the cost to competitors, consumers, and more generally to the public domain is inconsequential.

Contrary to the conventional wisdom in trademark law, however, popular media has lately begun to make the opposite empirical claim: that the supply of good trademarks is, in fact, exhaustible and that we have very nearly exhausted it. For example, the *New York Times* recently asserted that "[a]lmost every naturally occurring word has been claimed, which is why namers so often arrive at portmanteaus (Accenture derives from 'accent' and 'future') or drop vowels (Flickr and Tumblr) or change letters (Lyft)."[2] For its part, *Bloomberg View* recently featured the headline "We're Going to Run Out of Company

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[1] Stephen L. Carter, Comment, *The Trouble with Trademark*, 99 YALE L.J. 759, 769 (1990) (discussing the widespread assumption that "the set of marks appropriate to a given product category is practically infinite"); *see also, e.g.*, William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 274 (1987) ("[T]he distinctive yet pronounceable combinations of letters to form words that will serve as a suitable trademark are as a practical matter infinite, implying a high degree of substitutability and hence a slight value in exchange."); Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813, 833 (1927) ("All the rest of infinity is open to defendant." (quoting Coca-Cola Co. v. Old Dominion Beverage Corp., 271 F. 600, 604 (4th Cir. 1921))). For further examples of the conventional wisdom, see *infra* notes 80–84 and accompanying text.

[2] Neal Gabler, *The Weird Science of Naming New Products*, N.Y. TIMES (Jan. 15, 2015), https://nyti.ms/2jD7Hh7 [https://perma.cc/459B-L4RQ]. For an overview of portmanteaux — words that blend the sounds and combine the meanings of two words — see DICK THURNER, PORTMANTEAU DICTIONARY: BLEND WORDS IN THE ENGLISH LANGUAGE, INCLUDING TRADEMARKS AND BRAND NAMES (1993).

Names."[3] The article recalled an entrepreneur's description of his efforts to find a name for his new company: "Every name we liked, either somebody already had it or it wasn't trademarkable or it meant something pornographic in another language."[4] For the *Chicago Tribune*, the focus was craft beer and the headline was "Craft Beer Makers Running Out of Names. How About Flip Donkey Doodleplunk?"[5] *NPR* has further reported that "[v]irtually every large city, notable landscape feature, creature and weather pattern of North America — as well as myriad other words, concepts and images — has been snapped up and trademarked as the name of either a brewery or a beer."[6] For *The Guardian*, the focus was band names under the headline "FKA Twigs, Slaves, Deers: Are We Running Out of Band Names?"[7] The article observed that "[a]ll the best monikers have been taken, and now the lawsuits are flying."[8] Reports suggest that the cosmetics industry is facing similar challenges: "The beauty industry has literally run out of names to use for new product[s] . . . . Why, even the name 'There Aren't Anymore Names for This' is taken."[9] Popular television series have also taken up the theme. *Futurama* and *South Park* have each featured

[3] Justin Fox, *We're Going to Run Out of Company Names*, BLOOMBERG VIEW (Jan. 13, 2017, 1:00 PM), https://www.bloomberg.com/view/articles/2017-01-13/we-re-going-to-run-out-of-company-names [https://perma.cc/32P7-NTWJ].

[4] *Id.* (quoting Justin Fox, *Who the Hell Is Henry Silverman?*, FORTUNE (Oct. 27, 1997), http://archive.fortune.com/magazines/fortune/fortune_archive/1997/10/27/233303/index.htm [https://perma.cc/CAB6-A7FJ]).

[5] Rex W. Huppke, *Craft Beer Makers Running Out of Names. How About Flip Donkey Doodleplunk?*, CHI. TRIB. (Jan. 7, 2015, 7:30 PM), http://www.chicagotribune.com/news/opinion/huppke/ct-craft-beer-names-huppke-talk-0107-20150107-story.html [https://perma.cc/H72Q-2MFN] (reporting that "craft beer brewers are struggling to find beer names that haven't already been used, occasionally even getting in legal fights over trademarked titles").

[6] Alastair Bland, *Craft Brewers Are Running Out of Names, and Into Legal Spats*, NPR (Jan. 5, 2015, 9:08 AM), http://www.npr.org/sections/thesalt/2015/01/05/369445171/craft-brewers-are-running-out-of-names-and-into-legal-spats [https://perma.cc/X8FZ-AJRV]. Bland reports that nearly every beer pun, like "Hopscotch" or "Bitter End," has also already been claimed. *Id.* In response to the depletion of beer brand names, one scientist developed a software program using artificial intelligence to come up with new names for beers, such as "Yamquak," "Dang River," "Toe Deal," and "Oarahe Momnilla Day Revenge Bass Cornationn Yerve of Aterid Ale." Ryan F. Mandelbaum, *We've Run Out of Beer Names and AI Is Here to Help*, GIZMODO (Aug. 3, 2017, 10:00 AM), http://gizmodo.com/weve-run-out-of-beer-names-and-ai-is-here-to-help-1797480178 [https://perma.cc/C5RQ-NC3M]. Needless to say, some of these names seem more competitively effective than others. *See infra* section I.B.2, pp. 964–70 (discussing what makes a "good" trademark).

[7] Sam Richards, *FKA Twigs, Slaves, Deers: Are We Running Out of Band Names?*, THE GUARDIAN (Feb. 17, 2015, 4:00 PM), https://www.theguardian.com/music/2015/feb/17/fka-twigs-slaves-deers-band-name-shortage [https://perma.cc/GVY9-NESU].

[8] *Id.*

[9] Kathleen Lee-Joe, *The Beauty Industry Has Run Out of Makeup Names*, DAILYLIFE (Jan. 16, 2015), http://www.dailylife.com.au/dl-beauty/makeup/the-beauty-industry-has-run-out-of-makeup-names-20150115-12qw2i.html [https://perma.cc/VPW9-BCJB].

scenes in which nearly all words or word combinations have already been trademarked.[10]

Meanwhile, free speech advocates have grown increasingly vocal about the pervasive trademarking of everyday words. The YouTube duo the Fine Brothers announced in 2016 that they had applied to register the word "react," after their series of videos.[11] The public reaction was critical and merciless. One commenter joked about registering the word "the" and threatened that "anyone who says it get[s] sued."[12] The commenter was no doubt unaware that at the time there were already eleven active trademark registrations claiming just the word THE.[13] Another commenter stated simply: "REACT is not yours to trademark."[14] And perhaps it wasn't: there were already three active registrations of the word in the particular class of services in which the Fine Brothers applied and thirty-seven active registrations overall.[15] In response to the furor, the Fine Brothers withdrew their trademark application.[16]

To the extent that legal and popular commentary has engaged the question of the exhaustibility of the supply of trademarks, the discussion has been based at best on anecdata and at worst on raw assertion. This Article seeks to move beyond both by systematically studying all 6.7 million trademark applications filed at the U.S. Patent and Trademark Office (PTO) from 1985 through 2016 together with the 300,000 trademarks already registered at the PTO as of 1985, which is made possible by the PTO's recently released Trademark Case Files Dataset.[17] We analyze the PTO data along two dimensions, which we term "trademark depletion" and "trademark congestion." Trademark depletion is the process by which a decreasing number of potential trademarks remain unclaimed by any trademark owner.[18] By contrast, trademark congestion

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[10] *Futurama: The Problem with Popplers* (20th Century Fox Television May 7, 2000); *South Park: Go Fund Yourself* (South Park Digital Studios Sept. 24, 2014).

[11] Sam Machkovech, *Fine Bros Back Down, Rescind Trademark Claim on the Word "React,"* ARS TECHNICA (Feb. 2, 2016, 1:15 AM), http://arstechnica.com/business/2016/02/fine-bros-back-down-rescind-trademark-claim-on-the-word-react/ [https://perma.cc/VZJ6-6HGG].

[12] Brian Ashcraft, *Popular YouTubers Try to Trademark "React" [UPDATE]*, KOTAKU (Feb. 1, 2016, 8:00 AM), http://kotaku.com/popular-youtubers-try-to-trademark-react-1756331442 [https://perma.cc/H3JX-F8E5].

[13] These findings are derived from the Trademark Case Files Dataset, which we describe in Part II. *See infra* Part II, pp. 973–77.

[14] Ashcraft, *supra* note 12.

[15] *See* U.S. Trademark Application Serial No. 86,689,364 (filed July 10, 2015) (applying to register REACT in International Class 41).

[16] Machkovech, *supra* note 11.

[17] *See infra* Part II, pp. 973–77 (discussing this dataset in greater detail).

[18] Note, as we discuss below, that we do not use the term "depletion" to refer necessarily to a decreasing number of potential marks that are actually available for adoption as trademarks. *See infra* section III.A, pp. 978–81 (analyzing word-mark depletion). Rather, as we use the term, depletion refers to a decreasing number of potential marks that are unclaimed by any trademark owner.

is the process by which an already-claimed mark is claimed by an increasing number of different trademark owners.[19] This Article focuses specifically on word marks and thus on word-mark depletion and word-mark congestion. Overall, the data show that the conventional legal wisdom is wrong and the conventional popular wisdom is right. The supply of word marks that are at least reasonably competitively effective as trademarks is finite and exhaustible. This supply is already severely depleted, particularly in certain sectors of the economy, and levels of depletion continue to rise. Those marks that are registered are growing increasingly congested. The result, as the data reveal, is that new trademark applicants are increasingly being forced to resort to second-best, less competitive marks, and the trademark system is growing increasingly — perhaps inordinately — crowded, noisy, and complex.

Specifically, the data present compelling evidence of substantial word-mark depletion, particularly with respect to the sets of potential marks that businesses prefer most: standard English words, short neologisms that are pronounceable by English speakers, and common American surnames. Together with the PTO dataset, we use the Corpus of Contemporary American English dataset of the 100,000 most frequently used words in American English and the U.S. Census's list of the 151,672 most frequently occurring surnames in the United States to show the extraordinarily high proportion of English words and common surnames that are already registered as trademarks. We further show the remarkably low proportion of words and surnames not confusingly similar to already-registered marks. With respect to short neologisms, we use the Carnegie Mellon University Pronouncing Dictionary and LOGIOS Lexicon tool to construct a phonetic representation of each word mark applied for or registered in the PTO dataset. Based on these

[19] Importantly, the phenomena of trademark depletion and trademark congestion are different from, though related to, the phenomenon of trademark "cluttering." Cluttering refers to marks that are registered but not used in commerce by their registrants in one or more of the classes in which they are registered. *See* GEORG VON GRAEVENITZ ET AL., TRADE MARK CLUTTERING: AN EXPLORATORY REPORT 5 (2012), https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/312092/ipresearch-tmcluttering.pdf [https://perma.cc/BEW7-AP2R] ("[W]e define cluttered trade mark registers as registers containing such a large number of unused or overly broad trade marks, that the costs of creating and registering new marks substantially increase for other applicants." (footnote and emphases omitted)); *id.* at 5 n.2 ("Overly broad in this context means seeking protection in more classes than are required."). Cluttering is a significant problem for foreign trademark systems that do not have as strict a use requirement as that imposed by American trademark law. *See id.* at 9 (discussing the differences between use requirements in the United States and European jurisdictions); *see also* Georg von Graevenitz, *Trade Mark Cluttering — Evidence from EU Enlargement*, 65 OXFORD ECON. PAPERS 721, 722, 732 (2013) (using data provided by the European Community Office for Harmonization in the Internal Market (now called the European Union Intellectual Property Office) to examine how European Union enlargement drove pharmaceutical firms to further clutter the Community Trade Mark register with registrations for marks they were unlikely to use). We address the problem of trademark clutter at the PTO in section V.B, *infra* pp. 1029–41.

data, we show that the supply of short neologisms not confusingly similar to already-registered marks is substantially declining. Finally, because many trademark applicants prefer to be able to register any new mark as a domain name in the .com top-level domain, we use Verisign's .COM Zone File consisting of some 128 million currently registered domain names in the .com top-level domain to illustrate the near-total depletion in that space of standard English words, common American surnames, and short neologisms.

Given these conditions, new applicants are increasingly resorting to suboptimal marks. The data indicate that applicants are applying less often for standard English words and common surnames and more often for more complex marks, as measured by character, syllable, and word count. We think that applicants are modifying their conduct in this manner primarily to avoid applying for marks that the PTO would refuse to register on the basis of section 2(d) of the Lanham Act,[20] which denies the registration of a mark that, due to its similarity with an already-registered mark, would confuse consumers as to source.[21] Yet applicants appear to be increasingly unsuccessful in avoiding such refusals. We use our original dataset of all 2.1 million trademark office actions issued by the PTO from 2003 through 2016 to report the increasing rate at which the PTO is refusing applied-for marks on the basis of section 2(d). Despite these trends, one class of applicants appears to be doing fine. Incumbent applicants (those applying based on previous registrations) continue to apply for non-neologisms at a rate substantially higher than nonincumbent applicants and continue to enjoy very low section 2(d) refusal rates.

The data also reveal compelling evidence of substantial word-mark congestion. Consistent with increasing section 2(d) refusal rates, trademark applicants are increasingly resorting to what we term "parallel registrations." Two firms can use exactly the same mark provided that their uses would not confuse consumers as to source (for example, DELTA for faucets and DELTA for airlines).[22] Nevertheless, a trademark owner would prefer to be at best the only firm in the economy

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[20] Ch. 540, 60 Stat. 427 (1946) (codified as amended in scattered sections of 15 U.S.C.).

[21] *See* 15 U.S.C. § 1052(d) (2012) (denying registration of any mark "which so resembles a mark registered in the Patent and Trademark Office, or a mark or trade name previously used in the United States by another and not abandoned, as to be likely, when used on or in connection with the goods of the applicant, to cause confusion, or to cause mistake, or to deceive").

[22] We use the term "parallel registrations," rather than "concurrent registrations," to refer to this phenomenon. Concurrent registrations are a subset of parallel registrations. Concurrent registrations consist of registrations in which two or more different parties operating in different regions of the country register the same mark for similar goods or services when each party's use is sufficiently geographically separate from each other party's use that no confusion will result. *See id.*; *see also* 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 20:81, at 20-197 (4th ed. 2017). Concurrent registrations are exceptionally rare. The PTO data indicate that for all 5.9 million Principal Register applications from 1985 through 2014, only 604 resulted in registrations subject to concurrent use. *See infra* Part II, pp. 973–77.

using a particular mark and at least the only firm in its economic sector doing so. Parallel uses may not confuse consumers as to source, but each use destroys the uniqueness and blurs the distinctiveness of the other, particularly for newer entrants. They also increase consumer search costs. Yet the data show steady increases in parallel registrations of frequently used English words and common surnames both across and within classes of goods and services. Firms appear to be increasingly settling for sharing marks with others.

These findings urge a rethinking of many of the fundamental assumptions underlying trademark law. Most importantly, they emphasize that the granting of trademark rights imposes real costs on the ecology of the trademark system, and that as we begin to test the limits of this ecology, these costs are mounting. New market entrants face significant barriers to entry in the form of the cost of searching for an unclaimed mark and in the ongoing cost of using a less effective mark. Consumers must cope with an ever more crowded field of trademarks consisting of increasingly complex marks that may refer to multiple different sources. The public domain must cope with the fact that, as we report below, when we use our language, about three-fourths of the time we are using a word that someone has claimed as a trademark.

These findings also counsel fundamental reforms of trademark law and doctrine. For example, given the costs a trademark registration imposes on the rest of the trademark system, particularly when the registration consists of a desirable word like a standard English word, we could enforce the use requirement more aggressively, as the PTO has already begun to do. We could also elevate the required showing of secondary meaning that an applicant must make when seeking to register a descriptive mark. In general, we could institute various schemes of congestion or peak pricing with respect to application, maintenance, and renewal fees to compel registrants to internalize more of the costs that their registrations impose on competitors, consumers, and the public domain. We could also take the degree of trademark depletion and congestion in particular sectors into account in the protectability, infringement, and trademark fair use analyses. The challenge in all cases will be to ensure that these reforms do not impose even greater costs on entrants. To be sure, many of these reforms may strike current trademark owners as unthinkable. But they are unthinkable only if we continue to fall back on the conventional wisdom that the trademark system is based on an inexhaustible resource, or in any case, that our economy could never reach a stage of development that would begin to test the limits of this resource. As we show, this conventional wisdom is wrong, and we must begin to consider ways of adapting to the limits of the trademark system.

Part I provides background on the trademark registration process and addresses the question of how to define the universe of good trademarks. Of course, the supply of possible trademarks, like the supply of

possible personal names, is theoretically infinite. At the extreme, new firms could simply adopt alphanumeric codes of indefinite length to identify themselves. We explain why this is the wrong way to think about the universe of potential trademarks and why marketers rightly see this universe in very different terms. Part II describes our datasets. Parts III and IV present evidence of word-mark depletion and word-mark congestion, respectively. Though we draw upon "big data," our evidence takes the form of straightforward descriptive statistics showing clear trends over time. Part V sets out the implications of our findings for trademark law and policy.

I. BACKGROUND

Trademark law protects brands, which almost always appear in the form of words as brand names, but may also manifest in other indicia of source including symbols, images, and sometimes a product's packaging or design.[23] A properly functioning trademark system is crucial to a fair and efficient marketplace.[24] The theory underlying trademark law is that producers will invest in product quality only if they can benefit from the reputation-related rewards of that investment.[25] Trademarks enable producers to build goodwill, and trademark protection prevents others from trading on that goodwill.[26] Trademarks also allow consumers to quickly and assuredly find the products they seek.[27] A trademark serves as shorthand for the complex of qualities of which a product consists, qualities that are often difficult to discern before purchase or use[28] — and sometimes even after use, as with some pharmaceuticals.[29] Trademarks reduce consumer search costs — consumers' costs of finding product characteristics of

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[23] 15 U.S.C. § 1127 (defining trademarks to include "any word[s], name[s], symbol[s], or device[s], or any combination thereof"); Wal-Mart Stores, Inc. v. Samara Bros., 529 U.S. 205, 216 (2000) (holding that nonutilitarian product design or packaging might constitute a protectable trademark). *See generally* Deven R. Desai, *From Trademarks to Brands*, 64 FLA. L. REV. 981 (2012) (discussing protecting brands as a unifying principle for the modern Lanham Act).

[24] *See* Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 NOTRE DAME L. REV. 1839, 1844–46 (2007) (describing this conventional view of trademark law).

[25] *See* Schechter, *supra* note 1, at 818 ("The true functions of the trademark are . . . to identify a product as satisfactory and thereby to stimulate further purchases by the consuming public.").

[26] *See* Robert G. Bone, *Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law*, 86 B.U. L. REV. 547, 549 (2006); *see also* Stacey L. Dogan & Mark A. Lemley, *Trademarks and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777, 786–88 (2004).

[27] Dogan & Lemley, *supra* note 26, at 787–88.

[28] *See, e.g.*, Landes & Posner, *supra* note 1, at 268–69; *see also infra* note 83 and accompanying text.

[29] *See, e.g.*, Charles J. Walsh & Marc S. Klein, *From Dog Food to Prescription Drug Advertising: Litigating False Scientific Establishment Claims Under the Lanham Act*, 22 SETON HALL L. REV. 389, 399 (1992) ("Drugs are true 'credence' goods because they possess qualities that cannot be evaluated through normal use.").

interest — because consumers can search for the easily perceivable trademark rather than a product's often more elusive characteristics.[30] Trademark law, then, benefits both consumers and producers. The primary way it does so is by preventing any firm from using a trademark that is so similar to another firm's mark that consumers will be confused as to the true source of one or both of the firms' goods.

In this Part, we provide background on trademark law and in particular on the trademark registration process. We also review both the legal and marketing considerations that limit the universe of potential trademarks.

A. The Trademark Registration Process

To qualify for registration at the PTO, a trademark must meet three basic requirements. First, it must be "distinctive" of the source of the goods or services with which it is used.[31] Second, it must be used in commerce.[32] Third, it must not violate any of the Lanham Act's various statutory bars to protection.[33] For our purposes, the most important bar to registration is the section 2(d) bar against the registration of any mark that is confusingly similar to an already-registered mark.[34] As we show

[30] Landes & Posner, *supra* note 1, at 269–70.

[31] *See* 15 U.S.C. § 1052(f) (2012).

[32] *See id.* § 1051(a)(1) (providing for registration of a mark "used in commerce"); *id.* § 1051(d) (providing for registration of a mark filed on an intent-to-use basis upon filing of a statement that the mark is "used in commerce"). Certain foreign applications need not meet the use-in-commerce requirement to receive registration. *See id.* § 1126(e) (providing for registration of a mark already registered in certain foreign jurisdictions provided that the applicant has a bona fide intention to use the mark in commerce in the United States, but specifying that "use in commerce shall not be required prior to registration"); *id.* § 1141f(a) (providing for registration of a mark under the Madrid Protocol system provided that the applicant has a bona fide intention to use the mark in commerce in the United States). Applications filed under § 1126(e) (so-called "Section 44(e) applications") are rare. The PTO data indicate that of the 385,249 Principal Register trademark applications filed in 2016, 5585 were filed on this basis. Applications filed under § 1141f(a) (so-called "Section 66(a) applications") are also rare. There were 15,374 such applications filed in 2016. See *infra* Part II, pp. 973–77, for discussion of the Trademark Case Files Dataset. Regardless of the statutory basis for their registration, all registrants must show that they are making a "use in commerce" in order to pursue a claim of trademark infringement. *See* Rearden LLC v. Rearden Commerce, Inc., 683 F.3d 1190, 1203 (9th Cir. 2012) ("[A] party pursuing a trademark claim must meet a threshold 'use in commerce' requirement."). *But see* Belmora LLC v. Bayer Consumer Care AG, 819 F.3d 697, 706 (4th Cir. 2016) (holding that § 1125(a) "does not require that a plaintiff possess or have used a trademark in U.S. commerce as an element of the cause of action").

[33] *See* 15 U.S.C. § 1052.

[34] *See infra* section I.A.3, pp. 960–61 (elaborating on the requirements of section 2(d)). Our dataset of all office actions issued by the PTO from 2003 through 2016 shows that other bars to registration rarely form a ground for rejection. Of the 3,376,150 applications for registration on the Principal Register filed from 2003 through 2014, only 0.08% were met with an office action refusing registration on the ground that the mark was functional, 0.02% on the ground that the mark was disparaging, and 0.06% on the ground that the mark was scandalous. See *infra* Part II, pp. 973–77, for discussion of our PTO office action dataset. In *Matal v. Tam*, 137 S. Ct. 1744 (2017), the Supreme Court held that the Lanham Act's disparagement bar to registration was unconstitutional

in Part III, a significant and increasing proportion of applications are being refused on this ground.

A trademark need not take any particular form to qualify for registration. The PTO has registered as trademarks words,[35] phrases,[36] two-dimensional images, both moving[37] and still,[38] three-dimensional shapes[39] including building exteriors,[40] sounds,[41] scents,[42] textures,[43] and even particular motions.[44] Nevertheless, a very high proportion of registered trademarks consist in whole or part of text. As of the end of 2016, there were 2,094,051 active trademark registrations on the PTO's Principal Register.[45] Of these, 95.7% included text; 75.6% consisted only

under the First Amendment's Free Speech Clause. *Id.* at 1751. It is probable that the scandalousness bar to registration will also be found to be unconstitutional. *See* Letter Brief of Appellant Eric Brunetti at 1, *In re* Brunetti, No. 2015-1109 (Fed. Cir. Aug. 9, 2017), ECF No. 70 ("[T]here is no difference between the Disparagement Clause and the Scandalous Clause. . . . The Disparagement Clause is unconstitutional [under *Matal*]. It follows that the Scandalous Clause is unconstitutional.").

35 *See, e.g.*, AMAZON, Registration No. 2,832,943; APPLE, Registration No. 1,078,312; NIKE, Registration No. 978,952.

36 *See, e.g.*, JUST DO IT, Registration No. 1,875,307.

37 See, for example, Registration No. 4,129,188, in which the mark "consists of a moving image mark, consisting of an animated sequence showing a series of rectangular video screens of varying sizes, that fly inward in whirlwind fashion, as if from the viewer's location, toward the center of the viewer's screen, where they coalesce into the word 'HULU.' The drawing represents three (3) stills (freeze frames) from the animated sequence." *Id.*

38 See, for example, Registration No. 1,145,473, in which the mark "is comprised of a 'Wing' design." *Id.*

39 See, for example, Registration No. 3,457,218, for the shape of the original iPhone.

40 See, for example, Registration No. 1,045,615, for the exterior design of a McDonald's restaurant.

41 See, for example, Registration No. 2,519,203, in which the mark consists of "the sound of a deep, male, human-like voice saying 'Ho-Ho-Ho' in even intervals with each 'Ho' dropping in pitch." *Id.*

42 See, for example, Registration No. 3,143,735, for office supplies, in which "[t]he mark consists of a vanilla scent or fragrance." *Id.*

43 See, for example, Registration No. 3,155,702, in which "[t]he mark consists of a velvet textured covering on the surface of a bottle of wine." *Id.*

44 See, for example, Registration No. 2,793,439, for the scissor door configuration of a Lamborghini automobile. "The mark consists of the unique motion in which the door of a vehicle is opened. The doors move parallel to the body of the vehicle but are gradually raised above the vehicle to a parallel position." *Id.* So-called "nontraditional marks" of this nature are very rare. Of the 2,094,051 active registrations on the Principal Register in 2016, only 199 were for nontraditional marks, of which most were sound marks. See *infra* Part II, pp. 973–77, for discussion of the Trademark Case Files Dataset.

45 Marks that meet all requirements for registration are registered on the Principal Register. *See* 15 U.S.C. § 1052 (2012). Noninherently distinctive marks that are "capable of distinguishing applicant's goods or services" but that have not yet developed acquired distinctiveness are registrable on the Supplemental Register provided that they meet all other requirements for registration. *See id.* § 1091. Registration on the Supplemental Register is of very limited value. *See In re* Federated Dep't Stores Inc., 3 U.S.P.Q.2d 1541, 1543 (T.T.A.B. 1987) ("It is overwhelmingly agreed that a Supplemental Register registration is evidence of nothing more than the fact that the registration issued on the date printed thereon. It is entitled to no presumptions of validity, ownership, use or

of text.[46]

Among the various requirements that a trademark must meet in order to qualify for registration, a few merit further discussion below. Where appropriate, our discussion focuses on the doctrine applying to marks containing text because they constitute the great majority of trademarks and are the focus of our study.

1. The Distinctiveness Requirement. — The most important requirement by far that a mark must meet to qualify for registration is that it be perceived by consumers as distinctive of its source.[47] To determine if a word mark qualifies as distinctive, trademark doctrine generally classifies the mark into one of five categories: (1) "fanciful" marks, which are coined words that bear no clear semantic relation to the goods or services to which they are attached (such as EXXON for gasoline or KODAK for photographic film); (2) "arbitrary" marks, which are preexisting words that bear no clear semantic relation to their goods or services (such as APPLE for computers or AMAZON for online retail services); (3) "suggestive" marks, which are evocative but not directly descriptive of their products' characteristics (such as COPPERTONE for suntan oil or IVORY for soap); (4) "descriptive" marks, which describe their products' characteristics (such as IPHONE for mobile phones); and (5) "generic" marks, which refer to the type of product to which they are affixed (such as ESCALATOR for moving staircase or ASPIRIN for acetylsalicylic acid).[48]

Trademark law holds that fanciful, arbitrary, and suggestive marks possess "inherent distinctiveness" of their source — and thus meet the distinctiveness requirement on that basis — because consumers immediately interpret them as designations of source rather than as descriptions of the goods to which they are affixed.[49] For example, as a matter of basic consumer literacy, consumers would likely immediately perceive a neologism like LENOVO embossed on the bezel of a computer monitor as a designation of source. In contrast, consumers would likely interpret a descriptive term like "high-definition" embossed on the bezel as a non-source-specific description of the product.

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priority." (citations omitted)). We study only registrations on the Principal Register to ensure that our findings are based on marks that have been determined to be distinctive of source.

[46] See *infra* Part II, pp. 973–77, for discussion of the Trademark Case Files Dataset.

[47] 15 U.S.C. § 1052(f).

[48] *See* Abercrombie & Fitch Co. v. Hunting World, Inc., 537 F.2d 4, 9–11 (2d Cir. 1976) (setting out these categories); *see also* Sally Beauty Co. v. Beautyco, Inc., 304 F.3d 964, 975–76 (10th Cir. 2002). One of us is separately writing about how trademark law's conventional distinctiveness spectrum is misguided in multiple important ways, a topic well beyond the scope of this project. *See* Jeanne C. Fromer, Overhauling Trademark Distinctiveness (Sept. 18, 2017) (unpublished manuscript) (on file with author).

[49] *Sally Beauty Co.*, 304 F.3d at 976–77.

Unlike its treatment of fanciful, arbitrary, and suggestive marks, trademark law holds that descriptive marks are not inherently distinctive of source because consumers may interpret them as mere descriptions of their products.[50] To be registrable, descriptive marks must develop "acquired distinctiveness" of source (also often called "secondary meaning").[51] They typically do so over time through advertising and use in the marketplace, which educate consumers that these marks are designations of source rather than mere descriptions of their products' characteristics.[52]

Finally, because they are understood to be incapable of source designation, generic marks cannot be registered at the PTO.[53]

2. Classification of Goods and Services. — In addition to demonstrating a trademark's inherent or acquired distinctiveness, a trademark applicant must specify the goods and services in connection with which the applicant claims the exclusive right to use the mark.[54] The applicant must do so in the form of a written description of the goods and services and also by reference to one or more of the forty-five categories of goods and services contained in the *International Classification of Goods and Services for the Purposes of the Registration of Marks*, otherwise known as the "Nice Classification" after the French city where it was established in 1957.[55] Now in its eleventh edition,[56] the Nice Classification is idiosyncratic.[57] The different classes are not of comparable scope, as the list of Nice Class Headings provided in Appendix A suggests. For example, Class 26 narrowly covers "Lace and embroidery, ribbons and braid; buttons, hooks and eyes, pins and needles; artificial flowers; hair decorations; false hair."[58] Similarly, Class 34 covers "Tobacco; smokers' articles; matches."[59] Meanwhile, Class 1 broadly covers "Chemicals

[50] *Id.* at 977–78.

[51] *Id.* at 978.

[52] *Id.*

[53] *See Abercrombie*, 537 F.2d at 9.

[54] *See* 15 U.S.C. § 1051(a)(2) (2012).

[55] U.S. PATENT & TRADEMARK OFFICE, U.S. DEP'T OF COMMERCE, TRADEMARK MANUAL OF EXAMINING PROCEDURE § 1401.03 (Oct. 2017) [hereinafter TMEP] (citing Requirements for a Complete Trademark or Service Mark Application, 37 C.F.R. § 2.32(a)(7) (2017)); *see Nice Classification*, WORLD INTELL. PROP. ORG. (2017), http://www.wipo.int/classifications/nice/en/ [https://perma.cc/D6YY-UQPH]; *see also List of Classes with Explanatory Notes*, WORLD INTELL. PROP. ORG., http://web2.wipo.int/classifications/nice/nclpub/en/fr/20170101/classheadings/?explanatory_notes [https://perma.cc/ZPV7-YKTF].

[56] *Nice Classification*, *supra* note 55.

[57] For a study of how classification schemes often invisibly encode particular, idiosyncratic points of view, see generally GEOFFREY C. BOWKER & SUSAN LEIGH STAR, SORTING THINGS OUT: CLASSIFICATION AND ITS CONSEQUENCES (1999), which analyzes a myriad of classification schemes, including the International Classification of Diseases and race classification in South Africa under apartheid.

[58] *See infra* app. at 1044.

[59] *See infra* app. at 1045.

used in industry, science and photography, as well as in agriculture, horticulture and forestry"[60] and Class 12 covers "Vehicles; apparatus for locomotion by land, air or water."[61] Figure 1 shows the relative significance of the various Nice classes for all active trademark registrations at the PTO in 2016. The data suggest that the most important classes, as measured by active trademark registrations,[62] are Class 9 (electronic goods), Class 16 (printed matter and publications), Class 25 (apparel goods), Class 35 (business administration services), Class 41 (education, entertainment, and cultural and sporting activities services), and Class 42 (computer-related services). Though less heavily populated, another economically important class is Class 5 (pharmaceuticals). In our analysis of trademark depletion and congestion in Parts III and IV, we often focus on certain of these classes and compare their class-specific data to data drawn from all classes.[63] We do so to illustrate the implications of depletion and congestion for the most important economic sectors.[64]

[60] *See infra* app. at 1043.

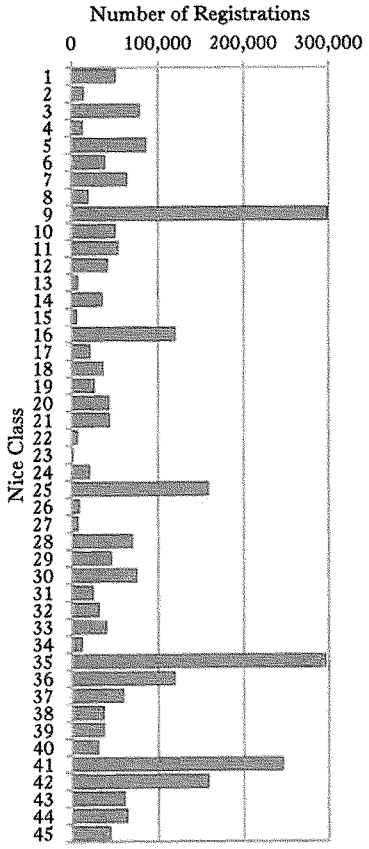
[61] *See infra* app. at 1044.

[62] There is a strong correlation between the number of trademark registrations in a particular Nice class and the economic importance of that class. As a 2016 U.S. government study shows, trademark-intensive industries account for the largest number of intellectual-property-intensive industries in the United States and contribute the most employment from such industries to the U.S. economy. ECON. & STATISTICS ADMIN. & U.S. PATENT & TRADEMARK OFFICE, INTELLECTUAL PROPERTY AND THE U.S. ECONOMY: 2016 UPDATE, at ii, 8–9, 34–45 (Sept. 2016), https://www.uspto.gov/sites/default/files/documents/IPandtheUSEconomySept2016.pdf [https://perma.cc/3XVY-49UM].

[63] We used keywords to create our own classes of goods and services in certain areas of interest, such as by combining beverages across Nice classes or by limiting a Nice class to a smaller subset like software or automobiles. These bespoke classes yielded results sufficiently similar to Nice class results that we report only the latter.

[64] To avoid overwhelming and confusing readers, we do not consistently present class-specific results for all classes or even for the economically most important classes. We present such results only when we think it is instructive. When we do not, it is safe to assume that the class-specific results generally follow the contours of the results for the overall population of applications or diverge from those overall results in insignificant ways.

Figure 1: Active Registrations in 2016 by Nice Class



3. The Bar to the Registration of Marks Confusingly Similar to Already-Registered Marks. — Not all distinctive marks are registrable. Section 2(d) of the Lanham Act bars the registration of a mark that so resembles an already-registered mark "as to be likely, when used on or in connection with the goods of the applicant, to cause confusion, or to cause mistake, or to deceive."[65] For example, on the basis of section 2(d), the PTO recently refused to register COW CREEK for beer in light of the preexisting mark BULL CREEK BREWING for beer,[66] EMERALD COOL for air conditioners in light of the preexisting mark

[65] 15 U.S.C. § 1052(d) (2012).

[66] *In re* BWBC, Inc., 2015 WL 3542842, at *6 (T.T.A.B. 2015).

EMERALD AIRE for air conditioners,[67] 2GOOD for chocolate candy in light of TOOGOOD for various goods including candy,[68] and LYTNING for protective industrial boots in light of LIGHTNING GLOVES for disposable latex gloves.[69] By contrast, the PTO has recently found no likelihood of confusion under section 2(d) between the mark BON O BON for chocolates and pastries and the mark BON BON for sugar confectionary.[70]

Section 2(d) also bars the registration of any mark that is confusingly similar to an unregistered "mark or trade name previously used in the United States by another and not abandoned."[71] In practice, however, due to the practical difficulties of identifying "previously used" unregistered marks and determining whether they continue to be used in commerce, the initial ex parte examination of the trademark application reviews only registered marks for conflicts.[72]

The PTO refers to a number of factors to determine if an applicant's mark is confusingly similar to an already-registered mark.[73] The most important of these are (1) "[t]he similarity or dissimilarity of the marks in their entireties as to appearance, sound, connotation and commercial impression"; and (2) "[t]he relatedness of the goods or services as described in the application and registration(s)."[74] The PTO also considers such factors as the similarity of the applicant's and registrant's channels of trade, the sophistication of the relevant consumers, and "[t]he number and nature of similar marks in use on similar goods"[75] (on the assumption that if the already-registered mark exists in a crowded field of similar marks, it is entitled to only a narrow scope of protection).[76]

4. The Protection of Unregistered Marks. — The Lanham Act protects any trademark that is distinctive, used in commerce, and not statutorily barred from protection even if the trademark is not registered at

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67 *In re* Fla. Appliances, Inc., 2015 WL 3430235, at *5 (T.T.A.B. 2015).

68 *In re* August Storck KG, 2015 WL 3430229, at *6 (T.T.A.B. 2015).

69 *In re* Columbia Ins. Co., 2015 WL 3430233, at *1, *8 (T.T.A.B. 2015).

70 Arcor S.A.I.C. v. "ROT FRONT" Open-Type Joint Stock Co., 2017 WL 3670337, at *9 (T.T.A.B. 2017).

71 15 U.S.C. § 1052(d) (2012).

72 *See* TMEP, *supra* note 55, § 1207.03.

73 *See, e.g.*, *In re* E.I. DuPont DeNemours & Co., 476 F.2d 1357, 1361 (C.C.P.A. 1973) (listing thirteen factors that should be considered in determining the likelihood of confusion under section 2(d)).

74 TMEP, *supra* note 55, § 1207.01 (repeating language from *E.I. DuPont*, 476 F.2d at 1361).

75 *E.I. DuPont*, 476 F.2d at 1361.

76 These factors are closely similar to those used by courts to determine the likelihood of confusion in the trademark-infringement context. *See, e.g.*, AMF Inc. v. Sleekcraft Boats, 599 F.2d 341, 348–49 (9th Cir. 1979). *See generally* Barton Beebe, *An Empirical Study of the Multifactor Tests for Trademark Infringement*, 94 CALIF. L. REV. 1581 (2006) (examining and comparing quantitatively each circuit's multifactor test for the likelihood of consumer confusion).

the PTO.[77] Nonetheless, the law provides several important incentives to encourage trademark owners to register their marks, including nationwide priority in the mark from the date of application and enhanced remedies.[78]

Yet if federal case law is any indication, trademark owners routinely assert exclusive rights in unregistered marks.[79] The Principal Register thus significantly understates the number of commercial signifiers that federal law actually protects as trademarks. For this reason, even a study of the two million trademarks currently registered on the Principal Register that contain text will allow only the most conservative estimate of the full severity of any problem of word-mark depletion and congestion. We think that this makes the empirical evidence of depletion and congestion we present in Parts III and IV, which is based only on marks registered on the Principal Register, all the more powerful.

B. The Finite Universe of "Good" Trademarks

With this background on trademark law set out, we now turn to the legal and marketing considerations that limit the universe of potential trademarks. Before doing so, we probe the conventional wisdom recited by courts and commentators alike that there is an infinite stockpile of possible trademarks.

1. The Conventional Wisdom Clarified. — As we stated above, courts and commentators have long professed the belief that the supply of potential trademarks is inexhaustible.[80] They have done so since the

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[77] *See* 15 U.S.C. § 1125(a) (2012) (providing anticonfusion protection to both registered and unregistered marks). The Lanham Act's protection of both registered and unregistered marks provokes the important question whether marks that are refused registration might nonetheless be protected as unregistered marks. In a thorough and thoughtful recent article on trademark registration, Rebecca Tushnet addressed how the American scholarly approach of "treat[ing] registration like a borrowed civil law coat thrown awkwardly over the shoulders of a common law regime" leaves unanswered important questions like the status of a refused registration. Rebecca Tushnet, *Registering Disagreement: Registration in Modern American Trademark Law*, 130 HARV. L. REV. 867, 871 (2017). Tushnet's analysis leads her to understand "[r]egistration's core problem [of trying] to serve two goals that are only partially compatible: helping businesses order their affairs and matching rights with consumer understanding." *Id.* at 916. To fix this problem, registration needs to become either more procedural or more substantive. *Id.* at 929–40.

[78] *See* 15 U.S.C. §§ 1057(c), 1072 (nationwide constructive use conferring priority); *id.* § 1065 (possibility of the mark becoming incontestable after five years); *id.* § 1117(a)–(b) (enhanced remedies).

[79] *See, e.g.*, Cross Commerce Media, Inc. v. Collective, Inc., 841 F.3d 155, 159 (2d Cir. 2016) (asserting exclusive rights in unregistered mark COLLECTIVE); Uber Promotions, Inc. v. Uber Techs., Inc., 162 F. Supp. 3d 1253, 1259 (N.D. Fla. 2016) (asserting exclusive rights in unregistered mark UBER PROMOTIONS).

[80] *See, e.g.*, Florence Mfg. Co. v. J.C. Dowd & Co., 178 F. 73, 75 (2d Cir. 1910) ("It is so easy for the honest business man, who wishes to sell his goods upon their merits, to select from the entire material universe, which is before him, symbols, marks and coverings which by no possibility can cause confusion between his goods and those of competitors . . . ."); *supra* note 1 and accompanying text.

inception of modern trademark law in the nineteenth century[81] and they continue to do so.[82] Typically no evidence or analysis is presented to support this claim.

Stated in its most basic, unqualified form, the theoretical conjecture that the supply of trademarks is inexhaustible is, like the claim that there are infinitely many numbers, trivial. Firms can obviously coin new words or phrases of ever-increasing length to avoid conflicts with already-registered marks. But it is just as obvious that given the limits of human cognition and communication, incumbent firms using shorter, less complex, more familiar, more easily pronounced, and more evocative marks will enjoy a significant competitive advantage over new firms that must resort to brand names that are less effective along these dimensions and for that reason remain unclaimed. In a seminal article on the economic analysis of trademark law, William Landes and Richard Posner explain the advantages of a short, memorable trademark:

> Suppose you like decaffeinated coffee made by General Foods. If General Foods's brand had no name, then to order it in a restaurant or grocery store you would have to ask for "the decaffeinated coffee made by General Foods." This takes longer to say, requires you to remember more, and requires the waiter or clerk to read and remember more than if you can just ask for "Sanka."[83]

Landes and Posner were comparing a product branded SANKA to the same product bearing no trademark at all. It is certainly possible to imagine some Borgesian infinite universe of theoretically possible trademarks, but much of that universe would consist of trademarks that are comparable to, if not worse than, no trademark at all.[84]

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[81] *See, e.g.*, Cuervo v. Owl Cigar Co., 68 F. 541, 541 (C.C.S.D.N.Y. 1895) (claiming that the defendant had "an almost infinite variety of designs to choose from or to devise").

[82] *See, e.g.*, Stork Rest., Inc. v. Sahati, 166 F.2d 348, 361 (9th Cir. 1948) ("This thought that a newcomer has an 'infinity' of other names to choose from without infringing upon a senior appropriation runs through the decisions like a leitmotiv."); Ambrosia Chocolate Co. v. Ambrosia Cake Bakery, Inc., 165 F.2d 693, 697 (4th Cir. 1947) ("[A] man of ordinary intelligence could easily devise a score of valid trade-marks in a short period of time."); Lettuce Entertain You Enters., Inc. v. Leila Sophia AR, LLC, 703 F. Supp. 2d 777, 791 (N.D. Ill. 2010) ("[T]here are infinite other names [than 'lettuce'] under which defendants may continue to operate their restaurant."); Aveda Corp. v. Evita Mktg., Inc., 706 F. Supp. 1419, 1429 (D. Minn. 1989) ("An inference of an intent to trade upon the plaintiff's good will arises if the defendants, with knowledge of plaintiff's mark, chose a mark similar to that mark from the infinite number of possible marks."); *see also supra* note 1 and accompanying text; *cf.* Ann Olivier McGeehan, *Trademark Registration of a Celebrity Persona*, 87 TRADEMARK REP. 351, 352–54 (1997) (positing an infinite number of image marks). *But see* Symposium, *Trademarks in 2017: Their Creation and Protection*, 82 TRADEMARK REP. 880, 899 (1992) (suggesting, in a section by Hans Peter Kunz-Hallstein, that, because there is a finite number of letters, there is a finite number of potential trademarks).

[83] Landes & Posner, *supra* note 1, at 268–69.

[84] *Cf.* JORGE LUIS BORGES, *The Library of Babel*, *in* COLLECTED FICTIONS 112, 112–15 (Andrew Hurley trans., Viking Penguin 1998) (1944) (describing a library "composed of an indefinite, perhaps infinite number of hexagonal galleries," *id.* at 112, that contains all possible 410-page books consisting of every possible ordering of twenty-two letters, periods, commas, and spaces).

The more interesting conjecture is that we will never exhaust the supply of trademarks that are at least as competitively effective as those already claimed. For shorthand, we refer to such marks as "good" marks. This conjecture is not theoretical but empirical. It recognizes that the universe of good trademarks is finite, but it asserts that, as a practical matter, we will never exhaust it. Focusing on word marks, the strong form of this conjecture is that there would still be a surplus of good trademarks even if each firm in the economy wished to use a unique word mark not confusingly similar to the word mark of any other firm in the economy. A weaker form of the conjecture is that we will never exhaust the supply of good trademarks even if each firm operating in a particular class of goods or services wished to use a mark not confusingly similar to the mark of any other firm operating in that class.

Both the strong and weak forms of the inexhaustibility conjecture require some understanding of what constitutes a good, competitively effective trademark. It is to this issue that we now turn.

2. The Characteristics of Good Trademarks. — There is an enormous literature on how to choose a good brand name and on branding strategy more generally. Not all of its advice is consistent. But the literature does agree on a number of general principles concerning what makes some trademarks more effective than others. We emphasize that these are *general* principles. There are extremely successful brands that violate one or all of them, and practices may vary by industry (for example, pharmaceuticals). But on the whole, taking into account the *entire* population of brand names, empirical studies show that firms that adhere to these principles tend to perform better than those that do not.[85]

The first principle is that brand names that are unique are significantly more effective than brand names that lack uniqueness.[86] A brand name may be unique in two respects. It may be unique in the sense that only one firm in the economy uses the name. By contrast, brand names

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[85] *See, e.g.*, Michael J. Cooper, Orlin Dimitrov & P. Raghavendra Rau, *A Rose.com by Any Other Name*, 56 J. FIN. 2371 (2001) (investigating "the effect of company name changes to Internet-related 'dotcom' names on the company's stock price," and finding an "increase in shareholder wealth around the announcement date[, which] remains permanent in the postannouncement period," *id.* at 2373); Michael J. Cooper, Huseyin Gulen & P. Raghavendra Rau, *Changing Names with Style: Mutual Fund Name Changes and Their Effects on Fund Flows*, 60 J. FIN. 2825 (2005) (finding that "flows to funds increase dramatically when funds change their names to look more (less) like the current positive (negative) return styles," and that this finding "holds even for the funds . . . whose holdings do not materially reflect the style implied by their new name," *id.* at 2826); T. Clifton Green & Russell Jame, *Company Name Fluency, Investor Recognition, and Firm Value*, 109 J. FIN. ECON. 813 (2013) (finding that "companies with short, easy to pronounce names have higher breadth of ownership, greater share turnover, lower transaction price impacts, and higher valuation ratios," *id.* at 813).

[86] *See* ELI ALTMAN, DON'T CALL IT THAT 73 (2d ed. 2016); ALEXANDRA WATKINS, HELLO, MY NAME IS AWESOME: HOW TO CREATE BRAND NAMES THAT STICK 24–25 (2014).

that suffer from parallel uses, even when those uses do not confuse consumers as to source, are less distinctive of their various owners. As the trademark literature has recognized in a related context, consumers must "think for a moment" upon exposure to the brand name to determine to which company it refers.[87] Parallel owners additionally face the risk that another parallel user may tarnish the brand name, with the damage spreading to all of its users.[88] A brand name may also be unique in the sense that it is significantly different from any other brand name in the economy. This is the form of brand name uniqueness on which marketers typically focus.[89] GOOGLE is now a classic example of such a unique mark. So-called "copycat" brand names that pattern themselves after leading brands in their fields are generally thought to be ineffective.[90] All else equal, owners of unique trademarks, both unique to their owners and unique as against all other marks, enjoy a considerable competitive advantage.

Second, common English words when used in an arbitrary or suggestive manner are generally more competitively effective than coined words. In comparison to neologisms, common words such as APPLE for computers or KIND for snack bars more readily impart a feeling of familiarity and authenticity, and have proven themselves to be relatively easy to pronounce, hear, read, and remember.[91] These are all crucial characteristics of effective trademarks — the nonsense naming of comic

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[87] Richard A. Posner, *When Is Parody Fair Use?*, 21 J. LEGAL STUD. 67, 75 (1992) ("A trademark seeks to economize on information costs by providing a compact, memorable and unambiguous identifier of a product or service. The economy is less when, because the trademark has other associations, a person seeing it must think for a moment before recognizing it as the mark of the product or service."). *But see* Rebecca Tushnet, *Gone in Sixty Milliseconds: Trademark Law and Cognitive Science*, 86 TEX. L. REV. 507, 527–46 (2008) (expressing skepticism about this line of thinking).

[88] *See* Michael Handler, *What Can Harm the Reputation of a Trademark? A Critical Re-Evaluation of Dilution by Tarnishment*, 106 TRADEMARK REP. 639 (2016) (reviewing and undermining the normative basis for dilution by tarnishment).

[89] *See, e.g.*, ALTMAN, *supra* note 86, at 73.

[90] *See* WATKINS, *supra* note 86, at 24 (emphasizing that "[c]opycat names are lazy, lack originality, and blatantly ride on a competitor's coattails," and can risk trademark infringement). That is not to say that what makes a name unique and memorable is static. In fact, once other companies have chosen names, to avoid being a copycat, one might need to look for a different type of name. For example, Alexandra Watkins notes recent copycat trends to avoid, such as _____Monkey, _____Rocket, _____Daddy, _____.ly, i_____, e_____, double "o" (as in Google or Yahoo), fruit names (like Apple and Blackberry), and Cloud. *Id.* at 25.

[91] *See id.* at 35–38; Leslie Collins, *A Name to Conjure with: A Discussion of the Naming of New Brands*, 11 EUR. J. MARKETING 339 (1977). *But see* ALTMAN, *supra* note 86, at 79–80 ("Not understanding something right away is a great reason for someone to pay attention. Hell, they might even look it up."); Tushnet, *supra* note 87, at 533 ("High-frequency words are easy to process, and thus we do not encode them distinctively, meaning that we do not pay much attention to them. If they are used as brand names, we will have trouble remembering the brand. . . . Given that advertisers have trouble getting consumers to pay attention to advertising in general, . . . low-frequency words seem more desirable as marks." (footnote omitted)).

strip "xkcd" notwithstanding.[92] It also generally requires less effort to instill common words with brand meaning,[93] especially when the words' meanings and connotations sync with the brand's message.[94] Relatedly, if a coined word is used, it tends to be more effective when it calls to mind positively charged or brand-appropriate words more familiar to the consumer. For example, VERIZON calls to mind "horizon," suggesting a forward-looking brand; INTEL suggests "intelligent;" and VIAGRA calls to mind, all at once, "vigor," "vitality," "aggression," and "Niagara" (suggesting both water and honeymoons).[95] Words that invoke negatively charged words should be avoided. In a classic example, the brand name for Ford's ill-fated EDSEL automobile invoked "weasel" and "pretzel" in association tests.[96]

Third, shorter trademarks are more effective than longer trademarks. George Zipf observed a century ago that more common words tend to be shorter than less common words.[97] He hypothesized that this maximized the efficiency of a language because shorter words require less effort to use.[98] The same reasoning applies to trademarks — and is a further reason why brand names consisting of common English words are preferred.[99] Studies confirm that recognition and recall are better for shorter words and shorter brand names.[100] This explains why, as a

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[92] Randall Munroe, *xkcd.com - A webcomic*, XKCD, http://xked.com/about/ [https://perma.cc/XB9Y-7CXU]. Randall Munroe, the creator of xked, explains the name of his web comic: "It's not actually an acronym. It's just a word with no phonetic pronunciation — a treasured and carefully-guarded point in the space of four-character strings." *Id.*

[93] *See* Fox, *supra* note 3 ("Actual things that make sense to people in the English language make more sense than trying to get people to align behind a seven-letter word you just invented . . . ." (quoting Eli Altman)).

[94] ALTMAN, *supra* note 86, at 85–86, 111–12; WATKINS, *supra* note 86, at 6–7.

[95] Sharon Begley, *StrawBerry Is No BlackBerry: Building Brands Using Sound*, WALL ST. J. (Aug. 26, 2002, 3:47 PM), https://www.wsj.com/articles/SB1030310730179474675 [https://perma.cc/327A-FC9Z]; *see also* Kim Robertson, *Strategically Desirable Brand Name Characteristics*, J. CONSUMER MARKETING, Fall 1989, at 61, 63–65.

[96] MATT HAIG, BRAND FAILURES 20 (reprt. 2003).

[97] GEORGE KINGSLEY ZIPF, THE PSYCHO-BIOLOGY OF LANGUAGE 28–29 (1935) (reasoning that "high frequency is the cause of small magnitude" of word length, *id.* at 29); *see also* Landes & Posner, *supra* note 1, at 272 (discussing Zipf's observation).

[98] ZIPF, *supra* note 97, at 38 (positing that the allocation of short words to commonly occurring concepts maximizes efficiency, by taking less effort to produce); *see also* Landes & Posner, *supra* note 1, at 272 (discussing Zipf's reasoning).

[99] *See* Landes & Posner, *supra* note 1, at 274. Chinese law in fact bars companies from registering names that take the form of "paragraphs or long sentences," such as "A Group of Youths in Baoji Holding a Cherished Dream That Under the Leadership of Uncle Niu They Will Create the Miracle of Life Network Technology Company Ltd.," which is thirty-nine characters long in the original Chinese. Ailin Tang, *In China, Your Company's Name Can't Be a Mouthful*, N.Y. TIMES (Aug. 18, 2017), https://nyti.ms/2v8zvvO [https://perma.cc/2DWL-MDWG].

[100] *See, e.g.*, Alan D. Baddeley, Neil Thomson & Mary Buchanan, *Word Length and the Structure of Short-Term Memory*, 14 J. VERBAL LEARNING & VERBAL BEHAV. 575, 584 (1975) (finding when controlling for word frequency that five-syllable words are harder to recall than one-syllable words); Bruce G. Vanden Bergh et al., *Sound Advice on Brand Names*, 61 JOURNALISM & MASS

complex brand name becomes more successful, consumers will often try to simplify it to make it easier to use — and the brand owner will then typically register the abbreviation as its trademark. Consider, for example, CHEVY for CHEVROLET, COKE for COCA-COLA, FEDEX for FEDERAL EXPRESS, and KFC for KENTUCKY FRIED CHICKEN.[101] A commonly asserted rule of thumb is that marks should be no longer than two syllables or seven letters.[102]

Fourth, certain phonemes are more effective than others depending on the circumstances. A variety of sound-symbolism research supports the proposition that sounds convey a range of properties, including weight, speed, rigidity, activity, width, size, femininity, friendliness, and sharpness.[103] This ought not to be surprising. Compare, for example, the miniature Lilliputians with the giant Brobdingnagians in Jonathan Swift's *Gulliver's Travels*.[104] Or compare the aggressiveness of VIAGRA with the calmer, more sensual CIALIS, both for drugs treating erectile dysfunction using very different marketing approaches coinciding with their respective names.[105] The link between certain sounds and

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COMM. Q. 835, 838–39 (1984) (showing that one-syllable brand names are easier to recall and recognize than three-syllable brand names).

[101] *See* Robertson, *supra* note 95, at 62; *see also* Richard S. Chang, *Saving Chevrolet Means Sending 'Chevy' to Dump*, N.Y. TIMES (June 9, 2010), https://nyti.ms/2yYGw62 [https://perma.cc/Q2T2-M79M].

[102] Margot Bushnaq, *How to Choose a Business Name, Part 6: Length*, BRANDBUCKET (July 10, 2013), https://www.brandbucket.com/blog/how-to-choose-a-business-name-length [https://perma.cc/9WCA-4388]; Marty Zwilling, *10 Rules for Picking a Company Name*, FORTUNE (Dec. 15, 2011), http://for.tn/2px3Bq2 [https://perma.cc/ZD6Z-WZYA]. *But see* Eli Altman, *Longer Is Better and Don't Invent Words: Picking the Right Name for Your Business*, THE GUARDIAN (Aug. 22, 2017, 2:00 AM), https://www.theguardian.com/small-business-network/2017/aug/22/longer-is-better-and-dont-invent-words-picking-the-right-name-for-your-business [https://perma.cc/2WYV-TWJN] ("One of the most common requests branding professionals receive for new names is that they must be 'short and memorable.' This is a contradiction in terms. Short names are inherently less memorable. There's less to grab onto. Longer names give you more freedom of expression; are easier to trademark and find URLs for; and are generally more memorable. Short names are . . . short. Look at the depth of feeling that can be created with slightly longer names: Comme Des Garçons, Outdoor Voices, Teenage Engineering, 23 and Me.").

[103] *See* Richard R. Klink & Lan Wu, *The Role of Position, Type, and Combination of Sound Symbolism Imbeds in Brand Names*, 25 MARKETING LETTERS 13, 14–15 (2014) (reviewing the literature); *see also* Patrice L. French, *Toward an Explanation of Phonetic Symbolism*, 28 WORD 305 (1977); Richard R. Klink, *Creating Brand Names with Meaning: The Use of Sound Symbolism*, 11 MARKETING LETTERS 5 (2000). For an application of the insights of sound symbolism research to trademark doctrine, see Jake Linford, *Are Trademarks Ever Fanciful?*, 105 GEO. L.J. 731 (2017).

[104] *See* JONATHAN SWIFT, GULLIVER'S TRAVELS, at xvi (London, Jones & Co. 1826) (1726).

[105] Susan Scutti, *"Creation Engineering": The Art and Science of Naming Drugs*, CNN (Nov. 25, 2016, 4:19 AM), http://cnn.it/2gb95U5 [https://perma.cc/P5PC-L74M] (quoting branding professional, R. John Fidelino, arguing that VIAGRA is "macho-sounding," whereas CIALIS is "tonally softer"); *see also* Gurudas Khilnani, Ajeet Kumar Khilnani & Rekha Thaddanee, Letter to Editor, *Semantics of Drug Nomenclature*, 4 NAT'L J. PHYSIOLOGY, PHARMACY & PHARMACOLOGY 95, 97 (2014); Jeannette Y. Wick, *What's in a Drug Name?*, 44 J. AM. PHARMACISTS ASS'N 12, 14

particular meanings transcends language and culture (and even species).[106] Studies show that the [ä] sound (as in "Frosh") is shown to connote smoother, richer, and creamier ice cream than the [i] sound (as in "Frish").[107] The [u] sound in "dull" tends to suggest disgust or dislike,[108] which might be why the company behind SMUCKER'S jelly developed the slogan, "With a name like Smucker's, it has to be good."[109] Because of its combination of sounds, "BLACKBERRY" connotes speed, reliability, accessibility, smallness, and relaxation, while "STRAWBERRY" connotes many of those same features (other than relaxation), and slowness rather than speed.[110] More generally, brands that start with a plosive — a consonant that is a stop, namely, B, D, G, K, P, T, or a hard C — are easier to remember and recognize.[111]

Fifth, ideally a brand name owner should be able to register its brand name as a domain name in the .com top-level domain.[112] However, as new top-level domains become available and consumers increasingly rely on search to navigate the internet, the advantages of such a registration may be lessening.[113]

Opinions are mixed on other characteristics of more effective brand names. Marketing experts (and trademark lawyers) generally advise against descriptive terms.[114] Yet one study shows that more descriptive

(2004); Stuart Elliott, *Viagra and the Battle of the Awkward Ads*, N.Y. TIMES (Apr. 25, 2004), https://nyti.ms/2zh3uUZ [https://perma.cc/K8E9-KP6V].

106 Klink, *supra* note 103, at 6–9; Klink & Wu, *supra* note 103, at 14; *see also* L.J. Shrum & Tina M. Lowrey, *Sounds Convey Meaning: The Implications of Phonetic Symbolism for Brand Name Construction*, *in* PSYCHOLINGUISTIC PHENOMENA IN MARKETING COMMUNICATIONS 39, 39–42 (Tina M. Lowrey ed., 2007); Eric Yorkston & Geeta Menon, *A Sound Idea: Phonetic Effects of Brand Names on Consumer Judgments*, 31 J. CONSUMER RES. 43, 44 (2004). For example, "high-front vowels (e.g., *ee* in flea and *i* in fly) represent associations with smaller size and less power than low-back vowels (e.g., the *ow* in bout and *oo* in boot), which, in turn, connote greater size, and more power." *Id.* Research suggests that animal sounds also carry symbolic meaning, such as the creation of an impression of great or small size by using low-back or high-front vowels, respectively. Eugene S. Morton, *Sound Symbolism and Its Role in Non-Human Vertebrate Communication*, *in* SOUND SYMBOLISM 348, 353–56 (Leanne Hinton et al. eds., 1994); John J. Ohala, *An Ethological Perspective on Common Cross-Language Utilization of F_0 of Voice*, 41 PHONETICA 1 (1984).

107 Yorkston & Menon, *supra* note 106, at 45–48.

108 Shrum & Lowrey, *supra* note 106, at 43.

109 *Id.* at 55.

110 Begley, *supra* note 95.

111 Vanden Bergh et al., *supra* note 100, at 835–36.

112 *See, e.g.*, Frank Schilling, *The House Always Wins - SEM Arbitrage and Keyword Domain Names*, SEVEN MILE (Mar. 23, 2007, 5:41 PM), http://frankschilling.typepad.com/my_weblog/2007/03/the_house_alway.html [https://perma.cc/C4YK-2CNC].

113 ALTMAN, *supra* note 86, at 35–39.

114 *See, e.g.*, WATKINS, *supra* note 86, at 30–31 (stating that descriptive terms "don't challenge, excite or mentally stimulate" and "reveal nothing about the personality of your brand," *id.* at 30); *see also* ALTMAN, *supra* note 86, at 12–13 (noting that a descriptive mark "is sleep-inducing and hard to remember, and says absolutely nothing about [a business's] point of view").

brand names unsurprisingly result in higher consumer recall of the benefit described by the brand name.[115] Experts also advise against using the business owner's own name on the grounds, among others, that consumers may not know the owner and that the brand may be more difficult to sell to other owners at some point in the future.[116] Yet personal names, like common words, also convey authenticity and familiarity, and company owners often have nonpecuniary reasons to prefer to use their own names.[117] Furthermore, while experts invariably emphasize that good brand names are unique, it can also be beneficial for a new brand name to share characteristics with other brand names in its product space, because this helps to inform consumers about the nature of the new brand and its product.[118] One recent example is the use of the "–ndr"/"–nder" suffix for dating apps: Tinder, Grindr, Blendr, AdultFriendFinder, Lavendr (a gay dating app), Binder (a joke app to break up with one's significant other[119]), and the app formerly named 3nder (an app for those seeking threesomes).[120]

Finally, we note a line of reasoning that regularly appears in the branding literature and that runs contrary to the principle that brand names should consist of common English words. Experts reason that new market entrants should consider coined words or less commonly used English words but not because such words are more appealing to consumers. Instead, the experts are essentially offering legal advice.

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115 *See* Kevin Lane Keller, Susan E. Heckler & Michael J. Houston, *The Effects of Brand Name Suggestiveness on Advertising Recall*, J. MARKETING, Jan. 1998, at 48, 48.

116 *See, e.g.*, WATKINS, *supra* note 86, at 9–10.

117 *See, e.g.*, Jean Gianfagna, *6 Reasons to Use Your Own Name in Your Company's Branding*, GIANFAGNA STRATEGIC MARKETING: SMART MARKETING STRATEGY (Mar. 10, 2014), http://www.gianfagnamarketing.com/blog/2014/03/10/6-reasons-to-use-your-own-name-in-your-companys-branding [https://perma.cc/7JK9-7Z47]. A recent empirical study finds that eponymy "is linked to superior firm performance" and "creates a stronger association between the entrepreneur and her firm that increases the reputational benefits or costs of having the market hold a favorable or unfavorable impression of her ability (or of the quality of her firm)." Sharon Belenzon, Aaron K. Chatterji & Brendan Daley, *Eponymous Entrepreneurs*, 107 AM. ECON. REV. 1638, 1638 (2017).

118 George M. Zinkhan & Claude R. Martin, Jr., *New Brand Names and Inferential Beliefs: Some Insights on Naming New Products*, 15 J. BUS. RES. 157, 168–69 (1987).

119 Betsy Morais, *A New Way to Leave Your Lover*, NEW YORKER (June 23, 2015), https://www.newyorker.com/business/currency/binder-breakup-app [https://perma.cc/T7UG-6WFP].

120 *See* Charly Lester, *The A-Z of Dating Apps in 2015 — G to L*, 30 DATES BLOG (May 15, 2015), https://30datesblog.com/2015/05/15/the-a-z-of-dating-apps-in-2015-g-to-l/ [https://perma.cc/QCX5-X9ED]; Ruth Reader, *After Being Sued by Tinder, Can This Threesomes App Survive a Rebrand?*, FAST COMPANY (Aug. 2, 2016), https://www.fastcompany.com/3061730/platform-wars/after-being-sued-by-tinder-can-this-threesomes-app-survive-a-rebrand [http://perma.cc/8G4X-R2JX]. This is not to mention the somewhat similar -lr and -ter suffixes for dating apps like Bristlr (an app to connect men with beards to those interested in that subpopulation), Cuddlr (an app to connect people who want to cuddle), and Fuzzy Banter (a dating app focused on one's voice). *See* Charly Lester, *The A-Z of Dating Apps in 2015 — A to F*, 30 DATES BLOG (May 14, 2015), https://30datesblog.com/2015/05/14/the-a-z-of-dating-apps-in-2015-a-to-f/ [https://perma.cc/8374-4GXA].

Their reasoning is that such words are less likely already to be claimed by others and more likely to be registrable as trademarks.[121]

In sum, the branding literature strongly supports the proposition that the supply of good, competitively effective trademarks is not just finite, but far more limited than might generally be appreciated. The branding literature further emphasizes what the economics literature often seems to fail to appreciate[122]: that brand names are not fungible. Some are better than others. A good brand name may not guarantee success, but a bad brand name will often doom a product or company to oblivion, as the example of EDSEL is often cited to show.[123] Uniqueness is prized above all. Common English words are more effective, as are shorter, less complex words. Certain phonemes more readily convey desirable meanings. Marks that can be registered as domain names in the .com top-level domain have an advantage. Proprietors may want to use their own name. All of these factors suggest means of measuring the degree and rate of depletion and congestion of the supply of good trademarks. We pursue these measures in Parts III and IV below.

C. Applicants' Mark Selection

Together with marketing and branding principles, trademark law and practice also influence applicants' mark selection. Before applying to register a particular mark, a firm typically engages in a process of trademark clearance to determine if the mark it wishes to register is already claimed either by a competitor or indeed by anyone else in the economy. Since well before the time frame of the data studied here, applicants have been able to use commercial trademark clearance services, which maintain their own databases of previously and currently used trademarks drawn from a variety of sources, such as trademark applications and registrations at the federal and state level, state corporate registration listings, and phone books.[124] Since 2000, the PTO has made freely available online the Trademark Electronic Search System

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[121] *See, e.g.*, ALTMAN, *supra* note 86, at 148–61. For the same legal reasons, experts sometimes recommend that businesses adopt longer marks, which are more likely to be available as trademarks. *See, e.g.*, Altman, *supra* note 102.

[122] *See, e.g.*, WILLIAM M. LANDES & RICHARD A. POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 208 (2003) (asserting with respect to licensing fees for the use of prestigious brands that because "the number of prestigious names is so vast" and "virtually every prestigious name will be a substitute for every other in that market," "[c]ompetition would drive the fees to zero").

[123] *See, e.g.*, John Brooks, *The Edsel: II–Epitome*, NEW YORKER, Dec. 3, 1960, at 199, 216–17 (discussing the view of "a sizable group of laymen who tend to attribute the collapse [of the Edsel] to the company's decision to call the car the Edsel (after the son of the original Henry Ford and the father of Henry Ford II) instead of giving it a brisker, more singable name, reducible to a nickname other than 'Ed' or 'Eddie,' and not freighted with dynastic connotations").

[124] *See, e.g.*, COMPUMARK, http://www.compumark.com [https://perma.cc/CV7U-H9BL].

(TESS), an easy-to-use database allowing applicants to identify trademark applications and registrations that might conflict with their prospective trademark.[125] Since about the same time, applicants have typically also consulted internet search engines, such as Google, to determine how their prospective marks are being used, if at all.[126] Particularly over the past decade, trademark clearance has become significantly less expensive and time-consuming.[127] The result is that trademark applicants are increasingly likely to be aware of conflicting "senior" applications and registrations. For this reason, we would expect such applicants to be increasingly likely to avoid applying to register trademarks that conflict, at least directly, with already-registered marks.

The fact that applicants will already have taken into account some degree of trademark depletion and congestion in choosing marks has important implications. Most significantly, because applicants are typically applying with knowledge of which marks are already claimed, we should not expect depletion or congestion to cause a dramatic decline in the annual publication rate of trademark applications.[128] And indeed, as Figure 2 shows, though there has been an extraordinary increase in the annual rate of trademark applications over recent decades (represented by the bars and right axis in the figure), annual publication rates

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[125] *See USPTO Introduces New Trademark Electronic Search System*, U.S. PATENT & TRADEMARK OFFICE (Feb. 29, 2000), https://www.uspto.gov/about-us/news-updates/uspto-introduces-new-trademark-electronic-search-system [https://perma.cc/9USP-5KHV]. To access TESS, see *Search Trademark Database*, U.S. PATENT & TRADEMARK OFFICE, https://www.uspto.gov/trademarks-application-process/search-trademark-database [https://perma.cc/UN3S-ZWT8].

[126] *Cf.* Lisa Larrimore Ouellette, *The Google Shortcut to Trademark Law*, 102 CALIF. L. REV. 351, 353–54 (2014) (suggesting that trademark distinctiveness can be measured by looking at Google search results).

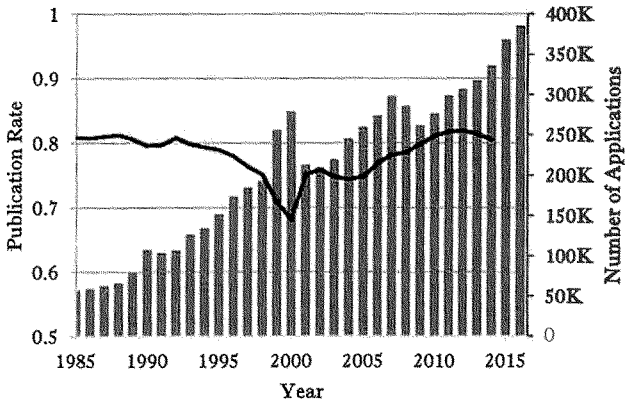
[127] *See* STEPHEN ELIAS & RICHARD STIM, TRADEMARK: LEGAL CARE FOR YOUR BUSINESS & PRODUCT NAME 100–06 (10th ed. 2013).

[128] If the PTO determines that the trademark application satisfies all requirements for registration, including that it does not conflict under section 2(d) with an already-registered mark, the PTO will approve the mark for publication in the *Official Gazette*. 15 U.S.C. § 1062(a) (2012). The public then has thirty days from the date of publication to oppose the registration. *Id.* § 1063(a). If no opposition is brought or succeeds, use-based applications (applications based on the applicant's current use of the mark) will automatically proceed to registration. *Id.* § 1063(b). Applications based on an intent to use the mark require that a statement of actual use be filed before the registration will issue. *Id.* § 1051(d). We focus on publication rates rather than registration rates because many intent-to-use applications succeed to publication, but then fail to register because the applicant fails to file a statement of use. *See* Barton Beebe, *Is the Trademark Office a Rubber Stamp?*, 48 HOUS. L. REV. 751, 773, 774 tbl. 9 (2011).

The PTO data indicate that oppositions are very rare. For applications filed from 1985 through 2014, only 2.10% were opposed and only 0.90% were opposed successfully. Interestingly, however, opposition rates have been steadily declining over this period, from a high of 3.42% of applications filed in 1987 receiving an opposition to a low of 1.63% of applications filed in 2014 receiving an opposition. Annual rates of successful oppositions have also been slightly declining over this period. See *infra* Part II, pp. 973–77, for discussion of the Trademark Case Files Dataset. We tentatively suggest that these trends, which deserve further study, may reflect the effects of increasing section 2(d) refusal rates discussed below in Part III.D, pp. 1003–08.

have remained steady (represented by the line and left axis in the figure).[129] Even during the internet boom, which largely accounts for the spike in applications in 1999 and 2000, publication rates declined only from 0.75 in 1998 to 0.68 in 2000, and then quickly recovered.

Figure 2: Applications and Publication Rate by Filing Year, 1985–2016



Instead of a declining publication rate, we should expect to see especially stark evidence of trademark depletion and congestion in changes in the characteristics of the marks for which applicants are applying. To be sure, many factors other than depletion and congestion may affect which marks applicants will choose to prosecute, chief among them trends in marketing. But further complicating matters, there is good evidence to suggest that these trends may themselves emerge out of an awareness of depletion and congestion.[130] Finally, some less sophisticated applicants may be entirely unaware of the resources available to them that may aid them in finding or understanding the legal implications of preexisting, conflicting marks, while other highly sophisticated applicants may use those resources, discover conflicting marks, and plow ahead fully aware of the risk of a section 2(d) refusal. We address these issues further in Parts III and IV.

[129] We do not report the publication-rate data past 2014 because some applications filed after 2014 may not have been fully processed by the end of 2016, when the data on which this figure is based were compiled. For this reason, subsequent figures that report publication, registration, or section 2(d) refusal rates stop at 2014.

[130] *See, e.g.*, Begley, *supra* note 95 ("[A]s winning hybrids of real words become scarcer than a telecom firm with a rising stock price, some naming consultants are advising brand managers to tap different synapses in their customers' brains: those linking the raw sounds of vowels and consonants — known as phonemes — to specific meanings and even emotions.").

II. THE DATASETS

We use six datasets. The main dataset for this study is the PTO's Trademark Case Files Dataset, which the PTO made publicly available in 2012 and has since updated annually.[131] The dataset provides detailed information about all 6.9 million trademark applications filed at the PTO from 1982 through 2016, including data on applicant and mark characteristics, prosecution events, and ownership and renewal history.[132] The dataset also provides more limited information on the 208,105 trademarks already registered at the PTO as of 1982 that were based on applications filed before 1982. Derived directly from the PTO's own internal database and curated by the Office of the Chief Economist of the PTO, the dataset is of very high quality.

A significant limitation of the Trademark Case Files Dataset, however, is that it does not indicate on what grounds the PTO refused applications when it did so. We therefore developed a second, original dataset of all office actions issued by the PTO from 2003, when the PTO began posting its office actions online, through 2016. This entailed systematically downloading some 2.1 million office actions from the PTO

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131 *Trademark Case Files Dataset*, U.S. PATENT & TRADEMARK OFFICE (2016), https://www.uspto.gov/learning-and-resources/electronic-data-products/trademark-case-files-dataset-o [https://perma.cc/4HV9-8XLQ]; *see also* STUART GRAHAM ET AL., U.S. PATENT & TRADEMARK OFFICE, THE USPTO TRADEMARK CASE FILES DATASET: DESCRIPTIONS, LESSONS, AND INSIGHTS 3, 35 (2013), https://www.uspto.gov/sites/default/files/ip/officechiefecon/Trademark_Case_File_Data_Documentation_31January2013_final.pdf [https://perma.cc/ZD6G-FP7C] (describing the dataset and surveying trends in trademark applications and registrations). Prior to the release of the Trademark Case Files Dataset, Google made available in bulk download format much of the data on which the Trademark Case Files Dataset is based. *See USPTO Bulk Downloads: Trademark Application Text*, GOOGLE https://www.google.com/googlebooks/uspto-trademarks-recent-applications.html [https://perma.cc/6VQJ-5BVH] [hereinafter USPTO BULK DOWNLOADS]. These raw data files formed the basis of initial quantitative studies of certain aspects of the trademark registration process. *See, e.g.*, Beebe, *supra* note 128, at 759–60 (using data from USPTO BULK DOWNLOADS, *supra*, to examine trademark publication and registration rates at the PTO); Deborah R. Gerhardt & Jon P. McClanahan, *Do Trademark Lawyers Matter?*, 16 STAN. TECH. L. REV. 583, 584 (2013) (using the data from USPTO BULK DOWNLOADS, *supra*, to "assess[] whether trademark applicants benefit from having an attorney assist in the registration process"). A more recent quantitative study of trademark registration has used the Trademark Case Files Dataset. *See* Jeremy N. Sheff, *Dilution at the Patent and Trademark Office*, 21 MICH. TELECOMM. & TECH. L. REV. 79, 81–82 (2014) (using the Trademark Case Files Dataset to examine rates of "registration of identical marks to different parties in different product classes" and to evaluate the effect of antidilution law on these rates).

132 The dataset also provides partial information about a significant proportion of trademark applications filed from 1870 through 1981. *See* GRAHAM ET AL., *supra* note 131, at 3; *see also* Beebe, *supra* note 128, at 760 (discussing differences in the data from USPTO BULK DOWNLOADS, *supra* note 131, between observations with filing dates before the early 1980s and those with filing dates after). In much of the statistical analysis that follows, we limit our findings to a population consisting of applications from 1985 through 2016 and trademarks already registered at the PTO as of 1985. We exclude the years 1982 through 1984 because of a variety of anomalies in the data for that period (for example, rapid shifts in annual publication rates) that may be of historical interest but are not central to the study of trademark depletion and congestion.

website and autocoding them for certain characteristics, most importantly, whether the PTO refused registration on the section 2(d) basis that the applied-for mark was confusingly similar to an already-registered mark.

In order to study applications and registrations for common English words, we use the Corpus of Contemporary American English (COCA) rank order of the 100,000 most frequently used words in American English.[133] COCA is the largest structured corpus of American English.[134] The version of COCA we use consists of more than 450 million words of text drawn from television and radio broadcasts, fiction, popular magazines, newspapers, and academic journals over the years 1990 through 2012, with approximately twenty million words from each year. (From this corpus, we learn such important information as that Americans use the word "no" (our 72nd most frequently used word)

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[133] *See Word Frequency Data: Based on 450 Million Word COCA Corpus*, WORD FREQUENCY DATA, https://www.wordfrequency.info/100k.asp [https://perma.cc/Q636-XNAV]; *see also* Mark Davies, *The Corpus of Contemporary American English as the First Reliable Monitor Corpus of English*, 25 LITERARY & LINGUISTIC COMPUTING 447 (2010). The data is available on a proprietary basis from Professor Mark Davies. We downloaded the data on November 4, 2014. COCA's rank order does not include the trademarks "Microsoft," "iPad," or "Gucci," but it does include "surface," "apple," and "bamboo," when they are used as common nouns, as the 1122nd, 2666th, and 10,968th most frequently used words, respectively. Nor does the rank order include the proper noun "America," but it does include the adjective "American" (161st). More generally, the corpus excludes proper nouns but might include, depending on usage frequency, proper adjectives and a very limited number of words that originated as trademarks but grew into common usage, such as "google," which ranks as the 17,894th most frequently used word (and which was derived from the word "googol," denoting ten raised to the power of a hundred).

[134] Davies, *supra* note 133. This corpus is regularly used for research in linguistics, computational linguistics, psychology, and marketing. *See, e.g.*, Eric K. Acton & Christopher Potts, *That Straight Talk: Sarah Palin and the Sociolinguistics of Demonstratives*, 18 J. SOCIOLINGUISTICS 3, 28 n.4 (2014) (using COCA to compare the frequency of words and phrases); David Eddington & Caitlin Channer, *American English Has Go? a Lo? of Glottal Stops: Social Diffusion and Linguistic Motivation*, 85 AM. SPEECH 338, 346–47 (2010) (using COCA to find the frequency of words ending with particular sounds followed by words beginning with other particular sounds); Ruth Pogacar et al., *Sounds Good: Phonetic Sound Patterns in Top Brand Names*, 26 MARKETING LETTERS 549, 555 (2015) (using COCA to create a list of "weak" brand names by randomly selecting 1000 proper nouns and cross-checking them with a business directory); Keith Rayner et al., *Eye Movements and Word Skipping During Reading: Effects of Word Length and Predictability*, 37 J. EXPERIMENTAL PSYCHOL. 514, 518 (2011) (using COCA to check the frequencies of words used in an experiment); V.A. Yatsko et al., *The Algorithms for Preliminary Text Processing: Decomposition, Annotation, Morphological Analysis*, 43 AUTOMATIC DOCUMENTATION & MATHEMATICAL LINGUISTICS 336, 341 (2009) (using COCA to compile "[a] list of suffixes and endings typical of certain parts of speech"). It also makes an occasional appearance in legal scholarship. *See, e.g.*, Paul J. Heald & Robert Brauneis, *The Myth of Buick Aspirin: An Empirical Study of Trademark Dilution by Product and Trade Names*, 32 CARDOZO L. REV. 2533, 2574–75 (2011) (using COCA to determine the frequency of certain brand names and explaining how low-frequency words are unlikely to be harmed by dilution); Stephen C. Mouritsen, *Hard Cases and Hard Data: Assessing Corpus Linguistics as an Empirical Path to Plain Meaning*, 13 COLUM. SCI. & TECH. L. REV. 156, 194–201 (2012) (using COCA to argue that plain or ordinary meaning of a given term can be determined as an empirical matter through corpus-based methods).

more frequently than "yes" (211th), "hell" (1420th) more frequently than "heaven" (3409th), and "war" (216th) more frequently than "peace" (899th).) COCA ranks the frequency with which a word appears in the form of a particular part of speech. Thus, a word like "can" may appear multiple times in the ranking ("can" as a verb and "can" as a noun). For purposes of this study, we collapsed these multiple rankings into one ranking based on the raw frequency of the word regardless of part of speech. This resulted in a rank order of 86,408 words (collapsed from 100,000), which is the rank order we used for our statistical analysis and to which we will refer in what follows. We use the terms "standard English words" or "common English words" to refer to all words that appear in this rank order.

COCA's frequency ranking also provides an estimate of the proportion of overall word usage consisting of a particular word in a particular part of speech. As we did with COCA's frequency ranking, we collapsed these estimates to establish the raw proportion of overall word usage consisting of the word regardless of part of speech. Doing so allows us in Part III to estimate not just the precise number of the 86,408 most frequently used words that are already claimed as trademarks, but also the proportion of word usage that these already-claimed words represent. This is important because word frequency roughly follows a power law distribution known as Zipf's law.[135] COCA's data indicate that the ten most frequently used words account for 21.4% of word usage; the 100 most frequently used words, 44.9%; and the 1000 most frequently used words, 65.4%. Meanwhile, the 10,000th to the 86,408th most frequently used words account for only 4.9% of word usage. (Overall, COCA's full list of words accounts for 89.1% of word usage.) Depletion and congestion of very high-frequency words arguably have a far more significant impact on competitors, consumers, and the public domain than do depletion and congestion of lower-frequency words.

To assess surname depletion and congestion, we use the U.S. Census Frequently Occurring Surnames from the Census 2000 dataset, which ranks the frequency of all 151,671 surnames appearing 100 or more times in the Census 2000 returns.[136] The Census data also provide an

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[135] *See* Steven T. Piantadosi, *Zipf's Word Frequency Law in Natural Language: A Critical Review and Future Directions*, 21 PSYCHONOMIC BULL. & REV. 1112 (2014).

[136] *Frequently Occurring Surnames from the Census 2000*, U.S. CENSUS BUREAU http://www.census.gov/topics/population/genealogy/data/2000_surnames.html [https://perma.cc/FKE8-SH4B] (last updated Sept. 15, 2014). The Census does not list names occurring fewer than 100 times because of privacy concerns. *See* DAVID L. WORD, CHARLES D. COLEMAN, ROBERT NUNZIATA & ROBERT KOMINSKI, DEMOGRAPHIC ASPECTS OF SURNAMES FROM CENSUS 2000, at 16, http://www2.census.gov/topics/genealogy/2000surnames/surnames.pdf [https://perma.cc/7V34-5WBV]. We use the Census 2000 data rather than the more recent Census 2010 data because the former describes the U.S. population closer to the midpoint of the timespan covered by our trademark data, which runs from the mid-1980s to the present.

estimate for each surname of the proportion of the U.S. population using that surname.[137] These data enable us to estimate both the proportion of surnames already claimed as trademarks as well as the proportion of the population that uses those surnames. (Overall, the Census data cover 89.8% of the population,[138] with the 1000 most commonly occurring surnames covering 40.6% of the population.) We use the term "common American surnames" to refer to all surnames in the Census rank order.

Because trademark applicants now typically also seek to determine if the trademarks they wish to register are already registered as domain names,[139] we use Verisign's .COM TLD Zone File, which lists all .com domain names, to study the proportion of common English words, common American surnames, and short neologisms that are already registered as domain names in the .com top-level domain.[140]

Finally, to study the depletion of potential neologisms, we use an original dataset comprising phonetic representations of all words included in all trademark applications and registrations in the Trademark Case Files Dataset. To develop this dataset, we used the Carnegie Mellon University (CMU) Pronouncing Dictionary, which provides the pronunciation broken down by phonemes for some 134,000 American English words.[141] For words appearing in a trademark application but not in the CMU Pronouncing Dictionary, we used the Carnegie Mellon University LOGIOS Lexicon Tool to infer a phonetic representation of the word.[142] We combined these data with COCA to develop a list of the 10,753 unique syllables found in COCA, encoded phonetically, along with their frequency data.[143] We use this list to assess the depletion and

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137 WORD ET AL., *supra* note 136, at 16.

138 *Id.*

139 *See supra* p. 968.

140 *See Top-Level Domain Zone File Information*, VERISIGN, https://www.verisign.com/en_US/channel-resources/domain-registry-products/zone-file/index.xhtml [https://perma.cc/Q4CT-MW9M].

141 THE CMU PRONOUNCING DICTIONARY, http://www.speech.cs.cmu.edu/cgi-bin/cmudict [https://perma.cc/2ACN-M6BQ]. Phonemes are recorded in the ARPAbet phoneme set developed for speech recognition use. *Id.* This dictionary uses a total of thirty-nine different phonemes. *Id.* It usefully contains the correct pronunciation of many well-known marks, such as CHANEL, GOOGLE, and MATTEL.

142 LOGIOS LEXICON TOOL, http://www.speech.cs.cmu.edu/tools/lextool.html [https://perma.cc/U9BW-ES27].

143 We encoded COCA's words phonetically also using the CMU Pronouncing Dictionary, supplemented by the LOGIOS Lexicon Tool when necessary. We syllabified these words using the results of a syllabification algorithm that was run on the CMU Pronouncing Dictionary. *See* Susan Bartlett, Grzegorz Kondrak & Colin Cherry, *On the Syllabification of Phonemes*, *in* HUMAN LANGUAGE TECHNOLOGIES: THE 2009 ANNUAL CONFERENCE OF THE NORTH AMERICAN CHAPTER OF THE ASSOCIATION FOR COMPUTATIONAL LINGUISTICS 308 (2009), http://www.aclweb.org/anthology/N/N09/N09-1.pdf [https://perma.cc/M2B8-39HX] (describing the algorithm). For the results, see *Results*, http://webdocs.cs.ualberta.ca/~kondrak/cmudict.html [https://perma.cc/

congestion of phonetically possible American English words, particularly neologisms.[144]

III. WORD-MARK DEPLETION

The concept of trademark depletion is not new to trademark law. We adapt it from the U.S. Supreme Court decision in *Qualitex Co. v. Jacobson Products Co.*,[145] which held that the Lanham Act permits the registration of a mark consisting of a single color if the mark otherwise meets the requirements for trademark protection.[146] In so holding, the *Qualitex* Court rejected Jacobson's argument that allowing the registration of single colors "will 'deplete' the supply of usable colors to the point where a competitor's inability to find a suitable color will put that competitor at a significant disadvantage."[147] The Court reasoned that:

> When a color serves as a mark, normally alternative colors will likely be available for similar use by others. Moreover, if that is not so — if a "color depletion" or "color scarcity" problem does arise — the trademark doctrine of "functionality" normally would seem available to prevent the anticompetitive consequences that Jacobson's argument posits, thereby minimizing that argument's practical force.[148]

Yet the functionality doctrine[149] would not prevent the kind of color-mark depletion that Jacobson was describing in *Qualitex*, which was the depletion by many different competitors of *nonfunctional* colors, such as the green-gold color for dry-cleaning press pads at issue in the case.[150] Instead, at the core of the Court's rejection of the color depletion argument was simply the assumption that Qualitex and its competitors would never exhaust the supply of colors that may be used as single-color trademarks.

We think the case that word-mark depletion has begun to have anticompetitive consequences is substantially stronger than the comparable case was for color-mark depletion in *Qualitex*. We make that case in this Part. We begin in section A by outlining a framework for evaluating word-mark depletion. Section B then shows that a strikingly high proportion of frequently used words, frequently occurring surnames,

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NDZ2-EKAH] (last updated Oct. 2009). We supplemented this data with post-processing to syllabify COCA words that do not appear in that dictionary.

144 We plan to use this dataset more heavily in future work to study phonetic depletion and congestion, among other things.

145 514 U.S. 159 (1995).

146 *Id.* at 162.

147 *Id.* at 168.

148 *Id.* at 168–69 (citation omitted).

149 Trademark functionality doctrine bars the registration or protection of a product feature that is "essential to the use or purpose" of a product or that "affects the cost or quality" of a product. TrafFix Devices, Inc. v. Mktg. Displays, Inc., 532 U.S. 23, 32 (2001) (quoting Inwood Labs., Inc. v. Ives Labs., Inc., 456 U.S. 844, 850 n.10 (1982)).

150 *See Qualitex*, 514 U.S. at 161. There can be no depletion of functional color marks because the functionality doctrine would bar their registration in any case.

and one-syllable words — among the most desirable categories of marks — are already claimed by at least one trademark registrant either as a single-word mark or as part of a multi-word mark. We further show that an even higher proportion of frequently used words are claimed in the .com top-level domain space. In sections C and D, we turn to historical trends in applicant behavior, specifically, in the kinds of word marks for which applicants are applying and which they are ultimately registering. These trends are consistent with applicants' own recognition of and attempt to adapt to the problem of word-mark depletion. Section E focuses on the increasing proportion of applications that fail to pass the examination stage of the registration process because they conflict with already-registered marks. Even while applicants are generally attempting to adapt to word-mark depletion, many are still applying for and failing to register marks that others have already claimed. Finally, section F shows that incumbent applicants (those applying based on preexisting registrations) have to some extent been able to avoid the problem of word-mark depletion by taking advantage of associated preexisting registrations. The benefits of incumbency reveal the severity of the problem of word-mark depletion for market entrants, an issue we analyze in greater depth in Part V.

A. A Framework for Evaluating Word-Mark Depletion

Word-mark depletion is the process by which a decreasing number of potential word marks remain unclaimed by any trademark owner. Note that because an entity may in some instances register a mark that has already been claimed by another, depletion does not necessarily entail a decline in the number of potential marks that remain available for registration. That said, the two concepts are closely connected: increased rates of depletion can readily lead to increased unavailability of marks. Understood in its broadest sense, word-mark depletion describes the depletion of the set of all possible word marks with respect to the set of all classes of goods and services. But word-mark depletion may take more specific forms. A particular set of word marks (for example, common English words)[151] may be depleted with respect to a particular class of goods and services (for example, apparel). Depletion may take even more specific forms. Individual words may be depleted in individual classes. The concept of depletion is highly flexible, but the process of depletion is best evaluated in two dimensions: in terms of the depletion of a set of marks with respect to a set of goods or services.

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151 We could generalize our analysis of depletion and congestion to categories, or sets, of words that are infinite, such as the set of all possible words made from the English alphabet or the set of all phonetically and orthographically possible English words. Generalizing to infinite word categories would complicate the explication of the framework but not the analytical framework itself. To simplify the explication, we therefore continue with an analysis only of finite word categories.

In what follows, we focus on the aspects of word-mark depletion that are most relevant to assessing the degree of depletion of "good," competitively effective marks. As for the sets of marks on which we focus, the marketing literature identifies three sets of particular interest: common English words; all possible short, pronounceable neologisms; and surnames. As for the sets of goods and services, because marks unique to only one firm in the economy are especially effective, we assess depletion with respect to the set of all classes of goods and services. But because firms will often settle for being the only user of a particular mark merely within their class, we also assess depletion by class.

Adding to the complications that attend the concept of word-mark depletion are two further considerations. The first is that a particular word-mark registration in a particular class does not simply deplete the word it identically matches with respect to that class. It also constructively depletes all similar words in that class whose use would confuse consumers as to source. For instance, a registration for BLUE in Class 25, for apparel, would likely disallow another entity from registering in that class BLU, BLEU, BLUE MAN, and quite possibly even similar-sounding marks such as BLOW as well. Furthermore, even if consumers might not be confused by such marks or in any case even if the PTO might allow their registration, applicants may consider them unavailable because the prior registration and use of BLUE impairs the uniqueness of all marks similar to it. BLUE makes BLU, BLEU, BLUE MAN, and BLOW less distinctive in that they are less different from other marks. Thus, a proper evaluation of depletion must incorporate some method for assessing not just identity, but also nonidentical similarity between already-claimed marks and the overall supply of possible marks. As we explain further below, to do so we use Jaro-Winkler distance, which is a quantitative measure of the similarity between two strings.

A second complication of word-mark depletion is that the depletion of some words may have a more significant effect on competition than the depletion of others. The costs of depletion, in other words, are not uniform.

Courts and commentators have long recognized that the depletion of generic and descriptive terms in particular can be especially damaging to competition, as they are especially important for all competitors in a particular space to use in the course of doing business.[152] For this

[152] *See, e.g.*, Am. Cyanamid Corp. v. Connaught Labs., Inc., 800 F.2d 306, 308 (2d Cir. 1986) ("Consumers will not benefit . . . if trademark law prevents competitors from using generic or descriptive terms to inform the public of the nature of their product. Were the first user of a generic or descriptive term, say 'bicycle,' able to exclude later entrants from use of that term, the former would be able not only to identify itself as the maker of the bicycle and to capitalize on whatever good will it has built up — legitimate purposes of trademark protection — but also to impair the

reason, generic terms are barred from registration.[153] Descriptive terms are registrable, but depletion concerns arguably underlie both trademark law's requirement that these terms acquire distinctiveness in order to receive protection and the law's descriptive fair use defense. While the acquired-distinctiveness requirement is largely based on the law's underlying limitation that it will grant exclusive rights only in signs that consumers perceive as designations of source,[154] it also reflects the law's cognizance of the cost of granting exclusive rights in key terms that businesses need to use extensively to operate.[155] Similarly, the descriptive fair use defense permits a business to use a competitor's protected descriptive mark so long as this use is "in good faith only to describe [the business's] goods or services."[156] This defense recognizes that fair competition requires access to descriptive terms and thus limits the scope of trademark protection for descriptive marks.[157]

The example of generic and descriptive marks counsels that any analysis of depletion should attempt to incorporate some measure of a word mark's importance to competition and to the public domain. Though our measure is rough, for common English words we use the frequency rank of the word and the proportion of overall word usage for which the word is responsible as an indicator of the cost the depletion of the word imposes on the trademark system. Similarly, with respect to surnames, we use the frequency rank of the surname and the proportion of the population that uses the surname. For neologisms, we use

ability of competitors to describe their product as bicycles — a wholly counterproductive result so far as consumers are concerned."); Lisa P. Ramsey, *Descriptive Trademarks and the First Amendment*, 70 TENN. L. REV. 1095, 1099 (2003) ("Free speech interests are harmed . . . when competitors of Fox News cannot use the descriptive phrase 'Fair & Balanced' as part of a slogan or domain name. As this phrase provides information about the attributes of the news services regardless of whether the public associates the term with Fox News, trademark restrictions on use of the term 'Fair & Balanced' suppress expression that is relevant to consumers. Like generic terms, such as 'News,' descriptive terms should be available for use by everyone in a particular industry."); Alexandra J. Roberts, *How to Do Things with Word Marks: A Speech-Act Theory of Distinctiveness*, 65 ALA. L. REV. 1035, 1040 (2014) ("Speech-act theory provides a helpful lens for understanding how trademarks work and illustrates why overprotecting descriptive terms undermines the goals of trademark law and hurts competition."). *But see* Park 'N Fly, Inc. v. Dollar Park & Fly, Inc., 469 U.S. 189, 200–01 (1985) (arguing that Congress, in drafting the Lanham Act, had considered and rejected the concern that protecting descriptive marks, like "Park 'N Fly" for long-term parking lots near airports, can be anticompetitive).

153 *See supra* p. 958. This bar is essentially a functionality doctrine for words, akin to the functionality doctrine for utilitarian or aesthetic product features referenced in *Qualitex*. *See, e.g.*, Jerre B. Swann, *Genericism Rationalized*, 89 TRADEMARK REP. 639, 649–50 (1999) (comparing the doctrines).

154 *See supra* p. 958.

155 *See* Ramsey, *supra* note 152, at 1099.

156 15 U.S.C. § 1115(b)(4) (2012); *see also* KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc., 543 U.S. 111, 124 (2004) (holding that a defendant raising such a defense need not demonstrate that consumers will not be confused by the use).

157 *KP Permanent Make-Up*, 543 U.S. at 122 (explaining the defense's origin as grounded partly in "the undesirability of allowing anyone to obtain a complete monopoly on use of a descriptive term simply by grabbing it first").

the frequency rank of the syllable and the proportion of all syllable usage for which the syllable is responsible.

B. Evidence of Word-Mark Depletion in Words Already Registered

For purposes of exposition, we begin in section 1 by presenting data on identical matches between active trademark registrations, on the one hand, and common English words, common American surnames, and possible one-syllable words, on the other. Even these data present compelling evidence of word-mark depletion. But they only hint at the extent of the problem. We present in sections 2 and 3 more disturbing evidence of depletion in the form of data showing the proportion of words and surnames that, even if not identical to already-registered marks, are confusingly similar to such marks, either because the word or surname is only slightly different from the registered mark or because the word or surname appears within the mark. Section 4 then focuses on domain names in the .com top-level domain.

1. Identical Matches. — In evaluating the proportion of words and surnames that identically match an already-registered mark, we necessarily study the registration of such words and surnames in the form of single-word marks. Single-word registrations are significant because they potentially yield considerable competitive advantages to their owners. They do so for two reasons. First, all else equal, single-word registrations typically form the basis of broader rights than multi-word registrations, whose exclusivity is limited only to uses that are confusingly similar with respect to all of the words registered.[158] For example, the registration of the single word FUTURE claims a broader scope of exclusivity than the registration of the words FUTURE QUEST. At least in principle, the former is potentially infringed by any use of or use similar to FUTURE, either alone or with any other words, including QUEST. In contrast, FUTURE QUEST is potentially infringed only by uses of or uses similar to both FUTURE and QUEST in combination. Second, single-word registrations are also competitively advantageous because of their low word count. All else equal, single words are typically easier to remember than multiple words strung together.[159] Easier recall by consumers makes single-word marks attractive to businesses.

(a) Frequently Used Words. — A strikingly high number of the most frequently used words in American English are already registered as single-word trademarks. As Table 1 indicates, in 2016, 813 (81.3%) of

[158] 3 MCCARTHY, *supra* note 22, § 19:60, at 19-221 to -222 ("The paradox of trademark registration is that the less that is registered, the greater the scope of protection afforded.").

[159] *See generally supra* pp. 966–67 (discussing the fact that shorter words are more desirable for branding because consumers can recall them better).

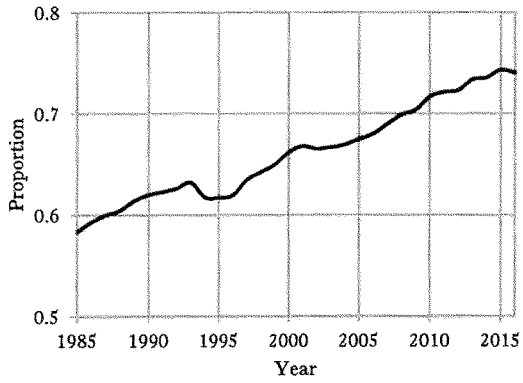
the 1000 most frequently used words identically matched an active single-word mark, and 6188 (61.9%) of the 10,000 most frequently used words did so. Overall, 20,295 (23.5%) of the 86,408 most frequently used words in American English were claimed as single-word marks.[160] These 20,295 words account for 74.0% of all word usage. In effect, when we use our language, nearly three-quarters of the time we are using a word that someone has claimed as a trademark.

Table 1: Proportion of Most Frequently Used Words Matching Active Single-Word Marks in 2016

Number of Most Frequent Words	Number Registered as Single-Word Marks	% of Number of Most Frequent Words	% of All Word Usage Claimed by Single-Word Marks
1,000	813	81.3	60.0
5,000	3,471	69.4	69.8
10,000	6,188	61.9	72.3
86,408	20,295	23.5	74.0

Figure 3 shows the dramatic increase since 1985 in the proportion of all word usage consisting of words claimed as single-word marks. In only thirty-one years, that proportion has increased from 58.3% of all word usage in 1985 to 74.0% in 2016.

Figure 3: Proportion of All Word Usage Consisting of Words Claimed as Single-Word Marks by Year, 1985–2016



[160] We first standardized registered marks by correcting misspelled words, by placing appropriate spacing between concatenated words, and by removing punctuation and other symbols.

What words remain unclaimed? Studying the registration status of the 1000 most frequently used words may offer some insight. In 2016, 187 of these words remained unclaimed. Most of these words would not likely succeed as trademarks, either because they carry negative connotations (such as "despite," "died," "difficult," "disease," "killed," "lack," "loss," "older," "problem," and violence"), questionable sales appeal (such as "least," "perhaps," "probably," and "trying"), or strong basic meanings that would likely impede successful branding (such as "drug," "religious," and "wants"). Also notable is the large number of words relating to gender and family that are frequently used but not claimed as trademarks (such as "husband," "wife," "married," "male," "woman," "daughter," "herself," and "himself").

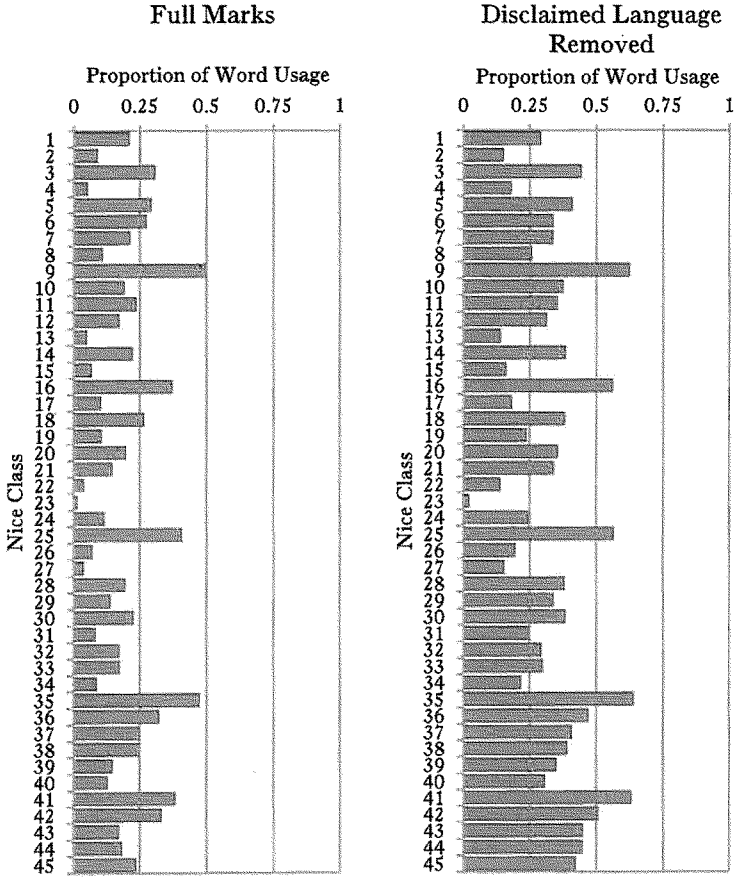
These data indicate that it is becoming more difficult for entrants to claim frequently used English words that no other firm is using anywhere in the economy. But firms will often settle for a parallel use provided that other firms that are using the mark are doing so in a different economic sector and in a nonconfusing manner. For this reason, we also look more specifically at the proportion of the most frequently used words that are claimed as single-word marks *within* particular classes of goods and services.[161]

Figure 4 shows, for each Nice class of goods and services, the proportion of word usage consisting of words claimed as single-word trademarks in that class. Certain classes show significant degrees of word-mark depletion — specifically, Class 9 (electronic goods), Class 25

[161] In presenting class-by-class results in this Article, we make several simplifying assumptions. First, we assume that a registration in one Nice class will not deplete, congest, or cause confusion with any potential mark in another class. This assumption makes our results conservative because goods and services in different classes may be sufficiently related such that the registration of a mark in one class may preclude another's registration of the same mark in another class. For example, a mark registered in Class 25 (apparel goods) may preclude another's registration of the same mark in Class 14 (precious metals, including jewelry). On the other hand, we make a second simplifying assumption, that a registration in one Nice class can deplete, congest, or cause confusion with other potential marks in that same class, even though that is not always the case, particularly for classes that combine many disparate goods or services, such as Class 35 (general business services). *Cf.* Tushnet, *supra* note 77, at 880–81 (discussing the same two possibilities, and how registrations therefore do not provide sufficient notification of the extent of infringement liability). Finally, we make another simplifying assumption by treating all marks containing text similarly. However, text marks can consist of standard character marks that make no claim "to any particular font style, size, or color," 37 C.F.R. § 2.52(a) (2016), stylized character marks in which the registration claims rights in the text only in its particular stylized font, or image marks containing text. *See Drawing of Your Mark*, U.S. PAT. & TRADEMARK OFF., https://www.uspto.gov/trademarks-getting-started/trademark-basics/representation-mark [https://perma.cc/5YHR-MN2B]. For the years 1985 through 2016, 72.4% of applications consisted of only standard character marks, 5.3% consisted of only stylized character marks, and 19.1% consisted of image marks containing text. Standard character marks potentially have the broadest scope because they are not limited to a particular stylization, whereas the other two categories tend to be narrower because of the stylization or design elements that appear with them. *Cf. supra* p. 981 (applying a similar principle to one- versus multi-word marks).

(apparel goods), Class 35 (general business services), and Class 41 (education, entertainment, and cultural and sporting activities services).

Figure 4: Proportion of All Word Usage Consisting of Words Identically Matching an Active Registration by Nice Class in 2016, Full Marks and Marks with Disclaimed Language Removed



Note that we have analyzed up until now identical matches between frequently used words and the whole mark recorded in the registration, including disclaimed words. Thus, in our identical matching protocol, the frequently used word "apple" would not identically match the registered mark APPLE COMPUTER, INC., even though the registration

disclaimed COMPUTER and INC.[162] We designed the protocol in this manner because trademark examiners are instructed to include disclaimed language in their section 2(d) assessment of mark similarity.[163] However, excluding disclaimed language from the mark enables our matching protocol to focus on what is most often the dominant portion of the mark, which is undoubtedly APPLE in our example. This focus is appropriate. In their section 2(d) assessment of similarity, examiners are also instructed to consider the dominant portion of the mark.[164]

When we test for identical matches between frequently used words and registered marks with their disclaimed language removed, the proportion of words already claimed increases. In 2016, of the 86,408 words listed in our word frequency table, 24,702 (28.6%) identically matched a registered mark with disclaimed language removed. These 24,702 words account for 78.9% of all word usage in American English. This percentage has been increasing over time, but not as dramatically as shown above in Figure 3 with respect to identical matches to full marks. This is because already in 1985 65.9% of all word usage consisted of a word identically matching a registered mark with disclaimed language removed. That percentage steadily increased each year to the 78.9% figure for 2016.

For the 1000 most frequently used words in particular, 899 identically matched registrations with disclaimed language removed. As for particular Nice classes, Figure 4 shows that the proportions of already-claimed words are often nearly double those reported for marks with disclaimed language included. The dramatic difference between the results of identical matching of words to full marks and identical matching of word to marks with disclaimed language removed hints at how severe

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[162] APPLE COMPUTER, INC., Registration No. 2,273,661. As per the trademark statute, the PTO "may require the applicant to disclaim an unregistrable component of a mark otherwise registrable. An applicant may voluntarily disclaim a component of a mark sought to be registered." 15 U.S.C. § 1056(a) (2012). Applicants disclaiming portions of word marks do so typically because they are generic or descriptive (without the requisite secondary meaning). *See, e.g.*, Brandon Meyer, *What Happens if I Can't Get Away with It?: Disclaimer Law and Practice*, 19 J. CONTEMP. LEGAL ISSUES 125, 125–29 (2010). Nonetheless, a disclaimer does not prejudice an applicant's common law rights or any future rights that might arise as to disclaimed words. 15 U.S.C. § 1056(b). Furthermore, disclaimed language still might be protectable, because courts evaluate it together with nondisclaimed language in assessing trademark infringement. *E.g.*, Juice Generation, Inc. v. GS Enters. LLC, 794 F.3d 1334, 1341 (Fed. Cir. 2015); Shen Mfg. Co. v. Ritz Hotel, Ltd., 393 F.3d 1238, 1243 (Fed. Cir. 2004).

In our data, of the 5,107,791 applications filed from 1985 through 2016 that succeeded to publication, 1,376,168 (26.9%) contained disclaimed language. This is a sizeable number. We have collected significant data about trademark disclaimers and plan to study them, their legal effect, and the desirability of potential protection for disclaimed language in future work.

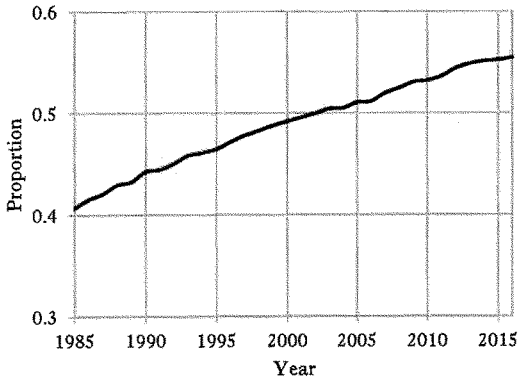
[163] *In re* MCI Commc'ns Corp., 21 U.S.P.Q.2d (BNA) 1534, 1538 (T.T.A.B. 1991); TMEP, *supra* note 55, § 1213.10.

[164] TMEP, *supra* note 55, § 1213.10 ("Typically, disclaimed matter will not be regarded as the dominant, or most significant, feature of a mark.").

the problem of word-mark depletion actually is — especially when we take into account, as we do in a moment, nonidentical similarity.[165]

(b) Frequently Occurring Surnames. — As mentioned above, the U.S. Census data allow us to estimate the proportion of the U.S. population that carries a surname already claimed as a registered mark.[166] We thus measure surname depletion according to this metric. The Census dataset lists 151,671 surnames. Of these, 22,125 identically match a mark registered in 2016. Census data indicate that these 22,125 surnames represent 55.4% of the U.S. population. Thus, over half of all Americans carry a surname that has already been claimed as a single-word trademark. Figure 5 shows the steady increase over time in the proportion of the population carrying a surname claimed as a trademark.

Figure 5: Proportion of U.S. Population Carrying a Surname Registered as a Single-Word Trademark by Year, 1985–2016



[165] We note that there is also significant depletion of individual letters and short letter combinations. In 2016, all twenty-six letters identically matched an active registration in some class of goods or services. In each of the most economically significant classes (5, 9, 25, 35, and 41), each letter was claimed as a single-letter mark by at least one registrant and often by multiple registrants. Of the 676 possible two-letter combinations, all but four (IY, UJ, XU, and YQ) identically matched an active registration in 2016 in some class of goods or services — and UJ has since been registered, UJ, Registration No. 5,243,465, while YQ, U.S. Trademark Application Serial No. 79,196,783 (filed July 19, 2016), and XU, U.S. Trademark Application Serial No. 86,900,821 (filed Feb. 8, 2016), are the subject of applications currently under review. As for specific classes: In Class 9, 85.5% of all two-letter combinations were claimed; in Class 25, 80.6%; in Class 35, 78.7%; and in Class 41, 73.8%. Overall, 58.9% of the 17,576 possible three-letter combinations identically matched an active registration in 2016 in some class of goods or services, and 5.1% of the 456,976 possible four-letter combinations were claimed in some class of goods or services.

[166] *See supra* pp. 975–76 (describing this dataset).

With respect to the registration of surnames as single-word marks in specific classes of goods and services, certain classes show significant depletion. For Class 9 (electronic goods), 30.3% of the population carries a surname triggering an identical match. For Class 25 (apparel goods), 22.4% of the population does so. With respect to Class 35 (general business administration services), a little over one in four Americans (26.6% of the population) carry surnames already registered as single-word marks. Interestingly, in Classes 6 (metal goods) and 7 (machine goods), surname depletion is also significant, at 20.5% and 23.6% of the population, respectively. In essence, substantial portions of the American population have simply been born too late to claim their surnames as single-word marks in certain classes of goods and services.

When we compare the most frequently occurring surnames to marks with disclaimed language removed, we find a higher proportion of the population carrying surnames already claimed as single-word marks. In 2016, 61.5% of the population carried a surname identically matching a registered mark with disclaimed language removed. The proportions are similarly higher with respect to specific classes of goods and services. For example, for Class 9 (electronic goods), 35.4% of the population carried a surname triggering an identical match, while 39.1% did so for Class 35 (business administration services), and 27.7% for Class 25 (apparel goods).

(c) One-Syllable Words. — It is often assumed that the supply of trademarks is inexhaustible because new firms can simply coin new words.[167] Yet the supply of new words that may serve as competitively effective trademarks is limited. Firms that choose neologisms generally prefer short, easily pronounceable, familiar-sounding, and reasonably euphonious terms.[168] Our data indicate that this limited supply of new words is itself being depleted.

To study this form of depletion, we focus on all potential one-syllable words in English.[169] To estimate a list of such terms, we use a frequency table of the 10,753 distinct syllables appearing in the words of the Corpus of Contemporary American English. We then compare these syllables to all applied-for and registered marks. Here, our matching protocol is based not on identical string matching but on identical phonetic matching. We are interested primarily in matching syllables that sound the same. In sum, we study identical matches between the phonetic representations of syllables appearing in the corpus and the phonetic representations of syllables appearing in the trademark application and registration data. For example, the words "Phil" and "fill" would

167 *See supra* section I.B.1, pp. 962–64 (elaborating on this conventional wisdom).

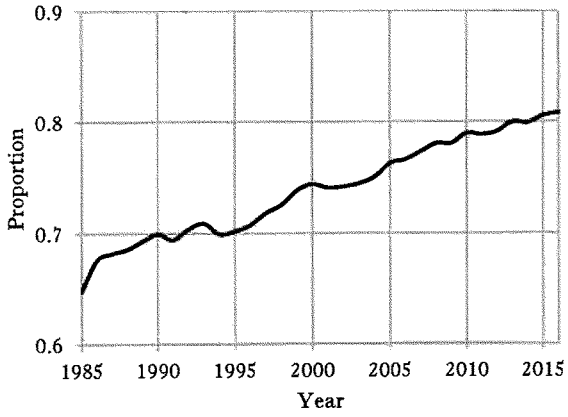
168 *See supra* section I.B.2, pp. 964–70.

169 We could study all potential two- and three-syllable English words as well, but due to computational constraints, we focus on one-syllable English words to give a sense of the proportion of the supply of plausible neologisms that conflict with already-registered marks.

match phonetically even though they are spelled differently, while the "ant" in "ant" and "variant" would not match phonetically even though they have the same spelling.

Overall, of the 10,753 most frequently used syllables in American English, 5632 (52.4%) are claimed as one-syllable marks. These 5632 syllables account for 80.8% of all syllable usage in the language. Figure 6 shows the extraordinary increase over time in the proportion of syllable usage consisting of a syllable claimed as a single-word mark, from a low of 64.8% in 1985 to our present condition in which over four-fifths of the syllables we use are registered as one-syllable marks.

Figure 6: Proportion of All Syllable Usage Consisting of Syllables Registered as Single-Word Trademarks by Year, 1985–2016



Which syllables remain unclaimed? Just as we did for frequently used words, we look at which syllables remain unclaimed among a subset of the most frequently used syllables for some insight. Of the one hundred most frequently used syllables, twenty were free of conflicts with a registered mark in 2016. Table 2 lists them. It is not surprising that these syllables remain free. Better suited to multisyllabic words, none would serve as an effective single-syllable trademark.

Table 2: Syllables Among the 100 Most Frequently Used Syllables Not Registered as Single-Syllable Trademarks in 2016

Frequency Rank	Arpabet Phonetic Transcription	Pronunciation Example
18	D IH	din
24	B IH	bin
31	S AH	support
32	R IH	writ
37	T AH	tut
39	IH	big
41	N AH	nut
44	M AH	mut
45	S IH	signal
47	DH ER	other
53	R AH	rut
58	T AH D	stud
69	P AH	put
76	L IH	Linda
78	M EH	men
79	M AH N T	arrangement
85	M IH	minnow
92	SH AH N Z	stations
93	T IH	tin
96	AE	fast

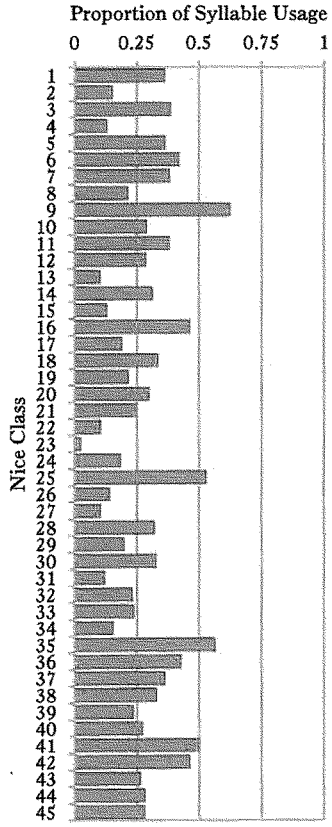
The kinds of syllables listed in Table 2 are representative of the larger population of the 5130 syllables appearing in the corpus that remain unregistered as one-syllable marks. A broader look at this population typically shows such unlikely one-syllable brand names as "wuh," "duh," "gehn," "gehnst," "erf," and "gloud."

Comparing single-syllable marks with all syllables appearing in the corpus also shows which syllables have been coined by trademark registrants. Here we find a large number of almost comically obtuse brand names: GLOG,[170] GUK,[171] LUNK,[172] SKIDE,[173] TSUGE,[174] ZOOTH,[175] KNIRPS.[176] To be sure, some firms may seek to distinguish themselves by the relative awkwardness of their brand names, but this cannot be an effective strategy for all new trademark registrants. When taking into account the marketing goals of typical firms, we see significant depletion of neologisms that promise to be at least minimally competitively effective.

[170] GLOG, Registration No. 4,277,734.
[171] GUK, Registration No. 4,453,072.
[172] LUNK, Registration No. 4,006,436.
[173] SKIDE, Registration No. 4,522,397.
[174] TSUGE, Registration No. 4,632,239.
[175] ZOOTH, Registration No. 2,343,707.
[176] KNIRPS, Registration No. 4,103,506.

Finally, Figure 7 shows by Nice class the proportion of syllable usage consisting of syllables claimed as one-syllable marks. As with common English words and common American surnames, certain classes are especially depleted. In Class 9 (electronic goods), 62.5% of all syllable usage consists of syllables claimed as one-syllable marks. In Class 35 (business administration services), 56.5% of syllable usage is claimed, and in Class 25 (apparel goods), 53.0% of syllable usage is claimed.

Figure 7: Proportion of All Syllable Usage Consisting of Syllables Registered as Single-Word Marks in 2016 by Nice Class



2. Jaro-Winkler Similarity Matches. — When we move from an analysis of the data based on identical matching to an analysis based on confusing similarity, the results are much starker — and help to explain

why, as we show below, applicants are increasingly shifting away from applying for common words and surnames.

To assess nonidentical similarity, we employ the Jaro-Winkler measure of the edit distance between two strings. Edit distance is a measure of the number of operations, such as insertions, deletions, or transpositions, required to transform one string into another. For example, "chat" needs one deletion and nothing further to transform it to "cat." We use the Jaro-Winkler distance measure because it incorporates character transpositions into its measure of distance and places more weight, as people do, on the initial characters of the strings being compared.[177] Jaro-Winkler distance is normalized such that a distance of 1 indicates an exact match and a distance of 0 indicates no similarity.[178] We use a conservative threshold of 0.875 to indicate a confusingly similar match.[179] To further tighten our similarity-matching protocol, we use

[177] For these reasons, the Jaro-Winkler measure is superior to other measures of edit distance, such as Levenshtein distance and Jaro distance. The Jaro-Winkler measure is set out in William E. Winkler, *String Comparator Metrics and Enhanced Decision Rules in the Fellegi-Sunter Model of Record Linkage*, *in* SURVEY RESEARCH METHODS SECTION, JSM PROCEEDINGS 354 (1990), http://ww2.amstat.org/sections/srms/Proceedings/ [https://perma.cc/YY6Z-JRS5]. Computer scientists have developed much more sophisticated methods of measuring the phonetic and semantic similarity of words. *See, e.g.*, Fatahiyah Mohd Anuar, Rossitza Setchi & Yu-Kun Lai, *Semantic Retrieval of Trademarks Based on Conceptual Similarity*, 46 IEEE TRANSACTIONS ON SYSTEMS, MAN & CYBERNETICS 220 (2016); Fatahiyah Mohd Anuar, Rossitza Setchi & Yu-Kun Lai, *Trademark Retrieval Based on Phonetic Similarity*, *in* PROCEEDINGS: 2014 IEEE INTERNATIONAL CONFERENCE ON SYSTEMS, MAN & CYBERNETICS 1642 (2014) [hereinafter Anuar, Setchi & Lai, *Trademark Retrieval*]; Grzegorz Kondrak, *Phonetic Alignment and Similarity*, 37 COMPUTERS & HUMAN. 273, 284–86 (2003) (setting out the ALINE algorithm for assessing phonetic similarity). Fatahiyah Mohd Anuar, Rossitza Setchi, and Yu-Kun Lai in particular have proposed an algorithm that, by their estimate, significantly improves upon the Levenshtein approach and Grzegorz Kondrak's ALINE algorithm. Anuar, Setchi & Lai, *Trademark Retrieval*, *supra*, at 1646–47. In subsequent work, we hope to employ these improved algorithms. But because we use a very conservative threshold for similarity, we expect that these improved algorithms will produce even stronger evidence of word-mark depletion among frequently used words.

[178] *See* Winkler, *supra* note 177, at 356.

[179] We characterize a 0.875 Jaro-Winkler threshold as conservative for our purposes because it yields very few false positives. But it does so at the cost of a significant number of false negatives. As compared with the word "apple," for example, the following words would yield Jaro-Winkler scores under the 0.875 threshold: "crabapple" (0.541), "affle" (0.760), "apfel" (0.827), "appollo" (0.853), and even "epple" (0.867). Meanwhile, words that share initial characters or combinations of characters with "apple" would trigger a Jaro-Winkler match at the 0.875 threshold — for example, "snapple" (0.905), "appal" (0.907), and "bapple" (0.944).

A rough study of opposition proceedings before the PTO's Trademark Trial & Appeal Board (TTAB) lends further support to the proposition that the 0.875 threshold is relatively conservative. The TTAB maintains a dataset describing all of its opinions since November 1996. *Final Decisions of the Trademark Trial and Appeal Board*, U.S. PAT. & TRADEMARK OFF., https://e-foia.uspto.gov/Foia/TTABReadingRoom.jsp [https://perma.cc/R62N-5HJN] (last updated Nov. 2017). We studied all 2587 opposition opinions included in this dataset from November 1996 through December 2016. For each of these opinions, we calculated a Jaro-Winkler score that compared up to the first four words in the opposer's mark with up to the first four words in the applicant's mark. The mean Jaro-Winkler score for the 1587 oppositions we studied that were sustained at least in part was 0.646, while the comparable score for the 932 oppositions we studied that were dismissed

the full mark (including disclaimed language) as the basis of our comparisons with frequently used words and frequently occurring surnames.

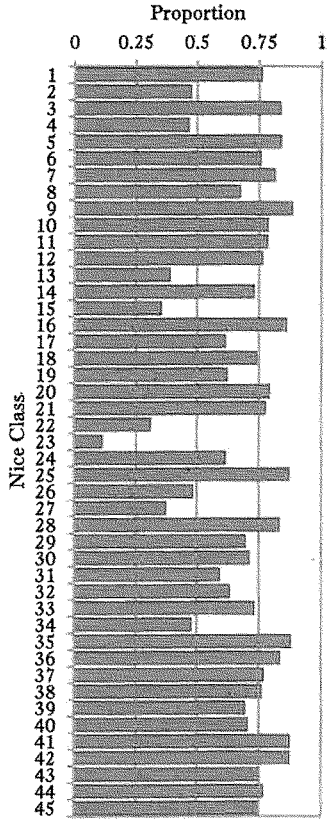
Even when using this very conservative method of matching, we find evidence of extreme word-mark depletion. Of the 86,408 words listed in our word frequency table, 83,913 (97.1%) were confusingly similar to an active trademark registration in 2016. These words account for 89.1% of all word usage in American English. Of the 10,000 most frequently used words, all but nine are confusingly similar to an already-registered mark.[180] The degree of word-mark depletion is also severe for many specific classes of goods and services. Figure 8 shows, for each Nice class, the proportion of word usage that consists of words confusingly similar to active trademark registrations in that class in 2016. By this measure, over half of the Nice classes show word-mark depletion amounting to over 70% of all word usage, with Class 9 (electronic goods, including software) leading at 88.5% and Class 35 (business administration services) at 87.8%.

Admittedly, because certain classes, such as Class 9 and Class 35, cover a very broad range of goods or services, these data do not show that all words identified as confusingly similar to an already-registered mark in a particular class are unavailable in that class. When the marks are merely similar rather than identical and the goods are sufficiently different, it is possible that a registration will issue. At the very least, however, these data indicate an enormous amount of friction in the registration process for applicants seeking to register common English words. They further show the considerable challenges entrants face in finding a mark that will be distinctive in its product space in comparison with other similar marks in that space.

at least in part was 0.601. These results suggest that a Jaro-Winkler threshold of 0.875 is highly conservative. The TTAB dataset is very rich, and we plan further, more refined study of it.

180 These words were, in order of decreasing frequency: "vulnerable," "unintelligible," "unfortunate," "disappointment," "uh-huh," "vulnerability," "would-be," "unsuccessful," and "notwithstanding."

Figure 8: Proportion of All Word Usage Consisting of Words Triggering Jaro-Winkler Similarity Matches with Active Registrations in 2016 by Nice Class

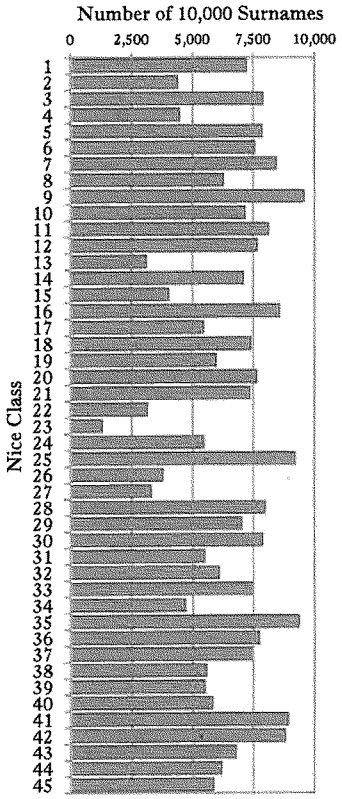


The results for surnames are comparable. Due to computational limitations, we focus on similarity matches with the 10,000 most frequently occurring surnames, covering 68.1% of the U.S. population. Of these, all but nineteen were confusingly similar to an active registration in 2016.[181] Figure 9 shows the number of the 10,000 most frequently occurring surnames triggering a match by Nice class. As with common

[181] These nineteen were: "Gutierrez," "Yarbrough," "O'Rourke," "McDuffie," "Jankowski," "Szymanski," "Jablonski," "Dalrymple," "Grijalva," "Olszewski," "Piotrowski," "Urrutia," "McKibben," "DiBenedetto," "Shropshire," "McVicker," "Cespedes," "Vanlandingham," and "Shrewsbury."

words, common American surnames are heavily depleted in a large proportion of Nice classes.[182]

Figure 9: Number of the 10,000 Most Frequently Occurring Surnames Triggering Jaro-Winkler Similarity Matches with Active Registrations in 2016 by Nice Class



3. Within-Mark Word Matches. — The appearance of a word *within* a currently registered trademark will not necessarily prevent others from

[182] We do not currently study nonidentical matches for one-syllable words. The Jaro-Winkler measure studies distance between alphabetic strings. We cannot use this measure on our one-syllable word data, which are instead represented phonetically. In future work, however, we plan to use our phonetic dataset representing all word marks to measure sound similarity, which is harder, if not impossible, to do accurately with mere alphabetic representations of word marks.

using that word in another registered mark even within the same class of goods or services. Nor will it necessarily impair the distinctiveness of the word when used in other marks to the same degree that an already-existing single-word mark might. It depends on the mark: for example, there is a good chance that BLUE COMPUTERS would stop nearly all other uses of the mark BLUE in Class 9, whereas BLUE GRASS ELECTRONICS or HIGH-DEFINITION BLUE RAY COMPUTERS are less likely to do so. Stated conservatively, there is an elevated chance that the registration of a mark containing a word will have restrictive effects on others' use of that word, as compared with a world with no such registration.

Therefore, data on within-mark uses of frequently used words in American English offer additional evidence of the extent of word-mark depletion, especially because an extraordinarily high proportion of word usage in American English consists of words already claimed as part of a live trademark registration.[183] As Table 3 indicates, of the 1000 most frequently used words, only three failed to appear within an active trademark registration in 2016. These were "although," "showed," and "seemed." Of the 86,408 most frequently used words in American English, 38,388 (or 44.4%) appeared somewhere within an active trademark registration in 2016. These 38,388 words account for 86.7% of all word usage in American English.

Table 3: Proportion of Most Frequently Used Words Appearing as Words Within Active Registered Marks in 2016

Number of Most Frequent Words	Number Appearing Within Registered Marks	% of Number of Most Frequent Words	% of All Word Usage Claimed
1,000	997	99.7	65.3
5,000	4,868	96.8	79.4
10,000	9,386	93.9	83.4
86,408	38,388	44.4	86.7

Figure 10 shows, for each Nice class of goods and services, the proportion of word usage consisting of words claimed within trademarks in that class in 2016. Particularly high levels of depletion by this measure appear in Classes 9 (electronic goods), 16 (printed matter), 25 (apparel goods), 35 (business administration services), 41 (education, entertainment, and cultural and sporting activities), and 42 (computer-related services). Over 80% of all word usage consists of words claimed within marks in each of these classes.

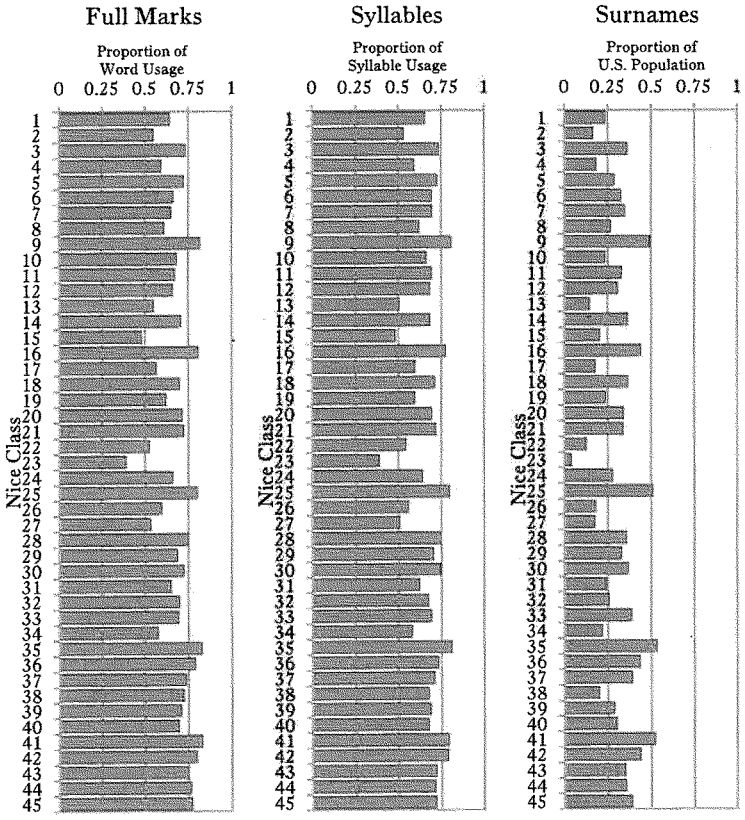
[183] Our within-mark matching protocol looked for the appearance of the word as a freestanding word within the mark.

Within-mark coverage of surnames is also very high. Of the 1000 most frequently occurring surnames in the United States, covering 40.6% of the population, only eleven fail to appear as a word in a registration active in 2016.[184] Of all of the 151,671 surnames listed in the Census data, 38,122 appeared as a word in an active registration in 2016, representing 70.2% of the U.S. population. Figure 10 shows high levels of surname depletion — as measured by the proportion of the population carrying a surname already claimed within a mark — in the same classes that showed high levels of word-mark depletion. These data suggest that, in effect, in Classes 9, 25, 35, and 41, half of the U.S. population would face significant difficulties in seeking to register their surnames as trademarks.

Finally, an extraordinarily high proportion of syllable usage is covered by within-mark uses of one-syllable words consisting of any syllable appearing in the Corpus of Contemporary American English. Of the 10,753 syllables appearing in the corpus, 7666 (70.7%) were claimed as one-syllable words in active registrations in 2016. These 7666 syllables account for 86.9% of all syllable usage in the corpus. Figure 10 shows very high levels of syllable depletion across a wide variety of classes, most notably in Classes 9, 25, and 35, where one-syllable words accounted for 80.8%, 79.9%, and 81.1% of all syllable usage, respectively. Across most Nice classes, it is highly unlikely that an entrant could use a neologism consisting of a word whose corresponding syllable appears in the corpus without encountering a strong possibility of a conflict with an already-registered mark.

[184] These eleven are: "Contreras," "Maldonado," "Gallegos," "Delacruz," "McCullough," "Blankenship," "Rangel," "Lowery," "Zuniga," "Bonilla," and "Benitez."

Figure 10: Proportion of All Word Usage Consisting of Words Appearing as a Word Within an Active Registration in 2016 by Nice Class; Proportion of All Syllable Usage Consisting of Syllables Appearing as a Word Within an Active Registration in 2016 by Nice Class; and Proportion of U.S. Population Carrying a Surname Appearing as a Word Within an Active Registration in 2016 by Nice Class



4. The Proportion of Frequent Words Registered as .com Domain Names. — We noted above that trademark applicants typically inquire whether a mark they wish to register has already been registered as a domain name and are typically most concerned with whether the mark has been registered in the .com top-level domain (TLD).[185] The .com

[185] *See supra* p. 968.

TLD is of course not divided into classes of goods and services; it allows only one registrant of a domain name like "apple." As a result, word-mark depletion in this space can be extreme. Of the 86,408 most frequently used words in English, 77,340 are currently registered as domain names in the .com TLD. These 77,340 words represent 86% of all word usage in American English.[186] Of the 10,000 most frequently used words of more than two characters, only four remain unregistered in the .com top-level domain: "two-year" (with a frequency rank of 7012), "four-year" (7479), "three-year" (8457), and "nineteenth-century" (8691). Moreover, if one allows for the most minor of spelling variations, these four words are indeed registered as twoyear.com, 4year.com, threeyear.com, and nineteenthcentury.com, respectively. On this count, not one of the 10,000 most frequently used words of more than two characters remains unregistered.

Surname depletion in the .com TLD is even more extreme, bordering on total. Of the 151,671 surnames listed in the U.S. Census data, all but 813 match a domain name listed in Verisign's .COM TLD Zone File.[187] In effect, at least 90% of the U.S. population carries a surname that has already been claimed in the .com space — and because the U.S. Census table lists only those surnames that appeared 100 or more times in the Census data, the percentage is likely higher.

With respect to all letter combinations consisting of four characters or fewer, all two-letter combinations are registered in the .com top-level domain. According to the Verisign data, all but 36 of the 17,576 possible three-letter combinations are registered under .com, and 99.7% of all possible 456,976 four-letter combinations are registered under .com.[188]

The Verisign data do not indicate the proportion of .com domain name registrations that are held by cybersquatters engaging purely in rent-seeking. It may be that a high proportion of .com domain name registrations are actively for sale. Still, the .com domain name data provide further evidence of the enormous friction that entrants face in developing a new brand name.

* * *

186 The words "a" and "I," together accounting for 3.2% of all word usage in American English, are not registered as domain names. *See infra* note 188 (explaining that no single-letter domain names are currently registrable).

187 A random check of several of the 813 surnames that failed to find a match in Verisign's data suggest that Verisign's dataset is incomplete. We reviewed the domain name registration status of ten randomly chosen non-matching surnames at register.com and found that each surname had already been claimed.

188 The Internet Corporation for Assigned Names and Numbers (ICANN) has established special rules for the reservation and eventual allocation of single-letter domain names, which are not currently registrable. *See* ICANN, *Single-Character Second-Level Domain Name (SC SLD) Allocation Framework*, https://www.icann.org/resources/pages/proposed-scsld-allocation-framework-2008-06-13-en [https://perma.cc/Y64M-WDNL].

In this section, we have presented evidence of word-mark depletion based on what words are already registered. This evidence is stunning. Even using a conservative similarity matching protocol, nearly all the words we use on a daily basis are already registered or are confusingly similar to an already-registered mark. The same is true with respect to the surnames of a very high proportion of Americans. Even potential neologisms show high levels of depletion. Across all classes, the evidence shows increasing levels of depletion within each class, with certain important classes experiencing especially severe depletion: Class 9 (electronic goods), Class 25 (apparel goods), Class 35 (general business administration services), Class 41 (education, entertainment, and cultural and sporting activities services), and Class 42 (computer-related services). The evidence is particularly compelling because we are studying only registered marks. There is still the broad population of "common law" marks that, though unregistered, nevertheless enjoy federal protection and can preclude or severely limit new registrations that conflict with them. We think this evidence alone confirms the popular wisdom that market entrants now face enormous challenges in developing new marks, challenges that substantially impede competition.[189] The data also help to explain emerging trends in applicant and registrant conduct, to which we now turn.

C. Evidence of Word-Mark Depletion in Which Marks Are Being Applied for and Registered

Even if a strikingly high proportion of frequently used words, surnames, and short neologisms are already claimed as trademarks, it is apparent that this has not prevented applicants from continuing to register trademarks at the PTO. In 2016, for example, the PTO added 221,817 new registrations to the Principal Register, of which 93,060 were single-word trademarks.

But the overall effectiveness and desirability of applied-for and registered trademarks have been declining. Applicants have been moving away from frequently used words and surnames and toward neologisms. Left with fewer standard words from which to choose marks, firms are constrained to settle for coined words, which tend to be less readily memorable and more costly to imbue with meaning.[190] They have also been applying for longer marks, as measured by word count, syllable count, and character length. Longer marks are generally more complex and forgettable, making them less desirable than shorter marks.[191] We suggest that these trends are consistent with the effects of word-mark depletion on the trademark system. With a high proportion of preferred

[189] *See infra* section V.A, pp. 1021–29 (exploring in depth the harms of mark depletion, including those to competition).

[190] *See supra* pp. 965–66 (discussing the pros and cons of coined word marks).

[191] *See supra* pp. 966–67 (discussing ideal mark length).

word marks already claimed, entrants are increasingly resorting to second-best marks.

Figure 11 shows, by filing year, the increasing proportion of single-word applications and registrations that consist of neologisms. For these purposes, we count as a neologism any word not appearing in the Corpus of Contemporary American English list of most frequently used words or in the Census list of the most frequently occurring surnames in the United States. For applications filed in 1985, 75.3% of all applications for single-word marks and 77.2% of such applications that were eventually registered consisted of neologisms. For all applications filed in 2014, the percentage of neologisms had increased to 82.8% of single-word applications and 84.3% of those that were registered. The data show that this upward trend has been particularly pronounced in Class 25 (apparel goods). For applications filed in 1985, 62.5% of single-word applications and 68.0% of those that were registered consisted of neologisms. For applications filed in 2014, the percentage of neologisms had increased to 82.0% of single-word applications and 85.7% of those that were registered.

Figure 11: Proportion of Applications and Registrations Consisting of Neologisms by Filing Year, 1985–2016

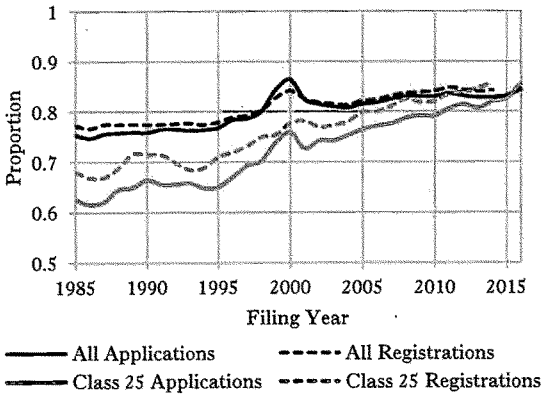


Figure 12 focuses on surnames and shows the declining proportion over time of applications and registrations matching frequently occurring surnames. For applications filed in 1985, 6.3% of applications and 6.2% of those that were registered consisted of a single word matching a surname included in the Census list of the most frequently occurring surnames in the United States. For applications filed in 2014, the percentages had dropped to 3.5% of applications and 3.4% of those that were registered.

Figure 12: Proportion of Applications and Registrations for Marks Consisting of Single Words Matching Surnames by Filing Year, 1985–2016

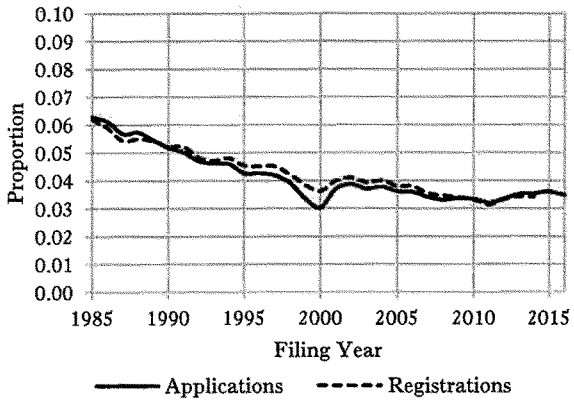
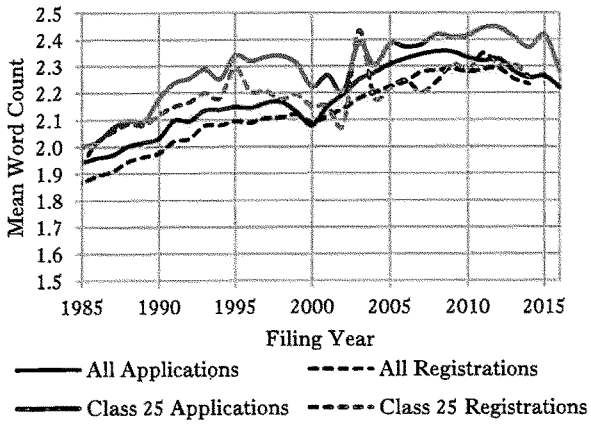


Figure 13 shows the increasing length in word count of applied-for and registered word marks over time, with a focus on Class 25 (apparel goods). Consistent with Figure 13, applications for single-word marks in particular have declined from a high of 47.1% of all word-mark applications in 1985 to a low of 38.1% of all such applications in 2005 and continuing at roughly that level through 2016. With respect to overall word count, as Figure 13 indicates, the average word count of all applications in 1985 was 1.94 words, and of all such applications that resulted in registration, it was 1.86 words. For applications filed in 2014, these averages had increased to 2.26 words for all applications and 2.23 words for those that resulted in registration. Similarly, for apparel goods, average word count increased from 2.00 words for applications filed in 1985 (and 1.94 words for those that resulted in registration) to 2.37 words for applications filed in 2014 (and 2.26 words for those that resulted in registration).

Figure 13: Length in Mean Word Court of Applied-For and Registered Marks by Filing Year, 1985–2016



Finally, Figures 14 and 15 show the increasing length in syllable and character count, respectively, of applied-for and registered word marks over time.

Figure 14: Length in Mean Syllable Count of Applied-For and Registered Marks by Filing Year, 1985–2016

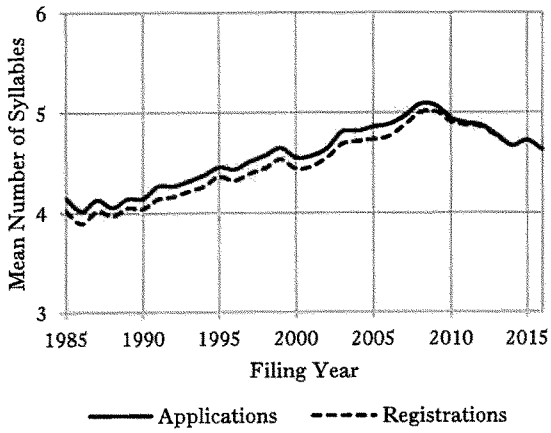
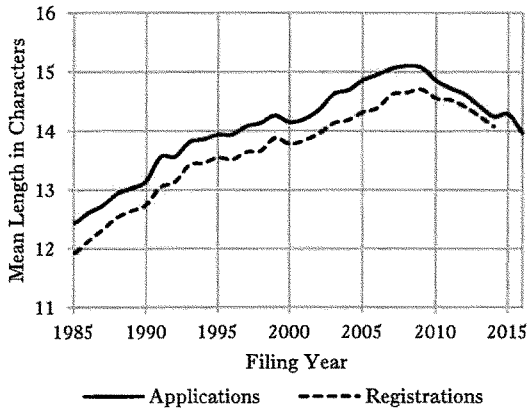


Figure 15: Length in Mean Character Count of Applied-For and Registered Marks by Filing Year, 1985–2016



This evidence demonstrates that applicants themselves are increasingly seeking marks from what marketing experts consider to be less desirable categories: neologisms and longer words or phrases. We recognize that these data do not provide conclusive evidence that applicants across the trademark system are resorting to less-preferred marks in an effort to cope with word-mark depletion. Other factors, such as trends in marketing counter to those described in section I.B.2, may account for applicants' shift to neologisms or longer marks. Nevertheless, it is striking that each of the trends described in Figures 11 through 15 is directionally consistent with the effects of word-mark depletion, which we also demonstrate through the other data presented in this Part.[192]

D. Evidence of Word-Mark Depletion in Applications Failing to Succeed to Publication

We have sought to show that applicants are changing their conduct in response to word-mark depletion: in an effort to avoid conflicts with already-registered marks, they are increasingly applying for and ultimately registering second-best marks. Yet notwithstanding applicants' apparent efforts to avoid them, conflicts at the PTO have been increasing. As discussed above, section 2(d) empowers the PTO to refuse to

[192] We additionally investigated whether frequent applicants at the PTO applied for and registered neologisms, surnames, and longer marks at rates different from those of infrequent applicants. We found no substantial difference between frequent, infrequent, and single filers with respect to the trends discussed in this section.

register marks that are likely to be confusingly similar to already-registered marks. From 2003 through 2014, an increasing proportion of applications received a section 2(d) refusal — and an increasing proportion of applications receiving a section 2(d) refusal ultimately failed to succeed to publication.[193] This is particularly compelling evidence of word-mark depletion. As discussed above, applicants may now relatively easily determine the existence of already-registered marks that conflict with the marks they seek to register.[194] Furthermore, applicants appear to be acting on this knowledge by applying for neologisms and longer marks.[195] Yet the rate of section 2(d) refusals continues to increase. Even while seeking to avoid conflicts, applicants still appear to be increasingly encroaching upon already-claimed marks.[196]

Figure 16 shows the increasing proportion of applications containing text that triggered at least one section 2(d) refusal. Section 2(d) refusal rates in the apparel and beverages sectors have grown especially high; for example, nearly one in five applications (19.8%) in the beverages sector faced a section 2(d) refusal in 2014 as compared to 13.5% eleven years prior.[197]

[193] Although we have other PTO data on trademark applications and registrations dating back longer, recall that we are able to collect data on section 2(d) refusals only from 2003 forward. *See supra* p. 973.

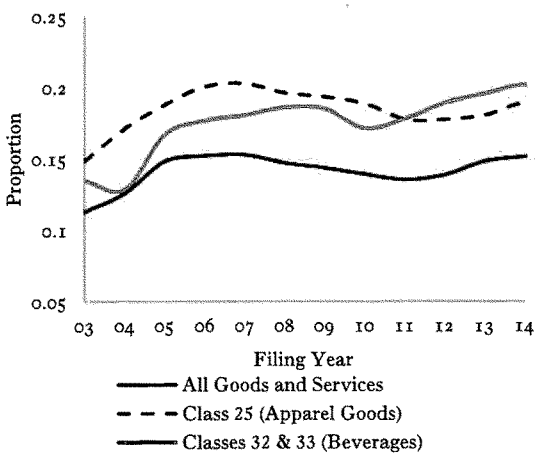
[194] *See supra* section I.C, pp. 970–72.

[195] *See supra* section III.C, pp. 999–1003.

[196] Some of these applicants might be relatively unsophisticated and not realize that there are mark conflicts. Or some might be highly sophisticated applicants knowingly pushing the envelope in an attempt to register rights in a questionably available mark.

[197] Some classes, like Class 5 (pharmaceuticals), have lower rates of section 2(d) refusals. However, even in these classes, there have been relatively similar increases in the proportion of section 2(d) refusals (from 9.8% in 2003 to 13.5% in 2014). We think there is an important reason, related to FDA regulations, that pharmaceutical mark applications experience lower rates of section 2(d) refusals, which we discuss below. *See infra* pp. 1038–39.

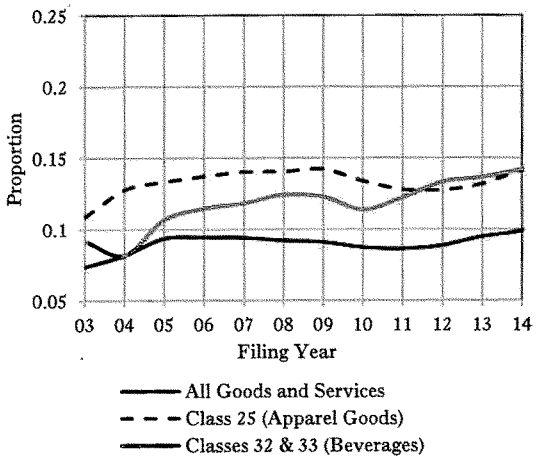
Figure 16: Proportion by Filing Year of Applications Containing Text that Triggered a Section 2(d) Refusal, 2003–2014



Even if an application receives a section 2(d) refusal, the applicant may overcome that refusal by persuading the trademark examiner or ultimately the PTO's Trademark Trial and Appeal Board that there is no likelihood of confusion.[198] For applications filed from 2003 through 2014, about one-third of applications that received a section 2(d) refusal managed to succeed to publication, though publication rates in this regard have been slowly and steadily declining in recent years — from a high of a 38.4% publication rate for such applications filed in 2007 to a low of 34.9% for such applications filed in 2013. Overall, Figure 17 shows the increasing proportion of applications that both received a section 2(d) refusal and subsequently failed to publish.

[198] 37 C.F.R. § 2.63 (2016); *see also* TMEP, *supra* note 55, § 713.

Figure 17: Proportion of Applications Containing Text that Triggered a Section 2(d) Refusal and Failed to Publish by Filing Year, 2003–2014



Consistent with the data above showing severe word-mark depletion with respect to common words and surnames, applications for neologisms tend to do better in avoiding section 2(d) refusals. Figure 18 shows relevant trends over time. Specifically, it shows by filing year the proportion of single-word applications that received a section 2(d) refusal and then failed to publish where those applications consisted either of a neologism or of a common word or common surname. By 2014, 15.5% of single-word applications consisting of either a common word or a common surname received a section 2(d) refusal and then failed to publish. A far lower proportion of neologism applications (7.5%) did so.[199]

[199] This difference might very well lie in a slower depletion rate for neologisms than for common English words, which is unsurprising given that the former category is larger than the latter and there are many marketing reasons why businesses prefer to choose marks from the latter category, *supra* pp. 965–66. Yet our data show that both categories of word marks are increasingly being depleted over time, *see supra* section III.B, pp. 981–99, and Figure 18's upward-trending lines for both non-neologisms and neologisms corroborate this.

Figure 18: Proportion of Single-Word Applications Containing Text that Triggered a Section 2(d) Refusal and Failed to Publish, Neologisms vs. Non-Neologisms by Filing Year, 2003–2014

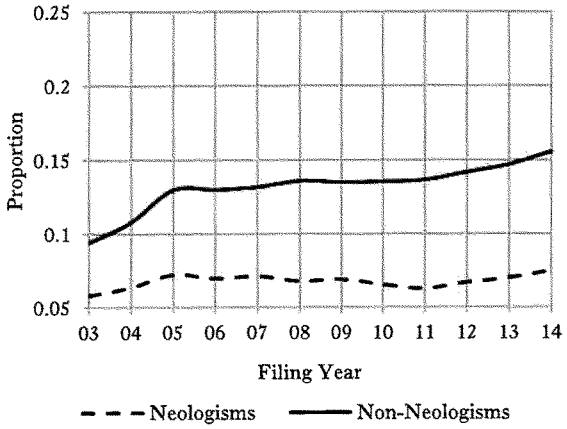
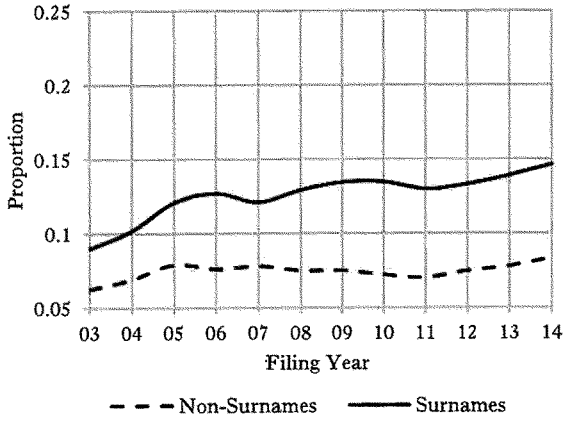


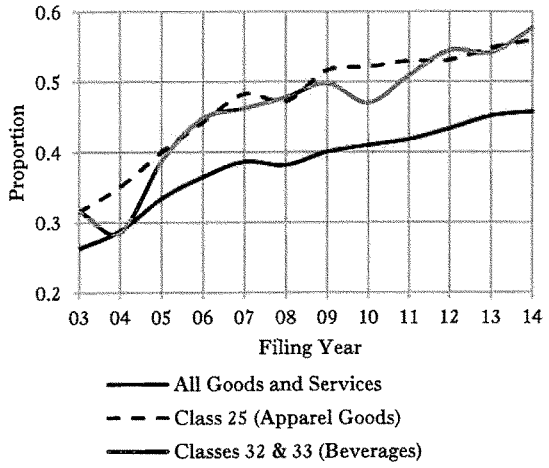
Figure 19 further focuses only on single-word applications consisting of a word that matches a frequently occurring surname. Here again, a remarkably high proportion of such applications are now both receiving a section 2(d) refusal and subsequently failing to publish.

Figure 19: Proportion of Single-Word Applications Containing Text that Triggered a Section 2(d) Refusal and Failed to Publish, Surnames vs. Non-Surnames by Filing Year, 2003–2014



Viewed from a different angle, the data indicate that if an application has failed to succeed to publication, it is increasingly likely that it has failed because of a section 2(d) conflict. Figure 20 focuses on applications that failed to reach publication and shows the increasing proportion of such applications that received at least one section 2(d) refusal. This phenomenon is particularly pronounced in certain classes. In 2014, a section 2(d) refusal was issued to over half of all applications that failed to reach publication in Class 25 (apparel goods) and in Classes 32 and 33 (which together cover beverages).

Figure 20: Proportion of Applications Failing to Publish that Received a Section 2(d) Refusal by Filing Year, 2003–2014



Overall, Figure 20 shows that for those applications failing to succeed to publication, an increasing proportion are failing because they conflict with an already-registered mark.[200]

[200] These trends in section 2(d) refusal rates have likely been worsened by the expansion in recent decades in the scope of protection the law affords to trademarks. Many scholars have remarked on this expansion. *See, e.g.*, Jessica Litman, *Breakfast with Batman: The Public Interest in the Advertising Age*, 108 YALE L.J. 1717, 1721–25 (1999) (describing the expanding scope of trademark protection in the second half of the twentieth century); *see also* Barton Beebe, Essay, *Search and Persuasion in Trademark Law*, 103 MICH. L. REV. 2020, 2069–72 (2005) (discussing the rise of the "[s]overeign [t]rademark," *id.* at 2069). Indeed, more generally, this expansion in trademark scope serves to accelerate trademark depletion and congestion and to worsen the severity of their impact on competition and the public domain. We discuss possible reforms to the likelihood-of-confusion standard in trademark law below. *See infra* p. 1041.

E. The Performance of Incumbent Applications at the PTO

One class of applicants continues to do well in the face of word-mark depletion: those that apply based on already-owned registrations. Applicants must identify whether an application is based on a previous registration and indicate their ownership of that registration.[201] Otherwise that registration might form the basis of a refusal of the new application under section 2(d).[202] For example, a Korean company recently applied for the word TRY in Class 25 (apparel goods).[203] In doing so, the company cited its prior registration of the word in stylized format in the same class.[204] This disclosure prevented the possibility of a section 2(d) refusal based on that prior registration. Over the twelve-year period from 2003 through 2014,[205] 13.1% of applications were based, like the application for TRY, on one or more previous registrations.

During this period, incumbent applications enjoyed lower section 2(d) refusal rates, and when they did receive section 2(d) refusals, they tended to be very successful in overcoming them. Overall, for the years 2003 through 2014, 10.5% of incumbent word-mark applications received a section 2(d) refusal, and 78.8% of these applications overcame that refusal and published. In contrast, 14.2% of nonincumbent applications received a section 2(d) refusal and only 36.5% overcame the refusal and published. More generally, over the same time period, incumbent applications enjoyed a substantially higher publication rate, at 93.9%, than did nonincumbent applications, at 76.3%.

The particular characteristics of incumbent applications also show the benefits of incumbency. The data indicate that incumbents are applying for and registering non-neologisms at a higher rate than nonincumbents. For the twelve-year period from 2003 through 2014, 32.4% of all nonincumbent applications resorted to single-word neologisms as compared to 23.4% of incumbent applications.[206] If non-neologisms are in many respects preferred as trademarks, incumbents are benefiting further from having staked claims to these marks when they were still available.

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201 *See* 37 C.F.R. § 2.36 (2016).

202 *See* TMEP, *supra* note 55, § 812 (citing 15 U.S.C. § 1052(d)).

203 TRY, Registration No. 4,610,405.

204 *Id.* (citing TRY, Registration No. 1,543,608).

205 In this section, we restrict our analysis to applications filed from 2003 to 2014. We begin in 2003 because section 2(d) refusal data are not available for applications filed before this date. We end in 2014 because applications filed after this date may not have been fully processed by 2016, which would skew the publication rate data for such applications.

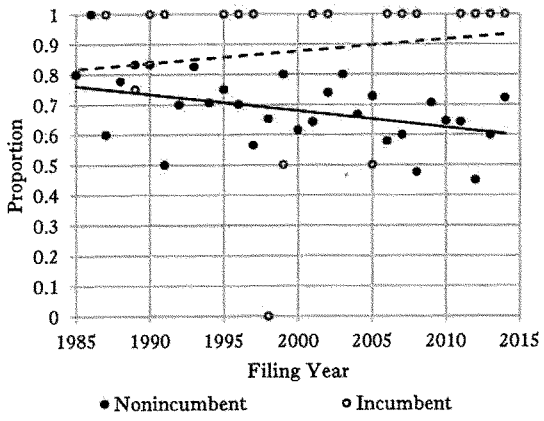
206 This difference continues through to the proportion of applications filed from 2003 through 2014 that resulted in registration and that consisted of a single-word neologism. For nonincumbents, 34.6% of applications filed over this period that resulted in registration consisted of single-word neologisms. For incumbents, it was 25.0%.

The advantages of incumbency are also clear with respect to the most frequently applied-for marks. Table 4 lists the twenty most frequently applied-for word marks for the period 1985 through 2014, all of which are standard English words. Taking ECLIPSE as an example, Figure 21 shows the substantially higher publication rate for incumbent applications for ECLIPSE as compared with nonincumbent applications. Similar differences appear in specific classes.

Table 4: Most Applied-For Single-Word Marks of Two or More Characters, 1985–2014

Word	N	Word	N
ECLIPSE	579	SMART	406
TITAN	555	ENCORE	396
IMPACT	540	APEX	388
FUSION	504	SPECTRUM	388
INFINITY	489	QUANTUM	388
GENESIS	475	MILLENIUM	386
EXTREME	421	GUARDIAN	385
ELITE	413	VISION	384
OASIS	413	INSIGHT	384
ADVANTAGE	409	REVOLUTION	376

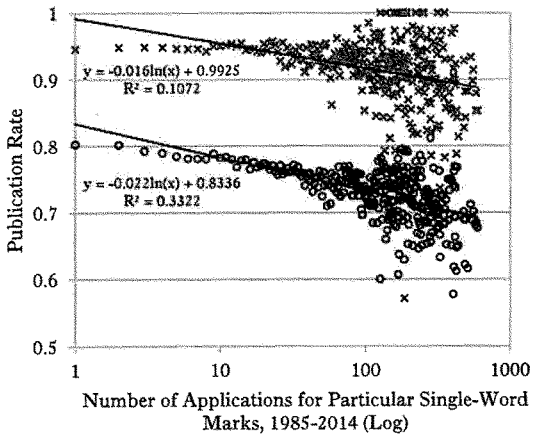
Figure 21: Incumbent vs. Nonincumbent Publication Rates for the Mark ECLIPSE by Filing Year, 1985–2014



The results for ECLIPSE are representative of the difference in publication rates between incumbents and nonincumbents for words that are the subject of numerous applications. Figure 22 shows the relation

between the number of times particular words were applied for from 1985 through 2014 and the average incumbent and nonincumbent publication rates for all applications for those words. For example, for a word applied for only once during this period, the publication rate for all nonincumbent applications was 80.3%. By comparison, the publication rate for incumbent applications for a word applied for only once was 94.6%. Figure 22 shows that with respect to both incumbent and nonincumbent applications, publication rates declined dramatically as a word was applied for more frequently. In nearly all cases, however, the publication rate for incumbent applications was substantially higher than that for nonincumbent applications.

Figure 22: Publication Rate by Frequency of Applications for Particular Single-Word Marks, Incumbent vs. Nonincumbent Applicants, 1985–2014



* * *

This Part has presented evidence showing both that word-mark depletion is growing increasingly severe and that new applicants are altering their conduct in an effort to adapt to this condition. Whatever the conventional theoretical view may be on the inexhaustibility of good trademarks, new applicants are revealing in their conduct a different reality. They are increasingly shifting toward neologisms and longer, more complex, and thus less effective, marks. Yet even these efforts are increasingly failing. Section 2(d) refusal rates continue to rise, particularly in certain classes. Only incumbents seem to be immune to the effects of depletion. As we discuss more fully in Part V, the result is a

trademark system under serious stress, with mounting barriers to entry, increasing consumer search costs, and an eroding public domain. First, however, we turn to another dimension of the problem: trademark congestion.

IV. WORD-MARK CONGESTION

Even if a word mark is already registered, this will not necessarily preclude others from registering the same mark for use in connection with other goods or services.[207] For example, the registration for the single-word mark ACE for adhesive bandages was issued in 1949 and remains active.[208] This registration did not prevent a different company from registering the single-word mark ACE for hardware goods in 1985[209] and then for hardware store services in 1987.[210] Section 2(d) only bars the registration of marks that will confuse consumers as to source due to the similarity of these marks with previously registered marks; however, if the previously registered marks are used on unrelated goods, confusion as to source is unlikely. Thus, marks may have multiple different registrants in multiple different classes. This helps to explain how, by 2016, there could be 130 different active single-word registrations for ACE across the various Nice classes owned by approximately ninety-five different registrants.[211]

Such parallel uses of word marks constitute word-mark congestion. They impose significant costs on the trademark system in that parallel uses blur the link in consumers' minds between the mark and any particular source among the many to which the mark refers. We explain these costs in more detail in Part V. First, however, we illustrate in this Part the extent of word-mark congestion. Section A outlines a framework for evaluating congestion. Sections B, C, and D focus on the congestion of common English words, common American surnames, and potential one-syllable words, respectively.

A. A Framework for Evaluating Word-Mark Congestion

Word-mark congestion describes the process by which a word mark that is already claimed is claimed by an increasing number of different trademark owners. As with word-mark depletion, word-mark congestion is best understood in two dimensions, in terms of the congestion of (1) a set of marks with respect to (2) a set of goods or services. Congestion occurs at the general level of all goods and services when different

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207 *See* Sheff, *supra* note 131, at 101–19 (examining registrations of identical marks by different firms in different classes of goods or services).

208 ACE, Registration No. 507,884.

209 ACE, Registration No. 1,426,137.

210 ACE, Registration No. 1,464,025.

211 The oldest active registration for ACE was issued on May 4, 1920 in connection with combs. *See* ACE, Registration No. 131,017.

entities each use the same mark but in different classes of goods or services (for example, ACE for adhesive bandages and ACE for hardware store services). Alternatively, and perhaps more troublingly, congestion occurs at the more specific level of a particular class of goods or services when different entities each use the same mark within that class. Congestion as to all classes or a specific class can also be understood as occurring with respect to a set consisting of one or multiple marks. For example, as we report below, the set of the 1000 most frequently used nouns and adjectives shows high degrees of congestion at the general level of all classes of goods and services and indeed also at the level of specific classes of goods or services.

At the level of either all goods and services or a specific class, the new registration of a word mark causes either depletion or congestion, but not both. To understand why this is so, consider the example of class-specific congestion. If a business registers a word mark that no one else has registered in a class, this causes depletion of the supply of unclaimed word marks in the class. But it does not congest that mark in the class because the mark has only one owner in that class. In contrast, if a business registers a mark that another business has already registered in the class, this does not cause depletion because that mark is already depleted. Instead, the mark is congested in the class because it now has more than one registrant in that class.

In essence, depletion is binary. A word mark either is or is not depleted with respect to a class of goods or services. Congestion is continuous. A word mark can become more congested in a class as it is claimed by more and more registrants in that class.

Depletion and congestion are linked conceptually. Once a set of words is entirely depleted with respect to a class, any subsequent claim to a word in that set will necessarily increase congestion of that word.[212] Therefore, congestion always follows complete depletion if marks continue to be chosen from such a set of words.[213] The connection can also run in the other direction. Congestion can sometimes lead to marks becoming completely unavailable. In particular, the more a mark is

[212] This is mathematically true because each word in the set has already been claimed, so an additional claim to a word in that set will be for a word that has already been claimed and will thereby increase congestion for that word. *Cf.* Presh Talwalkar, *16 Fun Applications of the Pigeonhole Principle*, MIND YOUR DECISIONS (Nov. 25, 2008), http://mindyourdecisions.com/blog/2008/11/25/16-fun-applications-of-the-pigeonhole-principle/ [https://perma.cc/RV36-DLQM] ("The pigeonhole principle states that if more than n pigeons are placed into n pigeonholes, some pigeonhole must contain more than one pigeon.").

[213] For different sets of goods and services, a new registration can cause depletion and congestion simultaneously in the following sense. If a particular word mark has not already been registered in a particular class, the registration of that mark in that class will cause word-mark depletion with respect to that class. At the same time, if another entity has already registered that mark in another class of goods or services, the registration will cause congestion at the level of all classes of goods and services taken together.

congested — whether within a class or across classes — the more likely it will eventually become unavailable for newer claimants even beyond the particular goods and services for which it is already being used. We think this is especially the case for marks with greater inherent distinctiveness — particularly arbitrary or fanciful marks. That is because the PTO's rules make it easier to conclude that there is confusion with inherently distinctive marks than with those that are not inherently distinctive.[214] Finally, depletion and congestion are bound together with regard to their costs, as we discuss below, because over time new applicants increasingly face a catch-22 between exacerbating either depletion or congestion.[215]

As we indicated above, congestion can occur even when section 2(d) is being properly applied. The primary way in which it can occur is when an applicant registers a mark for goods or services sufficiently different from those for which the same mark is already registered that consumers will not be confused as to source. A second way in which congestion can occur applies to multi-word marks. Section 2(d) will permit the registration of multi-word marks that contain words already claimed in other marks provided that consumers will not be confused as to source by the parallel uses of the particular words. For example, an apparel company would likely be able to register BLUE LAGOON FASHIONS even if another apparel company has already registered FEELING BLUE DESIGNS. Both marks share the word BLUE, so the second registration increases congestion of BLUE for apparel goods. But it is probable that given the contexts in which BLUE is used by the two businesses, consumers would not be confused as to source and no section 2(d) refusal would issue.

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[214] *See, e.g.*, TMEP, *supra* note 55, § 1207.01(b)(viii) (observing that "consumers would be more likely to perceive a fanciful or arbitrary term, rather than a descriptive or generic term, as the source-indicating feature of [a] mark," giving it more weight in confusion analysis (citing *In re* Dixie Rests., Inc., 105 F.3d 1405, 1407 (Fed. Cir. 1997))); *id.* § 1207.01(b)(ix) ("The Court of Appeals for the Federal Circuit and the Trademark Trial and Appeal Board have recognized that merely descriptive and weak designations may be entitled to a narrower scope of protection than an entirely arbitrary or coined word." (citing, inter alia, Palm Bay Imps., Inc. v. Veuve Clicquot Ponsardin Maison Fondee en 1772, 396 F.3d 1369, 1373 (Fed. Cir. 2005))). For the same reason, we suspect that for less inherently distinctive marks, by contrast, such as geographic designations or prefixes like "EZ," the trademark system is more likely to tolerate substantially increasing levels of congestion without rendering those marks unavailable.

[215] *See infra* section V.A, pp. 1021–29. That applicants have to choose between increasing either depletion or congestion has another implication: both depletion and congestion can increase in parallel over time. Evidence of one will not undercut evidence of the other. Because some applicants prefer to choose a mark that causes further depletion and others prefer to select a mark that causes further congestion, overall depletion and congestion rates can both rise together.

B. Congestion of Frequently Used Words

To assess trends in the degree of congestion of common English words, we focus on single-word registrations identically matching any one of the 1000 most frequently used nouns or adjectives regardless of Nice class.[216] Figure 23 shows two trends from 1985 through 2016. The bars (and the right axis) show by year the number of the 1000 most frequently used nouns and adjectives that were the subject of one or more active single-word registrations. The line (and the left axis) shows by year the average number of different registrants for each such noun or adjective.[217] In 1985, 602 of the 1000 most common nouns or adjectives were claimed by an average of 2.7 different registrants across the various Nice classes. By 2016, conditions had changed substantially. Of the 1000 most frequently used nouns or adjectives, 839 were claimed by an average of 7.4 different registrants. We emphasize that these data relate only to trademark registrations that identically matched the frequently used word. The increase in parallel or near-parallel usage of trademarks (PROGRAM and PROGRAMME, for example) by different firms in the economy overall is likely substantially higher. Figure 23 suggests that the trademark system in general is becoming increasingly congested with multiple firms using the same or very similar marks, albeit on different goods or services.

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[216] We focus in this case on the 1000 most frequently used nouns and adjectives because the study of parallel ownership of the 1000 most frequently used words including articles and verbs would require enormous computational resources, particularly when we turn to the study of words appearing within registered marks. Similarly, we recognize that extending our analysis to all 86,408 words in our list of standard English words (or at least all nouns and adjectives in that list) would provide more precise information, but doing so would require even greater computational resources. Our concern here is with general trends over time. We think a focus on the 1000 most frequently used nouns and adjectives gives us significant insight into these trends. However, in future work, we hope to develop a comprehensive analysis of trademark congestion with respect to all standard English words.

[217] In order to determine when registrations for identical marks were owned by different entities, we compared entity names listed in the Trademark Case Files Dataset using a matching algorithm based on a normalized Levenshtein edit distance rather than an algorithm based on identical matching. This approximate matching was necessary because the data contained a significant number of misspellings and slight changes in entity names; an identical-matching algorithm would thus result in an overestimation of the number of parallel users and the degree of congestion. Our algorithm employed the Stata module STRGROUP. *See* Julian Reif, *STRGROUP: Stata Module to Match Strings Based on Their Levenshtein Edit Distance*, IDEAS, https://ideas.repec.org/c/boc/bocode/s457151.html [https://perma.cc/9DDE-3QN3]. We used what was for our purposes a very conservative normalized Levenshtein edit distance of 0.40 (normalized to the length of the shorter string), such that any two entity names that yielded a Levenshtein score below 0.40 would be counted as matching and thus would not count as different registrants possessing parallel registrations of the same mark.

Figure 23: Number of the 1000 Most Frequently Used Nouns or Adjectives Registered as Single-Word Trademarks and Mean Number of Registrants per Noun or Adjective by Year, 1985–2016

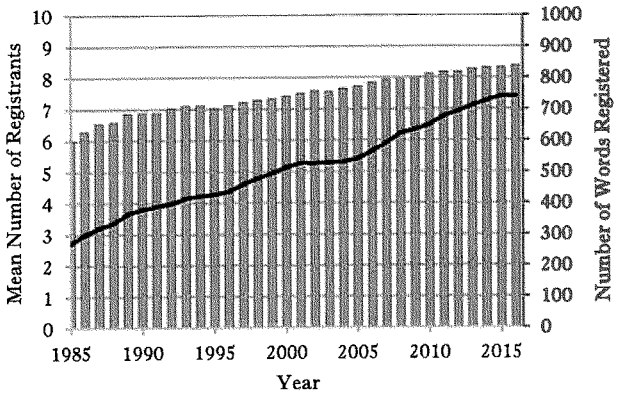
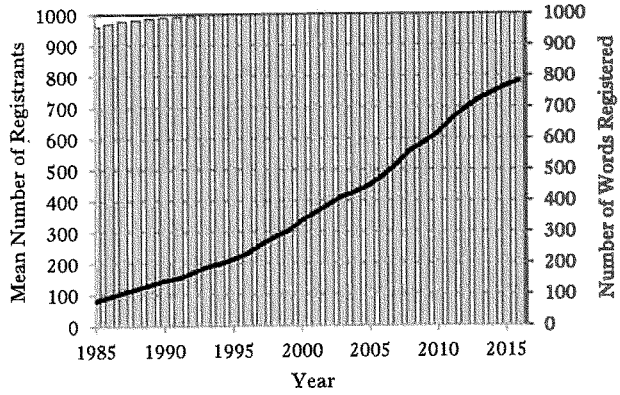


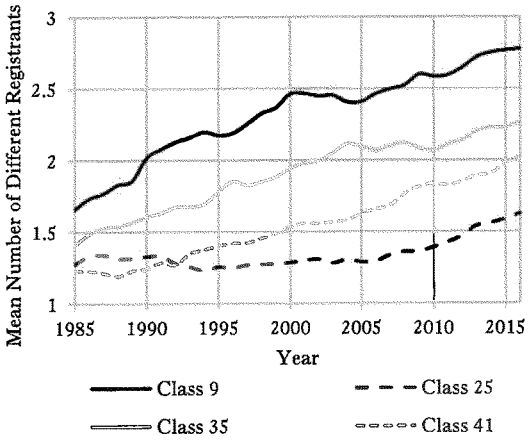
Figure 24 shows the same two trends as Figure 23 but for the proportion of the 1000 most frequently used nouns or adjectives that appeared as words *within* an active registration and the degree of congestion of these words. Evaluated by this metric, the increase in congestion is staggering. In 1985, 961 of the 1000 most frequently used nouns or adjectives appeared within registrations claimed by an average of 80.2 distinct registrants. By 2014, all 1000 such nouns or adjectives appeared within registrations claimed by an average of 745.2 distinct registrants.

Figure 24: Number of the 1000 Most Frequently Used Nouns or Adjectives Appearing as Words Within an Active Registration and Mean Number of Registrants per Word by Year, 1985–2016



With respect to particular classes of goods and services, we would expect to find substantially lower levels of congestion. This is because section 2(d) will likely forestall or filter out applications for marks identical to marks that are already registered when the applicant's and the registrant's goods or services are related. Yet even with respect to particular classes, we find increasing levels of congestion. Figure 25 shows, for active registrations in 2016 identically matching any one of the 1000 most frequently used nouns or adjectives, the average number of different registrants per word. Classes 9 (electronic goods) and 35 (general business services) are very broad classes, so it is entirely possible that two different companies could use the exact same single-word mark within each class without creating consumer confusion. In that case, no section 2(d) office action would issue. Class 25 (apparel goods) is more narrowly defined, but the same may be true there as well. Even so, the trends represented in Figure 25 suggest steadily increasing levels of congestion within these classes.

Figure 25: Mean Number of Registrants per Word for Single-Word Trademarks Consisting of the 1000 Most Frequently Used Nouns or Adjectives by Year, 1985–2016

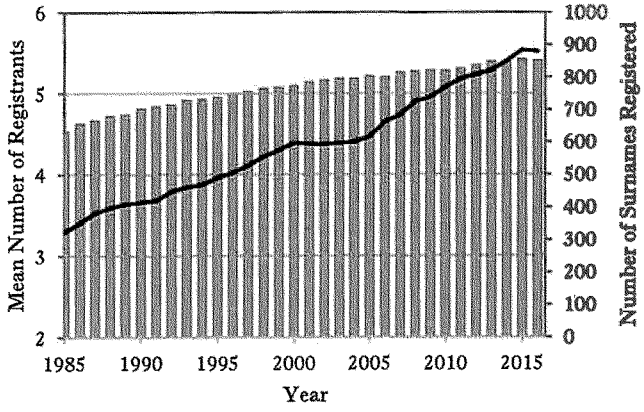


C. *Congestion of Surnames*

Congestion is also significant with respect to surnames. Here, we focus on single-word registrations identically matching any one of the 1000 most frequently occurring surnames regardless of Nice class. Just as Figure 23 above does for frequently used words, so Figure 26 shows two trends from 1985 through 2016. The bars show, by year, the number

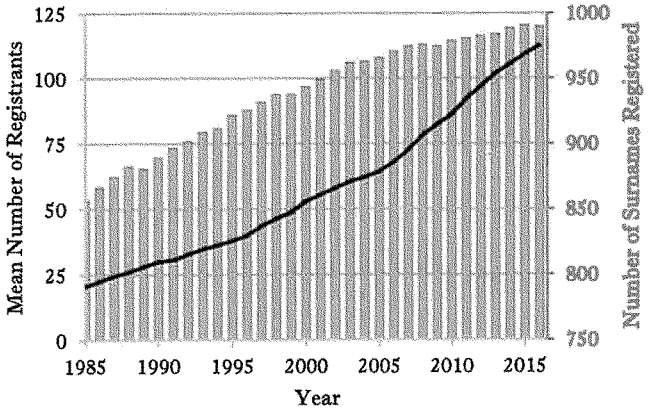
of the 1000 most frequently used surnames that were the subject of one or more active single-word registrations. The line shows, by year, the average number of different registrants for each such surname. By 2016, 854 of the 1000 most frequently occurring surnames were claimed as single-word trademarks by an average of 5.5 different registrants. As with words, so with surnames: multiple registrants of the same surname may not be confusing consumers as to source, but these parallel uses result in substantial congestion.

Figure 26: Number of the 1000 Most Frequently Occurring Surnames Registered as Single-Word Trademarks and Mean Number of Registrants per Surname by Year, 1985–2016



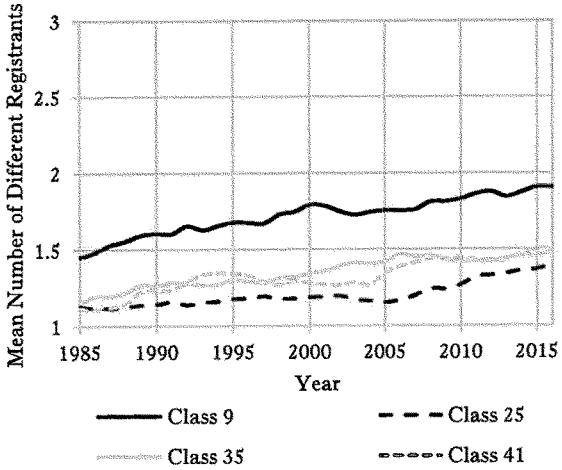
As for uses of the same surname as a word *within* trademarks registered by multiple different parties, the levels of congestion are extraordinarily high, as Figure 27 shows. In 2016, of the 1000 most frequently occurring surnames, 990 were claimed within an active registration by an average of 112.5 different registrants.

Figure 27: Number of the 1000 Most Frequently Occurring Surnames Appearing Within an Active Registration and Mean Number of Registrants per Surname by Year, 1985–2016



Finally, Figure 28 focuses on particular classes. The trends are similar to those for standard English words, and equally as suggestive of increasing congestion, particularly in Class 9 (electronic goods).

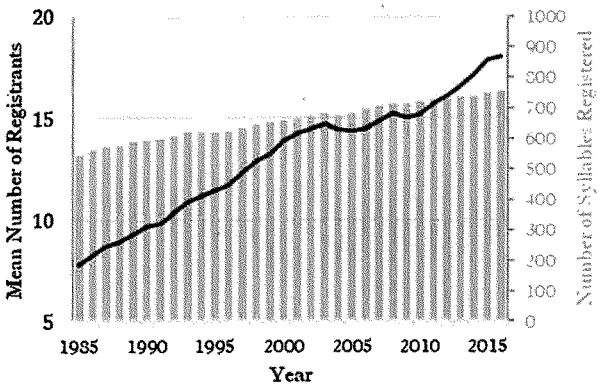
Figure 28: Mean Number of Registrants per Word for Single-Word Trademarks Consisting of 1000 Most Frequently Occurring Surnames by Year, 1985–2016



D. Congestion of One-Syllable Words

We also find significant evidence of congestion with respect to identical-sounding one-syllable words including neologisms. Here, we define congestion as the process by which increasing numbers of different registrants have registered one-syllable marks that sound the same. To gain some insight into this form of congestion, we focus on the 1000 most frequently used syllables in the Corpus of Contemporary American English and the number of different registrants for words that sound like those syllables. Figure 29 shows, by year, both the number of the 1000 most frequently used syllables that sounded the same as at least one registered mark and the average number of different registrants of words matching each syllable. In 1985, 545 of the 1000 most frequently used syllables sound-matched at least one registered mark and each of these 545 syllables sound-matched words registered by an average of 7.7 different registrants. By 2016, 758 syllables sound-matched registered marks owned by an average of 18.0 different registrants.[218]

Figure 29: Number of the 1000 Most Frequently Used Syllables Registered as Single-Syllable Trademarks and Mean Number of Registrants Per Syllable by Year, 1985–2016



* * *

[218] We are currently in the process of studying usage of one-syllable words within marks. Preliminary results suggest that by this metric, the levels of congestion associated with identical-sounding one-syllable words are even higher.

In sum, the data show that even as word-mark depletion has been rising to severe levels, word-mark congestion has been rising as well. Registrants are increasingly engaging in parallel uses of the same mark, not only across classes, where congestion has reached extraordinary levels for the words, surnames, and syllables studied, but also within classes. We now turn in earnest to a consideration of the damage that both of these trends are inflicting on the trademark system.

V. LEGAL AND POLICY IMPLICATIONS OF WORD-MARK DEPLETION AND CONGESTION

Having demonstrated that word-mark depletion and congestion have both been steadily increasing and have long since reached substantial levels, we now examine, in section A, the costs of depletion and congestion and, in section B, what policies may be pursued to minimize these costs.

A. The Costs of Word-Mark Depletion and Congestion

The harms of depletion and congestion are in many ways interrelated.[219] For purposes of exposition, however, we first focus on the costs of word-mark depletion in section 1, and then focus on the costs of word-mark congestion in section 2.

1. The Costs of Word-Mark Depletion. — As we stated above, the twin purposes of trademark law are to promote efficient and fair competition and to minimize consumer search costs.[220] Trademark depletion subverts both of these purposes. It also represents a significant hazard to the public domain. We turn first to the harms that depletion inflicts on competition.

The anticompetitive effects of depletion take several forms. First, as depletion worsens, entrants face higher costs than incumbents had faced earlier when devising a mark that is both competitively effective and also not confusingly similar to an already-registered mark. Media reports across a variety of industries — including beer, music, and cosmetics — confirm that these costs are substantial and represent a significant barrier to entry.[221] Our data show that it is becoming increasingly difficult even to develop neologisms that are free of conflicts with already-registered marks.[222] Second, entrants are generally forced to settle for less effective marks, and empirical studies show that, all else

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219 We discuss a number of these important interrelationships above at pp. 1013–14.

220 *See supra* Part I, pp. 954–72 (invoking these goals in the context of describing trademark law and practice).

221 *See supra* pp. 948–50.

222 *See supra* section III.B.1.c, pp. 987–90.

equal, firms with less effective marks have less success in the marketplace than those with more effective marks.[223] As depletion has increased, applicants have been shifting away from common English words and American surnames and toward longer and more complex marks, and even then, they are facing higher section 2(d) refusal rates.[224] Third, having registered their mark in a particular class of goods or services, incumbents may more easily leverage that registration into new registrations within that class or in other classes.[225] New entrants do not enjoy this advantage. The data suggest that incumbent applications benefit from substantially higher publication rates than new applicants largely because incumbents have already established their rights in increasingly depleted spaces.[226] Fourth and finally, as more and more common words, surnames, and short neologisms are claimed as trademarks, so more and more trademark owners have sought to control — and have often succeeded in controlling — others' use of these terms even when these uses are not confusing as to source. For example, Entrepreneur Media has spent over ten years seeking to prevent all uses of the word ENTREPRENEUR with regard to media goods and services addressing small businesses, even when the term is being used descriptively to specify the characteristics of the relevant goods or services rather than as a source signifier.[227] The ENTREPRENEUR example is not unique. Trademark scholars have documented similarly unreasonable conduct by many trademark owners.[228]

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223 *See* sources cited *supra* note 85 and accompanying text.

224 *See supra* sections III.C–III.E, pp. 999–1012.

225 *See supra* section III.E, pp. 1009–12.

226 Our data do not show whether newer businesses are trying to overcome congestion or depletion by licensing more desirable, but already claimed, marks from preexisting businesses that have rights in those marks. Such private ordering might limit somewhat the anticompetitive advantages of incumbency. However, we are skeptical that this private ordering is occurring on any significant scale because, as a general matter, existing firms have incentives not to license their marks to producers of competing goods or services. *See* Jeanne C. Fromer, *The Unregulated Certification Mark(et)*, 69 STAN. L. REV. 121, 129–30 (2017) (observing that, in contrast to the requirement that certification marks be compulsorily licensed to any business meeting the certifier's certification standard, trademarks generally need not be, and for good reason might not be, licensed to third parties).

227 Leah Chan Grinvald, *Shaming Trademark Bullies*, 2011 WIS. L. REV. 625, 644 (citing Amy Zipkin, *Entrepreneurs Must Choose Their Words with Care*, N.Y. TIMES (Oct. 7, 2004), https://nyti.ms/2hID8VC [https://perma.cc/4HH9-JTLN]). Trademark law typically allows third parties to make descriptive uses of words that others have registered as trademarks. Otherwise, markholders could undercut efficient competition by monopolizing words needed to describe relevant goods or services. *See* 15 U.S.C. § 1115(b)(4) (2012) (providing a statutory fair-use defense against trademark infringement when a defendant uses a term or device "otherwise than as a mark . . . [if the term or device] is descriptive of and used fairly and in good faith only to describe the goods or services of such party, or their geographic origin"); New Kids on the Block v. News Am. Publ'g, Inc., 971 F.2d 302, 306–08 (9th Cir. 1992); Ramsey, *supra* note 152, at 1126–27; *supra* p. 980.

228 *See* Grinvald, *supra* note 227, at 642–53 (describing the phenomenon of trademark bullying as "the enforcement of an unreasonable interpretation by a large corporation of its trademark rights

In the face of the anticompetitive costs of depletion, two arguments are typically adduced in defense of the conventional wisdom that the supply of trademarks is inexhaustible and thus that depletion should never be a problem. The first is that applicants can always resort to neologisms.[229] We do not, however, see neologisms as a solution to the problem of depletion for three reasons. First, the data show that even the supply of potential neologisms that are at least minimally competitively effective — in that they are short, easily pronounced, and euphonic — is being increasingly depleted.[230] Second, while neologisms may make sense in some economic sectors, they are less effective in others. Particularly when new businesses wish to convey authenticity and familiarity, neologisms are not optimal.[231] Third and perhaps most importantly, developing coined words into meaningful commercial symbols for consumers is significantly more costly than familiarizing consumers with noncoined words.[232] This added cost represents a heavy financial burden on market entrants, particularly when their incumbent competitors might have been able, by virtue of having started their businesses earlier, to choose then-available (noncoined) marks that were and remain cheaper to promote.

A second defense of the conventional wisdom is that even if depletion is continuing (and even if neologisms are not a solution), there is no evidence that depletion has reached any kind of critical stage in which competition is being substantially impaired.[233] After all, new firms are still finding trademarks to register and are still managing to compete. But an insidious quality of depletion is that it proceeds gradually, and even though its pace has quickened in recent years, it remains a chronic rather than acute condition. We should expect no tipping point or moment of crisis in which there are suddenly no trademarks left at all and competition grinds to a halt. Instead, we should expect what the data report: a continuous process in which individual applicants are still able

against a [vulnerable] small business or individual through the use of intimidation tactics," *id.* at 642, such as economic pressure or coercive persuasion); *see also* William T. Gallagher, *Trademark and Copyright Enforcement in the Shadow of IP Law*, 28 SANTA CLARA COMPUTER & HIGH TECH. L.J. 453, 485–88 (2012); Kenneth L. Port, *Trademark Extortion: The End of Trademark Law*, 65 WASH. & LEE L. REV. 585, 589–91 (2008). The prevalence of trademark bullying prompted the Department of Commerce to report to Congress on the issue in 2011. U.S. DEP'T OF COMMERCE, REPORT TO CONGRESS: TRADEMARK LITIGATION TACTICS AND FEDERAL GOVERNMENT SERVICES TO PROTECT TRADEMARKS AND PREVENT COUNTERFEITING 1 (2011), https://www.uspto.gov/sites/default/files/trademarks/notices/TrademarkLitigationStudy.pdf [https://perma.cc/AND4-NVVW].

229 *See supra* notes 1, 82 and accompanying text (elaborating on this conventional wisdom).

230 *See supra* Part III, pp. 977–1012 (presenting the data).

231 *See supra* section I.B.2, pp. 964–70.

232 *See supra* section I.B.2, pp. 964–70.

233 *See supra* section I.B.1, pp. 962–64 (elaborating on this conventional wisdom).

to find usable marks, but at ever-greater cost in pursuit of ever-less benefit.[234] There will no doubt remain counterexamples, particularly in the form of new, superstar brands, that suggest through saliency bias that everything is fine. For example, if our only evidence is anecdotes from the world of ride-sharing apps with apparently highly effective names like UBER and LYFT, then we will remain insensitive to the severity of depletion. Nonetheless, we feel confident extrapolating from the extensive data reported in Part III that the overall population of new marks will continue to decline in effectiveness.

In addition to gradually damaging competition, trademark depletion also increases consumer search costs — and in a similarly gradual way. Consumers' ability to quickly link a mark with the source and qualities it is intended to represent is directly related to how memorable the mark is to consumers.[235] As depletion increases, so does trademark length, complexity, and bulkiness. Consumers must cope with less efficient marks. Furthermore, as an increasing number of similar trademarks occupy the same class of goods or services and registrants fill in whatever unoccupied spaces are left, that class begins to take on the characteristics of a "crowded field"[236] of trademarks — or of a "trademark thicket."[237] In the infringement analysis, courts have long recognized that certain areas of trademark usage are heavily populated with closely

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234 *See supra* Part III, pp. 977–1012.

235 *See supra* pp. 954–55 (discussing the role of consumer search costs in trademark law).

236 *See* 2 MCCARTHY, *supra* note 22, § 11:85, at 11-268 to-73 (discussing "crowded field[s]" in trademark law); *see also* Miss World (UK) Ltd. v. Mrs. Am. Pageants, Inc., 856 F.2d 1445, 1449 (9th Cir. 1988) ("We view the beauty pageant industry's marks as a 'crowded field': In a '"crowded" field of similar marks, each member of the crowd is relatively "weak" in its ability to prevent use by others in the crowd.' Simply put, 'a mark which is hemmed in on all sides by similar marks on similar goods cannot be very "distinctive." It is merely one of a crowd of marks.'" (citation omitted) (quoting 1 J. THOMAS MCCARTHY, TRADEMARK AND UNFAIR COMPETITION LAW § 11:26, at 511 (2d ed. 1984))).

237 A trademark thicket is analogous in some ways to the patent thicket, a crowded area of patent rights, in which rights to the many patents comprising the thicket must be secured for freedom of operation in the space, which can raise cost issues and anticompetitive concerns. *See, e.g.*, Dan L. Burk & Mark A. Lemley, *Policy Levers in Patent Law*, 89 VA. L. REV. 1575, 1614–15, 1627, 1694–95 (2003); Rochelle Cooper Dreyfuss, *Giving the Federal Circuit a Run for Its Money: Challenging Patents in the PTAB*, 91 NOTRE DAME L. REV. 235, 235–39 (2015); Katherine J. Strandburg et al., *Law and the Science of Networks: An Overview and an Application to the "Patent Explosion,"* 21 BERKELEY TECH. L.J. 1293, 1322, 1346–48 (2006); *see also* Michael A. Heller & Rebecca S. Eisenberg, *Can Patents Deter Innovation? The Anticommons in Biomedical Research*, 280 SCIENCE 698 (1998). *But see* Jonathan M. Barnett, *From Patent Thickets to Patent Networks: The Legal Infrastructure of the Digital Economy*, 55 JURIMETRICS J. 1 (2014) (arguing that the patent thicket does not exist).

similar marks.[238] The Trademark Trial and Appeal Board has recognized the same in the section 2(d) analysis.[239] A crowded field tends to militate against a finding of likelihood of confusion because the assumption is that "customers will not likely be confused between any two of the crowd and may have learned to carefully pick out one from the other."[240] This may well be true (or not), but consumers' efforts in this regard represent increased search costs, precisely the kinds of costs that trademark law is designed to minimize, and for good reason.[241] The result of the "crowded field" doctrine is that such fields are allowed to become even more depleted and even more crowded.

A final, albeit more amorphous, cost of trademark depletion is to the noncommercial public domain, and more specifically to the free use of the English language. Three-quarters of our word usage consists of words registered as marks and almost nine-tenths consists of words confusingly similar to registered marks.[242] In such a situation, we use all of our language in the shadow of trademark rights. To be sure, trademark law allows noncommercial, nonconfusing uses of terms claimed by others as trademarks. Fox News, for example, failed when it sought to force Al Franken and his publisher to remove the phrase "fair and balanced" from the book entitled *Lies and the Lying Liars Who Tell Them: A Fair and Balanced Look at the Right*.[243] But not all defendants are

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[238] *See, e.g.*, Hansen Beverage Co. v. Nat'l Beverage Corp., 493 F.3d 1074, 1079 (9th Cir.) (noting that "'aggressive' graphics and bold accent colors against dark backgrounds . . . are widely employed in the crowded energy drink market and are therefore unlikely to lead to confusion as to source"), *vacated as moot*, 499 F.3d 923 (9th Cir. 2007); Moose Creek, Inc. v. Abercrombie & Fitch Co., 331 F. Supp. 2d 1214, 1225 (C.D. Cal. 2004) (noting that "because Plaintiffs' moose operates in a crowded field, to the extent that the dominant feature of Plaintiffs' marks is actually the picture of a moose or the word 'moose,' those marks are conceptually weak" and finding no infringement); *cf. supra* p. 969 (observing similar suffixes for word marks in the dating-app space).

[239] *See, e.g.*, *In re* The Lucky Co., 209 U.S.P.Q. 422, 423 (T.T.A.B. 1980) ("[T]his complete saturation of the market with somewhat similar stripe and bar designs leave[s] applicant, registrant and all other manufacturers of athletic shoes engaging in such practice with marks that are extremely weak and certainly entitled to only a very narrow and limited scope of protection . . . .").

[240] *Miss World*, 856 F.2d at 1449 (quoting 1 MCCARTHY, *supra* note 236, § 11:26, at 511).

[241] *See* Klink, *supra* note 103, at 5 ("With the purpose of brands being to differentiate one seller's offerings from another, [rising trademark application rates] suggest that creating new brands distinguishable from others is more difficult today than ever." (citation omitted)). *But cf.* Mark P. McKenna, *A Consumer Decision-Making Theory of Trademark Law*, 98 VA. L. REV. 67, 86–92 (2012) (analyzing how consumers sometimes prefer or should tolerate increased search costs); Alfred C. Yen, *The Constructive Role of Confusion in Trademark*, 93 N.C. L. REV. 77 (2014) (suggesting that trademark law is willing to tolerate certain degrees of confusion among marks, and by doing so, teaches consumers to distinguish between what might otherwise be confusing marks, thereby keeping their search costs manageable).

[242] *See supra* sections III.B.1–III.B.2, pp. 981–94.

[243] *See* Susan Saulny, *In Courtroom, Laughter at Fox and a Victory for Al Franken*, N.Y. TIMES (Aug. 23, 2003), https://nyti.ms/2j2uTah [https://perma.cc/7QNP-A5NK] (describing a federal court's denial of Fox News's motion for a preliminary injunction blocking publisher Penguin and author Al Franken from using the phrase in the book title).

as well resourced as Franken's publisher and even when they are, they may be unwilling to expend the resources necessary to defend against even the most frivolous suits, such as Fox News's.[244] The result is that trademark law can often be used as a weapon in what amounts to an "assault on cultural expression and free speech."[245] Indeed, this worry appeared to form the basis of the widely negative public reaction to the PTO's recent publication of the trademark application for the word RE-ACT by the YouTube duo creating and distributing videos of different groups of people reacting to anything and everything ranging from old technologies to video games.[246] As more and more commonly used words and expressions are registered as trademarks by more and more owners, we can expect this condition only to worsen.

2. The Costs of Word-Mark Congestion. — The costs of trademark congestion are subtler than the costs of trademark depletion, but no less important. These costs take two forms.

First, parallel uses increase consumer search costs. Even when they do not confuse consumers as to source, parallel uses of the same mark diminish the mark's distinctiveness of source. They do so in the sense that parallel uses blur the link between the mark and any one source. Upon exposure to the mark, consumers who are aware that the same mark comes from multiple sources must at the very least "think for a moment"[247] before linking the mark with one of those multiple sources. In other words, parallel uses cause something akin to "dilution by blurring."[248] Federal trademark law provides a cause of action against conduct that causes dilution by blurring and also lists it as a basis for third parties to oppose the registration of a mark after it has been published.[249] But in both cases, only "famous" marks qualify for antiblurring protection.[250] In this sense, the law's concern with blurring would

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[244] *See supra* note 228 (citing scholarship that examines this type of trademark bullying).

[245] Grinvald, *supra* note 227, at 652 (alteration omitted) (quoting DAVID BOLLIER, BRAND NAME BULLIES: THE QUEST TO OWN AND CONTROL CULTURE 129 (2005)).

[246] *See supra* p. 950.

[247] Posner, *supra* note 87, at 75.

[248] *See* 4 MCCARTHY, *supra* note 22, § 24:69, at 24-209 ("Dilution by blurring consists of a single mark identified by consumers with two different sources. One mark: two sources. Traditional trademark infringement involves mistakenly connecting similar marks with the same source or an affiliate source. Similar marks: one source. The ordinary situation of no dilution and no infringement is: two different marks: two different sources." (footnote omitted)).

[249] *See* 15 U.S.C. § 1125(c)(1) (2012) (providing a cause of action against "dilution by blurring"); *id.* § 1063(a) (establishing "dilution by blurring" as a basis for opposing registration of a mark). At the examination stage of the registration process, the PTO may not refuse registration on the basis that the applied-for mark will dilute an already-registered mark, because section 2 of the Lanham Act provides that registration can be refused on such a basis only under 15 U.S.C. § 1063. *Id.* § 1052(f).

[250] *See id.* § 1125(c)(2)(B) (defining "dilution by blurring" as "association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark").

appear to be misdirected. What little empirical evidence we have on the matter suggests that famous marks are so strong as to be immune to blurring.[251] Instead, the harm of parallel uses arguably affects nonfamous marks much more severely. As trademark congestion intensifies, new market entrants that seek to use a mark already in use by others face ever greater difficulties in establishing a link in consumers' minds between their mark and their source. This constitutes a raised barrier to entry. At the same time, consumers faced with an increasingly congested marketplace find it more difficult to disambiguate marks, particularly those that are nonfamous or new. Consider the example of the word mark ACE. In 2016, four new single-word registrations for ACE were issued to four new registrants, each using the mark in a different class.[252] With 126 ACE registrations preceding them, two of which (one for adhesive bandages and another for hardware services) are very well known,[253] these market entrants will face considerable challenges in establishing an effective link in consumers' minds between their marks and their respective sources.[254]

The pharmaceutical sector offers a concrete example of this sort of harm from congestion. For pharmaceutical products, trademark congestion can literally kill. If different drugs with distinct effects have the same name, or names that are too similar, doctors or pharmacists may inadvertently substitute one for the other with potentially lethal consequences.[255] In fact, between eight and twenty-five percent of

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[251] *See, e.g.*, Maureen Morrin & Jacob Jacoby, *Trademark Dilution: Empirical Measures for an Elusive Concept*, 19 J. PUB. POL'Y & MARKETING 265, 274 (2000) ("It appears that very strong brands are immune to dilution because their memory connections are so strong that it is difficult for consumers to alter them or create new ones with the same brand name."); Barton Beebe, Roy Germano, Christopher Jon Sprigman & Joel Steckel, The Continuing Search for Evidence of Trademark Dilution: An Experimental Approach (Aug. 14, 2017) (unpublished manuscript) (on file with the Harvard Law School library) (presenting experimental evidence showing no blurring of famous marks after exposing experimental subjects to blurring stimuli).

[252] ACE, Registration No. 5,089,980; ACE, Registration No. 5,033,663; ACE, Registration No. 4,981,322; ACE, Registration No. 4,934,824.

[253] *See supra* p. 1012.

[254] Dilution by blurring is a controversial subject in trademark law. Many commentators doubt that blurring causes any significant increase in consumer search costs for famous marks that tend to have deeply entrenched associations for consumers. *See, e.g.*, Beebe, Germano, Sprigman & Steckel, *supra* note 251; *see also* Tushnet, *supra* note 87, at 536–42. By contrast, our discussion here focuses on nonfamous marks. We suggest that such marks, particularly when used by market entrants, may suffer significant impairment from parallel uses.

[255] FDA, CONTENTS OF A COMPLETE SUBMISSION FOR THE EVALUATION OF PROPRIETARY NAMES: GUIDANCE FOR INDUSTRY 4 (2016) [hereinafter FDA EVALUATION OF PROPRIETARY NAMES], https://www.fda.gov/downloads/Drugs/Guidances/ucm075068.pdf [https://perma.cc/Y4L6-MJFT]; *cf.* Alfacell Corp. v. Anticancer Inc., 71 U.S.P.Q.2d 1301, 1306 (T.T.A.B. 2004) ("[W]here . . . marks are used on pharmaceuticals and confusion as to source can lead to serious consequences, it is extremely important to avoid that which will cause confusion."). The Institute for Safe Medication Practices maintains a nine-page chart of drug names that are easily confused,

medication errors are attributed to name confusion.[256] For example, it is not hard to see how, as one commentator notes, "[p]atients can wind up taking the wrong prescription if a pharmacist mistakes Foradil, which treats bronchitis, for Toradol, which relieves pain from arthritis, or mixes up the blood-thinner Plavix with the antidepressant Paxil."[257] As we discuss further below, the Food and Drug Administration (FDA) has taken important steps to alleviate congestion in drug marks, from which trademark law can more generally learn.[258]

The second cost to the trademark system of parallel uses is more subtle. Consider the example of BLUE LAGOON FASHIONS and FEELING BLUE DESIGNS. Assuming both marks are used in full, their parallel uses of the word BLUE would not likely increase search costs. A consumer can rely on the other words in the marks to establish the link between the marks and their sources. Yet the parallel uses of the word BLUE still impose a cost. This cost takes the form of harm to the distinctiveness of both marks as against all other marks. Their shared use of the word BLUE makes each mark less exceptional. From a marketing perspective, each mark is less unique. And if many entities in the apparel sector begin to incorporate the word BLUE into their marks, the marketing power of all of these marks may be severely diminished.[259]

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All in all, with depletion and congestion happening around them, entrants will seek to choose the best word (or set of words) available to them as a mark. When an entrant's ideal word or words have already

with tips to disambiguate them and avoid medication error. INST. FOR SAFE MEDICATION PRACTICES, ISMP'S LIST OF CONFUSED DRUG NAMES (2015), http://www.ismp.org/tools/confuseddrugnames.pdf [https://perma.cc/5LMC-7ANE].

256 Amy Nordrum, *Why Do Prescription Drugs Have Such Weird Names? Blame Branding Consultants and the FDA*, INT'L BUS. TIMES (June 24, 2015, 1:33 PM), http://www.ibtimes.com/why-do-prescription-drugs-have-such-weird-names-blame-branding-consultants-fda-1981819 [https://perma.cc/ZG5T-T75S]. Although the PTO's focus in the evaluation of a trademark registration application is consumer confusion, the FDA's focus is medical safety and thus the FDA takes into account doctor and pharmacist confusion in addition to consumer confusion. Deirdre A. Clarke, Comment, *Proprietary Drug Name Approval: Taking the Duel out of the Dual Agency Process*, 12 LOY. J. PUB. INT. L. 433, 441–42 (2011).

257 Nordrum, *supra* note 256.

258 *See infra* notes 310–15 and accompanying text.

259 In many ways, the loss of distinctiveness caused by congestion is comparable to the loss of distinctiveness caused by genericide. Genericide is the process by which a mark loses distinctiveness of a particular source, when it becomes the primary way that consumers and competitors refer to a genus of goods, and to all species of goods within that genus. Marks anywhere along the spectrum of distinctiveness, be they descriptive, suggestive, arbitrary, or fanciful, *see* section I.A.1, pp. 957–58, can become so congested as to become generic. Congestion represents one of the primary processes through which marks lose distinctiveness to such an extent that they become generic. Genericide is congestion taken to its extreme.

been claimed, the entrant is forced either to choose a less desirable word or words (from the same set or another set of words) or to seek to use an already-claimed word in parallel with other entities' usages.[260] Later entrants thus are necessarily disadvantaged compared with earlier ones. Because they arrive on the scene later in time, they are more likely to have to claim less-than-optimal marks: either marks further down on their priority list of unclaimed marks in that trademark space or marks that are already being used in the same trademark space by others but that are permissible to claim in parallel. Neither will be as helpful as an entrant's ideal choice. It will be a less effective signifier, either because it is a less memorable, pronounceable, or meaningful mark for that good or service, or because it will be used in parallel with others using the same mark. Either choice will contribute yet further to depletion or congestion.

B. Adapting Trademark Law

Having illustrated the extraordinary degree of word-mark depletion and congestion in the trademark system and evaluated their costs, we now consider a number of policy levers available in trademark law that may be used to reduce depletion and congestion and minimize their negative effects.[261] We discuss some of our preferred policy levers in depth to exemplify the effects of our suggested changes. We also address how the data we have gathered and analyzed can itself play an important role in adapting trademark law to the challenges posed by depletion and congestion.

Before turning to particular policy levers, however, it is important first to recognize that trademark policymakers may take two alternative overarching approaches to the problem of depletion and congestion. One approach is to adopt across-the-board reforms that apply to all sets of marks and classes of goods and services regardless of their particular degrees of depletion or congestion. A uniform approach would have the benefit of ease of application.[262] Decisionmakers would not be required to determine what kind or degree of depletion or congestion is necessary before particular reforms kick in. A one-size-fits-all approach offers another advantage: it would apply even to areas where there is little to no

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[260] The policies undergirding trademark law might counsel in favor of choosing, as a systematic matter, worsening depletion over worsening congestion, or vice versa. The question is an interesting one but lies beyond this Article's scope.

[261] *Cf.* Tushnet, *supra* note 77, at 927–29 (relying on our findings herein to advocate for declogging the trademark register to improve the trademark system).

[262] *Cf.* Abraham Bell & Gideon Parchomovsky, *Reinventing Copyright and Patent*, 113 MICH. L. REV. 231, 232–33 (2014) (observing that "[i]ntellectual property systems all over the world are modeled on a one-size-fits-all principle," *id.* at 232, which makes them "easy to administer," *id.* at 233).

depletion or congestion. This could help to forestall the advance of depletion and congestion in areas where they have not yet reached chronic levels. Yet this approach also raises concerns. Uniform policies might prove costly if they result in making more effective marks less available even in non-depleted and uncongested areas, thereby undermining competition and consumer protection.[263]

An alternative approach is to adopt tailored reforms that operate more strictly precisely in those areas that are undergoing depletion or congestion and to the degree that they are doing so. Targeted reforms may involve the same substantive legal changes as those pursued in the uniform approach, but only proportionately to the degree of depletion or congestion in a particular class, subclass, or other area of trademark use.

It is further important to recognize that whatever reforms are adopted, they must take account of the fact that there are already over two million currently active trademark registrations. Reforms must not inefficiently and unfairly benefit incumbent registrants over entrants. Imposing prospective rules that simply make it more difficult to register new marks (or a subset of new marks) could exacerbate depletion and its anticompetitive effects by further raising barriers to entry.[264] For this reason, any package of policy reforms must be directed toward both current registrations and new applications.[265]

With these preliminaries in mind, we now outline a mix of reforms that would help to mitigate depletion and congestion, discussing first reforms directed primarily toward current registrants who wish to maintain their rights in certain marks and then reforms directed toward applicants who wish to claim rights in certain marks. Finally, we consider reforms that bear upon the litigation context.

To alleviate depletion and congestion caused by current registrants, we think it would be beneficial, straightforward, and administrable for the PTO to increase maintenance and renewal fees. These fees are extremely low: $100 per class each decade (though twice in the first decade of registration) to attest to continued use of the trademark and as little as $300 per class each decade to renew the registration.[266] By imposing greater financial — and perhaps also administrative — burdens on registrants to maintain their registrations, increased fees may improve the

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[263] *Cf. id.* at 238 ("This one-size-fits-all approach [in patent and copyright laws] comes at a real cost to society. Specifically, it forces society to pay an excessive price for the production of intellectual assets.").

[264] *See supra* section V.A, pp. 1021–29 (discussing the harms depletion and congestion cause for new entrants, as compared with earlier rightsholders).

[265] *Cf.* Tushnet, *supra* note 77, at 918 ("We should register fewer marks and cancel more.").

[266] 37 C.F.R. § 2.6(a)(5), (12) (2016); *see also Keeping Your Registration Alive*, USPTO, https://www.uspto.gov/trademarks-maintaining-trademark-registration/keeping-your-registration-alive [https://perma.cc/Y58U-CGRY].

likelihood that registered marks will be released back into the wild by registrants who calculate that it is no longer cost-beneficial to maintain certain registrations.[267] Moreover, even when trademark owners choose to pay increased fees and thereby to retain registered rights in their marks, they would be better internalizing the costs their contribution to depletion or congestion is imposing on the trademark system and the public domain.

Current maintenance and renewal fees are uniform regardless of the registrant's and registered mark's characteristics and the degree of depletion or congestion in the mark's class. We think it would be administratively simplest to increase these fees equally across the board. Yet as discussed above, doing so would impose on all mark owners an equally increased financial burden regardless of whether their marks are contributing to depletion or congestion.[268] Still, this burden might nonetheless be justified given how low these fees currently are and the general benefits of raising the probability that good marks are freed up for new entrants. It might also be costly to differentiate between markholders that should pay an increased fee and those that should not.

Alternatively, the PTO could increase fees in a more targeted fashion to force only those firms operating in particularly depleted or congested areas to bear more of the costs that their trademark choices impose on others[269]: the higher the degree of depletion or congestion in a particular area, the higher the fee. Such targeted increases would impose a form of "congestion pricing," sometimes also called "peak pricing,"[270] to ensure that registrants in especially depleted or congested areas internalize

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[267] Analogous proposals have been made with regard to patent maintenance fees as a way to release insufficiently valuable patents into the public domain. *See* Kimberly A. Moore, *Worthless Patents*, 20 BERKELEY TECH. L.J. 1521 (2005) (studying maintenance of patents through relatively heftier maintenance fees, and finding that over half of patents issued in 1991 were allowed to expire when patentees failed to pay these fees, *id.* at 1530); *see also* Michael W. Carroll, *One for All: The Problem of Uniformity Cost in Intellectual Property Law*, 55 AM. U. L. REV. 845, 882 (2006) ("By conditioning protection on payment of maintenance fees, the Patent Act forces the patent owner periodically to place an option value on continued protection and to reveal something about that valuation. A patent owner's decision not to pay the relatively modest maintenance fees is a decision to dedicate the invention to the public domain.").

[268] *See supra* p. 1030.

[269] *See supra* p. 1030.

[270] Congestion pricing compels users of a resource to internalize some or all of the negative externalities their use imposes on others. It thereby encourages users to act in ways that may decrease congestion (for example, by shifting their use of a resource to times when it is not congested or by making a more efficient use of the resource). Congestion-pricing schemes have been especially successful in minimizing traffic congestion. *See generally* Jonathan Remy Nash, *Economic Efficiency Versus Public Choice: The Case of Property Rights in Road Traffic Management*, 49 B.C. L. REV. 673, 694–739 (2008) (analyzing the economic advantages of congestion pricing over building new roadways to address road traffic).

some of the costs that they are imposing on the trademark system by adding to that depletion or congestion.[271] Congestion pricing might also dissuade firms from adopting marks that would significantly increase depletion and congestion.[272] The advantage of targeted reform is that, ideally, it intervenes only where necessary. The disadvantage, however, is that it requires a considerable degree of expertise and oversight by policymakers to choose the appropriate threshold conditions for congestion pricing.[273] Another concern for a congestion-pricing scheme is the regressive effect of its imposition of the same level of fees on entities of differing sizes and levels of market power,[274] something particularly

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Congestion pricing makes sense as a means of minimizing both trademark congestion and trademark depletion. The link between congestion pricing and trademark congestion is straightforward. With respect to trademark depletion, the analogy to traffic congestion is that depletion causes increasing numbers of words in particular categories to be used as marks.

There is another important link between congestion pricing for traffic and for trademark registrations. The traditional approach to traffic congestion has involved generating additional roadway capacity, which then tends to become equally or more congested, thereby not solving and sometimes worsening the problem of congestion. Building new roads does not work. *Id.* at 694–704. Similarly, while it is often imagined that a reliance on neologisms will solve the problems of depletion and congestion, we do not see neologisms as an adequate solution, as we explain above. *See supra* p. 1023.

For an economic overview of peak pricing, see W. KIP VISCUSI, JOSEPH E. HARRINGTON, JR. & JOHN M. VERNON, ECONOMICS OF REGULATION AND ANTITRUST 447–53 (4th ed. 2005).

[271] *Cf.* Charles Komanoff, *Pollution Taxes for Roadway Transportation*, 12 PACE ENVTL. L. REV. 121, 132 (1994) ("The microeconomic rationale [for congestion pricing] is that although drivers endure their own lost time from congestion, they are not charged for the delay costs they create for others. The result . . . is that individual drivers continue to enter a roadway, even when the average total cost of their arrival on the roadway exceeds the average benefit of using it. These delay costs can be enormous." (footnote omitted)); Nash, *supra* note 270, at 725 ("[C]ongestion gives rise to an externality because drivers internalize only their own costs, rather than society's actual costs. Congestion pricing regimes endeavor to remedy this situation by requiring drivers to internalize the costs that otherwise would be externalized." (footnotes omitted)).

[272] *Cf.* Nash, *supra* note 270, at 725 (emphasizing that congestion pricing "reduces uneconomic overuse of roads"); Lior Jacob Strahilevitz, *How Changes in Property Regimes Influence Social Norms: Commodifying California's Carpool Lanes*, 75 IND. L.J. 1231, 1243–44 (2000) ("Current policy [without congestion pricing] ma[kes] no distinction between those who value[] their time very highly and those with lower valuations — traffic congestion affect[s] all commuters on a road equally, regardless of differentials in how desperately they need[] to reach their destinations. Congestion pricing was a scheme developed . . . to help correct these inefficiencies." (footnotes omitted)).

[273] As explained with regard to roadway traffic congestion, "[h]ow much to charge under congestion pricing would depend on the extent to which drivers would respond to the higher price to drive. This would depend on the availability and attractiveness of alternative modes, the value placed on peak-period driving, and how much congestion society wishes to eliminate." Komanoff, *supra* note 271, at 132.

[274] *See* Nash, *supra* note 270, at 727 ("An . . . equity-related point is the perceived distributional impact of a congestion-pricing regime. The burden of a congestion pricing regime might be seen to fall heavily on poorer people. In other words, the regime might be characterized as a regressive tax." (footnotes omitted)); *cf.* Strahilevitz, *supra* note 272, at 1245–46 ("If all vehicles of the same type are charged the same tolls during the same periods, these tolls will constitute a more significant impediment to travel for those who have less income to spare." *Id.* at 1245 (footnotes omitted).).

troubling here if the aim is to lower barriers to entry in ways that help competition and consumers, not to raise those barriers further. Generally, there are ways to correct for this effect, such as by using congestion-pricing revenues to pay for services benefiting small- and medium-sized enterprises (SMEs).[275] This approach might be adapted to trademark fees, for example, by setting fees lower for SMEs or by channeling increased revenues toward SME business development.[276]

While closely targeted fee increases would help force entities to internalize some of the costs of conduct contributing to depletion and congestion, it is difficult to imagine, given administrative and political realities, that a finely tuned scheme could work in practice. Policymakers would have to decide how much depletion or congestion is too much, how different degrees of one or the other would correspond to prices, and which types and categories of depletion and congestion (such as for common words or for shorter words) ought to matter. While it is an admirable goal, we are not yet convinced it is practically viable. More realistic might be a form of tiered pricing, with a limited number of tiers painted with a broader brush, for different degrees or categories of depletion and congestion.[277]

Another important policy lever directed toward current registrants that the PTO should adjust is the use requirement in trademark law, which should be tightened and more strictly enforced. As noted above, American trademark law affords protection only to marks that are used in commerce in connection with particular goods or services.[278] The requirement preserves the constitutional basis for Congress's authority

[275] *Cf.* Strahilevitz, *supra* note 272, at 1246.

[276] Analogously, in its recent trademark fee increases, the European Union has sought to avoid the regressive effect of congestion pricing by keeping prices down for options likely to be chosen by SMEs. *See infra* note 277.

[277] Recently, the European Union increased trademark fees with a tiered approach as a way to accomplish analogous goals. *See* Regulation (EU) 2015/2424, of the European Parliament and of the Council, 2015 O.J. (L 341) 21, 34. It implemented "a fee structure where a separate 'class' fee is paid for each additional product class applied for beyond the first" class (whereas it had previously required an extra fee for each additional product class only beyond the third class). European Commission Press Release MEMO/15/4824, Package to Modernise the European Trade Mark System — Frequently Asked Questions (Apr. 21, 2015), http://europa.eu/rapid/press-release_MEMO-15-4824_en.htm [https://perma.cc/KP3L-TTFL]. The fee increase had multiple goals. First, this change sought to lower registration fees for small- and medium-sized enterprises, which would pay less for application and renewal if registering a mark in only one class. *Id.* ("The agreed changes will allow in particular businesses that seek to prolong protection of their registered European Union trade marks beyond an initial period of 10 years to benefit from savings up to 37%."). More relevantly, by charging applicants differently whether they file for one, two, three, or more classes, the hope has been that "it will help to reduce the potential of congestion of the EU trade mark register by diminishing broad claims for goods and services not really required by the trade mark proprietor, and ensure a more balanced and harmonious trade mark system overall." *Id.*

[278] *See supra* note 32. For a discussion of the precise nature of the use requirement, see Stacey L. Dogan & Mark A. Lemley, *Grounding Trademark Law Through Trademark Use*, 92 IOWA L. REV. 1669, 1675–82 (2007).

to enact trademark law pursuant to the Commerce Clause.[279] It also helps ensure that trademark rights are granted in words or other symbols only when they are affixed or associated with goods or services in a way that will promote the goals of efficient competition and consumer protection.[280]

The PTO has already begun to move in the direction of seeking to declutter the register through the cancellation of marks not in use. In 2012, the PTO instituted a two-year pilot program that randomly audited a sample of trademark registrations to determine if they actually met the statutory requirement of use with respect to all or even any of the goods or services specified in the registration.[281] The PTO justified the program out of concern that the trademark register was cluttered with unused marks that new entrants might otherwise wish to adopt, a concern that aligns with the harms caused by depletion and congestion:

> The accuracy of the trademark register as a reflection of marks that are actually in use in the United States for the goods/services identified in the registration serves an important purpose for the public. The public relies on the register to clear trademarks that they may wish to adopt or are already using. Where a party searching the register uncovers a similar mark, registered for goods or services that may result in confusion of consumers, that party may incur a variety of resulting costs and burdens, such as changing plans to avoid use of the mark, investigative costs to determine how the similar mark is actually used and assess the nature of any conflict, or cancellation proceedings or other litigation to resolve a dispute over the mark. If a registered mark is not actually in use in the United States, or is not in use on all the goods/services recited in the registration, these types of costs and burdens may be incurred unnecessarily. Thus, accuracy and reliability of the trademark register help avoid such needless costs and burdens, and thereby benefit the public.[282]

At the conclusion of the two-year pilot period, the PTO reported the results of the audit program.[283] Of the 500 audited registrations, approximately half could not be verified as being in use as claimed.[284] As

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279 Graeme B. Dinwoodie & Mark D. Janis, *Confusion over Use: Contextualism in Trademark Law*, 92 IOWA L. REV. 1597, 1610–11 (2007) (citing *In re* Trade-Mark Cases, 100 U.S. 82, 94–95 (1879)).

280 *See id.* at 1613–15; Dogan & Lemley, *supra* note 278, at 1676; *see also* Tushnet, *supra* note 77, at 918–21 (discussing the concerns raised by registered marks that are not truly in use).

281 Changes in Requirements for Specimens and for Affidavits or Declarations of Continued Use or Excusable Nonuse in Trademark Cases, 77 Fed. Reg. 30,197 (May 22, 2012) (to be codified at 37 C.F.R. pts. 2, 7).

282 *Id.* at 30,197.

283 U.S. PATENT & TRADEMARK OFFICE, POST REGISTRATION PROOF OF USE PILOT STATUS REPORT (2014), http://www.uspto.gov/trademarks/notices/Post_Registration_Proof_of_Use.doc [https://perma.cc/VUT5-UGWU].

284 *Id.* at 1.

a result, 16% of the audited registrations were cancelled and an additional 34% were amended to narrow the registration's specification of the goods or services in connection with which the registered mark was claimed to be used.[285] In light of the significant proportion of "deadwood"[286] registrations that the pilot program revealed, the PTO has recently finalized a rule change that makes its auditing efforts permanent. Under the rule, the PTO will each year randomly audit up to 10% of continuing-use affidavits filed that year "in which the mark is registered for more than one good or service per class."[287]

Our findings very strongly support the continuation and intensification of the PTO's auditing efforts. Indeed, our findings suggest that the PTO should focus its efforts on those areas of the trademark system that are most in need of clearing, namely, areas with high levels of depletion or congestion. Assuming that the pilot sample is representative of the Principal Register, a staggering number of registrations either ought to be removed from the register or are overbroad. Clearing out these unused marks not only helps ensure the register's integrity[288] but also decreases depletion and congestion by making unused — and likely desirable — marks available for reuse by new entrants. In fact, the PTO could make the use requirement more muscular in additional ways. For example, the PTO could provide a streamlined process for third parties to petition the PTO to cancel a mark based on nonuse,[289] something the PTO is currently considering.[290]

Because of the harms that depletion and congestion inflict, we also advocate that the PTO be more cautious, as Rebecca Tushnet otherwise advocates, in granting incontestability to registered marks.[291] Trademark law allows a registered mark in continuous use for five years following registration to become incontestable, so long as certain conditions

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285 *Id.*

286 *See* Tushnet, *supra* note 77, at 869.

287 Changes in Requirements for Affidavits or Declarations of Use, Continued Use, or Excusable Nonuse in Trademark Cases, 82 Fed. Reg. 6,259, 6,262 (Jan. 19, 2017) (to be codified at 37 C.F.R. pts. 2, 7).

288 Tushnet, *supra* note 77, at 869, 918.

289 *See* Leonard Robert Seifter III, Note, *Clearing the Brush: The Best Solution for the USPTO's Continued "Deadwood" Problem*, 23 J. INTELL. PROP. L. 143, 163–65 (2015) (analyzing such a proposal, with regard to a similar procedure in place in Canada).

290 Improving the Accuracy of the Trademark Register: Request for Comments on Possible Streamlined Version of Cancellation Proceedings on Grounds of Abandonment and Nonuse, 82 Fed. Reg. 22,517 (proposed May 16, 2017). For the comment we filed with the PTO in support of a streamlined process, see Barton Beebe & Jeanne Fromer, Comment on Possible Streamlined Version of Cancellation Proceedings on Grounds of Abandonment and Nonuse (Aug. 14, 2017), https://www.uspto.gov/sites/default/files/documents/StreamlinedCancellation_Comment_from_Beebe-Fromer_NewYorkUniversity.pdf [https://perma.cc/DY9D-LUBC].

291 Rebecca Tushnet, *Fixing Incontestability: The Next Frontier?*, 23 B.U. J. SCI. & TECH. L. 434 (2017). It might also be worthwhile to eliminate the possibility of incontestability, but we recognize that is more radical.

are met, such as the absence of a final decision adverse to the mark's continuing registration.[292] Once a mark achieves incontestable status, it is susceptible to invalidation only on a limited number of grounds.[293] Most importantly, the mark can no longer be invalidated for being descriptive and lacking the requisite secondary meaning.[294] Tushnet presents evidence of marks undeserving of incontestability status that are allowed to claim it.[295] This is troublesome generally and particularly so for descriptive marks. Given the severe costs associated with the depletion of descriptive terms,[296] the Lanham Act should be amended either to limit the availability of incontestable status for descriptive marks or to allow challenges to a descriptive mark's claim of acquired distinctiveness even when that mark is incontestable.

Certain reforms directed toward new applicants may also help to alleviate depletion and congestion by making it tougher to register marks, with benefits and costs similar to those discussed above for existing registrants.[297] For example, registration fees could be increased, perhaps in proportion to the degree of depletion or congestion in a particular area. As for the use requirement, just as the PTO plans to do with current registrants,[298] the PTO could more strictly enforce the use requirement against applicants through an auditing program. Relatedly, the PTO could also tighten the relatively permissive standard allowing the extension of time in which an intent-to-use applicant must file a statement of use.[299] Finally, the PTO might also insist on more robust and direct evidence that applied-for descriptive marks have acquired distinctiveness.[300] Currently, the PTO allows acquired distinctiveness to be established circumstantially, through evidence of advertising expenditures, sales, prior registrations, and long-term use of the mark in commerce.[301] This evidence can often be quite weak.[302] The PTO might either require direct evidence of acquired distinctiveness, likely in the form of survey evidence, or at least establish an adverse inference

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292 15 U.S.C. § 1065 (2012).

293 *Id.* § 1115(b).

294 Park 'N Fly, Inc. v. Dollar Park & Fly, Inc., 469 U.S. 189, 196–97 (1985).

295 Tushnet, *supra* note 291, at 440–49.

296 *Supra* section III.A, pp. 978–81.

297 *See supra* pp. 1031–33.

298 *Supra* pp. 1034–35.

299 *See* 15 U.S.C. § 1051(d) (establishing a six-month period, extendable upon application for an additional thirty months, in which an intent-to-use applicant must file a statement of use).

300 *See supra* p. 958 (summarizing the rule of "acquired distinctiveness" for descriptive marks to be protectable).

301 *See* TMEP, *supra* note 55, §§ 1212, 1212.04–1212.04(e), 1212.05(d), 1212.06–1212.06(b). Some courts similarly accept such circumstantial evidence as proof of secondary meaning. 2 MCCARTHY, *supra* note 22, § 15:30, at 15-61 to -62 & n.6 (citing cases).

302 Ouellette, *supra* note 126, at 353.

that the lack of such evidence weighs heavily against a finding of acquired distinctiveness.[303]

The reforms we have proposed so far are those that we think are the most administratively feasible and politically viable. They are not, however, the only policy levers that might be adjusted. We consider two additional reforms that are more radical and whose effects on depletion and congestion are more difficult to predict. On balance, we think each is unlikely to result in net benefits to the trademark system.

First, with respect to the geographic extent of exclusive rights, the Lanham Act could cease to grant constructive nationwide priority to registered marks.[304] In other words, registered trademark protection could revert to a common law framework in which the registrant can claim priority in a mark only in the geographic areas in which it is the first to make actual use of the mark, plus any natural zone of expansion.[305] Such a reform could conceivably diminish trademark depletion because different firms could use the same mark in different geographic areas provided that no consumer confusion results. This would represent a significant break from current law, which allows a firm that owns a registered mark it uses only in, say, Hawaii to assert priority rights over the entirety of the United States.[306] There are, however, several problems with this approach. Most significantly, given the development of the internet, many firms can now arguably claim that they use their marks nationally online.[307] There would also be the substantial administrative burden of mapping out which geographic areas belong to which registrants. Finally, such a reform would open the door to multiple parallel uses and trademark congestion on a national scale. As the development of internet technology intensifies even further, and as physical travel increases, a framework of geographically limited parallel uses would become increasingly untenable.

Second, the Lanham Act could be reformed to provide that the PTO would no longer search the register to determine if an applied-for mark is confusingly similar to an already-registered mark. In essence, the

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303 The PTO's rules emphasize that such evidence is probative of acquired distinctiveness, but they do not currently require or prioritize it. *See* TMEP, *supra* note 55, §§ 1212, 1212.06(d); *see also In re* Olin Corp., 2017 WL 4217176, at *15–16 (T.T.A.B. 2017) (Lykos, J., concurring in part) (calling for a stricter standard for the showing that the acquired distinctiveness of previously registered marks may be transferred to a mark applied for on an intent-to-use basis).

304 15 U.S.C. § 1057(c); *supra* p. 962.

305 *See, e.g.*, Hanginout, Inc. v. Google, Inc., 54 F. Supp. 3d 1109, 1121 (S.D. Cal. 2014) (quoting Optimal Pets, Inc. v. Nutri-Vet, LLC, 877 F. Supp. 2d 953, 958 (C.D. Cal. 2012)).

306 *See* 15 U.S.C. §§ 1057(c), 1072.

307 *See* AJ Agrawal, *Ten Reasons Why Businesses Are Going Global*, HUFFINGTON POST (Aug. 14, 2016, 3:51 PM), http://www.huffingtonpost.com/aj-agrawal/ten-reasons-why-businesse_b_11512636.html [https://perma.cc/E7EL-GKHT].

PTO would no longer act as the first filter of incoming trademark applications on the question of confusing similarity; section 2(d) review would be left entirely to current registrants, who would need to become much more vigilant in monitoring applications and filing oppositions. This has long been the approach of European Union trademark law.[308] Here too, however, there are several problems in addition to the obvious problem of shifting more monitoring costs onto current registrants. Applied-for marks that the PTO might previously have refused as confusingly similar might now slip through to registration without attracting the notice of current registrants, thus diminishing the impact of depletion. But this would at the same time result in the registration of confusingly similar marks and leave lurking conflicts unresolved, making them costlier to resolve down the line if they emerge. Furthermore, to the extent that this reform would allow the registration of nonconfusingly similar marks that would formerly have been filtered out by the PTO's review, the result would be an increase in parallel uses and trademark congestion.

There is good reason to expect that changes like those we propose here would significantly inhibit trademark depletion and congestion. FDA rules that suppress trademark congestion for drugs, a harmful situation we discuss above,[309] provide an instructive case. The FDA, tasked with ensuring public safety with regard to drugs, not only regulates which drugs are to be approved for the market but also, in recent years, which marks businesses might use to market and sell drugs once approved.[310] Applicants submit up to two proposed names for evaluation, along with their intended pronunciation, possible derivations, in-

[308] *See* Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union Trade Mark art. 8, 2017 O.J. (L 154) 1, 9–10. In 2007, the United Kingdom Intellectual Property Office adopted a comparable approach, in which it searches earlier trademarks and notifies the applicant of the existence of conflicting regulations. If the applicant proceeds with the registration, the Office notifies the owners of the conflicting registrations (provided they qualify for notification) and the owners may then oppose the applicant's registration. *See* U.K. INTELL. PROP. OFF., CONSOLIDATED TRADE MARKS RULES § 14 (2017); *see also* Christopher Benson & Oliver Loach, *Abolition of Relative Grounds Examination in the U.K.*, LAW360 (Nov. 26, 2007, 12:00 AM), https://www.law360.com/articles/40873 [https://perma.cc/M582-Y7XX].

[309] *See supra* pp. 1027–28.

[310] *See* Hannah Brennan, *The Cost of Confusion: The Paradox of Trademarked Pharmaceuticals*, 22 MICH. TELECOMM. & TECH. L. REV. 1, 17–18 (2015). A medication may be referred to by one of its three separate names: its chemical name, its generic (nonproprietary) name, and its brand (proprietary) name. *Id.* at 16. As Hannah Brennan notes as an example, "Tylenol[] is the brand name of the drug that has the chemical name N-(4-hydroxyphenyl)acetamide and the generic name acetaminophen." *Id.* Doctors and pharmacists principally use brand names to refer to drugs, FDA EVALUATION OF PROPRIETARY NAMES, *supra* note 255, at 4; Brennan, *supra*, at 18, which is why limiting congestion of these names is important.

tended meaning of any prefixes or suffixes, and pharmacologic category.[311] The FDA uses a rigorous multipronged approach to identify which submitted names are too confusingly similar to an already-existing drug name, including a preliminary screening to identify common errors; a search against already-established stems of drugs and chemicals; a computerized approximate-matching search for orthographic, phonetic, and packaging similarities; searches against drug databases; and prescription simulation studies.[312] Of the 500 names reviewed annually, the FDA rejects "roughly one-third."[313] Owing to this review, which keeps pharmaceutical brand names far apart from one another and from preexisting chemical terms, one commentator notes that "prescription drugs notoriously carry some of the most obscure brand names in business," with recent examples including "Celecoxib, Linezolid and Metaxalone — names that don't exactly roll off the tongue."[314] Not surprisingly, our data show that there is comparatively less congestion and lower rates of section 2(d) rejections in Class 5 (pharmaceuticals) than other classes.[315]

311 FDA EVALUATION OF PROPRIETARY NAMES, *supra* note 255, at 10–11. Applicants can file proposed names for approval as early as after completion of a product's Phase II clinical trials. *Id.* at 8. If two names are submitted, one is specified as a first choice and the other as an alternate. *Id.* at 10. The alternate name is evaluated only if the first choice "is found to be unacceptable." *Id.*

312 *Id.* at 5–6. Examples of common errors include numbers in the name, which might incorrectly suggest dosing information, or the use of "TID," which is an abbreviation for three times a day. Jacqueline P. Scheib & Brendan Witherell, *The Basics of Drug and Medical Device Naming*, INT'L TRADEMARK ASS'N BULL., No. 15 (Sept. 1, 2011), http://www.inta.org/INTABulletin/Pages/TheBasicsofDrugandMedicalDeviceNaming.aspx [https://perma.cc/XX7D-HGAY]. The FDA's name approval process is distinct from the PTO's trademark registration process. *See* Frances M. Jagla & Boris Umansky, *Naming the Product: The Intersection of FDA and Trademark Law*, IP LITIGATOR, Jan.–Feb. 2009, at 13, 14. The PTO could, in theory, approve a drug mark only to have the FDA reject it, or vice versa. *See id.* The FDA also does not oversee a new drug's chemical or generic name. The International Union of Pure and Applied Chemistry creates the chemical name based on an internal set of rules. Scutti, *supra* note 105. The United States Adopted Name Council assigns a new drug's generic name in accordance with its own rules to avoid confusion with other generic drug names. *Id.*

313 Scheib & Witherell, *supra* note 312.

314 Nordrum, *supra* note 256; *accord* Scutti, *supra* note 105 (observing that recent drug names call to mind "aliens arriving from distant planets"); Luke Timmerman, *Why Are Drugs Getting Such Weird Brand Names?*, XCONOMY (May 9, 2011), http://www.xconomy.com/national/2011/05/09/why-are-drugs-getting-such-weird-brand-names/ [https://perma.cc/HWR6-EZER] ("Check a few of the newly-coined drug names — Incivek, Adcetris, Yervoy, Viibryd, Zytiga, Xgeva. Somewhere, the folks who sell Coca-Cola must be giggling at their friends who went into pharmaceuticals. How are you supposed to create an identity for a product, when people can't even spell or pronounce it, much less have any sense of what it means?").

315 *See supra* sections III.D, pp. 1003–08, & IV.B, pp. 1015–17 (reporting class-by-class section 2(d) refusals and class-by-class results of congestion of frequently used words). Another reason there is less congestion, and also depletion, in Class 5 is that barriers to entry in this space are high. Drug research is expensive, as is the FDA approval process. *See* Hannah Brennan, Amy Kapczynski, Christine H. Monahan & Zain Rizvi, *A Prescription for Excessive Drug Pricing: Leveraging Government Patent Use for Health*, 18 YALE J.L. & TECH. 275, 279, 343 (2016). Fewer entrants mathematically means less opportunity for depletion or congestion. Compare Class 5 with the

It is crucial to note that all of the recommended — and even proposed but rejected — changes set forth above affect only the registration of marks. Comparable reforms should be implemented outside of the context of registration. Most pertinently, federal law also protects unregistered marks.[316] Such marks should be subject to the same heightened requirements for the showing of use in commerce and, when they are descriptive, for the showing of acquired distinctiveness.[317] More generally, in light of the harms of depletion and congestion, courts should feel empowered to adjudicate more permissively the fair use defense, both in its descriptive and normative forms.[318] Relatedly, with respect to the basic test for the likelihood of consumer confusion, courts may increasingly be compelled to strike a difficult balance in which they allow somewhat confusingly similar marks to remain in the marketplace in order to promote competition, even though doing so may impose greater search costs on consumers.[319]

Finally, at a minimum, policymakers, judges, and trademark examiners should take into account depletion and congestion data like those we have gathered here in any future reforms of trademark law. For example, the PTO has recently proposed a new "Merely Informational Matter" examination guide that seeks to tighten current standards on the registration of matter that merely provides information about a good or service and is not perceived by consumers as source denotative.[320] Data like ours not only show the need for this reform but could be used

relatively higher degrees of depletion and congestion in Class 25 (apparel goods) and Classes 32–33 (beers and other alcoholic beverages), in which the barriers to entry are significantly lower. Maureen Farrell, *How to Set Up a Clothing Retailer: Start-Up Costs*, FORBES (Jan. 9, 2007, 6:00 PM), https://www.forbes.com/2007/01/09/startupcost-inventory-rent-ent-manage-cx_mf_0109fundamentalsretailcosts.html [https://perma.cc/56MK-VV6U]; Steve Nicastro, *How to Start a Craft Brewery*, NERDWALLET (Mar. 11, 2016), https://www.nerdwallet.com/blog/small-business/how-much-does-it-cost-to-start-a-craft-brewery/ [https://perma.cc/3KHN-ZVYD].

316 It currently remains an important open question in trademark law whether unregistered "common law" marks, which the Lanham Act protects, *supra* section I.A.4, pp. 961–62, ought to be held to the same standards specified in the Lanham Act and developed by courts for registered marks. *See* Tushnet, *supra* note 77, at 881–916; *supra* note 77 (discussing Tushnet's work).

317 *See supra* pp. 1036–37.

318 *See, e.g.*, KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc., 543 U.S. 111 (2004) (noting that the "common law of unfair competition . . . tolerated some degree of confusion," *id.* at 119, and holding that "some possibility of consumer confusion must be compatible with fair use," *id.* at 121).

319 *See* McKenna, *supra* note 241, at 86–92. Another possibility is to enable private actors to do more to allocate trademarks among themselves as a way to ameliorate depletion and possibly congestion. However, trademark law prohibits assignments in gross, which are sales of a trademark divorced from its good will. *See* Topps Co. v. Cadbury Stani S.A.I.C., 526 F.3d 63, 70 (2d Cir. 2008) ("An assignment 'in gross' is a purported transfer of a trademark divorced from its goodwill, and it is generally deemed invalid under U.S. law."). To facilitate a market in trademarks, trademark law could become more permissive about allowing trademark assignments in gross.

320 *See* U.S. PATENT & TRADEMARK OFFICE, EXAMINATION GUIDE 2-17: MERELY INFORMATIONAL MATTER (2017), https://www.uspto.gov/sites/default/files/documents/Merely_Informational_Matter_Exam_Guide_July_2017.doc [https://perma.cc/224T-BYGS].

in the future to aid in determining what matter in particular cases should be deemed merely informational because it is highly congested.

In sum, the depletion and congestion data clearly show that, going forward, trademark policy must address the degree to which depletion and congestion impose significant barriers to entry on nonincumbents and undercut the law's central goals of promoting efficient competition and reducing consumers' search costs. Though we have only sketched out in this section various reforms that may aid in reducing depletion and congestion and mitigating their harms, we are confident that, whether globally or on a case-by-case basis, the incorporation of data like ours into the trademark policymaking and adjudication process will greatly improve, if not preserve, the trademark system.

CONCLUSION

This Article has defined the phenomena of trademark depletion and congestion, developed frameworks for evaluating their severity, and, with respect to word marks, shown through a wide variety of empirical evidence that both depletion and congestion are becoming increasingly serious problems for the trademark system. As we explained above, we do not expect ever to reach a condition in which we have "run out" of trademarks. Firms will likely always be able to find, as they do now, some minimally communicative sign by which to identify and distinguish their goods or services. But as depletion and congestion continue to intensify, firms will find such signs at greater cost and with less benefit. Incumbent advantages will grow as will barriers to entry for nonincumbents. Consumer search costs will continue to increase. More and more of our daily language, both commercial and noncommercial, will operate in the shadow of trademark property rights. What makes trademark depletion and congestion so dangerous is that we may not fully recognize these trends as they continue to mount — and as we continue to try to adapt. Both processes are gradual. But this cannot be an excuse for inaction. We think the reform proposals we have surveyed above are a good place to start.

In the meantime, further work remains to be done to better understand trademark depletion and congestion. Most important but also most challenging will be the study of image mark depletion and congestion. There is already strong anecdotal evidence that both processes have reached chronic levels.[321] A full understanding of depletion and

[321] *See, e.g.*, Tushnet, *supra* note 77, at 927–29 (discussing, in light of this article's findings, a recent Federal Circuit opinion concerning the PTO's refusal to register a paw print trademark for clothing, which noted the multitude of other paw print designs already registered or in use as trademarks on clothing (citing Jack Wolfskin Ausrustung Fur Draussen GmbH & Co. KGAA v. New Millennium Sports, S.L.U., 797 F.3d 1363 (Fed. Cir. 2015))).

congestion should also incorporate semantic similarity, such as when a mark like TORNADO for wire fencing precludes the registration of the mark CYLCONE for the same goods.[322] Our results are conservative because we have not included this dimension of similarity. We additionally hope to extend our framework and methods to other trademark systems, most notably the European trademark system, and to other similar naming regimes, such as the Delaware Corporate Registry and financial market stock symbols. Finally, a great deal of work remains to be done on specific trends revealed by the PTO's Case Files Dataset, including trends in applicants' disclaiming of rights in parts of their marks, applicants' reclaiming of marks abandoned by others, trademark licensing practices, and the effects of registrations containing foreign words.

We expect that such work will further amplify the themes we have pursued throughout this Article: that the supply of effective trademarks is not inexhaustible, that the granting of trademark rights is not costless, that the costs of granting such rights have been significantly increasing, and thus that the ecology of the trademark system is undergoing increasing strain. Over the two centuries of its development, the American trademark system has always assumed the existence of an open frontier of unclaimed, competitively effective trademarks. This assumption pervades American trademark law and policy. Yet our data show that this frontier is closing. Our hope is that the data will prompt recognition of and guide adaption to this new condition.

322 *See* Hancock v. Am. Steel & Wire Co. of N.J., 203 F.2d 737 (C.C.P.A. 1953) (affirming the PTO's refusal to register CYCLONE for wire fencing because of its semantic similarity with TORNADO for the same goods and noting that "[t]he meaning of these two words is the crux of the case," *id.* at 740).

APPENDIX: INTERNATIONAL SCHEDULE OF CLASSES OF GOODS AND SERVICES (NICE CLASSIFICATION)

Goods

1. Chemicals used in industry, science and photography, as well as in agriculture, horticulture and forestry; unprocessed artificial resins, unprocessed plastics; manures; fire extinguishing compositions; tempering and soldering preparations; chemical substances for preserving foodstuffs; tanning substances; adhesives used in industry.

2. Paints, varnishes, lacquers; preservatives against rust and against deterioration of wood; colorants; mordants; raw natural resins; metals in foil and powder form for use in painting, decorating, printing and art.

3. Bleaching preparations and other substances for laundry use; cleaning, polishing, scouring and abrasive preparations; nonmedicated soaps; perfumery, essential oils, nonmedicated cosmetics, nonmedicated hair lotions; nonmedicated dentifrices.

4. Industrial oils and greases; lubricants; dust absorbing, wetting and binding compositions; fuels (including motor spirit) and illuminants; candles and wicks for lighting.

5. Pharmaceuticals, medical and veterinary preparations; sanitary preparations for medical purposes; dietetic food and substances adapted for medical or veterinary use, food for babies; dietary supplements for humans and animals; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.

6. Common metals and their alloys, ores; metal materials for building and construction; transportable buildings of metal; nonelectric cables and wires of common metal; small items of metal hardware; metal containers for storage or transport; safes.

7. Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs; automatic vending machines.

8. Hand tools and implements (hand-operated); cutlery; side arms; razors.

9. Scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signalling, checking (supervision), lifesaving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; compact discs, DVDs and other digital recording media; mechanisms for coin-operated apparatus; cash registers, calculating machines, data processing equipment, computers; computer software; fire-extinguishing apparatus.

10. Surgical, medical, dental and veterinary apparatus and instruments; artificial limbs, eyes and teeth; orthopaedic articles; suture materials; therapeutic and assistive devices adapted for the disabled; massage apparatus; apparatus, devices and articles for nursing infants; sexual activity apparatus, devices and articles.

11. Apparatus for lighting, heating, steam generating, cooking, refrigerating, drying, ventilating, water supply and sanitary purposes.

12. Vehicles; apparatus for locomotion by land, air or water.

13. Firearms; ammunition and projectiles; explosives; fireworks.

14. Precious metals and their alloys; jewellery, precious and semi-precious stones; horological and chronometric instruments.

15. Musical instruments.

16. Paper and cardboard; printed matter; bookbinding material; photographs; stationery and office requisites, except furniture; adhesives for stationery or household purposes; artists' and drawing materials; paintbrushes; instructional and teaching materials; plastic sheets, films and bags for wrapping and packaging; printers' type, printing blocks.

17. Unprocessed and semi-processed rubber, gutta-percha, gum, asbestos, mica and substitutes for all these materials; plastics and resins in extruded form for use in manufacture; packing, stopping and insulating materials; flexible pipes, tubes and hoses, not of metal.

18. Leather and imitations of leather; animal skins and hides; luggage and carrying bags; umbrellas and parasols; walking sticks; whips, harness and saddlery; collars, leashes and clothing for animals.

19. Building materials (nonmetallic); nonmetallic rigid pipes for building; asphalt, pitch and bitumen; nonmetallic transportable buildings; monuments, not of metal.

20. Furniture, mirrors, picture frames; containers, not of metal, for storage or transport; unworked or semi-worked bone, horn, whalebone or mother-of-pearl; shells; meerschaum; yellow amber.

21. Household or kitchen utensils and containers; combs and sponges; brushes, except paintbrushes; brush-making materials; articles for cleaning purposes; unworked or semi-worked glass, except building glass; glassware, porcelain and earthenware.

22. Ropes and string; nets; tents and tarpaulins; awnings of textile or synthetic materials; sails; sacks for the transport and storage of materials in bulk; padding, cushioning and stuffing materials, except of paper, cardboard, rubber or plastics; raw fibrous textile materials and substitutes therefor.

23. Yarns and threads, for textile use.

24. Textiles and substitutes for textiles; household linen; curtains of textile or plastic.

25. Clothing, footwear, headgear.

26. Lace and embroidery, ribbons and braid; buttons, hooks and eyes, pins and needles; artificial flowers; hair decorations; false hair.

27. Carpets, rugs, mats and matting, linoleum and other materials for covering existing floors; wall hangings (nontextile).

28. Games, toys and playthings; video game apparatus; gymnastic and sporting articles; decorations for Christmas trees.

29. Meat, fish, poultry and game; meat extracts; preserved, frozen, dried and cooked fruits and vegetables; jellies, jams, compotes; eggs; milk and milk products; edible oils and fats.

30. Coffee, tea, cocoa and artificial coffee; rice; tapioca and sago; flour and preparations made from cereals; bread, pastries and confectionery; edible ices; sugar, honey, treacle; yeast, baking powder; salt; mustard; vinegar, sauces (condiments); spices; ice.

31. Raw and unprocessed agricultural, aquacultural, horticultural and forestry products; raw and unprocessed grains and seeds; fresh fruits and vegetables, fresh herbs; natural plants and flowers; bulbs, seedlings and seeds for planting; live animals; foodstuffs and beverages for animals; malt.

32. Beers; mineral and aerated waters and other nonalcoholic beverages; fruit beverages and fruit juices; syrups and other preparations for making beverages.

33. Alcoholic beverages (except beers).

34. Tobacco; smokers' articles; matches.

Services

35. Advertising; business management; business administration; office functions.

36. Insurance; financial affairs; monetary affairs; real estate affairs.

37. Building construction; repair; installation services.

38. Telecommunications.

39. Transport; packaging and storage of goods; travel arrangement.

40. Treatment of materials.

41. Education; providing of training; entertainment; sporting and cultural activities.

42. Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software.

43. Services for providing food and drink; temporary accommodations.

44. Medical services; veterinary services; hygienic and beauty care for human beings or animals; agriculture, horticulture and forestry services.

45. Legal services; security services for the physical protection of tangible property and individuals; personal and social services rendered by others to meet the needs of individuals.

Mr. JOHNSON of Georgia. Thank you.
We will next hear from Mr. Brody, 5 minutes. Thank you.

STATEMENT OF PETER M. BRODY

Mr. BRODY. Chairman Johnson, Ranking Member Roby, and members of the subcommittee, thank you for this opportunity to testify before you today.

I am Peter Brody, a partner in the law firm of Ropes & Gray in Washington, D.C., and an intellectual property litigator with a substantial focus on trademark cases. I am also testifying today for the International Trademark Association, where I serve as chair of the U.S. Subcommittee of the Legislation and Regulation Committee.

I am pleased to be here this morning to discuss proposed legislation to amend the Lanham Act. This legislation would remove unwanted obstacles to obtaining injunctive relief in appropriate cases involving trademark counterfeiting, infringement, dilution, false advertising, and cyber-squatting.

As a number of the members of the subcommittee have observed in their comments this morning, trademarks are invaluable to the owners of businesses large and small. They enable businesses to develop a reputation and goodwill symbolized by their brand.

But trademarks are also invaluable to consumers. We all use trademarks every day, as Congresswoman Roby mentioned, to make purchasing decisions, and we rely on them to lead us to products that we have come to know and prefer.

But, as Congresswoman Roby also noted, our ability to rely on trademarks assumes that we can trust them to identify the same source and quality every time we place an order or we reach for a box on a store shelf or we stop at a chain restaurant for a quick meal.

As the Chairman suggested, the stakes in trademark cases are unique. The kind of harm that violations of the Lanham Act cause—harm to a business's reputation and goodwill—cannot be readily or effectively remedied with an award of monetary damages. In fact, courts very infrequently provide for such awards. The harm to consumers from trademark confusion also is not remedied by damages. Trademark harm must therefore be mitigated primarily by stopping the confusion at its source, through an injunction.

As many of you know, traditionally, injunctive relief is governed by a four-part standard. The plaintiff must show that it is either likely to succeed on the merits of its claim at the preliminary injunction stage or has prevailed at the permanent injunction stage. The plaintiff must also show that it is likely to suffer irreparable harm absent an injunction. The plaintiff also must show that the balance of hardships tips in favor of issuance of the injunction rather than not issuance. And, finally, the plaintiff must show that the public interest favors the issuance of an injunction.

Recognizing the unique harms from trademark confusion, U.S. Federal courts, for decades, virtually uniformly applied a rebuttable presumption of irreparable harm upon a finding of liability—that is, likelihood of confusion—at the permanent injunction stage or that a plaintiff was likely to be able to prove that liability at the preliminary injunction stage. In other words, such findings led to

a presumption, rebuttable by the defendant, that the irreparable-harm prong of the traditional test for injunctive relief had been met. With this presumption, the plaintiff could obtain injunctive relief, assuming the other prongs of that test were also met.

Recent developments in the law of the Lanham Act remedies, however, have resulted in Federal court rulings that hinder trademark owners' ability to obtain that injunctive relief. In particular, over the past decade, a number of Federal appellate and trial courts have reversed course and discarded the longstanding presumption of irreparable harm, even when they have found a likelihood of confusion or, at the conclusion of the case, actual confusion.

These courts based their decisions on a Supreme Court decision involving unrelated issues of patent infringement, not the Lanham Act. The analogy, however, is deeply flawed. Unlike the Lanham Act, the Patent Act provides for a guaranteed monetary remedy in the form of a reasonable royalty, and patent infringement does not cause the kind of unquantifiable harm to goodwill or reputation the Lanham Act is intended to address.

Legislation reestablishing a presumption of irreparable harm under the Lanham Act will eliminate this unwarranted obstacle to injunctive relief.

I want to highlight, in my few seconds remaining, that there are three key safeguards embedded in the proposed legislation to ensure its fairness and equity in application.

First, the presumption only arises if the plaintiff has proven a probability of success in establishing likelihood of confusion at the preliminary injunction stage or a likelihood of confusion at the conclusion of the case.

Second, even if the presumption arises, it is still rebuttable.

And, finally, the proposal would not alter the remaining prongs of the test. The court would still have to find the balance of equities and the public interest favor the injunction.

Mr. Chairman and members of the committee, thank you for this opportunity to express our views.

[The statement of Mr. Brody follows:]

HEARING

ON

COUNTERFEITS AND CLUTTERING:

EMERGING THREATS TO THE INTEGRITY

OF THE TRADEMARK SYSTEM

AND THE

IMPACT ON AMERICAN CONSUMERS AND BUSINESSES

BEFORE THE

COMMITTEE ON THE JUDICIARY

SUBCOMMITTEE ON

COURTS, INTELLECTUAL PROPERTY AND THE INTERNET

JULY 18, 2019

TESTIMONY OF

PETER M. BRODY

PARTNER, ROPES & GRAY, LLP

Executive Summary:

When consumers are confused by trademark infringement or false advertising, they may be deceived into buying products that are not what they believe them to be. Not only does that hurt the consumer, it also hurts the reputation of the business that is the target of the infringement or advertisement. The federal Lanham Act provides a cause of action for such deceptive conduct and allows for both monetary and injunctive relief. The latter is particularly important because reputational harm is hard to remedy effectively through a mere damages award. Consequently, the federal circuits had long held that a showing of likelihood of consumer confusion in Lanham Act cases led to a rebuttable presumption of irreparable harm to the business whose reputation was at risk. Assuming all other elements of the test for injunctive relief were met, that business could generally obtain an injunction preventing further such harm. But recently we have witnessed a split in the circuits – some have erroneously discarded this rebuttable presumption, even where a plaintiff has shown a likelihood of success in the litigation, making it overly difficult to obtain injunctive relief in such cases. My testimony urges a return to the vital and common-sense principle of a rebuttable presumption of irreparable harm in Lanham Act injunctive relief proceedings.

Testimony:

Chairman Johnson, Ranking Member Roby and Members of the Subcommittee, thank you for this opportunity to testify before you today. I am Peter M. Brody, partner in the law firm of Ropes & Gray, LLP in Washington, D.C. and a litigator in

the area of intellectual property, with substantial emphasis on trademark law. I also serve as Chair of the Legislation and Regulation Committee, U.S. Subcommittee of the International Trademark Association (INTA), and as a member of the American Intellectual Property Law Association, the American Bar Association, and the Trademark Committee of the Intellectual Property Owners Association.

I am pleased to be here this morning to discuss legislation to amend the Lanham Act to reestablish an endangered but vital principle. This legislation will ensure that injunctive relief is available in appropriate cases involving trademark counterfeiting, infringement, dilution, false advertising, and cybersquatting. It will clarify and standardize enforcement of the Lanham Act across the country to safeguard the interests of American consumers and businesses.

Trademarks are invaluable to the owners of businesses large and small. They identify a particular source in a crowded marketplace, enabling businesses to develop a reputation and goodwill, symbolized by their brand. When consumers come to depend on the quality and consistency of goods and services, trademarks enhance a business's competitive position.

Trademarks are also invaluable to consumers. We all use trademarks every day to make purchasing decisions and rely on them to lead us to the products that we have come to know and prefer. But our ability to rely on these symbols assumes

that we can trust them to identify the same trademark owner every time we reach for a box on a store shelf, stop at a chain restaurant for a quick meal or click on a link to an online marketplace. If a company sells goods or services under an infringing and confusing trademark, consumer trust in quality and consistency is weakened. The same is true for a company falsely advertising its goods or services, or making false or misleading advertising claims about a competitor's offerings.

The Lanham Act therefore serves dual purposes. First, the statute protects businesses from the damage to their goodwill and reputation caused by trademark counterfeiting, infringement, dilution, false advertising and cybersquatting. Second, the statute protects consumers from the confusion and deception caused by these same acts. As the Lanham Act declares, the intent of the law is in part "to regulate commerce within the control of Congress by making actionable the deceptive and misleading use of marks in such commerce" and "to protect persons engaged in such commerce against unfair competition."[1]

In Lanham Act litigation, trademark owners must overcome the difficult hurdle of showing harm. Injury to reputation and goodwill due to consumer confusion – the typical injury in a Lanham Act case – is extremely difficult to quantify. Harm to a business's reputation cannot be eliminated or truly remedied with an award of monetary damages. It can only be mitigated by stopping the consumer confusion

[1] 15 U.S.C. § 1127.

at its source, through an injunction. Injunctive relief, then, is most often the only effective remedy to protect the trademark owner's reputation and prevent harm to consumers.

Recent developments in the law of Lanham Act remedies, however, have resulted in federal court rulings that hinder trademark owners' ability to obtain relief. These changes threaten to undermine Congressional objectives in protecting both consumers and businesses from harm.

Obtaining injunctive relief in federal court – in all types of cases – requires the claimant to meet a four-part test. In a preliminary injunction proceeding, a plaintiff must show that (1) it is likely to succeed on the merits, (2) it is likely to suffer irreparable harm without preliminary relief, (3) the defendant will not suffer greater harm from issuance of the injunction and (4) the injunction is in the public interest. The same test applies to permanent injunctions sought at the conclusion of a trial, except that, in the first prong, a finding of liability is required rather than a likelihood of success.

Under the second prong of this four-part test for injunctive relief, harm is considered "irreparable" under the law when a court would be unable to make a plaintiff whole through damages even if it succeeds at trial. Irreparable harm may include harm to reputation that cannot easily be quantified or adequately

compensated with damages, particularly where the injury continues unabated through pretrial and trial proceedings.

Historically, U.S. federal courts, when considering a claim under the Lanham Act, almost uniformly applied a rebuttable presumption of irreparable harm upon a finding of liability or, in the context of a preliminary injunction, a finding that the plaintiff was likely to be able to prove liability. Specifically, such findings led to a presumption – rebuttable by the defendant – that the second prong, irreparable harm, had been met. One court called this an "inescapable conclusion"[2] and another declared it "well-established."[3]

Yet, in the past decade, several federal courts have reversed course and discarded this long-standing principle even when they have found the first prong – liability or a likelihood of it – to be met and consumers to be confused. These courts based their decisions on a Supreme Court opinion[4] involving unrelated issues of patent infringement and the U.S. Patent Act. The analogy, however, is deeply flawed. Unlike the Lanham Act, the Patent Act provides for a guaranteed monetary remedy, and patent infringement does not cause the kind of unquantifiable harm to goodwill or reputation that the Lanham Act is intended to address.

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[2] *Pappan Enterprises, Inc. v. Hardee's Food Systems, Inc.*, 143 F.3d 800, 805 (3d Cir. 1998).
[3] *Abbott Labs. v. Mead Johnson & Co.*, 971 F.2d 6, 16 (7th Cir. 1992).
[4] *eBay, Inc. v. MercExchange LLC*, 547 U.S. 388 (2006).

Not all federal district and circuit courts have agreed that the presumption of irreparable harm under the Lanham Act should be jettisoned based on an inapposite patent decision. But the differing views of the courts on this issue have exacerbated the problems, creating uncertainty for Lanham Act claimants and an incentive for forum shopping. The Supreme Court has declined to grant certiorari to resolve the conflict in the lower courts and clarify the law in this regard.

In circuits where the presumption is no longer recognized in Lanham Act cases, businesses seeking to protect their trademarks from infringement or to halt false advertising by a competitor face a much greater risk of being unable to obtain effective relief from the courts despite having a compelling case on the merits. The courts rejecting the presumption have gone too far in the other direction, making it extremely difficult for many trademark owners to demonstrate irreparable injury even after proving liability or likely success on the merits.

Legislation reestablishing a presumption of irreparable harm under the Lanham Act will provide clarity for courts and litigants alike. It will eliminate obstacles to injunctive relief for trademark owners who prevail on the merits of their claim or who, in preliminary injunction proceedings, demonstrate that they are likely to prevail on the merits, and will enable them to appropriately protect their brands and reputations. This legislation will also protect consumers from harm arising from confusion about the source of products or services. A rebuttable presumption of irreparable harm is an important and logical avenue to adequate relief.

Significantly, this proposal entails three key safeguards:

(1) the presumption would only arise if, and only if, the Lanham Act plaintiff has either succeeded on the merits of its claim or the court determines that there is a likelihood the plaintiff will prevail on the merits;

(2) even if the presumption arises, it is rebuttable; thus the defendant can overcome it by showing, for example, that the plaintiff has delayed too long in seeking relief or the plaintiff's evidence of harm is too inconsequential or speculative to warrant injunctive relief; and

(3) the court must still address the other remaining prongs of the four-part injunctive test, namely that the balance of equities, as well as the public interest, favor the injunction.

To summarize, a presumption of irreparable harm is critically important in Lanham Act cases for these reasons:

- Lanham Act cases are unique in the harms that they seek to prevent and remedy: consumer deception and injury to business reputation and goodwill.

- The injury in cases of trademark infringement, dilution, cybersquatting and false advertising is often not readily or immediately quantifiable. In order to protect Lanham Act claimants' rights as well as prevent continued harm to the public, presuming harm can be an important avenue to adequate relief.

- While the Supreme Court's decision on presumptions of irreparable harm in patent infringement cases may have been an appropriate outcome in the context of the patent statute, which effectively guarantees a minimum monetary recovery of a "reasonable royalty" for prevailing claimants, the Lanham Act provides no such guarantee. Indeed, monetary relief has traditionally been difficult to obtain in Lanham Act cases.

- Absent injunctive relief, a successful litigant under the Lanham Act faces the very real prospect of an unchanged status quo and no monetary recovery despite proving the merits of its claim.

- In that event, not only is the trademark owner harmed without recourse, but consumers also continue to be confused or deceived by the absence of injunctive relief where there is probable or even proven violation of the Lanham Act.

Mr. Chairman and members of the Committee, thank you for this opportunity to express my views on proposed legislation that would restore a rebuttable presumption of irreparable harm for trademark owners seeking injunctive relief in appropriate trademark cases. I welcome your questions.

Mr. JOHNSON of Georgia. Thank you.

Next, Mr. Cammiso, you may begin. And I have just butchered that name. I am sorry.

STATEMENT OF JOSEPH CAMMISO

Mr. CAMMISO. Thank you, Chairman Johnson, Ranking Member Roby, and other members of the subcommittee. I appreciate the opportunity to speak before you today.

I am Joseph Cammiso, frontline manager at Toyota responsible for fighting counterfeit parts and the impact that they have on my company, our customers, and the public. To assist in this ongoing battle, I collaborate with my peers at 10 other U.S. automakers. Together, we make up the Automotive Anti-Counterfeiting Council, better known as A2C2, of which I currently serve as president.

The threat of the counterfeit auto parts is significant in many ways. First and foremost, they give rise to serious public health and safety concerns. They often fail to perform as intended, resulting in catastrophic failures with potentially fatal consequences.

I have a short video that will illustrate this far better than I can, and now, with the chairman's indulgence, I would like to share this video with the committee.

[Video shown.]

Mr. CAMMISO. This is a NHTSA video showing catastrophic failure of an airbag. Shrapnel in the passenger's seat.

This was a test buy off an e-commerce platform by my peer at Hyundai. They conducted the testing, along with Homeland Security.

This speaks to the tight specifications that genuine airbags are built to.

In this case, the bag opens, but fractions of a second late.

This, again, speaks to our specifications in how bags are supposed to unfold once detonated.

This is a standard bench test that our wheels, genuine wheels, go through. Imitation wheel fails miserably.

This shows our car's performance with counterfeit brake pads. And this is a bench test with counterfeit brake pads. After a few applications, the pads actually ignite, potentially igniting the car as well.

Unfortunately, counterfeit safety components like the airbags, wheels, and brake pads that you just saw are commonplace, as are counterfeit windshields, filters, engine components, and spark plugs. Simply put, almost every type of auto part can be and has been counterfeited.

There are over 265 million vehicles in this country, and nearly every citizen either drives a car or is a passenger in one. Counterfeit auto parts are a threat to each of us.

Of course, this problem has a significant financial impact as well. Using recent data from the Organization for Economic Cooperation and Development, the estimated financial impact of fake auto parts entering our country exceeds $1 billion, and that is just for A2C2 members.

Much of this financial activity is fueled by online marketplaces. A2C2 members have reported tens of thousands of infringing and counterfeit listings to marketplaces. And for those listing removed,

we don't know how many resulted in prior sales of fake parts to unsuspecting consumers or repair shops.

As our friends in Homeland Security have said, A2C2 is a group of the committed, not the curious. To illustrate, since forming in 2015, we have trained almost 1,000 CBP officers; we have collaborated with Homeland Security on dozens of criminal and civil investigations, and we have enlisted the support of the IPEC office and the IPR Center to increase awareness; and we have engaged with multiple e-commerce platforms to prevent the sale of counterfeit auto parts.

But, moving forward, we remain concerned with the level of fake parts offered for sale through online marketplaces. We have several recommendations that we believe could help, including such things as increasing consumer awareness; having platforms proactively share information about bad actors with industry, law enforcement, and other stakeholders; and to notify buyers of counterfeit auto parts.

Platforms could also work to increase seller and product vetting, and they could strengthen penalties for repeat offenders of health and safety products such as auto parts. E-commerce marketplaces have effectively linked counterfeiters with unsuspecting consumers, and the burden of stopping these criminals should not fall disproportionately on the brands that they are victimizing. Ultimately, marketplaces should be held accountable for the product that they sell.

Since our formation, A2C2 members have banded together as an industry to mitigate this growing threat to public health and safety. We are excited to participate in the creation of a framework that will enable real and scalable solutions, and we are pleased to support your efforts however we can.

Thank you for the opportunity to testify today, and I will be happy to answer any questions the subcommittee may have.

[The statement of Mr. Cammiso follows:]

A2C2 Automotive Anti-Counterfeiting Council™

Opening Statement
July 18, 2019

Thank you, Chairman Johnson, Ranking Member Roby, and other members of the subcommittee. I appreciate the opportunity to speak before you today, and to participate in your efforts to protect the public from the dangers of counterfeit products.

I am Joseph Cammiso, a front-line manager at Toyota, responsible for fighting counterfeit parts and the impact that they have on my company, our customers and the public.

To assist in this ongoing battle, I collaborate with my peers, in similar positions, at 10 other U.S. automakers. Together, we make up the Automotive Anti-Counterfeiting Council, better known as A2C2. Of which, I currently serve as president.

The threat of counterfeit auto parts is significant in many ways. First and foremost, they give rise to serious public health & safety concerns. They often fail to perform as intended, resulting in catastrophic failures with potentially fatal consequences. I have a short video that will illustrate this far better than I can...

< VIDEO >

Unfortunately, counterfeit safety components like the air bags, wheels and brake pads that you just saw are commonplace. As are windshields, filters, engine components and spark plugs. Simply put, almost every type of auto part can be, and has been, counterfeited.

There are over 265 million vehicles in this country and nearly every citizen either drives a car or is a passenger in one. Counterfeit auto parts are a threat to all of us.

Of course, this problem has a significant **financial impact** as well.

Using recent data from the Organisation for Economic Co-operation and Development, the estimated financial impact of fake auto parts entering our country exceeds $1 billion, just for A2C2 members.

Much of this financial activity is fueled by online marketplaces. A2C2 members have reported tens of thousands of infringing and counterfeit listings to marketplaces. And there were tens of thousands of more listings that we were simply unable to evaluate and report because our resources have limits.

For those listings removed, we don't know how many resulted in prior sales of fake parts to unsuspecting consumers or repair shops.

FCA Ford GM HONDA HYUNDAI KIA NISSAN GROUP OF NORTH AMERICA SUBARU TOYOTA VOLKSWAGEN

A2C2 Automotive Anti-Counterfeiting Council™

As our friends in Homeland Security have said, A2C2 is a group of the committed, not the curious. To illustrate, since forming in 2015, we've:

- ✓ Trained almost 1,000 CBP officers
- ✓ Collaborated with Homeland Security on dozens of criminal and civil investigations
- ✓ Enlisted the support of the IPEC and the IPR Center to increase awareness and maximize resources to assist in our cause
- ✓ And, we've engaged major e-commerce platforms to prevent the sale of counterfeit auto parts

Moving forward, we remain concerned with the level of fake parts offered for sale through on-line marketplaces. We have several recommendations that we believe could help, including such things as:

- Increasing consumer awareness
- Having platforms proactively share information about bad actors with industry, law enforcement and other stakeholders. And, to notify buyers of counterfeit parts
- Platforms can also work to increase seller and product vetting (especially if the product is being shipped from overseas)
- They can strengthen penalties for repeat offenders of health & safety products, such as auto parts

More detail on these was included in my written submission to the committee, and I'll be happy to offer more, on each, during questioning.

In Conclusion...

Ecommerce marketplaces have effectively linked counterfeiters with unsuspecting consumers. The burden of stopping these criminals should not fall on the brands that they are victimizing. Ultimately, marketplaces should be held accountable for the counterfeit product that they sell.

Since our formation, A2C2 members have banded together as an industry to mitigate this growing threat to public health and safety. While at times this effort has been frustrating, we remain optimistic that effective measures can be implemented. We are excited to participate in the creation of a framework that will enact real and scalable solutions, and we are pleased to support your efforts however we can.

Thank you.

FCA · Ford · GM · HONDA · HYUNDAI · KIA · NISSAN GROUP OF NORTH AMERICA · SUBARU · TOYOTA · VOLKSWAGEN

Mr. JOHNSON of Georgia. Thank you.

We will now hear 5 minutes testimony from Mr. Barchiesi.

STATEMENT OF ROBERT BARCHIESI

Mr. BARCHIESI. Chairman Johnson, Ranking Member Roby, members of the subcommittee, thank you for the opportunity to appear before you today and to share my thoughts and experience on this important topic.

Forty years ago, a handful of companies came together to build a community in the fight against fakes, realizing that the trafficking of counterfeit goods was a problem too large for any of them to solve on their own.

Today, the IACC's members span across industry sectors and include some of the world's most famous brands. And though we have grown considerably over the past four decades, our philosophy remains the same: We leverage the strength and the abilities of the IP community to do together that which we could not accomplish alone.

We welcomed the news of today's hearing and the much-needed attention that it brings to the trafficking of counterfeit goods in e-commerce.

Without question, the growth of counterfeit sales in recent years has had a devastating effect on consumers, putting their health and safety at risk. Further, the loss to businesses cannot be measured in mere dollars and cents but by lost jobs, reputation, and morale. Everyone benefits from a safe and trusted e-commerce marketplace, and the robust enforcement of IP rights online is an essential component to ensuring such a healthy marketplace.

Unfortunately, "robust" is not always a word that we can use to describe the current level of enforcement. Too often, platforms' own policies serve as obstacles to the meaningful protection and enforcement of IP rights.

Both my written testimony and the ICC's most recent submission to the U.S. Trade Representative for its annual "Notorious Markets" review highlight the range of challenges that rights-holders often face online.

For the past decade, the IACC has addressed online trafficking by pursuing constructive engagement with a range of partners, including those in the payment sector, e-commerce platforms, registrars, registries, and the express shipping industry. Our guiding principle is to find practical solutions to intractable problems.

Our follow-the-money approach to online enforcement that we developed in partnership with the credit card companies and money-transfer companies has helped to choke off the flow of money to criminals anywhere in the world online and to thwart their business operations. Whether the consumer is in the U.S. and the seller is in China, we have worked with the credit card companies to close down merchant accounts around the world.

Similarly, our partnership with the Alibaba Group, which we have had since 2012, significantly addressed rights-holders' concerns with China's largest e-commerce platforms. In regard to that, I have four native-speaking Chinese folks working in my office working together with a team in China from Alibaba, and we have

seen significant progress since 2016 when we put that program together.

Unfortunately, the challenges faced by businesses and consumers are not limited to foreign marketplaces. They are right here in our own backyard too. That is why we have also engaged with a number of U.S. marketplaces and established a formal relationship with Amazon which shows some promising results so far. Our engagement serves as proof of concept that when committed stakeholders share a common interest we can make a real change.

We have also encountered some, though, who disclaim accountability, viewing their legal obligations as a ceiling for what they are willing to do rather than a floor for what they are capable of doing. So, while liability is an important piece of the puzzle, we must not forget that this is also about responsibility. All of us have a responsibility to use every tool at our disposal to fight this insidious problem.

We at the IACC take that responsibility seriously. We see these folks, that they have to be at the table. They are an integral part of the solution, and we found that, when they are committed, they can make a tremendous difference.

While we are pleased with the progress that we have had with our partners, there is more work to be done. This includes ongoing greater cooperation and investment of resources by willing partners. It requires new policies and creative strategies that adapt to the ever-changing tactics of the counterfeiters. And it will undoubtedly require the assistance, support, and encouragement of Congress and our law enforcement partners.

As global commerce and e-commerce grow increasingly synonymous, we commend the subcommittee for shining a light on these issues. I thank you for the opportunity to address our members' concerns today and look forward to working with you to ensure that consumers and legitimate businesses are able to benefit from a safe and vibrant online marketplace.

Thank you.

[The statement of Mr. Barchiesi follows:]



727 15th Street NW • 9th Floor • Washington, DC 20005 • USA • +1(202)223-6667 • iacc@iacc.org • www.iacc.org

Written Testimony of

Robert C. Barchiesi

On Behalf of

The International AntiCounterfeiting Coalition

Counterfeits and Cluttering:

Emerging Threats to the Integrity of the Trademark System

and the

Impact on American Consumers and Businesses

United States House of Representatives

Committee on the Judiciary

Subcommittee on Courts,

Intellectual Property, and the Internet

July 18, 2019

Chairman Johnson, Ranking Member Roby, Members of the Subcommittee:

Thank you for the opportunity to appear before you today, and to share my thoughts and experience on this important topic.

Founded in 1979, the International AntiCounterfeiting Coalition ("IACC") is the world's oldest and largest organization dedicated exclusively to combating trademark counterfeiting and copyright piracy. Forty years ago, a handful of companies came together to establish the IACC upon a simple premise: the illicit trafficking of counterfeit goods was a problem too large and too complicated for any single company, or country, to solve on its own. Four decades later, that handful of companies has grown to over 200. Our members span every industry, and include some of the world's best-known brands in the apparel, automotive, electronics, entertainment, luxury goods, pharmaceutical, software, and other consumer product sectors; along with the professional firms and associations that support their brand protection efforts. Central to the IACC's mission is the education of both the general public and policy makers regarding the severity and scope of the harms caused by intellectual property crimes – not only to legitimate manufacturers and retailers, but also to consumers and governments worldwide.

Whether measured in terms of lost sales to legitimate businesses, tax revenues and duties that go unpaid to governments, decreased employment, or diminished investment in capital improvements and research and development; counterfeiting is a significant drain on the U.S. and global economies. Further, the production and distribution of goods produced in an entirely unregulated supply chain, where the makers have every incentive to cut corners by using cheap, substandard components, and no incentive to abide by accepted standards of consumer health and safety, presents a clear threat to the well-being of consumers, and to the integrity of our national security infrastructure.

The IACC seeks to address these threats by promoting the adoption of legislative and regulatory regimes that effectively protect intellectual property rights, by encouraging the application of resources sufficient to implement and enforce those regimes, and by working with partners in the public and private sectors to identify and remediate practical impediments to IP enforcement.

We welcomed the news of today's hearing, and the much-needed attention that it brings to the trafficking of counterfeit goods in e-commerce. Without question, online sales of counterfeits, and the significant growth of such sales in recent years, are a concern of the highest priority not only for the IACC's members, but for rights-holders more broadly. Our member companies invest heavily to keep dangerous counterfeits out of consumers' hands. They spend countless hours and millions of dollars each year to develop and incorporate new technologies into their products and packaging to thwart counterfeiters' attempts to defraud consumers, to investigate violations of their rights and seek civil and criminal enforcement, and to offer investigative and prosecution support to our colleagues in the public sector. But, as noted above, they also understand that counterfeiting is a problem far larger than any of them can handle alone.

Collaboration both within the private sector and between the public and private sectors is essential to protect consumers from counterfeits that put their health and safety at risk, and to safeguard legitimate businesses and the U.S. economy from the unfair competition represented by the trade in counterfeits. Collaboration, by definition though, requires the commitment of parties on both sides, and a recognition of shared responsibility to accomplish a mutual goal. Throughout the past decade, the IACC has sought to identify partners for collaboration, and to pursue meaningful engagement to address the sale of counterfeits in e-commerce. We have no misgivings regarding the size or scope of the problems presented by the current status quo; they are substantial, and they are severe. But we also do not believe that they're insurmountable. We have no doubt found some willing partners who have gone above and beyond the bare minimum required by current law, and who have invested their time and resources to demonstrate their commitment to a safe and trusted e-commerce system. At times, we've also encountered those who disclaim responsibility, viewing their legal obligations as a ceiling for what they're willing to do rather than a floor on what they're capable of doing. To that end, we seek constructive solutions where we can, and we seek to highlight the deficiencies of those stakeholders who are failing to contribute to the effort. I'm pleased to be able to share with you today information regarding that work, as well as my thoughts on those areas where greater efforts are needed.

I. EVOLUTION OF COUNTERFEIT DISTRIBUTION MODELS

Historically, the distribution chains for counterfeit goods have largely mirrored those of legitimate commerce. It should come as no surprise then that China, the largest source of consumer goods imported into the United States, has also been the greatest source of counterfeit goods arriving at our borders for a number of years. In Fiscal Year 2017, the People's Republic of China was cited as the country of origin for 48% of all seizures effected by U.S. Customs and Border Protection ("CBP") (16.5K out of more than 34.1K total seizures), and 46% by value ($554.63 million out of a total of $1.2 billion).[1] It is worth noting, however, that Chinese imports actually account for a much larger percentage of CBP's seizures than the raw figures would indicate. The second position on CBP's list is occupied by Hong Kong, identified as the source country of 39% of seizures (32% by value). Hong Kong though is not widely viewed as a manufacturing hub for counterfeit goods, but rather as a major transshipment point for counterfeits produced by mainland China.

Until relatively recently, "brick and mortar" distribution remained the norm for counterfeit goods, with large overseas manufacturing operations shipping their illicit exports by ocean-going container vessels to supply domestic wholesale and retail distribution networks in the United States. This traditional distribution chain centered largely around flea markets, swap meets, and small storefronts in well-established hotspots in major metropolitan areas such as New York's Canal Street and Santee Alley in Los Angeles. In today's marketplace however, manufacturing remains offshore, but counterfeiters are no longer reliant upon the distribution channels of yesteryear; e-commerce now provides direct access to the end consumers. With the rise of online shopping and the emergence of e-commerce platforms, we've seen a concurrent, and steady, increase in the volume of counterfeit seizures by CBP in the express consignment and postal shipping environments. As detailed in CBP's above-referenced report, these small consignments accounted for 89% of seized shipments, and 47% of total seizures by value.

[1] Intellectual Property Rights Seizure Statistics – Fiscal Year 2017.
https://www.cbp.gov/sites/default/files/assets/documents/2018-Feb/trade-fy2017-ipr-seizures.pdf.

As sellers of illicit goods have increasingly turned to an e-commerce model, utilizing standalone websites and online marketplaces to reach potential customers, the challenge of detecting and interdicting those illegal imports has grown far more challenging than in the past. The relative anonymity, minimal cost of entry, and decreased overhead of the online retail market, compared to traditional brick-and-mortar, offers criminals a highly desirable and increasingly profitable environment for their illegal sales while also creating practical impediments to the civil and criminal enforcement of IP rights.

As detailed in a report published last January by the Government Accountability Office[2], counterfeit sellers are increasingly seeking to exploit legitimate e-commerce services to reach unwitting consumers. Online marketplaces are attractive targets for counterfeiters for a variety of reasons – among them, that consumers' familiarity with the platforms, and the goodwill and trust imbued by that familiarity, typically extends to the individual sellers on the platform. As a result, counterfeiters need not seek out and attract consumers themselves; by infiltrating a well-known marketplace, the consumers will come to them. This distribution model also bypasses a number of the traditional opportunities for enforcement available to rights-holders and law enforcement personnel, while necessitating the application of ever greater enforcement resources for ever-diminishing returns. While border enforcement of IP rights was often characterized in the past as searching for a needle in a haystack, the explosion in small parcel shipments has served to shrink the proverbial needle while exponentially increasing the number of haystacks. In the past, a single seizure of one or more containers also might substantially decrease the availability of counterfeits in the market and significantly impact a counterfeiter's bottom line; achieving that same impact today requires the seizure of thousands of small parcels. Understanding how the trafficking of counterfeit goods has evolved and developing new strategies to attack this illicit trade is vital to protecting U.S. consumers and businesses in the current environment.

[2] Agencies Can Improve Efforts to Address Risks Posed by Changing Counterfeits Market, GAO-18-216, January 2018. https://www.gao.gov/assets/690/689713.pdf.

II. Challenges in the Current E-Commerce Landscape

While we have undoubtedly seen some progress in our efforts to address the trafficking of counterfeit goods in e-commerce, the overall volume of illicit sales remains distressingly high. And while we will continue to engage with our partners in good faith, it remains without question that there is much more than can and should be done to ensure that the online ecosystem is one that can be trusted by both consumers and legitimate businesses. Throughout our work with a variety of platforms, and based on the experiences and feedback reported by our members; we have identified a number of issues that remain systemic in e-commerce. These are issues that remain pervasive, and are typically cited by rights-holders to varying degrees, across a broad range of platforms. Perhaps chief among these are concerns related to the onboarding and vetting of sellers, the need for more comprehensive data sharing among relevant stakeholders, and the need to ensure that the penalties imposed upon bad actors are both meaningful and permanent. To the latter point, rights-holders frequently point to a lack of transparency among platforms with regard to actions taken in response to counterfeit sales and access to actionable information that might permit an IP owner to further investigate or pursue independent legal action.

Ensuring a "clean" online marketplace – one that is free from the trafficking of counterfeit goods – must start with the initial onboarding of merchants. Absent sufficient procedures to verify that a seller is in fact who they purport to be, no amount of monitoring and no disciplinary action taken, can be expected to serve as an effective deterrent to illegal sales on a platform. E-commerce platforms are often-likened to virtual flea-markets or shopping malls, but there is frequently a stark contrast between the processes and requirements that govern a vendor's access to a virtual storefront and those real-world counterparts. The IACC strongly supports the adoption of policies to ensure that online sellers are able to demonstrate, at minimum, proof of identity and a verified physical address. Where an individual is engaged in commercial-scale activity (as demonstrated by actual sales, or inventory offered for sale) on a platform (or platforms) though, those sorts of requirements should be far more extensive, to include perhaps, evidence of incorporation or similar business organization documents, a registered agent for service, and state and/or federal tax ID. In the case of individuals selling those types of goods most susceptible to counterfeiting, or who have been previously found to have violated a platform's IP policies, evidence that the goods on offer have been obtained

through a legitimate source (including relevant licensing or distribution agreements, which could be made available to relevant rights-holders for verification) would be welcome. Comparable safeguards would be desirable in terms of oversight for sellers of goods which carry heightened consumer health and safety concerns. We note that a similar "Know Your Customer" approach was adopted with regard to customs brokers as part of the enactment of the Trade Facilitation and Trade Enforcement Act of 2015[3], recognizing that those service providers were uniquely positioned to act as a gate-keeper for others who might seek to traffic in illegal goods. The adoption of comparable Know Your Customer policies by e-commerce marketplaces, even where not legally mandated as is the case in China, can play a key role in ensuring the accountability of their merchants, identifying high-risk sellers, and reducing the risk to consumers and harm to rights-holders associated with sales of counterfeits.

While we recognize that historically, there has been a tension between the competing interests of privacy and transparency on the internet, in the realm of e-commerce, and particularly where issues of consumer protection arise, we believe the balance weighs heavily in favor of transparency. Online sellers should not be permitted to simply hide behind a username; consumers should be able to determine precisely with whom they're dealing; and platforms' terms of service should explicitly authorize the disclosure of sellers' contact information in cases of consumer disputes or rights-holders' complaints related to alleged infringements. Further, platforms should publicly report figures showing the volume of IP complaints received (including the outcomes of such complaints), remedial actions taken (such as the removal of listings for infringing items, or the suspension, or removal of sellers from the platform). While many e-commerce platforms place a premium on reviews and feedback from customers, history has shown that such systems are often easily exploited by nefarious sellers. Consumers and rights-holders should be provided with the necessary tools to clearly identify sellers who have a history of complaints.

The ability to verifiably confirm an illicit seller's identity is closely tied to another concern frequently highlighted by rights-holders; that being the ability to track a seller's illegal sales across platforms. Since its early days, online enforcement has often been described as a "whack-a-mole" process. Enforcement actions focused on domain takedowns or the removal

[3] *See*, Trade Facilitation and Trade Enforcement Act of 2015, Pub. L. No. 114-125 (2016), at Sec. 116.

of listings or links to counterfeit goods or pirated content are often Sisyphean in nature, with the target of enforcement quickly replaced by a new website or link. Both experience and significant research have shown that counterfeiters online typically operate through a network of sites, and remain to some extent platform agnostic. Put another way, they will take advantage of any available means by which to get their products into consumers' hands. When operating with the relative anonymity available on the internet, or without the sort of verified identification described above; it is significantly more difficult to take any sort of meaningful or permanent enforcement action against a counterfeiter. Even where an individual has been identified and removed from a platform for relevant IP violations, absent an effective system to verify his or her identity, the same bad actor need only register a new account to resume their illicit activity. Alternatively, they may simply move to another e-commerce platform to begin anew with a clean slate. To combat such recidivism, we support the adoption of policies that would permit the robust sharing of information among relevant stakeholders within the e-commerce landscape.

Data sharing has long served as the lifeblood of intellectual property enforcement, perhaps best exemplified by the historically close working relationship between rights-holders and law enforcement personnel. The policies and procedures developed over time recognized the inherent value of data available to each, in informing the others' ability to take pertinent actions whether on a criminal or civil basis. By way of example, federal statutes and regulations have long authorized the disclosure by CBP to trademark owners of certain information related to the seizure of counterfeit goods at U.S. ports of entry, or to seek assistance from rights-holders in determining a product's authenticity.[4] Facilitating the exchange of information among and between e-commerce platforms, relevant government agencies, and rights-holders could significantly enhance efforts to identify bad actors across multiple platforms, and to flag problematic sellers at onboarding. For instance, if a counterfeit item is seized en route to a customer in the United States, CBP should be permitted to notify relevant e-commerce platforms, who could leverage that information to conduct their own investigations, enforcement, and oversight to ensure that their platform was not being exploited to facilitate similar illicit sales. We would also welcome a more pro-active, industry-wide initiative to share data regarding known bad actors, in line with similar regimes that have been adopted within

[4] *See*, e.g., 19 CFR 133.21.

the payment sector, to identify and remediate high-risk sellers. Such an approach could greatly diminish counterfeiters' abilities to avoid scrutiny by migrating their operations to a new platform.

III. IACC EXPERIENCE & VOLUNTARY COLLABORATION APPROACH

In response to the growing trade in counterfeits through e-commerce, rights-holders and enforcement agencies have sought to develop creative enforcement strategies, primarily focusing on the so-called "choke points" in the e-commerce system, and taking into account the emerging ways in which these goods are being marketed, sold, and delivered to consumers. Each step in the distribution chain – from advertisement, to point of sale, to transport and delivery, among others, presents an opportunity to disrupt counterfeiters' illegal activities. The IACC has long taken the position that a safe and trusted e-commerce system is beneficial to all of the legitimate stakeholders who comprise it, whether rights-holders, legitimate retailers, service providers, or consumers; and that the robust enforcement of IP rights online is an essential component to ensuring such a healthy marketplace. In furtherance of this belief in shared responsibility, the IACC has been a leader in the development of voluntary collaborative agreements with stakeholders from a variety of industry sectors to achieve that goal.

The programs and engagement efforts outlined below have been developed to a large extent in response to a specific issue or issues raised by IACC members. The mere fact of engagement should not be viewed as an indication that the underlying issues have been resolved, but rather as indicators of ongoing or progressive efforts to resolve significant concerns or our members. We are happy to report progress in a number of these areas, but are also cognizant of the fact that long-term solutions will undoubtedly require further efforts, greater resources, and commitments from our counterparts as well as ourselves.

A. Credit Card / Payments Sector

The IACC's first large-scale program to address the trafficking of counterfeit goods online launched in January 2012, following the development of industry-wide best practices by rights-

holders and global partners within the payments sector. The RogueBlock[5] program, as it came to be known, sprung out of two simple facts. First, nearly every illicit website offering counterfeit goods for sale online was making use of one of the major credit card or money transfer services to facilitate their illegal business. And second, those companies were largely unable to draw connections between transactions flowing through their system and a website or sites generating those transactions, or to unilaterally determine whether such sites were engaged in illegal activity.

The RogueBlock system sought to provide a streamlined, simplified procedure to leverage rights-holders' intelligence to help connect those dots, and in doing so, to identify and remove bad actors from the system. Seven years later, the program has led to the termination of approximately 6,100 merchant accounts, impacting an estimated 300,000 websites. Our partners in the payments sector have consistently provided enhanced resources and essential support to target bad actors, despite counterfeiters' ever-evolving strategies to evade detection and to profit from their illegal activity. In light of the fact that approximately 80 percent of e-commerce sales involve payment via either a credit or debit card, an illicit merchant's inability to receive payment in that manner can be crippling. We've been fortunate to have willing partners across the payments sector to build out an effective program, and we continue to explore how we can further improve the existing system, and to leverage additional partnerships to have a greater impact against illicit sales online.

B. E-Commerce Platforms

a. Alibaba Group

While the RogueBlock program focused primarily on "standalone" websites, the IACC recognized that such sites represent only one part of the overall e-commerce landscape. Accordingly, the IACC has sought to engage with platforms to address our members' priority issues in a variety of ways over the past decade. Our first formal program in this area was the

[5] http://www.iacc.org/online-initiatives/rogueblock

IACC MarketSafe Program[6], launched in 2014, following nearly two years of discussions with the Alibaba Group. At the time of the program's launch, counterfeit sales on the various Alibaba platforms were undoubtedly the highest priority issue for IACC members. Our members' concerns were tied not only to the volume of illicit sales, but also to a number of discrete issues such as the platforms' responsiveness to complaints, its framework for disciplining sellers for IP violations, and a variety of others. We've been greatly pleased by the progress that Alibaba has shown during the past five years, in terms of its responsiveness to rights-holders' concerns, the revision of a number of its policies that previously served as practical impediments to enforcement, its significantly increased proactive enforcement measures, and its collaboration with rights-holders and law enforcement to leverage platform data for offline enforcement actions.

Alibaba's consistent willingness to work in a collaborative fashion, and its commitment to dedicating necessary resources to the effort has enabled our program to grow and evolve over time. For example, small- and medium-sized enterprises (SMEs) continue to experience many of the difficulties noted by our members in the past however, so at present we're making a concerted effort to make the program more accessible to those companies who may not otherwise have the necessary resources to combat the trafficking of fakes on the platforms. To its credit, Alibaba has subsidized the program's operation to permit any company – whether an IACC member or not – to participate in the MarketSafe Expansion Program at no cost.

b. Collaboration with Amazon

In April 2018, the IACC signed a Memorandum of Understanding (MOU) with Amazon to work more closely on the assessment of claims of potential infringement, reporting and enforcement; and intended to enhance collaboration and anti-counterfeiting efforts between Amazon and IACC's members. As in the other examples provided herein, this engagement was driven by a variety of concerns experienced by rights-holders on the platform, including inconsistent handling of infringement reports, and a lack of clarity with regard to the source of the goods in

[6] http://www.iacc.org/online-initiatives/marketsafe

a particular listing (including whether the goods were being sold directly by the brand, by Amazon, or by some other third party).

Shortly after signing the MOU, an initial pilot program was launched, seeking to improve the platform's overall reporting process and engagement of rights-holders in further developing its brand protection initiatives and policies. That initial engagement resulted in constructive feedback from, and dialogue with participants, and has resulted in further commitments seeking to build upon the relationship. We're also happy to report that the number of brands participating in the program has doubled since its initial launch. Our engagement with Amazon has now moved beyond the pilot stage to become an ongoing collaboration; the scope of our efforts remains fluid and is largely dictated by the specific concerns raised by our members. As one of the largest and most influential e-commerce companies in the world, Amazon has an important role to play in ensuring that counterfeit goods stay out of consumers' hands; and we look forward to their continued cooperation toward that end.

c. Engagement with eBay / WeChat / DHgate / MercadoLibre

eBay was, at one time, viewed as head and shoulders above the rest of their counterparts in the e-commerce space. This view was largely attributable to its Verified Rights Owners (VeRO) program, which was considered by most to be the gold-standard of online enforcement / brand protection programs among platforms. Regrettably, we've begun to hear increasingly negative feedback about eBay in recent years; those complaints are most consistently tied to the issue of recidivism among its sellers. And despite repeated efforts to raise such concerns, little if any progress has materialized.

As the Subcommittee examines the issues of counterfeits in e-commerce, we would also like to draw its attention to the comments submitted by the IACC pursuant to the U.S. Trade Representative's Notorious Markets Review in October 2018, particularly with regard to the WeChat, DHgate, and Mercado Libre platforms. Following our submission, we've had some constructive dialogue with DHgate, and expect to engage in further discussions in an effort to address the issues raised in our filing. Despite some limited engagement over the past year with the other above-mentioned platforms, each remains a significant concern for rights-

holders, and regrettably we've seen little improvement on the issues raised in our comments since last October. We would welcome a more cooperative approach on the part of each platform, to address these ongoing concerns.

As global commerce and e-commerce grow increasingly synonymous, the Subcommittee's attention to the trafficking of counterfeit goods online is both welcomed and timely. We thank you for the opportunity to address our members' concerns with you today, and look forward to working with you to ensure that consumers and legitimate businesses are able to benefit from a safe and vibrant online market.

I welcome any questions you might have, and stand ready to assist you.

Respectfully submitted,



Robert C. Barchiesi

President

Mr. JOHNSON of Georgia. Thank you.

We will now have 5 minutes of testimony from Ms. Mond.

STATEMENT OF REBECCA MOND

Ms. MOND. On behalf of The Toy Association, thank you for the opportunity to testify before the subcommittee to share our concerns with counterfeit toys sold through e-commerce marketplaces. We appreciate your attention to this important matter.

As background, The Toy Association represents more than 1,100 businesses, including toy manufacturers, importers, retailers, toy inventors, designers, and licensors, all involved in bringing safe, fun, and educational toys to market.

Mr. JOHNSON of Georgia. And if you could move that microphone over. Yeah. Thank you.

Ms. MOND. The U.S. toy industry supports over 690,000 U.S. jobs. Approximately 3 billion toys are sold in the United States each year, totaling $27 billion at retail.

Importantly, over 95 percent of U.S. toy companies are small businesses.

Curbing the flow of counterfeit goods in e-commerce is an issue of critical importance to us due to the safety concerns of counterfeit toys.

Consumers have come to rely on e-commerce platforms to provide discounted pricing and a wide selection of name-brand-quality toys also found at brick-and-mortar retail. However, under the current third-party marketplace system, illicit sellers with little or no accountability take advantage of this consumer faith by offering inferior and unsafe counterfeit toys that put our children at risk.

Meanwhile, intermediaries are making substantial profit from these sales. Any business selling toys in the United States must be held to the same high safety standards that apply to toy brands in brick-and-mortar retailers that consumers have come to know and trust.

By law, all toys sold in the United States must comply with mandatory product safety requirements, must be tested by an accredited independent testing facility, and must have certification. Legitimate toy companies spend significant resources to ensure the safety of their products.

Suffice it to say, counterfeit toy sellers do not submit to these safety and testing regulations. For these sellers, bypassing safety regulations is a competitive advantage to provide toys cheaper and quicker.

Unfortunately, the counterfeit business on e-commerce is flourishing, and enforcement efforts and platform initiatives have thus far been insufficient to stop the flow of IP-infringing goods sold in the United States. Without significant changes to the existing framework, brands will continue to lose the war on fake toys.

This hearing is timely, with the holiday season around the corner, during which around 50 percent of the toy industry's annual sales are conducted. When I asked one of our larger toy company members with a robust IP program for their overall thoughts of the state of play of counterfeits, their response was, "We are gearing up to be run over in the fall."

The Toy Association has been working with e-commerce platforms and brand owners to improve communication and discuss our concerns. Toy Association members Amazon and Walmart and nonmember Alibaba have been directly engaged with our members in an effort to reduce the number of unsafe counterfeit toys on their marketplaces.

In January of this year, The Toy Association released a paper, "The Real Threat of Fake Toys," exploring the factors contributing to the rise of counterfeit goods sold through e-commerce platforms and some possible solutions. Specifically, the white paper looked at the following:

First, e-commerce creates a low hurdle to sellers, giving illicit sellers near-unfettered access to U.S. consumers. More must be done to ensure the legitimacy of sellers and to provide transparency into who is selling on the marketplaces. And more must be done to prevent identified illicit sellers that have been taken down from reappearing on marketplaces, selling the same exact products.

Increased and improved vetting of sellers prior to joining marketplaces, consistent data requirements across platforms, and improved information-sharing would all be possible solutions to address this issue.

Second, the burden of enforcement is disproportionately placed on the rights-holders. Small businesses are at a significant disadvantage when it comes to tackling counterfeits.

While platforms have established programs to help brands remove counterfeit listings, many of these programs are reactive and require constant vigilance and engagement of the brand owner within each individual platform. Moreover, some platforms offer added protections to more important brands, putting small businesses at a further disadvantage.

We encourage Congress to explore whether marketplaces should have greater liability to ensure the authenticity and the safety of the products they sell. Without liability, the incentive for platforms to police their own marketplace is weak, as they are profiting from the sales of counterfeit goods with little to no risk.

And, third, consumer awareness is a critical component to reducing the prevalence of counterfeits, as consumers are largely unaware of the scope of the problem and are often unable to distinguish between known and illicit sellers on marketplaces. Some suggestions to solve this problem include increasing transparency into the identity of the seller and educating consumers on smart online shopping.

We appreciate that platforms have been willing to engage with us on these concerns and have taken some meaningful steps in a positive direction. However, as it stands today, legitimate toy brands that sell in brick-and-mortar stores are playing by one set of rules and foreign sellers that exploit marketplaces are playing by another set of rules or are not playing by rules at all. Without significant changes to level the playing field, we will be fighting a losing battle.

Thank you again for your attention to this matter. I look forward to any questions you might have.

[The statement of Ms. Mond follows:]

the toy association
Inspiring Generations of Play

1200 G Street NW • Suite 200 • Washington, DC 20005
t. 202.459.0354 • e. info@toyassociation.org

Testimony of Rebecca Mond
Vice President, Federal Government Affairs
The Toy Association

U.S. House of Representatives, Committee on the Judiciary
Subcommittee on Courts, Intellectual Property, and the Internet

"Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses"
July 18, 2019

On behalf of The Toy Association, thank you Chairman Johnson, Ranking Member Roby, full committee Chairman Nadler and full committee Ranking Member Collins for the opportunity to testify before this Subcommittee to share our concerns with counterfeit toys sold through ecommerce marketplaces. We appreciate your attention to this important matter and willingness to explore possible solutions.

As background, The Toy Association represents more than 1,100 businesses – toy manufacturers, importers and retailers, as well as toy inventors, designers, licensors and studios – all involved in bringing safe, fun and educational toys and games for children to market. With an annual positive U.S. economic impact of $110.9 billion, the U.S. toy industry supports 691,263 U.S. jobs and generates $14.98 billion in state and federal tax revenue each year. Approximately 3 billion toys are sold in the U.S. each year, totaling $27 billion at retail, and our members account for approximately 90% of this market. Importantly, over 95% of toy manufacturers, wholesalers, distributors in the United States are small businesses.

Curbing the flow of counterfeit goods in ecommerce is an issue of critical importance to the U.S. toy industry due to the safety concerns of counterfeit toys. Consumers have come to rely on ecommerce platforms to provide discounted pricing and wide selection of name-brand quality toys also found at brick-and-mortar retail. However, under the current third-party marketplace system, illicit sellers with little or no accountability take advantage of this consumer faith by offering inferior and unsafe counterfeit toys that put our children at risk. Meanwhile, intermediaries are making substantial profit from these sales with zero risk. *Any* business selling toys in the U.S must be held to the same high safety standards that apply to the toy brands and brick and mortar retailers consumers have come to know and trust.

By law, all toys sold in the U.S. must be compliant with mandatory product safety requirements, must be tested by an accredited, independent testing facility and must have a children's product certification. Legitimate toy companies spend significant resources to bring new, fun, educational and safe toys to the U.S. market. Suffice to say, counterfeit toys do not submit to any of these safety and testing regulations and there is no assurance that they comply with these safety requirements. For these sellers, bypassing US safety and testing regulations is a competitive advantage to provide toys cheaper and quicker.

the toy association
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1200 G Street NW • Suite 200 • Washington, DC 20005
t. 202.459.0354 • e. info@toyassociation.org

Unfortunately, enforcement efforts and platform initiatives have thus far been insufficient to stop the flow of IP infringing goods sold in the U.S. In fact, the problem has gotten worse, not better. According to a March report from the Organization for Economic Co-Operation and Development (OECD) and the European Union's Intellectual Property Office (EUIPO), trade in counterfeit and pirated goods continue to rise steadily year over year with 2016 worldwide customs seizures valued at $509 billion in 2016 up from 461 billion in 2013. Toys were the eighth top seized counterfeited category of goods accounting for 3% of the total dollar amount. [1]

Put simply, the counterfeit business on ecommerce is flourishing and without significant changes to the existing framework, brands will continue to lose the war on fake toys putting our children at risk. This hearing is timely as the all-important holiday season is right around the corner during which around 50% of the toy industry's annual sales are conducted. When I asked one of our larger member companies with a robust IP team for their overall thoughts on the "state of play" of counterfeits, their response was "We're gearing up to be run over in the fall."

The Toy Association's IP Committee has been working with ecommerce platforms and members to improve communication and discuss our concerns. Toy Association members Amazon and Walmart and nonmember Alibaba have been directly engaged with our members to learn more about what we are seeing in an effort to reduce the number of unsafe counterfeit toys on their marketplaces. In January of this year, The Toy Association released a paper, The Real Threat of Fake Toys, submitted for the record as part of our testimony, exploring the factors contributing to the rise in counterfeit goods sold through ecommerce platforms and some possible solutions. Specifically, the white paper explored the following:

- Ecommerce creates a low hurdle to sellers giving illicit sellers near unfettered access to U.S. consumers. More must be done to ensure the legitimacy of the sellers and to provide transparency into who is selling on marketplaces. And more must be done to prevent identified illicit sellers that have been taken down from reappearing on marketplaces selling the same products. Increased and improved vetting of sellers prior to joining marketplaces, consistent data requirements across platforms and information sharing among platforms, brand owners and enforcement agencies would all be possible solutions to reduce the number of infringing goods sold online.

- The burden of enforcement is disproportionately placed on the rightsholder who must register with each ecommerce platform to do takedowns – a costly and time intensive process. As I mentioned, 95% of the toy industry is made up of small businesses and these small businesses are at a significant disadvantage when it comes to tackling counterfeits. While platforms have established programs to help brands remove counterfeit listings, many of these programs are reactive and require the constant vigilance and engagement of the brand owner to identify counterfeit listings. Moreover, some platforms offer more protection to "more important brands" than they offer to others putting small businesses at a further disadvantage. We encourage Congress to explore whether marketplaces should have greater liability to ensure the authenticity and the safety of the

[1] *"Trade in fake goods is now 3.3% of world trade and rising"* https://www.oecd.org/newsroom/trade-in-fake-goods-is-now-33-of-world-trade-and-rising.htm

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products they sell. Without liability, the incentive for platforms to police their own marketplace is weak as they are profiting from the sales of counterfeit goods with little to no risk.

- Finally, consumer awareness is a critical component to reducing the prevalence of counterfeits as consumers are largely unaware of the scope of the problem and they are often unable to distinguish between known sellers and illicit sellers on marketplaces. Some suggestions to solve this problem include increasing transparency into the identity of the seller and educating consumers on smart online shopping.

We appreciate that platforms have been willing to engage with us on these concerns and have taken some meaningful steps in a positive direction. However, as it stands today, legitimate toy brands selling through local toy stores are playing by one set of rules and foreign sellers that exploit marketplaces are playing by another set of rules or are not playing by the rules at all. And without significant changes to level the playing field, we will continue to be fighting a losing battle. We welcome the opportunity to explore these concerns and potential solutions with the Subcommittee and others. Thank you again for the opportunity to participate in this hearing. We look forward to continuing to work with you on this important issue.

The Real Threat of FAKE TOYS

The increase of knockoff and counterfeit toys sold online and how to fight back



This report has been prepared by
Meaghan H. Kent and **Claire M. Wheeler**
of Venable LLP working with and on behalf
of The Toy Association and the members
of its IP Steering Committee.

INTELLECTUAL PROPERTY INFRINGEMENT AND TOY SAFETY ONLINE

The Toy Industry's Discussion of Contributing Factors and Potential Solutions

the toy association™

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INTELLECTUAL PROPERTY INFRINGEMENT AND TOY SAFETY ONLINE

The Toy Industry's Discussion of Contributing Factors and Potential Solutions

EXECUTIVE SUMMARY

With the expansion of e-commerce, there has been a steady increase in the quantity of infringing and unregulated products offered online. Infringing goods include counterfeit products, trademark infringing products, unlicensed merchandise, and knock-off products. They can be found in all corners of the internet, including popular online marketplaces.

This growing phenomenon negatively impacts consumers, legitimate companies, and the American economy as a whole. The toy industry is no exception, with direct harm to toy companies' core assets, company reputation, and financial health. For consumers, the proliferation of infringing and unregulated toys raises safety and health hazards. As Senator Wyden said in the March 6, 2018 Finance Committee Hearing on Combating Counterfeit Goods, "this is a matter of protecting families from harmful products and preventing rip-off artists from undercutting the American brand."



The Toy Association has determined that there are three primary categories of contributing factors to this steady growth of infringing products online, particularly as it relates to online marketplaces:

1. **E-commerce creates a low hurdle to sellers;**
2. **The burden of enforcement is disproportionately on the rights holder; and**
3. **Consumers are largely unaware of the scope of infringing product offered on online marketplaces.**

The Toy Association and its members believe there are numerous potential solutions to combat each of these factors if stakeholders work collaboratively. These proposed solutions are described in this whitepaper.

To neutralize the low hurdle to sellers, The Toy Association proposes that online marketplaces take two core steps:

1

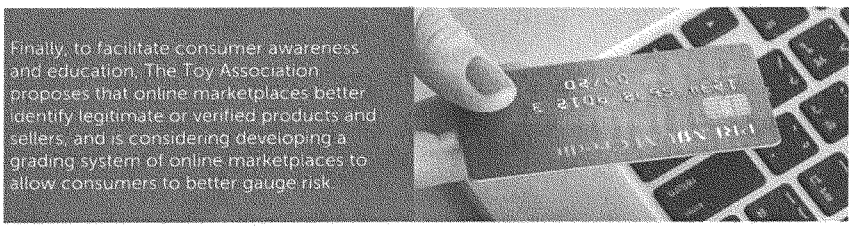
Proactively screen sellers and collect verified contact information for sellers

2

Proactively screen products by requiring that sellers demonstrate legitimacy of the products and provide Children's Product Certificates (CPC) to ensure safety.

To more appropriately balance the burden of enforcement, The Toy Association proposes that online marketplaces work collaboratively with industry organizations to create programs that give the presumption to rights holders, provide more streamlined removal processes, provide direct points of contact for the industry, provide trainings to industry groups on best practices, and provide more transparency to stop bad actors. The Toy Association also believes that legislative changes to the Digital Millennium Copyright Act (DMCA) may be necessary to account for misuse by infringers of the counter notification provision.

The Toy Association has been increasing communication with online platforms Alibaba and Amazon and we are open to working with these and other platforms to identify solutions that effectively address the problem. Amazon, having recently joined The Toy Association, has begun participating actively on The Toy Association's IP Committee and met with our members on June 14th to discuss updates to the platforms brand protection programs, hear about the challenges toy companies face with IP infringement and exchange information about possible solutions. Alibaba has spoken at numerous Toy Association events to inform our members of what they can do to protect their brands on Alibaba's platforms and has even invited Toy Association members to participate on the Alibaba Anti-Counterfeiting Alliance. These efforts are just the beginning, and both sides agree more needs to be done, and we look forward to collaborating with our e-commerce partners to put into place effective solutions.



INTRODUCTION TO TOY SAFETY AND INTELLECTUAL PROPERTY INFRINGEMENT ONLINE

1. The Toy Association and Its Members

Founded in 1916, The Toy Association, Inc. is the trade association representing businesses that design, produce, license, and deliver toys and youth entertainment products. With over 950 members, the organization has a long history of propelling the health and growth of the toy industry. The Toy Association's members drive the annual $27 billion U.S. domestic toy market, which has an annual U.S. economic impact of $110.9 billion.

The Toy Association advocates on behalf of its members, and for more than 40 years has been a global leader in toy safety. It helped develop the first toy safety standard[i] and remains committed to working with medical experts, government, consumers, and industry on

ongoing safety programs and outreach. The Toy Association is also the industry's voice on the developmental benefits of play, promoting play's positive impact on childhood development.

2. Intellectual Property Infringement Online

A significant and serious issue facing The Toy Association's members is the growing phenomenon of products offered online that infringe their intellectual property (IP). In the last several years, with the expansion of electronic commerce, referred to as e-commerce, and increased consumer comfort with e-commerce[ii], rights holders have seen a steady increase in the quantity of infringing products online.



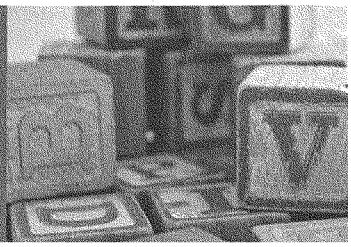
Infringing products include counterfeit products, trademark infringing products, unlicensed merchandise, and knock-offs.

- **Counterfeit products are look-alikes and claim to be legitimate, falsely leading consumers to buy an unregulated, "fake" product;**
- **Trademark infringing products use another company's name or brand, or confusingly similar marks, falsely leading consumers to believe the product is from the same trusted source and harming the brand owner;**
- **Unlicensed merchandise are products that use characters or content without license;**
- **Knock-off products, often infringe patents or other IP and copy the underlying product concept and offer it under the infringer's own brand, harming innovative companies.**

Grey-market goods also pose problems for IP rights holders, as they are items manufactured abroad and imported into the United States without the consent of the rights holder. Such goods may be legitimately offered in one country, but may not meet all U.S. regulations, including labeling, and are thus not considered legitimate products within the U.S.

Infringing products can be found in all corners of the internet, including popular online marketplaces. Online marketplaces generally refer to websites with multiple retailers or sellers offering their products directly to consumers. This includes the commonly known online marketplaces, eBay.com, Amazon.com, the Alibaba.com family of sites, including Alibaba.com, Aliexpress.com, Taobao.com, Tmall.com, and 1688.com, as well as other large sites, including Facebook Marketplace, Newegg.com, buy.com, etsy.com, shopify.com, bigcommerce.com, jet.com, DHGate.com, Wish.com, and others frequently launching.

The content in this paper is intended to generalize the problems from the toy industry's perspective and not to single out any one platform. Some platforms already have policies and programs in place that address some of the toy industry's concerns detailed below. **However, we note that the problem of IP infringement and unsafe toys is ubiquitous, and more must be done on all ecommerce platforms and marketplaces to adequately address the issue.**



In January 2018, the U.S. Government Accountability Office (GAO) reported research findings regarding the current market for counterfeit goods and the frequency with which consumers may unknowingly encounter counterfeit products online. As part of its investigation, the GAO completed "test purchases" and found that 20 of 47 items that the GAO purchased from third-party sellers on popular online marketplaces were counterfeit.[iii]

The U.S. economy is negatively impacted by online intellectual property infringement, which includes infringing products as well as pirated music, movies, and other creative content. In February 2017, the International Trademark Association and the Business Action to Stop Counterfeiting and Piracy released a report finding that in 2013, the estimated value of international and domestic trade in counterfeit and pirated goods was $1.13 trillion and in 2022, the total estimated value of counterfeit and pirated goods including digital piracy is projected to be $1.90-$2.81 trillion.[iv]

3. Impact of Infringing Products on the Toy Industry

The toy industry is no exception and has been directly harmed in several ways by the increase in infringing products offered online.



As to their core assets, toy companies are creators, innovators and brand owners, with intellectual property being one of their most important assets. Rampant infringement of that intellectual property—from creative and innovative new products to core brands—devalues their commercial performance. Innovative companies invest substantial resources in research and development, and the results of their expenditures are being misappropriated by infringers, counterfeits, and copycats. This impact is often heightened where a license relationship is involved, such as where an entertainment company licenses an important creative asset like a film or character on a toy, because both the toy and entertainment company are harmed, and the business relationship between the companies may be weakened as a result. Further, counterfeits and trademark infringing goods or listings harm the value of the company's trademark, and where there is extensive unlicensed third party use, can increase the risk of the mark becoming generic.



As to toy safety and company reputation, toy companies invest in creating quality and safe products that meet or exceed regulatory standards, and their reputation among consumers and regulators is extremely important and valuable. The vast majority of infringements and counterfeits are lower quality products that are not bound to the company's standards or do not comply with government regulations. When a consumer purchases a counterfeit product, trademark infringing product, or unlicensed merchandise believing it to be legitimate, and that product fails in quality, value or safety, the consumer associates that failure with the toy company, directly harming its reputation and goodwill.



As to their financial health, toy companies are losing sales to infringers and counterfeiters. This is in tandem with increased expenses, including internal and external resources being outlaid for monitoring and enforcement against these infringers and counterfeiters.[1]

4. Impact of Infringing Products on Consumers and Their Safety

Consumers seek out and purchase toys for many reasons, including entertainment, education, quality, value, and safety. One way that consumers narrow the selection of toys is to purchase from a trusted source based on brand recognition. However, with counterfeits, trademark infringing products, and unlicensed merchandise, the true source of the product is not what the consumer is led to believe. Instead, a consumer buys a toy that likely does not meet their expectations for quality or safety; in essence, consumers are not getting what they pay for. This disappoints consumers who are unaware that the products they purchased are not authentic, which in turn affects future purchasing decisions, and may lead to consumers posting poor reviews of a legitimate product based on their experience with the infringing product.

Even more concerning is that **many infringing products found online do not meet the same safety standards as legitimate products**. These safety standards include small parts regulations, lead content regulations, and other chemical and mechanical requirements. As such, infringing toys, particularly counterfeit toys, may have unexpected small parts, excess lead, and unsafe chemicals in the materials, coatings, and even packaging.



5. Factors Contributing to the Growth of Infringing Products Offered on Online Marketplaces

After analysis and discussion with stakeholders in the toy industry, there appear to be three primary categories of contributing factors to the steady growth of infringing products online, particularly as it relates to online marketplaces.

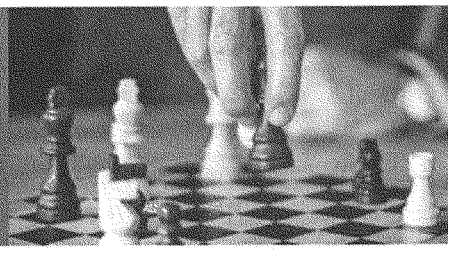
First, e-commerce creates a low hurdle to sellers. While the ease of online marketplaces benefits legitimate companies of all sizes, and particularly growing companies and entrepreneurs, it also permits unscrupulous and illegitimate sellers to flourish.

Second, the burden of enforcement is disproportionately on the rights holder. This arrangement is ultimately highly inefficient, expensive and difficult because rights holders are required to scour online marketplaces. This constant monitoring of online marketplaces and listings requires significant outlay of resources, either with dedicated internal staff or retaining outside monitoring services. Indeed, 95% of U.S. toy companies are small businesses and in a company with only a handful of employees, diverting resources from key business functions may simply not be an

option. Once infringing product is discovered, however, the rights holder has limited information about the seller and does not have the power to remove the infringing product. Instead, the rights holder must then investigate, report, and prove the infringement to the marketplace, following the protocols of the online marketplaces. This report and removal process is inefficient because of numerous factors, including that there are different policies and protocols between platforms; there is a lack of access to decision makers at the platforms; there is a lack of transparency, including identity of the sellers and internal policies and take-down decision making at the platform; there is a lack of consistent enforcement or removal; and there are frequent delays in removal. Further, when an illegitimate seller disputes the removal, many marketplaces will relist the goods and require the parties to resolve the matter between themselves, leading to months of sales while an unscrupulous seller stalls and then vanishes.

Third, consumers are largely unaware of the scope of infringing product offered on online marketplaces, leading to increased purchase of the infringing product. This benefits only the infringers and harms the consumers, toy companies, ecommerce platforms themselves and the U.S. economy. Consumers have developed a comfort with and trust in online marketplaces and discerning infringing product is often increasingly difficult, particularly prior to purchase and receipt of the product.

The Toy Association and its members believe there are numerous potential solutions to combat each of these factors if stakeholders work collaboratively. This document will provide a detailed discussion of these three categories of contributing factors and potential solutions to combat the growth of infringing products online.



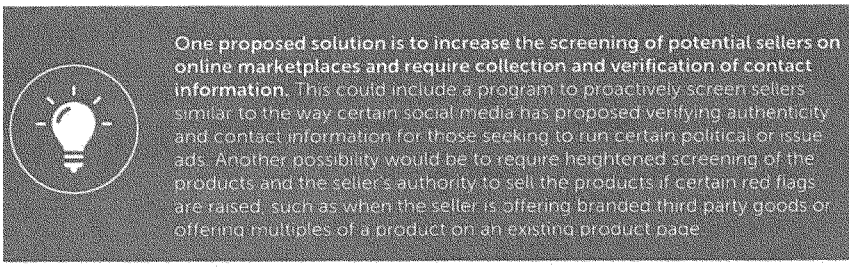
DISCUSSION OF CONTRIBUTING FACTORS AND POTENTIAL SOLUTIONS

1. First Contributing Factor: Low Hurdle to Sellers

While the ease of e-commerce and online marketplaces benefit legitimate companies of all sizes, and particularly growing companies and entrepreneurs, it also allows unscrupulous and illegitimate sellers to prosper. To neutralize the low hurdle to sellers, The Toy Association proposes that online marketplaces proactively screen sellers and proactively screen products.

a. Screening Sellers

Initial entry to online marketplaces is often as simple as setting up an account with a unique email address. While some marketplaces require additional credentials, often these are forged and not verified. As a result, sellers are difficult to identify and tracing the bad actor behind infringing activity is extremely burdensome and difficult. Further, because of the ease of establishing a seller's account, the same bad actors can have multiple accounts and simply switch accounts when one account is discovered to be offering infringing product or is ultimately removed from a site because of multiple instances of infringement or purchaser complaints.



At a minimum, online marketplaces should collect and verify contact information for sellers prior to allowing an account, just as another retailer would require. Without verified contact information, there is no ability for anyone – rights holders, law enforcement, or consumers – to enforce their rights. Obtaining this verified information would also allow the online marketplace to decrease the chance of the same bad actor reappearing on the online marketplace under a new account.

b. Screening Products

Online marketplaces also largely lack proactive monitoring of the goods offered by the sellers on their sites. In some instances, the online marketplace is a venue to connect the seller and buyer, with the products never passing through the hand of the online marketplace. In other instances, the online marketplace will receive the sellers' goods to be held in the marketplace's warehouse and once ordered, the marketplace will ship the product to the purchaser from the marketplace's warehouse. Neither situation entails proactive monitoring by the marketplace as to whether the product is legitimate, whether it infringes intellectual property, or whether it meets regulations such as consumer product safety regulations. Instead, the marketplaces treat themselves as a "pass-through" for the products.

To counter this contributing factor, one proposal is for online marketplaces to proactively screen products by requiring that sellers demonstrate legitimacy and safety of the products and instituting improved tracking of products to sellers.

Additionally, to demonstrate legitimacy, online marketplaces can require that sellers provide evidence that a product they propose to offer through the online marketplace is authorized. This could be in the form of proof of chain of title or other appropriate license. In the current environment, this could be similar to the evidence provided for customs or required by brick and mortar retailers. In the future, this could be accomplished using technology for tracking supply chain, including block chain authentication, easing any burden on the online marketplaces.

To demonstrate safety, online marketplaces should require that sellers provide Children's Product Certificates (CPC) and set up a process to verify the legitimacy of the CPC. Pursuant to the Consumer Product Safety Improvement Act (CPSIA), retailers may request a CPC from any manufacturer, which includes citations to the tested safety regulations, the province and country of manufacturer, the importer, a contact person (who maintains test records), and the testing lab information. Brick and mortar retailers typically require CPCs or similar documentation and have robust product safety requirements in place that go well beyond statutory requirements. Online marketplaces should take it upon themselves to request these CPCs and take additional measures to ensure the authenticity of the CPCs and the safety of the toys offered through their marketplaces. This would allow for assurances as to regulatory compliance by the seller and the product being offered, and would provide extensive information about the particular product if there were claims of infringement or regulatory violations and safety concerns. Alternatively, the Consumer Product Safety Commission could consider revisions that would require online marketplaces be bound to the same product safety obligations under CPSIA as other brick and mortar retailers.

Once legitimacy and safety have been established, online marketplaces should improve the tracking and verification of products through their warehouses to the particular sellers. In member experience, the current tracking of products by online marketplaces is often surprisingly limited, even for products that they process through their warehouses. And physical verification of products once received in warehouses is non-existent. There are even some instances where a consumer purchases from "Seller A" but without any notice receives product that was in fact supplied by "Seller B" because that product is in a warehouse closer to the purchaser. This creates a significant problem with transparency and tracking infringing product.



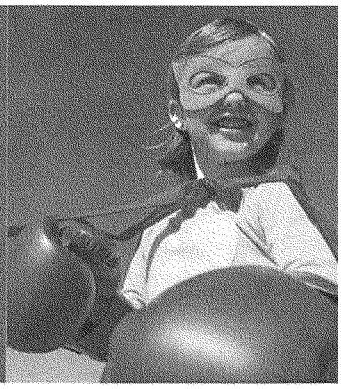
One clear solution would be for all online marketplaces, particularly when processing merchandise through their own supply chains, to obtain more detailed product information from the sellers, to track which received product was sourced from a particular seller, and to clearly identify for consumers the seller supplying the product.

We note that any programs developed to improve tracking should not be done at the expense of the rights holder or require disclosure of the rights holders' confidential business information.

2. Second Contributing Factor: The Burden of Enforcement is Disproportionately Placed on the Rights Holder

Currently, the burden of enforcement is on the rights holder, which is highly inefficient, expensive, and difficult. Rights holders are required to scour online marketplaces and upon discovery of infringing products, must investigate, report, and prove the infringement to the marketplace. The presumption of legitimacy is given to sellers and the burden is on the rights holder. In the online marketplace context, this only benefits infringers and it overburdens the rights holders and ultimately harms consumers.

Monitoring and removal processes that place the presumption with the rights holder and the burden of proof on the seller will be more effective and efficient and will more appropriately balance the burden of enforcement. To that end, **The Toy Association proposes online marketplaces work collaboratively with industry organizations to create programs that give the presumption to rights holders, provide more streamlined removal processes, provide direct point of contact for the industry, provide trainings to industry groups on best practices, and provide more transparency to stop bad actors.** We appreciate that several online platforms have set up brand protection programs that seek to achieve these goals though more must be done to continue to shift the burden away from the rights holder.



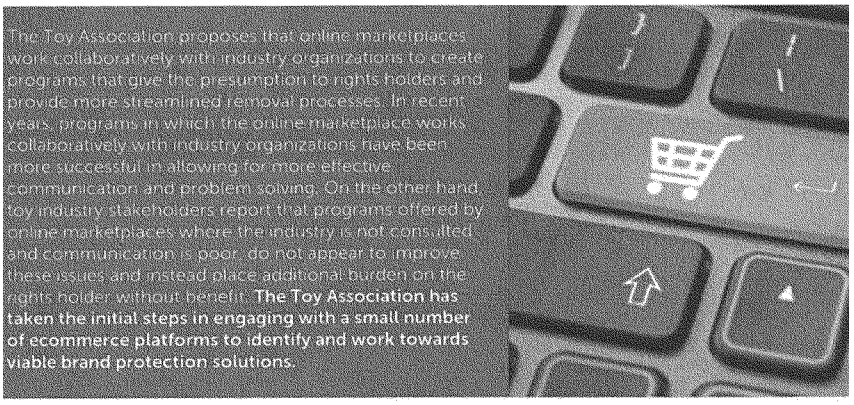
The Toy Association also believes that legislative change to the Digital Millennium Copyright Act (DMCA) may be necessary to account for misuse by infringers of the counter notification provision.

a. Collaborative Programs That Shift the Presumption and Streamline Removal

The status quo results in undue burden on rights holders, delay in removal of infringing products, inconsistent removal of infringing products, and a lack of communication and collaboration with the rights holder.

Currently, even when there is clear infringement evidenced from the product listing, such as by photographs, product description, purchaser feedback in comments, or basic seller information, the burden is placed on the rights holder to prove the illegitimacy. Upon reporting a listing or seller, responses to the report typically take several days and often include form responses requesting additional information before removing the infringing product.

Once the requested additional information is provided, a follow up response again often takes several days. Further, the additional information is often burdensome and causes delay. For example, online marketplaces frequently require that the rights holder make a "test purchase" from the seller and then report that it is indeed counterfeit upon receiving the product. During the time that a rights holder is waiting for the test purchase to arrive, the infringing product is being sold to unsuspecting consumers. Frequently, this delay is many days or even weeks before the product is received, particularly when shipped from China. For seasonal products that have a short cycle of only a few months, such as toys sold during the holiday season or the summer season, this delay and offering of counterfeit products to consumers for weeks of that sales cycle has an even more drastic impact. In fact, 60% of U.S. toy sales occur during the fourth quarter and even a week delay can be a significant percentage of a company's peak sales period.



A process that gives the presumption to rights holders and delists product upon notification of infringement would appropriately place the burden on the seller. For example, a potential solution would allow a registered rights holders to submit a simple and streamlined "challenge" to a particular seller or listing. Rather than requiring that the rights holder prove the infringement in response to such a challenge, the product listing would be removed until the seller demonstrated the product was legitimate, such as chain of title, license, or other documentation allowing sale of the product.

b. *A Point of Contact to Improve Consistency, Transparency and Collaboration*

Toy industry stakeholders who are sophisticated rights holders and send dozens of identical take-down notices have reported inconsistency even within one marketplace and one region. They report that responses frequently vary based on the person responding. Inconsistency between regions—such as Europe, Asia and the United States—and between online marketplaces, are even starker and make the take-down process even more challenging. For instance, while a DMCA take-down notice is many times responded to within two to three days and the copyright infringement is removed, there are other times where the notice response will take significantly longer and require substantial back and forth to reach the same result.

During the reporting and removal process, obtaining live support or a consistent contact is rare, particularly for new entrants and young companies, but even for established and large toy companies. This is especially distressing when a rights holder needs to escalate a particularly egregious infringement and is unable to receive consistent contact.

The Toy Association proposes that online marketplaces offer a point person (or people) for a particular industry. This would allow for a direct point of contact for the industry stakeholders, increase speed and consistency of enforcement, and ease the ability to escalate infringements. Furthermore, if a marketplace had personnel who focused on serving one industry, such as the toy industry, that personnel would become familiar with the industry and spot patterns in counterfeits and bad actors who target the industry, allowing for a better partnership amongst rights holders and online marketplaces. We note that The Toy Association has developed key point of contacts with a couple of ecommerce platforms and will continue to develop these relationships. In some cases, these points of contacts have resulted in marked differences for an individual's online infringement takedown experiences. In other cases, results are more mixed.

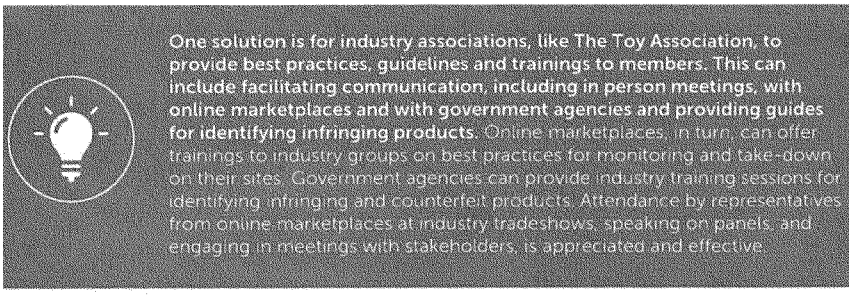


c. *Training and Education to Industry Members*

Following an online marketplace's report and removal process requires skills that must be honed. Many entrepreneurs, new entrants and growing businesses are at first unaware of the most effective means to enforce and are unaware of which intellectual property rights to acquire and enforce to best enable them to succeed in the removal process.

For example, asserting copyrights is often the most effective means of removal online because of the provisions of the DMCA that allow internet service providers (ISPs) a safe harbor so long as they remove infringing content expeditiously upon receipt of a DMCA notice asserting infringement. The provision does not apply to trademarks or patents, so although online marketplaces will often point to the safe harbor as covering all of their activities, they will not typically remove a listing or seller based on reports of trademark or patent infringement.

In addition, working with government agencies such as Customs and Border Patrol and the Consumer Product Safety Commission is effective but can be daunting for smaller companies or new entrants. Further, each online marketplace has its own policy and provisions for reporting and requesting removal of infringing product. The burden of learning the policies, keeping them straight, and keeping up to date with any changes to the policies, is again placed on the rights holder, requiring further outlay of resources.



d. Increasing Transparency to Seller Information

Even when the take-down process works, the seller can create a new listing, leaving the rights holder to continue the constant process of policing the same rights. Indeed, even when the seller is flagged or terminated because of multiple infringements, the seller can create a new seller account and continue their nefarious conduct. Ideally, rights holders would have access to the seller information that would allow them to investigate or contact the seller directly, but often that is unavailable and the infringement continues unabated.

While privacy protections may make it difficult to release seller information, the online marketplace, at a minimum, should collect and verify contact information for sellers prior to allowing an account, as discussed above. Without verified contact information, there is no ability to stop the bad actors. Once there is infringement, online marketplaces should work more collaboratively with rights holders to track and enforce against repeat infringers. One additional solution is for online marketplaces to enforce a repeat infringer policy whereby platforms provide the seller's verified contact information to enable investigation of the source of the infringing products.

e. *DMCA Revisions May Be Necessary to Account for Misuse by Infringers of the Counter Notification Provision*

The DMCA provides a safe harbor relied upon by ISPs, including online marketplaces, so long as they meet the requirements of the statute, which is designed to include an expeditious removal process upon receiving a proper DMCA take-down notification. The DMCA also allows for a counter-notification process whereby alleged infringers may submit a counter-notification and the allegedly infringing materials will be reposted unless the copyright owner files suit within 10 business days.

The counter-notification process historically had not been used by infringers. However, toy industry stakeholders and other rights holders report that there is an increased use of the counter-notification procedure by bad actors. Infringers appear to be unconcerned with the repercussions of submitting a false counter notification and as a result, rights holders are faced with the predicament of filing a lawsuit for every infringing listing to which a counter-notification is sent. That the only recourse to a counter-notification is to file a lawsuit is a significant barrier for companies, because preparing and filing a complaint for each such listing is resource-intensive, time-consuming, and costly, but has little to no adverse effect on unscrupulous sellers. As a result, unless a rights holder spends significant time and money filing suit against every listing, the infringement continues.

In addition, claims of reliance on the DMCA have become overbroad. Many websites and ecommerce outlets assert they benefit from safe harbors without legitimate basis, requiring DMCA-like take down procedures, and claiming safe harbors shield them from responsibility for their own content or product they themselves manufacture.

The Toy Association believes that revisions to the DMCA may be needed to account for these unfortunate trends. Otherwise, the DMCA may fail to serve rights holders and its anticipated purpose. Moving forward, it is recommended that stakeholders within and outside the toy industry study and propose potential revisions to the language of the DMCA to overcome these detrimental trends. One possible revision could be to require that a counter-notification include proof of alleged right, such as trademark authorization forms, customs authorizations, license, chain of title, or other argument, as opposed to form language that places the burden back on the rights holder.



f. Customs Enforcement Must Continue and Ideally be Enhanced

CBP is the front line at the border in preventing entry of infringing goods into the U.S. The Toy Association remains supportive of initiatives to improve enforcement and targeting of infringing goods by CBP, including for low-value shipments. The de minimis exemption cannot be an exemption from regulatory compliance and enforcement—intellectual property, safety or otherwise. Importantly, because the average cost of a toy is approximately $10, the de minimis exemption value of $800 is a significant number of toys.

3. Third Contributing Factor: Lack of Consumer Awareness

Consumers are largely unaware of the scope of infringing product available on online marketplaces, leading to increased purchase of the infringing product. This benefits only the infringers and harms the consumers, toy companies, and the U.S. economy.

Consumers have developed a comfort with and trust in online marketplaces. As a result, consumers frequently are unaware that many products on online marketplaces are infringing, counterfeit or grey market, and thus are unknowingly providing children with unregulated and potentially unsafe toys.

Further, discerning illegitimate product is difficult, particularly when an illegitimate seller is simply linked to a legitimate product listing. Counterfeiters are adept at blending in and hiding on the sites, including by using multiple accounts, piggybacking on legitimate listings, and pricing at same or even higher than legitimate products. Discerning infringing product is particularly challenging for many parents purchasing toys because the child consumer, as opposed to the parent purchaser, is the end consumer most familiar with how the product should appear.

To facilitate consumer awareness and education, The Toy Association proposes education of consumers so they can protect themselves from illegitimate products. If online marketplaces refuse to monitor sellers and products as proposed above, one option is to allow rights holders to create "official" product listings. Once created, for a seller to be permitted to list on the "official" product page, that seller would be required to submit evidence of chain of title or be approved by the rights holder. This would help identify for consumers the authentic product listings and consumers could then feel more confident that when purchasing from a seller on the "official" product page, that the product is authentic. Along the same lines, a "verified" stamp for sellers similar to the verified stamp as seen on many social media sites could be instituted whereby to obtain a "verified" stamp, a seller would be required to provide chain of title documentation to the online marketplace for the products offered for sale.



Another option is for industry groups, like The Toy Association, to implement and publish a grading system for online marketplaces based on different factors to be determined by the stakeholders, including how the platform monitors sellers and goods, and how well the marketplace responds to removal requests.

CONCLUSION

The significant and serious issue of infringing products offered online seems only to be growing, thereby harming consumers, legitimate companies, and the American economy as a whole. The Toy Association has determined that there are three primary categories of contributing factors to this growth, and that there are potential solutions to combat each of these factors if stakeholders work collaboratively. The Toy Association looks forward to working with online marketplaces, legislators, its members, and consumers to combat this detrimental phenomenon.

This report has been prepared by Meaghan H. Kent and Claire M. Wheeler of Venable LLP working with and on behalf of The Toy Association and the members of its IP Steering Committee.

[i] ASTM F963 was adopted into federal law as a mandatory consumer product safety standard for toys.

[ii] In the U.S., the online toy category has grown rapidly, by over 55% in the past two years. The Toys eCommerce Market, CLAVIS INSIGHT. Available at: https://www.clavisinsight.com/toys-ecommerce-market.

[iii] *Intellectual Property: Agencies Can Improve Efforts to Address Risks Posed by Changing Counterfeits Market*, GAO-18-216, Report to the Chairman, Committee on Finance, U.S. Senate (Jan. 2018). Available at https://www.gao.gov/assets/690/689713.pdf.

[iv] *The Economic Impacts of Counterfeiting and Piracy*, Report prepared for BASCAP and INTA by Frontier Economics. Available at https://cdn.iccwbo.org/content/uploads/sites/3/2017/02/ICC-BASCAP-Frontier-report-2016.pdf.

Mr. JOHNSON of Georgia. Thank you.

We will now proceed under the 5-minute rule with questions, and I will begin by recognizing myself for 5 minutes.

Professor Fromer, do you think there are gaps in the current trademark law that would prevent the PTO from effectively addressing trademark cluttering?

Ms. FROMER. Thank you.

Yes, I do. I think that one of the challenges that currently face businesses that are trying to operate is the ability to cost-effectively remove unused marks from the register.

The studies that are out there indicate that the average cost of a trademark opposition ranges from $150,000 to $500,000, whereas another one estimates the median cost to be $95,000, which means that many small businesses will throw up their hands and give up before actually challenging a mark that is not being used.

In addition, as we heard in the previous panel, I think it would be helpful for the PTO to have more authority, take more initiative to audit crowded parts of the register to cull marks that are not being used.

Mr. JOHNSON of Georgia. Thank you.

What are the impacts on consumers of trademark cluttering?

Ms. FROMER. So consumers are thought to have the advantage from trademarks of having minimized cost—that is that they can locate quality products more effectively through the shortcut of a mark without having to investigate that.

The more crowded the trademark register is, the harder it is for a consumers effectively to do that, because marks are closer together, there are many more marks they have to process, and they have to try to remember marks that are more cumbersome, longer, more complex. And so trademark law does not do its job of helping consumers in the way that it could with a less crowded register.

Mr. JOHNSON of Georgia. Thank you.

Mr. Brody, as you stated, some courts that have discarded the rebuttable presumption of harm say that the Supreme Court's logic in eBay is not limited to patent cases but that it applies to all types of cases involving injunctive relief.

Why should trademarks be held to a different standard if the principles in eBay are applied across all types of cases and not just patent infringement cases?

Mr. BRODY. Thank you, Mr. Chairman.

Trademark harm, as members of the subcommittee have noted today, is a unique type of harm to businesses and also includes harm to consumers. This is a component that does not exist in patent law. And it is, as a result of the unique type of harm, very difficult to compensate trademark owners for infringement or dilution when it arises. And it also doesn't do anything for the consumer, even if the trademark owner is compensated for infringement.

That is why embedded in the Lanham Act is strong injunctive relief and the availability of injunctive relief.

The eBay case looked at a statutory structure in which there already was a guaranteed monetary compensatory relief for patent owners who proved infringement in the form of a reasonable royalty. There doesn't exist any such guarantee in the trademark law.

And so what happens, if money damages are far from guaranteed and are, in any event, an inadequate remedy and courts are making it more difficult to obtain injunctions, trademark owners really have a situation where they have no effective relief available at all. It is an injury without an effective remedy. And that is what we are asking to be corrected.

Mr. JOHNSON of Georgia. All right. Thank you.

In the interest of time, I am going to yield now for 5 minutes to the ranking member of the subcommittee, Mrs. Roby.

Mrs. ROBY. Thank you, Mr. Chairman.

For Mr. Cammiso and Mr. Barchiesi and Ms. Mond, when looking at all of the online marketplaces, are there marketplaces that are more effective in combating counterfeits? And what best practices should marketplaces ploy to stop the sale of counterfeits? And are there specific actions or programs that more effective marketplaces have in place that you believe have shown success in combating this issue?

So if you would just go down the line and share your thoughts, please.

Mr. CAMMISO. Thank you, Ranking Member Roby.

All the marketplaces we deal with have programs in place. Some of those programs are more effective than others, and some are more aggressive than others.

What we found is that most of them, if not all of them, require brand-holder, rights-holder participation, and to participate in each of those programs requires time and resources. It is very cumbersome, and we don't think that the solutions that are provided are scalable to the extent that they need to be.

Mrs. ROBY. Okay.

Mr. BARCHIESI. What we have found is our initial program, going back to 2010, working with the credit card companies to follow the money around the world and shut down merchant accounts has been the most effective program. It is touted over in Europe and other places.

And the reason I say that is, the reason we have partnerships with Amazon, with Alibaba, is because we started to work with the credit card companies to impact the merchant accounts on those platforms, and then they came forward, and then we started programs with them.

Just in regard to the specific platforms, we have had much success with Alibaba. We stood by them when they were the worst platform out there, and we have seen so much progress because, number one, I deal with the people at the top of Alibaba; number two, they have made substantial financial and resource investment to come up and be probably, you know, one of the more progressive platforms.

Mrs. ROBY. Thanks.

Ms. MOND. I would echo the comments of the previous two responses.

Certainly I think that one of the biggest challenges that our members have is that they have to engage with each individual platform, and that it is very resource-intensive. And even if one platform clears up all the counterfeits, then all the counterfeits

move to another one or they move to the new platform. We are hearing about new issues that keep on popping up.

So I think that one of the big issues with each of these programs is that they are reactive, that the counterfeits are already on the website. And so what we would like to see all the platforms do is do more investment into a proactive approach to prevent the counterfeits and prevent the counterfeiters from being online and from staying online in a lot of cases.

Mrs. ROBY. Yeah. Thank you. I appreciate that.

Mr. Brody, in a court decision published earlier this month, the Third Circuit held that Amazon may be found liable for defective products sold by third-party vendors through its marketplace. In that case, Oberdorf v. Amazon, the court noted that, even though a third-party vendor had listed for sale the defective product, Amazon could not look the other way and escape responsibility, given its degree of involvement in marketplace transactions.

What are your views on whether online platforms should be responsible for what they sell and distribute just like physical marketplaces? And shouldn't the same reasoning apply regardless of whether the defective products at issue are physical items or digital goods?

Mr. BRODY. Thank you, Congresswoman Roby.

Under the Lanham Act, certainly resellers are equally liable for infringing marks or for counterfeiting, so there is a statutory basis for seeking relief against those parties. Whether they are typically the most effective target for enforcement efforts or not, I think, depends a lot on the particular facts of the case.

Mrs. ROBY. Okay.

Mr. Chairman, also, in the interest of time, I am going to ask this question, and then if everyone on the panel wants to submit an answer for the record, that probably would be best.

But do you believe Congress should look at taking legislative action to combat counterfeits on online marketplaces? And if so, what changes in laws do you each think would be effective?

And I would just appreciate it if you would each take that for the record and submit it to this subcommittee for our consideration as we move through this very, very, very important issue.

Mrs. ROBY. And, Mr. Chairman, thank you so much for this hearing today, and look forward to continuing to work with you on this issue.

Thank you all for being here.

Mr. JOHNSON of Georgia. Thank you.

Next, 5 minutes of questions from the gentleman from Florida, Mr. Deutch.

Mr. DEUTCH. Thank you very much.

And thanks to the witnesses. My apologies. I had to run to another meeting, but glad to be back to spend some time with all of you. And I appreciate your written testimony.

And, Mr. Barchiesi, in your written testimony, you said, "Counterfeiters will take advantage of any available means by which to get their products into consumers' hands." And so you recommend this multifaceted approach to—when companies verify their sellers more robustly and data on known counterfeiters is shared between

law enforcement and CBP and e-commerce sites and then among e-commerce sites themselves.

What do you do to incentivize e-commerce sites to adopt these anti-counterfeiting measures when sometimes it is just more profitable for them to ignore the counterfeiters altogether?

Mr. BARCHIESI. So thank you for that question.

And, as we speak, the Intellectual Property Center that is also overseen by the Department of Homeland Security is hosting a meeting today with my staff, with all the major platforms, with Amazon, with eBay, with the shippers. And we have been working on this project for quite some time.

And what we are looking to do is basically, collectively, build out a database with two buckets in it. The first bucket would be private data-sharing between the platforms so that they could keep bad actors out to begin with, which is the most difficult part. So they would share information so that a bad actor is not jumping from one platform to the other, like Rebecca had mentioned. The second one is, the bad actors that had been confirmed, that information would be pushed over to Homeland Security, and then that would be able to do criminal investigations.

So this is a project we have been working on now for several years. I think because of the intervention of the White House memo, it seems like they have had much more incentive now to be there and invest in this. And we are very hopeful that this is going to take place in a reasonable amount of time.

Mr. DEUTCH. And maybe it is premature and I should wait to ask until after the meeting, but with some of your suggestions—proof of identity, business organization documents, licensing agreements—have you seen a willingness from e-commerce sites to adopt any of these regulations, or is it an area where Federal policy may be necessary to fill that gap?

Mr. BARCHIESI. I think Federal policy is necessary for that, because, unfortunately, or fortunately, in China they require a national ID. So if you are selling on a Chinese platform, you have to provide national ID, whereas U.S. platforms, anyone could say they are anybody and sell on these platforms. I haven't seen any progress on that.

Mr. DEUTCH. That is really helpful.

Professor Fromer, I appreciate your focus on the dangers of having unused trademarks cluttering up the register. My understanding is that the process for removing them is burdensome, especially for smaller businesses.

Can you just talk me through the cost of challenging trademarks that appear to be fraudulent or, at least, ineligible for registration using the process that is in place, the opposition process at the Trademark Trial and Appeal Board?

Ms. FROMER. Sure. Thank you for the question.

So the current two processes for challenging these fraudulent specimens of use are generally opposition and cancellation. Opposition, for the most part, has to happen within 30 days of publication of a trademark. So it is a limited window that third parties have to be vigilant for. If they miss that window, they won't be able to oppose that mark which is a limitation of opposition. Cancellation can happen on any grounds within 5 years of registration but on

much more limited grounds after 5 years, which is another limitation of cancellation.

Not to mention the cost that goes into this, which I think is a challenge for small businesses. It would really be helpful to have an ex parte possibility that is much lower-cost in nature to challenge fraudulent or unused marks.

Mr. DEUTCH. Great.

Terrific. I appreciate everyone being here. I appreciate those really helpful suggestions.

And I yield back the balance of my time.

Mr. JOHNSON of Georgia. Thank you.

The committee will next hear from Mr. Johnson for 5 minutes.

Mr. JOHNSON of Louisiana. Thank you.

If you are not familiar with our buzz signal, that is a vote. So we are all going to talk real fast here for a few more minutes.

I just want to briefly note, we have discussed Walmart here today, and in addition to putting the letter into the record, they have sent a top representative, who is present, and we appreciate that.

So thank you for being here.

Mr. Cammiso, I am encouraged by the fact that the committee has chosen to take up this subject today. And in your written statement, you touch on the concept of further developing the nexus between marketplace sellers and consumers with law enforcement to catch bad actors. You were just discussing that a few moments ago.

Could you elaborate briefly to the accountability model you suggest in your statement? And do you believe there are voluntary steps that could be taken currently between marketplace, stakeholders, and law enforcement that would begin to curtain the problem?

Mr. CAMMISO. Sure. Thank you, Congressman Johnson.

There simply has to be higher penalties for sellers that are, in essence, criminals. And it can't be just to have them delisted and open up another account with another email address or another account name. There has to be something more substantial.

At the other end of that, the platforms have this information or should have this information on the sellers that are selling these dangerous products. As I said, the penalty should not be just to remove the listing; the penalty should be to pursue prosecution. And the people who can do that are Homeland Security with help from the stakeholders.

Mr. JOHNSON of Louisiana. What amount of penalty do you think would be sufficient to be a deterrent? I mean, I guess it depends on the industry or who is involved, at what level. I mean, how do we determine that? Do you have a suggestion? It bears a lot of thought, I guess, right?

Mr. CAMMISO. I am not prepared to answer that question. It has to be higher than what it is now.

Mr. JOHNSON of Louisiana. Yeah.

Mr. CAMMISO. We have seen cases where people selling counterfeit airbags have been given very light sentences—in some cases probation, in other cases very minimal jail time. In order to deter these criminals, the penalties should be higher.

Mr. JOHNSON of Louisiana. Got it.

Professor Fromer, does the PTO have the authority to remove a mark it should not have registered, or does the agency need additional statutory authority to remove fraudulent trademarks that it made a mistake with?

Ms. FROMER. I think that the PTO needs to be given more statutory authority in this instance. There is a lot of power until registration happens; after that, power becomes much more limited.

The only exception to that that I know of is the recent permanent auditing program that was put in place, where the PTO has been able to get registrants not using their marks in whole or in part to delete parts of their registration. But it would be nicer to see that expanded more broadly, given how many unused marks seem to be on the register.

Mr. JOHNSON of Louisiana. So if Congress gives the PTO more authority to remove fraudulent trademarks, what should we include in that legislation to ensure that the PTO is not going to misuse that authority to remove properly granted trademark registrations? I mean, there is a big distinction there, right?

Ms. FROMER. Yeah. No, it is a wonderful question, because of course this has to be balanced.

And I think one of the things that has emerged today is that the PTO is looking forward and becoming better—which is great—at using technology, instructing examiners to deploy certain resources or lines of inquiry, but that is not backward-looking at all, which means that things end up sitting on the register that, if they had been applied for now, might not have been.

And I think it would be helpful to instruct the PTO to, at least in certain random audits or audits in crowded areas of registration, to deploy these new techniques as well in this backward-looking way to remove unused marks from the register.

Mr. JOHNSON of Louisiana. Thank you.

I have 50 seconds left. I wonder what Mr. Cammiso, Mr. Barchiesi, or Ms. Mond would—how you would respond to this, or maybe all three of you could, briefly.

Should marketplaces share the identity of the seller of counterfeits with the company whose brand their counterfeiting, with other marketplaces, with customers, law enforcement, et cetera? What do you think about that?

Mr. CAMMISO. Yes, I believe so to help us to pursue these criminals.

Mr. BARCHIESI. As I just mentioned earlier, we are working with all the platforms, the shippers, and Homeland Security to do just what you mentioned.

Mr. JOHNSON of Louisiana. Good.

Do you agree?

Ms. MOND. Absolutely.

Mr. JOHNSON of Louisiana. And at what point should a marketplace remove a seller? After the sale of one or two or three confirmed—I can kind of guess you are going to say after the first strike, right? One strike, you are out, right?

Mr. CAMMISO. One strike, you are out.

Mr. JOHNSON of Louisiana. I think I agree.

Would you all agree as well?

Ms. MOND. That would be the ideal system. We understand some sort of leeway in that, but certainly not more than three.

Mr. JOHNSON of Louisiana. Thank you. I am out of time.

Mr. JOHNSON of Georgia. The gentleman's time has expired.

Five minutes for Mr. Lieu.

Mr. LIEU. Thank you, Mr. Chair.

Mr. Cammiso, the video you showed of counterfeit auto parts was highly disturbing, and thank you for showing that video. I have a question about how do these parts get into the marketplace.

So let's say you are driving and a warning light comes on saying something is wrong with your airbag. If you take it to a dealer, am I correct to assume that the chances of the new airbag being counterfeit would be low?

Mr. CAMMISO. It would be zero.

Mr. LIEU. It would be zero. Okay. And is that because the dealer is using an OEM part, original equipment manufacturer part, or is that a different thing?

Mr. CAMMISO. Dealers get their OE parts directly from us, and we are confident in our supply chain.

Mr. LIEU. Okay.

So let's say you go to an auto repair shop that says I am also going to give you an OEM part, are the chances of that being counterfeit higher?

Mr. CAMMISO. I can't speak for independent repair facilities. They have multiple avenues from which they source their parts. They need to be cognizant of where they are getting them from.

Mr. LIEU. Okay.

And then, if it is an after-market part, it doesn't pretend to be an OEM part, so that is not a counterfeit issue, right?

Mr. CAMMISO. Not at all.

Mr. LIEU. All right. And so the counterfeiting is appearing at non-dealer places; am I right to assume that?

Mr. CAMMISO. Correct.

Mr. LIEU. Okay. Thank you. That is helpful.

Ms. Mond, a question for you about the safety of toys. So if it is a toy made by a U.S. company here, it has to meet a lot of different laws and regulations. So you can't, for example, have lead paint in toys, correct?

Ms. MOND. That is correct. Regardless of where a toy is manufactured, if it is sold here in the United States, it needs to comply with those toy safety standards.

Mr. LIEU. So let's say a toy with lead paint is being manufactured in a foreign country and then being sold on an e-commerce platform, a consumer would not know that, correct?

Ms. MOND. That is correct. And a lot of the safety requirements that apply to toys that are sold in brick-and-mortar stores are being completely skirted, and toy counterfeiters aren't complying with those requirements.

Mr. LIEU. If a consumer would buy a toy on an e-commerce platform, would they know where it is coming from? Do they have any idea?

Ms. MOND. No, not necessarily. In a lot of cases, a consumer might think that they are buying a legitimate toy but they are, in fact, purchasing a toy from a third-party vendor that is not nec-

essarily—they might be selling a counterfeit or they might be selling an unsafe product.

Mr. LIEU. All right.

So let's say an e-commerce platform is selling a hovercraft that is counterfeit, and they have been told it is counterfeit, they know it is counterfeit, and then a family buys it, house burns down. Is that e-commerce platform liable for knowingly selling an item that they knew was counterfeit?

Ms. MOND. From what I understand, there was a recent court case that has changed the liability for third-party marketplaces. And so we are certainly encouraged that that conversation is shifting in that direction.

But that said, in the past, the liability for marketplaces has been limited in instances where they are knowingly selling unsafe products.

Mr. LIEU. Thank you.

And if you could submit to this committee some ideas for making our laws better, that would be helpful.

Ms. MOND. I am happy to do that.

Mr. LIEU. Thank you.

With that, I yield back.

Mr. JOHNSON of Georgia. I thank the gentleman.

We shall now hear from Mr. Cline for 5 minutes.

Mr. CLINE. Thank you, Mr. Chairman.

I thank our witnesses for being here.

Mr. Brody, can you talk about the challenge of quantifying the harm to reputation?

Mr. BRODY. Precisely. That is the problem. The courts long recognized that consumer confusion is a type of harm that is especially difficult to quantify.

And it is not surprising that when you look at the vast number of trademark decisions that have come down over the years, there aren't a high percentage of them that involve damages awards. Typically, the relief—and I think the ranking member before you noted this, that the game was all about getting the injunction, and that is why presumption was so important.

Without that, proving harm typically involves having to prove diversion of sales and then tracing back those sales to someone who was actually confused. And that is a chain of causation that in a court case can be extremely challenging for the plaintiff.

Mr. CLINE. Right. Well, I agree with you that, in light of the Supreme Court's failure to act, it is time for us to act. So I appreciate your comments, appreciate all the witnesses' comments.

Mr. Chairman, I yield back.

Mr. JOHNSON of Georgia. Thank you.

That will conclude today's hearing, and I want to thank each witness for your testimony today.

Without objection, all members will have 5 legislative days to submit additional written questions for the witnesses or additional materials for the record.

Mr. JOHNSON of Georgia. And, once again, thank you very much for your time and attention and your testimony today.

With that, the hearing is adjourned.

[Whereupon, at 11:14 a.m., the subcommittee was adjourned.]

APPENDIX

Hearing on "Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses"

Questions for the Record
Rep. Henry C. "Hank" Johnson, Jr., Chairman

Mary Boney Denison, Commissioner for Trademarks, U.S. Patent and Trademark Office:

1. Under existing law, what can the USPTO do, if anything, to address an alleged fake specimen of use found in a trademark file after a registration has issued?

2. What is the timeline for implementation of the electronic specimens database? Does the USPTO have adequate financial resources to facilitate implementation?

3. Your written statement refers to incentivizing accuracy in use statements in registrations by charging a "zero fee" for deletions of goods or services for which the mark is not in use. How will the USPTO implement this practice?

4. How does the USPTO balance the competing interests of optimizing pendency and quality of review in examining trademark applications?

5. How is the First Action Pendency performance goal for trademark applications set? Does the USPTO have the authority to alter that performance goal?

Jeanne Fromer, Professor of Law, New York University School of Law:

1. Are you able to estimate how many trademark applications have been filed with fake or likely fake specimens?

2. Are there particular classes of goods or services for which applications containing fake or likely fake specimens appear to be more prevalent?

3. Would the trademark registration system benefit from additional processes to address fake specimens in files for which a trademark registration has already issued?

Peter M. Brody, Partner, Ropes & Gray LLP:

1. Your testimony largely focuses on the benefit of an irreparable harm presumption in cases where likelihood of confusion has been found (or deemed likely), but it also notes that the irreparable harm presumption should apply in Lanham Act cases where the standard is not likelihood of confusion, such as in dilution cases. Why should the presumption also apply in these cases?

2. Have plaintiffs had difficulty proving irreparable harm in courts where the presumption is no longer followed?

Robert Barchiesi, President, International AntiCounterfeiting Coalition:

1. How can e-commerce platforms best keep pace with counterfeiters' changing tactics? Are there enforcement measures that e-commerce platforms can adopt that do not run the risk of being outdated or of being outmaneuvered?

2. Are there any barriers or limitations that prevent e-commerce platforms from adopting technology-based mechanisms that address concerns regarding proper vetting and repeat offenders? What framework would best address those barriers and limitations, if so?

Rebecca Mond, Vice President, Federal Government Affairs, The Toy Association:

1. As you note in your testimony, manufacturers of children's toys must follow stringent safety regulations and undergo testing before appearing on the shelves in brick-and-mortar stores, while counterfeiters using e-commerce platforms get to play by a different set of rules. In what ways could e-commerce platforms best address this loophole, and how should Congress assist in those efforts?

Joseph Cammiso, President, Automotive Anti-Counterfeiting Council, Inc., Mr. Barchiesi, and Ms. Mond:

1. Under the current system, rights owners typically bear the burden of policing individual marketplaces for counterfeits and submitting takedown complaints, which rights holders consider resource-intensive and ineffective at scale. What incentives could Congress provide to meaningfully change this system to one where e-commerce platforms play a larger role in proactively addressing the proliferation of counterfeit goods?

2. Are there changes to the statutory standard for liability in counterfeiting cases that Congress should consider to effectively address the proliferation of counterfeit goods?

3. What specific measures should e-commerce platforms use to better vet sellers and products? Is there a role Congress can play in assisting or incentivizing these efforts?

4. What is a rights holder's recourse when a third-party counterfeit seller cannot be accurately identified, located, or served with a complaint? Who, if anyone, should be liable in these instances?

QUESTIONS FOR THE RECORD FROM REP. LOU CORREA

Hearing on "Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses"

July 18, 2019

The USPTO has a history of emphasizing the importance of educating, assisting, and guiding small businesses and startups.

In my district of California, I have small business franchise establishments that are responsible for over 15,000 jobs and more than $1.5 billion in economic output. These small businesses represent a significant percentage of women- and minority-owned small businesses.

I have heard from franchise owners that the value of their trademarks is being diluted at the federal level. As you know, brand controls are needed to preserve the value of the brands.

I understand these business owners are facing a conflict of laws issue between the Lanham Act and federal employment law. Specifically, the Lanham Act requires trademark holders to exert brand controls to retain uniformity and consistency of their trademarks in the public, but the established brand controls have been used as evidence of employment control in litigation. See *Ocampo v. 455 Hospitality, LLC*, 2016 WL 4926204, at*7 (S.D.N.Y.) and *In re Jimmy John's Overtime Litig.*, 14 C 5509, 2018 WL 3231273, at*3-4, 6, and 19-20 (N.D. Ill. June 14, 2018).

Please comment on this conflict between employment law and trademark law facing the franchise sector. Will the US Patent and Trademark Office work with this Committee and business owners to help alleviate this contradiction in federal law?

QUESTIONS FOR THE RECORD FROM REP. LOU CORREA

Hearing on "Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses"

July 18, 2019

Questions for Commissioner Denison

1. Thanks for coming today to discuss fraudulent trademarks from foreign filers. It is my understanding that the Chinese province of Shenzhen announced a change to the incentive payments for successfully registered trademarks. This may remove the incentive. What percentage of applications over the years are from that province?
    a. Follow Up: How many of those marks are in use today in the United States and how many applications do you have pending from Shenzhen?

2. Thanks for all you are now doing to address what I see as problem on fraudulent foreign trademark filers. Can you describe in more detail who comprises your task force and how long that has been in place?
    a. Are there solutions you think would make a difference in solving the problem that require statutory changes?

3. I appreciate the training of examiners you mentioned. Are these trainings mandatory? Are you changing trademark examiner guidance as well? How do you get the message out to your examiners who are around the country and work remotely?

4. You mentioned you are blacklisting known bad actors and coming up with a database of images. Where are you in that process and how will you be educating examiners to be aware of these things? What is the timeline for integration with the application and examination process?

5. Are there lessons or practices we can apply from the patent side of the USPTO to address the cluttered registry of trademarks?

6. As we consider next steps on legislation, in light of the conversation at the previous hearing, it is my understanding that you are required to give trademark applicants a minimum of six months to respond to any questions an examiner has. That seems antiquated when almost all communication between applicants and the PTO now takes place electronically, so there's no waiting for the mail or for a submission to be processed manually. If you could have that time period shortened, what would the impact be to your process? What do you anticipate it would improve?
    a. Follow Up: It is my understanding that you have a statutory requirement that the process must take a minimum of six months. Is that correct?

7. It is my understanding that if a company sees a fraudulent or photoshopped specimen or image with an application, their only recourse is to file a letter of protest, which can't stop the application and has no legal standing. The company can also report it to the PTO under the Specimen Protests Email Pilot Program, which only applies to a very narrow set of circumstances. If we in Congress were to consider changing the current law to oppose these applications prior to registration, is there a model you could describe for me? Follow up: If you can't describe a model, can you share with me what you think the impact will be on businesses if they could challenge what appears to be a fraudulent application in the application process, not post-registration?

8. When seeking to identify counterfeit sellers, some companies and marketplaces consider tracking payments and payment accounts to identify repeat offenders. Have you considered doing this or have you already done this to identify trademark filers? If you have what patterns did you discern?
    a. Follow Up: I am assuming if there is a bad actor filing multiple applications there might be a common thread. We know they change their company names, but do they change their payment methods?
    b. Follow Up: Do you have a system in place to detect common payment methods?

9. Commissioner Denison it is my understanding that you recently entered into agreement for $7 - $8 million with the National Crime Prevention Council to educate consumers about counterfeits. Where did the money for this program come from? Did you have discretion in your budget to make that decision or was it dictated by law or by recommendation from an advisory Committee, by the White House, anyone? What do you estimate you are spending to combat fraudulent trademark filers beyond operational budget?

10. You said in your testimony you have had one examination training and another one is scheduled. Are those both specific to fraudulent trademark filers?
    a. Follow Up: In your report from last year, page 176 of the FY 2018 Performance and Accountability Report, you list all of your trainings for examiners – quite impressive list of trainings. Were any of these trainings focused on the fraudulent filer issue or shell companies applying for trademarks?

11. Under your existing authority in the Trademark Examination guide, examiners can issue refusals of an application rather than inquiries requesting more information where an item or as you call it a specimen, does not appear to show actual use in commerce in the US market. A lot of these fraudulent images I have seen have tags written in Chinese – if these are really for sale in the US market, why are your examiners approving them? Have you considered issuing refusals requiring the applicant to either prove that the application is legitimate or change their filing basis from in use in the US market from intent to use?

a. Follow Up: If not, why? OR If so, how many applications are refused vs asked for more information when you have a photoshopped image, incorrect tags, or duplicative images?

12. It appears that some applicants submit images that do not necessarily prove use in the US – price tags are in foreign currencies, or online marketplace listings are set up to sell one item, that may or may not be available for purchase when you review the listing at a later date. Do you have a process for dealing with these types of applications and for reviewing use of a mark throughout the application process to confirm, for example, that a sham marketplace listing isn't just taken down as soon as a specimen is accepted? Not to pick on the marketplaces, but they have a model that is ripe for abuse on counterfeits or for fraudulent trademarks. How do you review these applications – does a marketplace image get additional scrutiny?

13. I understand you are currently piloting a post-registration audit program that is aimed at ensuring registrants are continuing to use their marks on all of the products they claim to offer. Are there any learnings from that program you think could be applied to the application process that would help keep the register from becoming cluttered, ie stopping fraudulent applications at the front end rather than requiring action to declutter the register years down the line?

14. Thank you for prompting and bringing to completion the US local counsel rule – a year long accomplishment with an aggressive effective date of August 3. This is a good step forward, but as you have mentioned, you are already seeing attempts to circumvent the rule. What are you anticipating ways bad actors are or could be attempting to circumvent this rule and what tools do you have to enforce against those who are unscrupulous?
15. Thank you for your testimony today about the need to declutter the register. You spoke in depth about processes that could take effect post-registration. Do you have thoughts on changes to the examination and application process? It seems to me we should not be approving this stuff to begin with. Decluttering after registration would be helpful, but we need to stop the bleeding.

16. Another question about the application/examination process. I am concerned because companies like Target – the largest trademark filer in the US shared with me a window into their branding process and how pending applications basically block their innovations, costing them millions of dollars in additional costs. They're a big company what happens to mid-size or small companies who can't attempt to fight this? Have you done any research into company impacts when they try to register a trademark and are blocked by a pending application?

17. Today, when a trademark is not in use, whose responsibility is it to prompt the removal off of the register? Does USPTO have a process or does it rely on external stakeholders reviewing it?
    a. FOLLOW UP: How long does it take for a trademark to be challenged, adjudicated, and removed from the trademark register? Have you done any research on the impact to business?

18. How much time does it take to successfully deregister a trademark that is fraudulent or not in use? What percentage are prompted by the USPTO and what percentage are prompted by external stakeholders or challengers

19. What do you estimate the impact will be trademark filings after the new local counsel rule goes into place?

20. Why are you focused on de-registration of trademarks vs. pending applications? What do you see as the difference in the problem?

21. What is the value of decluttering the registry to businesses? Is there a difference in value for small or large businesses?

22. How does the USPTO intend to police bad faith filers if they use fake counsel information? What if they do indeed enlist a U.S. attorney, but that attorney doesn't verify the truthfulness of the foreign applicant's filing? How will the USPTO act upon this information? Can you describe effective methods and how many actions have been take against attorneys on other issues?

USPTO Responses to Questions for the Record – Chairman Johnson
U.S. House Committee on the Judiciary
Subcommittee on Courts, Intellectual Property and the Internet

"Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses" – *July 18, 2019*
Witness: Ms. Mary Boney Denison, Commissioner for Trademarks
U.S. Patent and Trademark Office
Submitted: December 31, 2019

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1. **Under existing law, what can the USPTO do, if anything, to address an alleged fake specimen of use found in a trademark file after a registration has issued?**

Response: The USPTO does its best to ensure high quality trademark registrations. Under existing law, the Director has express statutory authority to cancel a registration as a result of: (1) the registrant's voluntary surrender of the registration for cancellation, 15 U.S.C. § 1057(e); (2) the registrant's failure to maintain the registration by not filing an acceptable declaration of continued use at the time periods specified in Section 8 of the statute, 15 U.S.C. § 1058, *i.e.*, within one year preceding the 6th and 10th anniversaries of the registration and each successive 10-year period thereafter; (3) an *inter partes* cancellation proceeding decided by the Trademark Trial and Appeal Board (TTAB), 15 U.S.C. §§ 1067, 1068; or (4) a court order directing the cancellation of a registration, 15 U.S.C. § 1119. The mechanism provided to challenge registered marks under existing law is for third parties to file a petition to cancel the registration before the TTAB. *See* 15 U.S.C. §§ 1064, 1067. There is no other express statutory provision authorizing the USPTO to conduct proceedings to invalidate a registered mark.

2. **What is the timeline for implementation of the electronic specimens database? Does the USPTO have adequate financial resources to facilitate implementation?**

Response: The USPTO has always had a database of trademarks, but has not had a database of the specimens of use. The USPTO executed a contract with a vendor in late August 2019 to develop a database of specimens. The agency is currently procuring the necessary hardware and preparing the data. Implementation and testing began in late 2019 with approval for a pilot program expected shortly. The USPTO expects full operating capability in 2020. The project is fully funded.

3. **Your written statement refers to incentivizing accuracy in use statements in registrations by charging a "zero fee" for deletions of goods or services for which the mark is not in use. How will the USPTO implement this practice?**

Response: To incentivize registrants to delete unused goods and services from a registration, the USPTO is considering charging a "zero fee," instead of the current $100 fee, when a registrant files a form requesting a Section 7 amendment to a registration to delete unused goods and services. In addition, the USPTO is considering charging a fee if changes are made to a registration's identification of goods or services as a result of a Proof of Use audit. Pursuant to the AIA, the Trademark Public Advisory Committee (TPAC) held a public hearing to receive public feedback on these and other proposals to adjust trademark fees at the USPTO on September 23, 2019. The USPTO is considering the public feedback and expects to publish a Notice of Proposed Rulemaking for trademark fees in Spring 2020.

4. **How does the USPTO balance the competing interests of optimizing pendency and quality of review in examining trademark applications?**

Response: The USPTO recognizes that both quality and timeliness are important to our stakeholders. While accuracy and correct decision-making are paramount, our stakeholders also need reasonably prompt examination results from the USPTO so that they can make timely business and product marketing decisions. Consequently, we provide our examining staff with legal resources, tools for efficiency including technological tools, and training to ensure high quality examination. The USPTO sets its goals for trademark quality and timeliness by balancing stakeholder needs and employee performance and capacity.

5. How is the First Action Pendency performance goal for trademark applications set? Does the USPTO have the authority to alter that performance goal?

Response: The USPTO has the requisite authority to alter the First Action Pendency performance goals. The First Action Pendency Performance goals are set in consultation with the USPTO's statutorily-created Trademark Public Advisory Committee. The Office also consults frequently with other stakeholder groups, such as intellectual property bar groups and other intellectual property associations.

USPTO Responses to Questions for the Record – Rep. Correa
U.S. House Committee on the Judiciary
Subcommittee on Courts, Intellectual Property and the Internet

"Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses" – *July 18, 2019*
Witness: Ms. Mary Boney Denison, Commissioner for Trademarks
U.S. Patent and Trademark Office
Submitted: December __, 2019

The USPTO has a history of emphasizing the importance of educating, assisting, and guiding small businesses and startups.

In my district of California, I have small business franchise establishments that are responsible for over 15,000 jobs and more than $1.5 billion in economic output. These small businesses represent a significant percentage of women- and minority-owned small businesses.

I have heard from franchise owners that the value of their trademarks is being diluted at the federal level. As you know, brand controls are needed to preserve the value of the brands.

I understand these business owners are facing a conflict of laws issue between the Lanham Act and federal employment law. Specifically, the Lanham Act requires trademark holders to exert brand controls to retain uniformity and consistency of their trademarks in the public, but the established brand controls have been used as evidence of employment control in litigation. See *Ocampo v. 455 Hospitality, LLC,* 2016 WL 1926204, at *7 (S.D.N.Y.) and *In re Jimmy John's Overtime Litig.,* 14 C 5509, 2018 WL 3231273, at *3-4, 6, and 19-20 (N.D. Ill June 14, 2018).

Please comment on this conflict between employment law and trademark law facing the franchise sector. Will the US Patent and Trademark Office work with this Committee and business owners to help alleviate this contradiction in federal law?

Response: The USPTO does not have jurisdiction over federal employment laws. However, if Congress considers legislation in this area, the USPTO would welcome the opportunity to provide technical assistance on this matter as it pertains to trademark laws.

1. **Thanks for coming today to discuss fraudulent trademarks from foreign filers. It is my understanding that the Chinese province of Shenzhen announced a change to the incentive payments for successfully registered trademarks. This may remove the incentive. What percentage of applications over the years are from that province?**

    a. **Follow Up: How many of those marks are in use today in the United States and how many applications do you have pending from Shenzhen?**

Response: As of November 5, 2019, Shenzhen significantly lowered the incentive payment amounts offered to Chinese citizens who obtain a foreign trademark registration to about $150 USD for up to three registrations per year. Earlier, the amount was $750 USD for a U.S. registration with a total cap per applicant of $75,000 per year. Of the 72,290 applications from China filed in 2019, approximately 31% (21,900 cases) were from Shenzhen, with approximately 59%, or 12,900 cases, currently pending. In

2018, the percentage of Chinese origin applications from Shenzhen was approximately 39%; in 2017, it was approximately 42%; in 2016, it was approximately 40%; and in 2015, it was approximately 35%.

Once a mark is registered, the USPTO requires periodic maintenance documents. For example, between the 5th and 6th year and at the 10th year after registration, trademark owners must identify those goods and services upon which the mark remains in use. The current average maintenance rate for Chinese registrants is approximately 46% at the 5/6th year maintenance filing and approximately 35% at the 10-year maintenance filing. The average maintenance rate for all registrations is approximately 46% at the 5/6th year and approximately 38% at the 10-year filing.

2. **Thanks for all you are now doing to address what I see as a problem on fraudulent foreign trademark filers. Can you describe in more detail who comprises your task force and how long has that been in place?**
    a. **Are there solutions you think would make a difference in solving the problem that require statutory changes?**

Response: The USPTO has established a special task force consisting of personnel with policy, examination, and IT expertise who work to identify actors engaging in improper activity through pattern analyses and to develop responses to those actors. The task force has been meeting regularly since May 2019. The USPTO works to implement changes to procedures to address improper behaviors identified by the task force. If Congress believes statutory changes would be useful, we would welcome the opportunity to provide any technical assistance requested.

3. **I appreciate the training of examiners you mentioned. Are these trainings mandatory? Are you changing trademark examiner guidance as well? How do you get the message out to your examiners who are around the country and work remotely?**

Response: The USPTO has conducted multiple recent mandatory training sessions for all of our examiners, one was conducted in Alexandria and required attendance in person, and the others were conducted in person and by webcast for those working remotely, to provide additional guidance on detecting and refusing fake specimens of use. In addition, the Office issued an examination note (internal document) followed by an examination guide (publicly available on our website) that outlines our examination procedure.[1]

4. **You mentioned you are blacklisting known bad actors and coming up with a database of images. Where are you in that process and how will you be educating examiners to be aware of these things? What is the timeline for integration with the application and examination process?**

Response: The USPTO does not have a "blacklist" of bad actors. Instead, the task force reviews application information to identify patterns in filings where information is repeatedly used to engage in improper behavior before the Office. The USPTO takes action as appropriate. For example, the task force identified and is investigating a number of applications that contained the name of a U.S. attorney who was not, in fact, representing those applicants in their applications to the USPTO. Furthermore, for the database of specimens, the USPTO executed a contract with a vendor in late August 2019 to develop a database of specimens. The agency is currently procuring the necessary hardware and preparing the data. Implementation and testing began in late 2019 with approval for a pilot program expected shortly. The USPTO expects full operating capability in 2020. The project is fully funded.

[1] *Exam Guide 03-19, Examination of Specimens for Use in Commerce: Digitally Created or Altered and Mockup Specimens*

5. **Are there lessons or practices we can apply from the patent side of the USPTO to address the cluttered registry of trademarks?**

Response: Yes. For example, since October 26, 2019 the USPTO requires all trademark filers to create a USPTO.gov account, and log-in to their account in USPTO Trademark systems before filing documents. These changes are consistent with existing policy on the patent side. By the first half of 2020, the USPTO is targeting implementation of proof-of-identity requirements for each individual's USPTO.gov account. The Office believes this will result in a more secure system that better prevents unauthorized filings and amendments or improper actions by unauthorized parties.

6. **As we consider next steps on legislation, in light of the conversation at the previous hearing, it is my understanding that you are required to give trademark applicants a minimum of six months to respond to any questions an examiner has. That seems antiquated when almost all communication between applicants and the PTO now takes place electronically, so there's no waiting for the mail or for a submission to be processed manually. If you could have that time period shortened, what would the impact be to your process? What do you anticipate it would improve?**
    a. **Follow Up: It is my understanding that you have a statutory requirement that the process must take a minimum of six months. Is that correct?**

Response: Section 1062(b) of the Lanham Act requires that applicants "have a period of six months in which to reply or amend his application." 15 U.S.C. § 1062(b). A shortened response period could, for example, improve USPTO's ability to move applications with potentially invalid specimens of use through the examination process more quickly, which could result in quicker abandonment of invalid applications for marks that may be blocking other applicants. If the response time were shortened, we would correspondingly adjust our electronic systems and forms.

7. **It is my understanding that if a company sees a fraudulent or photoshopped specimen or image with an application, their only recourse is to file a letter of protest, which can't stop the application and has no legal standing. The company can also report it to the PTO under the Specimen Protests Email Pilot Program, which only applies to a very narrow set of circumstances. If we in Congress were to consider changing the current law to oppose these applications prior to registration, is there a model you could describe for me?**
    a. **Follow up: If you can't describe a model, can you share with me what you think the impact will be on businesses if they could challenge what appears to be a fraudulent application in the application process, not post-registration?**

Response: If a third party identifies a suspicious specimen of use in an application, the third party may file a Specimen Protest with evidence to bring it to the USPTO's attention. If the USPTO believes the evidence shows that the specimen is fake or doctored, or that the same specimen appears in multiple applications from different applicants, the reviewer will forward the evidence to the examining attorney. The examining attorney will issue a refusal of the specimen and request information that aids in a determination of whether the mark is in use in commerce. If the evidence is not conclusive that the specimen is fake or doctored, the protest will be denied and that evidence will not be submitted to the examining attorney. Alternatively, a third party may file a Letter of Protest to present evidence bearing on registrability of a mark, and the reviewer will consider whether the evidence should be forwarded to the examiner. Since a third party is not a party to the *ex parte* application process, the third party must provide evidence for the reviewer to consider sending to the examiner to support a refusal. Under current law, the third party has the ability to file an opposition to the application, once it is published, at the Trademark Trial and Appeal Board (TTAB) on the basis that the mark is not in use in commerce as of the filing date or on any other applicable grounds.

8. **When seeking to identify counterfeit sellers, some companies and marketplaces consider tracking payments and payment accounts to identify repeat offenders. Have you considered doing this or have you already done this to identify trademark filers? If you have what patterns did you discern?**
    a. **Follow Up: I am assuming if there is a bad actor filing multiple applications there might be a common thread. We know they change their company names, but do they change their payment methods?**
    b. **Follow Up: Do you have a system in place to detect common payment methods?**

Response: The USPTO's internal task force monitors filings to identify information that is repeatedly used to engage in improper behavior before the Office. For example, we had been experiencing a high rate of credit card chargebacks from a few common credit cards. This behavior involves an applicant filing many applications and then requesting chargebacks from the credit card company for the filing fee. Once the USPTO began blocking those credit cards, the practice decreased significantly.

9. **Commissioner Denison it is my understanding that you recently entered into agreement for $7 - $8 million with the National Crime Prevention Council to educate consumers about counterfeits. Where did the money for this program come from? Did you have discretion in your budget to make that decision or was it dictated by law or by recommendation from an advisory Committee, by the White House, anyone? What do you estimate you are spending to combat fraudulent trademark filers beyond operational budget?**

Response: The funds used for the contract with the National Crime Prevention Council were drawn from the Trademark operation budget, which is made up of trademark user fees. The USPTO has discretion to allocate that money to anti-counterfeiting awareness efforts under its statutory authority to disseminate to the public information about trademarks and its strategic goal of providing education on intellectual property. The funds used to combat fraudulent trademark filers are also drawn from our operational budget.

10. **You said in your testimony you have had one examination training and another one is scheduled. Are those both specific to fraudulent trademark filers?**
    a. **Follow Up: In your report from last year, page 176 of the FY 2018 Performance and Accountability Report, you list all of your trainings for examiners -quite impressive list of trainings. Were any of these trainings focused on the fraudulent filer issue or shell companies applying for trademarks?**

Response: In October 2018, we held a training session on digitally-altered and mocked-up specimens. In 2019, we have held two mandatory training sessions, in June and in August, on the fake specimen issue and the U.S. counsel rule. Another training session, focusing on specimens of use that are purported websites, occurred on December 5, 2019.

11. **Under your existing authority in the Trademark Examination guide, examiners can issue refusals of an application rather than inquiries requesting more information where an item or as you call it a specimen, does not appear to show actual use in commerce in the US market. A lot of these fraudulent images I have seen have tags written in Chinese - if these are really for sale in the US market, why are your examiners approving them? Have you considered issuing refusals requiring the applicant to either prove that the application is legitimate or change their filing basis from in use in the US market from intent to use?**
    a. **Follow Up: If not, why? OR If so, how many applications are refused vs asked for more information when you have a photoshopped image, incorrect tags, or duplicative images?**

Response: As a general matter, the USPTO's Examination Guide 3-19[2] directs examiners to issue a refusal in every case where a specimen appears to be digitally created/altered or otherwise mocked up and to request information that aids in a determination of whether the mark is actually in use in commerce. In limited situations, an examining attorney may issue the request for information without the refusal when there is something suspicious about the contents or display of the specimen that suggests that the mark is not in actual use in commerce, and the examining attorney needs more information for a proper examination of the issue. If an applicant responds to the refusal by amending to an intent to use filing basis, the examiner will accept the amendment.

The Office has issued approximately 15,790 office actions containing the new specimen and request for information refusals since June 11, 2019. Since then, the USPTO average of approximately 269 specimen refusals issued per week increased by approximately 155% to 687 per week.

12. **It appears that some applicants submit images that do not necessarily prove use in the US -price tags are in foreign currencies, or online marketplace listings are set up to sell one item, that may or may not be available for purchase when you review the listing at a later date. Do you have a process for dealing with these types of applications and for reviewing use of a mark throughout the application process to confirm, for example, that a sham marketplace listing isn't just taken down as soon as a specimen is accepted? Not to pick on the marketplaces, but they have a model that is ripe for abuse on counterfeits or for fraudulent trademarks. How do you review these applications -does a marketplace image get additional scrutiny?**

Response: The USPTO's Examination Guide 3-19 identifies as suspicious "a webpage for an online marketplace, submitted as a display associated with the goods, [that] includes indicia indicating that the mark is not in use in U.S. commerce or was not in use on the dates of use indicated in the application (e.g., language, currency, price, first available date, ship-to destination)." Therefore, examining attorneys have been directed to look at marketplace listings for specific characteristics as outlined in the exam guide to evaluate whether they are suspicious, which would trigger the issuance of a refusal that the mark is not in use in commerce and a request for information. All applications receive the same scrutiny. When an examining attorney identifies a suspicious specimen of use, he or she follows the guidance in Examination Guide 3-19. In February, the USPTO will also implement a requirement that any website submitted as a specimen of use contain the URL and access date.

Once an application is published for opposition, a third party can oppose an application on the basis that the mark is not in use in U.S. commerce. If a mark registers, a third party can petition to cancel the registration.

13. **I understand you are currently piloting a post-registration audit program that is aimed at ensuring registrants are continuing to use their marks on all of the products they claim to offer. Are there any learnings from that program you think could be applied to the application process that would help keep the register from becoming cluttered, i.e. stopping fraudulent applications at the front end rather than requiring action to declutter the register years down the line?**

Response: The post-registration audit program was made permanent in November 2017. The USPTO has learned several things from the post-registration program that have been helpful in the application process. The initial Proof of Use Audit pilot program demonstrated the utility of requesting information and evidence of actual sales of a good or service when an examiner identifies that a specimen does not show actual use of the mark in commerce. Further, the USPTO learned that examining attorneys should exercise discretion in certain circumstances to request additional specimens of use for additional goods or

[2] https://www.uspto.gov/sites/default/files/documents/Exam%20Guide%2003-19.pdf

services in the application to confirm that a mark is actually in use for a listed good or service. These practices from the audit program have been incorporated in Examination Guide 3-19, which directs examining attorneys to refuse a submitted specimen when it is suspicious, rather than simply asking for a substitute specimen, and to further request information and evidence of actual sales to provide a deterrent to false claims of use. In addition, examining attorneys have discretion to request additional specimens. For example, if the list of goods includes a long list of disparate items not normally produced by one party, the examining attorney may request additional specimens for particular items.

14. Thank you for prompting and bringing to completion the US local counsel rule - a year long accomplishment with an aggressive effective date of August 3. This is a good step forward, but as you have mentioned, you are already seeing attempts to circumvent the rule. What are you anticipating ways bad actors are or could be attempting to circumvent this rule and what tools do you have to enforce against those who are unscrupulous?

Response: We are seeing efforts to circumvent the new rule. One of the most common ways to circumvent the rule is for an applicant to provide a fake U.S. domicile address or claim that the applicant is a U.S. entity. Additionally, the USPTO has seen evidence of foreign applicants or agents asking to pay a U.S. licensed attorney to use their bar information in order to pose as the U.S. attorney, and instances where a U.S. attorney's name, signature and bar information were forged.

Our examining attorneys have recently identified hundreds of applications with forged attorney names and the USPTO is in the process of issuing Show Cause Orders on each of those files to enforce the new requirement.

To address the potential that applicants may file a fake U.S. domicile address or falsely claim they are a U.S. entity, Examination Guide 4-19 (revised) directs the examining attorneys to require proof of domicile (that is, the "permanent legal place of residence" of a natural person or the "principal place of business" of a juristic entity) by, for example, providing a utility bill or rental agreement where a foreign citizen claims a U.S. domicile, or by providing an annual report that includes the address where a foreign corporation claims a U.S. domicile. Additionally, the USPTO now requires applications to include the bar credentials of the U.S. licensed attorneys representing foreign-domiciled parties. This provides the USPTO with information the USPTO can then verify and helps the USPTO's special task force to identify trends in fraudulent filings that include fake attorney information and filings by particular attorneys who have patterns of problematic filings. By requiring U.S. counsel, the USPTO also now has a party of record within the U.S. who is responsible for the contents of an application and who may be sanctioned if a paper is submitted for an improper purpose.

15. Thank you for your testimony today about the need to declutter the register. You spoke in depth about processes that could take effect post-registration. Do you have thoughts on changes to the examination and application process? It seems to me we should not be approving this stuff to begin with. Decluttering after registration would be helpful, but we need to stop the bleeding.

Response: The USPTO has made significant changes to its examination process to improve the accuracy of submissions and increase scrutiny of applications that do not appear to comply with U.S. legal requirements, including the Specimen Protest pilot program, the Letter of Protest program, the expanded post-registration audit program, and the implementation of the U.S. counsel rule. The USPTO believes that the U.S. counsel rule is likely to significantly improve the quality of the submissions from foreign-domiciled applicants, and the USPTO is closely monitoring its effects. While it is too early to tell only

approximately three months after implementation, preliminary indications are that the U.S. counsel rule is reducing improper filings.

Furthermore, we are implementing a log-in system in three phases. In October 2019, the USPTO implemented the first phase, which requires users to login to the USPTO system in order to file trademark documents. The second phase, requiring user authentication, is planned for the third quarter of FY 2020. Finally, the third phase permitting role-based access will be implemented at a later date in 2020. In combination, this will result in a more secure system that prevents unauthorized filings and amendments or improper actions by unauthorized parties. Third parties also have the option of opposing a mark in an application before registration during the publication period for the mark in the Official Gazette.

16. **Another question about the application/examination process. I am concerned because companies like Target -- the largest trademark filer in the US shared with me a window into their branding process and how pending applications basically block their innovations, costing them millions of dollars in additional costs. They're a big company what happens to mid-size or small companies who can't attempt to fight this? Have you done any research into company impacts when they try to register a trademark and are blocked by a pending application?**

Response: If a trademark application has previously been filed, or if there is already a registered trademark on the register, the USPTO must refuse registration to a later-filed trademark that is confusingly similar to the existing registration or any registration that results from a previously filed application. However, the USPTO is keenly aware and very concerned that businesses may unnecessarily incur the costs of choosing another mark in instances when the previously filed or registered mark is not actually in use in U.S. commerce. Thus, for several years now, the USPTO has been consulting with stakeholders on the importance of a trademark register that accurately reflects marks that are in use for the goods and services listed in the registration. Based on stakeholder input, the USPTO has been continually seeking ways to help declutter and improve the accuracy of the register and decrease the costs of mark clearance for all businesses, including through bringing fake specimens to our attention through the Specimen Protest Pilot or the Letter of Protest procedure, expanding our post-registration audit program, and implementation of the U.S. counsel rule, to name a few.

In addition, the USPTO has an active outreach program aimed at small businesses. We offer monthly Trademark Tuesdays at our regional offices where small businesses can come into the office, receive trademark training and have the opportunity to ask questions. We provide one on one video conferences for trademark applicants around the country. We also have many online resources for small businesses including a Basic Facts Booklet[3] and a series of videos aimed at applicants and potential applicants without counsel. One video entitled "Basic Facts about Trademarks: What Every Small Business Should Know Now, Not Later" has had more than a million views. In addition, the USPTO's Trademark Assistance Center assisted over 150,000 customers last year where 70% of those customers were entrepreneurs and small business owners.

17. **Today, when a trademark is not in use, whose responsibility is it to prompt the removal off of the register? Does USPTO have a process or does it rely on external stakeholders reviewing it?**
    a. **FOLLOW UP: How long does it take for a trademark to be challenged, adjudicated, and removed from the trademark register? Have you done any research on the impact to business?**

Response: U.S. law requires trademark registrants to submit maintenance documents at various points in time, which include a declaration signed under penalty of perjury that the mark remains in use for all of

[3] https://www.uspto.gov/sites/default/files/documents/BasicFacts.pdf

the goods and services identified in the registration, along with one specimen of use per class of goods and services. If registrants fail to file these maintenance documents or file documents that are otherwise deficient, the registration is automatically cancelled by the USPTO.

In addition, interested third parties may petition to cancel a registration for a mark that is not in use. The USPTO has been exploring ways to expedite the cancellation proceeding for nonuse and abandonment. Currently, in cases of default judgment, the average time to disposition is approximately 3.5 months. In a contested proceeding, the average time to disposition is approximately 35 months. If the parties opt for accelerated case resolution at the TTAB, the case can be disposed of more quickly. For example, in one recent contested abandonment case in which the parties agreed to accelerated case resolution, the final decision issued 9 months from the filing date of the petition for cancellation.

18. How much time does it take to successfully deregister a trademark that is fraudulent or not in use? What percentage are prompted by the USPTO and what percentage are prompted by external stakeholders or challengers?

Response: A registration may be cancelled for nonuse either administratively through failure to file acceptable maintenance documents, or through a TTAB proceeding for fraud, abandonment, or nonuse. Administratively, maintenance filings are due between the 5th and 6th year from the registration date and every 10 years from the registration date. The rate of administrative cancellations for the entire registration for either failing to file maintenance documents with the USPTO or having the filing refused by the USPTO is approximately 54% at the 6th year and is approximately 62% at the 10th year.

For a TTAB proceeding, in cases of a default judgment, the average time to disposition is approximately 3.5 months. Approximately 62% of abandonment- or nonuse-based cancellations end in default judgment. In a contested proceeding, the average time to disposition is approximately 35 months.

19. What do you estimate the impact will be on trademark filings after the new local counsel rule goes into place?

Response: The USPTO expects that the U.S. counsel rule will significantly reduce the registration of marks that are not in actual use in commerce and that it will help deter the filing of fraudulent applications and applications for which there is no intention to use the mark in commerce. The rule was implemented on August 3, and it has already impacted filing behavior. For example, Chinese trademark filings went from approximately 4,870 in June 2019 to a spike in July 2019 of 20,440, and then decreased to 2,620 in October 2019. In addition, Chinese *pro se* applications decreased from approximately 80% of all Chinese applications in July 2019 to approximately 9% in October 2019. The U.S. counsel rule and the USPTO's associated Exam Guide will help ensure that examining attorneys issue refusals when foreign-domiciled applicants file as *pro se* applicants so that there is a U.S. attorney who is accountable for the contents of such applications. These measures, in combination with the USPTO's continuing efforts to identify and hold accountable applicants and attorneys who attempt to circumvent these new enforcement measures, will help ensure the integrity of applications and the integrity of the trademark register.

There has also been an increase in the USPTO's workload in implementing the requirements for U.S. counsel with the additional office actions having issued that require U.S. counsel since August 4, 2019.

20. Why are you focused on de-registration of trademarks vs. pending applications? What do you see as the difference in the problem?

Response: The USPTO has explored its authority to take action on improper behavior in both the examination and the post-registration contexts. While the USPTO has some flexibility to make changes in examination to address improper behavior and has taken many steps to do so, the USPTO's flexibility to cancel issued registrations is limited under the current statute to situations where a registrant fails to

submit acceptable maintenance documents. However, beyond that, the Lanham Act contemplates interested third parties challenging issued registrations through cancellation proceedings at the TTAB.

21. What is the value of decluttering the registry to businesses? Is there a difference in value for small or large businesses?

Response: Because trademarks are so important to businesses and to the U.S. economy, the U.S. Trademark Register is a critically important tool in making business decisions for all businesses, large and small. An inaccurate register that features many marks that are not in use, or features registrations obtained by improper means, makes legal clearance of new trademarks more difficult, time-consuming and expensive. It also leads to expensive opposition and cancellation proceedings and/or federal court litigation to clear invalid trademark registrations and enforce rights. In turn, it may cause companies to alter business decisions, often at significant cost. Thus, decluttering the register is critical for U.S. businesses.

22. How does the USPTO intend to police bad faith filers if they use fake counsel information? What if they do indeed enlist a U.S. attorney, but that attorney doesn't verify the truthfulness of the foreign applicant's filing? How will the USPTO act upon this information? Can you describe effective methods and how many actions have been taken against attorneys on other issues?

Response: The USPTO has trained its staff to look for peculiarities in filings with the Office. For example, when the examining attorney suspects that the listed counsel information is fake or unauthorized, the examining attorney can check this by verifying the attorney's credentials and by attempting to contact the listed attorney. In cases where the attorney states that he or she has no knowledge of the application, and has not been retained to represent the applicant, the USPTO may pursue sanctions against the applicant. If an attorney of record does not make a sufficient effort to verify the content of the application, the USPTO may also pursue sanctions against an attorney of record.

The USPTO's rules provide that anyone who signs or files a paper with the USPTO is certifying to the best of the person's knowledge formed after an inquiry reasonable under the circumstances that the paper is not being presented for an improper purpose, the facts have evidentiary support, and the legal contentions are warranted by existing law. See 37 C.F.R. § 11.18(b). Sanctions for violating that rule may be imposed after notice and an opportunity to respond, and include striking the offending paper, referring a practitioner to the USPTO's Office of Enrollment and Discipline (OED) for appropriate action, or terminating the proceeding before the Office. Additionally, subject to the supervision and direction of the Director, under 35 U.S.C. § 3(b)(2)(A), the Commissioner for Trademarks is "responsible for the management and direction of all aspects of the activities of the Office that affect the administration of ... trademark operations." This includes issuing an order requiring an applicant to show cause why the applicant's representative, or the applicant itself, should not be sanctioned. The USPTO website contains information about attorneys who have been disciplined and unauthorized representatives who have been sanctioned.[4] We cannot comment on any pending investigations into specific applicant or attorney behavior.

[4] https://www.uspto.gov/trademark/trademark-updates-and-announcements/orders-issued-commissioner-trademarks

Professor Jeanne Fromer
Questions for the Record from Chairman Johnson

1. Are you able to estimate how many trademark applications have been filed with fake or likely fake specimens?

We have estimated the number of fraudulent specimens in use-based trademark applications originating in China and filed at the USPTO in 2017 solely in Class 25 (apparel goods). Based on our study, which is discussed below, we conclude that 66.9% of these applications were probably fraudulent.

To estimate the prevalence of fraudulent specimens, we randomly sampled 365 applications from the 6,752 use-based applications that originated in China and were filed at the USPTO in 2017 solely in Class 25. (This sample allows us to estimate the proportion of fraudulent specimens for the entire population of Chinese use-based applications filed in 2017 solely in Class 25 with a confidence interval of 95% and a margin of error of 5%.) We reviewed all submitted specimens for each application in our sample and coded them for multiple factors that we think indicate to varying degrees the probability that the application's specimen is fraudulent. These factors consist of whether a specimen image:

a. Showed discontinuities that indicated digital alteration;
b. Appeared in a Google reverse image search as matching an image of a product with a different mark of a different company, or the specimen image matched a specimen image previously submitted to the PTO in connection with a different mark of a different company;
c. Depicted a mark consisting of a nonsense word that is unpronounceable in English and that the applicant indicated has no meaning in any other language;
d. Depicted a tag with irregularities, such as exceptionally poor print quality, the tag being placed on top of another tag, or tags across multiple specimen images having different appearances;
e. Depicted pricing in a foreign rather than U.S. currency or commerce with delivery to a foreign rather than a U.S. address;
f. Depicted a product that carried the mark of another company (such as CHANEL), indicating that the applicant was affixing its applied-for mark to a different company's product;
g. Misspelled the mark;
h. Depicted a branding card not attached to the good;
i. Depicted a screenshot of an ecommerce website (such as on Amazon) to show use in commerce;
j. Depicted a hanging tag to display the mark;
k. Depicted a sticker to display the mark; and
l. Depicted a collar label to display the mark.

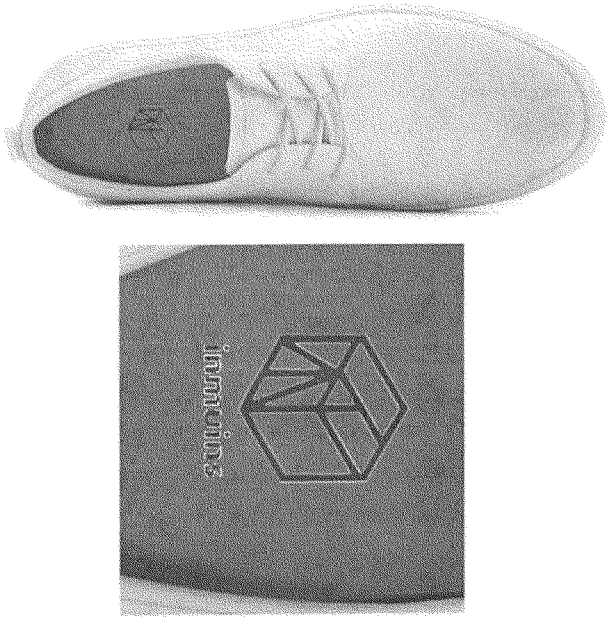
Based on our sample, we think it is reasonable to conclude that a very high proportion of Chinese use-based applications filed in 2017 solely in Class 25 were

fraudulent. The PTO itself refused 13.4% (or 49) of the 365 applications included in our sample on the basis that the submitted specimen image was digitally altered or otherwise improperly manipulated. However, this statistic significantly understates the degree of the problem. Taking into account a subset of the factors listed above that are especially indicative of fraud, we estimate that 66.9% of Chinese use-based applications filed in 2017 solely in Class 25 included fraudulent specimens. Specifically, 66.9% (or 244) of the applications in our sample included a specimen with a discontinuous image, a matching reverse image search image, a price displayed in foreign currency or delivery to a foreign address, the mark of another company, a nonsense word for a mark, tag irregularities, a misspelled mark, and/or a branding card not attached to the good. Many of these 244 applications raised multiple such red flags.

In what follows, we provide more detail on certain of these factors.

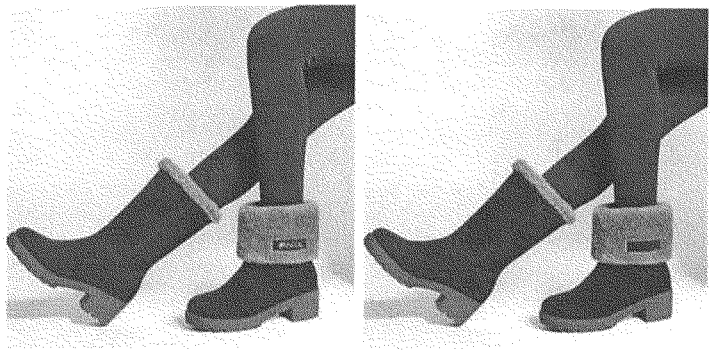
a. Discontinuities in Specimen Images Indicating Digital Alterations

We found that 26.0% (or 95) of the applications in our sample included specimen images showing discontinuities that indicated digital alteration. For example, the specimen shown below for Application Serial No. 87,300,262 for INMUINS and accompanying logo shows discontinuities indicative of alteration, yet the USPTO did not refuse registration on that basis and the application eventually registered as Registration No. 5,275,912.



b. Google Reverse Image Search Results and Matches to Previously Submitted Specimens for Different Marks

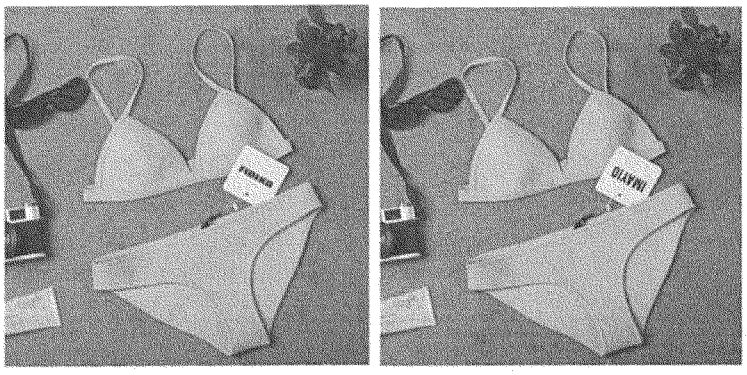
We further found that 12.6% (or 46) of the applications in our sample included specimen images that either matched a Google reverse image search image associated with a different company or mark or matched another specimen previously submitted to the USPTO for another mark. For example, shown below on the left is a specimen image that the applicant submitted in connection with Application Serial No. 87,289,826 for VANCOL. Below on the right is the image produced by a Google reverse image search query of the specimen image. The image on the right is used on numerous websites (for example, https://sg.carousell.com/p/winter-snow-wool-boots-191724168/). The application did not receive any specimen-related refusals and registered as Registration No. 5,270,328.



Two other examples may be instructive. The set of images below depicts, on the left, the specimen submitted in connection with Application Serial No. 87,362,577 for BEAL, and on the right, an image yielded by a Google reverse image search of the specimen image. The reverse image search image shows the same image but with Burberry branding appearing at https://m.88tph.com/sucai/12486888.html. The PTO refused this application on the basis that the specimen was digitally altered but did not detect the reverse image match.

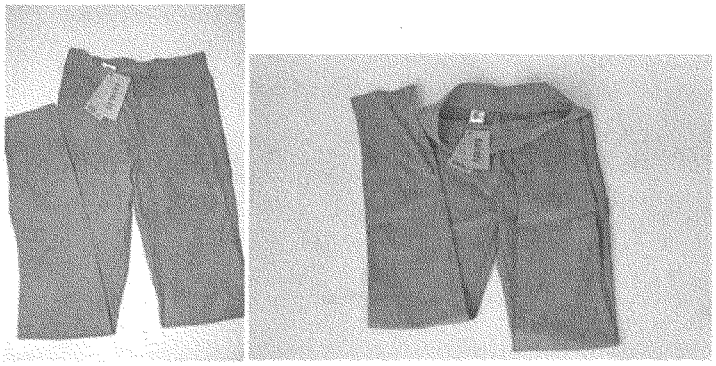


Similarly, Application Serial No. 87,309,926 for FIDIKO included the specimen image shown below on the left. On the right appears the reverse image search match as it appears with other branding at https://www.solidrop.net/product/neoprene-swimwear-sport-style-bikini-women-bathing-suit-triangle-bikini-set-top-and-bottom.html. The PTO refused this application on the basis that the specimen was digitally altered, but it did not detect the reverse image match.



Finally, shown below are side-by-side images of a near-exact match between an application specimen in our sample and a previously submitted specimen for a different mark. On the left is a specimen image for Application Serial No. 87,223,407 for FAYALEQ, filed on November 2, 2016 and registered on June 20, 2017 as Registration No. 5,227,023. On the right is a specimen image for Application Serial No. 87,350,423 for SWTDDY, filed on February 27, 2017. The PTO issued seven different specimen-related refusals of this

application but eventually registered the mark on April 16, 2019 as Registration No. 5,728,428.[1]



c. Marks Consisting of Unpronounceable Nonsense Words

We found that 44.4% (or 162) of the applications in our sample use a mark that consists of a nonsense word that is unpronounceable in English and that the applicant indicated has no meaning in any other language. Some examples of these nonsense marks in our sample are KIEDVLI, KELUOSIBODE, KXCFCYS, ALSYIQI, and KJAHSLK.

d. Hang Tags, Stickers, Collar Labels, Ecommerce Websites, and Foreign Pricing

We found that 55.3% (or 202) of the applications in our sample submitted a specimen with a hanging tag showing the mark; 4.7% (or 17) submitted a specimen with a sticker showing the mark; and 32.6% (or 119) submitted a specimen with a collar label showing the mark. Although these three factors can be consistent with legitimate use in commerce, we think the presence of any one of these factors raises a red flag suggesting the need for further inquiry.

Some of these tags had irregularities that we thought raised yet more significant red flags. We found tag irregularities in 3.0% (or 11) of the applications in our sample. These irregularities include the mark appearing crooked on the tag, the print quality of the mark on the tag being exceptionally poor, the tag being placed atop a preexisting tag, tags across multiple specimens for the same mark having different appearances, and a tag being ripped off of the specimen. Shown below is an example of tags of different appearances across the specimens (Application Serial No. 87,544,646 for MAXSOFT, with

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[1] Our research using Google reverse image search benefitted greatly from an unpublished seminar paper by one of our students. See Aidan Ann Murray, *Fraud at the USPTO* (2019) (working paper on file with authors).

3 different styles of collar labels across three specimens). The examiner did not note this inconsistency, and the mark was registered as Registration No. 5,658,920.



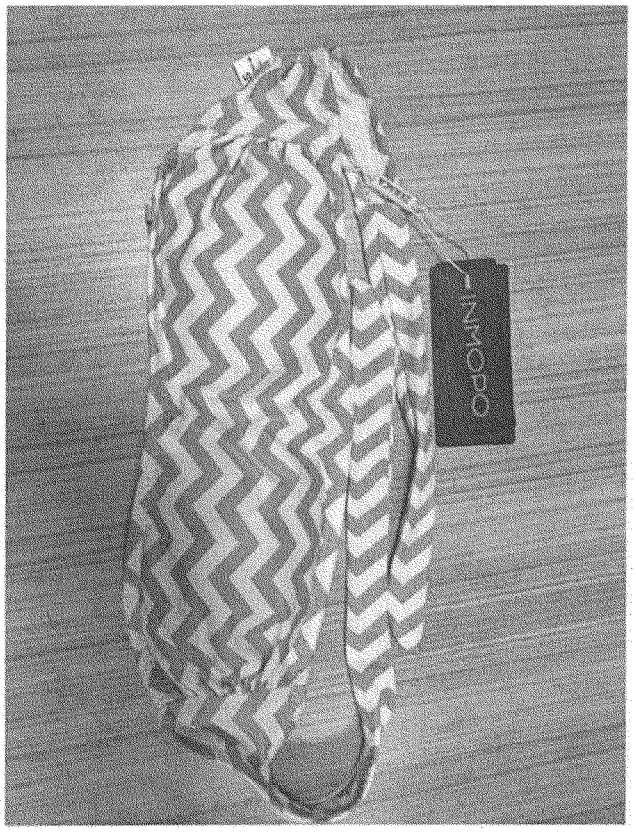
We further found that 15.1% (or 55) of the applications in our sample submitted a screenshot of a good for sale on an ecommerce site, such as Amazon, to show use in commerce. Here, too, specimen images in the form of ecommerce websites can be consistent with legitimate use, but also raise concerns that merit further inquiry.

Additionally, 1.4% (or 5) of the applications in our sample submitted a specimen depicting pricing in a foreign currency or commerce with delivery to a foreign rather than a U.S. address. This may indicate use in commerce, but not use in U.S. commerce. An example (Application Serial No. 87,359,150 for COTTON COMING) is below. The tag depicted in the specimen shows a price of 28 yuan. The PTO refused to register this application on the basis that the specimen image was digitally altered. The applicant then abandoned the application.



e. Specimens Depicting Other Companies' Trademarks

We found that 5.2% (or 19) of the applications in our sample included a specimen image that displayed the mark of another company on one of its specimens, indicating that the specimen consisted of a different company's product. An example is shown below. Application Serial No. 87,351,947 for INMOPO included a specimen image showing a product that also carried the mark ZERACA, which is a brand of swimwear (https://www.zeraca.com/). The application received no specimen-related refusal and registered on October 17, 2017 as Registration No. 5,309,950.



As another example, consider Application Serial No. 87,706,203 for ROOZOOE. The application included the specimen shown below, which displayed a hangtag for ROOZOE but also displayed the mark of CHANEL repeatedly along the sleeves, something

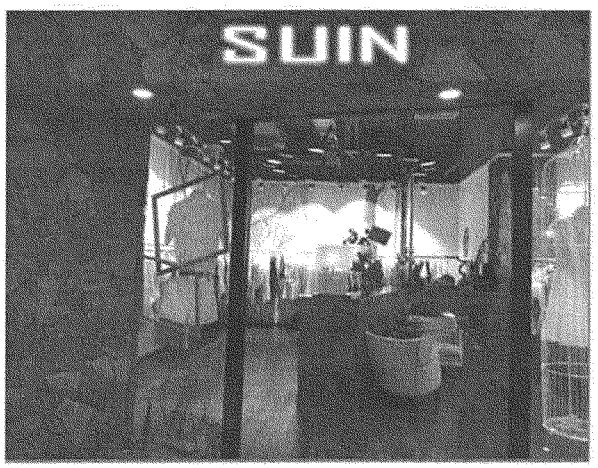
noted by the examining attorney in their refusal of registration due to the deficiency of the specimen.



f. Additional Indicia of Fraudulence

We also briefly note other factors that suggested that certain specimens in our sample were fraudulent. In two applications (0.6% of our sample of 365), the specimens displayed a misspelling of the mark. For example, shown below is a specimen image from Application Serial No. 87,534,972 in which the applied-for mark CYCLING STARS was misspelled on the specimen product as "Cyling Stars." The application was registered as Registration No. 5,411,978. Also shown below is the specimen image from another application, which used a fake store as a specimen (Application Serial No. 87,339,443, which registered as Registration No. 5,349,124).





g. General Data on USPTO Refusals on Basis That Application Included a Digitally-Altered Specimen

With respect to all trademark applications (not just those originating in China), our dataset of all trademark office actions issued by the USPTO since 2003 enables us to

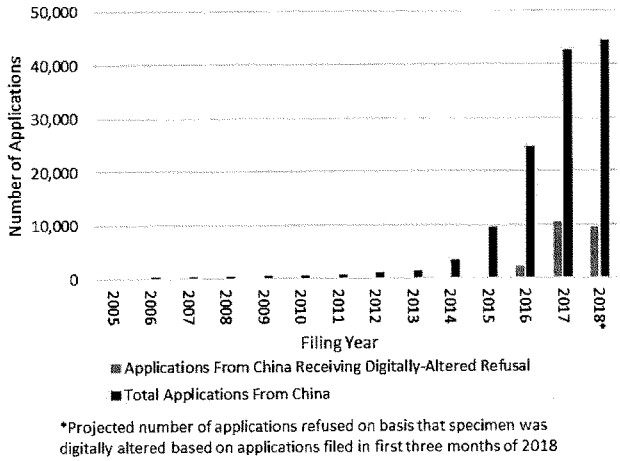
estimate the number of office actions that the USPTO has issued on the basis that the application included a digitally-altered specimen. Our data indicate that the USPTO first issued an office action on this basis in 2012 in connection with Application Serial No. 85,549,660 for the mark ALTER EGO, which originated in the United States. Table 1 below indicates that the USPTO issued digital-alteration refusals to 12,973 (or 0.6%) of the 2,154,990 applications filed for registration on the Principal Register in the years 2012 through 2017.

Table 1
Number of Applications Per Year Receiving
Digital-Alteration Refusals, 2012-2017

Filing Year	Applications Receiving Digital-Alteration Refusal	Total Applications
2012	1	306,861
2013	19	317,265
2014	48	335,982
2015	180	368,388
2016	3,473	389,307
2017	9,252	437,187
Total	12,973	2,154,990

Focusing now on Chinese applications, a very large proportion of applications receiving digital-alteration refusals originate in China. Specifically, 9,229 (or 71.1%) of the 12,973 applications filed from 2012 through 2017 that received digital-alteration refusals were Chinese in origin. Figure 1 below shows the significant increase since 2005 in the number of Chinese applications (in any class) and in the number of digital-alteration refusals issued to those applications. With respect to the entire population of 6,752 Chinese use-based applications filed in 2017 solely in Class 25 from which we sampled, 899 (or 13.3%) of these applications received a digital-alteration refusal.

Figure 1
Number of Use-Based Trademark Registration Applications from China Filed at USPTO and Number Refused on Basis That Specimen Was Digitally Altered, by Year, 2005-2018



*Projected number of applications refused on basis that specimen was digitally altered based on applications filed in first three months of 2018

2. Are there particular classes of goods or services for which applications containing fake or likely fake specimens appear to be more prevalent?

Figure 2 below indicates the proportion and number of applications in each class filed at the USPTO (from all countries, not just from China) from 2014 through 2017 that received a digital-alteration refusal. Class 9 (electronics goods) had the highest number of digital-alteration refusals with 3,062, and these constituted 1.3% of all applications filed in that class for that time period. Class 25 (apparel goods) also had a very high number of digital-alteration refusals, with 2,180, and these constituted 1.3% of all applications filed in that class for the time period.

Figure 2
Proportion and Number of Applications Filed at USPTO
That Received a Refusal on the Basis That the Specimen
Was Digitally Altered, by Nice Class, 2014-2017

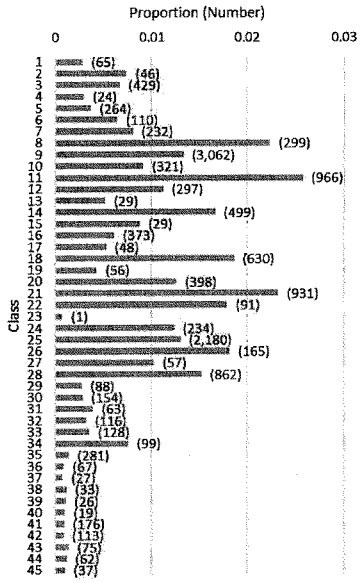
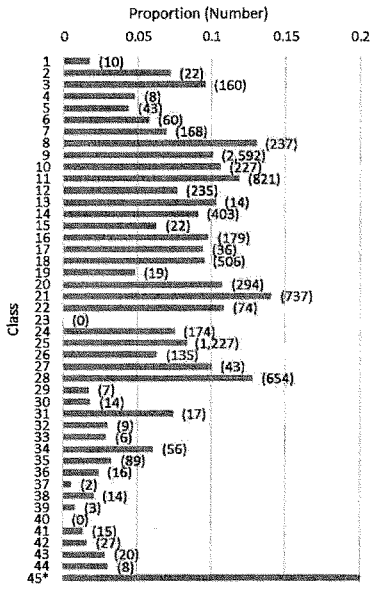


Figure 3 shows comparable data for applications originating in China. (Note that the scale of the x-axis is different from that in the previous figure.) Certain classes show high proportions of applications originating from China receiving digital-alteration refusals. For example, 14.1% of Chinese applications in Class 21 (including household utensils, glassware, and porcelain) received digital-alteration refusals, and 13.0% of applications in Class 8 (including cutlery) received digital-alteration refusals.

Figure 3
Proportion and Number of Applications Filed at USPTO
from China That Received a Refusal on the Basis That the Specimen
Was Digitally Altered, by Nice Class, 2014-2017



*For Class 45, two applications originating in China were filed and both received digital-alteration refusals.

We note that applications may be refused for including fake specimens for reasons other than that the specimen image was digitally altered. For example, an unaltered specimen image may show the applied-for mark being used along with some other company's mark (as in the CHANEL example above), and on that basis the USPTO may refuse registration. However, we think that the data showing in which classes digital-alteration refusals are most prevalent likely indicate more generally where fake specimens are most prevalent.

3. Would the trademark registration system benefit from additional processes to address fake specimens in files for which a trademark registration has already issued?

Under current law, the USPTO has broad authority to refuse to register a trademark if the application contains fake specimens of use.[2] After a mark's registration, however, the USPTO has almost no authority to reexamine or cancel the mark on its own initiative. The USPTO may do so only at a severely limited number of post-registration touchpoints. To maintain its registration, the registrant must file during the sixth, tenth, and each successive tenth year following the date of registration an affidavit verifying that it continues to use the mark in commerce, and this affidavit must include specimens of use. Upon inspection of the affidavit and specimens, the USPTO may refuse to maintain or renew the registration of the mark.[3] The USPTO has relied on this authority to cancel registrations, in whole or in part, based on audits to determine if the registrant's use actually meets the statutory requirement of use with respect to all or even any of the goods or services specified in the registration.[4] Beyond these limited forms of authority, however, the USPTO has no process to cancel on its own initiative trademark registrations, even those that do not comply with the requirements of registration.[5]

Trademark law provides third parties with two opportunities to ensure that a mark is not improperly on the Principal Register: opposition and cancellation. After the USPTO approves an applied-for mark to be published in the *Official Gazette*, the public has thirty days from the date of publication to oppose the registration.[6] If no opposition is brought or succeeds, use-based applications will automatically proceed to registration.[7] For all marks that proceed to registration, for a five-year period following the date of registration, a third party may petition to cancel the registration on any basis.[8]

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[2] *See* 15 U.S.C. § 1051(a)(1) ("The owner of a trademark used in commerce may request registration of its trademark on the principal register hereby established by paying the prescribed fee and filing in the Patent and Trademark Office an application and a verified statement, in such form as may be prescribed by the Director, and such number of specimens or facsimiles of the mark as used as may be required by the Director."); *id.* § 1051(a)(4) ("The applicant shall comply with such rules or regulations as may be prescribed by the Director. The Director shall promulgate rules prescribing the requirements for the application and for obtaining a filing date herein.").

[3] *Id.* §§ 1058-1059. The registrant of a mark in continuous use for five years following registration may also file a declaration that the registration has become incontestable, provided that certain conditions are met, such as that there has been no final decision adverse to the mark's continuing registration. *Id.* § 1065. This touchpoint does not provide the USPTO with authority to cancel the registration.

[4] Changes in Requirements for Affidavits or Declarations of Use, Continued Use, or Excusable Nonuse in Trademark Cases, 82 Fed. Reg. 6,259, 6,262 (Jan. 19, 2017) (codified at 37 C.F.R. §§ 2.161, 7.37).

[5] *See* Lipton Indus., Inc. v. Ralston Purina Co., 670 F.2d 1024, 1029-30 (C.C.P.A. 1982) ("[N]o ex parte vehicle for removing 'dead' registrations from the register is provided in the statute except for the provisions of [15 U.S.C. § 1058] requiring an affidavit or declaration of use to be filed during [specified periods]. There is no procedure for the Commissioner of Patents and Trademarks to initiate action against defunct marks which appear in registrations.").

[6] 15 U.S.C. § 1063(a).

[7] *Id.* § 1063(b).

[8] *Id.* § 1064(1).

After five years have passed from the date of registration, a third party may petition to cancel a registration for only a limited number of reasons.[9] At this juncture, a third party cannot petition to cancel the registration on the ground that the mark is merely descriptive (and consumers have not learned that it is a designation of source) or on the ground that the registered mark is confusingly similar with a previously used mark. As discussed in our previous written testimony, opposition and cancellation are insufficient in crucial ways, principally the high cost, which can be burdensome to smaller businesses, and the limited time in which an opposition can be filed.

Given the current state of the law, we think there are three beneficial opportunities for changes to ensure that applications or registrations with fake specimens are not part of the Principal Register. First, the USPTO should put in place processes that ensure it does a better job of detecting fake specimens before registration. Because there are too few ways for the USPTO to cancel registrations, the best-case scenario is that the USPTO detects marks with fake specimens before registration, when the USPTO's authority is broad. For example, the USPTO might put in place examiners that specialize in applications from regions like China where there is a high degree of probable fraudulence with regard to specimens. With specialization, the examiners might more easily detect signs of fraudulence, such as the same specimen being used repeatedly in different applications or the presence of digital alteration. Similarly, the USPTO might put in place a more refined protocol for examination of specimens to detect fraudulence, including investigation of the various factors we studied to detect probable fraudulence.

Currently, following registration, the USPTO needs to rely principally on third parties or limited touchpoints with registrants to cancel marks with fake specimens. That limits the USPTO's ability to address fake specimens. Therefore, we also think it would be beneficial to give the USPTO more extensive, but targeted, authority to cancel the registrations of marks with fake specimens on its own initiative. In particular, as new techniques and data for detecting fake specimens become available, it could be helpful to give the USPTO the authority to review all, or even a targeted sample, of registrations for fake specimens.

Third, as we advocated in our previous written testimony, we support the provision of economical ex parte proceedings that are available more comprehensively to allow third parties to seek the removal of improperly registered trademarks from the register.

Respectfully,

Barton Beebe

Jeanne Fromer

[9] *Id.* § 1064(3).

Peter M. Brody
Responses to Questions for the Record from
Rep. Henry Johnson, Jr., Chairman

Q1. *Your testimony largely focuses on the benefit of an irreparable harm presumption in cases where likelihood of confusion has been found (or deemed likely), but it also notes that the irreparable harm presumption should apply in Lanham Act cases where the standard is not likelihood of confusion, such as in dilution cases. Why should the presumption also apply in these cases?*

The Lanham Act explicitly protects famous marks from dilution. The statute recognizes two forms of this wrong: dilution by "blurring" (defined as an "association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark") and dilution by "tarnishment" (defined as an "association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark"). Both forms of dilution entail substantial harm to the *value* of a famous trademark in the marketplace – harm that, just like the harm from infringement, can be exceedingly difficult to quantify or fully and effectively remedy through damages. Consumers, too, suffer when an established trademark no longer serves to distinguish the owner's goods or services from those of others (blurring) or when a trademark no longer conveys the goodwill and positive reputation once associated with the goods or services it represented. These potentially permanent and irreversible harms to the trademark owner and consumer are most effectively remedied through injunctive relief. Thus, the rebuttable presumption of irreparable harm is just as necessary and important to ensuring the robust availability of the injunctive remedy in the dilution context as in the infringement context.

Q2. Have plaintiffs had difficulty proving irreparable harm in courts where the presumption is no longer followed?

Indeed, in a number of trademark infringement cases, courts have denied injunctive relief despite finding that confusion is likely or has occurred. For example, in an oft-cited decision, the Court of Appeals for the Ninth Circuit denied an injunction notwithstanding the plaintiff's submission of evidence of actual customer confusion, stressing that "to establish irreparable injury, a trademark owner must do more than merely demonstrate that a trademark has been infringed or that consumers have been confused." *Herb Reed Enterprises, LLC v. Florida Entm't Mgmt., Inc.*, 736 F.3d 1239, 1250 (9th Cir. 2013). Courts in that Circuit are bound by that decision. *See, e.g., Cerule, LLC v. Stemtech Healthsciences, Inc.*, 2016 U.S. Dist. LEXIS 112741 (D. Ore. 2016) (noting that "the Ninth Circuit specifically rejected the argument that a showing of infringement supported a finding of irreparable harm"); *TPW Mgmt., LLC v. Yelp Inc.*, 2016 U.S. Dist. LEXIS 147884 (N.D. Cal. 2016) (holding that accepting plaintiff's claims on potential loss of control over its mark and reputation "would necessarily collapse the likelihood of confusion and the irreparable harm analyses, in direct contravention to the law in the Ninth Circuit"); *Williams v. Green Valley RV, Inc.*, 2015 U.S. Dist. LEXIS 103409 (C.D. Cal. 2015) (finding that evidence of underlying actual confusion in the irreparable harm context is "nothing more than a regurgitation

of consumer confusion evidence, which is the exact type of evidence explicitly rejected by the Ninth Circuit in *Herb Reed*. Irreparable harm is no longer presumed or proven by a mere showing of consumer confusion").

Courts in other federal Circuits have reached similar conclusions. *See, e.g., Brandywine Prod. Group Int'l v. Universal Distrib. Ctr. LLC*, 2016 U.S. Dist. LEXIS 132195 (D.N.J. 2016); *Kotori Designs, LLC v. Living Well Spending Less, Inc.*, 120 U.S.P.Q.2d 1800 (M.D. Fla. 2016).

While courts across the nation are now holding that evidence of confusion does not, by itself, establish irreparable harm, there is scant discussion in the cases of what sort of evidence *would* satisfy that prong of the four-part test for injunctive relief. This lack of clarity as to the nature of the burden of proof compounds the difficulties for trademark owners seeking an effective remedy for infringement.

A2C2 Automotive Anti-Counterfeiting Council

U.S. House of Representatives
Committee on the Judiciary
Subcommittee on Courts, Intellectual Property, and the Internet

Hearing on "Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses"

Questions for the Record – Rep. Henry C. "Hank" Johnson, Jr., Chairman

Replies from Joseph Cammiso
President, Automotive Anti-Counterfeiting Council, Inc. (A2C2)

September 19, 2019

1. Under the current system, rights owners typically bear the burden of policing individual marketplaces for counterfeits and submitting takedown complaints, which rights holders consider resource-intensive and ineffective at scale. What incentives could Congress provide to meaningfully change this system to one where e-commerce platforms play a larger role in proactively addressing the proliferation of counterfeit goods?

   Contained in my Written Statement submitted in advance of the hearing are six recommendations that A2C2 believes would help to reduce the proliferation of online counterfeit sales. To summarize, our recommendations are:

   1) **Increase consumer awareness about the dangers of counterfeit auto parts and how consumers can protect themselves**

      We propose that marketplaces promote consumer awareness and implement a simple way for consumers to report bad actors to those who can take proper actions.

   2) **Increase accountability and responsibility of e-commerce platforms in preventing sales of counterfeit goods**

      We propose that marketplaces develop common best practices and enforcement methods for the benefit of consumers, brand owners and marketplaces, alike.

   3) **Proactively share information about bad actors among industry and law enforcement, and notify online buyers of counterfeit auto parts from bad actors**

      We propose that an accountability model be developed to include methods for information sharing with stakeholders and notifications to consumers who may have purchased health-and-safety-related counterfeits, informing them of the potential associated risks and what they can or should do.

FCA FIAT CHRYSLER AUTOMOBILES · Ford · GM · HONDA · HYUNDAI · KIA · NISSAN GROUP OF NORTH AMERICA · SUBARU · TOYOTA · VOLKSWAGEN GROUP OF AMERICA

4) **Increase seller, supplier and product vetting to combat the presence of bad actors online**

We propose that marketplaces improve vetting of sellers, suppliers and products by implementing more stringent requirements that validate seller credentials and product authenticity. (Especially if associated with China, the source of approximately 90% of counterfeits, per Homeland Security Investigations.)

5) **Strengthen penalties for repeat offenders of health and safety products (e.g. auto parts)**

We propose that standardized parameters and more stringent penalties be imposed on sellers, especially those offering products like auto parts that impact health and public safety.

6) **Policy Violations**

We propose that marketplaces police their sites and address policy violations without brands needing to do it for them.

2. Are there changes to the statutory standard for liability in counterfeiting cases that Congress should consider to effectively address the proliferation of counterfeit goods?

Regarding increased liability for e-commerce marketplaces, we support efforts to remedy the impact that the Tiffany v. eBay case has had on brand owners' ability to hold platforms liable for contributory infringement. Placing the onus only on brand owners to prevent counterfeit sales has done little to resolve the problem and has caused brand owners to spend significant resources to police e-commerce marketplaces. Efforts to increase the accountability of e-commerce platforms for the sale of counterfeit goods should be considered.

Regarding increased liability for individuals found guilty of selling counterfeit auto parts, we support increased prison sentences, fines and penalties.

3. What specific measures should e-commerce platforms use to better vet sellers and products? Is there a role Congress can play in assisting or incentivizing these efforts?

We propose that marketplaces improve vetting of sellers, suppliers and products by implementing more stringent requirements that validate seller credentials and product authenticity. (Especially if associated with China, the source of approximately 90% of counterfeits, per Homeland Security Investigations.)

4. What is a rights holder's recourse when a third-party counterfeit seller cannot be accurately identified, located, or served with a complaint? Who, if anyone, should be liable in these instances?

   Currently, rights holders have very little, if any, recourse available to them when a third-party counterfeit seller cannot be accurately identified, located, or served with a complaint. It is A2C2's belief that the platforms that facilitate these sales should be liable in these instances.



Hearing on "Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses"

Questions for the Record
Rep. Henry C. "Hank" Johnson, Jr., Chairman

Robert Barchiesi, President, International AntiCounterfeiting Coalition:

1. How can e-commerce platforms best keep pace with counterfeiters' changing tactics? Are there enforcement measures that e-commerce platforms can adopt that do not run the risk of being outdated or of being outmaneuvered?

To keep pace with counterfeiters, online platforms must responsibly devote resources to develop comprehensive programs to protect intellectual property rights (IPR). While there can be different operational approaches to IPR enforcement by online platforms, in our experience no single tactic, and no party working alone, can be successful. Comprehensive programs can generally be broken down into four core areas: (i) Notice and Takedown, (ii) Proactive Monitoring, (iii) Offline Enforcement and (iv) Stakeholder Collaboration, which has resulted in marked success and industry-best practices. Collaboration is among the most critical pieces – this isn't a problem that online platforms or rightsholders can or should solve alone.

Over the past decade, I've seen firsthand that the single most critical action that e-commerce platforms, and other intermediaries, can take to mitigate the sale of counterfeit and pirated goods being sold online is to share assets, resources, and expertise with rights-holders. The IACC has been a leader in this regard, working collaboratively across industries, and we have seen tremendous success. For example, in 2010, the IACC working together with the White House, launched a groundbreaking program in collaboration with Visa, Mastercard, American Express, PayPal, Discover, MoneyGram and Western Union. This "Follow the Money" approach recognized payment intermediaries as a logical choke point for rights holders to target. Further, utilizing payment blockades has enabled rights-holders and law enforcement to reach online criminal enterprises that are hosted abroad. The unprecedented cooperation by the payment industry raises the bar to which other intermediaries should strive.

In 2012, building upon the successes of the IACC's collaborative strategy, we reached out to Alibaba. We saw that the Taobao marketplace was rife with counterfeits and Alibaba lacked an effective IPR enforcement strategy. However, I also saw a company where the leadership was totally committed to working collaboratively to rid their marketplace of counterfeits. In the past four years alone, Alibaba has so substantially enhanced their IPR protection program to the point that we, and many other stakeholders are comfortable in referring their IPR protection program as the gold standard within the e-commerce industry. Moreover, we fully agree with the statement of the full Committee's Ranking Member, Rep. Collins, that

"...Alibaba's anti-counterfeiting policies and programs are significantly more effective than any of their U.S. counterparts."

In 2018, the IACC extended our outreach and collaborative approach to Amazon. To date, we have coordinated on a streamlined system to provide real time feedback regarding rights-holders' experience with Amazon's reporting tools. Further, the same mechanism allows rights-holders to inform Amazon's automated brand protection tools so that they can continue to iterate in response to counterfeiters' changing tactics and marketplace trends. This collaboration remains in its nascent stages though, and we're cognizant of the fact that wholesale change is not possible overnight. And while we're encouraged by the progress that we've seen to date, we also recognize that significant work remains to be done. Continued, and expanded, efforts are necessary to fully address counterfeiters' attempts to exploit the marketplace.

The aforementioned collaborative programs we've developed provide proof of concept for our approach. In working together, we have had a front-row seat to the evolution of counterfeiters' tactics to avoid detection; and to be frank, every action we've taken has been probed for gaps, loopholes, or technological workarounds by counterfeiters. I fully expect that this will continue to be the case, because, simply put, the profits that counterfeiters stand to make from their illicit trafficking are too large to expect otherwise. So, rather than searching for policies and practices that avoid the risk of becoming outdated or that risk being outmaneuvered, perhaps the better question is how we can develop an enforcement regime that is itself capable of evolving alongside counterfeiters' tactics.

And while it's likely that anti-counterfeiting efforts will remain, to some extent, reactive; as discussed in my earlier testimony, perhaps the greatest opportunity for improved enforcement can be found in proactive efforts to keep counterfeiters off of e-commerce platforms in the first place. We believe that there are a number of steps that could be taken to ensure that individuals seeking to sell to consumers – particularly those engaged in or intending to engage in commercial-scale activity, as determined by their volume of sales or advertised inventory – be held to a standard commensurate with that of their counterparts in the brick and mortar context. The development of industry-wide best practices for onboarding merchants, uniformly implemented, would serve to level the playing field to the benefit of all of the legitimate stakeholders. These should include requirements for obtaining and verifying a seller's name and address; relevant financial information; business documentation such as articles of incorporation, identification of officers, a registered agent, beneficial ownership, and licensing information, tax id numbers, and the like. Providing such documentation would be at most, a minimal inconvenience to legitimate sellers, and any such inconvenience would be easily offset in terms of the benefits realized by keeping counterfeiters from unfairly competing in the e-commerce market.

2. Are there any barriers or limitations that prevent e-commerce platforms from adopting technology-based mechanisms that address concerns regarding proper vetting and repeat offenders? What framework would best address those barriers and limitations, if so?

Counterfeiting operations have grown increasingly global in scale, and their supply and distribution chains far more complex. This inherently makes it more challenging for rights holders, law enforcement and online platforms alike. We view leveraging available technology as an important component of developing scalable solutions that can have a broad impact on IP enforcement efforts. In our attempts to do so however, we should not forget a term long-used by computer programmers, "GIGO" – "Garbage In, Garbage Out." If we're analyzing inaccurate, or incomplete, data, then even the most advanced technology will fail to provide the solutions we're seeking. Unfortunately, some of the greatest challenges we face with regard to leveraging technology more effectively are tied to our abilities to ensure that the information we have about sellers and the products they're offering for sale are accurate in the first instance, and to ensure that the information is available to those who are best positioned to make use of that data in the second.

As discussed above, obtaining verifiable information from prospective sellers – and, in fact, verifying the data provided – must be a threshold consideration. Congress has taken a similar approach with regard to the traditional distribution chain for counterfeit goods, with the enactment of Section 116 of the Trade Facilitation and Trade Enforcement Act, requiring customs brokers to adhere to minimum standards to confirm the identity of individuals seeking to make use of their services in bringing goods into the U.S. market. The same sort of commonsense logic should apply in the e-commerce context as well. A legitimate seller should be required to demonstrate proof of their identity, and those offering significant volumes of goods should likewise be required to demonstrate that they've sourced those products through legitimate channels. This would seem to be the bare minimum that consumers should expect in their interactions with online sellers or the platforms that facilitate those interactions.

Ensuring the accuracy of sellers' data at the time of onboarding (and periodically re-confirming its validity) is only one piece of the puzzle, however. Where illicit sellers have already infiltrated the system, and are later discovered to have been engaged in sales of counterfeit goods, that information should be made available to other platforms where the same individuals may have already established a presence, or to which they may seek to move their operations after a platform has taken action to block future sales of counterfeits. Such information sharing will aid in preventing counterfeiters from "forum shopping" for new outlets where they might go undetected. Similarly, where illicit sales have been positively identified on a given platform, information should be made available to other relevant stakeholders, including e.g., government partners such as U.S. Customs & Border Protection, who could leverage that data for improved targeting for the interdiction of counterfeit imports.

As noted in my oral testimony, we've begun exploring opportunities for such data sharing among e-commerce stakeholders across every sector. On the same day that the Subcommittee held this hearing, we participated in a working group meeting hosted at the National IPR

Coordination Center with numerous platforms and shipping companies. In that same vein, we've recently partnered with HSI to convene an IP Advisory Board consisting of representatives from 19 different industry sectors, financial and shipping logistics providers, e-commerce platforms, and our public-sector enforcement colleagues to provide a forum for discussion and collaboration on a range of voluntary efforts. The breadth of participants contributing to this effort, and the support offered by the relevant law enforcement agencies for this initiative is unprecedented; and I'm confident that it will facilitate concrete, practical action on these issues.

One of the avenues we're most interested in pursuing follows a model already in use within the financial sector to facilitate the sort of intelligence sharing discussed above to identify high-risk merchants with a demonstrated history of policy violations and/or illegal activity. To be clear, this is not a burden that can or should fall solely on the e-commerce platforms; rather, it demands a coordinated effort by all of the relevant stakeholders in both the private and public sectors. We've found great success and seen significant progress materialize from this sort of voluntary collaborative approach in the past, and will continue to seek greater engagement with a variety of stakeholders to achieve our ultimate goal of bringing about a truly safe and trusted online market.

Joseph Cammiso, President, Automotive Anti-Counterfeiting Council, Inc., Mr. Barchiesi, and Ms. Mond:

1. **Under the current system, rights owners typically bear the burden of policing individual marketplaces for counterfeits and submitting takedown complaints, which rights holders consider resource-intensive and ineffective at scale. What incentives could Congress provide to meaningfully change this system to one where e-commerce platforms play a larger role in proactively addressing the proliferation of counterfeit goods?**

As discussed in my prior testimony, we strongly support a more proactive approach to online enforcement against counterfeits. Generally speaking, rights-holders – and I expect most platforms too – would agree that the current notice and takedown process has proven to be extremely resource-intensive and fails to provide an effective means to curtailing counterfeit sales. The obligation of platforms to take action under current law is limited to those instances in which they have actual knowledge of the illegal activity. To that point, it is worth recognizing the investments and efforts that some platforms have made, which already go beyond those black-letter requirements. Proactive measures to screen sellers and listings, in some cases leveraging impressive data analysis and machine learning technologies, have obviated the need for direct intervention by rights-holders in many cases; but despite these efforts by e-commerce platforms, counterfeit sales online remain widespread. There is more that can and should be done to address the problem.

In my responses to the questions posed directly to me by Chairman Johnson, I highlighted the importance of improved collaboration and information sharing between stakeholders, particularly with regard to the vetting and onboarding of merchants. I firmly believe that the greatest opportunity we have to make a significant reduction in the volume of counterfeit trafficking online lies in keeping bad actors out of the system in the first place. It is the same logic applied in our government's broader IP enforcement strategy. While retail-level enforcement against individual sellers plays a role, the true "front-line" of enforcement is the border, where we seek to interdict illicit goods before they ever reach store shelves. In the same way, we should seek to keep counterfeit goods from reaching the virtual shelves of e-commerce platforms. U.S. Customs and Border Protection conducts targeting based on intelligence developed from its own past enforcement efforts, and the data generated by a broad range of actions undertaken by other stakeholders. Importantly, Congress has also imposed requirements that key parties, e.g., customs brokers, know their customers, and take necessary steps to verify relevant information about the individuals and entities with whom they're doing business. A similar approach to leverage stakeholders' data and expertise would be beneficial, and likely far less resource-intensive than the current notice and takedown paradigm, and we would welcome appropriate action by the Congress to facilitate such an approach.

2. Are there changes to the statutory standard for liability in counterfeiting cases that Congress should consider to effectively address the proliferation of counterfeit goods?

I do believe that Congress should continue to examine the statutory standard of liability (as interpreted by relevant case law). To be clear however, I view liability not as an end in itself, but as a mechanism for achieving the underlying goals of our IP protection and enforcement regime. As highlighted by Question 1 above, our current enforcement model is "resource-intensive and ineffective at scale;" the debate around liability arises, in turn, as a symptom of that dysfunction. In my written and oral testimony, I discussed at length the IACC's efforts in recent years to develop collaborative solutions that are both scalable and which equitably distribute the burden of enforcement among stakeholders. The progress that we've seen leads me to believe that the adoption of a more effective and proactive approach to enforcement online – keeping counterfeiters off of e-commerce platforms in the first place, preventing them from migrating their operations to other platforms or standalone websites, and imposing meaningful penalties when they have been identified – would to some extent obviate the need for considering broader liability.

I expect the Members of the Committee are well-versed in the current standard, arising out of the 2nd Circuit's ruling in the Tiffany v. eBay case. In brief, a platform operator cannot be held liable for sales of counterfeit goods on its platform by a third-party, unless the platform operator

has actual knowledge of the specific infringing activity at issue and fails to act expeditiously to remove or disable access to that listing. With its ruling, the court effectively enshrined a notice and takedown process that is widely viewed as an inefficient and ineffective means for dealing with the trafficking of counterfeit goods. A major concern has been that the court's ruling would serve as a ceiling on e-commerce platforms' efforts; as a practical matter though – at least in terms of the larger and more well-known platforms operating today – those concerns have not been borne out.

Though notice and takedown continues to play a significant role in the overall enforcement process, necessitating the investment of countless man-hours and financial expenditures; major platforms have worked both independently and in cooperation with rights-holders to develop proactive mechanisms that go far beyond the legal requirement of responding to takedown notices. These increasingly technology-driven solutions and practices adopted by those platforms are enabling more rapid identification and interdiction against bad actors. Those who have done so, including platforms that we're currently engaging with, should be recognized for those efforts. And if Congress chooses to re-visit the issue of where the line of liability should fall, some of these tools and practices that have been developed may offer insights into what is feasible, and what is reasonable. Further, Congress should not discount the potential impact of other tools to enable rights-holders and consumers to more effectively pursue counterfeiters (and their assets) located abroad, which would contribute to the same ultimate goal of ensuring that victims receive their just compensation.

I welcome the opportunity for further discussion of this issue, as well as Congressional support for the ongoing work within the private sector to identify and implement new tools and new approaches that will lead to a more efficient and more effective enforcement regime. As discussed in my testimony, I'm encouraged by the progress we've made in recent years, and with the continued engagement by stakeholders across the e-commerce ecosystem, as we seek to move beyond a notice and takedown model that has failed to keep pace with the practical realities of the online market.

3. What specific measures should e-commerce platforms use to better vet sellers and products? Is there a role Congress can play in assisting or incentivizing these efforts?

There seems to be widespread consensus among stakeholders that better vetting of sellers would significantly diminish the illicit trafficking of counterfeit goods online, and we are actively working to develop reasonable and effective criteria to provide a framework for such vetting. As a starting point, I would point to relatively recent work undertaken by U.S. Customs and Border Protection to implement Section 116 of the Trade Facilitation and Trade Enforcement Act – the so-called "Know Your Customer" provisions to be adopted by customs brokers in verifying and validating the identities of, and documentation provided by,

individuals and entities who seek to avail themselves of the brokers' services. Like customs brokers, e-commerce platforms are uniquely situated in the distribution chain to serve as a gate-keeper to identify bad actors before they're able to get their illicit wares to market.

Customs brokers are currently required by law to obtain a valid power of attorney from their clients, and the proposed rule published by CBP on August 14, 2019, provides a detailed discussion of the types of information that brokers are required to obtain from their customers, which include the following:

- The client's name;
- For a client who is an individual, the client's date of birth;
- For a client that is a partnership, corporation, or association, the grantor's [i.e., the individual executing the power of attorney] date of birth;
- For a client that is a partnership, corporation, or association, the client's trade or fictitious names;
- The address of the client's physical location (for a client that is a partnership, corporation, or association, the physical location would be the client's headquarters) and telephone number;
- The client's email address and business website;
- A copy of the grantor's unexpired government-issued photo identification;
- The client's Internal Revenue Service (IRS) number, Employer Identification Number (EIN), or Importer of Record (IOR) number;
- The client's publicly available business identification number (e.g., DUNS number, etc.);
- A recent credit report;
- A copy of the client's business registration and license with state authorities; and
- The grantor's authorization to execute power of attorney on behalf of client.

We believe the required data points provide an excellent starting point in terms of the sort of information that should be collected by e-commerce platform operators during the process of onboarding sellers. The Federal Register Notice detailing the proposed rule, likewise, provides guidance on how the required data points should be validated, including through the use of a variety of publicly available tools and databases. Importantly, the proposed rule requires this data collection and validation to take place *before* the broker begins conducting business on behalf of their customer; it also mandates periodic re-validation, and imposes recordkeeping obligations. Individuals or entities who wish to benefit from facilities offered by e-commerce platforms should be subject to similar requirements before they're permitted to sell to the public. While there may be some room for flexibility with regard to requirements imposed on casual sellers, the above should unquestionably apply to commercial sellers (i.e., those who exceed a certain level of sales or whose purported inventory exceeds a certain threshold). At minimum though, a sufficient level of detail must be applied across the board

to prevent sellers from operating duplicate accounts in an effort to skirt sales and inventory thresholds that might trigger the more stringent rules applied to commercial-level sellers.

As discussed previously, every seller on an e-commerce platform must, by necessity, link their account(s) to a payment account. Cooperation among platform operators and the financial sector to verify and validate information provided by sellers (and to better identify commonalities between seller accounts that may not be evident upon a superficial examination) could be extremely beneficial as well. We have found great success in our own work with the payment sector in identifying networks of related sites and sellers which could prove instructive in the platform environment as well. Communication among the variety of stakeholders is a high priority, and we'd also strongly encourage enhanced collaboration between individual platforms so that when high-risk sellers or bad actors have been identified and remedied on one site, they're not able to continue to act with impunity through other outlets.

One factor that is widely viewed as contributing to the persistence of illicit sales online is the lack of any centralized authority for the licensing of sellers as has long been the norm in the brick and mortar context. If I want to open a retail store here in Washington, there's a standard process for licensing and registration that I'm expected to follow. If I choose to open a new location in another state, I'm subject to that state's process as well. If I choose to open a virtual storefront though, I can sell to consumers in all 50 states and around the world with minimal oversight or regulation. I believe that to the extent possible though, the rules of the road should be the same for a seller whether they're operating online or off. There have been various proposals to fill that gap, including the development of a certification or similar process that could help to provide greater assurance of the legitimacy of online sellers, and we believe that such an approach warrants further exploration.

Counterfeiters should not be permitted to shield themselves from liability or from the scrutiny of consumers, legitimate online sellers, platforms, and rights-holders. By adopting reasonable, and dare I say commonsense, approaches to vetting sellers online; we can ensure that those sellers remain accountable for their actions.

4. What is a rights holder's recourse when a third-party counterfeit seller cannot be accurately identified, located, or served with a complaint? Who, if anyone, should be liable in these instances?

Rights-holders typically have fairly limited recourse when a third-party counterfeit seller cannot be accurately identified, located, or served with a complaint. Such difficulties have been a long-standing obstacle to effective enforcement online in the context of illicit sales through standalone websites; and there are countless examples of rights-holders litigating against John Doe defendants, or defendants who simply allow litigation to proceed in absentia,

confident in the fact that their assets are largely untouchable, and that any judgment obtained against them will be, in practice, unenforceable. While a multi-million dollar verdict in such a case may result in a catchy newspaper headline and draw some much-needed attention to the scope and scale of the problems faced by intellectual property owners, it does little in terms of providing any real monetary relief and any deterrence to future offenses is negligible. Further, given the costs associated with litigation, such cases are without a doubt a net loss for those plaintiffs. In the context of third-party sales on e-commerce platforms, any sort of financial recovery by rights-holders or consumers is likely to be exceedingly difficult where the seller of those goods cannot be identified, located, or served with a complaint. These types of difficulties are part of the reason that my testimony has stressed the vital importance of vetting sellers – not simply their identities, but also relevant business and financial information, information about their physical location, and their sourcing of goods. When bad actors are kept out of the marketplace in the first instance, liability ceases to be a concern.

With regard to the question of who, if anyone, should be liable for illicit sales by a third-party who cannot be located or identified, my thoughts largely mirror those expressed in response to Question 2, above. As set forth therein, current law does provide for platform liability in instances where the platform has actual knowledge of the items being counterfeit and fails to take reasonable action to prevent further sales; such liability would certainly be available even in cases where the seller could not be located. Absent factual circumstances that rise to meet the Tiffany v. eBay standard, we are aware of at least one recent case in another area of law which has raised the possibility of extending liability to a platform in cases where a third-party seller could not be located. The ultimate issue of liability in that case remains unsettled at this point, however.

Without some objective criteria which might be applied, it is a difficult task to make a blanket determination regarding to whom, or under what circumstances, liability should apply when a third-party seller cannot be located. If, for example, a platform has adopted and implemented reasonably robust procedures for vetting and onboarding merchants, and yet some bad actor has still managed to infiltrate the platform, and subsequently sells counterfeit goods to unwitting consumers, one might be hard-pressed to impose strict liability for those acts by third-parties. Conversely, where a platform operator has performed little or no due diligence with regard to the onboarding of third-party sellers, one must ask at what point does that sort of laissez faire approach rise to the level of actionable negligence or willful blindness. This is a question that remains unanswered by the current statutes, and the development of best practices in this area has been a priority in our ongoing discussion with other stakeholders.

As discussed previously, we view the extension of liability not as an end in itself, but as a mechanism for ensuring that injuries – whether the infringement of intellectual property rights or otherwise – can be compensated, and injured parties made whole. Other tools, for example – requiring third-party sellers to post a bond as surety to offset claims from rights-holders and

consumers – may also be available to accomplish that same goal. We would welcome the Committee's further investigation of this issue with an aim of identifying a range of potential remedies for pursuing third-party sellers and ensuring that appropriate remedies are available to victims even where those third parties remain out of reach.

the toy association
Inspiring Generations of Play

1200 G Street NW • Suite 200 • Washington, DC 20005
t. 202.459.0354 • e. info@toyassociation.org

September 27, 2019

Rebecca Mond Responses to Questions for the Record Submitted by Members of the Subcommittee on Courts, Intellectual Property, and the Internet

As you note in your testimony, manufacturers of children's toys must follow stringent safety regulations and undergo testing before appearing on the shelves in brick-and-mortar stores, while counterfeiters using e-commerce platforms get to play by a different set of rules. In what ways could e-commerce platforms best address this loophole, and how should Congress assist in those efforts?

To demonstrate safety, online marketplaces should require that sellers provide Children's Product Certificates (CPC) and set up a process to verify the legitimacy of the CPC. Pursuant to the Consumer Product Safety Improvement Act (CPSIA), retailers may request a CPC from any manufacturer, which includes citations to the tested safety regulations, the province and country of manufacturer, the importer, a contact person (who maintains test records), and the testing lab information. Brick and mortar retailers typically require CPCs or similar documentation and have robust product safety requirements in place that go well beyond statutory requirements. Online marketplaces should take it upon themselves to request these CPCs and take additional measures to ensure the authenticity of the CPCs and the safety of the toys offered through their marketplaces. This would allow for assurances as to regulatory compliance by the seller and the product being offered, and would provide extensive information about the particular product if there were claims of infringement or regulatory violations and safety concerns. Alternatively, the Consumer Product Safety Commission could consider revisions that would require online marketplaces be bound to the same product safety obligations under CPSIA as other brick and mortar retailers. These would include the duty to report unsafe products to the CPSC.

Under the current system, rights owners typically bear the burden of policing individual marketplaces for counterfeits and submitting takedown complaints, which rights holders consider resource-intensive and ineffective at scale. What incentives could Congress provide to meaningfully change this system to one where e-commerce platforms play a larger role in proactively addressing the proliferation of counterfeit goods?

Ninety five percent of the toy industry is made up of small businesses and these small businesses are at a significant disadvantage when it comes to tackling counterfeits as they have to register with each ecommerce platform to perform takedowns – a costly and time-intensive process. While platforms have established programs to help brands remove counterfeit listings, many of these programs are reactive and require the constant vigilance and engagement of the brand owner to identify counterfeit listings.

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1200 G Street NW • Suite 200 • Washington, DC 20005
t. 202.459.0354 • e. info@toyassociation.org

Moreover, some platforms offer more protection to "more important brands" than they offer to others putting small businesses at a further disadvantage. Platforms should instead tier protections based on categories that are most likely to be subject to IP infringement and categories that pose a health and safety threat. For example, platforms could proactively require that marketplace sellers provide Children's Product Certifications, which are required for all toys sold in the U.S. demonstrating compliance with toy safety standards. We encourage Congress to explore whether marketplaces should have greater liability to ensure the authenticity and the safety of the products they sell similar to their brick and mortar counterparts. Without liability, the incentive for platforms to police their own marketplace is weak as they are profiting from the sales of counterfeit goods with little to no risk.

Are there changes to the statutory standard for liability in counterfeiting cases that Congress should consider to effectively address the proliferation of counterfeit goods?

Yes, marketplaces should be liable for products the same way as brick and mortar retailer for third party products in their stores. New legislation may be needed to accomplish this. As to existing law that should be reviewed and potentially revised, we see the following:

Copyright Act §512: Marketplaces rely on the Copyright Act §512 or the "internet service provider safe harbor" to limit their responsibilities for copyright infringing materials posted by sellers. This provision must be updated based on the realities of rampant infringing goods sold online and the role marketplaces play in selling and promoting copyright infringing goods. As a preliminary matter, we would argue that section 512 should have limited applicability to the sale of hard goods through online marketplaces. To start, section 512 requires that a service provider "does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity..." 17 U.S. Code § 512 (c)(1)(b). Many online marketplaces sell and profit from infringing materials/products, whether by charging for a listing or by directly participating in the transaction, advertisement revenue, warehousing fees, supply chain fees, etc. In other words, they make money from selling services and access to their platforms that not only enable but enhance the sale of illicit goods. Moreover, marketplace platforms are engaged in the transit, storage, advertisement, sale or underlying financial transaction of goods that infringe copyrights – these activities go well beyond the types of service providers identified in 512. In other words, the ability of platforms to provide A-Z lifecycle services to support the range of services necessary for infringing products to enter into the stream of commerce was not clear and present during contemplation of the 512 safe harbor 20 years ago. We therefore suggest this provision be updated to clarify the responsibilities marketplaces have when it comes to the sale of copyright infringing goods.

In addition, there are problems with the counternotification process from section 512, which was not designed for the hard goods sales context. Systems based on 512 allow the infringer to send a counternotification without any proof and then require the owner must file suit to stop the product from being relisted. Even a handful of counternotices can be a significant financial burden for a small company. With the sheer number of infringing products, in the absence of a "loser pays" provision for such suits and because many infringers are often based outside the U.S. and are functionally judgement-proof, filing litigation for each counternotification is often not feasible.

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t. 202.459.0354 • e. info@toyassociation.org

Communications Decency Act §230: Online retailers use this section to avoid liability for a variety of harms caused by sellers on their marketplaces such as sales of fraudulent or unsafe goods, and false statements made by sellers about counterfeit products on its site. Using section 230 as such perverts the purpose of the Communications Decency Act, which was in fact intended to allow the sites to restrict objectionable content. Section 230 has allowed that "No provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider." Based on this language, online marketplaces are not considered the speaker or publisher of false statements about products posted by sellers. However, this language should not shield platforms from other types of liability that might normally apply in a commercial transaction – especially when the platform itself "endorses" illicit product as a result of an advertising program from which it also makes money, or is engaged in the transit, storage, advertisement sale or underlying financial transaction of the illicit goods.

Lanham Act and Trademark Infringement: The Tiffany v. eBay decision in 2010 (Second Circuit decision and Supreme Court denied certiorari) has allowed rampant trademark infringement and counterfeiting on online marketplaces to grow because it allowed for the sites to turn a blind eye even when they have general knowledge of infringement; instead it laid the burden of enforcement on the brand owner to alert the online marketplace to create knowledge of specific infringing sales before they are required to act. Placing the burden of enforcement on rights holders, rather than the ecommerce marketplaces, ignores the reality that the level of data collection undertaken by the marketplaces in the routine course of their business gives them a much greater knowledge base to identify the bad sellers and infringing products. The vast amounts of seller data the marketplaces collect (such as selling history, history of NOCIs and other marketplace rules violations, financial information, country of manufacture, number of infringing listings associated with certain products and sellers, use of certain keywords or metatags, etc.) weigh in favor of requiring online marketplaces to take greater responsibility for stopping the advertisement, sale and transit of infringing goods than when the Tiffany v. eBay decision was rendered. As an example, even the simple addition of proactive text filters can prevent thousands of listings every month. These are the kinds of methods platforms should be required to utilize, not just in special cases or for special partnerships. This decision should be overturned by a change to the Lanham Act.

What specific measures should e-commerce platforms use to better vet sellers and products? Is there a role Congress can play in assisting or incentivizing these efforts?

More must be done to ensure the legitimacy of the sellers and to provide transparency into who is selling on marketplaces. Virtual sellers that are engaging in commercial-scale activity in the U.S. should be treated no different from businesses that sell through brick-and-mortar and are required to obtain business licenses, tax IDs, have registered agents for service, etc. We encourage Congress to explore requiring a similar system for commercial foreign sellers that sell on ecommerce marketplaces. Increased and *effective* vetting of sellers prior to joining marketplaces, consistent data requirements across marketplaces, verifying data prior to opening accounts and information-sharing among marketplaces, brand owners and enforcement agencies would all be additional possible solutions to reduce the number of infringing goods sold online. Payment processers and financial institutions also play a critical role here as bank accounts often serve as a link between multiple illicit sellers.

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t. 202.459.0354 • **e.** info@toyassociation.org

Furthermore, turning off access to an illicit sellers' profits can be an extremely effective tool to shutting down counterfeiters.

What is a rights holder's recourse when a third-party counterfeit seller cannot be accurately identified, located, or served with a complaint? Who, if anyone, should be liable in these instances?

As it stands today, a rights holder does not have any recourse in the above described situation. Even accurately identifying, locating and serving a complaint is incredibly resource intensive and many of U.S. toy companies (the overwhelming of which are small businesses) do not have the ability to do so. In these instances, marketplaces and other third-party intermediaries that profit from the sale of these counterfeits but have little to no incentive to know who the seller is, should be liable.



July 22, 2019

The Honorable Hank Johnson
Chair, Subcommittee on Courts,
Intellectual Property, and the Internet
House Judiciary Committee
U.S. House of Representatives
Washington, DC 20515

The Honorable Martha Roby
Ranking Member, Subcommittee on Courts,
Intellectual Property, and the Internet
House Judiciary Committee
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Johnson, Ranking Member Roby, and Subcommittee Members:

On behalf of the International Franchise Association (IFA), the oldest and largest association representing franchising worldwide, I would like to thank you for convening the July 18, 2019, hearing titled "Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses." Intellectual property protections are vital to the franchising model, and our association is eager to work with the Subcommittee as it examines ways to improve the Lanham Act.

Much of the deliberation around the misappropriation of trademark owners' rights and the sale of counterfeit products are important to franchisor brands, and we look forward to working with the Subcommittee in this area. IFA additionally recommends that the Subcommittee thoroughly examine an important, less understood, conflict of laws issue between the federal Lanham Act and various state and federal employment laws that is unique to business format franchising.

Franchising is a method of marketing goods and services that depends upon the existence of the franchisor's control over a trademark, other intellectual property or some other commercially desirable interest sufficient to induce franchisees to pay to participate in the franchisor's system by distributing goods or services under the franchisor's trademark or name.

It is typical in franchising that a franchisor will license, among other things, the use of its name, its products or services, and its reputation to its franchisees. Consequently, it is commonplace for a franchisor to impose standards on its franchisees, necessary under the federal Lanham (Trademark) Act to protect the consumer. Such standards are essential for a franchisor that seeks to ensure socially desirable and economically beneficial oversight of operations throughout its network. These standards allow franchisors to maintain the uniformity and quality of product and service offerings and, in doing so, to protect their trade names, trademarks and service marks (collectively the "Marks"), the goodwill associated with those Marks, and most importantly, the protection of the consumer.

Because the essence of franchising is the collective use by franchisees and franchisors of Marks that represent the source and quality of their goods and services to the consuming public, action taken to control the uniformity and quality of product and service offerings under those Marks is not merely an essential element of franchising, it is an explicit requirement of federal trademark law. The Lanham Act, the federal law regulating trademarks, service marks, and unfair competition, mandates that owners of trademarks must "maintain[] sufficient control of the licensee's use of the mark to assure the nature and quality of goods or services that the licensee distributes under the mark."[1] Moreover, because the Lanham Act provides that a trademark can be deemed "abandoned" when "any course of conduct of the

[1] 15 U.S.C. § 1064(5)(A).

owner . . . causes the mark . . . to lose its significance,"[2] franchisors have a strong incentive to control the nature and quality of the good or services sold by their franchisees. As a result, franchisors are compelled to establish and monitor brand standards and provide global oversight with regard to their franchisees.

Likewise, it is imperative that franchisees protect their franchisors' brands, and the trademark value of those brands. A franchisee, functioning as an independent operator under a Brand License, is trusted and relied upon (by the franchisor) to protect the trademark value in implementing brand standards, and exercising day-to-day management over the operation, since the franchisor is not present at every individual franchise location. Because franchising requires the collective use by franchisees and franchisors of Marks, all stakeholders affiliated with a brand collectively share risks and rewards. For example, if a franchisee fails to take adequate steps to protect the brand or otherwise engages in an action that injures the brand's reputation, the damage inflicted on the brand impacts all of the brand's stakeholders, including all other franchisees and the consuming public. With that being the case, it is essential to franchising that all of the stakeholders understand the expectations for brand protection standards and take all necessary action to ensure that those standards are met. Furthermore, these rights and obligations are enunciated in well-drafted franchise agreements and reviewed in advance under a prescribed set of mandated disclosures mandated by the Federal Trade Commission's Franchise Rule.

A person need not be a franchise expert to recognize that the ability of a customer to identify a certain level of quality and uniformity in the products or services offered by disparate franchisees within a system has led to the explosive growth of franchising. A patron may enter a chain restaurant in New York, Mexico City, or Hong Kong and expect and receive virtually the same food. The uniformity and quality of products offered under a single brand is a prime factor in the success of the franchising concept. Without uniform standards, franchisees could build and operate units in whatever dissimilar fashions they chose, resulting in different buildings, uniforms, food, consumer service standards, and supply chain issues which could raise health concerns, ultimately causing the destruction of the franchisor's concept.[3]

A franchisor's exercise of controls are limited only to brand standards and should not be viewed as day-to-day management over the business operations of its franchisees. Further, this exercise of control is not merely reflective of the legal realities imposed by trademark law, the FTC Franchise Rule,[4] and pervasive state and federal regulation. It is also a value-added proposition for franchisees and consumers, which is entirely consistent with the fact that franchisees are independent entrepreneurs who invest substantial capital in their businesses, control their labor relations, and dream to build equity in an independently-owned business for the benefit of themselves, their families, and their communities. For a franchisee, the purchase of a franchise means avoiding those costs of market entry that are ameliorated by the franchisor's extensive guidance and training in many aspects of the operation of the franchised business.

It also means enjoying the goodwill generated by the use of the franchisor's Marks, brand and system collectively with other franchisees and company-operated outlets. Dependence by the franchisee on the detailed brand standards and methods of operation honed by franchisor experience is therefore a basic part of what a franchisee bargains for in acquiring a franchise. The use of Marks that project to members of the consuming public that they will enjoy a quality and predictable consumer experience at each outlet

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[2] 15 U.S.C. § 1127.

[3] *See* Shelley & Morton, *supra* note 2, at 121.

[4] Published by the Federal Trade Commission, the Franchise Rule provides prospective purchasers of franchises information they may use to weigh the risks and benefits of a franchise investment, and requires franchisors to provide potential franchisees with specific items of information about the offered franchise, its officers, and other franchisees.

operated under those Marks—even though each is independently owned and operated—is the other principal part of the equation, which again benefits both franchisees and consumers.

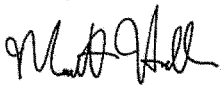
Franchising businesses are in a severe predicament because the unclear and unreasonable standards adopted by some courts and regulators impose on them in circumstances in which the actions of a franchisee's employee could adversely affect the brand. In the franchising world, many customers and members of the general public cannot distinguish between a franchisor and a franchisee. Franchisors and franchisees are commonly confused as being part of the same enterprise in light of the fact that they use common Marks and rely on the same branding. As a result, it is often public perception that the actions of a franchisee are imputed to the franchisor.

Specifically, the proliferation of brand standards being used as evidence in both state and federal employment litigation has been pronounced and growing. See, for example, the examination of brand standards in *Ocampo v. 455 Hospitality, LLC*, 2016 WL 4926204, at*7 (S.D.N.Y.) and *In re Jimmy John's Overtime Litig.*, 14 C 5509, 2018 WL 3231273, at*3-4, 6, and 19-20 (N.D. Ill. June 14, 2018)). The increase in joint employment litigation means that franchise brands are now faced with an unworkable "Catch-22": they are required to protect their trademark, but penalized for doing so.

Since the courts have created a web of vague standards under employment law, IFA is asking Congress to resolve this conflict of laws issue so that Lanham Act-required brand controls are not used as evidence of joint employment in state and federal litigation matters. We specifically urge the Subcommittee to examine how the Lanham Act can be amended to clarify that a brand's efforts to preserve its trademark to ensure the brand is uniform and consistent to the public would not be classified as evidence of joint employment. For instance, IFA suggests that brands should be able to provide training manuals and guidance to franchise owners to better maintain quality and standards for the public. Such kinds of amendments will ensure that franchise brands can continue to expand and create jobs, while maintaining the standards and consistency that customers expect.

IFA looks forward to continuing our discussions with the Subcommittee on this issue, and we thank you again for considering our views.

Sincerely,



Matt Haller
Senior Vice President of Government Relations & Public Affairs
International Franchise Association

Microsoft Corporation
One Microsoft Way
Redmond, WA 98052-6399

Tel 425 882 8080
Fax 425 706 7329
www.microsoft.com

Microsoft

Statement of Makalika Naholowaa
Senior Attorney and Head of Trademarks
Microsoft Corporation

Before the Committee on the Judiciary
Subcommittee on Courts, Intellectual Property, and the Internet
United States House of Representatives

"Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Business"

Submitted July 23, 2019

Microsoft Corporation ("**Microsoft**") thanks Chairman Johnson, Ranking Member Roby, full committee Chairman Nadler and full committee Ranking Member Collins for the opportunity to submit testimony regarding trademark clutter and the impact clutter has on business and innovation.

Microsoft is a worldwide leader in the IT industry. The company's mission is to empower every person and organization on the planet to achieve more. Since the company was founded in 1975, Microsoft has worked to empower customers by creating technology that transforms the way people work, play, and communicate.

Microsoft uses and owns a substantial portfolio of trademarks and takes pride in the worldwide recognition of many of its brands, logos, and other trademarks. Microsoft's trademarks are important identifiers for the company and its innovations, vessels for the company's goodwill, and as such are highly valued company assets.

Microsoft's trademark portfolio is global in nature. In the United States, Microsoft has more than 900 active trademark applications and registrations. Each year, Microsoft's product and service portfolio changes, in large part to include new innovations. Bringing this innovation to market requires new trademarks every year in the form of names, logos, designs, and other branding assets. Microsoft invests in a high volume of trademark clearance and rights procurement work annually to service this need.

Trademark registries in numerous jurisdictions around the world have experienced significant increased congestion in recent years. As discussed by Professors Barton Beebe and Jeanne Fromer in their testimony, this includes the United States. The impact on business is that it is increasingly difficult, time consuming, and costly to

Microsoft Corporation is an equal opportunity employer.

Microsoft Corporation
One Microsoft Way
Redmond, WA 98052-6399

Tel 425 882 8080
Fax 425 706 7329
www.microsoft.com

Microsoft

identify clear-to-use trademarks to bring new innovation to market, and to procure rights in those trademarks. If the congestion worsens, there are concerns within industry that the supply of effective trademarks, particularly names, could be depleted. Under current conditions, diligence to investigate the availability of a trademark, *i.e.*, trademark clearance reports, for words and designs are regularly hundreds of pages in length. Most single term marks in the technology space are claimed.

Microsoft agrees with the testimony of USPTO Commissioner Mary Boney Denison that the United States trademark register is a valuable tool for conducting trademark clearance and to inform business decisions. Given the high congestion on the registry, registry accuracy is crucial for business. Clutter on the registry, that is, marks not in compliance with US trademark law requirements—for example, because they have been abandoned since registration or because they were not in fact ever in compliance with the law—is a type of inaccuracy that causes significant concern. Excessive clutter hinders innovation and burdens the economy by creating barriers to intellectual property that is supply constrained and in demand. Multiple efforts by the USPTO indicate that the registry suffers a significant amount, including the USPTO's 2012 pilot program conducting use audits on a sampling of trademark registrations and its recent work on bad faith trademark filings to the PTO discussed by Commissioner Denison in her testimony.

Clutter has a highly negative impact on business, because when a mark appears unavailable for use, current congestion levels mean that an available-to-use alternate is not readily identifiable. Further, under current trademark law and rules, business is not well equipped to identify clutter and to discount the risk it poses accordingly. Online searching, private investigations, and direct outreach to registrants are options for investigating whether a mark is in use, but those methods can be unsuccessful or inconclusive. Formal legal proceedings are an alternative but are resource intensive and require significant time. As a result, these are often impractical options, particularly in industries like information technology that currently operate within rapid product development and release cycles.

Microsoft supports in principle efforts to improve the accuracy of the trademark register and provide business practical and efficient methods for identifying and acting against clutter. Microsoft has participated in opportunities to provide comments to the USPTO on efforts of this nature, including comments regarding the potential for a streamlined cancellation proceeding process in 2017 and rule

Microsoft Corporation is an equal opportunity employer.

Microsoft Corporation
One Microsoft Way
Redmond, WA 98052-6399

Tel 425 882 8080
Fax 425 706 7329
www.microsoft.com

Microsoft

changes regarding affidavits of use in 2016 (see https://www.uspto.gov/trademark/trademark-updates-and-announcements/comments-changes-requirements-affidavits-or).

Microsoft thanks the Subcommittee for the opportunity to provide this statement, and we look forward to continuing to work with the Subcommittee as it considers approaches to address this important issue.

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AMERICAN BAR ASSOCIATION
Intellectual Property Law Section

321 N. Clark Street
Chicago, IL 60654-7598
T 312-988-6254
iplaw@americanbar.org
www.americanbar.org/iplaw

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Communications / Publications
Kira M. Alvarez
Legislative Consultant
Washington, DC
kira.alvarez@americanbar.org

September 9, 2019

Honorable Hank Johnson
Chairman
Subcommittee on Courts, Intellectual Property and the Internet
Committee on the Judiciary
U.S. House of Representatives
Washington, D.C. 20515

Honorable Martha Roby
Ranking Member
Subcommittee on Courts, Intellectual Property and the Internet
Committee on the Judiciary
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Johnson and Ranking Member Roby:

This letter is on behalf of the American Bar Association (ABA) Section of Intellectual Property Law (the "Section") submitting comments for the official record of the hearing held on July 18, 2019 by the House Judiciary Committee's Subcommittee on Courts, Intellectual Property, and the Internet on *Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses.* The views expressed herein are presented on behalf of the Section of Intellectual Property Law. They have not been approved by the House of Delegates or the Board of Governors of the American Bar Association and, accordingly, should not be construed as representing the position of the Association.

Since 1894, the ABA-IPL Section has advanced the development and improvement of intellectual property laws and their fair and just administration. As the forum for rich perspectives and balanced insight on the full spectrum of intellectual property law, the Section serves within the ABA as a highly respected voice within the intellectual property profession, before policy makers, and with the public.

As the Judiciary Committee reviews the information gleaned from the hearing, the Section would like to bring the Committee's attention to several relevant issues for which the Section has developed consensus positions: 1) the need for flexible deadlines during the trademark registration process; 2) the possibility of creating a re-examination process for registered trademarks; 3) an expungement process; and 4) confirming the presumption of irreparable harm when determining injunctive relief.

Flexible Deadlines

The ABA-IPL Section has become aware of suggestions to amend 15 U.S.C. §1062(b) to provide the U.S. Patent and Trademark Office ("the Office") the discretion to set response times for responding to specific Office Actions during the trademark registration process. Currently, 15 U.S.C. §1062(b) mandates that the Office provide a six-month period to respond to Office Actions.

Given the Office's recent focus and attention on pendency statistics, the Section anticipates that the Office may be interested in having some flexibility to shorten the response times permitted in connection with a narrow subset of non-substantive refusals, such as Office Actions issued in connection with the Office's recent rule mandating that foreign applicants and registrants engage U.S.-admitted attorneys to represent them in matters before the Office, or in connection with disclaimers or minor identification clarification issues. The Section appreciates that any such shortening of these statutory deadlines would not be left to the discretion of individual examining attorneys, but instead would be subject to consistent rules set by the Office through its normal rulemaking process, including through the publication of notices of proposed rulemaking and the solicitation of feedback from stakeholders to identify and discuss any potential unintended consequences that might result from shortening a specific response time period. The use of the Office's normal rulemaking process to develop such rules is important to ensure shortened response times are applied consistently.

Currently, the Lanham Act requires applicants to respond to an examining attorney's Office Action within six months after the date of issuance.[1] The Office has no discretion to shorten or extend this six-month response period. If an applicant fails to reply, amend or appeal within this statutory time frame, the application for registration will be deemed abandoned in due course (unless the applicant successfully petitions to reopen the application explaining that the delay was unintentional).[2]

Under its current pendency goals, the Office aims to process a trademark application from the date of filing to Notice of Abandonment, Notice of Allowance, or registration within twelve months or less. With exception of a small dip in Q4 of 2018, total pendency has been slowly increasing from an average of 9.5 months in Q4 of 2017, up to an average of 10 months in Q2 of 2019 (excluding applications that were previously suspended or were involved in *inter partes* proceedings at the Trademark Trial and Appeal Board (TTAB)).[3] While the pendency of an application approved upon first action (i.e., without issuance of an Office Action) rose from 2.7 months in Q4 of 2018 to 3.4 months in Q1 of 2019, it has now drastically fallen so that applicants can currently expect a case to be resolved in a mere 2.6 months. The Office's data, therefore, reflect a huge disparity between the pendency of an application approved upon first action and those subject to at least one Office Action.

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[1] 15 U.S.C. § 1062(b).

[2] *Id.*

[3] U.S. Patent and Trademark Office, 2nd Quarter FY 2019, At a Glance: Total Pendency, Last Three Years, available at https://www.uspto.gov/dashboards/ trademarks/main.dashxml.

The Section supports amending the Lanham Act to remove the mandatory six-month response period and to allow the Office to set flexible deadlines using its rulemaking authority, provided that such proposed rules as may be developed will be published for public comment and that such proposed rules will be applied uniformly across the same types of Office Actions, and not arbitrarily on a case-by-case basis to only certain applications. While the Section has some concerns about the implementation of this policy, the Section believes that by modifying the statutorily mandated six-month response time in the case of certain limited types of Office Actions, the pendency of trademark applications could be reduced, allowing applications to mature to registration more expeditiously.

Currently, the Office is dealing with an influx of fraudulent applications, including those with false or altered specimens of use. When these applications are received by the Office, examining attorneys are statutorily required to provide applicants with the full six-month response time, thereby increasing the pendency on a host of applications and allowing applications that may ultimately be rejected as fraudulent to clutter the Trademark Register and block legitimate applications (perhaps confusingly similar to the fraudulent-but-earlier-filed applications) from proceeding through the process.

Along the same lines, modifying the response time to Office Actions for a limited number of scenarios may lead to increased accuracy in clearance searches. For example, limiting the response time for applicants to revise the applicable list of goods/services will lead to less uncertainty for other applicants wishing to register trademarks that would otherwise be refused. While recognizing the value and importance of properly classifying one's trademark within the proper goods and services, limiting the amount of time to take responsive action after receiving an Office Action requesting the clarification of the identification of goods and services in the application could help clear up any potentially blocking applications more quickly and ensure that applicants for registration of marks actually in use in commerce could prosecute their trademark applications without delays due to overly broad (or inaccurate) registrations. More importantly, limiting the response time in this situation helps to ensure that the Trademark Register accurately reflects marks that are being used in commerce along with their corresponding goods/services. Moreover, allowing applicants who have received Office Actions with reduced response times to request extensions up to the six-month statutory period (in order to address specific issues) would satisfy both the Office's interest in ensuring that applications are being prosecuted actively by applicants, and were not simply filed to reserve rights in marks not intended to be used in U.S. commerce, as well as any due process concerns that may be created by shortening the statutorily provided six-month response times.

For all of the foregoing reasons, the Section supports efforts to amend the Lanham Act to remove the statutorily-required six-month window in which to respond to certain Office Actions, and likewise to allow the Office to narrow some of these response times (upon proper notice to the public and receipt of feedback).

Re-examination

The ABA-IPL Section also has become aware of certain proposals to amend the Lanham Act to allow for re-examination of previously approved registrations. However, the current *inter partes* procedure for challenging the validity of a trademark registration already provides parties the ability to seek cancellation of a registered trademark. Under the Lanham Act, any person who believes it is or will be damaged by registration of a mark has standing to file a Petition to Cancel after the registration issues or a Notice of Opposition during the prosecution of the application.[4] A party can file a Petition to Cancel on many of the same grounds where the Section believes 're-examination' may apply, including the rare situations where the Office believes that a registration never should have issued. While parties with standing can bring some claims for up to five years after the registration date, e.g., a likelihood of dilution, other claims, including fraud, can be brought at any time.[5]

The Section understands that TTAB proceedings can be expensive to prosecute and defend for all parties involved. However, the TTAB's rules follow, in large part, the Federal Rules of Civil Procedure and permit all parties to seek and serve discovery, submit testimony, and participate in oral argument before a final decision is made. The Supreme Court has held that some final decisions by the TTAB may have a preclusive effect on future litigation between the parties.[6] Further, the TTAB's motion practice allows parties to move for the dismissal of frivolous or malicious claims and for sanctions against bad-faith actions before the TTAB. Accordingly, the Section submits that any claim by a third party that a registration was improperly issued can be adequately addressed by proceedings before the TTAB or a federal district court and not by an *ex parte* process involving only the Office.

The Section believes that the trademark registration process should be transparent, fair and predictable. Trademark owners often weigh the risks in launching new brands or expanding on advertising and marketing for existing brands based on a number of factors, including, in many cases, the registration of that mark with the Office. Parties also enforce their rights based on the presumptions and benefits provided by a federal registration that was reviewed by a licensed U.S. government attorney who has been specially trained to examine trademark applications for registrations. To this end, the proposed policy may have unanticipated consequences for litigants relying on federal trademark registrations in court proceedings.

As a practical matter, the Section believes that ongoing training and enhanced supervision of examining attorneys may be more effective in combating the registration of trademarks that should not have been registered in the first place. Once a registration issues, a registrant should be entitled to rely on it as prima facie evidence of the validity of the registration, the registrant's ownership of the mark, and the exclusive right to use the mark in commerce.[7] Registrants should also be able to rely on the registration as

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[4] *See* 15 U.S.C. §§ 1063, 1064; 37 C.F.R. §§ 2.101(b), 2.111(b); TBMP § 309.03(b).
[5] 15 U.S.C. § 1062.
[6] *B&B Hardware, Inc. v. Hargis Indus., Inc.*, 135 S. Ct. 1293 (2015).
[7] *See* 15 U.S.C. §§ 1057(b), 1115(a).

prima facie evidence of priority since the application filing date,[8] and constructive notice of the registrant's claim of ownership and the presumption of nationwide rights.[9]

The Section intends to further consider the issue of reexamination proceedings in light of the new details recently provided by House Judiciary Staff.

Expungement

The ABA-IPL Section is aware that the Committee may be considering an expungement proposal for removing unused goods and services from trademark registrations. The Section generally supports the goal of assessing and promoting the accuracy and integrity of the Trademark Register through the use of expungement mechanisms to expunge unused goods and services from trademark registrations. However, as reflected in its attached October 24, 2016 letter to the Office, the Section has expressed a few concerns with the Office's expungement proposal made at that time.

Presumption of Irreparable Harm

The ABA-IPL Section also supports legislation to amend the Lanham Act to expressly recognize a presumption of irreparable harm, rebuttable by a preponderance of the evidence and testimony, if a trademark owner seeks injunctive relief on a likelihood-of-confusion claim and there is a finding that liability is probable (for a preliminary injunction) or an actual finding of liability (for a permanent injunction). In *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006), the Supreme Court identified four showings a plaintiff must make to be entitled to injunctive relief, the first of which is that the plaintiff will suffer an irreparable harm in the absence of an injunction.

Prior to *eBay*—a case addressing allegations of utility patent infringement—courts held with near uniformity that success on the merits of a trademark claim in the permanent injunction context or a showing of likely success on the merits in the preliminary injunction context created a presumption of irreparable harm sufficient to satisfy the first prerequisite for relief.[10]

Subsequent to *eBay*, however, some courts have questioned the viability of that presumption in trademark cases, while others have continued to apply it.[11] Because the

[8] *Id.* at §§ 1052, 1065, 1115(b)(5).
[9] *Id.* at § 1072.
[10] *See, e.g., Eli Lilly & Co. v. Natural Answers Inc.*, 233 F.3d 456, 469 (7th Cir. 2000) ("Irreparable harm is generally presumed in cases of trademark infringement and dilution."); *Fed. Express Corp. v. Fed. Espresso, Inc.*, 201 F.3d 168, 174 (2d Cir. 2000) ("[P]roof of a likelihood of confusion would create a presumption of irreparable harm, and thus a plaintiff would not need to prove such harm independently."); *Opticians Ass'n of Am. v. Ind. Opticians of Am.*, 920 F.2d 187, 196–97 (3d Cir. 1990) (once a showing of likely confusion is made, the "inescapable conclusion is that there was also irreparable injury"); *Gen. Mills, Inc. v. Kellogg Co.*, 824 F.2d 622, 625 (8th Cir. 1987) (irreparable injury is presumed once the moving party demonstrates probable success in proving a likelihood of confusion).
[11] *Compare Abraham v. Alpha Chi Omega*, 708 F.3d 614, 627 (5th Cir. 2013) ("All that must be proven to establish liability and the need for an injunction against infringement is the likelihood of confusion—injury is presumed.") *with Herb Reed Enters. v. Fla. Entm't Mgmt., Inc.*, 736 F.3d

Supreme Court has declined to resolve this split, the Section urges the Committee to take up legislation to confirm the existence of the presumption in appropriate cases involving the violation of trademark and service mark rights. There are several reasons why the Committee should do so.

First, trademarks inform consumers and protect them against mistaken purchasing decisions in the marketplace. They do so by reducing consumer search costs as consumers learn over time to recognize and rely on certain marks and brands as representations of quality and favorable products or services.[12] Trademark law shields consumers from unscrupulous actors by guaranteeing that the products or services they purchase under particular trademarks encompass certain qualities and attributes they expect.[13] This is a particularly compelling consideration where goods bearing counterfeit imitations of marks are concerned. Trademark litigation therefore implicates the public interest in ways that litigation involving other intellectual property rights does not.

Second, unlike patent law, trademark law protects trademark owners by allowing them to build and maintain positive reputations among consumers through exclusive use of a single source designator for their products or services in the marketplace.[14] When an infringer enters the marketplace, the protections afforded by trademark law are threatened. Consumers encountering new products or services under a recognizable or familiar trademark are naturally likely to believe those products or services emanate from or are related to the original source. This likelihood of confusion reflects the trademark owner's loss of control over its mark.[15] If the infringer's products or services do not adhere to the quality or standard that the trademark owner originally imposed, consumers will reconsider their loyalty to the brand. This loss in consumer confidence harms the trademark owner's investment in its mark and can ultimately destroy or severely damage the trademark owner's reputation – a loss that in most cases cannot be repaired by monetary relief.[16]

1239, 1249 (9th Cir. 2013) ("[A]ctual irreparable harm must be demonstrated to obtain a permanent injunction in a trademark infringement action.").

[12] *Kraft Foods Group Brands LLC v. Cracker Barrel Old Country Store, Inc.*, 735 F.3d 735, 739, (7th Cir. 2013) ("A trademark's value is the saving in search costs made possible by the information that the trademark conveys about the quality of the trademark owner's brand.").

[13] *Qualitex Co. v. Jacobson Prod. Co.*, 514 U.S. 159 (1995) ("In principle, trademark law, by preventing others from copying a source-identifying mark, "reduce[s] the customer's costs of shopping and making purchasing decisions," 1 J. McCarthy, McCarthy on Trademarks and Unfair Competition § 2.01[2], p. 2–3 (3d ed. 1994) . . . for it quickly and easily assures a potential customer that *this* item—the item with this mark—is made by the same producer as other similarly marked items that he or she liked (or disliked) in the past.").

[14] *Id.* at 162 ("The Lanham Act gives a seller or producer the exclusive right to 'register' a trademark, 15 U.S.C. § 1052 . . . and to prevent his or her competitors from using that trademark, § 1114(1).").

[15] *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 354 (9th Cir. 2003) ("The wrong inheres in involuntarily entrusting one's business reputation to another business.")

[16] *Juicy Couture, Inc. v. Bella Int'l Ltd.*, 930 F. Supp. 2d 489, 503 (S.D.N.Y. 2013) ("Irreparable harm exists in a trademark case when the party seeking the injunction shows that it will lose

Finally, a key consideration underlying the outcome in *eBay*—a case presenting allegations of utility patent infringement—was the Court's concern with nonpracticing patent "trolls," i.e., patent owners that own patents "not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees."[17] Because trademark rights under United States law ultimately depend on use of the underlying mark in commerce,[18] the opportunity for similar behavior in the trademark context is limited. Further, there is no indication that the Supreme Court intended its decision in *eBay* to extend beyond utility patent infringement and into trademark infringement.

Congressional confirmation of the presumption of irreparable harm would not preclude defendants from rebutting it by a preponderance of the evidence and testimony. Thus, for example, as was the case prior to *eBay*, a defendant could defeat a request for preliminary injunctive relief by demonstrating the plaintiff unreasonably delayed in bringing that request.[19] Likewise, a showing that a defendant completely ceased all use of an allegedly infringing mark also could have the same effect.[20] That confirmation would, however, provide much-needed clarity and consistency to courts and litigants alike, as well as eliminate an opportunity for forum-shopping by the latter.

Thank you for the opportunity to submit these comments for the hearing record. Should you have any questions or would like to discuss these issues further, please do not hesitate to contact me.

Sincerely,



George W. Jordan III
Chair, ABA Section of Intellectual Property Law

Encl.

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control over the reputation of its trademark ... because loss of control over one's reputation is neither 'calculable nor precisely compensable.'") (quoting *U.S. Polo Ass'n, Inc. v. PRL USA Holdings Inc.*, 800 F.Supp.2d 515, 540 (S.D.N.Y.2011)).

[17] *eBay*, 547 U.S. at 396.

[18] *McCarthy on Trademarks and Unfair Competition* § 6:3 (5th ed.) ("Trademark rights grow out of use, not mere invention. To acquire ownership of a trademark, one must actually use the designation in the marketplace as a mark in the sale of goods or services.")

[19] *See, e.g., Pharmacia Corp. v. Alcon Labs.*, 201 F. Supp. 2d 335, 382 (D.N.J. 2002) ("Any claim to irreparable injury is undercut by the plaintiff's lengthy and inexcusable delay in bringing this action for preliminary injunctive relief.").

[20] *See, e.g., Oyj v. ContextLogic Inc.*, No. 18-CV-02353-MMC, 2018 WL 3820654, at *2 (N.D. Cal. Aug. 10, 2018).

AIPLA
American Intellectual Property Law Association

September 9, 2019

The Honorable Hank C. Johnson
Chairman
Committee on the Judiciary
Subcommittee on Courts, Intellectual Property, and the Internet
United States House of Representatives
6310 O'Neill House Office Building
Washington, DC 20024

The Honorable Martha Roby
Ranking Member
Committee on the Judiciary
Subcommittee on Courts, Intellectual Property, and the Internet
United States House of Representatives
504 Cannon House Office Building
Washington, DC 20515 – 0102

Re: AIPLA Views on "Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses."

Dear Chairman Johnson and Ranking Member Roby:

The American Intellectual Property Law Association ("AIPLA") is pleased to have the opportunity to present its views on the subject matter of the Subcommittee's July 19, 2019, hearing on "Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses." We thank you in advance for consideration of these views and ask that they be made a part of the hearing record.

AIPLA is a national bar association of approximately 12,000 members who are primarily lawyers engaged in private or corporate practice, in government service, and in the academic community. AIPLA members represent a wide and diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, trade secret, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property. Our mission includes helping establish and maintain fair and effective laws and policies that

stimulate and reward invention while balancing the public's interest in healthy competition, reasonable costs, and basic fairness.

AIPLA applauds the Subcommittee's attention to the issues raised at the hearing. It respectfully submits this letter to address some specific strategy recommendations with respect to those issues.

A. Congress Should Carefully Consider Action to Reduce Clutter on the USPTO's Registers

AIPLA shares the concern of the members of the Subcommittee, Commissioner Denison, and Professor Jeanne Fromer regarding clutter on the USPTO's registers. This all too often results from inaccurate—and increasingly even fraudulent—filings by parties seeking to procure or maintain registrations, some of whom are subsidized by provincial governments in China. AIPLA applauds the USPTO's recent initiatives in this area, which include the post-registration audit program, the requirement that applicants and registrants secure U.S. counsel for the submission of certain filings,[1] and the newly issued examination guide on the identification of fake specimens.[2] Nevertheless, as reflected in Commissioner Denison's testimony, there are limits on what the USPTO can do on its own initiative, a situation that often forces mark owners affected by clutter to take matters into their own hands by initiating opposition and cancellation proceedings before the Trademark Trial and Appeal Board. Although it may be true that the owners of meritless or defunct claims of trademark rights in the USPTO often default in Board actions, such a disposition does not obviate the need for the proceeding in the first place. Moreover, so long as those claims are a matter of record in the

[1] 84 Fed. Reg. 31498 (July 2, 2019) (to be codified at 37 C.F.R. pts. 2, 7, 11), *available at* https://www.federalregister.gov/documents/2019/07/02/2019-14087/requirement-of-us-licensed-attorney-for-foreign-trademark-applicants-and-registrants.

[2] *Examination Guide 3-19: Examination of Specimens for Use in Commerce: Digitally Created or Altered and Mockup Specimens* (July 2019), *available at* https://www.uspto.gov/sites/default/files/documents/Exam%20Guide%2003-19.pdf.

USPTO, they greatly interfere with the clearance of prospective marks for adoption and registration by those with legitimate interests in them.

AIPLA therefore encourages the Subcommittee to consider changes to the Lanham Act to permit challenges to trademark-related claims resting on flawed filings or covering marks that have been abandoned. At the same time, however, this subject merits careful study before action is taken. For example, AIPLA respectfully submits that a departure from the high standard for demonstrating fraud on the USPTO could have unintended consequences for the claims of applicants or registrants who were unaware of problems with those claims. AIPLA is also concerned that creating a mechanism for initiating challenges to existing registrations by any member of the general public (and not merely interested parties) could itself be abused.

B. AIPLA Supports Congressional Action Against Counterfeiting and Infringement

Witnesses at the hearing presented compelling testimony of the myriad dangers to the public health and safety of goods sold under counterfeit and infringing trademarks. Congress has acted in the past against these sales. The technological resources available to defendants (including those active in organized crime, for whom counterfeiting is a substantial revenue source), has increasingly weakened existing remedies. AIPLA, therefore, encourages Congress to provide continued guidance and support against counterfeiters and infringers in the areas set forth below.

1. Congress Should Reestablish the Presumption of Irreparable Harm in Trademark and Unfair Competition Litigation on a National Basis

As set forth in the attached correspondence, AIPLA joins the Intellectual Property Owners Association and the International Trademark Association in supporting the

Subcommittee's consideration of a change to the Lanham Act to restore the ability of prevailing plaintiffs to secure injunctive relief without first proving irreparable harm.

Prior to 2006, federal courts with near uniformity recognized that success on the merits (or a probability of success on the merits for preliminary injunctive relief) in trademark and unfair competition actions established a rebuttal presumption of irreparable harm. Since the Supreme Court's opinions in the non-trademark cases of *eBay Inc. v. MercExchange, LLC*,[3] and *Winter v. Natural Resources Defense Council, Inc.*,[4] however, several lower federal courts have held plaintiffs under the Lanham Act to increasingly high standards for demonstrating irreparable harm necessary to support injunctive relief.

Opinions from these courts have required proof of lost sales[5] and expensive survey evidence of actual confusion.[6] Some also foreclose that irreparable harm may exist where the rights holder has offered to settle or offered a phase-out period,[7] plaintiff's sales have increased during the infringement,[8] or defendant voluntarily discontinues the infringing use.[9] Particularly, in light of the difficulty in securing substantial monetary relief for violation of the Lanham Act, decisions such as these substantially weaken the rights granted to plaintiffs under the Act. More importantly, they threaten the "paramount" interest of the public in avoiding confusion and deception.[10]

Congressional action to confirm—and not to create for the first time—a presumption of irreparable harm would not unreasonably tilt the playing field in favor of plaintiffs. For one

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[3] 547 U.S. 388 (2006).
[4] 555 U.S. 7 (2008).
[5] *See Granite State Trade Sch., LLC v. N.H. Sch. of Mech. Trades, Inc.*, 120 F. Supp. 3d 56, 67 (D.N.H. 2015).
[6] *See adidas Am., Inc. v. Skechers USA, Inc.*, 890 F.3d 747, 756 (9th Cir. 2018).
[7] *See Kotori Designs, LLC v. Living Well Spending Less, Inc.*, 120 U.S.P.Q.2d 1800, 1803 (M.D. Fla. 2016).
[8] *See Hoop Culture, Inc. v. Gap, Inc.*, 122 F. Supp. 3d 1338, 1346 (M.D. Fla. 2015), *aff'd*, 648 F. App'x 981 (11th Cir. 2016).
[9] *See FLIR Sys., Inc. v. Sierra Media, Inc.*, 965 F. Supp. 2d 1184, 1211-12 (D. Or. 2013).
[10] *See Coach House Rest., Inc. v. Coach & Six Rests., Inc.*, 934 F.2d 1551, 1564 (11th Cir. 1991).

thing, defendants could rebut the presumption by demonstrating plaintiff unreasonably delayed in seeking relief.[11] For another, plaintiffs must satisfy the remaining prerequisites for injunctive relief, namely, that there is no adequate remedy at law,[12] that the balance of the equities favors the plaintiffs,[13] and that the public interest warrants judicial intervention.[14] AIPLA, therefore, urges the Subcommittee to consider a change to the Lanham Act to restore the ability of prevailing plaintiffs to secure injunctive relief without onerous showings of irreparable harm.

2. AIPLA Supports User-Friendly and Standardized Processes for Reporting Goods Bearing Counterfeit and Infringing Marks

AIPLA supports online marketplaces having user-friendly and standardized processes for intellectual property owners or their authorized representatives to report goods bearing counterfeit and infringing marks. AIPLA also supports online marketplaces having clearly articulated requirements for what rights holders should include when reporting counterfeits and infringements, their methods for analyzing those reports, and the period within which online marketplaces must decide whether to remove the item.

3. AIPLA Supports Congressional Authorization for Exclusive Licensees to Combat Counterfeit and Online Infringement

AIPLA recommends that Congress consider allowing trademark owners to authorize their exclusive licensees to record with CBP, and enforce rights to, the registered marks covered

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[11] *See, e.g., Wreal, LLC v. Amazon.com, Inc.*, 840 F.3d 1244, 1248 (11th Cir. 2016) (rejecting claim of irreparable harm in light of plaintiff's five-month delay in seeking preliminary injunctive relief).
[12] *See, e.g., Reservoir, Inc. v. Truesdell*, 1 F. Supp. 3d 598, 617 (S.D. Tex. 2014) (denying injunctive relief after finding that "monetary damages can adequately compensate Plaintiffs for past injury they prove they have suffered").
[13] *See, e.g., Dist. Brewing Co. CBC Rest., LLC*, 118 U.S.P.Q.2d 1535, 1540 (S.D. Ohio 2016) (denying preliminary injunction based on testimony by defendant's principal that "rebranding . . . would be 'very detrimental'").
[14] *See, e.g., Am. Beverage Corp. v. Diageo N. Am., Inc.*, 936 F. Supp. 2d 555, 617 (W.D. Pa. 2013) (concluding that public interest in availability of competing products warranted denial of injunctive relief).

by the exclusive licenses. This is particularly important if the mark owner is located outside the United States and the exclusive licensee is a United States company.

4. AIPLA Urges Congress Provide Resources for Increased Monitoring and Inspection of Shipments Through the U.S. Postal Service and Small Package Courier Distribution Centers for Goods Bearing Counterfeit Marks

To avoid detection, counterfeiters have changed their methods for importing their goods into the United States. Small packages provide a convenient channel for illicit products, as small shipments (compared to larger shipments declaring hundreds, if not thousands of units) often go unnoticed. Similarly, the U.S. Postal Service does not seize goods bearing counterfeit marks. In light of counterfeiters' increasing utilization of small-package courier distribution centers and the U.S. Postal Service, AIPLA recommends that Congress allocate the resources necessary to monitor and inspect shipments through these channels.

5. Congress Should Ensure Improved Data Sharing Necessary to Combat Counterfeiters

Improved data sharing between CBP, e-commerce platforms, shipping companies, and mark owners will assist in more quickly identifying counterfeiters and the unlawful goods sold by them. Identification of the individuals responsible for selling and shipping such goods through their online accounts (*e.g.*, e-commerce and social media) will help identify and combat counterfeiters. Shipments made through certain e-commerce sites also contain a unique and separate tracking number. Because the names of the importer and exporter are frequently falsified, AIPLA recommends that stakeholders be provided with the information necessary to track this data and that CBP participate in that process. This will allow those stakeholders to monitor shipments more effectively and efficiently and to help reduce the number of goods bearing counterfeit marks coming into the United States.

C. Congress Should Take Action to Protect Well-Known Marks

The United States has been a member of the Paris Convention since 1887. The Paris Convention is not self-executing; its provisions carry the force of law in the United States only to the extent that Congress has codified them.[15] Although Congress has codified many of the Convention's provisions, it has not done so where the protection for well-known marks mandated by Article *6bis* of the Convention is concerned.[16]

This omission has produced a split among the federal courts over the extent to which protection is available against the misappropriation of marks not used within the United States but still well-known to United States consumers. The Ninth Circuit has acknowledged the possibility of protection under these circumstances[17] but the Second Circuit has reached the opposite conclusion.[18] Beyond placing the United States' compliance with its treaty obligations into question, the lack of uniform nationwide protection for well-known marks used outside the United States enables the misappropriation of the goodwill attached to those marks to deceive consumers familiar with them. AIPLA, therefore, urges the Subcommittee and Congress to address this gap in protection for the public and mark owners alike by amending the Lanham Act to bring the United States into compliance with Article *6bis*.

AIPLA appreciates the opportunity to provide input to the Subcommittee on the important issues raised by the July 9 hearing. We are continuing to gather relevant information and look forward to working with the Subcommittee and its staff.

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[15] *See generally In re Rath*, 402 F.3d 1207, 1209 (Fed. Cir. 2005).
[16] Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, 21 U.S.T. 1583, 828 U.N.T.S. 305, art. *6bis* (last revised at Stockholm July 14, 1967).
[17] *See Grupo Gigante SA de CV v. Dallo & Co.*, 391 F.3d 1088, 1094 (9th Cir. 2004).
[18] *See ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135, 165 (2d Cir. 2007).

Sincerely,



Sheldon H. Klein
President
American Intellectual Property Law Association

AIPLA
American Intellectual Property Law Association

ipo Intellectual Property Owners Association

INTA International Trademark Association

September 4, 2018

The Honorable Charles Grassley
Chairman
Senate Committee on the Judiciary
U.S. Senate
Washington, D.C. 20510

The Honorable Dianne Feinstein
Ranking Member
Senate Committee on the Judiciary
U.S. Senate
Washington, D.C. 20510

Dear Chairman Grassley and Ranking Member Feinstein:

We, the undersigned associations representing trademark owners and the trademark bar, urge the Senate Judiciary Committee to take up legislation to amend the Lanham Act to reestablish a consistent principle that would make injunctive remedies available in appropriate cases involving trademark counterfeiting, infringement, dilution, false advertising and cybersquatting. This would clarify and make consistent how the Lanham Act is enforced across the country in order to best protect the interests of American consumers and businesses.

Trademarks are source identifiers that inform and protect consumers. The Lanham Act serves dual purposes. The statute protects consumers from the confusion and deception caused by acts of trademark counterfeiting, infringement, dilution, false advertising and cybersquatting. At the same time, the law protects businesses from the damage to their goodwill and reputation that is caused by such acts. Recent developments in the law of Lanham Act remedies, however, have resulted in inconsistency across judicial circuits that threatens to undermine Congressional objectives in protecting both consumers and businesses from those harms.

Injury in most Lanham Act violations is typically not readily or immediately quantifiable. Injunctive relief (which requires the claimant to meet a four-part test, including a showing of irreparable harm) most often is the only effective remedy to prevent harm to consumers and protect the trademark owner's reputation. For this reason, historically, U.S. federal courts, when considering a claim under the Lanham Act, almost uniformly applied a rebuttable presumption of irreparable harm upon a

finding of liability or, in the context of a preliminary injunction, when liability was found to be probable. A rebuttable presumption of irreparable harm is an important avenue to adequate relief, given the difficulty of quantifying this type of injury.

Yet, in the past decade, a number of federal courts have reversed course and discarded this long-standing rebuttable presumption of irreparable harm even when liability is found. These courts have based their decisions on a Supreme Court opinion[1] involving patent infringement and the U.S. Patent Act — which never addressed injunctive relief under the Lanham Act. Other federal district and circuit courts have declined to extend the patent decision to trademark cases. The differing views of the circuits on this issue have created uncertainty for Lanham Act claimants and an incentive for forum shopping, and the U.S. Supreme Court has declined to grant certiorari to resolve the conflict in the lower courts and clarify the law in this regard.

Legislation reestablishing a presumption of irreparable harm under the Lanham Act would provide clarity for the courts and litigants alike. It would provide injunctive relief to trademark owners who prevail on the merits of their claim or who, in preliminary injunction proceedings, demonstrate that they are likely to prevail on the merits, and allow them to appropriately protect their brands and reputations. This will also protect consumers from harm arising from confusion about the source of products or services.

We hope the Committee will consider such legislation at the earliest opportunity.

Sincerely,

Lisa Jorgenson
Executive Director
American Intellectual Property Law Assn.

Mark Lauroesch
Executive Director
Intellectual Property Owners Assn.

Etienne Sauz de Acedo
Chief Executive Officer
International Trademark Assn.

[1] *eBay, Inc. v. MercExchange LLC*, 547 U.S. 388 (2006).

International Trademark Association

655 Third Avenue, 10th Floor
New York, NY 10017-5646, USA
t: +1-212-642-1700 | f: +1-212-768-7796
inta.org

September 9, 2019

The Honorable Jerrold Nadler
Chairman
Committee on the Judiciary
US House of Representatives
Washington, DC 20515

The Honorable Doug Collins
Ranking Member
Committee on the Judiciary
US House of Representatives
Washington, DC 20515

Dear Chairman Nadler and Ranking Member Collins:

The International Trademark Association (INTA) is pleased to provide the Committee this statement for the record of the July 18, 2019 hearing on *Counterfeits and Cluttering: Emerging Threats to the Integrity of the Trademark System and the Impact on American Consumers and Businesses."*

In particular, INTA expresses our support for proposed legislation to amend the Lanham Act to clarify the availability of injunctive relief in appropriate cases involving trademark violations. Recent developments in the law of Lanham Act remedies threaten to undermine Congressional objectives in protecting both businesses and consumers from the harm caused by trademark infringement, dilution, false advertising and cybersquatting. This has occurred as some federal courts no longer presume irreparable harm when issuing injunctions, relying on a Supreme Court decision[1] that applied in the context of the Patent Act, not the Lanham Act. Since the injury in cases of trademark violations is often not readily quantifiable, the presumption of harm is a longstanding and important principle to ensure adequate relief is available. That is why INTA supports legislation amending the Lanham Act to include a *rebuttable* presumption of irreparable harm.

Last year, in a September 4, 2018 joint letter from INTA, the American Intellectual Property Law Association (AIPLA) and the Intellectual Property Owners Association (IPO) to then Chairman Goodlatte and Ranking Member Nadler urged the House Judiciary Committee to:

> "take up legislation to amend the Lanham Act to reestablish a consistent principle that would make injunctive remedies available in appropriate cases involving trademark counterfeiting, infringement, dilution, false advertising and cybersquatting. This would clarify and make consistent how the Lanham Act is enforced across the country in order to best protect the interests of American consumers and businesses.'

[1] *eBay, Inc. v. MercExchange LLC*, 547 U.S. 388 (2006).

"Trademarks are source identifiers that inform and protect consumers. The Lanham Act serves dual purposes. The statute protects consumers from the confusion and deception caused by acts of trademark counterfeiting, infringement, dilution, false advertising and cybersquatting. At the same time, the law protects businesses from the damage to their goodwill and reputation that is caused by such acts. Recent developments in the law of Lanham Act remedies, however, have resulted in inconsistency across judicial circuits that threatens to undermine Congressional objectives in protecting both consumers and businesses from those harms.'

"Injury in most Lanham Act violations is typically not readily or immediately quantifiable. Injunctive relief (which requires the claimant to meet a four-part test, including a showing of irreparable harm) most often is the only effective remedy to prevent harm to consumers and protect the trademark owner's reputation. For this reason, historically, U.S. federal courts, when considering a claim under the Lanham Act, almost uniformly applied a rebuttable presumption of irreparable harm upon a finding of liability or, in the context of a preliminary injunction, when liability was found to be probable. A rebuttable presumption of irreparable harm is an important avenue to adequate relief, given the difficulty of quantifying this type of injury.'

"Yet, in the past decade, a number of federal courts have reversed course and discarded this long-standing rebuttable presumption of irreparable harm even when liability is found. These courts have based their decisions on a Supreme Court opinion involving patent infringement and the U.S. Patent Act – which never addressed injunctive relief under the Lanham Act. Other federal district and circuit courts have declined to extend the patent decision to trademark cases. The differing views of the circuits on this issue have created uncertainty for Lanham Act claimants and an incentive for forum shopping, and the U.S. Supreme Court has declined to grant certiorari to resolve the conflict in the lower courts and clarify the law in this regard.'

"Legislation reestablishing a presumption of irreparable harm under the Lanham Act would provide clarity for the courts and litigants alike. It would provide injunctive relief to trademark owners who prevail on the merits of their claim or who, in preliminary injunction proceedings, demonstrate that they are likely to prevail on the merits, and allow them to appropriately protect their brands and reputations. This will also protect consumers from harm arising from confusion about the source of products or services."

The American Bar Association (ABA) also expressed support for legislation to amend the Lanham Act "to expressly recognize a presumption of irreparable harm rebuttable by a preponderance of the evidence and testimony if a trademark owner seeks injunctive relief on a likelihood-of-confusion claim and there is a finding that liability is probable (for a preliminary injunction) or an actual finding of liability (for a permanent injunction)" in an April 2, 2019 letter to House Judiciary Subcommittee Chairman Hank Johnson.

The ABA letter continued:

> "In *eBay Inc. v. MercExchange, LLC*,[2] the Supreme Court identified four showings a plaintiff must make to be entitled to injunctive relief, the first of which is that the plaintiff will suffer an irreparable harm in the absence of an injunction.'[3]
>
> "Prior to eBay, a case addressing allegations of utility patent infringement, courts held with near uniformity that success on the merits of a trademark claim in the permanent injunction context or a showing of likely success on the merits in the preliminary injunction context created a presumption of irreparable harm sufficient to satisfy the first prerequisite for relief.'[4]
>
> "Subsequent to *eBay,* however, some courts have questioned the viability of that presumption in trademark cases, while others have continued to apply it.[5] Because the Supreme Court has declined to resolve this split, the Section urges the Senate Judiciary Committee to take up legislation to confirm the existence of the presumption in appropriate cases involving the violation of trademark and service mark rights. There are several reasons why the Committee should do so.
>
> "First, trademarks inform consumers and protect them against mistaken purchasing decisions in the marketplace. They do so by reducing consumer search costs as consumers learn over time to recognize and rely on certain marks and brands as representations of quality and favorable products or services.[6] Trademark law shields consumers from unscrupulous actors by guaranteeing that the products or services they purchase under particular trademarks encompass certain qualities and attributes they expect.[7] This is a

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[2] 547 U.S. 388 (2006).

[3] *Id.*at 391.

[4] *See, e.g., Eli Lilly & Co . v. Natural Answers Inc.,* 233 F.3d 456, 469 (7th Cir. 2000) ("Irreparable harm is gene rally presumed in cases of trademark infringement and dilution."); *Fed. Express Corp. v. Fed. Espresso, Inc.,* 201 F.3d I 68, 174 (2d Cir. 2000) (" [P]roof of a likelihood of confusion would create a presumption of irreparable harm, and thus a plain tiff would not need to prove such harm independently."); *Opticians Ass'n of Am. v. Ind. Opticians of Am.,* 920 F.2d 187, 196-97 (3d Cir. 1990) (once a showing of likely confusion is made, the "inescapable conclusion is that there was also irreparable injury"); *Gen. Mills, Inc. v. Kellogg Co.,* 824 F.2d 622, 625 (8th Cir. 1987) (irreparable injury is presumed once the moving party demonstrates probable success in proving a likelihood of confusion).

[5] *Compare Abraham* v. *Alpha Chi Omega,* 708 F.3d 614, 627 (5th Cir. 2013) ("All that must be proven to establish liability and the need for an injunction against infringement is the likelihood of confusion-injury is presumed.") *with Herb Reed Enters.* v. *Fla. Entm't Mgmt., Inc.,* 736 F.3d 1239, 1249 (9th Cir. 2013) ("[A]ctual irreparable harm must be demonstrated to obtain a permanent injunction in a trademark infringement action.").

[6] *Kraft Foods Group Brands LLC* v. *Cracker Barrel Old Country Store, Inc.,* 735 F.3d 735, 739, (7th Cir. 2013) ("A trademark's value is the saving in search costs made possible by the information that the trademark conveys about the quality of the trademark owner's brand.").

[7] *Qualitex Co. v. Jacobson Prod. Co.,* 514 U.S. 159 (1995) ("In principle, trademark law, by preventing others from copying a source-identifying mark, "reduce[s] the customer's costs of shopping and making purchasing decisions,"

particularly compelling consideration where goods bearing counterfeit imitations of marks are concerned. Trademark litigation therefore implicates the public interest in ways that litigation involving other intellectual property rights does not.'

"Second, unlike patent law, trademark law protects trademark owners by allowing them to build and maintain positive reputations among consumers through exclusive use of a single source designator for their products or services in the marketplace.[8] When an infringer enters the marketplace, the protections afforded by trademark law are threatened. Consumers encountering new products or services under a recognizable or familiar trademark are naturally likely to believe those products or services emanate from or are related to the original source. This likelihood of confusion reflects the trademark owner's loss of control over its mark.[9] If the infringer's products or services do not adhere to the quality or standard that the trademark owner originally imposed, consumers will reconsider their loyalty to the brand. This loss in consumer confidence harms the trademark owner's investment in its mark and can ultimately destroy or severely damage the trademark owner's reputation- a loss that in most cases cannot be repaired by monetary relief.'[10]

"Finally, a key consideration underlying the outcome in *eBay -a* case presenting allegations of utility patent infringement - was the Court's concern with non-practicing patent "trolls," i.e., patent owners that own patents "not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees."[11] Because trademark rights under United States law ultimately depend on use of the underlying mark in commerce,[12] the opportunity for similar behavior in the trademark context is limited. Further, there is no indication that the Supreme Court intended its decision in *eBay* to extend beyond utility patent infringement and into trademark infringement.'

"Congressional confirmation of the presumption of irreparable harm would not preclude defendants from rebutting it by a preponderance of the evidence and testimony. Thus, for example, as was the case prior to *eBay*, a defendant could defeat a request for preliminary injunctive relief by demonstrating the plaintiff

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J. McCarthy, McCarthy on Trademarks and Unfair Competition§ 2.01[2], p. 2-3 (3d ed. 1994) ... for it quickly and easily assures a potential customer that *this* item-the item with this mark-is made by the same producer as other similarly marked items that he or she liked (or disliked) in the past.").

[8] *Id.* at 162 ("The Lanham Act gives a seller or producer the exclusive right to 'register' a trademark, 15 U.S.C. § 1052 ... and to prevent his or her competitors from using that trademark,§ 1114(1).").

[9] *AMF Inc.* v. *Sleekcraft Boats,* 599 F.2d 341, 354 (9th Cir. 2003)("The wrong inheres in involuntarily entrusting one's business reputation to another business.")

[10] *Juicy Couture, Inc.* v. *Bella Int'/ Ltd,* 930 F. Supp. 2d 489,503 (S.D.N.Y. 2013)("1rreparable harm exists in a trademark case when the party seeking the injunction shows that it will lose control over the reputation of its trademark ... because loss of control over one's reputation is neither 'calculable nor precisely compensable."')(quoting *U.S. Polo Ass'n, Inc.* v. *PRL USA Holdings Inc.,* 800 F.Supp.2d 515, 540 (S.D.N.Y.2011)).

[11] 547 U.S. at 396.

[12] *McCarthy on Trademarks and Unfair Competition§* 6:3 (5th ed.) ("Trademark rights grow out of use, not mere invention. To acquire ownership of a trademark, one must actually use the designation in the marketplace as a mark in the sale of goods or services.").

unreasonably delayed in bringing that request.[13] Likewise, a showing of complete cessation by a defendant also could have the same effect.[14] That confirmation would, however, provide much-needed clarity and consistency to courts and litigants alike, as well as eliminate an opportunity for forum-shopping by the latter."

* * * * * *

INTA also takes this opportunity to express our support for other proposed legislation to amend the Lanham Act to provide a federal statutory basis for the protection of well-known marks that are determined to be well known in the United States but are not registered or in use in the United States.

Background

The doctrine of well-known marks, which was formalized under international law in Article 6bis of the Paris Convention of 1925[15], recognizes that trademarks with worldwide reputations exist. Accordingly, if a trademark can be shown to be well known across territorial boundaries, then it deserves protection from infringement even if the mark is not registered or used in the jurisdiction where protection is sought. This departure from a strict "territorial" application of trademark law has become widely accepted as the global economy makes borders increasingly less significant to the free flow of information, bringing with it the need to protect well-known marks beyond the territory in which they are registered or used. The well-known marks doctrine is further enshrined in a number of subsequent international agreements, significantly Article 16 (2) and (3) of the World Trade Organization's Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS).

The United States, a signatory to the Paris Convention and TRIPS Agreement, has been a strong advocate for the protection of well-known marks around the globe, reflecting the fact that U.S. companies own many of the world's strongest and most well-known marks and are most vulnerable to infringement in global markets. In 1999, the United States was instrumental in developing the World Intellectual Property Organization's Joint Recommendations Concerning Provisions on the Protection of Well-Known Marks. The Recommendation has served as the standard for further harmonization of laws to protect well-known marks. The U.S. has

[13] *See, e.g., Pharmacia Corp.* v. *Alcon Labs.*, 201 F. Supp. 2d 335, 382 (D.N.J. 2002) ("Any claim to irreparable injury is undercut by the plaintiffs lengthy and inexcusable delay in bringing this action for preliminary injunctive relief.").

[14] *See, e.g., Oyj* v. *ContextLogic Inc.*, No. 18-CV-02353-MMC, 2018 WL 3820654, at *2 (N.D. Cal. Aug. I 0, 2018).

[15] Paris Convention for the Protection of Industrial Property (as revised at the Hague on November 6, 1925). 21 U.S.T.1583; 828 U.N.T.S. 305.

championed the Joint Recommendations in many bilateral trade agreements since that time, such as U.S. - Singapore, U.S. - Chile, and the recently negotiated USMCA.

Yet, despite the United States' treaty obligations to protect well-known marks and its leadership in promoting the protection of well-known marks around the globe, an explicit federal statutory basis for enforcement of the doctrine does not exist. As a result, the protection of well-known marks under U.S. law is mired in conflicting doctrinal approaches at both the federal and state levels. The Supreme Court has yet to rule clearly on the extent to which existing principles of U.S. law may create a "well-known mark" exception to the territoriality doctrine and the use in commerce prerequisite for trademark rights. At the same time, inconsistent decisions from the Ninth, Second and Fourth Circuits inject additional complexity as to the protection of well-known marks.

This hurts global efforts to ensure protection of American well-known marks. Moreover, without an explicit federal statute to clarify the exceptional case for well-known mark protection, each theory proposed to date that might allow relief to the foreign owner of a well-known mark without a showing of actual use requires at least some departure from traditional principles of domestic trademark law, potentially eroding fundamental precepts of U.S. trademark law.

The Supreme Court's *Tea Rose-Rectanus* Doctrine

Although the Supreme Court's *Tea Rose-Rectanus* doctrine does not clearly abrogate territoriality principles, the doctrine makes occasional appearances in litigation to protect allegedly well-known marks. The doctrine has its origins in two Supreme Court decisions: *United Drug Co. v. Theodore Rectanus Co.*[16] and *Hanover Star Milling Co. v. Metcalf.*[17] Although intervening changes to federal law have superseded certain aspects of these decisions, the decisions continue to stand for the proposition that a plaintiff owner of an unregistered mark will not be able to secure injunctive relief against a defendant that has in good faith adopted an otherwise infringing mark in an area geographically remote from that of the plaintiff. Under these circumstances, both parties will enjoy protectable rights in the areas into which their respective uses extend.

[16] 248 U.S. 90 (1918).

[17] 240 U.S. 403 (1916).

Significantly, however, the *Tea Rose-Rectanus* doctrine will not protect a remote defendant that adopts its mark in bad faith.[18] Courts applying the doctrine are closely divided on what constitutes bad faith for this purpose, but the apparent majority rule is that a plaintiff must demonstrate that the defendant has more than mere knowledge of its mark to render the remote good faith defense inapplicable.[19]

The Ninth Circuit's Recognition of the Well-Known Marks Doctrine Under Federal Law

To date, only a single federal appellate decision, *Grupo Gigante SA de CV v. Dallo & Co.*,[20] has held that the well-known marks doctrine is viable under federal law. In *Grupo Gigante*, the plaintiff was a Mexican corporation that used the GIGANTE mark in connection with grocery stores in Mexico, including stores just south of San Diego, California. Apparently seeking to capitalize on the notoriety of the plaintiff's mark among Mexican consumers in Southern California, the defendants adopted the same mark for their stores in San Diego, which produced actual confusion among consumers familiar with the plaintiff's stores in Mexico. At the time of the defendants' first use, the plaintiff was not using its mark in the United States, although it later did enter U.S. markets under the mark.

Despite allowing the plaintiff's case to go forward under the well-known marks doctrine, the Ninth Circuit did not expressly identify a basis for its holding in federal law. Instead, after reciting in a footnote that the plaintiff was proceeding under Sections 43(a) and 43(c) of the Lanham Act, the Ninth Circuit allowed the case to go forward after affirming the district court's dismissal of the non-Section 43(a) and 43(c) claims. In particular, the court rejected alternative bases proffered by the plaintiff including the Paris Convention, Section 44 of the Lanham Act, the common law *Tea Rose-Rectanus* doctrine, and New York common law.[21] Therefore, one can identify the federal statutory basis for the court's holding only through a process of elimination.

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[18] *Id.* at 415 ("But where two parties independently are employing the same mark upon goods of the same class, but in separate markets wholly remote the one from the other, the question of prior appropriation is legally insignificant, unless, at least, it appear that the second adopter has selected the mark with some design inimical to the interests of the first user, such as to take the benefit of the reputation of his goods, to forestall the extension of his trade, or the like.").

[19] *See, e.g., GTE Corp. v. Williams*, 904 F.2d 536, 541 (10th Cir. 1990) ("The ultimate focus is on whether the second user had the intent to benefit from the reputation or goodwill of the first user."); *cf. Person's Co. v. Christman*, 900 F.2d 1565, 1568, 1570 (Fed. Cir. 1990) (holding that mere knowledge of a mark's use outside of United States does not preclude good faith adoption and use of the identical mark in the United States prior to enty of the foreign user). *But see* 4 J. MCCARTHY, *supra* note 7, § 26:9 (characterizing as the majority rule "that proof of the junior user's knowledge of the senior user's mark at the critical date is sufficient to destroy the 'good faith' element of the territorial defense").

[20] 391 F.3d 1088 (9th Cir. 2004).

[21] *See id.* at 1097-1101.

The *Grupo Gigante* court did not expressly hold that Congress or a self-executing treaty had abrogated the territoriality doctrine. Instead, the record evidence demonstrating actual confusion seems to have heavily influenced the court's decisions. Acknowledging that the plaintiff had not used its mark in commerce in the United States prior to the defendants' use, the court explained its departure from the territoriality principle:

> We hold . . . that there is a famous mark exception to the territoriality principle. While the territoriality principle is a long-standing and important doctrine within trademark law, it cannot be absolute. An absolute territoriality rule without a famous mark exception would promote consumer confusion and fraud. Commerce crosses borders. In this nation of immigrants, so do people. Trademark [law] is, at its core, about protecting against consumer confusion and "palming off." There can be no justification for using trademark law to fool immigrants into thinking that they are buying from the store they liked back home.[22]

The court then addressed the proper standard for determining whether the plaintiff's mark was indeed sufficiently well-known to pierce the territoriality principle. Relying on the *Tea Rose-Rectanus* doctrine, the district court had concluded that the plaintiff would be entitled to relief if it merely could demonstrate that its mark had acquired secondary meaning in the geographic area occupied by the defendant. As described by the Ninth Circuit, "[u]nder the district court's interpretation of the exception to the territoriality principle, the fact that [the plaintiff's] earlier use of the mark was entirely outside of the United States becomes irrelevant."[23] It "would go too far if [the court] did away with the territoriality principle altogether by expanding the famous-mark exception this much."[24] In addition to acquiring secondary meaning, the Ninth Circuit determined that:

> [W]here the mark has not before been used in the American market, the court must be satisfied, by a preponderance of the evidence, that a *substantial* percentage of consumers in the relevant American market is familiar with the foreign mark. The relevant American market is the geographic area where the defendant uses the alleged infringing mark. In making this determination, the court should consider such factors as the intentional copying of the mark by the defendant, and whether consumers of the American firm are likely to think that they are patronizing the same firm that uses the mark in another country. While these factors are not necessarily determinative, they are particularly relevant because they bear

[22] *Id.* at 1094 (footnote omitted).
[23] *Id.* at 1097.
[24] *Id.*

> heavily on the risks of consumer confusion and fraud, which are the reasons for having a famous-mark exception.[25]

Rejection of the Well-Known Marks Doctrine Under Federal Law by the Second Circuit

In *ITC Ltd. v. Punchgini, Inc.*,[26] the plaintiff sought to enjoin the defendant's use of the BUKHARA mark for restaurant services. The plaintiff used the BUKHARA mark for restaurants outside of the United States, but it was not using the mark in the United States at the time the defendant opened two "Bukhara Grill" restaurants in New York City. The district court entered summary judgment in the defendant's favor for each of the plaintiff's federal and New York causes of action, because: (1) the plaintiff had abandoned its rights to the BUKHARA mark in the United States; and (2) even if U.S. law protected famous and well-known marks absent actual use in commerce in the United States, the plaintiff could not show that its mark had acquired secondary meaning.

On appeal, the Second Circuit affirmed and concluded that there was no basis for recognition of the well-known marks doctrine under federal law. The appellate court rejected the plaintiff's invocation of Article 16(2) of TRIPS and Article 6*bis* of the Paris Convention. The court held that that "TRIPs is plainly not a self-executing treaty," and "[w]hile Congress has amended numerous federal statutes to implement specific provisions of the TRIPs agreement, it appears to have enacted no legislation aimed directly at Article 16(2)."[27] The court concluded that the Paris Convention was not self-executing, and Section 44 of the Lanham Act had not implemented the Convention into U.S. law. In particular, the court held that "we do not . . . discern in the plain language of sections 44(b) and (h) a clear congressional intent to incorporate a famous marks exception into federal unfair competition law."[28]

The Second Circuit took issue with the Ninth Circuit's holding in *Grupo Gigante* — characterizing the outcome in that case as resulting from policy considerations. The Second Circuit rejected the Ninth Circuit's holding.

> In light of the comprehensive and frequently modified federal statutory scheme for trademark protection set forth in the Lanham Act, we conclude that any policy arguments in favor of the famous marks doctrine must be submitted to Congress for it to determine whether and under what circumstances to accord federal recognition to such an exception to the basic principle of territoriality. Absent such Congressional recognition, we must

[25] *Id.* at 1098 (emphasis in original).
[26] 482 F.3d 135 (2d Cir. 2007).
[27] *Id.* at 161-62.
[28] *Id.* At 163.

> decline [the plaintiff's] invitation to grant judicial recognition to the famous marks doctrine simply as a matter of sound policy.[29]

The Fourth Circuit Adds More Confusion to the Well-Known Marks Doctrine

In 2016, the Fourth Circuit further muddied the water in its decision on *Belmora LLC v. Bayer Consumer Care AG,* when the Court ruled that a foreign entity has standing under Section 43(a) of the Lanham Act, even though the foreign entity did not have a U.S. registration, nor had the foreign company used the mark in the U.S.[30] Remarkably, the court reached this conclusion without ever mentioning the territoriality doctrine or discussing the well-known marks doctrine. Instead, the Court based their decision on principles of unfair competition law under the Lanham Act (false association and false advertising). By not addressing the well-known marks doctrine, the Court leaves litigants with no boundaries for how to apply the doctrine in the United States.

Conclusion

The U.S. judicial approach to the well-known mark doctrine has failed to provide a coherent body of case law. The basis for protecting a foreign mark (that is not registered or used in the US) varies wildly among jurisdictions – from the Ninth Circuit, which carved out a well-known mark exception to the territoriality principle based on "public policy," to the Second Circuit, which refused to recognize such an exception to the basic principle of territoriality without Congress determining the circumstances for doing so. *Belmora* in the Fourth Circuit only adds to the incoherence, by overlooking the territoriality principle entirely in protecting a foreign mark that is not registered or used in the U.S. This jumble of conflicting judicial approaches calls for Congress to act by establishing the parameters of a well-known mark exception to the territoriality principle, with uniform standards for defining a well-known mark and the specific factors needed for finding trademark infringement.

INTA recommends that Congress include the following non-exhaustive list of factors for determining whether a mark is well-known in the relevant sector of the public in the United States. These factors are guidelines for determining whether a mark is a well-known mark and should not be considered pre-conditions for reaching that determination.

1. the degree of knowledge or recognition of the mark in the relevant sector of the public within the United States;

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[29] *Id.* at 165 (internal citation omitted).

[30] *Belmora LLC v. Bayer Consumer Care AG*, 819 F 3d 697 (4th Cir. 2016), *cert denied*, No. 16-548, 2017 WL 737826 (US Feb. 27, 2017).

2. the duration, extent and geographical area of any use of the mark anywhere in the world;

3. the duration, extent and geographical area of any promotion or media coverage of the mark anywhere in the world;

4. the duration and geographical area of any registrations, and/or any applications for registration, of the mark, to the extent that they reflect use or recognition of the mark anywhere in the world;

5. the record of successful enforcement of rights in the mark, in particular, the extent to which the mark has been recognized as well known by competent authorities anywhere in the world; and

6. the value associated with the mark.

INTA strongly recommends the committee consider legislation to amend the Trademark Act of 1946 to provide an explicit federal statutory basis for the protection of well-known marks that are determined to be well known in the United States but are not registered or in use in the United States.

Sincerely,



Bruce MacPherson
Chief Policy Officer

About INTA

INTA is a not-for-profit membership association created in 1878 for the support and advancement of trademarks and related intellectual property as elements of fair and effective national and international commerce. The Association is made up of more than 7000 brand owners and professionals from 190 countries who share a common interest in the protection and development of trademarks and trademark laws. The membership includes small and medium-size companies, large multinational corporations, law firms, trademark consultants and academic institutions representing all sectors of industry.

INTA has been in the forefront of the issue of protection for famous and well-known marks for decades, particularly in the United States. INTA's involvement in the issue includes the proposal for dilution protection for famous marks during consideration of the Trademark Revision Act of 1988, amendments in 1995 to the Lanham Act to comply with TRIPS, and the Trademark Dilution Revision Act of 2006. INTA made a major contribution to the development of the WIPO Joint Recommendation of 1999 and has worked with the U.S. government for its inclusion in bilateral treaties and other international agreements. INTA also has submitted amicus briefs on the issue of well-known mark protection to courts around the world.