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Liability of Shipping Hubs for Counterfeit Products

Contributed by [Pauline Tseng](#), *Sideman Bancroft*

E-commerce sites are increasingly popular with buyers, but despite the convenience, online shopping remains risky. [Reports](#) show that a majority of consumers who unintentionally purchased counterfeit products found them on online marketplaces.

Mainstream media and lawmakers caught on to this phenomenon. The names of top e-commerce platforms make the headlines each day, and the recently reintroduced [INFORM Consumers Act](#) seeks to hold e-commerce platforms accountable for high-volume third-party sellers selling counterfeit or infringing product on their platforms. While much of this attention is focused on e-commerce platforms, an often overlooked actor—and potential source of liability—is the center of distribution. The center of distribution may include the U.S.-based shipping hub, fulfillment center, or warehouse that stores and ships counterfeit product to consumers across the country.

Foreign sellers rely on these U.S.-based shipping hubs to reach U.S. consumers quickly, establishing a new business model predicated on speedy shipping. This way of doing business introduces a new set of players that can be held liable for the distribution of counterfeit product. This article examines how counterfeit liability law has not caught up to this rapid change and how rights-holders can step in to hold these shipping hubs liable.

U.S.-Based Shipping Hubs

The mainstream media explains the counterfeit problem very simply: An increase in the number of third-party sellers on e-commerce platforms—many of whom are based outside of the U.S.—has led to an increase in the number of counterfeit product entering the country.

But this simple cause and effect explanation does not capture the whole story. Often falling under the radar, is the discussion of the new business model in which foreign third-party sellers opt not to ship the products themselves but to use high-volume, low-cost U.S.-based shipping hubs to get product into consumers' hands quicker. These shipping hubs are extremely fast and efficient—and why consumers expect to receive goods in two business days or less.

These shipping hubs are new links in the distribution chain and new players in the framework of counterfeit liability law. Outlined below is an example of this process:

- **Consumer Order.** A consumer orders a Brand A skincare product on a popular e-commerce platform. The consumer purchases the product from a third-party seller who offers the product at the lowest price and touts that the product will be shipped from the U.S. Unbeknownst to the consumer, the seller is actually based in Russia and has arranged for a U.S.-based shipping hub to receive and process consumer orders.
- **Export.** The third-party seller may have sourced the product from a manufacturing company in China that produces counterfeit Brand A products. The manufacturer packages and ships the counterfeit product in smaller, low-value air parcels so it has a better chance evading U.S. Customs and Border Protection (CBP) scrutiny. [CBP statistics](#) show an increase in the number of small parcels used to ship counterfeit goods in recent years. CBP efforts focus on addressing these types of potential loopholes in the import process, including a 2020 [administrative ruling](#) enhancing low-value parcel accountability.
- **Import.** The manufacturer works with a U.S.-based customs broker or freight forwarder that delivers the counterfeit product to a U.S.-based shipping hub, distribution center, fulfillment center, or warehouse. The distribution center receives the counterfeit product and waits for shipping instruction regarding order fulfillment.
- **Order Fulfillment.** After receiving the consumer's contact information, the distribution center fulfills the consumer's order by repacking and shipping the counterfeit skincare product directly to the consumer.

In this example, and in many cases, the third-party seller never actually touches the counterfeit product ordered by the consumer. Instead, a new set of U.S.-based actors facilitates the movement of the counterfeit product from the foreign manufacturer directly to the consumer. This movement is so seamless that the counterfeit product finds its way to a shelf in a U.S.-based shipping hub long before a consumer places an order.

Foreign sellers get counterfeit products into the country in a decentralized manner, and then rely on U.S.-based shipping hubs to provide storage to counterfeit products on their way to U.S. consumers. In this way, these shipping hubs are the backbone and center of action for the counterfeit distribution system, responsible for storing, shipping, and facilitating the distribution of counterfeit products.

Alarming, the growing number of these U.S.-based shipping hubs indicates that foreign sellers have enough inventory to justify using fulfillment services and paying an extra fee for the services. In 2020 alone, Amazon seized and destroyed more than [two million products](#) sent to its own fulfillment centers that it detected as counterfeit before being sent to a customer.

Liability For This New Link in the Chain

Where do these shipping hubs fit in the framework of counterfeit liability law?

Traditionally, the manufacturer or seller of counterfeit product is considered the most significant target for liability. However, when many manufacturers or sellers of counterfeit product are based outside of the U.S., enforcement becomes more difficult. According to [CBP statistics](#), 54% of counterfeit goods seized by value in 2018 originated in mainland China.

Given these jurisdictional issues, the e-commerce platform may be the next significant target for liability. The potential liability of these platforms for counterfeit sales by third parties has been hotly debated, but rights-holders do not have a strong legal footing to hold these platforms accountable. The government continues to push for legislation to hold these sites more accountable, and the law may slowly recognize platforms as a liable actor in the distribution chain.

What liability attaches to the shipping hubs, which are often the most sophisticated link in the distribution chain and are responsible for storing, shipping, and distributing the counterfeit product? They appear to be further removed from the manufacturer or seller, but may be more akin to a flea market in physically handling the product or the e-commerce platform that ultimately gets the counterfeit product into consumers' hands.

The government has begun to recognize the liability of these entities. The Department of Homeland Security's [January 2021 report](#) recommended various ways to combat trafficking in counterfeit goods. The U.S. Department of Homeland Security stated it is working to ensure that entities with financial interests in imports—i.e., U.S.-based shipping hubs, domestic warehouses, and fulfillment centers—bear responsibility. DHS stated that “CBP will treat domestic warehouses and fulfillment centers as the ultimate consignee for any good that has not been sold to a specific consumer at the time of its importation.”

Shipping hubs are no longer the middleman with no liability. CBP will target shipments when they remain relatively concentrated in warehouse and fulfillment centers. If those hubs fail to pursue abandonment and destruction with the rights-holders, that failure to cooperate could be a factor when CBP and U.S. Immigration and Customs Enforcement identify counterfeit cases to pursue.

The law is close to recognizing the liability of these shipping hubs, but it is not quite exact. Courts have already acknowledged liability for importers of record. See *Philip Morris USA, Inc. v. Castworld Prods., Inc.*, [219 F.R.D. 494, 500 \(C.D. Cal 2003\)](#). Case law provides that where multiple defendants are involved in the distribution chain selling infringing products to consumers, “any member of the distribution chain’ of allegedly infringing products can be ‘jointly and severally liable’ for the alleged misconduct.” *Adobe Sys. Inc. v. Blue Source Group, Inc.*, [125 F. Supp. 3d 945, 973 \(N.D. Cal. 2015\)](#).

Thus, every link in the distribution chain is liable, and the extension of liability to a shipping hub is a natural consequence of these principles. Individuals who run these shipping hubs also have liability. See *Comm. for Idaho’s High Desert, Inc. v. Yost*, [92 F.3d 814, 823 \(9th Cir. 1996\)](#) (finding in Lanham Act counterfeiting and trademark infringement cases that a corporate officer is liable for infringement “which he authorizes or directs or in which he participates, notwithstanding that he acted as an agent of the corporation and not on his own behalf.”).

Courts have found some form of liability under the Lanham Act for U.S.-based shipping companies, or individuals engaged in transporting or shipping counterfeit product. The following are situations where a court found Lanham Act liability for U.S.-based shipping companies:

- The court permanently enjoined the defendant shipping company from importing, warehousing, storing, distributing, fulfilling orders for, and shipping product that infringed plaintiff's trademarks. *BMW of North America, LLC et al v. US Elogistics Service Corp. et al*, No. 5:19-CV-00789-JFW), ECF No. 41 (C.D. Cal March 3, 2020).
- Defendants' shipping, handling, and storing of counterfeit product in their warehouse was found sufficient to establish defendants were part of the distribution chain and therefore used the goods in commerce, as required for a finding of liability under the Lanham Act. *JUUL Labs, Inc. v. Chou*, No. CV 21-3056 DSF (PDX), [2021 BL 336577](#), at *8 (C.D. Cal. Aug. 30, 2021).
- The court held an individual defendant liable under the Lanham Act when he unloaded and transported counterfeit goods, but did not sell them, because such acts are use in commerce as required by the Lanham Act. *Philip Morris USA Inc. v. Liu*, [489 F. Supp. 2d 1119](#), 1122 (C.D. Cal. 2007).
- The court granted ex parte civil seizure orders under the Lanham Act to permit the seizure of counterfeit product at the defendant's distribution centers. *Innovation Ventures, LLC et al. v. Ultimate One Distributing Corp.*, No. 12-CV-05354-KAM, ECF No. 1 (E.D.N.Y. Oct. 25, 2012).

Case law has not fully addressed the consequences of shipping hubs' specific actions in the distribution chain and the critical issues that may reflect their liability—such as knowledge.

Brand Protection Programs

It has become clear that rights-holders must look internally to their own systems and programs to identify these distribution hubs in an effort to stop counterfeit products from reaching consumers.

U.S. Customs Programs

Implementing a U.S. Customs enforcement program can be an important tool in identifying counterfeit shipping hubs. Once a brand records its registered trademarks with CBP, CBP can seize infringing products bearing those trademarks seeking entry into the U.S. Through this program, a brand and its counsel can train CBP Import Specialists on how to make authenticity determinations. This training can include Product Identification Guides that assist CBP in identifying counterfeit product for the brand.

Following the identification of counterfeit goods at the border, CBP will provide the rights-holder with a formal notice of the seizure, which includes the importer's name and address of record, along with other critical information. Examination of the importer address often yields information on significant distribution centers.

In many cases, the importer of record is a warehouse that likely knows it is storing and distributing counterfeit product. A well thought-out and crafted cease and desist letter will put the warehouse on notice of its potential direct or contributory liability. The C&D will encourage the warehouse to cooperate, engage in a productive discussion, or set the groundwork for further escalated enforcement. The goal is to find out more about the source of the counterfeit product through the warehouse. C&Ds may also be hand-delivered where warranted, such as for repeat offenders.

Under the right circumstances, the distribution hub's counterfeit activity may be referred to law enforcement for further investigation and potential prosecution, or pursued through civil litigation. This is particularly true for a distribution target that has repeatedly trafficked in counterfeit product, despite being put on notice. Evaluation of escalated enforcement options is crucial for targets that are importing a large amount of counterfeit products that pose consumer health and safety issues, such as health products, beauty products, and water filters. These products may contain harmful ingredients, and there is no guarantee they are manufactured to the high quality and safety standards that a brand requires.

While geographical areas differ in law enforcement interest and engagement, working with law enforcement has significant benefits, including the government's investigative tools, greater general deterrence brought by criminal sanctions, and cost-savings for rights-holders. If multiple rights-holders are victims, rights-holders may also benefit from the sharing of investigative costs and restitution from these types of escalated cases.

Additionally, a notice of seizure from CBP will also identify the exporter of record. While this information is taken from the shipping label and may not always be accurate, there are certainly instances where the information yields leads for overseas investigations into counterfeit goods.

Overall, a robust U.S. Customs enforcement program may identify counterfeit distribution centers importing a large amount of products. A strategic brand protection program should enforce against these distribution targets through C&D letters or, when warranted, escalated options such as civil litigation or criminal referral to law enforcement.

Online Monitoring & Test Purchase Programs

Rights-holders should consider online monitoring and test buy programs, which are instrumental in identifying targets infringing a brand's IP rights and enforcing against them through various means. These programs can uncover networks of counterfeit sellers or distribution centers.

A comprehensive test buy program and subsequent counterfeit determination by the brand is often the initial step in uncovering distribution centers that are fueling the counterfeit market. For example, if your data indicates multiple counterfeit test purchases are all shipping from the same address, a single source may be using different seller names on different platforms, but ultimately shipping the counterfeit product from the same, centralized location. A test purchase program can show that there are multiple spokes that lead to a central source of counterfeit product. The identification of a central source empowers rights-holders to take action to cut off the central hub facilitating distribution, thereby crippling that particular go-to-market route of counterfeit product.

Enforcement against shipping hubs can include settlements with prospective relief that are great tools for a brand protection program. For example, after sending a C&D, a rights-holder obtained a monetary settlement and entered into agreements that further restrict the shipping hub from infringing the brand's trademarks in the future. In this case, the agreement required the shipping hub to contact the rights-holder every time it was asked to warehouse goods bearing the brand's mark.

Other settlement terms have included an accounting of all potentially counterfeit products in the shipping company's possession and a disclosure of all documents that pertain to the trafficking of counterfeit products. By quarantining any remaining counterfeit products in the shipping company's warehouse(s), and obtaining such products from the shipping company, a brand can further inspect and test the counterfeit products for investigation and deterrent purposes.

Online monitoring and test purchase programs can reveal significant U.S.-based distribution center targets and collect the strong evidence that a brand needs to pursue a matter civilly or criminally. In all these instances, it is important for a brand to strategize with its counsel on enforcement efforts.

Conclusion

The growth of e-commerce distribution hubs in the U.S is alarming and has complicated enforcement efforts by rights-holders. Clearly, this model exploits potential loopholes in the import process, and sets up a system of interdependent actors that receive, transport, store, and distribute counterfeit product to a consumer without the seller—who may be outside of the U.S.—ever laying a finger on the product. The players behind this widespread distribution should be held accountable for trafficking in counterfeit product.

While the law has not fully addressed the consequences of this new business model, the shipping hubs facilitating the distribution of counterfeit products are important U.S.-based targets for rights-holders. It is imperative for brands to work with their outside counsel to develop and maintain comprehensive brand protection programs to enforce against these entities that are facilitating the trafficking of counterfeit products.