

## Losing to Overseas Infringers: You Don't Have to Take It Anymore

As with any legal discussion, let's get started with a disclaimer. This article discusses way Amazon sellers can take action against overseas infringers by exercising their legal rights in court. It is general information; it is not legal advice and should not be relied upon as such. Further, the outcomes discussed in this article are based on past events, there is no guarantee that your outcome will be similar.

**Introduction.** It should be no surprise that the success of Amazon's marketplace is heavily reliant on the success of China-based sellers. And if that is a surprise, look no further than Amazon's statements in their last 10-K filing stating that:

“[B]ecause China-based sellers account for significant portions of our third-party seller services and advertising revenues, and China-based suppliers provide significant portions of our components and finished goods, regulatory and trade restrictions, data protection and cybersecurity laws, economic factors, geopolitical events, security issues, or other factors negatively impacting China-based sellers and suppliers could adversely affect our operating results.”

There you have it, straight from the horse's mouth. Amazon is so reliant on the success of its China-based sellers that it is being forced to disclose its reliance for SEC purposes. But how are China sellers succeeding? Well for one, there is often no middle-man, factories create their own brand and can sell direct. We also know that China plays by a different set of rules than other sellers. There are also many who have stated that the government of China is heavily subsidizing its sellers with ultra-low tax rates as an incentive, allowing factories to place even more pricing pressure on their US competitors. There is one other key factor that has helped China succeed, intellectual property (“IP”) infringement. Yup, your ideas, your branding, your designs, your patents, none of it being properly policed on the marketplace is being used to benefit your overseas competitors.

So, if you are someone who is experiencing substantial losses due to IP infringement you may be wondering what your options are. Sure, when it comes to trademarks there is brand registry, but results can be iffy. Further, trademark law is not necessarily going to protect your original creative work incorporated in your products, and certainly not your patents. Copyright enforcement on Amazon is also weak thanks to a law known as the Digital Millennium Copyright Act (“DMCA”) where a mere filing of a counter-notice (aka the “I didn't do it statement”) filed by the accused competitor protects Amazon from legal liability and allows the infringement to continue, unless you go to court.

Then there is patent infringement. More and more Amazon sellers who have spent tens of thousands to establish their patent rights are finding it hard to protect themselves using their patents with Amazon. Amazon's APEX program is the best internal option, if it's available to you, but that program is a glorified whack a mole, with heavy up front cost potential, and there is a chance that if the case is referred to an arbitrator (after you spend thousands) you won't get the result you are looking for. It also doesn't cover other platforms.

**Enter the Court System.** Those who are serious about protecting their US IP rights have another option, the court system. Through the courts a meritorious case can potentially get you the results you are looking for and even compensation for your losses.

**Obtaining a Court Order.** A successful court case can result in a number of benefits. Most importantly, a court order that Amazon must abide by ordering Amazon (and other platforms like Walmart, Temu and Tik Tok) to take down infringing listings. The beauty of this court order is we don't have to name all specific infringers at once. We can often craft the order so that as attempts to circumvent the court order by using new accounts and brands, can easily be swept up by the court's order allowing you to easily take down infringers going forward.

**Freezing Funds.** Along with a court order to take down any listings, we can also ask the court to put a freeze on any disbursements. This means that, while it's difficult to sue in China and get damages, any pending funds held by Amazon related to the product sales (sometimes other proceeds) can be subject to a freeze as part of a court order. That means, if your competitor is selling \$250,000 / month of infringing product, there is a potential to freeze some portion of that, depending on what Amazon is holding. This pool of funds can then be used as a basis for recovery (damages) if your case is: (i) ultimately successful, (ii) the party being sued doesn't show up for court (default judgement), or (iii) as a basis for settlement negotiations with the infringer.

**Temperament of the Courts.** It has been our experience lately that courts have been very receptive to protecting the IP rights of businesses fighting overseas competitors who don't follow the rules. In some cases, we have seen orders in place in a matter of days from the time of filing. That means your competitors could literally be offline in just a few days with their funds frozen once the case goes live. However, that's not always the case, the judge and the speed of the court (jurisdiction) all play a role in that outcome. Even better, is they won't see it coming. That's because the initial court order to take down the listings and freeze the funds is typically filed in secret ("under seal") so that the platforms have time to take action before evasive actions can be taken by the competitor.

#### **Temperament of Amazon.**

One question I get asked a lot when considering one of these cases is essentially "Will Amazon be mad at me and take action against me." In my experience, no. We are not suing Amazon, and while we could claim a portion of the fees Amazon receives from the infringing sales, we think it's wise to avoid that aspect for that reason. From that perspective, Amazon's lawyers are then typically very receptive and understanding of their obligations to follow the court order as well as other platforms such as Walmart, Temu, Tik Tok, etc. In other words, Amazon takes court orders seriously.

#### **Costs.**

Well Paul, this sounds too good to be true, surely there is a catch. Well, there are a few. First, while our success rate is high, we cannot predict the outcome, so results can vary. That's why we spend a lot of time investigating cases on a number of aspects before deciding to take one of these cases on. Secondly, there is a cost. Court is expensive. As a business lawyer I always say my goal is to keep our clients out of the courtroom except in certain circumstances, because often times the cost of litigation far outweighs the potential benefits.

However, in cases like this, we don't expect clients to take on the full brunt of the cost and can use contingency or hybrid-contingency (client pays some up-front amount and the rest is contingency to share the risk) based approaches to make it economically viable for the client. The formula is a risk assessment determined ultimately by the losses incurred, potential for statutory damages and most importantly expectations of what amounts will be in the infringing accounts to freeze. For example, if an infringer is selling \$500,000 a month of an infringing product, that's a stronger case for stronger

contingency and less up-front cost, versus infringers that are selling \$20,000 / month. Tools like Helium 10 and JungleScout can help us approximate what to expect if we are able to freeze the infringer's funds.

### **Over-Simplification.**

One last thing I want to stress about these cases is that this article is intentionally over-simplified. Whereas the process I am describing is actually quite complex in practice. For example, the first court order we get, the temporary restraining order only gives you temporary relief. If successful this will likely be followed by a hearing for a permanent injunction, this puts the pressure on to make the relief more permanent pending the full litigation of the case which can take years if not settled. However, even with a permanent injunction, and unless the case is settled, or the defendant no-shows (default judgement) has to be litigated, and if you were to lose the case, the permanent injunction would stop. Further, overseas sellers will often try to appeal the court orders on the grounds of jurisdiction or improper service, adding the potential for appellate work to the complexity.

### **Deceptive Practices.**

In addition to IP infringement, we are also actively exploring cases where overseas competitors are using hijacked listings to gain a competitive edge. For example, if your competitor makes an avocado slicer, but a substantial number of reviews talk about how the product is the best nail clipper ever, we are considering expanding our legal protection services into taking on these cases as well.

### **Conclusion**

While I wouldn't recommend this approach to every seller, serious sellers with strong IP and whose competitors are infringing on their IP, or otherwise engaging in deceptive practices and dominating as a result should consider the courts as an option for how to try and fight back. If you have any questions or have a case that you would like us to consider, please feel free to reach out to me at [paul@ecom.law](mailto:paul@ecom.law) so we can review your case in more detail.

*Author: Paul Rafelson is the founding attorney of Rafelson Law, PLLC a law firm established in 2017 dedicated to serving the needs of eCommerce Companies. Through his practice, Paul and his attorneys have helped sellers: (i) fight IP infringers, (ii) get their ASINs and Accounts reinstated, (iii) tackle compliance issues, (iv) structure for corporate asset protection and tax purposes, and (v) Exit (sell their businesses). In the last four years, Paul and his team have helped eCommerce companies realize approximately half-a-billion dollars in proceeds from the sale of their businesses. Separate from his legal practice, Paul is also the founder SellerBasics.com the first of its kind \$99/month subscription service dedicated to helping Amazon sellers with manage account health matters.*