

ONLINE SELLER WINS DISMISSAL OF RICO CLAIMS IN COUNTERFEITING ACTION BY FASHION RETAILERS

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A New York federal court recently held that defendant Alibaba Group Holding Ltd. (“Alibaba”), which is notorious for allegedly enabling the sale of counterfeit products, did not violate federal racketeering law by selling allegedly counterfeit products on its e-commerce venues.

Alibaba owns and operates the popular shopping sites Alibaba.com, Taobao.com, and AliExpress.com, and generated \$248 billion in gross merchandise volume in 2014 – more than Amazon and eBay combined. Luxury fashion retailers, including Gucci and Yves Saint Laurent, filed suit against Alibabi and seven other corporate entities that had roles in online platforms through which Chinese merchants could connect with consumers worldwide.

The lawsuit alleges that fourteen Chinese merchants, also named as defendants, sold counterfeit products bearing plaintiffs’ marks in the Alibaba marketplaces. It further alleges that the Alibaba defendants provided the online marketing, data collection, payment processing, financing, and shipping services necessary to sell the products, even though they knew or should have known that the merchant defendants were selling counterfeit goods.

On August 4, 2016, the U.S. District Court for the Southern District of New York granted the Alibaba defendants’ motion to dismiss two claims asserted against them under the Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. §1961 *et seq.* (“RICO”).

Plaintiffs’ first RICO claim was a substantive RICO claim brought pursuant to Section 1962(c), which makes it “unlawful for any person employed by or associated with any enterprise engaged in...interstate or foreign commerce, to conduct or participate, directly or indirectly, in the conduct of such enterprise’s affairs through a pattern of racketeering activity...”. In their motion to dismiss, the Alibaba defendants argued that the plaintiffs failed to adequately allege the existence of a RICO enterprise and that the Alibaba defendants “participated” in that enterprise within the meaning of RICO.

The Alibaba defendants admitted that various merchants used its marketplaces to sell counterfeit goods, but characterized these transactions as individual illegal acts, rather than evidence of an illegal enterprise. The court agreed, and granted Alibaba’s motion to dismiss the plaintiffs’ RICO

claims. In so ruling, the court noted that there was no indication that the merchant defendants, located in different parts of the country, came to an agreement to act together or that they even knew each other.

Plaintiffs' second RICO claim, which was brought pursuant to Section 1962(d), was a conspiracy charge premised on the substantive RICO violation, and the court held that plaintiffs' failure to state a claim for their substantive RICO violation warrants dismissal of the RICO conspiracy claim.

Plaintiffs' claims under the Lanham Act, 15 U.S.C. §1051 *et seq.* and under New York state law are still pending.

Fashion retailers have other options to protect

Despite the court's ruling, fashion retailers have other recourses to combat counterfeiting that do not involve litigation.

- Retailers should register their trademarks in each country in which they conduct business, including with the [U.S. Patent and Trademark Office](#).
- Trademarks should also be registered with the customs agencies. For instance, trademarks should be recorded with the U.S. Customs and Border Protection ("CBP"). The fee is \$190 per trademark recorded and the trademark recording is valid for 20 years.
- Retailers should notify any sellers of counterfeit goods of the infringement in writing, and consider legal action if they refuse to comply with the take-down demand or cease and desist letter.
- Retailers can report suspected infringement to U.S. Customs and Border Protection via the [e-Allegations Online Trade Violation Reporting System](#).
- Indicia of authenticity on the product, such as a unique label on the inside of the bag, or the packaging of the product can help minimize counterfeiting.

For assistance with these and other anti-counterfeiting measures, please contact the authors.

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