

Citron Exposes the Dirty Secrets of Etsy – One of Largest Counterfeiting Platforms in the World.

Etsy has hit a new low as a public company. We believe management has knowingly or, at the very least, negligently, turned this company into the largest organized clearing house for counterfeit goods in the world while not only allowing the behavior but encouraging it and promoting it by selling placement and status to the millions of sites that regularly violate copyright laws.

Citron believes Etsy is walking on eggshells with the FTC, DOJ, SEC, Customs and Border Protection, and the multitude of brands whose trademarks are being stolen and exploited daily.

Recently, Etsy has brought on high powered former DOJ and Meta attorneys to clean things up...but this genie can't get put back in the bottle.

News of Etsy's site being a shill for counterfeiters is no recent revelation, but now as Citron will illustrate it has hit ridiculous levels. Most importantly, it is obvious that management has not done enough to control this problem, which calls into question that quality of reporting of all internal metrics and the viability of its revenue base. Etsy has become a company whose corporate culture on transparency and reporting should be challenged.

Etsy behavior is bordering on criminal as it knowingly or negligently sells trademarked keywords to counterfeiters. Important to note that while there are some slips in the cracks in other merchant sites like Ebay or Amazon, the scale and flagrancy of the problem is *de minimis* compared to what is on display by Etsy. Citron will keep this short and simple as it is not our burden to show the extent of the activity, but rather that it exists and that it is significant.

Whereas many believe Etsy sells craft and handmade goods it must be noted that the product mix is skewed heavily to clothing, jewelry, and bags and purses.



Tossing out the Straw Man

Earlier this month, Etsy was sued by Cashmere and Camel Hair Manufacture Institute for selling goods labeled as Cashmere that were genuinely synthetic. While consumers were definitely harmed, we cannot expect Etsy to test every piece of fabric sold on the platform.

<https://www.regulatoryoversight.com/2023/02/etsy-targeted-over-sale-of-counterfeit-products/>

Etsy not only violates their own terms of service – they do it in three different ways.

What cannot be sold?

“Unauthorized replicas or copies of items, and patterns or designs enabling their creation, are prohibited on Etsy. We consider counterfeit or unauthorized goods to be items that imitate an authentic good, particularly by using a brand’s name, logo, or protected design without the brand owner’s consent. Additionally, we may consider up-cycled or re-purposed items, even if using authentic materials, to be counterfeit if they are making use of a brand's name, logo, or protected design without their permission. Examples of prohibited counterfeit or unauthorized goods include replica luxury and non-luxury items like bags and branded apparel.”

While Citron has not scraped the entire Etsy site, here are some blatant violations and proof that by no means are insignificant to revenue. Note the numbers next to these searches do not represent anything even close to total listings as will be explained.

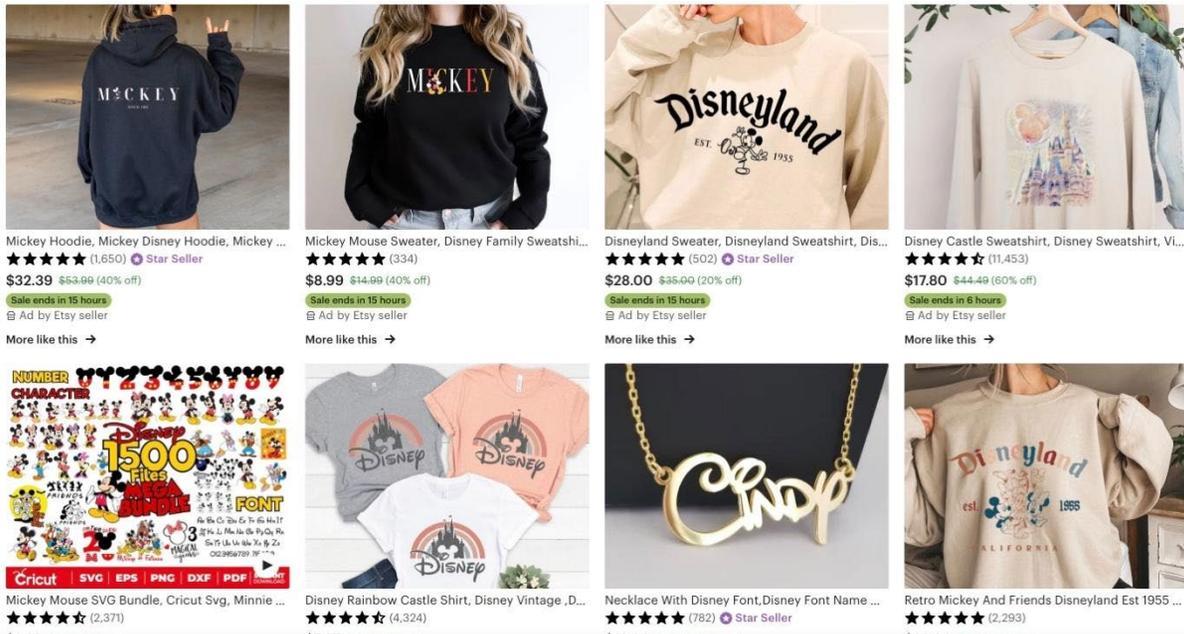
Messing With the Mouse!!

Let’s start with one of the most recognizable copyrighted characters in the world: Disney.

If you search Etsy for the word Disney, over 1 million listings appear:

https://www.etsy.com/search?q=disney&ref=search_bar

Here are the top 8 results of which it is obvious that 7 of the 8 are counterfeited goods. But it is worse: the top four are ads from sellers who have paid Etsy to **buy** the keyword “Disney”.



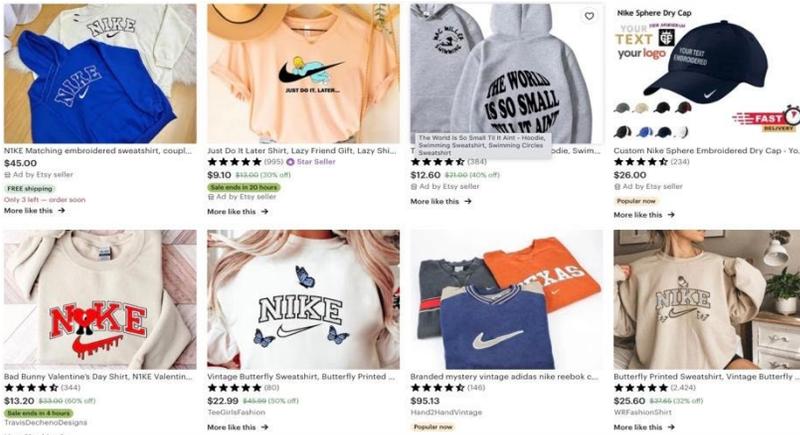
Etsy even goes as far as to qualify one of these stores as a “Star Seller” and, as you can see, that one site alone has made 34,000 sales.



We did not include the stores under Mickey Mouse or any other Disney related products, including Star Wars or Marvel. The Etsy site has become a hub of all counterfeit Disney goods with respect to which Etsy collects commission, sells advertising, and promotes by the label “Star Seller”. The number of stores are in the millions.

Just Do It?

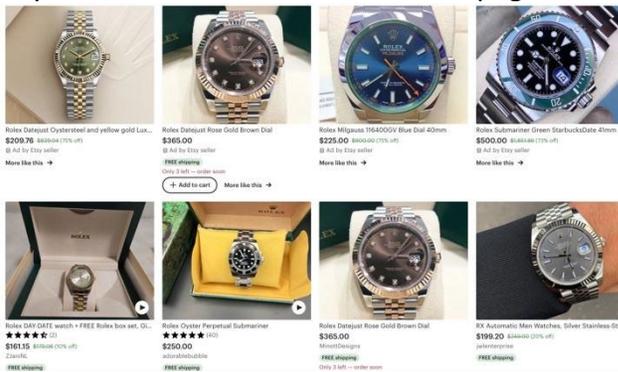
Going to Etsy site and putting in the word “Nike” returns close to 200k stores and the top 6 out of 8 on our search were clear counterfeits; again with ads sold to vendors buying the word Nike and Etsy qualifying and promoting these counterfeiters as “Star Sellers.”



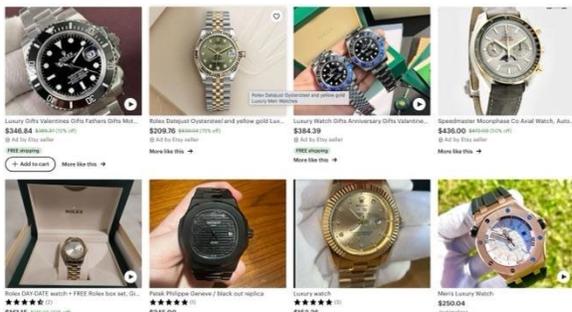
Moving on from everyday consumer products, Citron finds that Etsy has become the hub for online counterfeit luxury goods and have used these trusted brands to become a clearinghouse of fraudulent activity.

The Granddaddy of Luxury Counterfeits - Rolex

Search for the term "Rolex" brought over 20,000 counterfeits and notice the 3 of the first 4 results are not only fake Rolex, but the vendor also bought the term "Rolex" as a paid ad from Etsy. This is a screenshot of the frontpage of the top 8,, all of which offer counterfeit goods.

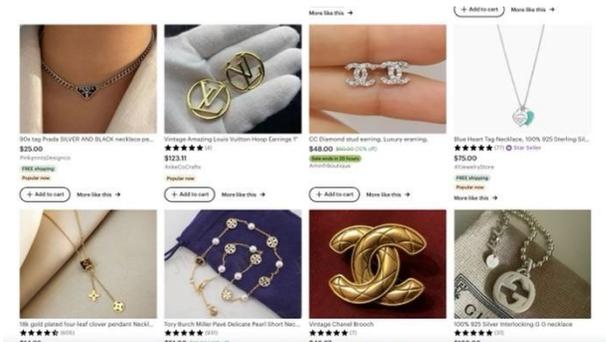


For comparison, go to Ebay and you cannot find a fake Rolex even using the term Rolex Replica or Fake Rolex. It is important to note that the 20,000 results came with the just the term Rolex. If you use the term "luxury watch" you will find another 20,000 results with paid ads that are from counterfeiters of other watch brands. Thousands of sites for fake Patek, Audemars etc.

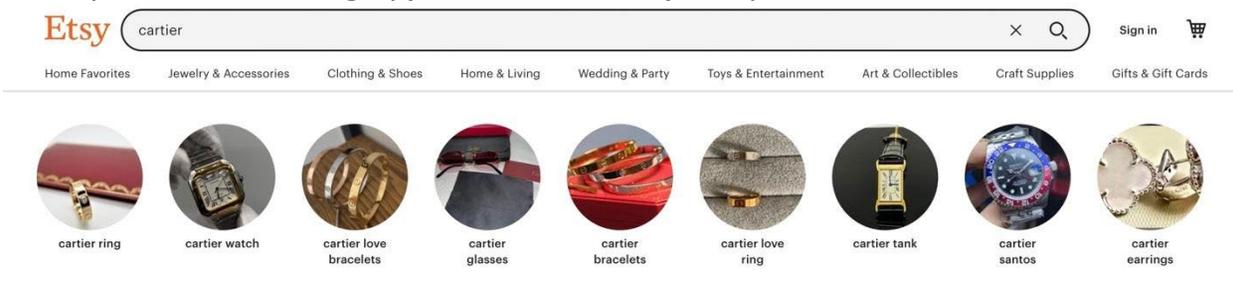


We see the same trickery when it comes to jewelry. Before anyone can dismiss the attribution of counterfeits to Etsy, note that the search term Designer Jewelry returns 600,000 results and this is what the top 8 results look like....ALL COUNTERFEIT!

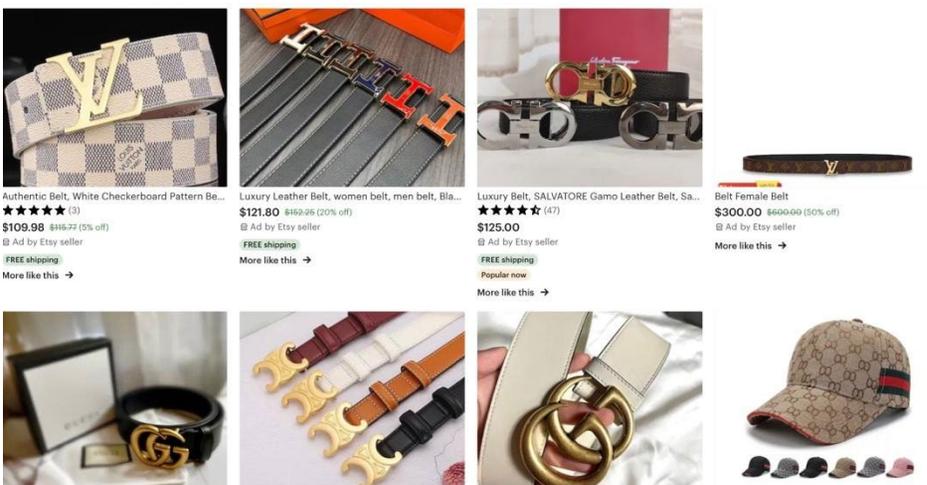
https://www.etsy.com/search?q=designer%20jewelry&ref=search_bar

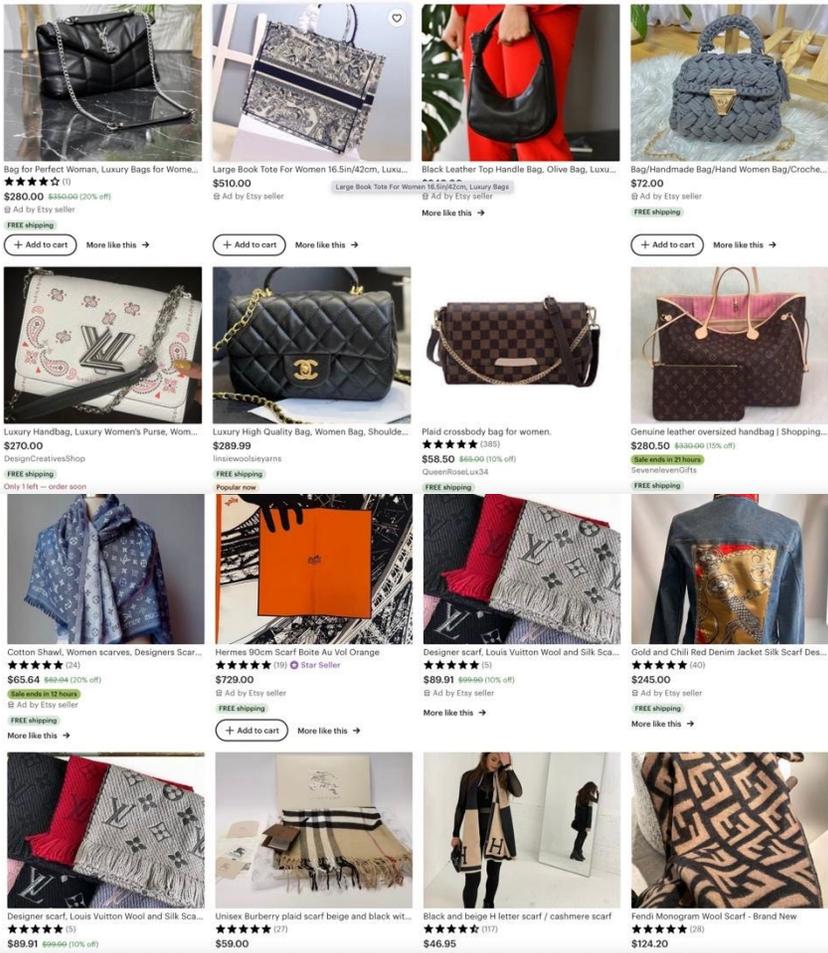


If you narrow that down and put in the world Cartier, you get over 20,000 results the first result being a direct fake that has an ad where the store paid Etsy for the name "Cartier." They actually have a whole category just for fake Cartier jewelry



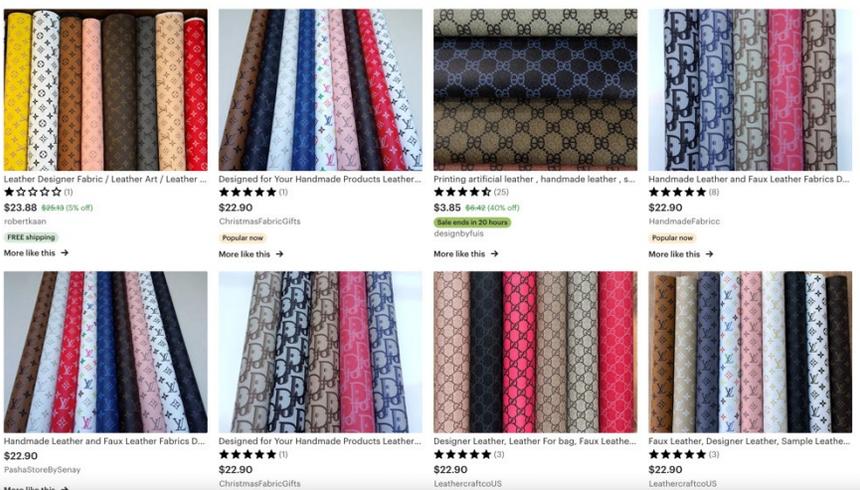
The same holds true for designer belts and handbags ...hundreds of thousands of listings either using the brand name or circumventing with "designer" or "luxury". Below is the front page of belts, bags, and scarves....each site with tens of thousands of entries





The list is endless for clothes, jewelry, and handbags, with every luxury brand having thousands of counterfeits being sold, from Louis Vuitton, Gucci, YSL, Christian Dior. Etsy has become a virtual Canal St., selling ad space and collecting commission from the merchants.

This one is our favorite...why even make a product...why don't we just sell the counterfeit fabric so everyone can make their own counterfeit product. The search term designer fabric brought up over 100,000 results and this is what the home page looks like:



Citron is not going to do a complete expose and it is not our responsibility to account for what percent of Etsy's revenue comes from these illegal activities. However, it is fair and reasonable to assume that the company has known about this problem and either turns a blind eye to it, or worse, knowingly, sells advertising and credibility to the violators.

What will Etsy Say?

We have no doubt that Etsy will respond by directing investors to how many sites they kicked off for violation and how they are vigilant on regulating their marketplace. That is obviously bullshit. As they not only allow this to happen, they sell ads to the counterfeiters for prime positioning.

Etsy might say it is a small part of revenue. How do they know without taking more effective steps to identify and shut down this type of counterfeit activity? This is been an issue for 7 years and it appears to only get worse. If they allow this to happen it has to be for a reason.

Etsy might say we support the support the small merchant.

1. The small merchant does not create counterfeit products from overseas factories.
2. Even stay at home parents that double as small merchants know that screen-printing Mickey Mouse on a T-shirt and selling it on Etsy is not legal.

They might even say Etsy has the same problems as EBAY.

Not even close. While you can search Ebay for fakes and replicas, they are not nearly as prominent or common as on Etsy. Moreover, eBay would not call a counterfeiter a trusted merchant or allow them buy advertising on a brand names in violation of trademarks.

Conclusion

We have no doubt that Etsy is about to face a barrage of bad press that highlights this behavior and compromises the integrity of the platform. What will the financials look like if Etsy begins to comply with the laws and removes non-compliant merchants and goods is yet to be seen.

There is one thing we know definitively...If the operator of Citron decided tomorrow to run an online platform that mimics Etsy, we might as well turn ourselves directly into the authorities and get ready for a long vacation.....and it won't be at Disney World.

Cautious Investing to All

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