

Big chill in China: Many Chinese online sellers discover accounts frozen by PayPal

Online merchants in China are calling this practice unfair because they feel it puts them in a no-win situation

By Jeffrey C.P. Wang and Patrick Soon

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According to [CCTV](#), PayPal has recently frozen the accounts of hundreds of Chinese merchants and, in some instances, has reportedly transferred all of the funds out of these accounts. PayPal says that these actions have been taken in order to comply with U.S. court orders where merchants have failed to timely respond to a lawsuit accusing them of trading in counterfeit goods.

Online merchants in China are calling this practice unfair because they feel it puts them in a no-win situation. Their funds will either be forfeited by PayPal if they do nothing, or they will have to spend all of their money to hire a U.S.-based attorney to defend them in an American court. And if they do fight, it could take months for the court to reach a decision.

In truth, many of these sellers likely could not afford such legal fees even if they did want to litigate – especially when their funds are locked in an inaccessible PayPal account. And depending on how much money is at stake, it is very possible that the cost of litigation could be more than the value of their PayPal account.

Most importantly, the chance of obtaining a favorable judgment in a U.S. court is highly uncertain.

PayPal believes that only by assuring users that it will not allow illegal transactions will it be able to maintain the trust of customers, including the estimated 200,000 enterprises engaged in Chinese Internet sales. And the only way to combat such illegal activities, PayPal says, is by collaborating with law enforcement agencies around the world.

Thus, it sometimes becomes necessary to place holds on accounts in order to prevent the violation of the intellectual property rights of others, such as trademark owners and patent or copyright holders. Further, PayPal seeks to prevent fraud in order to protect consumers that may otherwise be duped into purchasing inferior goods.

However, PayPal says that it is also taking steps to protect the interests of merchants by employing risk management tools. For example, under its [Seller Protection Policy](#), qualified transactions of up to \$750 are protected from chargebacks or reversals. And according to [PYMNTS.com](#), PayPal is now working with China Post, the official postal service of China, to provide international logistics solutions for sellers.

PayPal also states that if it does take any actions, it makes sure to keep the account holder fully informed. An account may become limited, according to the website, if the seller violates the terms of “Restricted Activities,” listed on its [User Agreement](#) page, or PayPal’s [Acceptable Use Policy](#), which includes the following prohibited activities:

- Transactions involving items that infringe or violate any copyright, trademark, right of publicity or privacy or any other proprietary right under the laws of any jurisdiction.

- Sales of products or services identified by government agencies to have a high likelihood of being fraudulent.

Merchants notified of a pending limitation may feel like they are being forced to choose between Scylla and Charybdis, either losing all of their money by having their funds transferred out of their account by PayPal, or losing their money by having to pay expensive litigation fees in the United States. But there is at least one other viable option: negotiate a settlement!

By being proactive, one may be able to reach out to the plaintiff and obtain an early and agreeable settlement, thereby avoiding both the forfeiture one's PayPal funds and the need to pay for litigation services. This possibility at least affords the merchant the opportunity to continue their online operations. One attorney at WHGC notes:

“Our firm recently assisted a Chinese merchant who was notified by PayPal that a hold was placed on his account because a lawsuit had been filed in a U.S. court. We were able to quickly negotiate an acceptable settlement with the complainant. PayPal was notified of this settlement, and our client is now able to access his funds.”

Clearly, any online seller making use of PayPal's payment services needs to be fully aware of the terms and conditions that apply. Prospective users should therefore take time to read the information on PayPal's website, such as: [Why is my PayPal account limited?](#) On this page, PayPal explains some of the reasons that an account may be limited, including:

- Where it appears that someone is fraudulently using another's account without permission.
- Where it is necessary in order to comply with various state or federal regulatory requirements.
- Where there is a violation of the above-mentioned Acceptable Use Policy.
- Where seller performance indicates that an account is high risk.

The last point on the above list deserves extra attention. PayPal explains that there are several different triggers that may cause it to consider an account to be high risk, such as where there is an unusually high number of claims and chargebacks from buyers, where the seller starts selling an entirely new type of product – like expensive jewelry – or even where one's typical sales volume rapidly increases.

Once a PayPal account is limited, a seller will not be able to send, accept or withdraw money. However, PayPal notes on its website that, in most cases, it will email the account owner or post an alert on the “Account Overview” before such a hold is put in place. If the account owner addresses this warning promptly, it may be possible to prevent the limitation from ever coming into effect.

However, if one is unfortunate enough to actually have their account frozen, it does not necessarily mean that all is lost. By working with a qualified attorney, one may be able to obtain an out-of-court agreement with the plaintiff that avoids having one's account frozen by PayPal and/or having to pay enormous fees associated with protracted litigation.

About the Author

Jeffrey C.P. Wang



Jeffrey C.P. Wang is the managing partner and founder of WHGC, P.L.C. Mr. Wang's practice focuses on handling the legal concerns of international and domestic corporations. In addition to his J.D., Mr. Wang has two advanced Masters of Law Degrees from the University of Washington and the Southern Methodist University School of Law. JeffreyWang@WHGCLaw.com

Patrick Soon



Patrick Soon is an attorney at WHGC, P.L.C. whose practice focuses on intellectual property. Outside of his work at WHGC, Mr. Soon volunteers for the American Bar Association where he works as an editor and multimedia chair for the Technology for the Litigator Committee within the ABA Section of Litigation. PatrickSoon@WHGCLaw.com