

**WHAT DO THEY KNOW? ACTUAL  
KNOWLEDGE, SUFFICIENT  
KNOWLEDGE, SPECIFIC KNOWLEDGE,  
GENERAL KNOWLEDGE:  
AN ANALYSIS OF CONTRIBUTORY  
TRADEMARK INFRINGEMENT  
CONSIDERING *TIFFANY V. EBAY***

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**I. INTRODUCTION**

The two-thousandth item of your company's brand just showed up on the eBay website for sale today, and you need to figure out whether it is real or counterfeit. Every day it is the same thing, vast quantities of product claimed to be your company's brand appear for sale on the Internet and, where the item is counterfeit, your company is losing revenue. Counterfeiting<sup>1</sup> is a vast problem throughout the world.<sup>2</sup> Counterfeit goods have expanded from isolated alleys and foreign marketplaces to a worldwide presence on the Internet.<sup>3</sup> The Internet

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<sup>1</sup> Counterfeiting occurs when a party infringes upon another's trademark by trying to pass off goods with a confusingly similar mark or by using the same mark as if the goods were authentic and produced by the trademark owner. See DAVID C. HILLIARD ET AL., TRADEMARKS AND UNFAIR COMPETITION 284 (7th ed. 2008); DAVID M. HOPKINS ET AL., COUNTERFEITING EXPOSED: PROTECTING YOUR BRAND AND CUSTOMERS 8–10 (2003).

<sup>2</sup> See HOPKINS ET AL., *supra* note 1, at 5–8.

<sup>3</sup> See Sam Cocks, Note, *The Hoods Who Move The Goods: An Examination of the Booming International Trade In Counterfeit Luxury Goods and an Assessment of the American Efforts to Curtail Its Proliferation*, 17 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 501, 502–03

provides anonymous and rapid access to a worldwide market, making it an effective channel for the distribution of counterfeit goods.<sup>4</sup> According to some reports, counterfeit goods trafficking over the Internet accounts for over thirteen percent of the total market of such goods.<sup>5</sup> The sale of counterfeit goods not only damages a name-brand company's goodwill and causes lost revenue,<sup>6</sup> but counterfeit items can also prove to be a public safety concern where the counterfeit items are pharmaceuticals<sup>7</sup> or airplane parts,<sup>8</sup> for example. The proceeds from the sale of counterfeit goods support illegal activities where those proceeds have ended up in the hands of organized crime<sup>9</sup> and international terrorists.<sup>10</sup> By changing the consumer's perception of the quality of the brand, passing off counterfeit goods affects a name-brand company's goodwill when the fake goods sold are of poor quality, potentially destroying the market for the company's goods.<sup>11</sup> A name-brand company trying to protect itself from losses to counterfeit goods may turn to trademark law among other options.<sup>12</sup>

Counterfeits are widely available on eBay, which is arguably the "center of a new universe of counterfeiting with virtually no policing."<sup>13</sup> According to an analyst at the market research firm International Data Corporation (IDC), ninety-five percent of the purported Tiffany jewelry on eBay is counterfeit.<sup>14</sup> The wide-ranging problem of counterfeit goods available on websites that allow

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(2007); Paul Korzeniowski, *Beware of Online Shysters*, E-COMMERCE TIMES, June 27, 2007, <http://www.ecommercetimes.com/story/58027.html>.

<sup>4</sup> See Korzeniowski, *supra* note 3.

<sup>5</sup> John Leyden, *Internet Fuels Trade in Counterfeit Goods*, REGISTER, July 28, 2005, [http://www.theregister.co.uk/2005/07/28/gieschen\\_counterfeit\\_report/](http://www.theregister.co.uk/2005/07/28/gieschen_counterfeit_report/).

<sup>6</sup> See HILLIARD ET AL., *supra* note 1, at 279.

<sup>7</sup> See TIM PHILLIPS, KNOCKOFF: THE DEADLY TRADE IN COUNTERFEIT GOODS 188–99 (2005).

<sup>8</sup> See *id.* at 169–72.

<sup>9</sup> See Cocks, *supra* note 3, at 509–21.

<sup>10</sup> See HOPKINS ET AL., *supra* note 1, at 175–78; Associated Press, *Terrorists Eye Counterfeit Goods, Interpol Says*, FOX NEWS, May 25, 2004, <http://www.foxnews.com/story/0,2933,120930,00.html>; N.Y. Times.com, *Counterfeit Goods Are Linked to Terror Groups*, N.Y. TIMES, Feb. 12, 2007, [http://www.nytimes.com/2007/02/12/business/worldbusiness/12iht-fake.4569452.html?\\_r=1&scp=1&sq=counterfeit%20goods&st=cse](http://www.nytimes.com/2007/02/12/business/worldbusiness/12iht-fake.4569452.html?_r=1&scp=1&sq=counterfeit%20goods&st=cse).

<sup>11</sup> See HOPKINS ET AL., *supra* note 1, at 37–40.

<sup>12</sup> See generally Lanham Act, 15 U.S.C. §§ 1051–1127 (2006).

<sup>13</sup> Katie Hafner, *Seeing Fakes, Angry Traders Confront eBay*, N.Y. TIMES, Jan. 29, 2006, § 1, at 1.

<sup>14</sup> Korzeniowski, *supra* note 3.

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third-party content<sup>15</sup> is at the core of the conflict in *Tiffany (NJ) Inc. v. eBay, Inc.*,<sup>16</sup> discussed below.

One factor in the dispute between Tiffany and eBay includes policy considerations regarding how much and what type of knowledge is necessary for a party to be contributorily liable for counterfeit activities by third parties.<sup>17</sup> A second important factor is who carries the burden to police counterfeiting activity by third parties on a publicly available website.<sup>18</sup> Part II discusses the background of the case, including the conflict between the parties and the statutory and legal support for the alleged violations. Part III analyzes the court's opinion in the case, especially the issue of the defendant's knowledge, and how to assess allocation of the burden of policing websites for infringing activity. Part IV discusses how courts outside the United States, particularly France, handle counterfeit product availability on publicly accessible websites and compares and contrasts the findings of the two courts and the possible effects. Part V offers suggestions to (1) firmly deal with the problem of counterfeiting on the Internet, (2) locate the issues, and (3) find possible ways to divide the burden of policing and utilizing improvements in technology. Finally, Part VI provides some conclusions.

## **II. BACKGROUND OF THE LAW**

One premise of trademark law is to protect trademark owners from unfair competition of others who try to use their mark.<sup>19</sup> Infringement commonly occurs when a party places a confusingly similar trademark in commerce without authorization.<sup>20</sup> The entity can infringe directly by placing the mark in

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<sup>15</sup> A large number of websites include third-party content. These websites allow other users, the third parties, to post material to the website and make it available to the public, thus the term third-party content. Examples of websites allowing various kinds of third-party content include eBay, Amazon, YouTube and Facebook. Third parties on any of these sites could post content that may infringe an intellectual property owner's rights. See CHRIS REED, INTERNET LAW: TEXT AND MATERIALS 94, 97, 101, 102 (2d ed. 2004).

<sup>16</sup> 576 F. Supp. 2d 463 (S.D.N.Y. 2008).

<sup>17</sup> *Id.* at 502–05.

<sup>18</sup> *Id.* at 518.

<sup>19</sup> Lanham Act § 43, 15 U.S.C. § 1125 (2006).

<sup>20</sup> *Id.* § 1114.

commerce itself, or indirectly, through contributory or vicarious infringement activities.<sup>21</sup>

### A. Trademark Law

Trademark law finds support in the Commerce Clause of the United States Constitution, whose purpose is “[t]o regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes.”<sup>22</sup> Through the Commerce Clause, Congress enacted the Lanham Act for the protection of rights of trademark owners, and to protect a trademark owner’s exclusive right to use the trademark in commerce to identify his goods or services.<sup>23</sup> The Lanham Act makes a party liable for infringement in a civil action for

us[ing] in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive.<sup>24</sup>

One who places a counterfeit item into commerce can be liable for violating trademark law.<sup>25</sup> Trademark law is in place to prevent the likelihood of consumer confusion so that the consumer can depend on a trademarked item to have expected quality and characteristics.<sup>26</sup> An infringing mark or counterfeit item could lead the consumer to incorrectly purchase an item. A trademark designates the source of goods or services and distinguishes the goods and services from those of a competitor.<sup>27</sup> The statute only specifically defines direct infringement of a trademark as a violation.<sup>28</sup> Additionally, trademark law pro-

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<sup>21</sup> *Id.* (direct trademark infringement); *David Berg & Co. v. Gatto Int’l Trading Co.*, 884 F.2d 306, 311 (7th Cir. 1989) (contributory infringement); *HILLIARD ET AL.*, *supra* note 1, at 289–92 (contributory and vicarious infringement).

<sup>22</sup> U.S. CONST. art. I, § 8, cl. 3.

<sup>23</sup> *See HILLIARD ET AL.*, *supra* note 1, at 23. The Lanham Act was first enacted in 1946, to expand the reach of existing trademark law under Congress’s power to regulate interstate commerce. *See id.* at 18. Congress amended the Act several times since its initial passage, including provisions to combat counterfeiting added in 1984, 1996 and most recently in 2008. *Id.* at 22; *see infra* Part II.D. For a brief history of trademark legislation, see *HILLIARD ET AL.*, *supra* note 1, at 22.

<sup>24</sup> Lanham Act § 32, 15 U.S.C. § 1114(1)(a).

<sup>25</sup> *Id.* § 1114(1)(b).

<sup>26</sup> *See HILLIARD ET AL.*, *supra* note 1, at 201.

<sup>27</sup> *See id.* at 4.

<sup>28</sup> *See Lanham Act* § 43(a), 15 U.S.C. § 1125(a) (2006) (contributory and vicarious liability are common law doctrines).

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vides treble damages or statutory awards for intentional or willful infringement, as in the case of counterfeiting.<sup>29</sup>

### **B. Contributory Trademark Infringement**

Contributory trademark infringement occurs when a party intentionally induces another to directly infringe or continues to supply a product or service to another whom it knows or has reason to know is engaging in infringing activities.<sup>30</sup> Contributory trademark infringement is a court-created doctrine announced in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*,<sup>31</sup> where the holder of a trademarked drug brought suit against a generic manufacturer for supplying identical looking drugs to pharmacies that then used the generic drug in place of the trademarked drug.<sup>32</sup> The holder of the trademarked drug claimed that the generic drug manufacturer “induced pharmacists illegally to substitute a generic drug for [the trademarked drug] and to mislabel the substitute drug” as the trademarked drug.<sup>33</sup> The trial court applied a test approved by the Court of Appeals<sup>34</sup> to hold that the generic drug manufacturers did not induce or contribute to infringement of the trademark rights of the trademarked drug owner.<sup>35</sup> The Supreme Court in *Inwood* upheld the trial court’s conclusion.<sup>36</sup> In *Inwood*, the test used to determine contributory trademark infringement was “if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.”<sup>37</sup>

In *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*,<sup>38</sup> the court expanded the reach of contributory trademark infringement set out in *In-*

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<sup>29</sup> *Id.* § 1117(b)–(c).

<sup>30</sup> *Perfect 10, Inc. v. Visa Int’l Serv. Ass’n*, 494 F.3d 788, 807 (9th Cir. 2007).

<sup>31</sup> 456 U.S. 844, 853–54 (1982).

<sup>32</sup> *Id.* at 851.

<sup>33</sup> *Id.* at 850.

<sup>34</sup> *Ives Labs., Inc. v. Darby Drug Co.*, 601 F.2d 631, 636 (2d Cir. 1979) (“[A] manufacturer or wholesaler would be liable under § 32 if he suggested, even if only by implication, that a retailer fill a bottle with the generic capsules and apply [a trademarked drug owner’s] mark to the label, or continued to sell capsules containing the generic drug which facilitated this to a druggist whom he knew or had reason to know was engaging in the practices just described.”).

<sup>35</sup> *Inwood*, 456 U.S. at 852.

<sup>36</sup> *Id.* at 857–58.

<sup>37</sup> *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

<sup>38</sup> 955 F.2d 1143 (7th Cir. 1992).

wood to include service providers in addition to manufacturers or distributors.<sup>39</sup> In *Hard Rock Cafe*, a vendor at a flea market sold counterfeit t-shirts, and Hard Rock Cafe Licensing brought suit against both the t-shirt vendor and the flea market operator who supplied space to the vendor.<sup>40</sup> Using a common law tort analysis, the court determined that landlords and licensors have the same duty that the Supreme Court imposed upon manufacturers and distributors in *Inwood*.<sup>41</sup> Using this result, the court concluded that the *Inwood* test applied to the landlord (flea market operator) whom Hard Rock Cafe sued for infringement.<sup>42</sup> However, before the flea market operator could be held liable for contributory trademark infringement, Hard Rock Cafe needed to show that the flea market operator knew or had reason to know that the vendor sold counterfeit t-shirts.<sup>43</sup>

The court also confirmed that willful blindness is equivalent to actual knowledge for purposes of the Lanham Act, holding that the flea market operator was liable for contributory trademark infringement if the flea market operator engaged in willful blindness.<sup>44</sup> To be willfully blind, a venue owner “must suspect wrongdoing and deliberately fail to investigate,” thus turning a blind eye to the wrongdoing.<sup>45</sup>

The case of *Fonovisa, Inc. v. Cherry Auction, Inc.*<sup>46</sup> is similar to *Hard Rock Cafe* and produced a comparable result. A trademark owner of sound recordings successfully sued a flea market operator where a vendor at the flea market sold counterfeit recordings.<sup>47</sup> The flea market owner knew of the vendor’s past infringing activities at the flea market and failed to investigate current activities of the same vendor.<sup>48</sup> Cases defining contributory trademark infringement provide trademark owners with a way to pursue and hold third parties liable when those parties provide the means through which trademark in-

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<sup>39</sup> *Id.* at 1148–49.

<sup>40</sup> *Id.* at 1147.

<sup>41</sup> *Id.* at 1148–49.

<sup>42</sup> *Id.* at 1149.

<sup>43</sup> *Id.*

<sup>44</sup> *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992) (citing *Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 590 (7th Cir. 1989)).

<sup>45</sup> *Id.*

<sup>46</sup> 76 F.3d 259 (9th Cir. 1996).

<sup>47</sup> *Id.* at 265.

<sup>48</sup> *Id.* at 263–64.

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fringement occurs, even if they are not directly responsible for the infringement itself.<sup>49</sup>

With the development of the Internet, publicly available websites have also become a location for trademark infringement.<sup>50</sup> Since trademark owners have successfully applied trademark infringement to parties who supplied the means to infringe when they are “brick-and-mortar” sites<sup>51</sup> in the physical world, trademark owners are now also trying to use the doctrine of contributory infringement to establish liability of website owners and operators.<sup>52</sup>

### C. Vicarious Trademark Infringement

The courts have recognized vicarious trademark infringement as another form of indirect infringement.<sup>53</sup> Vicarious infringement occurs when a party is in privity with a directly infringing third party.<sup>54</sup> In *David Berg & Co. v. Gatto Int'l Trading Co.*,<sup>55</sup> the court stated the requirements for vicarious trademark infringement.<sup>56</sup> The party accused of vicarious trademark infringement and the party carrying out the direct trademark infringement must “have an apparent or actual partnership, have authority to bind one another in transactions with third parties or exercise joint ownership or control over the infringing product.”<sup>57</sup> In *Hard Rock Cafe*, the plaintiff tried to argue that the requirements for vicarious

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<sup>49</sup> See, e.g., *id.* at 264; *Hard Rock Cafe*, 955 F.2d at 1148; *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, 855 F. Supp. 648, 650 (S.D.N.Y. 1994).

<sup>50</sup> See HILLIARD ET AL., *supra* note 1, at 224 (quoting *GoTo.com, Inc. v. Walt Disney Co.*, 202 F.3d 1199, 1207 (9th Cir. 2000)).

<sup>51</sup> See *Fonovisa*, 76 F.3d at 259; *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148 (7th Cir. 1992). Entities in the physical world are known as “brick and mortar” sites; “brick and mortar” is a designator to distinguish a traditional real world location from the virtual store-fronts and other venues found on the Internet. HOSSEIN BIDGOLI, 1 THE INTERNET ENCYCLOPEDIA 104 (2004).

<sup>52</sup> See, e.g., *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 470–71 (S.D.N.Y. 2008) (alleging contributory trademark infringement for selling counterfeit goods online); *Gucci Am., Inc. v. Hall & Assocs.*, 135 F. Supp. 2d 409, 410 (S.D.N.Y. 2001) (asserting trademark infringement against website host); *Antonia van de Velde, Belgian Court Dismisses L'Oreal Claims Against eBay*, REUTERS, Aug. 12, 2008, <http://www.reuters.com/article/idUSL65036220080812> (alleging trademark infringement for defendant's failure to halt counterfeit product sales on online auction site).

<sup>53</sup> *David Berg & Co. v. Gatto Int'l Trading Co.*, 884 F.2d 306, 311 (7th Cir. 1989).

<sup>54</sup> *Id.*

<sup>55</sup> 884 F.2d 306 (7th Cir. 1989).

<sup>56</sup> *Id.* at 311.

<sup>57</sup> *Hard Rock Cafe*, 955 F.2d at 1150 (citing *David Berg & Co.*, 884 F.2d at 311).

trademark liability should be more like the requirements for vicarious copyright liability and not as required in *David Berg*.<sup>58</sup> Under copyright law, vicarious liability arises when the accused party has “the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.”<sup>59</sup> For liability under copyright, only the “right and ability to supervise”<sup>60</sup> is an element, compared to “an apparent or actual partnership”<sup>61</sup> as required under trademark law. Therefore, for vicarious liability, current case law describes a standard for the level of control over the direct infringer that is less stringent under copyright law than under trademark law. However, the court in *Hard Rock Cafe* rejected this more expansive reading of vicarious liability for trademarks. In so doing, it relied on *Sony Corp. of America v. Universal City Studios Inc.*,<sup>62</sup> which stated “that secondary liability for trademark infringement should, in any event, be more narrowly drawn than secondary liability for copyright infringement.”<sup>63</sup>

#### D. Pro-IP Act

Congress is aware of the current problem of counterfeiting and intellectual property rights infringement.<sup>64</sup> To combat increasing counterfeiting and infringing activities, Congress enacted the Prioritizing Resources and Organization for Intellectual Property Act of 2008 (Pro-IP Act).<sup>65</sup> Major proponents supporting the Pro-IP Act were from the entertainment and software industries, which were lobbying to enhance protection for their intellectual property rights.<sup>66</sup> Some of the key reasons provided for passing the Act include: (1) billions of dollars in revenue losses to U.S. industry from counterfeiting and infringement, (2) an increase in the number of willful violations involving counterfeiting and infringement by foreign and domestic parties, (3) funds from

<sup>58</sup> *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992).

<sup>59</sup> *Id.* (quoting *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

<sup>60</sup> *Id.* (quoting *Gershwin*, 443 F.2d at 1162).

<sup>61</sup> *Id.* (citing *David Berg & Co. v. Gatto Int’l Trading Co.*, 884 F.2d 306, 311 (7th Cir. 1989)).

<sup>62</sup> 464 U.S. 417 (1984).

<sup>63</sup> *Hard Rock Cafe*, 955 F.2d at 1150 (citing *Sony Corp.*, 464 U.S. at 439).

<sup>64</sup> Prioritizing Resources and Organization for Intellectual Property Act of 2008 (Pro-IP Act), Pub. L. No. 110-403, § 503, 122 Stat. 4256, 4279–80 (2008).

<sup>65</sup> *Id.*

<sup>66</sup> Christian Sado et al., *The Pro-IP Act of 2008: For Whom? For What? and Does It Matter?*, INTELL. PROP. TODAY, Feb. 2009, at 8, 9.



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counterfeiting and infringing activities are diverted to support terrorists and organized crime, and (4) safety hazards to the public from counterfeit goods in the airline and pharmaceutical industries.<sup>67</sup>

To deter such activities, the Pro-IP Act expanded the civil and criminal penalties imposed upon trademark infringers and counterfeiters.<sup>68</sup> The Act doubled the minimum and maximum civil penalties for counterfeit use of trademarks to \$1000 and \$200,000, respectively.<sup>69</sup> Potential prison terms under the Act increased as well for those whose counterfeiting activities cause harm or death to an individual—a maximum of 20 years for injury and life in prison for death—in the course of trafficking activities.<sup>70</sup> The Pro-IP Act also created the Intellectual Property Enforcement Coordinator (“IP Czar”), an executive branch position to develop policies related to intellectual property issues.<sup>71</sup> Policies developed in response to this objective could result in regulations that, if the policy is accepted, could directly affect eBay and other websites.

### **III. *TIFFANY INC. V. EBAY, INC.***

A dispute arose between Tiffany & Co., a retailer of well-known jewelry, and the eBay auction website for sales of alleged counterfeit Tiffany goods by third parties on eBay.<sup>72</sup> Tiffany attempted to show that eBay ought to know of counterfeit goods for sale on their website and that, because eBay possessed enough general knowledge of such activities, it should be liable for contributory trademark infringement.<sup>73</sup> The court assessed the amount and type of knowledge necessary for a finding of infringement against eBay and determined that eBay did not know and did not possess the requisite knowledge needed for infringement.<sup>74</sup>

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<sup>67</sup> Pro-IP Act § 503; Sado et al, *supra* note 66, at 9.

<sup>68</sup> Sado et al., *supra* note 66, at 8.

<sup>69</sup> *Id.*

<sup>70</sup> *Id.*

<sup>71</sup> *Id.*

<sup>72</sup> Tiffany (NJ) Inc. v. eBay, Inc., 576 F. Supp. 2d 463, 469 (S.D.N.Y. 2008).

<sup>73</sup> *Id.* at 507.

<sup>74</sup> *Id.* at 514, 515.

### A. *The Dispute Between Tiffany and eBay*

eBay is one of the largest online marketplaces that allows third parties to sell their possessions.<sup>75</sup> The website started out modestly in 1995 with the goal of providing a site for people to sell used items, similar to those found at flea markets.<sup>76</sup> The small enterprise blossomed into the world's largest auction site, where, in 2008, the total value of items sold on eBay's trading platforms was \$60 billion.<sup>77</sup> According to eBay's facts page, approximately 112 million listings worldwide are on eBay at any given time in over 50,000 different categories.<sup>78</sup>

Tiffany & Co. is a luxury brand firm that has been in business for over 170 years and claims to be the "world's premier jeweler and America's house of design."<sup>79</sup> The company designs and produces well-known lines of jewelry, watches, and home goods, and sells these items only through authorized distribution channels.<sup>80</sup> Tiffany ascertained the extent of counterfeit Tiffany items available on the eBay auction site.<sup>81</sup> Utilizing employees as buyers on eBay, Tiffany undertook a buying program where it purchased a few hundred pieces of jewelry claimed to be authentic from the eBay auction website.<sup>82</sup> The experts at Tiffany found that at least three-fourths of the jewelry purchased was counterfeit.<sup>83</sup>

Using the tools that eBay supplied to combat counterfeiting, Tiffany tried to work with eBay to find a solution to the problem of counterfeit Tiffany items on eBay's website.<sup>84</sup> However, Tiffany was not satisfied with the tools or effort eBay put forth to combat the counterfeiting activities.<sup>85</sup> Consequently, Tiffany brought suit against eBay claiming that a majority of goods listed for

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<sup>75</sup> *See id.* at 473–75.

<sup>76</sup> JIM GRIFFITH, THE OFFICIAL EBAY BIBLE: THE MOST UP-TO-DATE COMPREHENSIVE HOW-TO MANUAL FOR EVERYONE FROM FIRST-TIME USERS TO PEOPLE WHO WANT TO RUN THEIR OWN BUSINESS 4 (2004).

<sup>77</sup> *Id.*

<sup>78</sup> eBay Marketplaces Fact Sheet, Fourth Quarter, 2008, <http://ebayinkblog.com/wp-content/uploads/2009/01/ebaympfactsheetq408.pdf> (last visited Nov. 19, 2009).

<sup>79</sup> Tiffany & Co., About Tiffany, <http://www.tiffany.com/About/> (last visited Nov. 19, 2009).

<sup>80</sup> Tiffany (NJ) Inc. v. eBay, Inc., 576 F. Supp. 2d 463, 472, 473 (S.D.N.Y. 2008).

<sup>81</sup> *Id.* at 486.

<sup>82</sup> *Id.*

<sup>83</sup> *Id.*

<sup>84</sup> *Id.* at 481–84.

<sup>85</sup> *Id.* at 482 n.15, 482–84.

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sale on the eBay website that stated to be from Tiffany were in fact counterfeit.<sup>86</sup> Tiffany claimed that because of these third parties' sales of counterfeit goods through eBay's website, eBay was liable for contributory trademark infringement.<sup>87</sup> eBay denied liability because it never had physical contact nor took control over the items sold on its website, and also maintained that eBay does not have the expertise to assess the authenticity of the items listed for sale on its site.<sup>88</sup>

### ***B. eBay's Counterfeit Prevention—Verified Owner's Rights (VeRO) Program***

eBay maintains a program to work with intellectual property rights owners to protect their rights from suspected infringement from listings displayed on the eBay auction site.<sup>89</sup> eBay calls this program the Verified Owner's Rights (VeRO) program and provides a means for intellectual property rights owners to notify eBay of infringing items.<sup>90</sup> The VeRO program is essentially a notice and takedown scheme similar to that codified in copyright law.<sup>91</sup> Under the notice and takedown scheme in copyright law, if an intellectual property owner has a good faith belief that a website is displaying copyrighted material, the owner can notify the website operator, and it becomes the operator's duty to remove the copyrighted material.<sup>92</sup> If an intellectual property rights owner has a "good faith belief that a listing on eBay infringes [its] copyright, trademark, or other intellectual property rights," the rights owner can notify eBay and eBay will remove the listing.<sup>93</sup>

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<sup>86</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 482 (S.D.N.Y. 2008).

<sup>87</sup> *Id.* at 469.

<sup>88</sup> *Id.* at 506.

<sup>89</sup> eBay, Reporting Intellectual Property Infringements (VeRO), <http://pages.ebay.com/help/tp/vero-rights-owner.html> [hereinafter eBay VeRO Program] (last visited Sept. 30, 2009).

<sup>90</sup> *Id.*

<sup>91</sup> Under copyright law, if a copyright owner informs an internet service provider (ISP) of an infringing activity, the ISP then has the duty to remedy the infringing activity or face liability for infringement. *See* 17 U.S.C. § 512(c)(3) (2006).

<sup>92</sup> *Id.*

<sup>93</sup> eBay VeRO Program, *supra* note 89.

### C. *Tiffany Attempts to Work with eBay*

Before Tiffany turned to the courts for a resolution to this problem, it tried to work with eBay to resolve the counterfeit problems through the VeRO program.<sup>94</sup> Tiffany worked with the tools that eBay supplied to rights owners to police their trademarks on the eBay website, but Tiffany found some of the tools ineffective.<sup>95</sup> Tiffany faced the daunting challenge of viewing thousands of listings daily that included the Tiffany name, and assessing the authenticity of each item.<sup>96</sup> If Tiffany had a good faith belief that an item was a counterfeit, Tiffany would contact eBay and identify the particular item, and eBay would remove the item from its listing.<sup>97</sup> However, Tiffany employees could not access the item to determine authenticity any sooner than the general public.<sup>98</sup> eBay allows various methods for sellers to offer items to the public.<sup>99</sup> Besides the traditional auction format, sellers can offer their items for instant sale, or a combination of auction and instant sale.<sup>100</sup> Consequently, Tiffany would not be able to assess the authenticity of all the items before they were sold.<sup>101</sup>

### D. *Application of the Inwood Test for Contributory Infringement*

In *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*,<sup>102</sup> the Supreme Court set out a test for contributory trademark infringement for distributors and manufacturers.<sup>103</sup> Subsequent court decisions expanded the *Inwood* test to include services as well.<sup>104</sup> A key element of the *Inwood* test is the amount and quality of knowledge of the suspected contributory infringer.<sup>105</sup>

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<sup>94</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 483–84 (S.D.N.Y. 2008).

<sup>95</sup> *Id.* at 483–85.

<sup>96</sup> *Id.* at 484. In 2006, Tiffany reported 134,779 listings of counterfeit items. *Id.*

<sup>97</sup> *Id.* at 483; *see also* eBay VeRO Program, *supra* note 89.

<sup>98</sup> *Tiffany*, 576 F. Supp. 2d at 485.

<sup>99</sup> *Id.*

<sup>100</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 474, 485 (S.D.N.Y. 2008).

<sup>101</sup> *Id.* at 485.

<sup>102</sup> *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982).

<sup>103</sup> *Id.* at 854.

<sup>104</sup> *Tiffany*, 576 F. Supp. 2d at 504–06.

<sup>105</sup> *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999).

## 1. Manufacturing or service

Under the *Inwood* standard, a manufacturer or distributor can be held liable for contributory trademark infringement if they continue to supply their own product to a party which they know or have reason to know is engaging in trademark infringement.<sup>106</sup> eBay argued that they are neither a manufacturer nor distributor but just a venue that allows third parties to sell their items.<sup>107</sup> However, cases subsequent to *Inwood* have expanded the concept of contributory trademark infringement liability to include “brick and mortar” entities that provide a service or venue that allows third parties to directly infringe trademarks.<sup>108</sup> The courts had not yet addressed whether the same standards apply to online or virtual venues that only exist as a representation on a computer screen.<sup>109</sup> In analyzing prior cases with regard to infringement, the court in *Lockheed Martin Corp. v. Network Solutions, Inc.*<sup>110</sup> “determined that whether the venue is online or in brick and mortar is immaterial.”<sup>111</sup> The relevant question is “the extent of control exercised by the defendant over the third party’s means of infringement.”<sup>112</sup> From these broader interpretations of the *Inwood* standard, the product supplied to a third party can include a service, where the service is providing a venue to facilitate sales.<sup>113</sup> The court determined that eBay supplies a service and exercises sufficient control over its website such that the *Inwood* test applies.<sup>114</sup>

## 2. Know or have reason to know

In reaching a decision in *Tiffany*, the court used the test for contributory trademark infringement that the Supreme Court announced in *Inwood*: “if [a party] continues to supply its product to one whom it knows or has reason to

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<sup>106</sup> *Inwood Labs.*, 456 U.S. at 854.

<sup>107</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 504 (S.D.N.Y. 2008).

<sup>108</sup> See *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261–62 (9th Cir.1996) (liability found for a swap meet operator where numerous vendors sold counterfeit recordings); *Hard Rock CafeCafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148 (7th Cir.1992) (a flea market operator may be liable for trademark infringement by a vendor who sold counterfeit t-shirts).

<sup>109</sup> See *Fonovisa*, 76 F.3d at 261–62; *Hard Rock Cafe*, 955 F.2d at 1148.

<sup>110</sup> 194 F.3d 980 (9th Cir. 1999).

<sup>111</sup> *Tiffany*, 576 F. Supp. 2d at 505 (citing *Lockheed Martin*, 194 F.3d at 984).

<sup>112</sup> *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999).

<sup>113</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 505–06 (S.D.N.Y. 2008).

<sup>114</sup> *Id.* at 506.

know is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.”<sup>115</sup> The court in *Tiffany* provided an analysis for what constitutes sufficient knowledge to trigger liability for contributory trademark infringement under the *Inwood* standard.<sup>116</sup> Tiffany supplied a vast amount of data indicating the majority of items touted to be authentic Tiffany jewelry were in fact counterfeits.<sup>117</sup> Because of the amount of information supplied to eBay, Tiffany claimed that eBay had “generalized knowledge” and ought to know that infringement was occurring on their website, and this “generalized knowledge” was sufficient to create a reason to know that infringement was in fact occurring on the website, thus making eBay liable for the infringing activities on their website.<sup>118</sup>

Tiffany restricts the channels of distribution of their trademarked goods to only authorized distributors to limit the secondary market for Tiffany goods.<sup>119</sup> Tiffany argued that these restrictions on distribution channels, its policy of restricting sales of multiple identical items, and uniform pricing of Tiffany goods should limit the size of the secondary market for Tiffany items.<sup>120</sup> Because of the limited secondary market of Tiffany items, Tiffany sent demand letters to eBay requesting that sellers listing five or more items be viewed as listing counterfeit goods and that the listings be removed from the auction site.<sup>121</sup> However, eBay did not agree to this demand, and in fact the court later held that authentic Tiffany items of quantities greater than five were sold on the eBay auction site.<sup>122</sup> The court thus held that the demand letters did not provide sufficient grounds to require eBay to act upon them.<sup>123</sup>

Specific knowledge is necessary for contributory trademark infringement.<sup>124</sup> To Tiffany’s disappointment, the court sided with eBay, holding that the “generalized knowledge” alleged was not sufficient to hold eBay liable under the standard which required that eBay knew or had reason to know of the

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<sup>115</sup> *Id.* at 510–11 (quoting *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982)).

<sup>116</sup> *Id.* at 508–10.

<sup>117</sup> Plaintiffs’ Post-Trial Memorandum at 10, *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463 (S.D.N.Y. 2008) (No. 04 Civ. 4607), 2007 WL 4837670.

<sup>118</sup> *Id.* at 21–22.

<sup>119</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 472–74 (S.D.N.Y. 2008).

<sup>120</sup> *Id.*

<sup>121</sup> *Id.* at 482–83.

<sup>122</sup> *Id.* at 483.

<sup>123</sup> *Id.* at 518.

<sup>124</sup> *Id.* at 510.

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infringement.<sup>125</sup> The court in *Tiffany* held that only particularized incidents of infringement are sufficient to meet the *Inwood* standard.<sup>126</sup> The court noted that when Tiffany supplied evidence of a specific act of infringement, eBay would respond by removing the offending item from its website, thus fulfilling its duty when specific knowledge was present.<sup>127</sup> Even though the court in *Tiffany* decided in favor of eBay, a policy issue exists for determining where to draw a line for liability under the “reason to know” standard in the face of vast amounts of generalized information.

### 3. Willful blindness

A finding of willful blindness can satisfy the knowledge requirement necessary for liability under contributory infringement.<sup>128</sup> Tiffany argued that once it supplied eBay with evidence of counterfeit Tiffany jewelry commonly sold on the eBay website, eBay could have taken any number of steps to investigate and remedy the problem but chose not to take any action.<sup>129</sup> The court acknowledged the fact that eBay had a general knowledge of counterfeiting occurring on their site but held that “[w]illful blindness requires ‘more than mere negligence or mistake’ and does not lie unless the defendant knew of a high probability of illegal conduct and purposefully contrived to avoid learning of it.”<sup>130</sup> The court determined that eBay did not contrive to avoid learning of infringement, and that when informed of an infringing item through the VeRO program, eBay would expeditiously remove the listing from the website.<sup>131</sup> The court found that to allow Tiffany to prevail on a willful blindness argument under the facts in the case would inflate the “reason to know” standard of the *Inwood* test to an affirmative duty, which the law explicitly precludes.<sup>132</sup>

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<sup>125</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 510–11 (S.D.N.Y. 2008).

<sup>126</sup> *Id.*

<sup>127</sup> *Id.* at 487–88.

<sup>128</sup> *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992) (citing *Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 590 (7th Cir. 1989)).

<sup>129</sup> *Tiffany*, 576 F. Supp. 2d at 513.

<sup>130</sup> *Id.* at 515 (quoting *Nike Inc. v. Variety Wholesalers, Inc.*, 274 F. Supp. 2d 1352, 1369–70 (S.D. Ga. 2003)).

<sup>131</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 515 (S.D.N.Y. 2008).

<sup>132</sup> *Id.*

#### 4. Continues to supply

The final part of the *Inwood* test is that an entity continues to supply its goods or services after knowledge of infringement has occurred.<sup>133</sup> A distinct issue arose when it came to the question of whether eBay continued to provide services to specific sellers after Tiffany had reported them for counterfeiting.<sup>134</sup> If eBay did continue to supply its service by not suspending a seller, eBay could be found liable in those individual cases.<sup>135</sup> Tiffany provided knowledge to eBay when Tiffany filed a notice of infringement for a specific item listed on the eBay website.<sup>136</sup> However, for Tiffany to file a notice, Tiffany only needed a good faith belief that the item listed was counterfeit.<sup>137</sup> eBay did act in good faith and remove all items from the listing when Tiffany gave notice.<sup>138</sup> However, the court found that eBay did not possess actual knowledge of counterfeiting because the notices are not a determination of counterfeiting, but instead are based upon Tiffany's good faith belief.<sup>139</sup> Without actual knowledge, "Tiffany cannot demonstrate that eBay should have permanently suspended a seller."<sup>140</sup> The court concluded that eBay took appropriate steps to cease making its service available when supplied with a complaint; therefore, eBay did not meet the requirement of the *Inwood* test to incur liability.<sup>141</sup>

#### E. Anticipatory Knowledge for Contributory Infringement

As an alternative to using the *Inwood* test for contributory trademark infringement, Tiffany urged using the anticipatory knowledge test set out in the Restatement (Third) of Unfair Competition.<sup>142</sup> The Restatement states that a party may be liable for contributory trademark infringement where "the actor fails to take reasonable precautions against the occurrence of the third person's infringing conduct in circumstances in which the infringing conduct can be rea-

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<sup>133</sup> *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

<sup>134</sup> *Tiffany*, 576 F. Supp. 2d at 515–16.

<sup>135</sup> *Id.* at 516.

<sup>136</sup> *Id.*

<sup>137</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 517 (S.D.N.Y. 2008).

<sup>138</sup> *Id.* at 516.

<sup>139</sup> *Id.* at 516–17.

<sup>140</sup> *Id.* at 517.

<sup>141</sup> *Id.* at 518.

<sup>142</sup> *Id.* at 502.



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sonably anticipated.”<sup>143</sup> Under this standard, the test is whether the venue operator could have “reasonably anticipated” the infringing activities of the seller, which may be met by general knowledge of the infringement and that infringing activities are likely to occur in the future.<sup>144</sup>

Tiffany argued that anticipatory knowledge of trademark infringing action on the eBay website by third parties is enough to allow eBay to be found liable for contributory infringement.<sup>145</sup> Tiffany stated that they supplied eBay with a large amount of data indicating that most listings for Tiffany jewelry on their site were counterfeit.<sup>146</sup> Tiffany claimed that because of this knowledge, eBay would have reason to know that most subsequent listings for Tiffany jewelry would be counterfeit, and thus eBay should be held liable for contributory trademark infringement under an anticipatory knowledge test.<sup>147</sup> However, the Supreme Court in *Inwood* rejected anticipatory knowledge as a basis for liability for contributory infringement, indicating that the use of anticipatory knowledge as a basis for liability would result in a “watered down” version of the proper test.<sup>148</sup> The court in *Tiffany* applying this result in the current case rejected Tiffany’s arguments and determined that anticipatory knowledge would provide no basis for liability for contributory infringement.<sup>149</sup>

### F. Burden of Policing

More broadly, at issue in this case is a policy decision on whose responsibility it is to police a public website that allows sales of third-party content for trademark infringement.<sup>150</sup> Traditionally, trademark owners are responsible for policing and protecting the use of their marks in commerce.<sup>151</sup> When a trademark owner discovered a suspected act of infringement, the trademark owner was responsible to bring about actions to rectify the situation.<sup>152</sup>

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<sup>143</sup> RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 27(b) (1995).

<sup>144</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 502–03 (S.D.N.Y. 2008).

<sup>145</sup> *Id.* at 502.

<sup>146</sup> *Id.* at 481–82, 507

<sup>147</sup> *Id.* at 502.

<sup>148</sup> *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 n.13 (1982).

<sup>149</sup> *Tiffany*, 576 F. Supp. 2d at 502–03.

<sup>150</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 469 (S.D.N.Y. 2008).

<sup>151</sup> See HILLIARD ET AL., *supra* note 1, at 201–02.

<sup>152</sup> See *id.*

### 1. Policing on the Internet

In the Internet age, with its inherent anonymity, tracking down the individual parties that carry out the infringing activities can be very difficult, costly, and time consuming.<sup>153</sup> Because of this difficulty, trademark owners have tried to shift the burden of policing trademarks onto the website operators, especially in situations where infringement appears to be rampant.<sup>154</sup> Actions in response to potential infringing activity could include friendly discussions, cease and desist letters, and ultimately bringing a court action for injunctions and damages.<sup>155</sup> Under the traditional policy, Tiffany, as the mark owner, would have the burden of policing the website to protect their mark.<sup>156</sup> Tiffany tried to argue that they did this by informing eBay of the vast amount of counterfeiting occurring on their website, and asserted that the burden thereafter should be on eBay to prevent counterfeit sales.<sup>157</sup>

As the court in *Tiffany* indicated, policymakers have yet to determine the allocation of costs and burdens to carry out the policing of websites.<sup>158</sup> Both parties, the website operator and the trademark owner, have financial incentives to successfully police the website.<sup>159</sup> The trademark owner wants to protect not only the goodwill of the trademark and company, but also to prevent lost revenue to counterfeit items.<sup>160</sup> The website gets revenue from the sale of items on their site, so maintaining a good reputation of fair dealing is important and the sale of counterfeit goods could damage that reputation.<sup>161</sup> Future policy decisions need to address who should have to pay for this activity.

### 2. Expertise in assessing items

Expertise in assessing the authenticity of items is part of the burden of policing the trademarked items and is the responsibility of the trademark own-

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<sup>153</sup> See Korzeniowski, *supra* note 3.

<sup>154</sup> See *Tiffany*, 576 F. Supp. 2d at 469; *Gucci Am., Inc. v. Hall & Assocs.*, 135 F. Supp. 2d 409, 410–11 (S.D.N.Y. 2001); van de Velde, *supra* note 52.

<sup>155</sup> Lanham Act § 32, 15 U.S.C. § 1114 (2006).

<sup>156</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 518 (S.D.N.Y. 2008).

<sup>157</sup> *Id.* at 481–83.

<sup>158</sup> *Id.* at 470.

<sup>159</sup> HOPKINS ET AL., *supra* note 1, at 37–40.

<sup>160</sup> *Id.*

<sup>161</sup> See *Tiffany*, 576 F. Supp. 2d at 475–76.

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er.<sup>162</sup> Website operators claim that the burden of policing trademark infringement still lies with the trademark owner.<sup>163</sup> Website operators, in general, do not have sufficient expertise to be able to render a judgment of whether any particular item appearing on their website is genuine or counterfeit. The trademark owner who produced the item is the one with the expertise to be able to tell whether the item is real, not a vendor who merely supplies the venue to sell the item.<sup>164</sup> The website operators also point out, especially in the case of eBay, that they never have physical control of the articles put up for sale on their site.<sup>165</sup> Thus, without physical control of items or the ability to inspect items, the operators of websites cannot make a reasonable determination of authenticity. Similarly, trademark owners, in the case of third-party sales on the Internet, generally do not have the ability to physically inspect an item to assess authenticity and can only rely on information supplied in the listing on the website.<sup>166</sup> Therefore, neither party—not the mark owner nor the website operator—has the ability to physically inspect an item, and the website owner also lacks the expertise or ability to make a reasonable assessment of authenticity. Thus, the mark owner is somewhat better situated to assess items displayed in a website claiming to be authentic, which supports the notion of having the burden of policing a mark left with its owner.

A website operator, through its software development, may have the technical expertise and ability to search the huge number of articles listed on its site and may make an assessment as to the validity of the article listed.<sup>167</sup> Advances in hardware and software, and the ability to do intelligent searching of item listings may be able to help identify fraudulent items.<sup>168</sup> For example, eBay currently runs a “fraud engine” that flags suspect items that appear to be infringing on their face for further review by a customer service representative.<sup>169</sup> Part of the development program will be generating effective criteria to identify suspicious items, assess authenticity, or recognize fraudulent behavior of users of a website. If a company develops software that is effective at assessing or at least in helping to assess the authenticity by some criteria, this ability could allow

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<sup>162</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 518 (S.D.N.Y. 2008).

<sup>163</sup> See HILLIARD ET AL., *supra* note 1, at 201–03.

<sup>164</sup> See Ronald J. Mann, *Emerging Frameworks for Policing Internet Intermediaries*, J. INTERNET L., Dec. 2006, at 3, 9.

<sup>165</sup> *Tiffany*, 576 F. Supp. 2d at 476.

<sup>166</sup> *Id.* at 475–76.

<sup>167</sup> See *id.* at 491–92.

<sup>168</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 491–92 (S.D.N.Y. 2008).

<sup>169</sup> *Id.* at 477.

more of the burden of policing a website for counterfeit items to be placed on the website owner. Therefore, a website company may have a disincentive to undertake such a development project.

### 3. Policing activities of the parties in this case

eBay provides multiple tools and methods that try to prevent infringing activity from existing on the auction site, and spends millions of dollars a year in enforcement activities on its own.<sup>170</sup> eBay staff review the listings flagged by their “fraud engine” for removal.<sup>171</sup> Also available through eBay is the VeRO program<sup>172</sup> that, like a notice and takedown scheme in copyright law, allows intellectual property rights owners to inform eBay of allegedly infringing items and have them removed from the site.<sup>173</sup>

Under the copyright statutes, a notice and takedown scheme allows some types of website owners to be exempt from liability for copyright infringement.<sup>174</sup> Once a website owner has notice of copyright infringement on its website in a form prescribed by statute, it is the website owner’s duty to remove the material to qualify for a safe harbor provision.<sup>175</sup> Analogously, eBay promptly removed the listing of an item from its website when informed that Tiffany suspected an item was infringing its trademark, thus fulfilling eBay’s own operating rules.<sup>176</sup> This behavior and the availability of tools to prevent counterfeiting also demonstrated eBay’s willingness to work with intellectual property owners.<sup>177</sup>

Tiffany, on the other hand, applied the equivalent of less than two full time employees to assess the validity of items on the eBay auction site and to generate notices to eBay.<sup>178</sup> Under trademark laws, it is up to the mark owner to

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<sup>170</sup> *Id.* at 476–79.

<sup>171</sup> *Id.* at 477.

<sup>172</sup> eBay instituted the VeRO program with tools to aid intellectual property owners in finding and reporting to eBay any items listed on the website that may infringe their rights. The property owners then fill out a form under penalty of perjury that they have a good faith belief that a listing infringes their property rights and submit the form to eBay. eBay will then remove the infringing listing and inform the seller of the concern over the listing. eBay VeRO Program, *supra* note 89.

<sup>173</sup> 17 U.S.C. § 512(c)(3) (2006).

<sup>174</sup> *Id.* § 512(a).

<sup>175</sup> *Id.* § 512(c)(3).

<sup>176</sup> Tiffany (NJ) Inc. v. eBay, Inc., 576 F. Supp. 2d 463, 478 (S.D.N.Y. 2008).

<sup>177</sup> *Id.*

<sup>178</sup> *Id.* at 484.

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patrol and protect its mark.<sup>179</sup> A Tiffany trademark is valuable, owing to the exclusivity of ownership and expensiveness associated with the mark.<sup>180</sup> Tiffany and other suppliers of luxury goods need to be diligent in protecting their marks because counterfeiting allows more items bearing a particular trademark into the marketplace, which harms the feeling of exclusivity enjoyed by owners of authentic items.<sup>181</sup>

From the record in this case, Tiffany's effort to protect its trademark did not appear to impress the court.<sup>182</sup> The judge looked at the amount of effort eBay put forth in preventing fraud or counterfeiting on its website and compared it to the effort Tiffany made in protecting and policing Tiffany's own trademarks.<sup>183</sup> The judge used this comparison to aid the determination of which party should bear the responsibility of policing the website.<sup>184</sup> The court in *Tiffany* determined that eBay did enough policing to relieve eBay of liability for infringement.<sup>185</sup>

However, the ruling in this case does not shut the door for a finding of liability against eBay under other circumstances. It was apparent from the opinion that the judge did not feel that Tiffany expended enough effort to protect and police their valuable trademark, characterizing Tiffany's effort "sporadic and relatively meager."<sup>186</sup> If Tiffany had employed more people and resources to police eBay and other sites, and had made a more concerted effort to protect its intellectual property and help eBay find infringing listings, the judge may have been swayed to find eBay liable for contributory infringement. In the future, a better effort on the part of a company in a position similar to Tiffany's in this case may result in the judge imputing actual knowledge of infringing listings based on the better effort. If a company is found to have actual knowledge, then a company in a position such as eBay's in *Tiffany* could be held liable under the *Inwood* standard for contributory trademark infringement.<sup>187</sup> Furthermore, a court may favor the intellectual property owner over the website opera-

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<sup>179</sup> *Id.* at 518.

<sup>180</sup> See HOPKINS ET AL., *supra* note 1, at 19–20 (discussing the four requirements of developing a successful brand).

<sup>181</sup> See *id.* at 26.

<sup>182</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 518 (S.D.N.Y. 2008).

<sup>183</sup> *Id.* at 484–85 (Tiffany's trademark policing efforts); *id.* at 476–79 (eBay's anti-fraud efforts).

<sup>184</sup> *Id.* at 518.

<sup>185</sup> *Id.* at 517.

<sup>186</sup> *Id.* at 518.

<sup>187</sup> *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

tor if the court does not think that the website operator undertook enough of an effort to combat illicit activities on its site.

#### IV. OTHER JURISDICTIONS: FRANCE

Companies in France sued eBay in a French court for allowing counterfeit and unauthorized goods to be sold on the eBay website. SA Louis Vuitton Malletier (Louis Vuitton) was one such company that brought suit against eBay in the Commercial Court of Paris and won a judgment against eBay.<sup>188</sup> Under facts similar to the case of *Tiffany v. eBay*, the French court determined that eBay was liable for allowing the sale of counterfeit Louis Vuitton items on the eBay auction website.<sup>189</sup> In a companion case, a perfume company won suit against eBay for selling unauthorized items of its goods.<sup>190</sup>

##### A. *Hosting Versus Broker*

The French court found that eBay was not only a website host, but was also a broker.<sup>191</sup> eBay asserted in the case that it only hosts a website and is not a broker.<sup>192</sup> If the court in France determined that eBay was only a host of an internet site, this determination would have exonerated eBay of direct liability and transferred responsibility onto the users of the site.<sup>193</sup> However, the French court determined that eBay was an intermediary between buyers and sellers, that it promoted sales on its site, and that it played a very active role in the selling process to increase the number of transactions in order to generate commissions. According to the French court, a broker consists of bringing together two parties, but it “may not take part in any capacity in an illicit transaction.”<sup>194</sup> The

<sup>188</sup> The judge in *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 471 (S.D.N.Y. 2008), was made aware of the French court decision in *Louis Vuitton Malletier v. eBay*. However, he published his decision, which conflicted with the outcome of the French court decision, on July 14, 2008—which coincidentally is Bastille Day in France, the French equivalent of the United States Independence Day. *Tiffany*, 576 F. Supp. 2d at 527; see also SA Louis Vuitton Malletier v. eBay, Inc., Tribunal de commerce [T. Com.][business court of original jurisdiction] Paris, June 30, 2008, RG 2006077799 (Fr.).

<sup>189</sup> SA Louis Vuitton Malletier v. eBay, Inc., Tribunal de commerce [T. Com.][business court of original jurisdiction] Paris, June 30, 2008, RG 2006077799, 17–18 (Fr.).

<sup>190</sup> SA Parfums Christian Dior v. eBay Inc., Tribunal de commerce [T. Com.][business court of original jurisdiction] Paris, June 30, 2008, RG 2006065217 (Fr.).

<sup>191</sup> SA Louis Vuitton Malletier, RG 2006077799, at 11.

<sup>192</sup> *Id.* at 10 (trans.).

<sup>193</sup> *Id.*

<sup>194</sup> *Id.* at 11.

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French court stated that the hosting services and brokerage services of eBay are indivisible and found eBay to be a broker.<sup>195</sup>

### *B. Liability for Third Parties*

Determining that eBay is a broker essentially allowed the French court to hold eBay strictly liable for illegal activity by third parties using its website.<sup>196</sup> Therefore, when a third party using the eBay website carried out an illegal act—such as selling counterfeit items—eBay was also liable for the sales.<sup>197</sup> The French court determined that eBay violated its obligation to prevent illicit actions “to the detriment of an economic player such as Louis Vuitton.”<sup>198</sup> From the nature and descriptions of the items for sale on the eBay website, the court determined eBay would have had knowledge of infringing activities of third parties.<sup>199</sup> The court also imputed liability to eBay because “it deliberately refused to set up effective and appropriate measures in order to combat infringement.”<sup>200</sup> Based on these findings, the French court found “that eBay Inc. and eBay International AG have committed serious tortious acts by breaching their obligation of ensuring that their business did not generate any illicit acts to the detriment of SA Louis Vuitton Malletier.”<sup>201</sup> As a result, the court fined eBay over €19 million.<sup>202</sup> Since the French court determined that eBay was a broker under French laws, actual knowledge of any type was not at issue in this case and eBay was held strictly liable for the illegal activities on its website.

In the companion case, *SA Parfums Christian Dior v. eBay*,<sup>203</sup> decided on the same day, the same French court again found that eBay was a broker and held it liable for illegal activities on its website.<sup>204</sup> However, in this case the

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<sup>195</sup> *Id.*

<sup>196</sup> SA Louis Vuitton Malletier v. eBay, Inc., Tribunal de commerce [T. Com.][business court of original jurisdiction] Paris, June 30, 2008, RG 2006077799, 17–18 (Fr.).

<sup>197</sup> *Id.* at 11.

<sup>198</sup> *Id.* at 12 (trans.).

<sup>199</sup> *Id.*

<sup>200</sup> *Id.* (trans.).

<sup>201</sup> *Id.* at 17 (trans.).

<sup>202</sup> SA Louis Vuitton Malletier v. eBay, Inc., Tribunal de commerce [T. Com.][business court of original jurisdiction] Paris, June 30, 2008, RG 2006077799, 17–18 (Fr.) (€ 19 million is equivalent to about \$30 million using an exchange rate of \$1.575 to €1.00 from the date of the decision).

<sup>203</sup> SA Parfums Christian Dior v. eBay Inc., Tribunal de commerce [T. Com.][business court of original jurisdiction] Paris, June 30, 2008, RG 2006065217 (Fr.).

<sup>204</sup> *Id.* at 20.

illegal activities included allowing third parties to sell authentic perfumes on the eBay website.<sup>205</sup> The French companies Parfums Christian Dior, Kenzo Parfums, Parfums Givenchy, and Guerlain, all subsidiaries of the luxury group Louis Vuitton Malletier and part of the suit, control sales of their products through a deliberate, selective distribution network.<sup>206</sup> Sales of their products outside authorized distribution channels are considered illegal and a detriment to the perfume companies.<sup>207</sup> The French are very protective of French industries, and restricting the products to selective distribution networks prevents the emergence of a secondary market.<sup>208</sup> Thus, the court ordered eBay not only to stop selling counterfeit items of perfume on the eBay website, but also to prevent third party sales of authentic items of perfume, or risk a fine of €50,000 per day if one of the perfumes is listed for sale on the eBay website.<sup>209</sup>

The French court's order is in conflict with common law in the United States with respect to reselling trademarked items.<sup>210</sup> This common law rule is called the exhaustion or "first sale" doctrine and states that "the right of a producer to control distribution . . . does not extend beyond the first sale of the product."<sup>211</sup> To wit, once the trademark owner sells an item, the trademark owner may not limit the purchaser of the authorized item from reselling that item.<sup>212</sup> By the order issued in *Christian Dior*, the French court essentially prevents a person from selling one of these perfumes on the eBay website, even if one had received the perfume as a gift or bought the perfume himself—an action taken for granted in the United States.

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<sup>205</sup> *Id.*

<sup>206</sup> *Id.* at 11.

<sup>207</sup> *Id.* at 10.

<sup>208</sup> *See id.* at 11–12.

<sup>209</sup> SA Parfums Christian Dior v. eBay Inc., Tribunal de commerce [T. Com.][business court of original jurisdiction] Paris, June 30, 2008, RG 2006065217, 21 (Fr.) (€50,000 is equal about \$79,000, using an exchange rate of \$1.575 to €1.00 from the date of the decision).

<sup>210</sup> *See NEC Elecs. v. CAL Circuit Abco, Inc.*, 810 F.2d 1506, 1509 (9th Cir. 1987) ("Once a trademark owner sells his product, the buyer ordinarily may resell the product under the original mark without incurring any trademark law liability.") (citing *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368–69 (1924)).

<sup>211</sup> XUAN-THAO N. NGUYEN ET AL., *INTELLECTUAL PROPERTY, SOFTWARE, AND INFORMATION LICENSING: LAW AND PRACTICE* 706 (2006) (quoting *Ryan v. Volpone Stamp Co.*, 107 F. Supp. 2d 369, 381 (S.D.N.Y. 2000)).

<sup>212</sup> J. THOMAS MCCARTHY ET AL., *MCCARTHY'S DESK ENCYCLOPEDIA OF INTELLECTUAL PROPERTY* 219 (3d ed. 2004).



## V. SUGGESTIONS

Possible methods of coming to grips with the counterfeiting issues plaguing eBay and other websites that allow third-party content are suggested below. These include promoting more cooperation between website operators and intellectual property owners, utilizing data mining development to aid in identifying possible fraudulent activities, changing the requirement for vicarious infringement as pertaining to trademark law, and having Congress address policy issues to protect trademark owners' rights. Not doing anything about the counterfeiting that takes place on eBay and other public websites implicitly condones the behavior of the website operators because there is currently no effective remedy.<sup>213</sup>

### A. *Website Operators Need to Work More Closely with Intellectual Property Rights Owners*

A better policy that may prevent counterfeiting and allow companies such as eBay to avoid liability would be to work more closely with mark owners to help them protect their marks used on websites hosting third-party content. The combination of improving technology and allowing registered mark owners to assess auction listings before the listings are available to the public might be a first step in cutting down on counterfeiting. One way to help prevent the activity of questionable sellers would be for auction sites or similar venues to require a more stringent assessment of the sellers before allowing them to use the websites. This assessment of sellers could avoid the listing of counterfeit goods on websites in the first place. For example, in *Tiffany v. eBay*, multiple sellers each used at least five different user names to register with eBay in order to continue selling counterfeit Tiffany items.<sup>214</sup> If eBay utilized a more stringent method of evaluating its sellers, incidents such as these could be preventable.

Similarly, website operators could assess each individual item before allowing the item to appear for sale on an internet site. Website operators could put a procedure in place to automatically review each item as it is submitted and make an assessment based on a set of criteria—the better the criteria developed to identify suspicious items, the better the assessment. eBay uses this approach

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<sup>213</sup> Fara S. Sunderji, Note, *Protecting Online Auction Sites from the Contributory Trademark Liability Storm: A Legislative Solution to the Tiffany Inc. v. eBay Inc. Problem*, 74 *FORDHAM L. REV.* 909, 938 (2005).

<sup>214</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 490 (S.D.N.Y. 2008).

in a limited way with its fraud engine to try to detect fraudulent listings.<sup>215</sup> A further refinement of this type of approach would be to allow intellectual property rights owners to register with an internet sales venue. This registration would automatically flag and send to a rights owner for review any item submitted for sale on the venue that contains information that implicates the intellectual property of the owner. The website operator would then give the intellectual property owner a certain amount of time to evaluate the listing for authenticity before publicly displaying the item. If the owner determines the item to be counterfeit, the owner can then petition to have the item rejected for listing.

Safeguards would have to be in place to prevent abuse by intellectual property rights owners, who might automatically reject any item bearing their mark. Under the current notice and takedown scheme for copyright,<sup>216</sup> and similarly in eBay's VeRO program,<sup>217</sup> the owner of the property must have a good faith belief and aver to the wrongness of the listing. Procedures to protect legitimate sellers of authentic items also need to be put in place to ensure that the intellectual property rights owners do not continually cite listings of these legitimate sellers for takedown. A method of dispute resolution between sellers and rights owners would also need to be developed. An intellectual property rights owner's abuse of the system could result in expulsion from the program and loss of the right to preview items before they become available for public viewing.

However, both of these examples require website operators to have a more hands-on approach, which is somewhat against the laissez faire business model of the Internet.<sup>218</sup> For example, the eBay site was set up to provide a venue "where practically anyone can sell practically anything."<sup>219</sup> When most of the goods were items from garages and people's personal collections, allowing anyone to sell to anyone else was a good business model. Now, professionals are using the auction website and other similar websites to distribute their goods, which is legitimate commerce in most cases, but hucksters and criminals have also found websites to be a great place to sell items of dubious origin.<sup>220</sup> As with most things in life, situations change, and new solutions are needed to cope with the changes. Here, a policy to encourage better cooperation between website marketplaces and mark owners in an attempt to police the sale of counterfeit goods might be a good model for the future.

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<sup>215</sup> *Id.* at 477.

<sup>216</sup> 17 U.S.C. § 512(c)(3) (2006).

<sup>217</sup> eBay VeRO Program, *supra* note 89.

<sup>218</sup> Sunderji, *supra* note 211, at 916.

<sup>219</sup> eBay, Who We Are: Overview, <http://www.ebayinc.com/who> (last visited Nov. 19, 2009).

<sup>220</sup> See Korzeniowski, *supra* note 3.

***B. Data Mining of Existing Listings to Flag Suspicious Items***

A website operator working with property rights owners could allow for the development of search procedures that utilize the huge amount of data from all the listings on the website to develop more intelligent search engines to assess whether listings are fraudulent. The large number of listings could be used to the advantage of data mining procedures to produce better searching models for fraud. The cost of revenue lost to counterfeiting by brand name companies is huge. Therefore, it may well be worth the investment of intellectual property rights owners to work alongside website operators to develop these more intelligent searches. Once the procedure and parameters of a workable search engine are understood and developed, this product itself would be valuable and could be licensed to other websites.

***C. Revisiting Vicarious Trademark Infringement***

Vicarious trademark infringement is a court-created doctrine, and the current test for vicarious trademark infringement provides a high hurdle for an intellectual property rights owner to overcome.<sup>221</sup> The trademark rights owner has to prove that the parties involved “have an apparent or actual partnership, have authority to bind one another in transactions with third parties or exercise joint ownership or control over the infringing product.”<sup>222</sup> In contrast, for vicarious copyright infringement the rights owner only needs to show that the accused party has both “the right and ability to supervise the infringing activity and . . . a direct financial interest in such activities.”<sup>223</sup>

This language has made its way into the copyright laws of the United States through the Digital Millennium Copyright Act (DMCA) for protection of material online, indicating movement towards codifying vicarious liability, at least for online copyright violations.<sup>224</sup> Congress could establish a standard for vicarious liability with an amendment to trademark law, as was done for copyright law when enacting the DMCA. Congress could change the requirements needed to establish vicarious trademark infringement with an amendment to the

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<sup>221</sup> *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992) (citing *David Berg & Co. v. Gatto Int’l Trading Co.*, 884 F.2d 306, 311 (7th Cir. 1989)).

<sup>222</sup> *Id.* (citing *David Berg*, 884 F.2d at 311).

<sup>223</sup> *Fonovisa v. Cherry Auction, Inc.*, 76 F.3d 259, 262 (9th Cir. 1996) (quoting *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

<sup>224</sup> 17 U.S.C. § 512(c)(1)(B) (2006).

Lanham Act incorporating appropriate hurdles to establish liability that Congress determines is necessary, and could possibly use the copyright model as a starting point. If such an amendment were in place, a court would be more likely find companies like eBay liable for counterfeiting activities.

For example, applying vicarious infringement requirements as they currently exist in copyright law<sup>225</sup> to the *Tiffany v. eBay* case would likely make eBay liable for infringement. The first requirement for vicarious infringement is “a direct financial interest in such activities.”<sup>226</sup> eBay has a financial incentive to promote sales since it collects a fee when any item sells on the auction website.<sup>227</sup> Consequently, eBay profits at the expense of name brand manufacturers, since the manufacturers lose revenue when counterfeit goods sell on the eBay website. eBay charges sellers a listing fee to place an item on sale and collects a small percentage of the sale price once the item is sold.<sup>228</sup> Therefore, eBay has a direct financial interest in allowing as many items as possible, including counterfeit items, to be bought and sold on their website.

The second requirement for vicarious liability is “the right and ability to supervise the infringing activity.”<sup>229</sup> eBay also controls the website where the items are sold, and prohibits a large list of items from being offered for sale on their website.<sup>230</sup> State and federal laws prohibit some items such as alcohol and firearms, but for policy reasons eBay bans other classes of items that are generally legal for sale.<sup>231</sup> eBay also requires users, sellers, and buyers alike to register with eBay and agree to terms of use of the site, which includes prohibiting illegal activities like selling counterfeit or contraband items.<sup>232</sup> eBay maintains control over listings through its policies and through requirements in its user agreements.<sup>233</sup> eBay sets the policy for how items are listed and sold on its

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<sup>225</sup> *Id.*

<sup>226</sup> *Fonovisa*, 76 F.3d at 262 (quoting *Gershwin*, 443 F.2d at 1162).

<sup>227</sup> eBay, Fees for Selling on eBay, <http://pages.ebay.com/help/sell/fees.html> (last visited Nov. 19, 2009).

<sup>228</sup> *Id.*

<sup>229</sup> *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 262 (9th Cir. 1996) (quoting *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

<sup>230</sup> eBay, Prohibited and Restricted Items—Overview, <http://pages.ebay.com/help/policies/items-ov.html> (last visited Nov. 19, 2009) [hereinafter eBay Prohibited and Restricted Items].

<sup>231</sup> *Id.*

<sup>232</sup> eBay, Rules & Policies, <http://pages.ebay.com/help/policies/overview.html> (last visited Nov. 19, 2009).

<sup>233</sup> See *id.*; eBay, Your User Agreement, <http://pages.ebay.com/help/policies/user-agreement.html> (last visited Sept. 29, 2009).

website, including the length of time the auctions extend, and reserves the right to remove a sales listing and ultimately to cancel a user's account with eBay for violations of its policy.<sup>234</sup> Therefore, one could conclude that eBay maintains the right and ability to supervise sellers using the website through its control over the items listed for sale. Thus, under these conditions, eBay fulfills the requirements of control and financial incentive needed to establish vicarious infringement. If Congress enacted an amendment that defined vicarious trademark infringement similar to that which currently exists for copyright law,<sup>235</sup> a court could hold eBay liable for vicarious trademark infringement under the facts of *Tiffany v. eBay*.

#### **D. Policy Change Through Legislation**

Congress, already recognizing the issues of counterfeiting and infringement, enacted the Prioritizing Resources and Organization for Intellectual Property Act of 2008 (Pro-IP Act).<sup>236</sup> A source of such vicarious trademark infringement legislation could stem from a report of the newly formed position in the executive branch—the Intellectual Property Enforcement Coordinator (IP Czar) created by the Pro-IP Act.<sup>237</sup> The IP Czar chairs an advisory committee made up of staff from a variety of government agencies.<sup>238</sup> The committee is required to develop a “Joint Strategic Plan” to address issues related to counterfeiting and infringement of intellectual property.<sup>239</sup> One of its objectives is listed as “[r]educing counterfeit and infringing goods in the domestic and international supply chain.”<sup>240</sup> The committee must submit a plan to Congress—to the Judiciary and Appropriations Committees of the House and Senate—within one year of the Pro-IP Act enactment, and then again every three years after that.<sup>241</sup> The IP Czar is also required to report to Congress yearly on the activities of the committee.<sup>242</sup> However, the Act explicitly puts limitations on the IP Czar by

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<sup>234</sup> eBay Prohibited and Restricted Items, *supra* note 228.

<sup>235</sup> 17 U.S.C. § 512(c)(1)(B) (2006).

<sup>236</sup> Prioritizing Resources and Organization for Intellectual Property Act of 2008 (Pro-IP Act), Pub. L. No. 110-403, 122 Stat. 4256.

<sup>237</sup> *Id.* § 301.

<sup>238</sup> *Id.* § 301(b)(3).

<sup>239</sup> *Id.* § 303.

<sup>240</sup> *Id.* § 303(a)(1).

<sup>241</sup> *Id.* § 303(b).

<sup>242</sup> Prioritizing Resources and Organization for Intellectual Property Act of 2008, Pub. L. No. 110-403, § 304, 122 Stat. 4256, 4269–70.

denying the Office direct control over any law enforcement agency.<sup>243</sup> The role of the IP Czar and committee is mainly advisory.<sup>244</sup>

Part of the strategic action plan and the reporting requirement is to make recommendations to Congress for any “changes in enforcement statutes, regulations, or funding levels that the advisory committee considers would significantly improve the effectiveness or efficiency of the effort of the Federal Government to combat counterfeiting and infringement.”<sup>245</sup> These recommendations could address the currently perceived deficiencies in the abilities of trademark owners to protect their marks against counterfeiters under current laws, as demonstrated in *Tiffany v. eBay*.<sup>246</sup> The advisory committee could use this opportunity to make recommendations to Congress to develop equitable plans that could provide a remedy for trademark owners who suffer at the hands of parties that sell counterfeit items through an internet site.

Whether the IP Czar and the corresponding committee can make a positive impact in Washington is to be seen. Congress previously formed the National Intellectual Property Law Enforcement Coordination Council (NIPLECC) in 1999, to coordinate domestic and international intellectual property enforcement issues, but according to a Government Accountability Office (GAO) report, the committee was largely ineffective.<sup>247</sup> The current Pro-IP Act attempts to give the IP Czar and committee more clout by placing the Agency in the executive branch, which was not done with the NIPLECC.<sup>248</sup>

A legislative remedy should not over-penalize the website for illegal activities third-party users carry out, but some level of responsibility should still be placed on a site that knows of illegal activities that are occurring but does not do enough to try to prevent such activities. Either the IP Czar—through the advisory committee—or some other entity must address the issue of what will constitute “doing enough” to prevent illegal activities. From the outcome in *Tiffany v. eBay*, the New York judge determined that eBay had taken enough steps to combat counterfeiting on their site to avoid liability.<sup>249</sup> Under very similar facts, a judge in Paris determined that eBay had not done enough to protect another trademark owner and found eBay strictly liable for activities of third

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<sup>243</sup> *Id.* § 301(b)(2).

<sup>244</sup> *See id.* § 301.

<sup>245</sup> *Id.* § 304(b)(6).

<sup>246</sup> *See Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 470 (S.D.N.Y. 2008).

<sup>247</sup> Sado et al., *supra* note 66, at 10.

<sup>248</sup> *Id.*

<sup>249</sup> *Tiffany*, 576 F. Supp. 2d at 518.

## Contributory Trademark Infringement Considering Tiffany v. eBay<sup>159</sup>

parties on its website.<sup>250</sup> Tiffany's position is likely that the French court got it right, and that eBay should have been held liable in the United States as well.<sup>251</sup>

The unfairness of eBay and other websites profiting from the illegal activity of third parties on their websites at the expense of intellectual property owners could provide some impetus for legislative action. The Supreme Court expressed a concern with laws that would adversely impact the development of the Internet, "recognizing that 'fostering the growth of the Internet' calls for minimizing 'government regulations.'"<sup>252</sup> However, if enough property rights owners make themselves heard, Congress may step in to address these concerns in instances where the courts have avoided such policy decisions.<sup>253</sup>

One answer is to develop regulations utilizing a cost-benefit analysis, holding internet service providers, such as eBay, liable for any counterfeit or fraudulent activities carried out on their website.<sup>254</sup> The benefit for society from regulating the misconduct of parties using the site is balanced against the cost imposed for carrying out the regulation. In addition, the party best situated to curtail the misconduct should be identified and burdened with carrying out the regulation or policing for misconduct such as counterfeiting. One issue for this scheme would be who makes the balancing determination of which party is to be burdened with the policing misconduct. If left for the court to decide, the balancing of cost and benefits could not be done until a dispute is litigated.

For the sake of judicial efficiency, another body or tribunal may need to be implemented to interpret any regulation passed to carry out this scheme. This new body would assess the benefits versus cost in any particular case. However, this would add to the size of government and to the levels of bureaucracy. A possible problem of a scheme in which the website owners have the burden to carry out policing efforts would be the increased cost to the site owner associated with the efforts. Users of the site will probably end up paying for the cost of regulation. If the cost becomes too much, the site and its service may disappear altogether.

Using eBay as an example, if a regulation imposes the burden on eBay to police the auction site, the cost for this policing would more than likely be

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<sup>250</sup> SA Louis Vuitton Malletier v. eBay, Inc., Tribunal de commerce [T. Com.][[business court of original jurisdiction] Paris, June 30, 2008, RG 2006077799, 17 (Fr.).

<sup>251</sup> See *Tiffany*, 576 F. Supp. 2d at 471 (Tiffany requesting the judge in the current trial to recognize the outcome of the trial against eBay in France).

<sup>252</sup> Defendant eBay's Post-Trial Memorandum at 8 n.3, *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463 (S.D.N.Y. 2008) (No. 04 Civ. 4607) (quoting *Reno v. ACLU*, 521 U.S. 844, 885 (1997)).

<sup>253</sup> See, e.g., *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 470 (S.D.N.Y. 2008).

<sup>254</sup> See *Mann*, *supra* note 162, at 8–9.

thrust upon the users of eBay, driving some users away because of the increased cost. An even more severe outcome could occur if eBay decided not to allow famous name luxury goods to sell on their site, which would deprive legitimate sellers of these items of a well-known, worldwide outlet to do business. Counterfeiting by a few could destroy an opportunity for all.

To offset costs of policing, the regulation could allow the internet service provider the ability to recover costs from the intellectual property owners who benefit from the preventing of the misconduct. For example, in the case of eBay and Tiffany, Tiffany would be required to help offset the cost of policing the auction site by paying a fee to eBay. This type of regulation could have the effect of shifting the burden of protecting intellectual property from the property owner to the party better situated to carry out the actual policing action, while shifting the costs to the intellectual property owner.

## VI. CONCLUSIONS

eBay remains a large target with deep pockets for intellectual property right owners trying to protect their rights through sales on the auction site. Any site that provides online space for third parties to post content, such as items for sale, could be used for intellectual property infringement. Both website and property owners must cooperate to produce better procedures and protections. If ignoring fraud and counterfeiting on the Internet causes too large of a problem, especially if it becomes linked to organized crime and terrorism, then new policy decisions may come from Congress to stop the flow of illegal goods through websites. Any change in policy would likely shift more liability onto website owners since the current high level of knowledge needed to hold website owners responsible has effectively operated as a shield to liability. eBay and other online markets need to be more proactive in approaching the counterfeiting problem and need to show a willingness to come up with possible solutions before Congress makes decisions for them.