

AS LONG AS “IT” IS NOT COUNTERFEIT:  
HOLDING EBAY LIABLE FOR SECONDARY  
TRADEMARK INFRINGEMENT IN THE WAKE OF  
*LVMH AND TIFFANY INC.* ♦

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## INTRODUCTION

A flawless woman struts down the avenue in a Burberry trench and Ferragamo shoes, hands rummaging inside her Gucci bag in search of her Prada sunglasses. Once she locates them, a pointed glance at her Cartier wristwatch signals to the valet that she wants her Aston Martin DBS brought curbside, immediately. The scene is surely commonplace, for people often don coats, shoes, watches, sunglasses, and might leave their cars with valets. Yet, the addition of certain luxury brand names imparts an air of sophistication, decadence, and superiority upon this woman; assumptions about her wealth, power, status, and education are made instantly.

Once unattainable to many, luxury brand items are now accessible worldwide via the click of a mouse. eBay.com (“eBay”) has come to the rescue of brand-name-coveting consumers who are unable to afford hefty brand-name price tags. eBay is an online marketplace that facilitates transactions between bargain-hunting shoppers and members reselling their luxury goods for lower prices. eBay has grown into an international entity, with localized websites in countries such as Germany, Japan, Sweden, and Turkey. Millions of items, including homes, collectibles, appliances, and apparel are bought and sold daily. The marketplace operates by providing a virtual forum for buyers and sellers to meet and trade, in exchange for a series of fees that constitute “rent” for use of the space.<sup>1</sup> Due to its flea-market nature, eBay has created a headache for luxury brands intent on protecting their names. Because the products auctioned on the site are resold by individual sellers, not licensees, the brands are unable to practice effective quality control.

Most damaging to brands is the rampant selling of counterfeit luxury goods, which find a home in eBay’s colorful auction listings.<sup>2</sup> The ironic result is that a brand’s investment in exclusivity and eminence engenders the market that enables counterfeiters to sell to (and in some cases, prey on) consumers who want to possess a part of an iconic brand’s fame for a small fraction of the price.<sup>3</sup> Regardless of whether the seeker of luxury goods is aware

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<sup>1</sup> The mechanics of the eBay system are discussed in greater detail, *infra* Part II.

<sup>2</sup> Indeed, eBay might be known as the “center of a new universe of counterfeit.” Katie Hafner, *Seeing Fakes, Angry Traders Confront eBay*, N.Y. TIMES, Jan. 29, 2006, available at <http://www.nytimes.com/2006/01/29/technology/29ebay.html>.

<sup>3</sup> “So much of a product’s worth is now tied up in its brand and intellectual property, rather than its material constituents, that it becomes easy prey for counterfeiters who can exploit consumers’ expectations of quality and service without the cost of having to fulfil [sic] them. . . . *Imitating Property Is Theft*, THE ECONOMIST, May 15, 2003, available at <http://www.uwlax.edu/faculty/knowles/eco303/Counterfeitin1.doc> [hereinafter *Imitat-*

of an item's authenticity, the greater concern is that eBay has created a forum for the sale of counterfeit goods that is arguably more appealing to buyers *and* sellers because it seems less illicit than the exchange of counterfeit goods in face-to-face transactions. This concern, however, must be weighed against the benefits of the legal market eBay enables. In the context of luxury items, eBay can facilitate the transactions of sellers who have grown tired of their luxury goods and wish to dispose of them while making a small profit as well as sellers who take advantage of public demand by auctioning brand-new, sold-out items with the aim of securing a bigger return.

Nevertheless, the sale of counterfeit goods is exceedingly prevalent, and it occurs in a variety of forms. In one instance, the victim is the buyer. Sellers falsely claim that items for sale are authentic, and buyers either pay full retail price for a bargain that is not really a bargain. Either way, the buyer has been scammed since the item bought is counterfeit. In another situation, the victim is the brand. Both buyers and sellers proceed with the trade though each fully understands that the goods are counterfeit. This practice quenches the consumer's desire to attain the item and all of its attached psychological benefits for a bargain while still providing the seller with a sizeable profit on the transaction. Additionally, these types of mutually beneficial transactions increase the size of the market for counterfeit goods. Consequently, the propagation of counterfeit luxury goods, facilitated by eBay, adversely affects the image of the authentic luxury item by tarnishing its reputation as a quality good, an exclusive good, and a desirable good.

Although many brands have legal counsel that continually attempt to curtail counterfeit operations, the task of going after individual sellers of counterfeit goods is daunting. This, coupled with the fact that many sellers on eBay are masked by the anonymity of fanciful usernames, has prompted luxury fashion brands and eBay to work together with the aim of diminishing counterfeit transactions on the site. Controlling millions of users and millions of listings is no easy task; therefore eBay has compromised with brands by devising a monitoring program called VeRO (Verified Rights Owners), wherein the site will take down auctions featuring counterfeit goods, but only if the brand alerts eBay that the goods presented are not authentic.<sup>4</sup> Despite the implementation of the VeRO program, a barrage of recent lawsuits brought against the site suggest that many luxury brands are unhappy with the extent of eBay's cooperation and its attitude in the wake of a mass coun-

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*ing Property*].

<sup>4</sup> The VeRO program is discussed in greater detail, *infra* Part II.B.

terfeit goods epidemic. Many brands claim that the auction site should bear more responsibility in the protection of trademarks – after all, eBay is providing the forum for illegal transactions and profiting from it.<sup>5</sup>

It is on these grounds that many luxury brands have raised claims against eBay. In the United States, derivative or secondary trademark infringement liability extends to individuals or entities that “knowingly cooperate in illegal and tortuous activity.”<sup>6</sup> A person or entity separate from a direct infringer of trademark rights may be held liable for secondary trademark infringement under an agency theory. In other words, because the Lanham Act “federalizes [the] common law tort [of unfair competition,] . . . liability based on agency principles is often appropriate.”<sup>7</sup> Curiously, the secondary trademark infringement doctrine is defined by only a small number of pivotal cases. Smaller still is the base of authority on liability for Internet service providers (“ISPs”) that somehow contribute to trademark infringement, since trademark law has yet to develop counterpart guidelines similar to those in the Digital Millennium Copyright Act of 1998 (“DMCA”).<sup>8</sup> This Note proposes that, in cases where eBay is aware of the presence of fake goods on its website, it should be required to take greater care in ensuring that infringing items and their sellers are banned from the site. Because eBay is not merely a web provider, but rather a brokerage firm that derives economic benefits from sales made on its site, the American courts should look to the recent reasoning of

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<sup>5</sup> Rolex filed sued against eBay for secondary trademark infringement in Germany in 2001, and fashion house Hermès sued the site in France in 2007. In the Hermès suit, the French court found eBay liable for trademark infringement and said the site had failed “to act within [its] powers to prevent reprehensible use of the site.” Carol Matlack, *Hermès Beats eBay in Counterfeit Case*, BUSINESSWEEK, June 6, 2008, available at [http://www.businessweek.com/globalbiz/content/jun2008/gb2008066\\_845380.htm?campaign\\_id=rss\\_daily](http://www.businessweek.com/globalbiz/content/jun2008/gb2008066_845380.htm?campaign_id=rss_daily). In the Rolex action, the German Federal Supreme Court held that eBay had to take preventative measures against the sale of fake Rolex watches. *EBay Dealt Blow on Fake Rolexes by German Court*, NATIONAL JEWELER, July 27, 2007, available at [http://www.nationaljewelernetwork.com/njn/content\\_display/watches/e3i846f5eeb0e4ecde573e58b58227b6fba?inp=true](http://www.nationaljewelernetwork.com/njn/content_display/watches/e3i846f5eeb0e4ecde573e58b58227b6fba?inp=true).

<sup>6</sup> J. Thomas McCarthy, *McCarthy on Trademark and Unfair Competition* (2002) §§ 25:17, 18, referencing *Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526 (1924) (applying common law concept of contributory infringement).

<sup>7</sup> *Am. Tel. & Tel. Co. v. Winback*, 42 F.3d 1421, 1433 (3d Cir. 1994).

<sup>8</sup> 17 U.S.C. § 512 (2006). The DMCA was enacted with the purpose of offering different categories of Internet-related services, such as search engines, web hosts, and ISPs limited immunity from secondary copyright infringement liability. In theory, so long as ISPs follow the Act’s guidelines, they are insulated from liability. For an insightful discussion on the application of the DMCA, see Debra Weinstein, Note, *Defining Expeditions: Uncharted Territory of the DMCA Safe Harbor Provision*, 26 CARDOZO ARTS & ENT. L.J. 589 (2008). For the purposes of this note, the definition of ISP will be a “service provider” under DMCA § 512(k)(1)(B) which defines it as “a provider of online services or network access, or the operator of facilities therefor . . .”.

various European courts and accordingly hold the site, and similar online brokerage sites, to a higher duty of care.

This Note examines two decisions—one American and the other French—that asked whether eBay’s actions, or lack thereof, in response to iconic luxury brands’ concerns over the sale of fake replicas constituted secondary contributory trademark infringement. While both cases arose from the same concern and similar facts, the courts reached very different answers. The French court found eBay liable, whereas the American court pinned the responsibility of preventing infringement on the luxury brand itself. Interestingly, both cases used the same tort law agency principles to define what constitutes negligent behavior on the site’s behalf, suggesting that the completely divergent answers supplied by the courts might be temporary.<sup>9</sup>

Part I of this Note lays the groundwork by presenting the theories behind secondary trademark infringement, including application of liability to flea markets and a brief overview of the limited case law regarding ISP liability. Part II addresses eBay’s basic framework, its current infringement protection program (VeRO), and policy considerations implicated by the counterfeit marketplace on the economy, trademarks, and eBay users. Part III discusses the courts’ reasoning behind the *Louis Vuitton Moët Hennesy v. eBay* and *Tiffany Inc. v. eBay, Inc.* decisions. Part IV explains why holding eBay and similar websites to a higher duty of care is the most effective way to reconcile the desires and address the concerns of luxury brands, eBay, and their respective consumers. Part V proposes certain slight modifications to the VeRO program that would result in an efficient investigation and monitoring of possible offenders, address repeat offenses accordingly, and protect legitimate eBay users.

This Note argues that because eBay is aware that counterfeit items are sold on its site, possesses the ability to control its users’ access to services, and derives a profit from the sale of counterfeit items, it should be held to a heightened duty of care to avoid secondary liability for trademark infringement. A new standard for Internet auction sites like eBay would keep eBay’s convenient services available to the public, but also demand eBay’s cooperation in eradicating the presence of counterfeit items from the global market. By forcing eBay to monitor and remove items that luxury brands have identified as likely to be counterfeit, either based on

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<sup>9</sup> The French decision is currently on appeal, whereas the American appellate decision was issued on April 1, 2010. The author’s research has found no consensus regarding the expected outcome of the French appeal, and it is currently unknown whether the American appellate decision will be reviewed by the Supreme Court of the United States.

prior experience with a particular seller, or on other indicia (including, for example, a sale of supposedly brand-new authentic goods at a suspiciously low price), the site could point to diligent, legally-sanctioned action to demonstrate a good faith effort in maintaining only lawful activities in its online community. In its current form, eBay's VeRO program is ineffective in fully addressing the problem of trademark infringement on the site and does not properly insulate eBay against secondary trademark infringement liability. Accordingly, for the benefit of all parties, it must be restructured. This new approach would appropriately balance both the luxury brands' and eBay's responsibilities to police and curb violations of trademark rights. Also, it would effectively respond to eBay customers' concerns about accessibility to certain luxury brands by ensuring that the luxury goods that remain on the site, either full-priced or slightly discounted, are authentic.

## I. OVERVIEW OF SECONDARY TRADEMARK LIABILITY IN THE UNITED STATES

Law governing secondary trademark infringement liability, while not as well-developed as that covering secondary copyright infringement liability, has been shaped by a combination of tort agency principles and fact-specific judicial interpretation.<sup>10</sup> There are two recognized types of secondary trademark liability: contributory infringement and vicarious liability. Different criteria are required for each claim, but courts often use both interchangeably.

### A. *Contributory Trademark Infringement*

Under the Restatement (Third) of Unfair Competition, liability for contributory infringement should be imposed when the actor "intentionally induces the third person to engage in the infringing conduct; *or* . . . fails to take reasonable precautions against the occurrence of the third person's infringing conduct in circumstances in which the infringing conduct can be reasonably anticipated."<sup>11</sup> The U.S. Supreme Court, in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*,<sup>12</sup> stated that contributory trademark liability is found when a plaintiff successfully shows that the defendant either intentionally induced another to infringe a mark or continued to produce or supply its product while knowing or having reason to know the recipient is engaging in trademark infringement.

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<sup>10</sup> The Lanham Act, codified in 15 U.S.C. §§ 1051-1141 (2006), is silent on issues of contributory infringement and vicarious liability.

<sup>11</sup> RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 27 (1995) (emphasis added).

<sup>12</sup> 456 U.S. 844, 855 (1982).

The standard, as the lower court correctly stated, is not limited to manufacturers of products and is extended to cover providers of a service, such as a flea market. That is, if the service is used to engage in trademark infringement while the provider knows or has reason to know of such activities, liability will attach to the provider.

### B. *Vicarious Trademark Infringement Liability*

The theory of vicarious liability for trademark infringement arises from the agency theory of respondeat superior.<sup>13</sup> Vicarious liability often exists where “the defendant and the infringer 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>14</sup> Under this theory, if the defendant is able to “[d]irect[ly] control and monitor[] . . . the instrumentality used . . . to infringe the plaintiff’s mark,” then liability can attach.<sup>15</sup>

### C. *Application of the Doctrines to the Flea Market Example*

In *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*,<sup>16</sup> the Seventh Circuit addressed the role of a flea market as similar to either a manufacturer of mislabeled goods or a “temporary help service” that supplies the vendor of such goods.<sup>17</sup> Incorporating the Restatement (Second) of Torts, the Seventh Circuit concluded that the flea market, as a type of landlord or licensor providing the forum in which fake goods were sold, was responsible for the torts committed by those on the flea market premises if it knew or had reason to know that the tenant/licensee was acting or would act tortiously.<sup>18</sup> The court went on to say that “willful blindness is equivalent to actual knowledge for purposes of the Lanham Act,” explaining that willful blindness occurs when the person “suspect[s] wrongdoing and deliberately fail[s] to investigate.”<sup>19</sup> Thus, the willful blindness analysis focuses on the person’s state of mind in addition to the person’s duty to take precautions against counterfeiting.<sup>20</sup> While there is no affirmative duty to seek out and prevent violations, constructive notice is embodied through “reason

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<sup>13</sup> *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 262 (9th Cir. 1996).

<sup>14</sup> *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992) (emphasis added).

<sup>15</sup> *Lockheed Martin Corp. v. Network Solutions*, 194 F.3d 980, 984 (9th Cir. 1999).

<sup>16</sup> *Hard Rock Cafe*, 955 F.2d 1143.

<sup>17</sup> *Id.* at 1148, 1150.

<sup>18</sup> *Id.* at 1149 (citing RESTATEMENT (SECOND) OF TORTS § 877(c) & cmt. d (1979)).

<sup>19</sup> *Id.* (citing *Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 590 (7th Cir.1989)).

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

to know [of a violation],” encompassing what a reasonably prudent person would know and understand from the facts and circumstances.<sup>21</sup> While the *Hard Rock Cafe* court did not find sufficient control by the flea market landlord to support a finding of vicarious liability, it suggests that sufficient control may be found if the owner hires the vendors, receives a monetary gain that is a portion of the vendors’ sales, or exercises control over the vendors that goes “beyond” the control a landlord has over a tenant.<sup>22</sup> The District Court of the Southern District of New York has used the *Hard Rock Cafe* standard to deny a motion to dismiss a contributory infringement claim against a landlord who leased a building to a tenant who sold counterfeit goods out of the building.<sup>23</sup>

In another case, *Lockheed Martin Corp. v. Network Solutions, Inc.*, the Ninth Circuit reaffirmed the *Hard Rock Cafe* analysis by holding that a flea market could be held liable for contributory trademark infringement if it “supplied the necessary marketplace” for the sale of counterfeit goods. The *Lockheed* court accordingly stated:

*Hard Rock* . . . teach[es] us that when measuring and weighing a fact pattern in the contributory infringement context without the convenient “product” mold dealt with in *Inwood Lab.*, we consider the extent of control exercised by the defendant over the third party’s means of infringement. . . . Direct control and monitoring of the instrumentality used by a third party to infringe [the trademark] permits the expansion of *Inwood Lab.*’s “supplies a product” requirement for contributory infringement.<sup>24</sup>

#### D. ISP Liability

Recent court decisions and the enactment of the DMCA have shed some light on the application of secondary copyright infringement liability in the realm of Internet commerce. However, the area of secondary trademark infringement on the World Wide Web remains somewhat ambiguous still.<sup>25</sup>

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<sup>21</sup> RESTATEMENT (SECOND) OF TORTS § 12(1) & cmt. a (1965).

<sup>22</sup> *Hard Rock Cafe*, 955 F.2d at 1150.

<sup>23</sup> *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, 855 F. Supp. 648, 650 (S.D.N.Y. 1994).

<sup>24</sup> *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999); see also *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (holding that the operator of a swap meet could be contributorily liable for its independent vendors’ sales of infringing goods because it was “supplying the necessary marketplace for their sale.”)

<sup>25</sup> See Matthew Fornaro, *A Parallel Problem: Grey Market Goods and the Internet*, 8 J. Tech. L. & Pol’y 69 (2003). The article further states:

[T]rademark law has labored to keep pace with the proliferation of technology. Although recent case law and legislative acts such as the . . . DMCA have ad-



In *Gucci America, Inc., v. Hall & Associates*,<sup>26</sup> a U.S. District Court in New York found an ISP by the name of Mindspring akin to a flea market operator, because it provided the “actual storage and communication for infringing material.”<sup>27</sup> The court concluded that the ISP could prevent the infringing conduct of third parties by monitoring the sites using its services or by terminating provision of services to parties accused of selling counterfeits. Similarly, in *Government Employees Insurance Co. v. Google, Inc.*,<sup>28</sup> a U.S. District Court in Virginia, in 2004, found that Google, an ISP under the “search engine” category, could be held liable under a theory of contributory trademark infringement for the actions of third party banner advertisers if the plaintiff showed that the defendant could monitor and control such advertisements.<sup>29</sup>

The Ninth Circuit synthesized *Fonovisa* and *Hard Rock Cafe* via its decision in *Lockheed* determining that regardless of whether the venue is online or not, the relevant inquiry is “the extent of control exercised by the defendant over the third party's means of infringement.”<sup>30</sup> Following this standard, several courts have assessed the extent of control exercised by the defendant over the actual infringer's means of infringement in determining whether a defendant may be contributorily liable.<sup>31</sup> The *Lockheed* standard was relied upon by the U.S. District Court in *Gucci America*. The court ruled that the ISP could prevent the infringing conduct by monitoring sites using its services or by terminating service to wrongful parties accused of selling counterfeits.<sup>32</sup>

In the summer of 2008, clear standards for addressing secondary trademark infringement liability seemed to loom on the horizon, with the impending decision of two important cases brought by luxury brands against eBay. Unfortunately, as discussed in Part III *infra*, once the decisions were rendered, those on both sides of the debate walked away with more questions than answers. How-

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dressed these issues as they apply to copyright law, current law does not adequately protect trademark owners, especially in light of increasing Internet-based commerce.

*Id.* at 71.

<sup>26</sup> *Gucci Am., Inc. v. Hall & Assocs.*, 135 F. Supp. 2d 409 (S.D.N.Y. 2001).

<sup>27</sup> *Id.* at 416.

<sup>28</sup> *Gov't Employees Ins. Co. v. Google, Inc.*, 330 F. Supp. 2d 700 (E.D. Va. 2004).

<sup>29</sup> *Id.* at 706.

<sup>30</sup> *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999).

<sup>31</sup> See *Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*, 494 F.3d 788, 807 (9th Cir. 2007) (declining to impose liability on website operator when operator did not have “the power to remove infringing material from these websites or directly stop their distribution over the Internet”); *Fare Deals, Ltd. v. World Choice Travel.com, Inc.*, 180 F. Supp. 2d 678, 689 (D. Md. 2001) (“To find contributory liability in the absence of the kind of direct control vested in the landlord of a landlord-tenant relationship ‘would reach well beyond the contemplation of *Inwood Laboratories* and its progeny.’”) (quoting *Lockheed*, 194 F.3d at 985).

<sup>32</sup> *Gucci Am., Inc. v. Hall & Assocs.*, 135 F. Supp. 2d 409, 416 (S.D.N.Y. 2001).

ever, before reaching the particulars of each case, a general overview of eBay's mechanics is warranted.

## II. COUNTERFEITS AT THE CLICK OF A BUTTON: CURRENT EBAY PRACTICES AND ILLICIT TRANSACTIONS

### A. *The Basics of eBay*

Despite the mind-boggling volume of products available on its site, navigating through eBay is incredibly easy. The site requires that both sellers (also known as vendors) and buyers (or bidders) register prior to setting up an auction or buying or bidding on a particular item. The registration process takes a few minutes, and all one needs is a working e-mail address, a valid credit card, and enough imagination to create a satisfactory username. A long user agreement, reminding users that illicit activity is forbidden, yet carefully worded so as to insulate eBay from liability,<sup>33</sup> can be scrolled through quickly and accepted with a swift click of the mouse button.

A seller setting up an auction or an eBay shop must pay a series of fees for eBay's services, ranging from simple auction listings to more sophisticated, eye-catching advertising techniques that make potential sales more likely.<sup>34</sup> eBay collects an "insertion fee" for simply placing the listing on its search engine. An auction-style listing featuring an item with a starting price of \$500 or more has a \$4 insertion fee.<sup>35</sup> Additionally, eBay charges a "final value fee," taking a flat rate plus a percentage of the selling price for auctioned items. For example, for an item listed for \$500 or more, eBay will charge 8.75% of the initial \$25 plus 3.5% of the remaining closing value balance.<sup>36</sup> For "fixed price" sales (i.e., those that are not auctions), eBay charges a greater percentage.<sup>37</sup> In addition to these basic fees, sellers are assessed extra fees for the op-

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<sup>33</sup> eBay User Agreement, eBay.com, <http://pages.ebay.com/help/policies/user-agreement.html> (last visited Mar. 21, 2010) ("We have no control over and do not guarantee the quality, safety, or legality of items advertised, the truth or accuracy of listings, the ability of sellers to sell items, the ability of buyers to pay for items, or that a buyer or seller will actually complete a transaction . . ."). Such user agreements are not uncommon, as noted in *Online Auction Sites and Trademark Infringement Liability*, 58 RECORD 236, 240 (2003) ("[A]nticipating the threat of legal action by trademark owners for secondary infringement, virtually all auction sites have crafted their legal terms in efforts to avoid such liability.").

<sup>34</sup> Fees for Selling on eBay, eBay.com, <http://pages.ebay.com/help/sell/fees.html> (last visited Mar. 21, 2010).

<sup>35</sup> *Id.*

<sup>36</sup> *Id.*

<sup>37</sup> For example, for accessories sold for more than \$50.01, the site charges 12% of the initial \$50.00, plus 9% of the remaining closing value balance. *Id.*

tion of upgrading their listings so that they stand out when retrieved in a search query and for purchasing “selling tools” subscriptions to make their offered products more enticing.<sup>38</sup> Taking this fee-collection system into consideration and calculating the millions of listings around the world and millions of transactions completed daily, it is easy to see that eBay makes a great profit from all sales taking place through the site – starting from when the item is posted until the transaction finally takes place. Despite the declining economy, the site’s financial results for 2008 showed \$8.54 billion in revenue and more than 86 million active users.<sup>39</sup>

It comes as no surprise that the site, marketing itself as “the world’s largest online marketplace”<sup>40</sup> and offering its users a virtual forum in which to conduct quick transactions in almost total anonymity, became a popular venue for counterfeiters and brand-thirsty consumers.<sup>41</sup> Mounting pressure from copyright, patent, and trademark owners forced eBay to create a system better suited to deal with infringement: VeRO.

#### B. *eBay’s VeRO Program*

Intellectual property rights owners may report intellectual property infringements through eBay’s VeRO, and have infringing listings removed by the site.<sup>42</sup> This service is provided only to rights owners that are registered in the VeRO program.

In its description of the VeRO program, eBay asserts that it engages in “proactive monitoring and removal” of listings that violate VeRO policies.<sup>43</sup> It also highlights that the program dictates “suspension of repeat offenders” and that it cooperates with rights owners’ requests for personal information of alleged infringers.<sup>44</sup> Yet, the site disclaims any expertise in intellectual property rights and states that it “cannot verify that sellers have the right to sell the millions of items they post on eBay each day . . . .”<sup>45</sup> Thus,

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<sup>38</sup> *Id.*

<sup>39</sup> Press Release, eBay Inc., eBay Inc. Reports Fourth Quarter and Full Year 2008 Results, (Jan. 21, 2009), *available at* [http://files.shareholder.com/downloads/eBay/553780241x0x266606/581a206a-78df-4c3c-81c4-4a8b57e62440/eBay\\_FINALQ42008EarningsRelease.pdf](http://files.shareholder.com/downloads/eBay/553780241x0x266606/581a206a-78df-4c3c-81c4-4a8b57e62440/eBay_FINALQ42008EarningsRelease.pdf).

<sup>40</sup> Who We Are, eBayinc.com, <http://www.ebayinc.com/who> (last visited Mar. 21, 2010).

<sup>41</sup> Indeed, eBay might be known as the “center of a new universe of counterfeit,” according to Hafner, *supra* note 2.

<sup>42</sup> The VeRO program was implemented in 1997 in preparation for compliance with the DMCA Safe Harbor provisions for secondary copyright infringement.

<sup>43</sup> Reporting Intellectual Property Infringements (VeRO), eBay.com, <http://pages.ebay.com/help/tp/vero-rights-owner.html> (last visited Mar. 21, 2010) [hereinafter VeRO Policy].

<sup>44</sup> *Id.*

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

brand owners must file a Notice of Claimed Infringement (“NOCI”) stating a “good faith belief” that items listed are infringing and requesting that eBay remove the items from its site.<sup>46</sup> In the NOCI, rights owners must associate each reported item with a reason code.<sup>47</sup> Brand owners can claim “item infringement” if the infringing item carries the brand name and is either an unlawful replica of the owner’s product or is not a product made by the brand. Trademark owners can also report item descriptions for “search manipulation” if a seller’s listing unlawfully uses the brand logo or contains unlawful comparisons to the brand name.<sup>48</sup>

VeRO has been met with criticism from trademark rights owners. It has also become a sore subject for many of the site’s members.<sup>49</sup> Critics claim that the program is abused by competitors, buyers, and corporations, to maliciously terminate lawfully-conducted auctions. The registration process for VeRO, under penalty of perjury, requires just a name, a physical address, and a valid email. Users report that accounts are suspended immediately after a NOCI is filed and that the site does not verify whether rights owners’ claims are valid.<sup>50</sup> Allegedly innocent sellers wishing to challenge suspension must then communicate directly with the rights owner who filed the NOCI. The process is arduous, and the NOCI remains in the seller’s record even if he or she successfully challenges the suspension and has the account reinstated.<sup>51</sup> As a

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<sup>46</sup> NOTICE OF CLAIMED INFRINGEMENT FORM, EBAY, INC., *available at* <http://pages.ebay.com/help/community/NOCI1.pdf>.

<sup>47</sup> *Id.* Some of the reason codes on the NOCI form are:

- 1.1. Trademark owner doesn’t make this type of product
- 1.2. Item(s) is an unlawful replica of a product made by the trademark owner [knock offs]
- 1.3. Item(s) is an unlawful importation of product bearing trademark
- 2.1. Listing(s) contains unlawful comparison to trademark owner’s brand name
- 2.2. Listing(s) contains unlawful use of trademark owner’s logo.

NOTICE OF INFRINGEMENT STATUTORY DECLARATION, *available at* <http://pages.ebay.in/help/community/copyright-infringement.pdf>.

<sup>48</sup> Search and Browse Manipulation Policy, eBay.com, <http://pages.ebay.com/help/policies/intellectual-property-ov.html> (last visited Mar. 21, 2010). An unlawful comparison would be the use of the brand name in a disclaimer regarding the lack of authenticity of the goods listed, preceded by terms such as “fake,” “faux,” “99% genuine,” or modified by appendixes suggesting similarity, such as “Gucci-esque,” “Burberry-like,” “Cartier-style,” and other variations.

<sup>49</sup> eBay members participating in eBay-compatible AuctionBytes, a user network, have a VeRO forum dedicated to questions and complaints. *See* eBay VeRO and Copyright Forum, AuctionBytes.com, <http://www.auctionbytes.com/forum/phpBB/viewforum.php?f=35> (last visited Mar. 21, 2010).

<sup>50</sup> *See* Vero to Zero in One eBay Step, [tamebay.com](http://tamebay.com/2007/02/vero-to-zero-in-one-ebay-step.html), <http://tamebay.com/2007/02/vero-to-zero-in-one-ebay-step.html> (last visited Mar. 23, 2010).

<sup>51</sup> *Id.* This is important because eBay determines permanent suspension by looking at repeat offenses. A seller that has been cleared of any illicit activities will still have an in-

result of lost revenue due to the NOCI filing and suspension, such individuals running profitable, legitimate businesses in eBay's marketplace have threatened to cease using the website's services.

### III. DIVERGENT APPROACHES TO SECONDARY TRADEMARK LIABILITY: TWO EBAY CASES

#### A. *LVMH v. eBay, Inc.*:<sup>52</sup> *Application of Secondary Trademark Infringement ISP Liability in France*

Weary of the sale of counterfeit items masquerading as authentic merchandise in online auctions, French fashion powerhouse Louis Vuitton Moët Hennessy ("LVMH") took action against eBay on August 2, 2006, in the Commercial Court of Paris. SA Louis Vuitton Malletier,<sup>53</sup> ("LV Malletier") filed suit against eBay and its subsidiary, eBay International AG (which is organized and existing under the laws of Switzerland).<sup>54</sup> LV Malletier claimed eBay failed to fulfill its duty to ensure its online business did not generate illicit acts to the detriment of LV Malletier, adding that illicit advertisements and sales hosted by eBay fostered acts of infringement that caused LV Malletier to lose approximately 20 million.<sup>55</sup>

LV Malletier argued that eBay circulated advertisements referring to so-called "replicas" or infringing items and that, even though LV Malletier had warned eBay repeatedly since 1999 about these advertisements, eBay refused to take preventative measures, such as forcing sellers to guarantee item authenticity or terminating seller accounts after their first offense.<sup>56</sup> It argued that eBay did not fulfill its commitment to withdraw disputed advertisements and auctions after receiving notification from trademark rights holders and that it did not terminate the accounts of fraudulent operators who were repeat offenders.<sup>57</sup> LV Malletier stressed that eBay's actions in light of its duties amounted to negligence because it failed to implement any effective means to prevent the

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fringement claim on his record, the danger being that users who are falsely accused of infringing several times may lose their right to conduct business on the site.

<sup>52</sup> Tribunal de commerce [T.C.P.] [court of trade] Paris, June 30, 2008, General Docket no. 2006077799, *available at* <http://web20.nixonpeabody.com/np20/np20wiki/PDF%20Library/Ebay1.pdf>.

<sup>53</sup> This is the company within LVMH that designs, manufactures, and markets leather goods and ready-to-wear products under the Louis Vuitton trademark. *Id.* at 1.

<sup>54</sup> eBay Inc. is the parent company of the eBay group. eBay International AG is a subsidiary of eBay Inc. that offers a contact platform that stores sales offers for products and services in order to make them available to the public. *Id.*

<sup>55</sup> This figure is what LV Malletier claimed as damages; it included a compensatory royalty due to eBay's profiting from each sale of infringing items. *Id.* at 2.

<sup>56</sup> *Id.* at 7.

<sup>57</sup> *Id.*

sale of counterfeit items in its auctions and because, by receiving commissions from all of the disputed sales, it consequently fostered illicit trade and derived income from it.<sup>58</sup>

A French statute named *Loi Pour La Confiance Dans L'Économie Numérique* ("LCEN"), which means "confidence in the economy," formed the basis for the litigation over secondary trademark infringement.<sup>59</sup> Both parties focused on Article 6.1.2 of LCEN, which holds "web hosters" (a type of ISP) to limited liability for secondary trademark infringement. The fact that eBay received a commission from each sale, LV Malletier argued, precluded eBay from invoking the "web hoster" safe harbor. Instead, because eBay received a commission, it constituted a "brokerage business," and LV Malletier asserted that such businesses must be held to a heightened duty of care, requiring them to eradicate trademark infringing items offered for sale and avoid contributing to the illicit trade of counterfeit goods.

eBay responded by arguing it fell under the "site hoster" category of Article 6.1.2 of LCEN and was exonerated from any liability because LCEN pins the responsibility of fraudulent acts occurring on eBay to the site's users.<sup>60</sup> It argued that, pursuant to LCEN, the site withdrew any illicit advertisements as soon as it was notified of their presence by a third party and that remedial measures taken pursuant to receiving notice of the LV Malletier claim further evidenced its intention to combat infringement, while balancing the "freedom of expression" of its sellers.<sup>61</sup> Additionally, eBay specified that there was no likelihood of confusion between the authentic Louis Vuitton products and the infringing "Vuitton" products sold on its site<sup>62</sup> and asserted a counterclaim

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<sup>58</sup> LV Malletier's expert calculated that eBay received a commission of 1,602,729 per year from the sale of disputed items, and that because the percentage of infringing products on the site was 90%, the compensatory royalty damage due to LV Malletier from 2001 to 2006 was 7,920,000. The monetary amount for the "image damage" claim was calculated by estimating the income eBay derived from inserting and developing advertisements linked to infringing goods (1,032,462) and multiplying this by four, thus estimating damages for the 2001-06 period at 10,260,000. For "moral damage," the amount claimed was 2,000,000. *Id.* at 8.

<sup>59</sup> Law No. 2004-575 of June 21, 2004, Legifrance, <http://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000000801164&dateTexte=> (last visited Mar. 21, 2010). The law was enacted on June 21, 2004.

<sup>60</sup> Tribunal de commerce [T.C.P.] [court of trade] Paris, June 30, 2008, General Docket no. 2006077799, at 8, *available at* <http://web20.nixonpeabody.com/np20/np20wiki/PDF%20Library/Ebay1.pdf>.

<sup>61</sup> *Id.*

<sup>62</sup> Infringing items, according to the court, "appear[ed] quite obviously"; the auction pages for counterfeit goods either had captions such as "a fine imitation of a famous Louis Vuitton design" or could be easily identified by the suspiciously low price asked for the item and the quantities available from a particular seller. *Id.* at 12.

against LV Malletier amounting to €10 million for image and moral damages allegedly resulting from a LVMH press campaign aiming to answer questions from alarmed sellers and buyers aware of the LVMH suit.

On June 30, 2008, the French court ruled in favor of LV Malletier. It recognized that the Louis Vuitton mark enjoys “exceptional worldwide” recognition as a result of “decades of considerable effort.”<sup>63</sup> Most significantly, it found that eBay is a brokerage site and that it cannot benefit from “technical intermediary” status under Article 6 of LCEN, because it does not restrict its business to hosting alone; rather, it derives profits from engaging in commercial activities.<sup>64</sup> The court stated, “eBay acts mainly as a broker and offers a service which, by its very nature, does not imply lack of knowledge and control of the information transmitted on its sites . . . . [It] is thus subject, just like any commercial player, to the general system of civil liability.”<sup>65</sup>

The court deemed eBay’s actions to be tortious and recognized that eBay had defaulted on its obligation to ensure its business did not generate any illegal transactions. It held that, by allowing auctions with captions that describe items as “fine imitation[s],” auctions priced suspiciously low, and auctions by sellers with suspiciously large quantities of items, eBay did not satisfy its duty of care.<sup>66</sup> The court further denounced eBay’s “deliberate[] refus[al]” to implement measures to control the presence of infringing items on its site, such as cooperating with LVMH when alerted of illicit advertisements, terminating seller accounts after first offenses, and requiring sellers to certify item authenticity (via purchase invoice or certificate of authenticity) upon request.<sup>67</sup> The fact that eBay had taken measures after the initiation of the suit, the court stated, proved that the site had witnessed its past negligence and was aware of its liability.<sup>68</sup>

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<sup>63</sup> *Id.* at 9.

<sup>64</sup> *Id.*

<sup>65</sup> *Id.* at 11. The court noted that eBay

has a high-performance sales brokering service and is a leader in electronic commerce [and] that its hosting and brokering services are indivisible, since [it] offers an advertisement storage service for the sole purpose of acting as a broker, that is, as an intermediary between sellers and buyers, and of receiving the corresponding commission . . . .

*Id.*

<sup>66</sup> *Id.* at 12.

<sup>67</sup> *Id.*

<sup>68</sup> Remedial actions may be considered as evidence of liability in France. The court ruled that LV Malletier was entitled to 7,920,000 as a compensatory royalty for its rights, 10,260,000 to compensate for the expenses LV Malletier must incur “to neutralize the damage to its image” caused by eBay, including negative publicity and deterioration of the image of authentic Louis Vuitton products, and 1,000,000 to compensate LV Malletier

B. *Tiffany Inc. v. eBay, Inc.*:<sup>69</sup> *Application of Secondary Trademark Infringement (ISP) Liability in the United States*

The question of who should bear the burden of policing trademarks on eBay was posed on U.S. soil before the initiating claims of *LVMH v. eBay*. Tiffany Inc. (“Tiffany”), known as “the famous jeweler with the coveted blue boxes,”<sup>70</sup> is a luxury brand that inspires *oohs* and *aahs* from jewelry aficionados – both for the divine quality of its confectioned pieces and the almost sacrilegious price tags attached to them. For decades prior to eBay’s meteoric rise, those seeking to acquire a piece of Tiffany decadence had to interact directly with the brand’s Fifth Avenue headquarters. In an attempt to supervise Internet resale of its items, Tiffany conducted a survey that revealed that 73% of silver “Tiffany” items sold on eBay were counterfeit, whereas 5% were authentic.<sup>71</sup> Tiffany issued several cease and desist letters, asking eBay to ban sellers from listing more than five Tiffany items at the same time; ban the sale of silver “Tiffany” jewelry because it was mostly counterfeit; ban the sale of any “Tiffany” items described as “counterfeit” or “inspired by Tiffany”; not advertise the sale of any “Tiffany” items; and remove sponsored links to “Tiffany” from the search engines.<sup>72</sup> When eBay refused to comply, Tiffany brought suit against it on the grounds that the site is liable for direct and contributory trademark infringement, false advertising, direct and contributory trademark dilution, and unfair competition because the website provided the forum for the sale of hundreds of thousands of counterfeit silver jewelry items from 2003 to 2006. At trial, Tiffany argued that it had warned eBay of the presence of infringing Tiffany items on its site and that such notice triggered eBay’s duty to investigate and control the illegal activities of its sellers.<sup>73</sup> eBay contended that it is not the site’s duty to be on the lookout, i.e., monitoring auctions for counterfeit items, and that

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for moral damage caused by the sale of counterfeit items on the site, which injured the “design and quality efforts which set off the products marketed by [LV Malletier].” *Id.* at 14-15. The Court also granted LV Malletier’s request for publication of the judgment in three newspapers of its choice. *Id.* at 16.

<sup>69</sup> *Tiffany Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463 (S.D.N.Y. 2008).

<sup>70</sup> *Id.* at 469.

<sup>71</sup> *Id.* at 482. Based on the Plaintiff’s Pretrial Memorandum, the remaining 22% of the goods inspected by Tiffany experts were classified as “unknown.” Presumably, this is due to the impossibility of physically inspecting the auctioned items and the difficulty of visually inspecting tell-tale markings on items’ photographs, which likely precluded classifying questionable items as either authentic or counterfeit with necessary certainty.

<sup>72</sup> *Id.*

<sup>73</sup> Specifically, Tiffany argued that eBay had the obligation to suspend sellers upon learning of Tiffany’s belief that such sellers were auctioning infringing goods. *Id.* at 470. Tiffany had originally pursued enforcement actions for counterfeit items with individual sellers, but the overwhelming amount of illicit listings on the site led it to address the problem with eBay directly. *Id.* at 481.



this burden rests solely on the trademark owner. eBay further asserted that once a trademark owner alerted it of potentially infringing content via its Verified Rights Owners Program (VeRO), the listing for the item was immediately removed.

After a bench trial, the court held for eBay. It recognized Tiffany's status as "a purveyor of high quality and luxury goods" and its Tiffany marks as "indisputably famous, and . . . a valuable asset" owned by the company, whose quality and integrity are critical to Tiffany's success.<sup>74</sup> Yet, it responded to Tiffany's claims of contributory trademark infringement by applying the *Inwood Laboratories* standard, which is "whether eBay continued to supply its services to sellers when it knew or had reason to know of infringement by those sellers."<sup>75</sup> The court found that eBay had appropriately removed listings once it was put on notice that items might be infringing. It defined eBay's role as one that connects buyers and sellers for the purposes of enabling transactions, but it noted that eBay never retained physical possession of the goods sold on its site and that it did not sell the items itself.<sup>76</sup> Yet, the court also had to recognize that eBay's revenue arose from the successful completion of sales between sellers and buyers on the site.<sup>77</sup> Nonetheless, the court found that eBay had advised sellers to "take advantage" of the demand for luxury brand items that buyers were searching for on the site – including highly-searched keywords such as "Tiffany" and "Tiffany & Co."<sup>78</sup> It concluded that eBay had conducted promotions to increase the bidding and the sales of luxury brands, including Tiffany, because the site "considered itself to be a competitor of Tiffany" and regarded itself as the leading provider of "value" prices of the brand's items.<sup>79</sup>

Most importantly, the court reasoned that eBay had appropriately refused to monitor and remove listings before such listings

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<sup>74</sup> *Id.* at 471.

<sup>75</sup> *Id.* at 469; see *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

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

<sup>77</sup> In fact, because revenue depends on the completion of a sale, eBay actively participates in fostering the increase of sales by providing workshops, consultants, and special programs and features to aid its sellers expand their business. Elite sellers even have the opportunity to become "PowerSellers" and have access to more prestigious and advanced resources. Examples of this include business-education seminars, marketing advice for creating attractive listings, "Advanced Selling" programs that help sellers identify so-called "hot sales opportunities," personalized calls with "expert" consultants, and even a "Main Street Program," designed to inform sellers of the regulations and legislation that might affect eBay and sellers' businesses and to encourage such sellers to lobby government officials about their preferences. *Id.* at 475-76.

<sup>78</sup> *Id.* at 479-80.

<sup>79</sup> *Id.* at 480. According to a manager at eBay, the site earned \$4.1 million from sales stemming from the auctioning of items with the "Tiffany" name on the listing title, within the April 2000 through June 2004 period.

became public. According to the court, “generalized knowledge” of counterfeit items being sold on eBay was not enough to trigger a duty, and more specific knowledge as to particular items and sellers is needed before the auction site is required to take action.<sup>80</sup> Noticeably aware of the vague standards applied to cases of secondary trademark infringement in the ISP context, but not yet unwilling to change them, the court concluded that the rise of Internet commerce and trademark infringement could prompt policymakers to recognize the current law to be inadequate in protecting trademark rights owners.<sup>81</sup>

Despite these findings, the court ultimately held that eBay was immune from secondary trademark infringement liability and greatly praised the site’s anti-counterfeiting initiatives, most notably, its VeRO Program.<sup>82</sup> Tiffany promptly appealed, and arguments on behalf of both parties were made in front of a three-judge panel in the Second Circuit on July 16, 2009.<sup>83</sup>

On April 1, 2010, the Second Circuit issued its appellate decision, affirming the district court’s findings on the trademark infringement claims.<sup>84</sup> Reviewing the district court’s conclusions of law de novo,<sup>85</sup> the Second Circuit swiftly agreed with the lower court’s finding that eBay not be held liable for direct trademark infringement,<sup>86</sup> and not-so-swiftly applied contributory trademark infringement doctrine to reach the same conclusions as the district court.<sup>87</sup>

#### IV. PROPOSAL: A NEW CONTRIBUTORY TRADEMARK INFRINGEMENT

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<sup>80</sup> *Id.* at 508.

<sup>81</sup> It is evident from the decision that Tiffany, via letter dated July 3, 2008, asked the court to recognize the *LVMH* decision that was issued June 30, 2004 and requested that the court give preclusive effect to the case’s factual determinations. The decision mentions that a conference regarding the request was held with the court on July 8, 2008, and Tiffany then withdrew its request. The reasons for withdrawal are unknown. *Id.* at 471.

<sup>82</sup> With respect to Tiffany’s other three claims (false advertising, unfair competition, and direct and contributory trademark dilution), the court held that eBay’s use of the Tiffany mark in advertising fell under protected nominative fair use, that Tiffany had not met its burden in proving unfair competition, and that Tiffany had not proven that eBay’s use of its Tiffany mark would cause dilution (and that even if it had proven this, the use of the marks by eBay was protected by nominative fair use). *Id.* at 463-64.

<sup>83</sup> *Tiffany Inc., v. eBay Inc.*, No. 08-3947-cv, 2010 WL 1236315 (2d Cir. Apr. 1, 2010).

<sup>84</sup> The appellate court also affirmed the district court’s holdings with respect to Tiffany’s direct trademark infringement claim, and Tiffany’s claims of direct and contributory trademark dilution. It remanded the false advertising claim to the district court, suggesting that eBay may have misled or confused consumers by “affirmatively advertis[ing] the goods sold through its site as Tiffany merchandise,” when in fact some of these goods were counterfeit. *Id.* at \*16-17.

<sup>85</sup> *Id.* at \*6.

<sup>86</sup> *Id.* at \*8.

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

## STANDARD FOR EBAY AND VERO MODIFICATIONS

Considering the fact that secondary trademark infringement liability is substantially undeveloped and that recent court decisions have done little to define a consistently applicable standard for ISP liability, this Note proposes that certain changes to both the regulation of counterfeit activity by Internet marketplaces such as eBay, as well as to existing judicial criteria for determining secondary trademark infringement liability for such sites, are merited. While Congress has yet to pass a trademark counterpart to the DMCA, courts should extend tort agency principles to hold online “flea markets” to a higher duty of care and prevention. In particular, the application of a higher standard to eBay makes sense under *Inwood Laboratories*, *Hard Rock Cafe*, and other cases regarding the secondary liability of physical (as opposed to virtual) flea markets. Furthermore, the fact that eBay is a virtual flea market, thus providing the means to make illicit transactions easier, speedy, and anonymous, justifies holding it to a higher duty of care in light of the serious implications of counterfeiting practices. If eBay is in a good position to curtail the proliferation of counterfeit goods in the international marketplace, and it has the resources to do so without sustaining great burden, then it should certainly do so.

A. *Criticism Against a More Stringent ISP Standard*

The Supreme Court has stated that secondary trademark infringement liability should “be more narrowly drawn than secondary liability for copyright infringement,”<sup>88</sup> based on the “fundamental differences” between copyright and trademark law. Critics in favor of a looser standard for ISP secondary liability argue that ISPs are too detached from instances of infringement and have no opportunities to know or control what users introduce to their websites. Even propositions for a higher standard applied to ISPs involved in commerce, particularly those offering virtual flea markets vulnerable to exploitation by counterfeiters, have been met with rousing disapproval. Some argue that holding online auction houses and flea markets liable will not only harm consumers, but also fail to relieve brand owners suffering from devalued brands.<sup>89</sup>

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<sup>88</sup> *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992) (citing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984)).

<sup>89</sup> Emily Favre, Note, *Online Auction Houses: How Trademark Owners Protect Brand Integrity Against Counterfeiting*, 15 J.L. & POL’Y 165, 179 (2007) (“[This Note] will argue why holding online auction houses liable for secondary trademark infringement will ultimately do

This is so, they claim, because it is unreasonable for sites like eBay to be solely responsible for protecting brands:

It would require an overwhelming and unrealistic burden on online auction houses to monitor millions of listings. Additionally, online auction houses are not sufficiently aware of the nuances of each trademarked brand in order to properly identify a counterfeit good. Training employees at each online auction site would be expensive and inefficient.<sup>90</sup>

Others assert that by pursuing eBay and seeking to hold it responsible, brand owners are missing an opportunity to strategically use the overwhelming presence of counterfeit versions of their goods on the site to make the market for authentic items stronger. As one critic states:

We are at the very early stages of this new auction culture, and have much to learn about how it will affect our lives and businesses. While there are many challenges to overcome, there are also opportunities to leverage. Trying to thwart the auction market without examining the broader consequences makes no sense, and ignoring the challenges and opportunities will only risk losing customers, revenues, and brand value in the future.<sup>91</sup>

B. *Why It Matters: The Far-Reaching Implications of Trademark Infringement*

In recent years, counterfeits have flooded the market. Today, imitations of brand products are seen in almost every category of goods, including food and drinks, tobacco, car parts, mobile phones, software, and medicine.<sup>92</sup> Improvements in technology and production techniques have rendered such imitations perilously indistinguishable from the real thing, making it more difficult for the buyer (and maybe even the brand owner) to ascertain the authenticity of a particular item.<sup>93</sup>

International companies, unable to compete with cheap black market products, continue to lose revenue. For example, in China, considered the “international capital of counterfeiting” with at least \$16 billion a year in counterfeit goods sold within the country, Procter & Gamble loses an estimated 10-15% of its reve-

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damage to consumers, without providing relief to trademark owners combating devalued brands due to counterfeiting.”).

<sup>90</sup> *Id.* at 199.

<sup>91</sup> Dan Nissanoff, *Op-Ed: Tiffany Actually Loses If It Wins eBay Lawsuit*, AuctionBytes.com, May 21, 2006, <http://www.auctionbytes.com/cab/abu/y206/m05/abu0167/s05>.

<sup>92</sup> MOISES NAIM, *ILLCIT: HOW SMUGGLERS, TRAFFICKERS AND COPYCATS ARE HIJACKING THE GLOBAL ECONOMY* 117-24 (2005).

<sup>93</sup> *Imitating Property*, *supra* note 3.

nue to counterfeit products.<sup>94</sup> Now that illicit trade networks have made counterfeiting global, fake items produced in other countries, such as software in Russia, cigarettes in Paraguay, and imitation luxury goods in Milan, Italy, are estimated to cost American industries \$200 billion to \$290 billion a year in lost revenue.<sup>95</sup> In 2004, the Office of the Comptroller, part of the U.S. Treasury Department, issued a report stating that approximately \$23 billion a year is spent by consumers purchasing counterfeit goods in New York City, which amounts to a \$34 billion loss.<sup>96</sup> Internationally, the Comptroller estimates that 6% of worldwide trade is counterfeit.<sup>97</sup>

In addition to loss of revenue, brands are also faced with the threat of losing value in the eyes of the consuming public. Individuals might lose interest in a previously coveted luxury item if they are aware that its availability in the black market now makes it less exclusive or if they are confused by a poor quality counterfeit and believe the brand's quality is in decline. Loss of market demand results in the decline of a particular item's market price, an additional burden for the economically imperiled brand, which must then incur greater costs to curb counterfeiting even though sales and market shares are lost to the black market.<sup>98</sup>

The growing demand for counterfeit goods, combined with the ease of producing fake goods in exchange for a sizeable profit, has apparently made counterfeiting a lucrative source of funding for organized crime groups and terrorist organizations. In 2003, the Secretary General of INTERPOL presented a report on the links between intellectual property crime and terrorist financing before the U.S. House Committee on International Relations.<sup>99</sup> It established that Northern Ireland paramilitary groups engage in

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<sup>94</sup> *Id.*; see also OFFICE OF THE COMPTROLLER OF THE CITY OF NEW YORK, BOOTLEG BILLIONS: THE IMPACT OF THE COUNTERFEIT GOODS TRADE ON NEW YORK CITY (2004), available at <http://www.comptroller.nyc.gov/bureaus/bud/04reports/Bootleg-Billions.pdf> [hereinafter BOOTLEG BILLIONS].

<sup>95</sup> *Imitating Property*, *supra* note 3 (citing 2003 Special 301 Review, published by the U.S. Trade Representative).

<sup>96</sup> This loss affects the city's collection of sales taxes, business income taxes, and personal income taxes, which, according to the Comptroller "deprives City residents of critical services – such as education – and opportunities to fund salaries for additional police and fire personnel." BOOTLEG BILLIONS, *supra* note 94.

<sup>97</sup> Using what the Comptroller calls a "conservative estimate," the world economy loss in 2003 was approximately \$456 billion. *Id.*

<sup>98</sup> See DAVID M. HOPKINS, ET AL., COUNTERFEITING EXPOSED: HOW TO PROTECT YOUR BRAND AND MARKET SHARE 26 (1st ed. 2003).

<sup>99</sup> The report is available on INTERPOL's website. See The Links Between Intellectual Property Crime and Terrorist Financing, available at <http://www.interpol.int/Public/ICPO/speeches/SG20030716.asp> (last visited Mar. 23, 2010).

various intellectual property crimes, from “control[ing] or invest[ing] in [the] manufacturing or fabrication [of counterfeit goods] to taxing the market stalls where counterfeit goods are sold.”<sup>100</sup> Indirect involvement in intellectual property crimes, such as the remission of funds obtained from the sale of fake goods to terrorist groups, is often the case with organizations such as Hiz-bullah.<sup>101</sup> The link between counterfeit goods and terrorist groups, although not a new subject of investigation,<sup>102</sup> is quickly becoming the focus of international crime-fighting.

The Internet has proven to be incredibly useful to counterfeiters, who take advantage of free information to determine which goods are in high demand and will make good copies – all “with ease and relative anonymity.”<sup>103</sup> The wave of fake luxury goods on eBay has caused countless problems for those who do not wish to partake in any illicit transactions.

Legitimate eBay sellers who pay licensing fees to sell copyrighted or trademarked items experience a loss in business due to counterfeit versions of the same items that are sold for less. Also, the pervasiveness of counterfeit items on the site make potential buyers wary of the authenticity of any auctioned goods, driving serious purchasers away from the site. Members who inform the site of the presence of counterfeit items are met with similar responses from eBay: that it is not eBay’s responsibility to monitor auctions for counterfeit goods, that there is not enough staff to monitor the auctions, and that only registered VeRO members can file NOCI claims.<sup>104</sup>

Finally, eBay buyers seeking authentic items on the site might be dissuaded from completing a purchase due to suspicions of counterfeiting, and many lack the experience or knowledge to ex-

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<sup>100</sup> *Id.* INTERPOL also cited as examples of terrorist groups’ direct involvement in the black market of fake goods the sales of counterfeit goods in Kosovo to benefit local ethnic-Albanian extremist groups and counterfeit CD manufacturing plants in Russia run by Chechen organized crime.

<sup>101</sup> *Id.* For examples of indirect involvement by terrorist groups, the report lists that portions of money earned from the sale of counterfeit goods are passed along as funding for North African radical fundamentalist terrorist networks located in Europe, as well as Al-Qaeda and its affiliated groups.

<sup>102</sup> See Roslyn A. Mazer, *From T-Shirts to Terrorism: That Fake Nike Swoosh May Be Helping to Fund Bin Laden’s Network*, WASH. POST, Sept. 30, 2001, at B2. (“According to 1995 testimony before the Senate Judiciary Committee, New York’s Joint Terrorist Task Force had reason to believe that high-level players who controlled a counterfeit T-shirt ring were using the proceeds to support terrorist groups as the one that bombed the World Trade Center in 1993.”)

<sup>103</sup> *Imitating Property*, *supra* note 3.

<sup>104</sup> Blame eBay!, <http://www.pugster.org/blame-ebay/> (last visited Apr. 15, 2010). This site seems to be down at the time of publication.

amine whether a particular good is authentic.<sup>105</sup> Advertising on the listings has proven to be untrustworthy, since auction labels such as “authentic,” “100% genuine,” and “authorized seller” are not pre-screened by eBay to guarantee reliable transactions.

C. *How the French Got It Right: Why a More Stringent Standard Makes Sense*

While a brand’s use of a secondary market to increase market strength is certainly a creative way to develop “exciting opportunities” for the trademark owner, many critics fail to comprehend the serious implications of the overwhelming presence of black market trade online and the exchange of counterfeit products. A proper solution to halt the sale of counterfeit goods should focus more on the illicit and criminal aspects of the practice, as opposed to the ways brand owners may derive profit as an indirect result of such transactions. Furthermore, turning a blind eye to the sale of counterfeit goods for any reason should not be considered a valid justification for not taking action to remediate the situation by using whatever resources are available – especially when an entity’s products or services are implicated in the exchange because the brand owner’s goods are falsified and/or because eBay’s site is used to facilitate such sales.

This Note does not propose that eBay should have sole responsibility when instances of trademark infringement arise on its site. A trademark right is earned through the creation and maintenance of a recognizable brand and its associated goodwill. It is the brand owner’s responsibility to care for, protect, and defend its trademark rights. Yet, a brand owner should expect the cooperation of outside parties who, although not intending to harm the trademark, offer the means by which such harm ultimately occurs. The expectation should be higher still when the outside party has access to information that could prevent future harm, as well as the ability to control the possibility of any harm occurring in the first place. Therefore, if eBay is able to monitor its users, know which ones have infringed in the past, and use this information to *fully cooperate* with brand owners in the fight against counterfeiting, should it not have a duty to do so? While there is no question that eBay’s VeRO program is designed with the intent to

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<sup>105</sup> The problem is not only the unlikelihood that a buyer will invest resources into thoroughly researching the characteristics of authentic goods, but also the constraints placed on detailed examination of the goods due to them being represented in pictures that might not be accurate or representative of the items auctioned. Furthermore, innovations in counterfeit production such as creation of so-called “supercopies” make distinguishing real products from fakes exceedingly difficult. For more, see NAIM, *supra* note 92, at 117-19.

cooperate with brand owners, litigation evidences the mounting frustration with the extent and efficacy of the site's cooperation.

eBay's VeRO program is modeled after the DMCA Safe Harbor provisions. Such provisions were enacted in 1998 to provide certain categories of ISPs with immunity from secondary copyright infringement liability. So long as an ISP complies with the DMCA's requirements, including expeditious removal of allegedly infringing material and cooperation with copyright owners' requests for information regarding actual infringers, it is insulated from secondary infringement liability. The problem with VeRO is that it is not tailored to respond to trademark infringement claims. There is no Lanham Act provision equivalent to the DMCA and no equivalent legislation pertaining to possible secondary trademark infringement by ISPs.

Creating a safe harbor provision for ISPs under trademark law would be the easiest way to delineate an ISP's duty to cooperate with brand owners. Using it, websites and trademark rights owners would have settled expectations of their own, and each other's, roles in curtailing counterfeiting. It would effectively reallocate the resources eBay is currently using to defend itself in numerous lawsuits to cooperate and work with rights owners to police brands. Also, it would serve as a compelling incentive for ISPs and trademark owners to work together to detect and deal with infringers.<sup>106</sup>

In the meantime, the application of secondary trademark infringement liability principles to sites like eBay, differentiated from other types of ISPs due to the fact that a substantial profit is generated from each sale of counterfeit goods, still remains unsettled. Furthermore, the *LVMH* decision, using French tort law principles, could likely influence the American courts' interpretation and application of agency tort law to secondary trademark infringement cases. Under such a view, eBay would likely be found liable for secondary trademark infringement for many of the same reasons the Commercial Court of Paris determined liability, i.e., eBay has control over its users because it retains the ability to end auctions and sales at its discretion, it receives a financial benefit

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<sup>106</sup> Favre, *supra* note 89. The note states:

Creating a safe harbor against secondary trademark liability would motivate online auction houses to create reporting infrastructures similar to eBay's VeRO program and allow them to reallocate resources from defending lawsuits to working with trademark owners to protect against counterfeiting. The safe harbor provision under the Lanham Act, like the DMCA, would provide strong incentives for service providers and trademark owners to partner in detecting and dealing with infringers.

*Id.* at 201.



for any illicit commercial transaction occurring on its site, and, aware of many instances where its sellers offer counterfeit goods, knows or has reason to know that such activity commonly takes place on its site. A French court of law has already found that eBay's actions are equivalent to willful blindness, so it is not implausible that American courts may follow suit.

D. *Why the Americans Got It Wrong: What eBay Can (and Should) Do*

In *Tiffany Inc.*, the U.S. District Court in New York explained that the standard for contributory trademark infringement is “whether eBay continued to supply its services to sellers when it knew or had reason to know of infringement by those sellers.”<sup>107</sup> It maintained that the law requires that eBay have “more specific knowledge” regarding which items are infringing and which sellers list those items before imputing a duty to take action.<sup>108</sup> Upon appeal, the Second Circuit affirmed this notion. However, the appellate court struggled to reach its conclusions of law, perhaps alerting Congress that attempts to reform contributory trademark infringement law, especially in the Internet context, should come from the legislature and not the judiciary.

Acknowledging “the paucity of case law to guide [it]” on the contributory trademark liability issue,<sup>109</sup> the Second Circuit embarked on the doctrinal analysis of *Inwood*.<sup>110</sup> The court re-evaluated Tiffany's claims that eBay, despite its knowledge of the widespread presence of counterfeit Tiffany goods, continued to make its site and services available to infringers.<sup>111</sup> The court rejected Tiffany's argument that eBay should be found liable if “all of the knowledge, when taken together, puts [eBay] on notice that there is a substantial problem of trademark infringement. . . . [and] it fails to act.”<sup>112</sup> It agreed with the district court's finding that an ISP must have “more than a general knowledge or reason to know” that counterfeit goods are being sold through its service before contributory liability is to attach.<sup>113</sup>

The problem with this reasoning is that it does not recognize eBay's ability to develop the requisite specific knowledge after encountering offenders and identifying brands that are at high risk of being imitated. Thus, the relationship between generalized knowledge and specific knowledge is this: eBay is not required to

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<sup>107</sup> *Tiffany Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 469 (S.D.N.Y. 2008).

<sup>108</sup> *Id.* at 470.

<sup>109</sup> *Tiffany Inc.*, 2010 WL 1236315, at \*8.

<sup>110</sup> *Id.*

<sup>111</sup> *Id.* at \*10.

<sup>112</sup> *Id.* at \*11 (citing Appellants' Brief, p. 28-29).

<sup>113</sup> *Id.* at \*11.

act upon a general awareness that counterfeit items flood its marketplace, but it *is* responsible for taking action once this general awareness gives it specific knowledge as to which users are most likely to infringe and which items are most likely to be counterfeits.

Both Tiffany Inc. decisions limit requisite knowledge to when Tiffany alerted eBay of infringing items, thus requiring eBay to eliminate the listing. However, the conclusion reached is confusing. The district court establishes that the issue is whether the site “knew or had reason to know” that certain sellers were using the site’s services to traffic in counterfeit jewelry.<sup>114</sup> The appellate court asks whether there is “[s]ome contemporary knowledge of which particular listings are infringing or will infringe in the future...”<sup>115</sup> The answer with respect to eBay is clearly “yes” – after being alerted of previous instances of infringing activity involving certain sellers and items, the site had reason to know that these sellers were using its services to traffic in certain counterfeit items. Furthermore, this knowledge is sufficient to alert eBay of particular sellers engaged in the sale of counterfeit goods (prompting close scrutiny of those sellers’ other listings, if any) and puts eBay on notice that these sellers are likely to infringe in the future. To conclude that eBay lacked specific knowledge in spite of its suspicion that illicit activity was occurring is in conflict with the well-settled reasoning of *Hard Rock Cafe*, which made it clear that “willful blindness [which occurs when the person “suspect[s] wrongdoing and deliberately fail[s] to investigate”] is equivalent to actual knowledge for purposes of the Lanham Act.”<sup>116</sup>

It is difficult to ignore that eBay’s business activities are analogous to the swap-meet operators in *Hard Rock Cafe* and *Fonovisa*. At trial, Tiffany was able to present substantial evidence regarding eBay’s sales, planning and marketing efforts, and coordination with sellers to further eBay’s marketing and sales goals. In *Hard Rock Cafe*, the defendant had the opportunity to observe that the goods were being sold for a very cheap price yet neglected to ask individual vendors whether their goods might be counterfeit. The court found that this amounted to willful blindness and imposed liability. In *Fonovisa*, a swap-market operator was found to have constructive knowledge of infringement, as counterfeit goods had been seized several months prior to the suit, an investigator hired by the operator saw that some vendors were selling counter-

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<sup>114</sup> *Tiffany Inc.*, 576 F. Supp. 2d. 463, 470 (S.D.N.Y. 2008).

<sup>115</sup> *Tiffany Inc.*, 2010 WL 1236315, at \*8.

<sup>116</sup> *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992).

feit music tapes, and, after the complaint was served, the investigator revisited the site and found many vendors selling “counterfeits at tellingly low prices.”<sup>117</sup> Much like the swap-meet operator defendant in *Fonovisa*, eBay “materially contribute[s]” to the trademark infringing activity by providing “services” virtually analogous to “the provision of space, utilities, parking, advertising, plumbing, and customers” to the vendors.<sup>118</sup> The *Fonovisa* court held that the operator could thus be held liable for contributory infringement because “it would be difficult for the infringing activity to take place in the massive quantities alleged without the support services provided by the swap meet.”<sup>119</sup>

What is most apparent – not to mention distressing – is the struggle of the New York courts as they attempt to apply well-settled contributory trademark infringement principles to what is arguably the most celebrated and successful online flea market of all time. Indeed, the Second Circuit exhibits extreme caution with its application of contributory liability case law to the issues at hand. The court appears to lack confidence from time to time, stating that it has only addressed contributory trademark infringement in two other decisions – “and even then in little detail.”<sup>120</sup> It makes no effort to hide that fact that contributory trademark infringement law is “ill-defined” and appears to preface its discussion with the disclaimer that it is “apparently the first [court] to consider [the law’s] application to an online marketplace.”<sup>121</sup>

For example, the Second Circuit’s analysis of what constitutes knowledge under the *Inwood* test is not in accord with the test set forth in *Inwood Laboratories*,<sup>122</sup> where the court stated that contributory trademark liability is found when a plaintiff shows that the defendant continued to produce or supply its product *while knowing or having reason to know* the recipient is engaging in trademark infringement. In *Tiffany Inc.*, eBay continued to provide its online brokerage services to users while having reason to know that certain users were using the services to engage in trademark infringement. The appellate court explicitly states that the *Inwood* test governs, but then declines to apply the “knows or has reason to know” prong, citing the *Inwood* Court’s decision to

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<sup>117</sup> *Fonovisa, Inc. v. Cherry Auction, Inc.*, 847 F. Supp. 1492, 1495 (E.D. Cal. 1994).

<sup>118</sup> *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996).

<sup>119</sup> *Id.*

<sup>120</sup> *Tiffany Inc.*, 2010 WL 1236315, at \*9. The decisions stem from two appellate reviews of the same case: *Polymer Tech. Corp. v. Minran*, 975 F.2d 58, 64 (2d Cir. 1992) and *Polymer Tech. Corp. v. Minran*, 37 F.3d 74, 81 (2d Cir. 1994).

<sup>121</sup> *Id.*

<sup>122</sup> *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982) (emphasis added).

only apply the inducement prong of the test to the facts before it.<sup>123</sup> What the Second Circuit fails to realize, or perhaps fails to mention, is that the Court did not address the “knows or has reason to know” prong solely because the lower court had established that the defendants “[had] not continued to provide drugs to retailers whom they knew or should have known were engaging in trademark infringement,” and the Court of Appeals had not discussed this finding upon its appellate review.<sup>124</sup> Instead of applying the test as enunciated by the Supreme Court, the Second Circuit declares that *Inwood* does not establish the contours of the knowledge prong, and instead embraces the district court’s narrow interpretation of the standard.<sup>125</sup> To support its decision, the Second Circuit uses the Supreme Court’s discussion of the *Inwood* test in *Sony Corporation of America v. Universal City Studios, Inc.*<sup>126</sup> – a copyright case. Focusing on *Sony* dicta, the Second Circuit explains that *Inwood* requires knowledge of “identified individuals” engaging in infringing conduct: in *Sony*, knowledge that some portion of Sony VCR purchasers used the VCRs to infringe copyrights was not enough to support contributory liability.<sup>127</sup> Apparently unconvinced by its tremulous application of *Sony* dicta to *Tiffany, Inc.*, the Second Circuit completes the analysis by stating that the Supreme Court provides no other discussions of the knowledge prong.<sup>128</sup> The court later states, as if to defend itself: “[O]bviously, we are interpreting the law and applying it to the facts of this case. We could not, even if we thought it wise, revise the existing law in order to better serve one party’s interests at the expense of the other’s.”<sup>129</sup> Finally, it sums up its willful blindness analysis in a few short paragraphs, pointing out that whereas eBay conceded that it knew “as a general matter” that infringing Tiffany goods were sold through its website, this is insufficient knowledge under *Inwood*, and therefore, the district court’s finding was not clearly erroneous.<sup>130</sup> Curiously, this conclusion comes a few sentences after the court cites to *Hard Rock Cafe* (“To be willfully blind, a person must *suspect wrongdoing* and deliberately fail to investigate”)<sup>131</sup> and is reached without considering *Lockheed’s* application of this standard in the Internet context.

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<sup>123</sup> *Tiffany Inc.*, 2010 WL 1236315 at \*11.

<sup>124</sup> *Id.* (citing *Inwood Labs.*, at 852-59).

<sup>125</sup> *Id.*

<sup>126</sup> 464 U.S. 417 (1984).

<sup>127</sup> *Tiffany Inc.*, 2010 WL 1236315 at \*12.

<sup>128</sup> *Id.*

<sup>129</sup> *Id.* at \*13.

<sup>130</sup> *Id.*

<sup>131</sup> *Id.* (citing *Hard Rock Cafe*, 955 F.2d 1143, 1149 (7th Cir. 1992)).

Perhaps most telling in the Second Circuit's decision is its remand to the district court of Tiffany's false advertising claim. The court recognizes that eBay advertised the sale of Tiffany goods on its website, despite its "generalized knowledge that Tiffany products sold on eBay were often counterfeit."<sup>132</sup> It states that while eBay maintained unspecified knowledge as to which listings offered counterfeit goods, this does not exempt eBay from potential liability for misleading customers insofar as its advertisements "implied the genuineness of Tiffany goods" on its site.<sup>133</sup> The fact that eBay affirmatively advertised Tiffany goods offered through its services as genuine and authentic is problematic to the court, who would rather see disclaimers appearing on the website than to allow the site to imply its goods are authentic "when in fact . . . a sizeable proportion of them are not."<sup>134</sup> It is too soon to tell, but the false advertising claim could result in the requirement that eBay post visible disclaimers on its site's advertisements for luxury goods such as Tiffany's. This comparatively slight slap-on-the-hand could very well be the Second Circuit's way of meting out some form of punishment upon eBay, while skirting the contributory liability issues. In the future, eBay might lose out on high fees generated by sales to discriminating buyers seeking guaranteed authentic items – and that loss may be enough of an incentive to create policing measures to guarantee items sold on its site are genuine.

Despite the *Tiffany, Inc.* decision, it cannot be easily disputed that eBay assists and facilitates sellers in their efforts to sell counterfeit Tiffany goods. Considering its many programs encouraging the sale of luxury goods, it can be said that eBay is more actively involved in the sale of counterfeit Tiffany goods than are the flea market operators that the courts have held liable for contributory infringement. In addition, more than merely functioning as an online classifieds section (which is how eBay seemingly characterizes itself), eBay's marketplace puts the buyer at greater risk because essentially anonymous sellers receive payment before the buyer receives or even physically inspects the purchased merchandise. Finally, under eBay's current practices, unless the trademark owner files a claim with the site to end a suspicious auction, the listing remains available for bidding, and eBay shares in the sales proceeds, regardless of whether the item is genuine or not. By virtue of its knowledge and involvement in the sale of the goods, eBay has an independent obligation to prevent the sale of

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<sup>132</sup> *Id.* at \*16 (citing 576 F. Supp. 2d. 470, 520-21 (S.D.N.Y. 2008)).

<sup>133</sup> *Id.* at \*17.

<sup>134</sup> *Id.*

the counterfeit goods.

The fact that the *Tiffany* district court asks Congress to develop more stringent laws in the wake of ISP involvement in secondary trademark liability, should it find current application of law to the particular area of ISP liability unsatisfactory, evidences the courts' deference to lawmakers in addressing this emerging and important issue. Despite this deferential remark, the decision goes so far as to show why eBay's receipt of financial benefits from each user distinguishes the site from other ISPs. The Second Circuit also mentions, via footnote, eBay's special financial situation: "[W]e appreciate the argument that insofar as eBay receives revenue from undetected counterfeit listings and sales through the fees it charges, it has an incentive to permit such listings and sales to continue."<sup>135</sup> Keeping eBay's convenient services available to the public is important, but it is impossible to ignore the potential power the site may hold to help eradicate the presence of counterfeit items from the global market. Whereas the basic tenets of trademark law rightly require the brand owners to police their marks, the ramifications of the counterfeit plague and eBay's monetary gain from such illicit activities calls for a heightened duty of care.

By forcing eBay to monitor and remove items that luxury brands have identified as likely to be counterfeit, either based on prior experience with a particular seller, or on other indicia, such as ostensibly brand-new authentic goods being sold at a comparatively lower price, the site would be able to demonstrate its good faith interest in maintaining only lawful activities in its community. This new approach appropriately balances both the luxury brands' and eBay's responsibility to curb violation of trademark rights. Also, it effectively responds to eBay customers' concerns about accessibility to certain luxury brands by ensuring that the luxury goods that remain on the site, either full-priced or slightly discounted, are indeed authentic goods. Because eBay 1) was made aware that counterfeit items were being sold on its site, 2) possesses the ability to control its users' accessibility to services, and 3) derives a profit from the sale of counterfeit items, it must be held to a heightened duty of care to avoid secondary liability for trademark infringement. An online version of a flea market, eBay's responsibility is triggered under the aforementioned common-law tests, ultimately requiring a vendor that knows or has reason to know that it is facilitating trademark infringement to adopt reasonable, effective measures that will minimize infringement. Un-

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<sup>135</sup> *Id.* at \*13.

der *Inwood*, eBay is obligated to take affirmative steps to prevent the sale of counterfeit Tiffany silver jewelry on its website.

eBay's various anti-counterfeiting measures, which kick in after a trademark owner files a VeRO claim, demonstrate that eBay has always had the ability to address the sale of counterfeit items on its website. It thus seems reasonable that extending this oversight mechanism to take a more proactive rather than reactive approach would not be an undue burden on eBay.

The site could utilize profits made from sales to retain the services of private investigators to study and follow suspicious sales practices by users. These private investigators, much like the ones hired by trademark rights owners, could monitor listings for items that are likely to be counterfeit by looking at factors such as a suspicious item's brand name (i.e., a famous mark that is commonly faked), the quantity sold, the pricing of the item, and the description and/or visual representation of the item. The key is to assign knowledgeable individuals to the task of uncovering possible counterfeits, instead of continuing the site's practice of assigning to the issue a large group of employees who are inexperienced in detecting the signs of counterfeit activity.<sup>136</sup> This simple change in the composition of the VeRO protection team would diminish cases of legitimate auctions being suspended due to the erroneous belief that they may be illicit, result in more counterfeit items being pulled from the site in shorter periods of time, and provide a direct, informed point of contact for trademark rights owners. This would make communication between rights owners and eBay more efficient and cooperative. Likewise, rights owners likely would invest in keeping eBay's investigators up to date on their latest products and designs by issuing informational documents or even making presentations to the team from time to time.

With respect to repeat offenders, the site should reconsider its current "three strikes" policy. With millions of users, the site may argue that keeping track of those who have offended once or twice is nearly impossible. But a workable solution could be for eBay to designate a particular group of employees to closely monitor suspicious users and users who have previously either completed illicit transactions or offered fake goods for sale. Accordingly, eBay would be able to narrow its list of "high-risk" users and monitor them effectively. The employees, who would closely work with private investigators, could be divided into teams according to categories of goods (e.g. some focus on jewelry sales, others on

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<sup>136</sup> Favre, *supra* note 89 ("eBay's VeRO program is one of the most robust of the online auctions; however, the technology partnered with the more than 1,000 employees charged with stopping illegal website sales is dwarfed by the 60 million items.").

handbags, and so on) or specific brands (e.g., some would focus on suspicious sellers of Tiffany jewelry or Rolex watches). Furthermore, eBay should limit its “three strikes” policy so that it is in accordance, at least in principle, with its “offensive materials” policy, which would mean that once the site determines that a particular user has sold counterfeit goods, the user should be temporarily suspended from selling any products and permanently banned from selling that brand of goods again. At that point, the seller would also be deemed “high-risk,” and his activities on the site would warrant close monitoring. If the seller is again caught selling counterfeit items of any nature or brand, he should be banned from having an account on the site. In this system, a user would still have the opportunity to challenge each action taken against him, but in the event he is found to have knowingly offered or sold counterfeit items, he would have only one remaining opportunity to use his eBay account lawfully. Further, rights owners could use evidence obtained from eBay investigators and monitors to file NOCIs under a “good faith” belief that items being offered are counterfeit. In the event a user is committing a second offense, rights owners would be able to support a NOCI’s “good faith” belief by asserting that the user already has a prior violation.

A new VeRO program would also protect members of the eBay community using their accounts for legitimate means. Simple changes in VeRO’s registration process, such as verifying that VeRO registrants truly own the rights they purport to assert, would ensure that only authentic trademark rights owners are able to file NOCIs. This way, other users and competitors would have no ability to abuse VeRO policy to falsely denounce innocent users. Users who are initially investigated but later cleared should be able to continue using eBay’s services and their publicly-viewable records should not mention such investigations. Likewise, users who have already been suspended for selling counterfeit goods and are in the “high risk” group should have details of their temporary suspension and permanent ban (from selling certain items) on their publicly-viewable records so that potential buyers are aware of their illicit activity. This would not only aid buyers when they are deciding between sellers for a particular item, but also help eBay decrease the amount of customer complaints regarding fake items received in lieu of authentic items and ensuing money refund claims. To ensure that banned users do not come back to the site under another username, eBay should keep an updated list of every banned member and their IP addresses. While a user may choose to remain anonymous to other members on the site, eBay should ensure that users do not remain anonymous after registration. In addition to keeping a database with banned IP addresses,



the site should revise its registration procedure by requiring that every user also sign up for eBay's PayPal service.<sup>137</sup> This way, users would have to provide a valid social security number and valid bank account or credit card.

## V. CONCLUSION

The luxury brand is in peril, endangered by the reputation it has worked so hard to build. Demand for these goods has dwindled with the presence of counterfeit items that are available to the public for much less. Luxury brands are an attractive target for counterfeiters looking to make a big profit in satisfying consumers who were once unable to obtain luxury items. This practice causes great harm to trademarks and brand owners, including tarnishing the brand's image and stealing revenue from its owner.

In the U.S., secondary trademark infringement case law is still in development; many hoped the emergence of the *Tiffany Inc.* case would provide, at least on appeal to the Second Circuit, some defined parameters for addressing secondary trademark liability in the context of an online marketplace. Hope is not yet lost, as many now eagerly await the next steps: will Tiffany appeal? If so, and review is granted, will the Supreme Court use this as an opportunity to clarify the correct application of its *Inwood* test to Internet cases? Or will it defer to Congressional action? Across the Atlantic, a French court has declared eBay to be a secondary infringer due to the nature of its services, and its decision has sent shockwaves through both the Internet and trademark communities. In contrast, U.S. courts, addressing eBay's role in *Tiffany Inc.*, gingerly applied secondary trademark liability doctrine and yielded a vague result that is seemingly inconsistent with settled secondary trademark liability principles and tort agency law.

eBay is a unique type of ISP, because it maintains all of the qualities that would warrant a finding of contributory infringement and vicarious liability under *Inwood* and *Hard Rock Cafe*. It has the ability to exert control over its users, it derives a profit from the sale of counterfeit goods, and it has reason to know of particular sellers and items that are more likely to participate in trademark infringement due to prior offenses. Because of this and its key role in facilitating online transactions involving counterfeit goods, eBay should either be found liable under current secondary trademark infringement standards or be held to a higher duty of care due to its particular nature. While awaiting

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<sup>137</sup> Users are given the option of buying or selling by using PayPal or other payment methods.

legislative response to the dire need for guidelines similar to the DMCA but in the area of secondary trademark infringement, each of the options described *supra* reconcile the issues preventing a harmonious balance between the site and luxury brand owners. By working closely together, both are capable of significantly curtailing the harmful trade of illicit goods.

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\* Editor-in-Chief, CARDOZO ARTS & ENT. L.J. (2009-10), J.D. Candidate 2010, Benjamin N. Cardozo School of Law. A.B., Anthropology, Harvard University (2005). Many thanks to my family and friends for their love and continued support. This Note is for my mother, Nahir Rivera Martínez, for her unwavering love, patience, devotion, and everything else. Finally, I would like to thank Professor Justin Hughes for his guidance and the 2009-10 AELJ editorial board and staff for their friendship, hard work, and dedication. © 2010 Ellie Mercado.