

eBay is Not Responsible for Self-policing Trademark Infringement

By Jason Denrich

In a recent decision from the Southern District of New York, District Judge Richard Sullivan held that Tiffany & Co. (“Tiffany”), not eBay, was responsible for policing eBay.com for possible infringement of Tiffany’s intellectual property. Tiffany brought the suit on June 18, 2004 alleging, among other claims, contributory trademark infringement against online auction house eBay for allowing its users to sell counterfeit Tiffany products. Tiffany argued that eBay was obligated to control the counterfeit sellers’ activities because eBay was on notice of the counterfeiting problem. In response, eBay argued that the burden for indentifying counterfeits and bringing the sellers to eBay’s attention lies with the trademark holder, despite eBay’s own efforts to curb counterfeiting.

The court held that eBay was not liable for contributory trademark infringement and placed the liability on the individual sellers. In making this decision, the court applied a standard of review that considered whether eBay offered services to infringing sellers when it knew or had reason to know of the infringing activity of the sellers citing to *Inwood Labs., Inc. v. Ives Labs., Inc.* 456 U.S. 844 (1982). The court rejected Tiffany’s proposed standard that would consider whether eBay could have reasonably anticipated possible infringement, calling it a “watered down standard” inappropriate for this case.

Furthermore, Tiffany demanded that eBay adopt more stringent policies to prevent counterfeiting on its site. For example, Tiffany argued for a “five-or-more” rule under which eBay should ban sellers of five or more of the same Tiffany’s item. Tiffany argued that since there were no authorized third-party vendors for Tiffany merchandise, selling five or more of the same item makes it sufficiently certain that the goods are counterfeit. The court rejected this proposed rule because Tiffany was unable to prove that all such sellers necessarily infringed Tiffany’s rights. Without this proof, the court could not justify a rule suspending these users’ accounts, noting that many users depend on such accounts for their livelihood.

Tiffany also argued that eBay should preemptively suspend sellers of counterfeit goods before being allowed to offer five or more of the same Tiffany’s item for sale. The court rejected this argument as well, holding that, “the law demands more specific knowledge as to which items are infringing and which seller is listing those items before requiring eBay to take action.”

In addition, the court determined that eBay already has sufficient fraud prevention measures in place. Among these is a fraud engine, which is software designed to search and automatically identify blatant infringement. And, eBay’s VeRO program, or Verified Rights Owner Program, allows rights owners to report potentially infringing items directly to eBay. The court noted that Tiffany was one of the top ten users of the VeRO program during the relevant period of the case and that eBay did take action against the reported sellers when the infringements were brought to eBay’s attention.

The effect of this case is wide-reaching. Under the rule of this case, an intellectual property owner bears the burden of policing the internet for infringements and cannot rely on those who facilitate the transactions to interfere. This case is a win for sites like eBay and competitor Craigslist that host thousands of transactions daily between buyers and sellers all over the world. These sites may now avoid infringement actions even with general knowledge that counterfeit goods are being sold on their sites.

But, other online auction sites may have to improve their own anti-counterfeiting measures to be at least on par with those of eBay if they hope to withstand similar judicial scrutiny.

Additionally, this case may make selling counterfeit goods on the internet easier. The court commiserated with Tiffany on the outcome saying, “policymakers may yet decide that the law as it stands is inadequate to protect rights owners in light of the increasing scope of Internet commerce and the concomitant rise in potential trademark infringement.”

Since its inception, eBay has dealt with the counterfeit problem by asking rights holders to report violations. This was effective, though frustrating to rights holders, until eBay expanded into China in 2004 and counterfeit sales began to rise dramatically. *Tiffany* was the first lawsuit in response to the rise in counterfeits but it was not the last. And, internationally, eBay has fared far worse than domestically. For example, the French Tribunal de Commerce in Paris recently ordered eBay to pay \$61 million in damages to LVMH, a French luxury goods maker responsible for brands like Rolex and Louis Vuitton. That court did not believe eBay was doing enough to combat counterfeiting and eBay has since appealed the decision. The LVMH case and similar cases from Germany point to inconsistencies between domestic and international rulings for eBay.

If eBay’s international appeals fail, eBay may have to seriously step up its counterfeit prevention efforts which already exceed \$20 million annually. According to statements made by eBay spokeswoman Nichola Sharpe to Computerworld.com, “if [eBay has] to change our business in relation to [the Tribunal de Commerce's] ruling, it will be a massive undertaking. We don't view it as just affecting eBay France, but affecting all eBay sites globally.”

In the meantime, Tiffany has appealed the decision to the US Court of Appeals for the Second Circuit. In a press release issued by Tiffany & Co., James Swire, an attorney for Tiffany, says his firm “does not believe the law allows auction sites like eBay to continue to turn a blind eye to this problem while reaping profits from the listing and sale of counterfeit merchandise. Trademark law does not impose a duty on Tiffany to police eBay's site: eBay designed the site and has the responsibility to police it.”

Sources:

Tiffany, Inc. v. eBay, Inc., No. 04-4607(RJS), 2008 WL 2755787 at *1 (S.D.N.Y. July 14, 2008).

Doreen Carvajal, *EBay Ordered to Pay \$61 Million in Sale of Counterfeit Goods*, N.Y. TIMES, July 1, 2008.

Linda Rosencrance, *Minding Online Store a Case of 'Not My Job' for eBay, Legal Foes*, Computerworld.com (Aug. 18, 2008),

<http://www.computerworld.com/action/article.do?command=viewArticleBasic&articleId=324185>.

Press Release, Tiffany & Co, *Tiffany Appeals eBay Counterfeiting Decision* (Aug. 11, 2008).