

## LUX FOR LESS: EBAY'S LIABILITY TO LUXURY BRANDS FOR THE SALE OF COUNTERFEIT GOODS

*Brandon Peene\**

### I. INTRODUCTION

eBay deems itself the world's largest online marketplace, acting as a conduit for registered buyers and sellers around the world to come together to buy and sell an endless variety of goods and services.<sup>1</sup> The company embraces the fact that it “connects hundreds of millions of people around the world every day, empowering them to explore new opportunities and innovate together.”<sup>2</sup> eBay's market value is estimated to be around \$30 billion.<sup>3</sup> The auction house reported 2008 revenues of \$8.5 billion,<sup>4</sup> has approximately 248 million registered users across the globe,<sup>5</sup> and disclosed a total value of \$59.65 billion in goods and services sold on its site in 2008.<sup>6</sup>

One of the “new opportunities” created by eBay is that of providing its users the opportunity to sell counterfeit goods to unsuspecting buyers.<sup>7</sup> eBay's configuration helps those who traffic in counterfeit

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\* J.D., 2010, Seton Hall University School of Law; B.A., Political Science, 2007, The College of New Jersey. I would like to thank Professor Marina Lao for her support and insight in drafting this Comment.

<sup>1</sup> See Emily Favre, Comment, *Online Auction Houses: How Trademark Owners Protect Brand Integrity Against Counterfeiting*, 15 J.L. & POL'Y 165, 171 (2007).

<sup>2</sup> Press Release, eBay Inc., eBay Inc. Applauds Court's Rejection of Tiffany Counterfeit Claims (July 14, 2008), available at <http://investor.ebay.com/releasedetail.cfm?ReleaseID=322126>.

<sup>3</sup> See *eBay, Inc.—Stock Quote Analysis at a Glance*, FORBES, Nov. 11, 2009, <http://finapps.forbes.com/finapps/jsp/finance/compinfo/CIAAtAGlance.jsp?tkr=EBAY>.

<sup>4</sup> eBay Inc., Annual Report (Form 10-K), at 49 (Feb. 11, 2009), available at [http://files.shareholder.com/downloads/ebay/749841999x0x281367/1b773a7c-8c14-45b8-915a-1716ca37dda0/eBay\\_2008AR.pdf](http://files.shareholder.com/downloads/ebay/749841999x0x281367/1b773a7c-8c14-45b8-915a-1716ca37dda0/eBay_2008AR.pdf).

<sup>5</sup> Katie Hafner, *Tiffany and eBay in a Fight Over Fakes*, N.Y. TIMES, Nov. 27, 2007, at C9.

<sup>6</sup> eBay Inc., Annual Report, *supra* note 4, at 51.

<sup>7</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 527 (S.D.N.Y. 2008), *aff'd*, 600 F.3d 93 (2d Cir. 2010) (“The rapid development of the Internet and websites like eBay have created new ways for sellers and buyers to connect to each other and to

goods due to the ability of users to access eBay in relative anonymity, the vast amount of items listed at any given time, and the short time frame in which auctions can be completed.<sup>8</sup> Although eBay is not the only online auction house where these illicit activities occur, its strength, popularity, and profitability make it a significant target for trademark owners whose brands are being illegally peddled on eBay and who are unable or unwilling to pursue individual counterfeiters.<sup>9</sup> These brand owners have alleged that eBay is liable for contributory trademark infringement for providing a forum for illegal transactions to occur, for failing to take reasonable steps to police its listings, and for looking the other way to profit from illegal sales.<sup>10</sup>

Therefore, some brand owners, particularly those who own what are referred to as “luxury brands,” have taken action against eBay for providing an arena to facilitate and profit from the sale of counterfeit goods. Nevertheless, countries involved thus far in adjudicating these suits are divided in determining eBay’s culpability. In particular, several important cases decided in 2008 produced drastically different outcomes, only increasing confusion among those seeking more defined answers as to eBay’s liability to brand owners.<sup>11</sup> On June 30, 2008, France’s Commercial Court of Paris ruled that eBay failed to adequately police for counterfeit goods in transactions involving Louis Vuitton Malleter (Louis Vuitton) and Christian Dior Couture (Christian Dior), two brands owned by the Louis Vuitton Moët Hennessey (LVMH) group.<sup>12</sup> The court ruled that LVMH was entitled to

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expand their businesses beyond geographical limits. These new markets have also, however, given counterfeiters new opportunities to expand their reach.”)

<sup>8</sup> See Favre, *supra* note 1, at 168.

<sup>9</sup> See Mary M. Calkins, Alexei Nikitkov & Vernon Richardson, *Mineshafts on Treasure Island: A Relief Map of the eBay Fraud Landscape*, 8 U. PITT. J. TECH. L. & POL’Y 1, 35–36 (2007), <http://tlp.law.pitt.edu/wp-content/uploads/2009/10/Calkins.pdf>.

<sup>10</sup> See Dara Chevlin, Student Article, *Schemes and Scams: Auction Fraud and the Culpability of Host Auction Web Sites*, 18 LOY. CONSUMER L. REV. 223, 231 (2005); see also Favre, *supra* note 1, at 179 (citing the standard for contributory copyright infringement).

<sup>11</sup> See *Tiffany*, 576 F. Supp. 2d at 469; Tribunal de Commerce de Paris [Commercial Court of Paris], June 30, 2008, General Docket no. 2006077799 [hereinafter *Louis Vuitton Case*], available at <http://www.sunsteinlaw.com/media/FrenchOpinions.pdf>; Tribunal de Commerce de Paris [Commercial Court of Paris], June 30, 2008, General Docket no. 2006077807 [hereinafter *Christian Dior Case*], available at <http://www.sunsteinlaw.com/media/FrenchOpinions.pdf>; see also Brad Stone, *eBay Cleared in Site’s Sales of Knockoffs*, N.Y. TIMES, July 15, 2008, at C1.

<sup>12</sup> *Louis Vuitton Case*, *supra* note 11, at 17; *Christian Dior Case*, *supra* note 11, at 17–18.

damages of approximately \$63.2 million.<sup>13</sup> Yet, weeks later, on July 14, 2008, the U.S. District Court for the Southern District of New York, followed later by the U.S. Court of Appeals for the Second Circuit, ruled in favor of eBay in a case brought by Tiffany & Co. (Tiffany), the jewelry manufacturer, holding that eBay took reasonable steps to prevent counterfeit sales and acted appropriately when alerted of specific counterfeit listings.<sup>14</sup>

These starkly differing decisions and interpretations of similar facts put eBay in a position where its liability appears to depend on the plaintiff's choice of forum.<sup>15</sup> Such differing judicial interpretations, or "country splits,"<sup>16</sup> hold important ramifications for eBay and the survival of its business model. Inconsistencies in rulings can prompt a flood of lawsuits,<sup>17</sup> establish different legal duties eBay owes to brand owners depending on the countries involved,<sup>18</sup> and likely create a situation where past, pending, and future litigation will increase costs on both eBay and its users.<sup>19</sup>

This Comment seeks to examine the consequences of country splits in determining eBay's liability to luxury brands for the sale of counterfeit items, as well as the appropriate standard to assess wheth-

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<sup>13</sup> Christina Passariello & Mylene Mangalindan, *eBay Fined Over Selling Counterfeits—French Court Orders Online Retailer to Pay Louis Vuitton, Other Luxury LVMH Brands \$63.2 Million*, WALL ST. J., July 1, 2008, at B1.

<sup>14</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 518 (S.D.N.Y. 2008), *aff'd*, 600 F.3d 93 (2d Cir. 2010). The court also held that "rights holders bear the principal responsibility to police their trademarks." *Id.*

<sup>15</sup> See Roger Parloff, *eBay Wins L'Oréal Counterfeiting Case in Belgium*, FORTUNE, Aug. 12, 2008, <http://features.blogs.fortune.cnn.com/2008/08/12/eBay-wins-loreal-counterfeiting-case-in-belgium/>.

<sup>16</sup> This Comment uses the phrase "country splits" as a shorthand way of describing the differing interpretations of eBay's liability by courts and jurisdictions throughout the world. The use of the phrase is similar to that of "circuit splits," which refers to differing judicial interpretations of a similar legal issue between two or more U.S. Courts of Appeals. See, e.g., *Concrete Works of Colo., Inc. v. County of Denver*, 540 U.S. 1027, 560 (2003) (discussing two divergent views among the Courts of Appeals as being "worthy of the Court's review because it presents a clear Circuit split").

<sup>17</sup> See Suzy Jagger, *eBay Braced for Copycat Lawsuits Over Fakes*, TIMES (London), July 2, 2008, at 42.

<sup>18</sup> See Carol Matlack, *LVMH vs. eBay: A Counterfeit Suit*, BUS. WK., Sept. 22, 2006, [http://www.businessweek.com/globalbiz/content/sep2006/gb20060922\\_888836.htm?chan=top+news\\_top+news+index\\_global+business](http://www.businessweek.com/globalbiz/content/sep2006/gb20060922_888836.htm?chan=top+news_top+news+index_global+business).

<sup>19</sup> See Linda Rosencrance, *French Ruling on Counterfeit Goods Could Have Far-Reaching Effects for eBay*, COMPUTERWORLD, July 7, 2008, [http://www.computerworld.com/s/article/9106618/French\\_ruling\\_on\\_counterfeit\\_goods\\_could\\_have\\_far\\_reaching\\_effects\\_for\\_eBay](http://www.computerworld.com/s/article/9106618/French_ruling_on_counterfeit_goods_could_have_far_reaching_effects_for_eBay).

er eBay has taken the necessary steps to police its forums for infringing listings. This Comment contends that eBay's current initiatives, most notably its Verified Rights Owner (VeRO) Program, are sufficient in their reasonableness, efficiency, and effectiveness to shield eBay from liability in most situations.<sup>20</sup> A contrary standard holding eBay liable for each infringing listing, regardless of whether it is aware of the listing, would be unacceptable, unreasonable, and impracticable in an age where individuals are increasingly engaging in commerce over the Internet. Moreover, this Comment asserts that a second impetus to litigation is the aspiration of luxury-brand owners to prevent their authentic goods from being sold on legitimate secondary markets at cheaper prices, which thereby diminishes a particular item's reputation as a luxury.

Part II will examine eBay's business model and its anti-counterfeiting efforts. Part III will analyze the divergences amongst various nations in determining eBay's liability. Part IV will analyze the ramifications going forward of these country splits for eBay and its users. In Part V, this Comment argues that eBay satisfies its duty with its current and past policing efforts and that brand owners have the responsibility to take a primary role in policing for counterfeit goods with the expectation that eBay will act when alerted of an infringing listing. Finally, in Part VI, this Comment seeks to promote a worldwide standard for assessing eBay's liability and uses as a primary vehicle the proposed Anti-Counterfeiting Trade Agreement (ACTA), which is presently being negotiated by countries who disagree over how to assess eBay's liability.

## II. EBAY'S BUSINESS MODEL AND POLICING EFFORTS

### A. *EBay's Business Model*

EBay's success and continuous growth are a testament to its *laissez-faire* business model, through which it connects people around the world by providing a platform for diverse forms of commerce to take place under minimal supervision.<sup>21</sup> This structure has caused eBay to grow by leaps and bounds in a relatively short period of time. For example, in 1995, the first eBay auction closed on a broken laser

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<sup>20</sup> See eBay Inc., Reporting Intellectual Property Infringements (VeRO), <http://pages.ebay.com/help/tp/vero-rights-owner.html> (last visited May 19, 2010) (describing VeRO's mandate and reporting procedure).

<sup>21</sup> See Press Release, eBay Inc., *supra* note 2.

pointer that was sold for fourteen dollars.<sup>22</sup> By 2004, eBay had more than 1.3 billion listings annually,<sup>23</sup> and it currently lists more than 140 million auctions on any given day.<sup>24</sup> eBay allows buyers and sellers to negotiate on the purchase of anything “from jewelry and beauty supplies to cars and antiques.”<sup>25</sup> Most importantly, eBay requires buyers and sellers to carry out the transactions themselves: “[w]hile eBay provides the venue for the sale and support for the transaction, it does not itself sell the items.”<sup>26</sup> eBay calls itself a “venue, not an auctioneer,”<sup>27</sup> supplies a service, not a product, and gives users a forum and nothing else.<sup>28</sup> Thus, the items sold never actually come into eBay’s possession, and eBay generally does not know if the buyer ever receives the item from the seller.<sup>29</sup>

Also, eBay does not take responsibility for vetting its millions of listings in advance because the cost- and labor-intensive nature of inspection would destroy the benefits of its laissez-faire business mod-

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<sup>22</sup> ADAM COHEN, *THE PERFECT STORE: INSIDE EBAY* 4–5 (2003).

<sup>23</sup> Fara S. Sunderji, Note, *Protecting Online Auction Sites from the Contributory Trademark Liability Storm: A Legislative Solution to the Tiffany Inc. v. eBay Inc. Problem*, 74 *FORDHAM L. REV.* 909, 935 (2005) (citing eBay Inc., Annual Report (Form 10-K), at 22 (Dec. 31, 2004), available at <http://www.sec.gov/Archives/edgar/data/1065088/000095013405003827/f05426e10vk.htm#010>).

<sup>24</sup> eBay Inc., Annual Report, *supra* note 4, at 2.

<sup>25</sup> Sunderji, *supra* note 23, at 912–13.

<sup>26</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 475 (S.D.N.Y. 2008), *aff’d*, 600 F.3d 93 (2d Cir. 2010).

<sup>27</sup> Chevlin, *supra* note 10, at 233.

<sup>28</sup> See Sunderji, *supra* note 23, at 933. For instance, the eBay User Agreement states,

You will not hold eBay responsible for other users’ content, actions, or inactions, items they list or their destruction of allegedly fake items. You acknowledge that we are not a traditional auctioneer. Instead, our sites are venues to allow anyone to offer, sell, and buy just about anything, at anytime, from anywhere, in a variety of pricing formats and locations, such as Stores, fixed price formats, and auction-style formats. We are not involved in the actual transaction between buyers and sellers. While we may help facilitate the resolution of disputes through various programs, we have no control over and do not guarantee the quality, safety, or legality of items advertised, the truth or accuracy of users’ content or 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 or return an item.

eBay Inc., Your User Agreement (effective Sept. 29, 2009), <http://pages.ebay.com/help/policies/user-agreement.html> (last visited May 19, 2010).

<sup>29</sup> *Tiffany*, 576 F. Supp. 2d at 475.

el.<sup>30</sup> Nevertheless, eBay exercises some control over buyers and sellers by requiring them to register with eBay and consent to its User Agreement.<sup>31</sup> To sell on eBay, an individual or entity must register, establish a seller ID, and verify that ID, primarily through a credit card, debit account, or bank information.<sup>32</sup> Sellers can then list the item in a category of their choosing, either through an auction set to end at a specific time or through the “Buy it Now” feature, wherein a buyer can purchase the item at a fixed price and instantly end the auction.<sup>33</sup> When a buyer wins an auction, eBay sends an electronic notice to the buyer and seller with the expectation that the two users will contact each other within three days to discuss payment and shipment of the listed item.<sup>34</sup>

eBay earns a percentage of the value of every sale, including a flat fee, and thereby receives revenue from the sale of legitimate and counterfeit goods alike.<sup>35</sup> Sellers must pay eBay an insertion fee to list an item, which usually ranges from \$0.20 to \$4.80, depending on the initial listing price.<sup>36</sup> If the item is sold, sellers pay to eBay a final value fee, ranging from 5 to 10 percent of the sale price of the auctioned item.<sup>37</sup> Sellers are also able to pay eBay additional fees to use promotional features and selling tools, such as seminars on how to

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<sup>30</sup> See Sunderji, *supra* note 23, at 916.

<sup>31</sup> eBay’s User Agreement declares,

Without limiting other remedies, we may limit, suspend, or terminate our service and user accounts, prohibit access to our sites and their content, services, and tools, delay or remove hosted content, and take technical and legal steps to keep users off the sites if we think that they are creating problems or possible legal liabilities, infringing the intellectual property rights of third parties, or acting inconsistently with the letter or spirit of our policies. We also reserve the right to cancel unconfirmed accounts or accounts that have been inactive for a long time, or to modify or discontinue eBay sites, services, or tools.

eBay Inc., *supra* note 28. eBay also prohibits the sale of certain items, such as firearms, drugs, and alcohol. *Id.*; eBay, Inc., Prohibited and Restricted Items—Overview, <http://pages.ebay.com/help/policies/items-ov.html> (last visited May 19, 2010)

<sup>32</sup> Calkins, Nikitkov & Richardson, *supra* note 9, at 6.

<sup>33</sup> *Id.* at 6–7.

<sup>34</sup> *Id.* at 10.

<sup>35</sup> See *id.* at 3; see also *Handbagged; eBay’s Legal Woes*, ECONOMIST, June 21, 2008, at 76, 76.

<sup>36</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 475 (S.D.N.Y. 2008), *aff’d*, 600 F.3d 93 (2d Cir. 2010).

<sup>37</sup> *Id.*

create the perfect listing and marketing calendars to correspond with holidays, and to use eBay consultants to help grow their businesses.<sup>38</sup>

*B. eBay's Policing Efforts*

Since its inception, eBay has taken measures to combat the sale of counterfeit goods. The primary motivation to crack down on counterfeit sales within its forums is to establish and maintain the goodwill and trust of its users because preventing innocent buyers from purchasing falsely labeled goods is critical to both eBay's bottom line and reputation.<sup>39</sup> In 1997, eBay established "Legal Buddy," a program in which eBay collaborated with brand owners by manually going through and removing specific auctions after being alerted by a brand owner that a listed item was counterfeit.<sup>40</sup> Later, in May 2002, eBay began employing its fraud engine, which used complex models to search for suspicious activity in its listings.<sup>41</sup> Prior to the fraud engine, eBay was only able to sift through the listings manually.<sup>42</sup>

Furthermore, the overarching principle of eBay's anti-counterfeiting strategy is to put the onus on brand owners to bear the primary responsibility of policing eBay for trademark violations. The primary vehicle used to carry out this policy is eBay's main anti-counterfeiting device, the Verified Rights Owner (VeRO) Program.<sup>43</sup> Under VeRO, an auction can be closed down based on a brand owner's "good faith belief" that a listed item is fake.<sup>44</sup> Only VeRO-registered brand owners can report potentially infringing items through the program.<sup>45</sup> A member brand owner alerts eBay by filing a Notice of Claimed Infringement (NOCI).<sup>46</sup> Upon being alerted, eBay can then remove the item.<sup>47</sup> eBay also works with brand owners through VeRO by employing additional mechanisms, such as saving searches, providing a program that automatically searches for particular listings, and cooperating with brand owners seeking personal in-

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<sup>38</sup> *Id.*; Calkins, Nikitkov & Richardson, *supra* note 9, at 7.

<sup>39</sup> See Sunderji, *supra* note 23, at 939.

<sup>40</sup> *Id.* at 915-16.

<sup>41</sup> *Tiffany*, 576 F. Supp. 2d at 477.

<sup>42</sup> *Id.* eBay currently spends \$5 million a year on the fraud engine. *Id.*

<sup>43</sup> See Sunderji, *supra* note 23, at 916; *Handbagged; eBay's Legal Woes*, *supra* note 35, at 76; eBay Inc., *supra* note 20.

<sup>44</sup> eBay Inc., *supra* note 20.

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

<sup>46</sup> *Id.*

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

formation on alleged infringers.<sup>48</sup> VeRO members are also encouraged to create “About Me” pages to provide eBay users with information regarding a brand owner’s legal positions and products listed on eBay that are likely to be counterfeit.<sup>49</sup>

Additionally, eBay employs targeted efforts to fight counterfeiting in particularly vulnerable areas, such as in clothing and luxury handbags. eBay’s current initiatives include limiting the number of items a seller can list at one time, preventing short auctions for certain items, and prohibiting sellers in Hong Kong and mainland China, where counterfeit trafficking is most pronounced, from listing items prone to counterfeiting.<sup>50</sup>

According to eBay, when a trademark violation occurs, eBay acts expeditiously to remove the infringing listing.<sup>51</sup> eBay removes thousands of auctions per week through VeRO.<sup>52</sup> Statistics indicate that items alerted through VeRO are removed 90 percent of the time within twenty-four hours, 70–80 percent of the time within twelve hours, and 75 percent of the time within four hours of being alerted.<sup>53</sup> eBay has also put substantial resources into fighting counterfeit-goods trafficking. The online-auction house spends more than \$20 million each year to find and remove fake items, employs over two thousand individuals to fight counterfeiting, and is currently partners with approximately eighteen thousand brand owners through VeRO.<sup>54</sup>

eBay places the onus on brand owners to be the primary investigators of counterfeit items because it asserts that brand owners have the expertise and ability to spot counterfeit items more responsibly and efficiently. The auction house contends that “[v]etting each and

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<sup>48</sup> *Id.*

<sup>49</sup> See eBay Inc., VeRO: Participant About Me Pages, <http://pages.ebay.com/help/community/vero-aboutme.html> (last visited May 19, 2010). For instance, both Tiffany and Hermès, two companies that have sued eBay over the listing of counterfeit items, have “About Me” pages and are members of VeRO. *Id.*

<sup>50</sup> Brad Stone, *eBay Says Its Crackdown on Fraud Is Showing Results*, N.Y. TIMES, June 14, 2007, at C9.

<sup>51</sup> Press Release, eBay Inc., eBay Vows to Fight for E-Commerce Following Overreach by Luxury Brands Manufacturer (June 30, 2008), available at <http://investor.ebay.com/releasedetail.cfm?ReleaseID=319007>.

<sup>52</sup> Tiffany (NJ) Inc. v. eBay, Inc., 576 F. Supp. 2d 463, 478 (S.D.N.Y. 2008), *aff'd*, 600 F.3d 93 (2d Cir. 2010).

<sup>53</sup> *Id.* at 478; Roger Parloff, *eBay Triumphs in Tiffany Counterfeiting Case*, FORTUNE, July 14, 2008, <http://features.blogs.fortune.cnn.com/2008/07/14/ebay-triumphs-in-tiffany-counterfeiting-case/>.

<sup>54</sup> Press Release, eBay Inc., *supra* note 51.

every product before it goes up for sale online is not an option” because of the cost and inefficiency in spotting potential fakes by inexperienced investigators.<sup>55</sup> Moreover, according to an eBay spokesman, Hani Durzy, “[W]e don’t have any expertise. We’re not clothing experts. We’re not car experts, and we’re not jewelry experts. We’re experts at building a marketplace and bringing buyers and sellers together.”<sup>56</sup> eBay also contends that brand owners are in a better position to determine real and fake products because eBay never takes physical possession of the items;<sup>57</sup> hence, policing is a task better suited to those who specialize in manufacturing the goods being imitated.<sup>58</sup>

### III. COUNTRY SPLITS IN DETERMINING EBAY’S LIABILITY

Despite eBay’s policing efforts, counterfeiters continue to sell counterfeit goods on eBay, prompting brand owners whose trademarks are infringed to respond by bringing suit in courts across the world. Recent cases decided in Europe and the United States have put eBay in a position in which its liability appears to rest upon where a particular lawsuit is filed. The seminal cases are contradictory judgments from France and the United States. The Commercial Court of Paris found in favor of French company LVMH in two separate decisions involving its brands Louis Vuitton and Christian Dior. In contrast, a U.S. district court decision, later affirmed by the Second Circuit, found in favor of eBay in litigation brought by Tiffany. These cases, although based on similar facts, come to drastically different outcomes, and therefore only increase the confusion over how eBay should operate its business.

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<sup>55</sup> Vidya Ram, *EBay’s Faux Pas*, FORBES, June 9, 2008, [http://www.forbes.com/2008/06/09/ebay-counterfeit-hermes-tech-enter-cx\\_vr\\_0609ebay.html](http://www.forbes.com/2008/06/09/ebay-counterfeit-hermes-tech-enter-cx_vr_0609ebay.html).

<sup>56</sup> Katie Hafner, *Seeing Fakes, Angry Traders Confront EBay*, N.Y. TIMES, Jan. 29, 2006, at 1, available at <http://www.nytimes.com/2006/01/29/technology/29ebay.html>.

<sup>57</sup> For instance, during the Tiffany litigation, eBay’s lawyer stated that “[o]nly Tiffany, after all, has the necessary expertise and resources—including tools, trained evaluators, access to catalogues, and so on—to distinguish between authentic and counterfeit Tiffany products.” Chad Bray, *Tiffany Disputes eBay’s Model*, WALL ST. J., Mar. 26, 2008, at B5C. Moreover, eBay alerts trademark owners that “because eBay cannot be an expert in your intellectual property rights in over 25,000 categories, and cannot verify that sellers have the right to sell the millions of items they post on eBay each day,” it must rely on the trademark owners to identify listings that infringe on their rights and to bring it to eBay’s attention. eBay Inc., *supra* note 20.

<sup>58</sup> See Sunderji, *supra* note 23, at 935–36.

*A. Litigation Between LVMH and eBay*

On June 30, 2008, the Commercial Court of Paris sided with LVMH in lawsuits brought against eBay in cases involving two of its labels, Louis Vuitton and Christian Dior, holding that eBay did not take the steps necessary to prohibit the sale of counterfeit goods on its Web sites.<sup>59</sup> Louis Vuitton “designs, manufactures and markets leather goods and luxury ready-to-wear products worldwide under the Louis Vuitton trademark” and “enjoys exceptional worldwide renown which places it among the world’s most prestigious trademarks.”<sup>60</sup> Christian Dior’s reputation makes its products “highly sought after, thus giving rise to numerous counterfeit products and various activities in the nature of commercial parasitism” under the Christian Dior label.<sup>61</sup> Although these brands are known to be counterfeited, Louis Vuitton and Christian Dior are not members of VeRO.<sup>62</sup>

LVMH proclaimed that the vast majority of the hundreds of thousands of listings on eBay related to Christian Dior and Louis Vuitton are counterfeit.<sup>63</sup> Based on eBay’s data, there were 149,739 listings from April 2006 to June 2006 related to Louis Vuitton.<sup>64</sup> These listings led to 96,581 actual sales with an average sale price of 96.50.<sup>65</sup> Also, 316,904 listings from April 2006 to June 2006 were related to Christian Dior, and 107,825 sales were completed therefrom with an average price, depending on the item, ranging from 15.80 to 44.60.<sup>66</sup> LVMH asserted that, of these listings, ninety percent were fake.<sup>67</sup>

Moreover, LVMH alleged that eBay ignored repeated warnings since 1999 to take action to prevent the sale of counterfeit LVMH products, which LVMH claims caused damage to its brands all over the world.<sup>68</sup> For example, Christian Dior accused eBay of “having

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<sup>59</sup> Passariello & Mangalindan, *supra* note 13.

<sup>60</sup> *Louis Vuitton Case*, *supra* note 11, at 9.

<sup>61</sup> *Christian Dior Case*, *supra* note 11, at 9.

<sup>62</sup> *See Louis Vuitton Case*, *supra* note 11, at 8; *see also Christian Dior Case*, *supra* note 11, at 8.

<sup>63</sup> *Louis Vuitton Case*, *supra* note 11, at 13; *Christian Dior Case*, *supra* note 11, at 13.

<sup>64</sup> *Louis Vuitton Case*, *supra* note 11, at 13.

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

<sup>66</sup> *Christian Dior Case*, *supra* note 11, at 13.

<sup>67</sup> *Louis Vuitton Case*, *supra* note 11, at 13; *Christian Dior Case*, *supra* note 11, at 13; *see also Matlack*, *supra* note 18.

<sup>68</sup> *Louis Vuitton Case*, *supra* note 11, at 7 (alleging that eBay failed “to take effective measures aimed at preventing infringement, such as . . . forcing the sellers to

failed to ensure, as it had a duty to do, that its activity did not generate any unlawful acts” and that “eBay’s willingness to host advertising listings that were manifestly unlawful on all its sites . . . encouraged the selling of counterfeit items.”<sup>69</sup> The luxury-brand group also charged that eBay committed tortious acts of negligence by failing to provide effective means to prevent the sale of counterfeits, which allowed eBay to foster illicit trade for the deliberate purpose of deriving income from illegal activity.<sup>70</sup>

LVMH, and later the French court, took the position that eBay is not simply a forum for buyers and sellers to interact but is also a broker participating in the actual transactions.<sup>71</sup> Thus, LVMH maintained that eBay was not entitled to liability protection under French or European Community law, which provide limited liability to “hosters” who are merely technical-service providers.<sup>72</sup> The relevant French Law, Article 6-1-2 of the French Law for Confidence in the Digital Economy,<sup>73</sup> is based on Article 14 of the European Community Directive on electronic commerce (Article 14),<sup>74</sup> which set the stan-

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state that they guarantee the genuineness of the products . . . or . . . terminating the account of any seller at the first offense”); *Christian Dior Case*, *supra* note 11, at 3 (claiming that the damages to LVMH also occurred in “Germany, Australia, Austria, Belgium, Canada, China, Korea, Spain, the United States, Hong Kong, India, Ireland, Italy, Malaysia, New-Zealand, the Netherlands, the Philippines, Poland, the United Kingdom, Singapore, Sweden, Switzerland and Taiwan”).

<sup>69</sup> *Christian Dior Case*, *supra* note 11, at 2.

<sup>70</sup> *Louis Vuitton Case*, *supra* note 11, at 10.

<sup>71</sup> *Id.* at 7–8.

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

<sup>73</sup> Article 6-1-2 states that “hosters” are:

1. Individuals or entities that provide, even gratuitously, for provision of public services to the public online communication, the storage of signals, writings, images, sounds or messages of any kind provided by recipients of these services may not incur liability as a result of activities or information stored at the request of a recipient of these services if they did not have actual knowledge of their unlawful character or facts and circumstances showing that character or if, from the moment they had this knowledge, they acted promptly to remove such data or make access impossible.

The preceding paragraph does not apply when the recipient of service is acting under the authority or control of the person referred to therein.

Law No. 2004-575 of June 21, 2004, Journal Officiel de la République Française [J.O.] [Official Gazette of France], June 22, 2004, p. 11,168 (translated from French).

<sup>74</sup> Article 14 states that:

1. Where an information society service is provided that consists of the storage of information provided by a recipient of the service, Member

dard for a “hoster” to escape liability. Article 14 states that a hoster is granted liability protection if (1) it does not have actual knowledge of infringing activity or is not aware of circumstances where illegal activity could be apparent or (2) if it does have actual knowledge, it acts “expeditiously” to remove or prevent access to the illegal activity.<sup>75</sup>

eBay countered that it is a hoster and therefore entitled to liability protection.<sup>76</sup> The auction house also stated that “it participates fully in the struggle against infringement by constantly reminding the users of its sites of compliance with the laws and regulations” and by “setting up [VeRO to help] protect intellectual property.”<sup>77</sup>

Nevertheless, the Commercial Court of Paris found against eBay in both cases.<sup>78</sup> Most importantly, the court determined that eBay was not entitled to protection under Article 6-1-2 or Article 14. According to the court, because eBay receives a commission based on its services, it is not a mere hoster but a broker acting as an intermediary between buyers and sellers.<sup>79</sup> The court looked to several factors in reaching this decision.

First, the court ruled that eBay’s status as a broker signifies both knowledge and control over its forums and listings.<sup>80</sup> Because the court found that eBay had actual knowledge of infringing listings, represented by eBay’s awareness of general counterfeiting activity, eBay should have known of the possibility of counterfeit sales due to the prices and volume of LVMH products sold on its sites.<sup>81</sup> Accord-

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States shall ensure that the service provider is not liable for the information stored at the request of a recipient of the service, on condition that:

(a) the provider does not have actual knowledge of illegal activity or information and, as regards claims for damages, is not aware of facts or circumstances from which the illegal activity or information is apparent; or

(b) the provider, upon obtaining such knowledge or awareness, acts expeditiously to remove or to disable access to the information.

2. Paragraph 1 shall not apply when the recipient of the service is acting under the authority or the control of the provider.

Council Directive 2000/31/EC, art. 14, 2000 O.J. (L 178) 13.

<sup>75</sup> *Id.*

<sup>76</sup> *Louis Vuitton Case*, *supra* note 11, at 10.

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

<sup>78</sup> *Id.* at 12; *Christian Dior Case*, *supra* note 11, at 12.

<sup>79</sup> *See Louis Vuitton Case*, *supra* note 11, at 11.

<sup>80</sup> *See id.*; *Christian Dior Case*, *supra* note 11, at 11.

<sup>81</sup> *See Louis Vuitton Case*, *supra* note 11, at 12. For instance, the court noted that some auction captions stated that the product was “a fine imitation of a famous Louis Vuitton design.” *Id.*

dingly, it appears that general knowledge of counterfeit activity, without specific knowledge of particular listings, is sufficient to put eBay on notice of infringing items in France.

Second, according to the Commercial Court of Paris, eBay exercised sufficient control over its users to justify denying it liability protection. The court found that eBay violated Article 6-1-2, because an eBay user “acts under the control or authority of the hosting site” since users have to sign up for eBay, and eBay has the power to remove both listings and users.<sup>82</sup> The court also noted that “eBay’s participation is essential in the selling of counterfeit products.”<sup>83</sup> eBay establishes programs and relationships with users to ensure the promotion and development of auctions and is a “mandatory player in sales taking place . . . [by undertaking] a very active role . . . to increase the number of transactions generating commissions for its benefit.”<sup>84</sup>

The French court also stressed that eBay failed to establish effective policing measures and profited from its facilitation of unlawful illicit goods trading.<sup>85</sup> The court deemed the establishment of VeRO evidence of eBay’s previous negligence, stating that “although measures have recently been taken by eBay, this only goes to show that it has been negligent in the past . . . and . . . therefore it is aware that it is wholly and entirely liable.”<sup>86</sup>

Subsequent to its liability determination, the Commercial Court of Paris handed down a significant damages judgment and injunction against eBay. In total, eBay must pay approximately 40 million, or about \$63 million, to various LVMH brands and is prevented from listing certain genuine perfumes made by LVMH pursuant to the injunction.<sup>87</sup> European Union (EU) Member States are permitted to enact laws prohibiting the sale of authentic products outside of a se-

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<sup>82</sup> *Christian Dior Case*, *supra* note 11, at 11.

<sup>83</sup> *Id.* at 12.

<sup>84</sup> *Louis Vuitton Case*, *supra* note 11, at 11.

<sup>85</sup> *See id.* at 10; *Christian Dior Case*, *supra* note 11, at 10. “[S]uch essential participation by eBay in the marketing of products infringing, in particular, the [LVMH] trademarks constitutes tortious activity.” *Louis Vuitton Case*, *supra* note 11, at 12.

<sup>86</sup> *Christian Dior Case*, *supra* note 11, at 12.

<sup>87</sup> Ladka Bauerova, *EBay is Ordered to Pay \$63 Million in LVMH Lawsuit*, BLOOMBERG, June 30, 2008, <http://www.bloomberg.com/apps/news?pid=20601085&sid=a3zIHJ0UYAcc>. For instance, 19.28 million is to be paid to Louis Vuitton and 16.4 million to Christian Dior fashion. *Id.* The court also allocated 3.19 million to the makers of Christian Dior, Kenzo, Givenchy, and Guerlain perfumes. *Id.*

lective distribution network.<sup>88</sup> Consequently, the ruling not only requires eBay to block all sales of counterfeit Louis Vuitton and Christian Dior products, but also sales of authentic perfumes owned by LVMH that are listed by unauthorized distributors.<sup>89</sup> Thus, the listing of both real and fake goods on eBay can subject eBay to potential liability under French law, severely impacting eBay and its laissez-faire business model.

*B. Litigation Between Tiffany and eBay*

On July 14, 2008, in an opinion rendered by Judge Richard J. Sullivan of the U.S. District Court for the Southern District of New York, eBay escaped liability in a case brought by Tiffany for the sale of counterfeit items.<sup>90</sup> Tiffany is personified by its trademark blue box, and its jewelry symbolizes luxury and wealth.<sup>91</sup> The jewelry manufacturer does not sell its goods through discount stores and closely controls the distribution of its authorized goods.<sup>92</sup> Tiffany filed suit against eBay in 2004 for contributory trademark infringement, claiming that eBay continuously allowed the sale of items falsely bearing the Tiffany label when eBay was aware that counterfeit items were auctioned on eBay.<sup>93</sup>

Tiffany argued that the majority of jewelry offered for sale on eBay using the “Tiffany” trademark is counterfeit and that eBay profited from these sales while taking inadequate steps to prevent the

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<sup>88</sup> See Consolidated Version of the Treaty Establishing the European Community art. 81, Mar. 25, 1957, 2002 O.J. (C 325) 64–65 (describing exceptions allowing agreements and business practices by Member States that lead to the “prevention, restriction or distortion of competition” in the marketplace).

<sup>89</sup> The LVMH perfumes are Kenzo, Guerlain, Christian Dior, and Givenchy. Press Release, eBay.fr, Suite de la décision de justice rendue la 30 juin dernier [Following the Court Order Issued Last June 30] (July 11, 2008), available at <http://actualites.ebay.fr/showitem&id=396>; see also Ryan Kim, *eBay to Appeal Huge French Counterfeit Ruling*, S.F. GATE, July 1, 2008, available at <http://sfgate.com/cgi-bin/article.cgi?f=c/a/2008/07/01/BUEP11HILD.DTL>.

<sup>90</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 463 (S.D.N.Y. 2008), *aff'd*, 600 F.3d 93 (2d Cir. 2010); see also Stone, *supra* note 11.

<sup>91</sup> See Favre, *supra* note 1, at 165. “For over 150 years, Tiffany has achieved great renown as a purveyor of high quality goods . . . such as jewelry, silver, china, glassware, decorative objects, crystal, and clocks, under the trademark and trade name TIFFANY and its variant TIFFANY & CO.” First Amended Complaint at ¶ 8, *Tiffany*, 576 F. Supp. 2d 463 (No. 04 Civ. 4607), 2004 U.S. Dist. Ct. Pleadings LEXIS 9530.

<sup>92</sup> First Amended Complaint, *supra* note 91, at ¶¶ 10–11.

<sup>93</sup> *Tiffany*, 576 F. Supp. 2d at 469.

transactions.<sup>94</sup> Tiffany claimed eBay had notice that a problem with counterfeit Tiffany goods existed but violated its obligation to investigate and prevent the illicit activities by (1) allowing the auctioning off of five or more Tiffany items in a single listing and (2) failing to suspend sellers upon learning that the sellers were engaging in infringing activity.<sup>95</sup>

Tiffany has an “About Me” page stating that most of the “Tiffany” jewelry sold on eBay is counterfeit<sup>96</sup> and is one of VeRO’s most frequent users.<sup>97</sup> Through September 2007, Tiffany reported 284,149 listings through VeRO and was among its top ten reporters.<sup>98</sup> Moreover, eBay previously took action when alerted by Tiffany to quickly remove listings and suspend sellers. The jewelry company could only point to twenty-three occasions where a seller reported through VeRO resurfaced on eBay under the same registered user name.<sup>99</sup> Nevertheless, eBay does profit off of the sale of Tiffany items regardless of their authenticity. For example, between April 2000 and June 2004, eBay earned approximate revenues of \$4.1 million from completed auctions with the name “Tiffany” in the listing title.<sup>100</sup>

In 2004, Tiffany, mindful of its trademark being infringed on eBay, implemented a buying program to purchase jewelry items using the Tiffany trademark in the auction listing or description.<sup>101</sup> Of the 186 pieces of “Tiffany” silver jewelry purchased, seventy-three percent were counterfeit, and only five percent of the items bought in the investigation were as advertised.<sup>102</sup> Litigation ensued shortly after the completion of the buying program.<sup>103</sup>

Sitting without a jury, the district court held that eBay was not liable to Tiffany for contributory trademark infringement.<sup>104</sup> Contribu-

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<sup>94</sup> First Amended Complaint, *supra* note 91, at ¶¶ 22–23.

<sup>95</sup> *Tiffany*, 576 F. Supp. 2d at 469.

<sup>96</sup> *Id.* at 479.

<sup>97</sup> For instance, Tiffany reported 20,915 listings in 2003; 45,242 listings in 2004; 59,012 listings in 2005; 134,779 in 2006; and 24,201 listings through September 30, 2007. *Id.* at 484.

<sup>98</sup> *Id.*

<sup>99</sup> *Id.* at 489.

<sup>100</sup> The \$4.1 million came from 456,551 sales. *Id.* at 481.

<sup>101</sup> First Amended Complaint, *supra* note 91, at ¶ 38.

<sup>102</sup> *Tiffany*, 576 F. Supp. 2d at 482, 485. The remaining purchases were “imitations’ that might subject the seller to liability, but they were not technically ‘counterfeit’ because” a Tiffany mark did not appear on them. Parloff, *supra* note 53.

<sup>103</sup> *Tiffany*, 576 F. Supp. 2d at 482.

<sup>104</sup> *Id.* at 470.

tory trademark infringement is a doctrine judicially constructed by the Supreme Court of the United States in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*<sup>105</sup> In *Inwood*, the Court stated that “liability for trademark infringement can extend beyond those who actually mislabel goods with the mark of another” and that third parties can be held liable for playing a part in the trademark violation.<sup>106</sup> The Court also set forth a test to determine if a party should be held liable for contributory trademark infringement. The *Inwood* test states,

[I]f a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.<sup>107</sup>

Subsequent courts have expanded the concept of contributory trademark infringement beyond the facts of *Inwood*. In *Hard Rock Café Licensing Corp. v. Concession Services, Inc.*, the U.S. Court of Appeals for the Seventh Circuit held that a flea market owner could be held liable for contributory trademark infringement when flea market vendors sell merchandise illegally bearing a brand owner’s trademark.<sup>108</sup> Further, in *Lockheed Martin Corp. v. Network Solutions, Inc.*, the U.S. Court of Appeals for the Ninth Circuit determined that it was irrelevant whether the venue involved was online.<sup>109</sup> Rather, the relevant inquiry for the *Inwood* test is “the extent of control exercised by the defendant over the third party’s means of infringement.”<sup>110</sup>

Based on these principles, the *Tiffany* court stated that the *Inwood* test can be “read to impose liability for contributory trademark infringement beyond” those who manufacture and distribute the products.<sup>111</sup> The court found that eBay exercises sufficient control over its Web sites and users to be within the bounds of the *Inwood* framework.<sup>112</sup> Judge Sullivan considered eBay analogous to the flea market in *Hard Rock Café* because eBay provides the necessary mar-

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<sup>105</sup> 456 U.S. 844 (1982).

<sup>106</sup> *Id.* at 853–54.

<sup>107</sup> *Id.* at 854.

<sup>108</sup> 955 F.2d 1143, 1148–50 (7th Cir. 1992). But in that case, the court found that there was insufficient evidence to support such a claim. *Id.* at 1150.

<sup>109</sup> 194 F.3d 980, 984–85 (9th Cir. 1999).

<sup>110</sup> *Id.* at 984.

<sup>111</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 505 (S.D.N.Y. 2008), *aff’d*, 600 F.3d 93 (2d Cir. 2010).

<sup>112</sup> *See id.* at 506.

ketplace for the sale of counterfeit goods, takes an active role in facilitating transactions between buyers and sellers, maintains significant control over listings on its forums, actively promotes the sale of Tiffany products, and profits from the listing of items and completion of sales.<sup>113</sup>

Under *Inwood*, Tiffany must prove that eBay continued to supply its services to “one whom it knows or has reason to know is engaging in trademark infringement.”<sup>114</sup> Evidence indicated that eBay had generalized notice that some Tiffany jewelry on its Web site might be counterfeit.<sup>115</sup> Tiffany claimed this generalized knowledge is adequate to incur liability,<sup>116</sup> but the court disagreed and held that “generalized knowledge is insufficient to impute knowledge of any and all instances of infringing activity to eBay.”<sup>117</sup> The court found that Tiffany’s NOCI reporting through VeRO, its buying programs indicating that counterfeit goods were sold, and its removal requests only provide general knowledge to eBay of illegal activity and were thus insufficient to establish liability.<sup>118</sup>

The court was unwilling to hold eBay liable without specific knowledge of a particular auction because the amount of illicit listings on eBay is uncertain.<sup>119</sup> The record revealed that authentic Tiffany merchandise was sold on eBay, sometimes in lots of five or more, which does not support Tiffany’s argument that jewelry sold in bundles is per se indicative of counterfeiting.<sup>120</sup> To hold eBay liable based on Tiffany’s “five or more” theory would stifle the sale of legitimate goods on eBay and increase Tiffany’s rights over the use of its mark to the detriment of the consuming public.<sup>121</sup>

Moreover, the court held that eBay’s policing measures, such as VeRO, adequately attack counterfeiting, because when eBay has specific knowledge of particular infringing listings, it promptly terminates the listings, and when eBay has knowledge of specific counter-

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<sup>113</sup> *Id.* at 506–07.

<sup>114</sup> *Id.* at 508 (quoting *Inwood Labs., Inc. v. Ives Labs., Inc.*, 454 U.S. 844, 854 (1982)).

<sup>115</sup> *Id.* at 508.

<sup>116</sup> *Id.* at 507.

<sup>117</sup> *Tiffany*, 576 F. Supp. 2d at 518.

<sup>118</sup> *Id.*

<sup>119</sup> *See id.* at 508 (stating that courts have been hesitant to extend liability to defendants where the extent of the infringement is unclear).

<sup>120</sup> *Id.* at 509.

<sup>121</sup> *Id.* at 510.

feit sellers, it promptly suspends them.<sup>122</sup> Additionally, the court stated that even though the burden of policing the trademark rests with Tiffany as the brand owner, and not eBay,<sup>123</sup> eBay's response upon receiving notice of specific infringing items is reasonable and appropriate.<sup>124</sup> Specifically, the court referenced eBay's investment of millions of dollars to fight counterfeiting, its fraud engine, and its implementation of VeRO.<sup>125</sup> Also, contrary to the interpretation of the Paris Commercial Court, Judge Sullivan held that eBay's institution of new antifraud measures is not a concession of past negligence.<sup>126</sup> It was simply not technically possible for eBay to have implemented all of its policing measures at an earlier time.<sup>127</sup>

Furthermore, in contrast to the LVMH decisions, the *Tiffany* court determined that "rights holders bear the principal responsibility to police their trademarks."<sup>128</sup> The court ruled that eBay has no affirmative duty to search for infringing items without specific knowledge provided to it by the brand owner, such as through NOCI reporting.<sup>129</sup> When eBay did have specific knowledge through VeRO of Tiffany's "good faith belief" that a particular listing was infringing, eBay reasonably investigated and promptly removed the auction.<sup>130</sup> Tiffany also claimed that eBay allowed repeat offenders to sell counterfeit goods after submitting an NOCI.<sup>131</sup> Nonetheless, the court found that eBay was reasonable in not automatically or permanently suspending a seller after receiving an NOCI because an NOCI is not a conclusive determination of counterfeiting but only a good faith belief of infringement.<sup>132</sup>

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<sup>122</sup> See *id.* at 515–17.

<sup>123</sup> *Tiffany*, 576 F. Supp. 2d at 518.

<sup>124</sup> *Id.* at 513.

<sup>125</sup> *Id.* at 514.

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

<sup>127</sup> See *id.* These additional policing measures include implementing VeRO, delaying the ability to view listings with certain brand names for review purposes, developing the capacity to assess the number of items in a given listing, prohibiting one-day and three-day auctions of listings with certain brand names, and restricting cross-border trading. *Id.* at 492.

<sup>128</sup> *Id.* at 518 (citing *MDT Corp. v. N.Y. Stock Exch.*, 858 F. Supp. 1028, 1034 (C.D. Cal. 1994) ("The owner of a trade name must do its own police work.")).

<sup>129</sup> *Tiffany*, 576 F. Supp. 2d at 515. ("[W]ithout specific knowledge or reason to know, eBay is under no affirmative duty to ferret out potential infringement.").

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

<sup>131</sup> *Id.* at 516.

<sup>132</sup> *Id.* at 516–17.

Additionally, the *Tiffany* court determined that Tiffany's desire to impute generalized knowledge as sufficient to impose liability would damage the legitimate secondary market of authentic goods that eBay and other markets provide.<sup>133</sup> Under U.S. law, secondary markets of genuine, brand-name goods are legal.<sup>134</sup> "As a general rule, trademark law does not reach the sale of genuine goods bearing a true mark even though the sale is not authorized by the mark owner."<sup>135</sup> Tiffany requires its jewelry be sold in the United States only through Tiffany retail stores, Tiffany catalogs, the Tiffany Web site, and Tiffany's Corporate Sales Department.<sup>136</sup> Tiffany also has a policy of refusing to sell five of the same new items to any one customer without the approval of a store manager.<sup>137</sup> Nevertheless, the Southern District of New York, contrary to the findings of the Commercial Court of Paris,<sup>138</sup> found that while brand owners have an incentive to curtail the sale of even authentic goods, the law protects legitimate secondary markets.<sup>139</sup>

Ultimately, *Tiffany* stands for the principle that the brand owner, not eBay, has the primary duty to police its forums. But when a brand owner comes across an infringing item and alerts eBay, eBay must act swiftly with this knowledge to remove the listing.<sup>140</sup> Only if eBay has specific knowledge can it be held liable for failing to take action. In this case, eBay, through VeRO and its other anti-counterfeiting initiatives, took reasonable measures to police its Web sites for counterfeit goods.<sup>141</sup> Clearly, the *Tiffany* decision and the decisions of the Commercial Court of Paris involving LVMH reveal a

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<sup>133</sup> See *id.* at 473.

<sup>134</sup> *Id.* ("[T]he law clearly protects such secondary markets in authentic goods.")

<sup>135</sup> *Polymer Tech. Corp. v. Mimran*, 975 F.2d 58, 61–62 (2d Cir. 1992).

<sup>136</sup> *Tiffany*, 576 F. Supp. 2d at 472–73.

<sup>137</sup> *Id.* at 473.

<sup>138</sup> See *Louis Vuitton Case*, *supra* note 11, at 12.

<sup>139</sup> See *Tiffany*, 576 F. Supp. 2d at 473. The court stated, [W]hile rights holders such as Tiffany may have obvious economic incentives to curtail the sale of both counterfeit and authentic goods on the Internet—after all, every sale of Tiffany jewelry on eBay potentially represents a lost sales opportunity via Tiffany's own authorized distribution channels—the law provides protection only from the former, not the latter. Clearly, eBay and other online market websites may properly promote and facilitate the growth of legitimate secondary markets in brand-name goods.

*Id.*

<sup>140</sup> See *Stone*, *supra* note 11.

<sup>141</sup> See *Tiffany*, 576 F. Supp. 2d at 514.

split in authority across countries. For eBay, this country split causes problematic future ramifications, including questions regarding the stability of its business model and the threat of increased litigation by other luxury brands.

*C. Additional European Cases Involving eBay's Liability for Counterfeit Sales*

In addition to the *Tiffany* and LVMH cases, courts throughout Europe have dealt with the question of eBay's liability for counterfeit sales. Yet, like *Tiffany* and the LVMH cases, these decisions have not cleared up the confusion over how to assess eBay's liability. These decisions indicate that eBay is more likely to be held liable in Europe; however, some European courts have interpreted their laws to protect eBay from liability for the way it regulates its Web sites for counterfeit goods.<sup>142</sup>

Courts in France, eBay's fourth largest market,<sup>143</sup> appear to be more willing than others to hold eBay liable. Prior to the LVMH decisions, on June 4, 2008, a commercial court sitting in Troyes, France, ruled in favor of Hermès International, a French luxury retailer, in a lawsuit brought against eBay.<sup>144</sup> The Hermès suit was rather small in scope, involving just two fake Hermès-branded handbags and one genuine bag listed on eBay's French site.<sup>145</sup> eBay was required to pay Hermès 20,000, or approximately \$31,000, and to post the ruling on its French site for three months.<sup>146</sup> The French court found that "[b]y selling Hermès bags and branded accessories on the eBay.fr site and by failing to act within their powers to prevent reprehensible use of the site," both eBay and the seller "committed acts of counterfeiting."<sup>147</sup>

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<sup>142</sup> See Agence France-Presse, *eBay Wins Belgian Court Victory Over L'Oréal in Fake Case*, GOOGLE NEWS, Aug. 12, 2008, <http://afp.google.com/article/ALeqM5hPGbbjTZ-A5swZOUOMuaw1kKNRoQ>; Jill Insley, *L'Oréal Loses British Court Battle with eBay*, GUARDIAN (London), May 22, 2009, <http://www.guardian.co.uk/technology/2009/may/22/eBay-loreal-court-case-counterfeit>; Maija Palmer, *eBay Wins French L'Oréal Fakes Lawsuit*, FIN. TIMES, May 13, 2009, <http://blogs.ft.com/techblog/2009/05/eBay-wins-french-loreal-fakes-lawsuit/>; Parloff, *supra* note 15.

<sup>143</sup> Bauerova, *supra* note 87.

<sup>144</sup> See Carol Matlack, *Hermès Beats eBay in Counterfeit Case*, BUS. WK., June 6, 2008, [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).

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

<sup>146</sup> *Id.*; Ram, *supra* note 55.

<sup>147</sup> Matlack, *supra* note 144.

Nonetheless, the tide in France may be turning in eBay's favor. On May 13, 2009, a French civil court found for eBay in a lawsuit brought by L'Oréal claiming that eBay was profiting from counterfeit perfume sales.<sup>148</sup> Judge Elisabeth Belfort ruled that eBay "fulfilled its obligation in good faith" by setting up systems like VeRO to rid the site of counterfeit listings and was a mere hoster for the sales, not a party to the illegal transactions.<sup>149</sup> Although the French court found in favor of eBay, that decision was in civil court, while the LVMH cases took place in commercial court.<sup>150</sup> Also, although eBay filed an appeal,<sup>151</sup> the LVMH award has yet to be reversed, suggesting that the French courts may still be somewhat adverse to eBay's business model. If courts in France, which are seen as the strictest in Europe in terms of fighting counterfeits, are beginning to find for eBay, however, it suggests that eBay is properly policing its listings for illegal goods.<sup>152</sup>

Like France, Germany has previously refused to grant eBay host protection, and one German court has found eBay liable for allowing—and profiting from—the sale of counterfeit goods.<sup>153</sup> In 2007, the German Federal Supreme Court issued a judgment finding eBay liable to Montres Rolex SA for listing "counterfeit Rolex watches on eBay's German site."<sup>154</sup> The court held that eBay failed to take reasonable steps to prevent the recurrence of counterfeiting once it identified clearly infringing items,<sup>155</sup> which may include items with such a low start price that they are likely counterfeit.<sup>156</sup> The court also noted that eBay could be liable in some circumstances "upon [the] first notice of infringement."<sup>157</sup>

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<sup>148</sup> Eric Pfanner, *French Court Clears eBay in Selling Fake Goods*, N.Y. TIMES, May 13, 2009, at B10, available at [http://www.nytimes.com/2009/05/14/technology/companies/14loreal.html?\\_r=1](http://www.nytimes.com/2009/05/14/technology/companies/14loreal.html?_r=1).

<sup>149</sup> *Id.*; Palmer, *supra* note 142.

<sup>150</sup> Pfanner, *supra* note 148.

<sup>151</sup> *See id.*

<sup>152</sup> *See* Palmer, *supra* note 142.

<sup>153</sup> *See* Ram, *supra* note 55.

<sup>154</sup> Eric Auchard, *eBay Dealt Blow on Fake Rolexes by German Court*, REUTERS, July 27, 2007, <http://uk.reuters.com/article/idUKN2736988920070727>.

<sup>155</sup> *See id.*

<sup>156</sup> For instance, the court remanded the case to a lower court to determine if the low start price of a Rolex watch listing, for example less than 800 euros, was sufficient evidence to demonstrate that the listed item was counterfeit. *Id.*

<sup>157</sup> *Id.*

Contrary to the interpretation of German and some French courts, other European courts interpret Article 14 in favor of eBay and grant it liability protection. On August 12, 2008, the Belgian Tribunal de Commerce cleared eBay of wrongdoing over the sale of counterfeit L'Oréal products, primarily Lancôme perfumes, on eBay.<sup>158</sup> The court held that eBay is a passive provider of host services under Article 14 and therefore entitled to liability protection.<sup>159</sup> Similar to the interpretation of U.S. law in *Tiffany*,<sup>160</sup> the court also ruled that eBay did not have a “general monitoring obligation” over what was listed on its sites.<sup>161</sup>

Additionally, in a similar case brought by L'Oréal, the United Kingdom High Court ruled in May 2009 that eBay “[took] active steps to prevent or at least minimise [counterfeit] activities” and is therefore shielded from liability to L'Oréal for counterfeit sales.<sup>162</sup> The UK High Court also stated that “[t]he fact that it would be possible for eBay Europe to do more does not necessarily mean that it is legally obliged to do more, however.”<sup>163</sup>

L'Oréal has not surrendered in its fight against eBay. It has also filed suit in Germany and Spain over cosmetics sold under such well-known brands as Lancôme, Ralph Lauren, and Giorgio Armani.<sup>164</sup> L'Oréal estimates that 50–60 percent of the fragrances sold on eBay bearing its marks are fake.<sup>165</sup>

As evidenced by the cases above, eBay's liability is determined by the forum country's laws, and some jurisdictions are more apt to find eBay liable than others. Such discrepancies in the law and how eBay's policing activities are examined will likely lead to confusion, high costs, and viability issues for eBay and its users going forward.

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<sup>158</sup> Parloff, *supra* note 15.

<sup>159</sup> *See id.*

<sup>160</sup> *See Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 527 (S.D.N.Y. 2008), *aff'd*, 600 F.3d 93 (2d Cir. 2010).

<sup>161</sup> Agence France-Presse, *supra* note 142.

<sup>162</sup> Insley, *supra* note 142.

<sup>163</sup> *Id.*

<sup>164</sup> Matlack, *supra* note 144; *see also L'Oréal Sues eBay Over Counterfeit Goods*, REGISTER, Sept. 13, 2007, [http://www.theregister.co.uk/2007/09/13/loreal\\_sues\\_ebay](http://www.theregister.co.uk/2007/09/13/loreal_sues_ebay).

<sup>165</sup> Alissa Demorest, *Faking It*, INT'L COSMETIC NEWS, Oct. 1, 2007 (LexisNexis retrieved Sept. 1, 2008).

## IV. RAMIFICATIONS OF THE COUNTRY SPLITS

The lack of uniformity among nations dealing with similar fact patterns in a global economic environment has potentially severe ramifications for eBay. These include a flood of lawsuits where eBay's liability is dependent on the plaintiff's choice of forum, higher litigation costs, the implementation of new anti-counterfeiting measures, a possible alteration of its business model, and a disruption of legitimate secondary markets.

A. *Potential Flood of Lawsuits in Forums Unfavorable to eBay*

Brand owners appear unwilling to put in the time or incur the cost to pursue individual counterfeiters who peddle illegal goods on eBay.<sup>166</sup> They prefer instead to seek out a prime, exposed, and, most importantly, wealthy target to sue, and eBay is an entity that fits that mold.<sup>167</sup> eBay must work efficiently to deter these counterfeiting lawsuits to prevent future litigation by other companies with deep coffers who, seeing an opportunity for a large judgment, may be willing to take the risk to prevent sales on eBay.<sup>168</sup> This risk is also justified by luxury-brand owners because if they do not take action against eBay, the brand owner's reputation may suffer if its counterfeit merchandise floods the market, which may diminish the brand's status among consumers.<sup>169</sup>

Some nations appear more willing than others to hold eBay liable, emboldening luxury brands to file suit in favorable forums. Thus, luxury brands whose items are sold across the world or that are based in a country where liability is more likely to be found can sue eBay in multiple forums at the same time to hedge their bets and im-

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<sup>166</sup> See Ronald J. Mann, *Emerging Frameworks for Policing Internet Intermediaries*, J. INTERNET L., Dec. 2006, at 3, 8–9.

<sup>167</sup> See Jess Cartner-Morley, *In Search of the Real Deal*, GUARDIAN (London), July 2, 2008, at 15, available at <http://www.guardian.co.uk/technology/2008/jul/02/eBay.consumeraffairs>.

<sup>168</sup> See Calkins, Nikitkov & Richardson, *supra* note 9, at 14 (“Because many well-known companies with deep pockets could file similar complaints, eBay must work to resolve this situation in a way that will placate or deter other potential corporate plaintiffs. Otherwise, eBay might be faced with a flood of lawsuits . . . .”); see also Demorest, *supra* note 165 (noting that beauty-product companies took a first step by prosecuting individual online vendors but that such efforts have been fruitless).

<sup>169</sup> See *Handbagged; eBay's Legal Woes*, *supra* note 35, at 76. According to the general counsel of Gucci Group, “We don't make any money from sales on eBay, but we have to tell people that their bag isn't real, that we can't help them get their money back, and we become the bad guys.” *Id.*

prove their chances at victory. This is the strategy L'Oréal employed in choosing to sue eBay in the UK, Germany, Spain, France, and Belgium.<sup>170</sup>

In addition, luxury brands have the ability to employ a “wait and see” approach to litigation. If a particular forum appears more likely to find liability, such as France or Germany, other luxury brands can pounce on the judgment, sue in that particular forum, and claim the previous cases as precedent.<sup>171</sup> For instance, if a luxury brand based in France, or whose brand is falsely peddled on eBay in France, considers the LVMH award of approximately \$63 million and the judgment in favor of Hermès, the brand is more likely to file suit there due to France’s interpretation of eBay’s status under French law and Article 14. And when eBay is litigating in countries that have previously held it liable, eBay has more difficulty arguing that its policing efforts are sufficient to prevent liability for the sale of counterfeit goods.

Another dilemma that may prompt a flood of litigation is the potential disparity in how European nations interpret their own laws and directives. German and some French courts are unwilling to give eBay “hoster” protection under Article 14, but Belgium and the UK ruled that eBay is a passive provider of “host” services and therefore entitled to liability protection.<sup>172</sup> Consequently, even when applying the same standard throughout Europe, eBay’s liability may depend on circumstances over which it has little control, namely the forum in which the luxury brand files suit.

Moreover, as seen in the LVMH cases and the *Tiffany* decision, courts around the world have vastly different interpretations of “knowledge.” Both European nations that have adopted Article 14 and the United States use some form of a knowledge test. While France and Germany may interpret actual knowledge to mean a more general knowledge of counterfeiting activity, the district court in *Tiffany* found that general knowledge is insufficient to impose liability; eBay must have specific knowledge of an infringing listing and fail to

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<sup>170</sup> See *supra* notes 148–49, 158–65 and accompanying text.

<sup>171</sup> See Rosencrance, *supra* note 19 (“[L]uxury goods makers are waiting to see the outcome of eBay’s appeal to determine whether they will also go after eBay for allowing the sale of counterfeit goods.”); see also Jagger, *supra* note 17, at 42 (stating that “a ruling against eBay . . . would unleash similar lawsuits” and encourage other designers to file suit).

<sup>172</sup> Parloff, *supra* note 15 (“In contrast, the German and French courts had found that the ‘host’ service exception did not protect eBay because of the active role eBay plays in making sales happen and the fact that it takes a commission on every sale.”).

adequately act on that knowledge.<sup>173</sup> Thus, the differing decisions in the United States and Europe, as well as a split among Article 14 interpretations, expose eBay to exploratory litigation, brands suing in multiple forums to increase their odds and recovery awards, and other companies waiting in the wings to pounce on precedent.

*B. Adverse Judgments Can Bring Significant Costs to eBay and its Business Model*

The disparity in determining eBay's liability can bring about significant costs to eBay, including the costs of litigation, settlements, and alterations to its business model. The biggest costs facing eBay are large judgments, such as the \$63 million owed to the brands of LVMH.<sup>174</sup> In addition, if eBay is forced to litigate in countries such as France and Germany, where it has been held liable in the past, eBay may decide to settle with the brand owner, which can also add significant costs.<sup>175</sup> Such settlements can prompt "wait and see" litigation by brand owners seeking relief from eBay who may not want to risk litigation in eBay-friendly forums. Furthermore, if eBay begins to lose or settle a higher percentage of its cases, eBay's argument that it is doing enough to police its forums for counterfeit goods will lack credibility. Adverse judgments and a higher duty imposed by some European courts may limit eBay's ability to maintain its laissez-faire business model. eBay's business model is premised on providing only a venue for buyers and sellers to negotiate while refraining from taking part in the actual transaction, never taking possession of the item or vetting the product, and only removing a listing if prompted by a claim of infringement.<sup>176</sup> eBay's liability for counterfeit sales around the world will surely impose higher duties on it in nations where it is found liable for failing to take action and profiting from the sales. Therefore, with unsympathetic courts deeming eBay's business model inadequate, eBay will have to adjust the way it does business, creating substantial barriers to commerce.

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<sup>173</sup> See Ed Shanahan, *Tiffany v. eBay Appeal Grabs Second Circuit Spotlight*, AM. LAW DAILY, July 16, 2009, <http://amlawdaily.typepad.com/amlawdaily/2009/07/tiffany-v-ebay-appeal-grabs-second-circuit-spotlight.html> (last updated July 17, 2009).

<sup>174</sup> Bauerova, *supra* note 87.

<sup>175</sup> See Hafner, *supra* note 56 (stating that, according to an intellectual property attorney, "[t]he cost implied is tremendous" if eBay begins settling cases with brand owners).

<sup>176</sup> See Sunderji, *supra* note 23, at 913, 915–16.

For instance, eBay may have to police its Web site in different ways in different countries. eBay may need to adopt new policing and regulatory measures in some nations while maintaining the status quo in others.<sup>177</sup> Millions of dollars will have to be employed to enact new takedown measures, policing procedures, and counterfeit-detection programs to abide by a particular jurisdiction's interpretation of the law.<sup>178</sup> This would be in addition to the \$20 million eBay spends annually and the more than two thousand individuals eBay employs to combat counterfeiting.<sup>179</sup> eBay will also have to set up custom policing standards based on a particular country's laws. In turn, this may diminish consumer choice and reduce the ability of users from different parts of the world to do business with one another.<sup>180</sup>

Increasing eBay's costs of doing business and detrimentally affecting its business model will not abruptly end all counterfeiting activity on eBay. As long as fraud is inherent in the eBay model, no new, stricter, and costlier policing methods will prevent all types of counterfeit operations on eBay.<sup>181</sup> Even so, eBay contends that only a small share of the goods sold on eBay are counterfeit;<sup>182</sup> yet eBay may not be able to do much more beyond its current methods. When counterfeit goods are located, the listing is removed, but due to the size of eBay and the number of transactions occurring at any given time, it may not be possible for eBay to police its sites to the high standards desired by some European courts without destroying its business model. It is simply unrealistic to assume that eBay can know the exact contents of each and every one of its estimated 2.7 billion annual listings or determine the content of a listing without coming into possession of the item.<sup>183</sup> Requiring more might force eBay to physically take possession of certain items, like specific luxury items

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<sup>177</sup> See Stone, *supra* note 11.

<sup>178</sup> See *id.* (stating that "eBay would be legally required to do more abroad to fight counterfeiting than it is required to do at home").

<sup>179</sup> Press Release, eBay Inc., *supra* note 51.

<sup>180</sup> See Rosencrance, *supra* note 19. According to eBay spokeswoman Nichola Sharpe, "If we have to change our business in relation to this ruling, it will be a massive undertaking." *Id.*

<sup>181</sup> See Stone, *supra* note 50 (reporting a statement by former eBay CEO Meg Whitman that "[f]raud is inherent in marketplaces of our scale").

<sup>182</sup> Katie Hafner, *supra* note 56, at 1.

<sup>183</sup> Insley, *supra* note 142.

or higher-priced listings,<sup>184</sup> or to take down particular categories where counterfeit trading is most prominent.<sup>185</sup>

Increased costs in paying out judgments and settlements, as well as increased policing expenses, might force eBay to pass the financial burden on to its users.<sup>186</sup> For instance, eBay can impose fee increases on sellers for completing transactions or even a fee for simply registering with eBay.<sup>187</sup> Also, if the costs became too burdensome, eBay might be forced to stop auctioning off certain trademarked goods.<sup>188</sup> Moreover, negative media attention discussing eBay as a hotbed for counterfeit goods can damage its reputation among current and potential users, thereby adversely affecting the volume of transactions and eBay's business.<sup>189</sup> If users or potential users become inundated with reports of counterfeit-goods trafficking on eBay, they will surely be less likely to trade within the forum. Thus, only high-volume buyers and sellers might want to take advantage of the service eBay provides, for excessive fees and heightened regulatory standards would outweigh the benefits to small-time buyers and sellers.<sup>190</sup> Finally, higher costs may also prevent eBay from investing in newer technologies to expand and improve eBay's potential as an arena for global commerce for buyers and sellers.<sup>191</sup> If eBay must expend millions of dollars and devote countless resources to attain an unreasonably high

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<sup>184</sup> See Bray, *supra* note 57.

<sup>185</sup> See Matlack, *supra* note 18.

<sup>186</sup> See Ronald J. Mann & Seth R. Belzley, *The Promise of Internet Intermediary Liability*, 47 WM. & MARY L. REV. 239, 273 (2005) ("It is well recognized that imposing liability on intermediaries will affect the services and prices they present to their customers.").

<sup>187</sup> See Sunderji, *supra* note 23, at 939.

<sup>188</sup> See *id.*

<sup>189</sup> See Demorest, *supra* note 165.

<sup>190</sup> See Mann, *supra* note 166, at 7 (stating that "especially as the cost of liability to the gatekeepers increases significantly, the problem may spiral out of control, such that the only remaining customers will be those who use the gatekeeper's services in highly rewarding ways"). Moreover:

Imposing liability on gatekeepers will result in the unraveling of the market when the fee hike under gatekeeper liability makes the cost of entering the market exceed the value attached to the market by law-abiding clients. As law-abiding clients start departing, gatekeepers update their fees to reflect the increase in the proportion of wrongdoers in the prospective client pool, which, in turn, further encourages law-abiding clients to abandon the market.

Assaf Hamdani, *Gatekeeper Liability*, 77 S. CAL. L. REV. 53, 74 (2003).

<sup>191</sup> See Mann & Belzley, *supra* note 186, at 273-74 (noting that a risk exists that imposing burdens on intermediaries will chill the activities of buyers and sellers).

policing standard, it is less likely to invest in developing a better marketplace for its users. Therefore, adverse judgments and higher standards for eBay might mean significantly higher costs to the auction house.

*C. Disruption of Legitimate Secondary Markets*

Although the prevention of counterfeit sales is the chief concern in the litigation involving eBay, a secondary reason that luxury-brand owners have sought to take eBay to court is to prevent the distribution of their trademarked goods in legitimate secondary markets.<sup>192</sup> Many luxury-brand owners tightly control distribution networks for their products, such as by only using their own shops or a few authorized distributors.<sup>193</sup> Having their legitimate goods listed on eBay prevents these owners from maintaining the desired control over their products.

For instance, in the LVMH cases, the court not only determined that eBay was a broker that actively participated in and profited from the sale of counterfeit goods, but the court also issued an injunction against eBay to stop all sales of legitimate LVMH perfumes manufactured by Guerlain, Givenchy, Christian Dior, and Kenzo.<sup>194</sup> If such a result becomes commonplace, luxury brands will essentially be able to control the distribution of their genuine products even after the first sale to prevent them from being resold in the future at lower prices, preventing those on the lower end of the socioeconomic ladder from accessing “luxury” merchandise.

eBay is keenly aware of such a ramification. Following the LVMH decision, an eBay press release recognized,

It is clear that eBay has become a focal point for certain brand owners' desire to exact ever greater control over e-commerce.

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The ruling . . . seeks to impact the sale of second-hand goods as well as new genuine products, effectively reaching into homes and rolling back the clock on the Internet and liberty it has created. . . . [C]ounterfeit suits are being used by certain brand

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<sup>192</sup> See Roger Parloff, *EBay Denied Stay in LVMH Case*, FORTUNE, July 11, 2008, <http://features.blogs.fortune.cnn.com/2008/07/11/ebay-denied-stay-in-lvmh-case/>.

<sup>193</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 472–73 (S.D.N.Y. 2008), *aff'd*, 600 F.3d 93 (2d Cir. 2010).

<sup>194</sup> Press Release, eBay.fr, *supra* note 89.

owners as a stalking-horse issue to reinforce their control over the market.<sup>195</sup>

The European Community, through Article 81 of the Treaty Establishing the European Community (“EC Treaty”), authorizes brand owners to use “selective distribution,” which allows manufacturers to essentially control how and where their products are sold.<sup>196</sup> But manufacturers must abide by certain requirements. “Firstly, the nature of the product in question must necessitate a selective distribution system. Secondly, resellers must be chosen on the basis of objective criteria of a qualitative nature. Thirdly, the criteria laid down must not go beyond what is necessary.”<sup>197</sup> To satisfy Article 81(3) of the EC Treaty, the selective distribution must improve production and distribution, promote progress, and not have a significantly adverse effect on consumers.<sup>198</sup>

The French opinion enjoining eBay from allowing its site to be used for certain genuine perfumes is inconsistent with U.S. law, which allows the sale of authentic products through unauthorized channels.<sup>199</sup> As stated in the *Tiffany* decision, “[T]he law clearly protects such secondary markets in authentic goods,”<sup>200</sup> and “eBay and other online market websites may properly promote and facilitate the

<sup>195</sup> Press Release, eBay Inc., *supra* note 51.

<sup>196</sup> EUROPEAN COMM’N, GLOSSARY OF TERMS USED IN EU COMPETITION POLICY: ANTITRUST AND CONTROL OF CONCENTRATIONS 45 (2002), *available at* [http://ec.europa.eu/competition/publications/glossary\\_en.pdf](http://ec.europa.eu/competition/publications/glossary_en.pdf).

<sup>197</sup> *Id.* at 41–42.

<sup>198</sup> Article 81(3) states, in pertinent part, that selective distribution is permitted in the case of the following:

- any agreement or category of agreements between undertakings,
- any decision or category of decisions by associations of undertakings,
- any concerted practice or category of concerted practices, which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:
  - (a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;
  - (b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

Consolidated Version of the Treaty Establishing the European Community art. 81(3), Mar. 25, 1957, 2002 O.J. (C 325) 64–65.

<sup>199</sup> Parloff, *supra* note 192 (referring to the LVMH injunction as one that “bans so-called gray-market sales—sales of genuine products through unauthorized channels—which are not considered illegal in the United States, but are in France”).

<sup>200</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 473 (S.D.N.Y. 2008), *aff’d*, 600 F.3d 93 (2d Cir. 2010).

growth of legitimate secondary markets.”<sup>201</sup> Although Tiffany and other brand owners have an incentive to curtail this activity, which may diminish their particular brand’s reputation and prevent them from earning a profit from the secondary sales, American law protects such markets.

Even though secondary markets are legal in the United States, eBay might still have to remove listings to avoid the possibility that an international transaction might involve a buyer or seller in a European nation that does not allow secondary markets. For example, if a U.S. merchant legally posts an authentic bottle of Christian Dior perfume on eBay, but a French buyer illegally purchases it, LVMH could enforce the French court’s injunction against eBay and subject it to a fine of \$80,000.<sup>202</sup> Such an effect chills commerce in secondary markets, which may be exactly what the luxury-brand owners are seeking to accomplish, namely preventing their brand from being listed on eBay in any form, whether counterfeit or authentic.

V. EBAY’S CURRENT POLICING METHODS ADEQUATELY PROTECT THE RIGHTS OF BRAND OWNERS AND SHOULD SHIELD EBAY FROM LIABILITY

eBay’s current efforts to prevent and curtail the distribution of counterfeit goods are reasonable, efficient, and adequately enforced and should therefore shield the auction house from liability. In addition, the *Tiffany* court was correct in its decision that the onus should be on brand owners to take the primary role in policing for counterfeit goods.<sup>203</sup> This is not to say that eBay has no duty to brand owners; eBay must work with brand owners when necessary to remove illegal listings. eBay’s current policy of removing items while engaging with brand owners is the most practical and effective remedy available. Although illegal sales still occur, eBay currently takes an active role in removing illicit listings, both on its own and with the help of brand owners, and has a track record of serving as an effective source of enforcement.<sup>204</sup>

Nonetheless, several criticisms of eBay’s approach to counterfeit goods can be made. First, critics assert that eBay’s business model ac-

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<sup>201</sup> *Id.*

<sup>202</sup> See Parloff, *supra* note 192.

<sup>203</sup> *Tiffany*, 576 F. Supp. 2d at 518.

<sup>204</sup> See Mann & Belzley, *supra* note 186, at 262 (discussing the possibility that intermediaries can effectively enforce regulations).

tually promotes the sale of counterfeit goods by providing a laissez-faire marketplace for buyers and sellers to interact.<sup>205</sup> The auction house provides the forum and derives revenue, but does little to monitor the actual listings unless prompted by a brand owner or eBay user. eBay makes possible the posting of a counterfeit listing by providing the technology to allow an auction to function, but it only engages in transactions by e-mailing the winning bidder auction—allowing users to act in relative anonymity.<sup>206</sup> Anonymity allows those who peddle in counterfeit goods to do so with greater protection, enabling illegal transactions to occur.<sup>207</sup>

Second, critics argue that eBay is in the best position to search for and remove counterfeit listings. eBay authorizes the listings to be posted and therefore should know what it is allowing to be sold in its forums. Because eBay has constructed its marketplace, it is “more adept at searching and monitoring its marketplace” than brand owners.<sup>208</sup> Furthermore, critics contend that eBay has sufficient control over the sales by requiring users to sign a User Agreement, removing listings, and suspending buyers and sellers. Also, eBay is aware that counterfeit activity is a problem in its marketplace. Thus, luxury brands can fervently assert that eBay is in a better position to protect their trademarks by detecting and removing listings of counterfeit goods and should thus be held to a higher standard than that imposed in *Tiffany*.

A third and final criticism is that the volume of sales and anonymity of eBay users put brand owners in a position where eBay appears to be the only entity from which to seek relief.<sup>209</sup> Critics contend that, even if eBay is making inroads in deterring illegal sales, brand owners should not be forced to bear responsibility for a problem that is not only eBay’s creation, but from which eBay is earning, and will continue to earn, substantial revenues.<sup>210</sup> Until the sale of counterfeit goods hurts eBay financially, such as through high damage awards to luxury brands, eBay might not do what is necessary to

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<sup>205</sup> See Sunderji, *supra* note 23, at 932.

<sup>206</sup> See *id.* at 933; see also Calkins, Nikitkov & Richardson, *supra* note 9, at 10.

<sup>207</sup> See Mann & Belzley, *supra* note 186, at 246 (stating “the anonymity that the Internet fosters has made it easier to buy and sell counterfeit goods”).

<sup>208</sup> *Id.* at 278.

<sup>209</sup> See Favre, *supra* note 1, at 168 (noting that the “anonymity of buyers and sellers, the vast quantity of goods passing through the site, and the short timeframe of auctions” impedes the ability to pursue individual counterfeiters).

<sup>210</sup> See Mann, *supra* note 166, at 6.

prevent illicit trading from continuing. By holding eBay accountable, it will be forced to invest more resources into preventing infringement.<sup>211</sup>

Despite these criticisms, eBay's policing activities are reasonable and should shield it from liability. As a starting point, the brand owner, being the expert in its own products, is in the best position to determine which products are genuine and which are counterfeit. eBay is not as effective in searching for counterfeit products, given that it is not an expert in the field, has hundreds of millions of listings at any given time, and never takes possession of the listed item.<sup>212</sup> Putting all of the burden on eBay could force eBay to take down legitimate goods out of fear that they may be counterfeit. While this may indeed be a motive of luxury-brand owners who seek to further control the channels of distribution, U.S. law does not prohibit the sale of authentic products in the secondary market.<sup>213</sup> Brand owners are in reality more effective in distinguishing between counterfeit and genuine products. These brand owners design, manufacture, and distribute these items. eBay performs none of these tasks. Hence, cooperation between eBay and the brand owner is the most optimal way to limit illicit sales.

In addition, it is clear that eBay promptly removes illicit items upon notice from the brand owner.<sup>214</sup> eBay's current takedown system is the ideal method to police for counterfeit goods as compared to a policy that subjects eBay to liability for each illegal sale. It is impossible to comply with a mandate to remove every counterfeit listing, but a requirement to remove listings when prompted by the brand owner is reasonable, practical, and effective.<sup>215</sup> In addition, only a

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<sup>211</sup> See Sunderji, *supra* note 23, at 938.

<sup>212</sup> Mann, *supra* note 166, at 9. Also, according to eBay spokesman Hani Durzy, "As a marketplace, we never take possession of any of the goods sold on the site, so it would be impossible for us to solely determine the authenticity of an item . . . . And we go above and beyond what the law requires us to do to keep counterfeits off the site."

Hafner, *supra* note 5.

<sup>213</sup> Tiffany (NJ) Inc. v. eBay, Inc., 576 F. Supp. 2d 463, 473 (S.D.N.Y. 2008), *aff'd*, 600 F.3d 93 (2d Cir. 2010).

<sup>214</sup> See *id.* at 516.

<sup>215</sup> Statistics indicate that items alerted through eBay are removed 90 percent of the time within twenty-four hours, 70–80 percent of the time within twelve hours, and 75 percent of the time within four hours. *Id.* at 478; Parloff, *supra* note 53.

small share of the millions of listings on eBay at any given time are counterfeit.<sup>216</sup>

While eBay is in a position to prevent and detect, brand owners must take a principal role in the process. Holding eBay liable for each counterfeit sale is impracticable and will only push those who trade in illicit goods away from eBay and into another forum. This would also leave buyers and sellers of legitimate items, including those who make a living from eBay, with limited options in seeking to acquire and sell unique items at a lower transaction cost.<sup>217</sup> Thus, the risk of imposing a heightened duty on eBay, beyond what it already does to police, will likely chill the sale of legitimate goods and services.<sup>218</sup>

Moreover, simply because eBay is an easy target does not mean that imposing liability is justified. eBay's investment is already vast, and some type of fraud will always occur on eBay regardless of the effectiveness of an anti-counterfeiting program. eBay already spends \$20 million a year, employs thousands, and has its own brand and reputation at stake to motivate it to combat counterfeiting effectively.

Developing a reputation for combating fraudulent activity in its marketplace helps eBay establish a heightened trust with users, potential users, those willing to do business with eBay, and regulators who might otherwise decide to look at eBay with a closer eye.<sup>219</sup> A reputation that it does little to stop counterfeiting would taint eBay's goodwill, erode user trust, and as a result, impair eBay's business.<sup>220</sup> Consequently, eBay and brand owners share a mutual interest in limiting the expansion of counterfeit-goods trafficking. Simply creating unreasonable expectations would not make eBay any more effective or diligent in searching for and removing counterfeit goods.

Under the standard applied in *Tiffany*, eBay will still be held liable if it does not take effective action and fails to remove items that it

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<sup>216</sup> See Hafner, *supra* note 175. eBay estimates the amount to be about six thousand. *Id.*

<sup>217</sup> See Hamdani, *supra* note 190, at 74.

<sup>218</sup> See Mann & Belzley, *supra* note 186, at 274.

<sup>219</sup> See Calkins, Nikitkov & Richardson, *supra* note 9, at 23 (“[E]Bay has likely become . . . involved in fraud protection . . . to encourage transactions and build the trust of its users, to respond to strong outside pressure . . . and avoid the specter of outside regulation, and to reduce the possibility that its users might . . . resort to self-help tactics harmful to eBay's business.”).

<sup>220</sup> See *id.* at 32 (stating that eBay has a strong motivation to combat fraud “because it harms eBay's business by tarnishing its goodwill and eroding user trust”).

knows or should know are counterfeit.<sup>221</sup> For instance, if eBay has specific knowledge from its own research or from a VeRO member that an item is counterfeit and fails to act, it will be liable to the brand owner for allowing the sale to occur. Allowing eBay to remain on the offensive, but without the fear of judgments in the tens of millions of dollars, enables eBay to expand its research and development into better technology to provide both consumer and brand protection. It is good business for eBay to prevent counterfeit sales in its forums and even more beneficial to its reputation to be able to say that its actions work.

Additionally, VeRO is an effective answer to counterfeit sales, both in theory and in practice. It is an existing infrastructure that recognizes the problem and works together with the brand owner to find the solution. Through VeRO, eBay acknowledges that both sides can work together to effectively police trademark infringement and that while eBay may have some control over its forums, brand owners are better able to distinguish between genuine and counterfeit items.<sup>222</sup>

Putting the heavier burden on eBay, without the assistance from brand owners, will put unreasonable pressure on eBay's business model and harm both eBay and its millions of users. Fee increases, subscription costs, and heavy investments into policing procedures are no guarantee that counterfeit sales will cease. Imposing such immense pressure and unreasonable standards on eBay or other on-line auction houses to rid their forums of counterfeit goods may prove eBay's current business model unworkable.

Furthermore, while heightened standards may satisfy the goal of luxury brand owners of seeking to prevent eBay from operating in its current form, eBay's business practices satisfy both the *Inwood* test and Article 14. The *Inwood* test and Article 14 both give eBay the liability protection it needs when actual knowledge of infringing activity is absent. *Inwood* holds a defendant liable for contributory trademark infringement if it intentionally induces a third party to engage in trademark infringement and knows or has reason to know such activity is ongoing.<sup>223</sup> Article 14 holds an intermediary, such as eBay, liable if the intermediary has actual knowledge or awareness and fails to

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<sup>221</sup> See *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 507 (S.D.N.Y. 2008), *aff'd*, 600 F.3d 93 (2d Cir. 2010).

<sup>222</sup> See Favre, *supra* note 1, at 172, 175.

<sup>223</sup> *Id.* at 180 (citing *Inwood Labs., Inc. v. Ives Labs., Inc.*, 454 U.S. 844, 854 (1982)).

remove or disable access to illegal information, and Article 14 also denies liability protection when the eBay user is acting under the inducement, authority, or control of the provider.<sup>224</sup> Like the *Inwood* test, Article 14 does not hold an intermediary liable when the intermediary does not have actual knowledge of the illegal activity and does not control the user.<sup>225</sup>

Actual knowledge should be interpreted under the “specific knowledge” interpretation applied in *Tiffany*.<sup>226</sup> A “specific knowledge” test is the most practical and reasonable standard to place on eBay, but it can also efficiently and effectively serve the ultimate purpose of ridding eBay of counterfeit goods. When eBay has specific knowledge, it acts expeditiously to remove listings that are likely to be counterfeit.<sup>227</sup> The French LVMH court, however, appeared to interpret actual knowledge differently—as eBay’s general knowledge of counterfeit activity occurring on its forums.<sup>228</sup> Moreover, the Paris Commercial Court stated that eBay’s addition of new procedures to police counterfeit activity was an admission that it had been negligent in removing counterfeit listings.<sup>229</sup> This is inconsistent with the *Tiffany* court’s finding that as eBay developed new technology to combat the problem, it implemented these measures to better police its Web sites and not to simply correct past mistakes.<sup>230</sup> New eBay programs, such as VeRO, are instituted as technology progresses to better address the counterfeiting issue, which eBay has taken seriously since its inception.<sup>231</sup>

In addition, while eBay has some control over users, it operates under a laissez-faire business model that does not entail direct involvement in the actual transaction. eBay, although retroactively present in the form of taking action after the user has already acted, does little to prevent the user of its service from placing a counterfeit good up for auction. Therefore, eBay’s business model satisfies the

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<sup>224</sup> Council Directive 2000/31/EC, art. 14, 2000 O.J. (L 178) 13.

<sup>225</sup> *See id.*

<sup>226</sup> *Tiffany*, 576 F. Supp. 2d at 511.

<sup>227</sup> *Id.* at 515 (“[T]he record reveals that when eBay became aware, through its VeRO Program, of Tiffany’s good-faith belief that a listing was infringing, it investigated and removed that listing from its website.”).

<sup>228</sup> *See Louis Vuitton Case*, *supra* note 11, at 11.

<sup>229</sup> *Christian Dior Case*, *supra* note 11, at 12; *see also Louis Vuitton Case*, *supra* note 11, at 12.

<sup>230</sup> *See Tiffany*, 576 F. Supp. 2d at 514.

<sup>231</sup> *See id.* at 492.

“control” requirement under Article 14(2) to be entitled to liability protection.<sup>232</sup> Users control their own accounts, decide whether to list or buy items, control the length of the auction, and work together with buyers to decide on payment and shipping methods.<sup>233</sup> eBay can shut down listings or suspend users but only upon the request of buyers or brand owners who believe an item is counterfeit. This process should satisfy both the *Tiffany* ruling’s actual / specific knowledge test and Article 14’s requirement of acting quickly to remove infringing material. Thus, coupled with eBay’s reasonable, efficient, and effective response to brand owners who can bring attention to counterfeit listings, eBay should escape liability under both *Inwood* and Article 14.

Brand owners are better off partnering with eBay to fight counterfeiting than remaining on the outside and seeking to bring litigation. Companies whose brands are counterfeited can alert eBay and force it to take down illicit listings, and if eBay does not take such an action upon specific knowledge, brand owners should have legal recourse against the auction house.

#### VI. THE ANTI-COUNTERFEITING TRADE AGREEMENT AS A POSSIBLE SOLUTION

Because different countries have interpreted eBay’s liability in vastly contrasting ways, one possible solution is to provide a framework for courts around the world to analyze cases involving the sale of counterfeit goods on eBay in a consistent, uniform manner. A potential answer is the proposed Anti-Counterfeiting Trade Agreement (ACTA) that is currently in the early stages of development.<sup>234</sup> Participants engaged in ACTA negotiations include the United States, the members of the European Union, Australia, Canada, Japan, Korea, Mexico, Morocco, New Zealand, Singapore, and Switzerland.<sup>235</sup>

The ACTA attempts to fight counterfeiting in three ways: (1) by building international cooperation and harmonizing communication

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<sup>232</sup> See Council Directive 2000/31/EC, art. 14(2), 2000 O.J. (L 178) 13.

<sup>233</sup> Favre, *supra* note 1, at 193.

<sup>234</sup> See Press Release, Office of the U.S. Trade Representative, Ambassador Schwab Announces U.S. Will Seek New Trade Agreement to Fight Fakes (Oct. 23, 2007), available at <http://www.ustr.gov/ambassador-schwab-announces-us-will-see-new-trade-agreement-fight-fakes>.

<sup>235</sup> Press Release, European Comm’n, Anti-Counterfeiting: EU, U.S. and Others Meet in Washington to Advance ACTA (July 31, 2008), available at [http://ec.europa.eu/trade/issues/sectoral/intell\\_property/pr310708\\_en.htm](http://ec.europa.eu/trade/issues/sectoral/intell_property/pr310708_en.htm); Press Release, Office of the U.S. Trade Representative, *supra* note 234.

and standards between nations, (2) establishing common enforcement practices to protect brand owners, and (3) creating a common and modern legal framework to deal with counterfeiting issues in the global economy.<sup>236</sup> The negotiations behind the ACTA have been kept relatively secret thus far, so the official positions taken by the parties involved regarding auction-house liability for counterfeit sales are unclear at this point.<sup>237</sup> Nonetheless, the negotiations provide an opportunity to seek uniformity and cooperation in attacking the issue of counterfeit goods in online auctions.

Additionally, the ACTA provides the opportunity for nations with differing standards for assessing auction-house liability to come together to craft a uniform standard to help not only eBay, but brand owners as well, in attempting to prevent counterfeit sales.<sup>238</sup> In creating a common legal framework to enforce anti-counterfeiting policy, it is possible for the countries to provide safeguards for auction houses like eBay by allowing them to operate their business while at the same time requiring cooperation with brand owners in seeking to eliminate counterfeit goods from the online marketplace. This framework can require the specific knowledge test of *Tiffany* to be the standard: if eBay has specific knowledge of infringing material, it must take quick action to remove such material or face liability.<sup>239</sup>

An ACTA provision involving auction-house liability can give eBay predictability in deciding how to run its business without having to worry about litigating in forums that are known to be unfavorable to its business model. Realistically, however, it will be difficult to extend to eBay internationally the protection that it appears to have under U.S. law, especially with the EU, which has a strong stance against eBay and secondary markets, as a participant. Yet, uniformity is needed, and the ACTA is currently an option toward harmonizing

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<sup>236</sup> OFFICE OF THE U.S. TRADE REPRESENTATIVE, EXECUTIVE OFFICE OF THE PRESIDENT, FACT SHEET: ANTI-COUNTERFEITING TRADE AGREEMENT 1-2 (2007), *available at* [http://www.ustr.gov/sites/default/files/asset\\_upload\\_file122\\_13414.pdf](http://www.ustr.gov/sites/default/files/asset_upload_file122_13414.pdf); Press Release, European Comm'n, *supra* note 235.

<sup>237</sup> See Press Release, Found. for Free Info. Infrastructure, EU Council Refuses to Release Secret ACTA Documents (Nov. 10, 2008), [http://press.ffii.org/Press\\_releases/EU\\_Council\\_refuses\\_to\\_release\\_secret\\_ACTA\\_documents](http://press.ffii.org/Press_releases/EU_Council_refuses_to_release_secret_ACTA_documents).

<sup>238</sup> One of the expressed areas of interest to create uniform measures of enforcement is in "Internet distribution and internet technology." OFFICE OF THE U.S. TRADE REPRESENTATIVE, *supra* note 236, at 2.

<sup>239</sup> See *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 527 (S.D.N.Y. 2008), *aff'd*, 600 F.3d 93 (2d Cir. 2010).

the standard that eBay has to satisfy to escape liability. Uniformity will avoid problems associated with having a legal transaction take place in the U.S. that is illegal under French law and with eBay's remedial actions (in taking down infringing listings) being considered sufficient in the United States or Belgium but not in France or Germany. The ACTA can also prevent the confusion over how EU Member States interpret Article 14. Presently, some nations, like France and Germany, interpret the provision to deny eBay protection, but Belgium holds to the contrary. Therefore, the ACTA is an option that can be pursued to promote uniformity in assessing eBay's liability to brand owners.

#### VII. CONCLUSION

In light of the recent *Tiffany* and LVMH decisions, eBay's liability to brand owners for the sale of counterfeit items remains unresolved on a world-wide basis. The two cases, although containing similar facts, reached drastically different conclusions, leaving eBay to face potential situations where its liability remains unknown.

eBay's predicament is largely dependent on the plaintiff's choice of forum. The *Tiffany* decision, based on U.S. law, indicates that eBay will not be held liable if it fails to take action when it has merely generalized knowledge of counterfeit sales but may be liable if it fails to act upon specific knowledge, either through its own investigation or through VeRO. A French or German court, on the other hand, will likely not give eBay liability protection in a similar context. eBay will thus be held liable for facilitating and profiting from the sale of counterfeit goods in these forums when it has general knowledge of counterfeiting. Yet, as a Belgian court ruling has shown, Article 14 can be interpreted differently among European nations and in favor of eBay. These country splits can lead to drastic ramifications for eBay, such as a flood of litigation by luxury brands against eBay in favorable forums, increased costs that may be passed on to eBay users, threats to eBay's business model, and the removal of genuine luxury goods from secondary markets.

Nevertheless, eBay's current policing measures, most notably VeRO, are sufficient, reasonable, and effective in combating counterfeit sales. Working with brand owners is the key to stopping this fraud. It is unrealistic to compel eBay to prevent every illegal sale; therefore, eBay needs to rely on the expertise of brand owners, and brand owners need to rely on the ability of eBay to take action when appropriate. eBay has shown a willingness to act when it needs to do

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so. Brand owners need to take some responsibility for protecting their trademarks, and holding eBay to the higher standard of some European courts would threaten eBay's business model and the legitimate service it provides to willing customers all over the world.

The ACTA is a possible answer to the issue of addressing eBay's liability. Although it is a formidable task to get countries with differing opinions to come together on a uniform standard, it is the best solution to the current uncertainty. The ACTA should place a duty on eBay to remove a listing when eBay has specific knowledge of an alleged counterfeit listing, such as when it knows or should know that the auction is illegitimate through its own investigation or upon information that the brand owner supplies. Such a uniform standard would prevent the confusion, irregularity, and unfairness in judgments where liability has and will continue to appear to be based on the forum in which the lawsuit against eBay is filed.