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BUILDING A TRADEMARK SAFE HARBOR FOR CONTRIBUTORY COUNTERFEITING LIABILITY AFTER *TIFFANY V. EBAY*

JILLIAN DE CHAVEZ[†]

INTRODUCTION

On February 26, 2008, New York City law enforcement agents raided thirty-two shops in Chinatown's "Counterfeit Triangle," hauling away over \$1 million in fake merchandise that included counterfeit Tiffany, Gucci, and Coach items.¹ As a matter of law, those who knowingly used a counterfeit trademark in connection with a sale or distribution were subject to treble damages,² in addition to ex parte seizure, as illustrated in this instance.³ The resulting case settled recently, in April 2010.⁴ In the interim, the city's actions prevented the sale of counterfeit goods from those shuttered storefronts.⁵

Subsequent comments by Mayor Michael Bloomberg and other officials illustrate how counterfeiting's harmful effects on trademark owners, consumers, and society justify aggressive action. Counterfeiting, the most egregious form of trademark

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¹ Press Release, N.Y.C. Office of the Mayor, Mayor Bloomberg Announces Cash Payment that Settles "Counterfeit Triangle" Case Brought by the Office of Special Enforcement (Apr. 6, 2010), available at http://www.nyc.gov/portal/site/nycgov/menuitem.c0935b9a57bb4ef3daf2f1c701c789a0/index.jsp?pageID=mayor_press_release&catID=1194&doc_name=http%3A%2F%2Fwww.nyc.gov%2Fhtml%2Fom%2Fhtml%2F2010a%2Fpr145-10.html&cc=unused1978&rc=1194&ndi=1 [hereinafter Press Release].

² 15 U.S.C. § 1117(b) (2006 Supp. & II 2008).

³ 15 U.S.C. § 1116(d)(1)(A) (2006 Supp. & II 2008).

⁴ Press Release, *supra* note 1. Under that settlement, the shop owners agreed to pay the city \$800,000 in fines and to use the space for legitimate business purposes. *Id.*

⁵ *Id.*

infringement,⁶ “deprives legitimate businesses of customers,” said Mayor Bloomberg in an April 2010 press release.⁷ Trademarks, which embody a company’s quality and goodwill⁸ and enable the owner to compete in the marketplace,⁹ are an important business asset.¹⁰ Counterfeiting diminishes the trademark’s value and the owner’s business when lesser-quality goods are associated with the mark.¹¹ Consumers are harmed when they pay for something that does not live up to the mark’s reputation for good quality.¹² Such inferior goods can also endanger consumers’ safety or health when the product does not perform as expected.¹³ Finally, according to John Feinblatt, Chief Advisor to the Mayor for Policy and Strategic Planning, “[s]elling counterfeit goods is a form of organized crime.”¹⁴ Counterfeiting diverts substantial amounts of money from the

⁶ See S. COMM. ON THE JUDICIARY, TRADEMARK COUNTERFEITING ACT OF 1984, S. REP. NO. 98-526, at 2, 3 (1984), *reprinted in* 1984 U.S.C.C.A.N. 3627, 3628, 3630 (discussing the serious nature of counterfeiting activities).

⁷ Press Release, *supra* note 1.

⁸ See, e.g., *E.F. Prichard Co. v. Consumers Brewing Co.*, 136 F.2d 512, 518 (6th Cir. 1943) (explaining that one goal of trademark law is to protect the good will symbolized by the trademark, allowing owners “to build up businesses around names by which articles are known.”); *see also infra* note 48.

⁹ S. REP. NO. 79-1333, at 4 (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274 (“Trademarks . . . are the essence of competition, because they make possible a choice between competing articles by enabling the buyer to distinguish one from the other.”).

¹⁰ See Anthony F. Lo Cicero et al., *Intellectual Property Issues*, in *ACQUIRING OR SELLING THE PRIVATELY HELD COMPANY* 2011, at 203, 207 (PLI Corporate Law & Practice, Course Handbook Ser. No. 1885, 2011) (“The goodwill associated with certain trade names or trademarks may . . . be of substantial value . . .”).

¹¹ See *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 163–64 (1995).

¹² See 4 J. THOMAS MCCARTHY, *MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION* § 23:5 (4th ed. 2011).

¹³ See *id.*; *see also* INTELLECTUAL PROP. ENFORCEMENT COORDINATOR, EXEC. OFFICE OF THE PRESIDENT, *JOINT STRATEGIC PLAN ON INTELLECTUAL PROPERTY ENFORCEMENT* 4 (2010) (“Counterfeit products can pose a significant risk to public health, such as toothpaste with dangerous amounts of diethylene glycol . . . auto parts of unknown quality that play critical roles in securing passengers and suspect semiconductors used in life-saving defibrillators.”) [hereinafter *JOINT STRATEGIC PLAN*]; *TRADEMARK LAW & THE INTERNET: ISSUES, CASE LAW, AND PRACTICE TIPS* 144 (Lisa E. Cristal & Neal S. Greenfield eds., 2d ed. 2001).

¹⁴ Press Release, *supra* note 1.

domestic and international economy¹⁵ to fund numerous illegal enterprises such as sweatshops, child labor, money laundering, violent gang activity, and terrorism.¹⁶

Indeed, counterfeiting is not just a New York City problem. It is well established that the harmful effects of counterfeiting on trademark owners, consumers, and society as a whole are very serious national and international problems.¹⁷ Because of this, the United States takes an aggressive stance against counterfeiting, enacting laws that punish counterfeiters and those who assist them with ex parte seizures,¹⁸ destruction of counterfeit merchandise upon seizures,¹⁹ treble damages,²⁰ hefty fines,²¹ and imprisonment.²²

There are harsh penalties for counterfeiting, but their effectiveness is greatly diminished if counterfeiters can easily avoid detection—a more difficult problem on the Internet than in the physical world.²³ Offline, there is a physical location to investigate and raid, counterfeit merchandise to seize, and at least some of the individuals participating in the counterfeiting are present. Ex parte seizures happen swiftly so that the counterfeiter cannot destroy the evidence or escape by relocating before the goods are seized.²⁴ In some cases, seizing the

¹⁵ See ANNE GILSON LALONDE, 2-5 GILSON ON TRADEMARKS § 5.19(1) (2011); *About Counterfeiting*, INT'L ANTICOUNTERFEITING COALITION, <http://www.iacc.org/about-counterfeiting/> (last visited Sept. 19, 2012) (estimating the cost of global counterfeiting to be \$600 billion per year; in the United States alone, counterfeiting costs legitimate American industries between \$200 and \$250 billion annually and about 750,000 jobs).

¹⁶ See PAUL R. PARADISE, TRADEMARK COUNTERFEITING, PRODUCT PIRACY, AND THE BILLION DOLLAR THREAT TO THE U.S. ECONOMY 22–23 (1999).

¹⁷ See *supra* notes 15–16.

¹⁸ 15 U.S.C. § 1116(d)(1)(A) (2006 & Supp. II 2008).

¹⁹ 15 U.S.C. § 1118 (2006).

²⁰ 15 U.S.C. § 1117(b) (2006 & Supp. II 2008) (indicating that treble damages may be either of profits or damages, whichever is greater).

²¹ 18 U.S.C. § 2320(a) (2006 & Supp. II 2008); see also *United States v. Foote*, 413 F.3d 1240, 1252–53 (10th Cir. 2005) (affirming the lower court's fine of more than \$104,000 for defendant's trafficking in counterfeit goods).

²² 18 U.S.C. § 2320(a)(1) (2006 & Supp. II 2008).

²³ See Thomas Fedorek, *Computers + Connectivity = New Opportunities for Criminals and Dilemmas for Investigators*, N.Y. ST. B.J., Feb. 2004, at 10, 10 (“The anonymity afforded by cyberspace decreases, to a significant degree, the criminal's risk of detection and capture, and increases, to an equally significant degree, the difficulty of investigating cybercrimes. The evanescence of digital evidence stymies traditional methods of search and seizure.”).

²⁴ GILSON, *supra* note 15, at § 5.19 (4)(b)(i).

counterfeit goods is enough to shut down the illegal business.²⁵ But online, there is no physical place to raid, no immediate and observable hand-to-hand exchange of cash and goods. On the Internet, people can buy counterfeit goods from anywhere in the world. Transactions happen instantly. The Internet also tends to anonymize counterfeiters so that they are harder to catch than their offline counterparts.²⁶ If a seller of counterfeit merchandise suspects action will be taken against him, the anonymity of the Internet makes it easy for him to assume new online identities and sell items on other websites, such as Craigslist, that have few registration requirements.²⁷ Current anti-counterfeiting measures lose much of their bite if counterfeiters are more difficult to find. The same ease, speed, and far-reaching communication capabilities that facilitate countless lawful business transactions over the Internet also make it very challenging and costly for trademark owners—especially owners of high-end, luxury marks²⁸—to police their brands.²⁹

A recent set of cases in which eBay defended against several trademark owners' allegations of contributory trademark infringement illustrates one response from trademark owners—target the online service providers that hosted counterfeiting activity under the theory of contributory trademark infringement and force them to take more action against counterfeiting on their websites.³⁰ The facts of *Tiffany v. eBay*,³¹ *Hermes v. eBay*,³²

²⁵ See Ann Haring Hocking, *Basic Principles of Trademark Law*, in UNDERSTANDING TRADEMARK LAW IN THE GLOBAL MARKETPLACE 2011, at 85, 115 (PLI Patents, Copyrights, Trademarks, & Literary Prop., Course Handbook Ser. No. 1054, 2011) (“Since many counterfeit operations are structured to create quick profits from [sic] a short-lived business, the seizure provisions allow trademark holders to strike quickly at the heart of the illicit operation, effectively shutting it down.”).

²⁶ Scott Gelin & G. Roxanne Elings, *Contributory Liability for Trademark Counterfeiting in an Ecommerce World*, JIPEL, jipel.law.nyu.edu/2010/04/contributory-liability-for-trademark-counterfeiting-in-an-ecommerce-world/ (last visited Sept. 25, 2012).

²⁷ *Id.*

²⁸ See Katherine C. Spelman, *What's New in Anti-Counterfeiting*, in INTELLECTUAL PROPERTY LAW INSTITUTE 2010, at 379, 383 (PLI Intellectual Prop., Course Handbook Ser. No. 1022, 2010).

²⁹ See generally *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010), *cert. denied*, 131 S. Ct. 647.

³⁰ See Mark Bartholomew & John Tehranian, *The Secret Life of Legal Doctrine: The Divergent Evolution of Secondary Liability in Trademark and Copyright Law*, 21 BERKELEY TECH. L.J. 1363, 1365–66 (2006).

³¹ *Tiffany*, 600 F.3d at 96.

and *LVMH v. eBay*³³ were virtually the same: an owner of a high-end, luxury trademark found significant amounts of counterfeit merchandise being sold on eBay, then sued on the grounds that eBay had some level of awareness of infringement on its website, requiring eBay to take more action than it already did. The American and French courts arrived at divergent conclusions. The Second Circuit's decision in *Tiffany v. eBay* reflects the American approach to contributory trademark infringement, which currently favors online marketplaces like eBay.³⁴ First, the court held that an online marketplace's "general knowledge" of infringement on its website is not enough to trigger liability.³⁵ Second, a prompt take-down of allegedly counterfeit listings, through eBay's Verified Owners Rights ("VeRO")³⁶ program, adequately addressed trademark infringement on the site.³⁷ The Second Circuit essentially applied copyright safe-harbor reasoning from the Digital Millennium Copyright Act ("DMCA") to find that eBay's efforts excluded it from liability.³⁸ eBay, however, was less successful in France. Although eBay presented these same efforts in its defense in the *Hermes* and *LVMH* cases, and despite a statutory framework similar to the American common law standard for contributory trademark infringement, the French courts ruled against eBay.³⁹ In both French cases, eBay was perceived as having the requisite degree of knowledge to trigger liability.⁴⁰ The French courts named specific steps that eBay should have taken that would have limited its liability, such as requiring users to provide

³² *Hermes Int'l v. Feitz*, Tribunal de Grande Instance [TGI] [ordinary court of original jurisdiction] Troyes, June 4, 2008, Docket No. 06/02604 (Fr.), translation available at <http://www.law.pace.edu/files/pilr/AllCasesTranslated.pdf> [hereinafter *Hermes* case].

³³ *SA Louis Vuitton Malletier v. eBay, Inc.*, Tribunal de Commerce [T. Com.] [Commercial Court of Paris] Paris, June 30, 2008, First Section B, Docket No. 2006077799 (Fr.), translation available at <http://www.sunsteinlaw.com/media/FrenchOpinions.pdf> [hereinafter *LVMH* case].

³⁴ *Tiffany*, 600 F.3d at 103; see also Elizabeth K. Levin, Note, *A Safe Harbor for Trademark: Reevaluating Secondary Trademark Liability after Tiffany v. eBay*, 24 *BERKELEY TECH. L.J.* 491, 494 (2009).

³⁵ *Tiffany*, 600 F.3d at 107, 109 (requiring specific knowledge of infringement or willful blindness to trigger liability for contributory trademark infringement).

³⁶ See *infra* Part II.A.1.

³⁷ See *infra* Part II.A.2.

³⁸ See *infra* Part II.A.1.

³⁹ See *infra* Part II.B.

⁴⁰ See *infra* Part II.B.

information about the product's authenticity.⁴¹ The effect of the ruling was that online marketplaces like eBay have a duty to take preemptive steps to fight trademark infringement on these websites; a reactive mechanism such as the one approved by the Second Circuit was inadequate.⁴² These divergent decisions highlight competing policy concerns about assessing an online marketplace's role in contributory trademark infringement and deciding the site's exposure to liability.

Since current anti-counterfeiting tools are not easily applied to the Internet, thereby diminishing their effectiveness, this Note argues that compensating for this deficiency requires legal provisions that encourage online service providers to implement both proactive and reactive anti-counterfeiting measures. After *Tiffany*, e-commerce businesses in the United States are only required to react appropriately to counterfeiting on their websites. Though it is well-settled that trademark owners must police their own brand,⁴³ the *Tiffany* decision makes it extremely difficult and costly for owners to combat counterfeiting on their own. Furthermore, the Second Circuit's application of a reactive law written specifically for secondary copyright infringement on the Internet does not effectively address the entire temporal range of harm posed by trademark infringement.⁴⁴ Part I discusses the goals and policies underlying American trademark law and explains where counterfeiting fits in this framework. This Part also traces the development of the judicially-created doctrine of contributory trademark law and how it has been applied in counterfeiting cases. Part II compares the American approach to contributory trademark infringement to that of European courts. Part III analyzes and assesses how each approach addresses the harms of contributory trademark infringement on the Internet. Part IV proposes a legislative solution similar to the safe-harbor provisions of the DMCA, but tailored to the specific goals, policies, and harms faced by trademark owners. While the Second Circuit properly decided that a notice-and-takedown procedure is one effective way to

⁴¹ See *infra* Part II.B.

⁴² See *infra* Part II.B.

⁴³ See, e.g., *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 518 (S.D.N.Y. 2008) (“[R]ights holders bear the principal responsibility to police their trademarks.”), *aff’d in part, rev’d in part*, 600 F.3d 93 (2d Cir. 2010), *cert. denied* 131 S. Ct. 647 (2010).

⁴⁴ See *infra* Parts I.A. & IV.B.

combat trademark infringement on the Internet, it is a reactive mechanism that does not effectively address harms to trademarks owners and consumers that accrue even before someone buys a counterfeit item. For this reason, a safe-harbor provision for trademark law should incentivize online marketplaces like eBay to take preventive action against trademark infringement.

I. THE GOALS OF TRADEMARK LAW AND THE EVOLUTION OF CONTRIBUTORY TRADEMARK INFRINGEMENT DOCTRINE

A. *The Goals of Trademark Law*

Because the overarching goal of trademark law is to foster competition,⁴⁵ and the information conveyed by trademarks⁴⁶ is useful and valuable to owners and consumers⁴⁷ in the marketplace, the standard for trademark infringement is based on the concept of confusion.⁴⁸ Thus, federal law imposes civil and

⁴⁵ Margreth Barrett, *Internet Trademark Suits and the Demise of "Trademark Use"*, 39 U.C. DAVIS L. REV. 371, 376 (2006).

⁴⁶ "A trademark is a word, name, symbol, device, or other designation, or a combination of such designations, that is distinctive of a person's goods or services and that is used in a manner that identifies those goods or services and distinguishes them from the goods or services of others. A service mark is a trademark that is used in connection with services." RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 9 (2011). Trademarks communicate information to consumers to help them decide purchases and prevent confusion. See Dan L. Burk, *Trademark Doctrines for Global Electronic Commerce*, 49 S.C. L. REV. 695, 699–700 (1998) ("Consumers . . . use the mark as a signal of the quality of goods, expecting that goods branded with the mark will be of the quality they have come to associate with past purchases bearing the mark."). Trademarks are a symbol of the good will associated with the owner's products or services. 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:2 (4th ed. 2011). Trademarks are also symbols of the owner's investment of time, energy, and money into the brand. *Courtenay Brian Allen, Holiday Inns, Inc. v. 800 Reservation, Inc.: Defining Use of a Mark and the Source of Confusion in Trademark Infringement*, 49 BAYLOR L. REV. 847, 856 (1997).

⁴⁷ See, e.g., *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 158, 163–64 (1995) ("[T]rademark law . . . reduce[s] the customer's costs of shopping and making purchasing decisions, for it quickly and easily assures a potential customer that [the trademarked item] is made by the same producer as other similarly marked items that he or she liked (or disliked) in the past. At the same time, the law helps assure a producer that it (and not an imitating competitor) will reap the financial, reputation-related rewards associated with a desirable product." (citations omitted)).

⁴⁸ Lanham Act § 43(a) prohibits "use[] in commerce" of a mark "on or in connection with any goods or services" that "is likely to cause confusion, or to cause mistake, or to deceive . . . as to the origin, sponsorship, or approval of [the infringer's] goods, services, or commercial activities." 15 U.S.C. § 1125(a)(1) (2006);

criminal liability on those who use counterfeit marks that are “likely to cause confusion, or to cause mistake, or to deceive.”⁴⁹ Confusion can occur at the point of sale, but also before or after a sale is made. Point-of-sale confusion is when an actual consumer is confused about the source or origin of a product or service.⁵⁰ This is different from post-sale confusion, when an observer sees someone with an infringing item and mistakenly attributes it to the trademark owner.⁵¹ Another possibility is pre-sale confusion, which occurs when a plaintiff’s trademark is used to initiate contact with a prospective buyer.⁵² In the case of pre-sale confusion, a defendant can be liable even though the buyer is no longer confused at the time of purchase.⁵³

Together, the concepts of point-of-sale, post-sale, and pre-sale confusion reflect trademark law’s goal of protecting both consumers and trademark owners.⁵⁴ As such, each doctrine’s response to the injurious effects of misleading information differs

see also S. REP. NO. 79-1333, at 4 (1946) (describing the policies promoted by the Lanham Act: (1) to prevent consumer confusion, (2) to protect the goodwill of businesses, and (3) to promote competition within the market).

⁴⁹ 15 U.S.C. § 1114(1)(a) (2006); *see also* 18 U.S.C. § 2320(e)(1) (2006 & Supp. II 2008).

⁵⁰ Marshall Leaffer, *Sixty Years of the Lanham Act: The Decline and Demise of Monopoly Phobia*, in U.S. INTELLECTUAL PROPERTY LAW AND POLICY 85, 126 (Hugh Hansen ed., 2006).

⁵¹ *Id.* at 128; *see also* *Acxiom Corp. v. Acxiom, Inc.*, 27 F. Supp. 2d 478, 497 (D. Del. 1998) (“[T]he senior user’s potential purchasers or ongoing customers might mistakenly associate the inferior quality work of the junior user with the senior user and, therefore, refuse to deal with the senior user in the future.”); *Payless Shoesource, Inc. v. Reebok Int’l Ltd.*, 998 F.2d 985, 989 (Fed. Cir. 1993).

⁵² *See* *Mobil Oil Corp. v. Pegasus Petroleum Corp.*, 818 F.2d 254, 259 (2d Cir. 1987) (explaining that pre-sale confusion arises “not in the fact that a third party would do business with Pegasus Petroleum believing it related to Mobil, but rather in the likelihood that Pegasus Petroleum would gain crucial credibility during the initial phases of a deal”). Other examples of how pre-sale confusion harms trademark owners can be seen in cases involving domain names. *See, e.g.*, *Dorr-Oliver, Inc. v. Fluid-Quip, Inc.*, 94 F.3d 376, 377 (7th Cir. 1996); *Brookfield Commc’ns, Inc. v. West Coast Entm’t Corp.*, 174 F.3d 1036, 1062, 1064 (9th Cir. 1999) (initial interest confusion is when one party has used another’s mark “in a manner calculated to capture initial consumer attention, even though no actual sale is finally completed as a result of the confusion,” and “the fact that there is only initial consumer confusion does not alter the fact that [defendant] would be misappropriating [plaintiff’s] acquired goodwill”); *see also* Leaffer, *supra* note 50, at 129. Pre-sale confusion is also referred to as initial interest confusion. *See* MCCARTHY, *supra* note 12, § 23:6.

⁵³ Leaffer, *supra* note 50, at 129.

⁵⁴ *See* *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854–55 n.14 (1982) (citing S. REP. NO. 79-1333 (1946)).

slightly, depending on when that confusion occurs. When analyzing point-of-sale confusion, the focus is on purchasers.⁵⁵ Trademarks facilitate information that enables purchasers to make informed decisions about which products to purchase.⁵⁶ When used properly, a trademark quickly tells the consumer which company the product comes from, suggesting the product's quality and distinguishing it from competing brands.⁵⁷ Over time, consumers may come to infer the trademark's reputation and goodwill.⁵⁸ Counterfeiting creates confusion about this kind of information, which is costly and inefficient for consumers.⁵⁹ Consumers needlessly spend money when they buy an inferior product because they have confused it for another.⁶⁰ In some cases, such confusion has human health costs when the product does not perform as expected, or has unexpected side effects.⁶¹

Pre- and post-sale confusion doctrines address harms that are not adequately addressed by the consumer-oriented focus of point-of-sale confusion.⁶² Even where there is no confusion about the purchased product,⁶³ courts recognize that confusion before and after the sale detracts from the efforts of rightful owners to market and protect their brand.⁶⁴ Such confusion damages a trademark's reputation and goodwill.⁶⁵ As such, protecting their trademarks allows owners to reap the benefits of their work while excluding free riders from profiting from a trademark they had no role in creating.⁶⁶

⁵⁵ *General Motors Corp. v. Keystone Auto. Indus., Inc.*, 453 F.3d 351, 355 (6th Cir. 2006).

⁵⁶ *See supra* note 46.

⁵⁷ *Id.*

⁵⁸ *Id.*

⁵⁹ *See Burk, supra* note 46, at 702–03.

⁶⁰ *See supra* note 46.

⁶¹ MCCARTHY, *supra* note 12.

⁶² Leaffer, *supra* note 50, at 128–30.

⁶³ Confusion is not the only reason why people buy counterfeit products. There is a market to feed people's desire for cheaper counterfeits to use as status symbols. *See* Jonathan M. Barnett, *Shopping for Gucci on Canal Street: Reflections on Status Consumption, Intellectual Property, and the Incentive Thesis*, 91 VA. L. REV. 1381, 1393, 1398 (2005).

⁶⁴ MCCARTHY, *supra* note 12, §§ 23:5–23:6.

⁶⁵ *See Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 855 n.14 (1982) (“By applying a trademark to goods produced by one other than the trademark's owner, the infringer deprives the owner of the goodwill which he spent energy, time, and money to obtain.”); *see also* Leaffer, *supra* note 50, at 129.

⁶⁶ LEE WILSON, *THE TRADEMARK GUIDE: A FRIENDLY GUIDE TO PROTECTING AND PROFITING FROM TRADEMARKS* 3 (2004).

As discussed previously, the Internet can exacerbate harms to both consumers and trademark owners caused by infringement;⁶⁷ but, in addition, the Internet has made it especially difficult for trademark owners to police their brands online. Trademark owners find that the online marketplace can stand in their way as they try to reach direct infringers who have used those Internet services.⁶⁸ In response, trademark owners have gone after the online marketplace under theories of secondary liability.⁶⁹

B. *The Evolution of Contributory Trademark Infringement*

Because chasing after direct counterfeiters on the Internet has been extremely difficult and costly, trademark owners have turned their attention to online service providers by suing them under the theory of contributory trademark infringement. Although the Lanham Act specifically addresses direct trademark infringement and not contributory trademark infringement,⁷⁰ the Supreme Court recognized contributory trademark infringement as a cause of action in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*⁷¹ As discussed in this Section, subsequent cases extended the act's application, so that it now includes trademark-counterfeiting cases.

Initially, the *Inwood* standard for contributory trademark infringement applied only to manufacturers and distributors of products. In *Inwood*, the owner of a trademarked drug sued a generic manufacturer for "induc[ing] pharmacists illegally to substitute a generic drug for [the trademarked drug] and to mislabel the substitute drug" as the trademarked drug.⁷² The defendant had supplied its own drugs to pharmacies, which

⁶⁷ TRADEMARK LAW & THE INTERNET: ISSUES, CASE LAW, AND PRACTICE TIPS, *supra* note 13, at 142.

⁶⁸ See Ellie Mercado, Note, *As Long As "It" Is Not Counterfeit: Holding eBay Liable for Secondary Trademark Infringement in the Wake of LVMH and Tiffany Inc.*, 28 CARDOZO ARTS & ENT. L.J. 115, 116–18 (2010); Virginia Welch, Comment, *Contributory Trademark Infringement: Who Bears the Burden of Policing Online Counterfeit Activity?*, 13 SMU SCI. & TECH. L. REV. 361, 364 (2010).

⁶⁹ See *infra* Part I.B.

⁷⁰ See *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 103 (2d Cir. 2010), *cert. denied*, 131 S. Ct. 647 ("Contributory trademark infringement is a judicially created doctrine that derives from the common law of torts.").

⁷¹ 456 U.S. 844, 860 (1982) (White, J., concurring).

⁷² *Id.* at 850 (majority opinion).

looked very similar to the plaintiffs'.⁷³ Pharmacies then used the generic drug in place of the trademarked drug.⁷⁴ The Supreme Court set forth the following standard: A party is liable for contributory trademark infringement "if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement."⁷⁵ The second part of the *Inwood* test allows trademark owners to hold financially sound parties accountable in addition to or in place of the direct infringer.⁷⁶ It is also easier for trademark owners to seek redress; suing one manufacturer or distributor is easier and perhaps more effective than suing each direct infringer separately.⁷⁷

A set of cases involving counterfeit goods then extended the application of the second *Inwood* scenario to parties with a degree of supervision over the persons and activities taking place on physical marketplaces. Under the reasoning of *Hard Rock Café Licensing Corp. v. Concession Services, Inc.*,⁷⁸ flea market owners could be held liable for contributory trademark infringement. In that case, Hard Rock Café sued Concession Services Inc. ("CSI") after learning that a flea market vendor was selling counterfeit shirts on space provided by CSI.⁷⁹ Noting that trademark infringement is rooted in tort principles governing landlord or licensor liability,⁸⁰ and that *Inwood* imposed similar duties on manufacturers and distributors, the court found that

⁷³ *Id.* at 846–47.

⁷⁴ *See id.* at 851–53.

⁷⁵ *Id.* at 854.

⁷⁶ 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, 920 (2005).

⁷⁷ *See Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 588 (7th Cir. 1989) ("Obtaining an injunction against each and every [direct infringer] would be infeasible. Trademark owners cannot hire investigators to shop every retail store in the nation. And even if they could and did, and obtained injunctions against all present violators, this would not stop the counterfeiting. Other infringers would spring up, and would continue infringing until enjoined."); *cf. In re Aimster Copyright Litig.*, 334 F.3d 643, 645 (7th Cir. 2003) (recognizing that suing individual copyright infringers is impractical and futile in the face of voluminous music file sharing over the Internet).

⁷⁸ 955 F.2d 1143, 1148–49 (7th Cir. 1992).

⁷⁹ *Id.* at 1145.

⁸⁰ *Id.* at 1148–49.

the *Inwood* standard should apply.⁸¹ As such, a flea market operator would be liable if he knew or had reason to know that the vendor was selling counterfeit merchandise.⁸² Additionally, the court recognized that “willful blindness” could satisfy the actual knowledge requirement for the purposes of the Lanham Act.⁸³ “Willful blindness” is when a party, such as a flea market operator, “suspect[s] wrongdoing” on his or her premises “and deliberately fail[s] to investigate.”⁸⁴

The reasoning in *Hard Rock Café* was followed in *Fonovisa, Inc. v. Cherry Auction, Inc.*,⁸⁵ which presented a similar set of facts. In *Fonovisa*, a trademark owner of sound recordings sued a flea market operator because a vendor sold counterfeit recordings on the premises.⁸⁶ The flea market operator was liable for contributory trademark infringement because he knew of the vendor’s past infringing activities at the flea market, yet failed to take action against the vendor to stop the infringement.⁸⁷ This holding emphasizes that a third party can be liable when it provides the means through which trademark infringement occurs, even if the third party is not directly responsible for the infringement itself.⁸⁸ *Fonovisa* reiterated this point: A party can be liable for contributory trademark infringement if it “continues to supply a product knowing that the recipient is using the product to engage in trademark infringement.”⁸⁹

*Lockheed Martin Corp. v. Network Solutions, Inc.*⁹⁰ further extended the *Inwood* standard by applying it to Internet service providers. Noting that *Hard Rock* and *Fonovisa* allowed courts to consider the extent of the defendant’s control over the direct infringer when there was no “product” for the purposes of the *Inwood* test, the *Lockheed* court concluded that a service provider can be liable if it has “[d]irect control and monitoring of the

⁸¹ *Id.* at 1148.

⁸² *See id.* at 1149.

⁸³ *Id.*

⁸⁴ *Id.*

⁸⁵ *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996).

⁸⁶ *Id.* at 260.

⁸⁷ *Id.* at 265.

⁸⁸ *See id.* at 264; *see also Hard Rock Café*, 955 F.2d at 1148; *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, 855 F. Supp. 648, 650 (S.D.N.Y. 1994).

⁸⁹ *Fonovisa*, 76 F.3d at 264.

⁹⁰ 194 F.3d 980 (9th Cir. 1999).

instrumentality used by a third party to infringe the plaintiff's mark[s]."⁹¹ In *Lockheed*, Lockheed sued Network Solutions after learning that third parties registered domain names substantially similar to Lockheed's service mark, "skunk works."⁹² However, Network Solutions was not liable because the service it provided—registering domain names—did not satisfy "[t]he 'direct control and monitoring' rule established by *Hard Rock* and *Fonovisa*."⁹³

A series of cases following *Lockheed* illustrate the challenges of suing e-commerce sites under the current contributory trademark infringement standard to fight counterfeiting on the Internet. One issue is deciding where the service provider falls in the spectrum of specific knowledge or willful blindness on one end, and generalized knowledge on the other.⁹⁴ Another issue is deciding how closely related the service provider is in its involvement with direct infringement.⁹⁵ Yet another issue is how much an online service provider can be expected to do to prevent or combat infringement on its website.⁹⁶ As the following eBay cases demonstrate, online auction sites fall somewhere in the middle on each spectrum, which has led to inconsistent decisions that add layers of difficulty for policing trademarks.

⁹¹ *Id.* at 984.

⁹² *Id.* at 983 (listing the domain-name combinations at issue, including skunkworks.com, skunkworks.net, skunkwrks.com, skunkwerks.com, skunkworx.com, and theskunkworks.com).

⁹³ *Id.* at 985.

⁹⁴ See *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146, 1188 (C.D. Cal. 2002); *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, 591 F. Supp. 2d 1098, 1112 (N.D. Cal. 2008) (likening defendant ISPs to the flea market operators in *Fonovisa* and deciding that defendant ISPs were willfully blind because they did not take steps to terminate infringing activity, despite their ability to).

⁹⁵ See *Akanoc*, 591 F. Supp. 2d at 1112 (by "physically host[ing] websites on their servers and rout[ing] internet traffic to and from those websites," defendants were more closely involved in the infringement than the defendant in *Lockheed*, who "merely provided a 'rote translation service'").

⁹⁶ See *Perfect 10*, 213 F. Supp. 2d at 1174 (Defendant was like the flea market in *Fonovisa*, and "ha[d] the right to terminate webmasters at will, [control] consumer access, and promote[] its services." Defendant also had "detailed policing of sites." With these activities, there was "a strong likelihood of success for" the argument that defendant had sufficient control over the infringing websites.); see also *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 962 (C.D. Cal. 1997) (defendant's involvement with potentially infringing uses of domain names was too remote to extend contributory liability, "absent a showing that [the defendant domain name registrar] had unequivocal knowledge that a domain name was being used to infringe a trademark"), *aff'd*, 194 F.3d 980 (9th Cir. 1999).

II. THE EBAY CASES: OPPOSITE APPROACHES TO CONTRIBUTORY TRADEMARK INFRINGEMENT ON ONLINE AUCTION SITES

In *Tiffany (NJ) Inc. v. eBay, Inc.*,⁹⁷ the Second Circuit extended the principles of *Inwood* and its progeny to include online auction sites. When Tiffany discovered that a substantial amount of counterfeit products were being sold on eBay,⁹⁸ Tiffany tried to sue eBay for contributory trademark infringement but failed.⁹⁹ But when Hermes and Louis Vuitton Malletier sued eBay in France for the same reasons that Tiffany did, under a theory of contributory trademark infringement similar to the United States', they were successful.¹⁰⁰ Together, these cases present both sides of an underlying issue: What, if anything, should be required of online marketplaces in the fight against counterfeiting?

A. *The American Approach: Tiffany v. eBay*

1. The Facts of *Tiffany v. eBay*

Tiffany & Co., founded in 1837, is a widely recognized luxury brand firm that describes itself as "the world's premier jeweler and America's house of design."¹⁰¹ Tiffany places its

⁹⁷ *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010), *cert. denied*, 131 S. Ct. 647 (2010). *Tiffany* was the first American case dealing with contributory trademark infringement in the context of online auction sites. *Id.* at 105.

⁹⁸ *Id.* at 97. The parties disagreed on the amount of counterfeit Tiffany products that were actually being sold. After conducting its own survey in 2004 and 2005, Tiffany concluded that 73.1% and 75.5% of purported Tiffany merchandise was counterfeit. *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 485 (S.D.N.Y. 2008) *aff'd in part, rev'd in part*, 600 F.3d 93 (2d Cir. 2010), *cert. denied* 131 S. Ct. 647 (2010). Although the district court below found that Tiffany's surveys were "methodologically flawed and of questionable value," *id.* at 512, the court agreed that a "significant portion" of Tiffany sterling jewelry listed on eBay was counterfeit, *id.* at 486, and that eBay knew "that some portion of the Tiffany goods sold on its website might be counterfeit." *Id.* at 507.

⁹⁹ *Tiffany*, 600 F.3d at 103. Tiffany also sued eBay for direct trademark infringement and false advertising. *Id.* at 96. The Second Circuit dismissed Tiffany's direct trademark infringement claim, but remanded the case for the false advertising claim. *Id.* at 114. On remand, the Southern District dismissed the false advertising claim. *Tiffany (NJ) Inc. v. eBay, Inc.*, No. 04 Civ. 4607(RJS), 2010 WL 3733894, at *4 (S.D.N.Y. Sept. 13, 2010). A discussion of these two causes of actions falls outside the scope of this Note.

¹⁰⁰ See Kate Goldwasser, *Knock it Off: An Analysis of Trademark Counterfeit Goods Regulation in the United States, France, and Belgium*, 18 CARDOZO J. INT'L & COMP. L. 207, 222 (2010).

¹⁰¹ TIFFANY & CO., <http://www.tiffany.com/about> (last visited Sept. 20, 2012).

“indisputably famous” mark on the high-end lines of jewelry, watches, and home goods it designs.¹⁰² The value of Tiffany’s mark results from over one hundred years of building a reputation for excellent quality.¹⁰³ To maintain the integrity of the Tiffany brand, Tiffany conducts strict quality checks and sells products only through authorized channels.¹⁰⁴ eBay is not one of these channels.¹⁰⁵

eBay, one of the largest online auction sites, allows people from all over the world to buy from and sell to each other practically any kind and number of items.¹⁰⁶ There are over one hundred million listings worldwide on eBay at any given time in over 50,000 different categories.¹⁰⁷ In 2010, the total value of items sold on eBay’s websites was \$62 billion.¹⁰⁸ Registering and navigating eBay is simple.¹⁰⁹ But eBay does require its users to agree to its User Agreement, under which users agree to comply with applicable laws and refrain from selling prohibited items, including counterfeits.¹¹⁰ Sellers can list one or multiple items.¹¹¹ Buyers can peruse as many listings as they want and search items based on keyword or category.¹¹² Buyers and sellers communicate directly with each other on eBay’s website,¹¹³ and eBay never physically possesses the items for sale.¹¹⁴ eBay generates profits by charging sellers a fixed fee for their use of eBay’s services and by collecting a commission at the close of each sale.¹¹⁵

¹⁰² *Tiffany*, 576 F. Supp. 2d at 471.

¹⁰³ *Id.*

¹⁰⁴ *Id.* at 472–73 (authorized channels are Tiffany’s retail stores, catalogs, website, and Corporate Sales Department).

¹⁰⁵ See *Tiffany & Co.*, EBAY, <http://cgi3.ebay.com/ws/eBayISAPI.dll?ViewUserPage&userid=tiffanytrademark2> (last visited Sept. 20, 2012).

¹⁰⁶ *Who we Are*, EBAY, <http://www.ebayinc.com/who> (last visited Sept. 20, 2012).

¹⁰⁷ *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010), *cert. denied*, 131 S. Ct. 647 (2010).

¹⁰⁸ *Who we Are*, EBAY, <http://www.ebayinc.com/who> (last visited Sept. 20, 2012).

¹⁰⁹ To register, users provide their name, address, and a banking or checking account. Users are also asked to provide a unique username and password.

¹¹⁰ *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 476 (S.D.N.Y. 2008), *aff’d in part, rev’d in part*, 600 F.3d 93 (2d Cir. 2010); see also *Your User Aregement*, EBAY, <http://pages.ebay.com/help/policies/user-agreement.html> (last visited Sept. 25, 2012).

¹¹¹ *Tiffany*, 576 F. Supp. 2d at 474.

¹¹² *Id.* at 474–75.

¹¹³ *Id.* at 475.

¹¹⁴ *Id.*

¹¹⁵ *Id.*

Both Tiffany and eBay devote substantial resources to combat counterfeiting. Tiffany has budgeted over \$14 million to anti-counterfeiting.¹¹⁶ Prior to this lawsuit, Tiffany attacked sellers on eBay for counterfeiting, and conducted numerous “enforcement actions” like customs seizures.¹¹⁷ Employees spent 172 to 240 man-hours per month monitoring eBay and reporting listings of counterfeit items to eBay.¹¹⁸ Starting in 2006, Tiffany began to “patrol eBay and report violations on a daily basis.”¹¹⁹ On the other side of the equation, eBay was spending \$20 million each year and devoting about twenty-five percent of its employees to fight counterfeiting on the website.¹²⁰ eBay had various departments and programs to address counterfeiting on its website.¹²¹ Tiffany was a frequent user of these services.

One of eBay’s major anti-counterfeiting measures was its VeRO program, which puts in place a mechanism very similar to the notice-and-takedown scheme used in copyright infringement cases, codified in § 512(c) of the DMCA.¹²² Section 512(c) limits liability for online “service providers,”¹²³ provided that the service satisfies certain requirements, including a prompt takedown of infringing material once notice has been given.¹²⁴ Under the VeRO program, a trademark owner like Tiffany could report a particular listing using a Notice of Claimed Infringement (“NOCI”) form.¹²⁵ Should a trademark owner like Tiffany find specific instances of counterfeit merchandise being sold on eBay, the trademark owner would submit a NOCI.¹²⁶ Upon receiving

¹¹⁶ *Id.* at 484.

¹¹⁷ *Id.* at 481.

¹¹⁸ *Id.* at 484.

¹¹⁹ *Id.* The court, however, recognized that Tiffany could have made a greater effort to fight counterfeiting. *Id.* at 485. Tiffany did not develop its own process to hasten its monitoring and reporting to eBay, so Tiffany simply could not keep up with the listings. *Id.* at 484–85. Neither did Tiffany take eBay’s suggestion to use online reputation management services. *Id.* at 484.

¹²⁰ *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 98 (2d Cir. 2010), *cert. denied*, 131 S. Ct. 647 (2010); *Tiffany*, 576 F. Supp. 2d at 476.

¹²¹ *Tiffany*, 576 F. Supp. 2d at 476, 479, 489, 491 (eBay’s partnership with PayPal to set up “buyer protection programs”; eBay’s “Trust and Safety” department, which was 4,000 employees strong; warning messages when users listed Tiffany items, prompting the seller to ensure that the item was authentic; “threestrikes” rule).

¹²² *See infra* notes 178–79 and accompanying text.

¹²³ 17 U.S.C. § 512(c) (2006 & Supp. IV 2010).

¹²⁴ *Id.*

¹²⁵ *Tiffany*, 576 F. Supp. 2d at 478.

¹²⁶ *Id.*

this, eBay would remove the listing.¹²⁷ eBay's practice was to investigate and remove the illicit listings within twenty-four hours of receiving a NOCI.¹²⁸

2. The Second Circuit's Decision

Ultimately, the Second Circuit applied the *Inwood* test and dismissed Tiffany's contributory trademark infringement claim.¹²⁹ Since eBay provided a service and not a product, the issue was whether eBay had the requisite quantum of knowledge to trigger liability for contributory trademark infringement.¹³⁰ Tiffany provided data¹³¹ and expert testimony¹³² to show that eBay had "generalized knowledge" that a significant amount of counterfeit Tiffany items were being sold on its website, making eBay secondarily liable for the infringing activities.¹³³ However, the court held that generalized knowledge was insufficient to hold eBay liable for contributory trademark infringement because *Inwood* required specific knowledge or willful blindness.¹³⁴ For example, if eBay had known of particular instances of trademark infringement but failed to react, *Inwood's* specific knowledge prong would be met. Also, if eBay was aware of infringement on its website but refused to respond, *Inwood's* willful blindness prong would be met. In this case, eBay had neither: Tiffany did not raise any instance in which eBay had specific knowledge of infringement,¹³⁵ and with strong anti-counterfeiting tools like VeRO, it could not be said that eBay was

¹²⁷ *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 99 (2d Cir. 2010), *cert. denied*, 131 S. Ct. 647 (2010).

¹²⁸ *Tiffany*, 576 F. Supp. 2d at 478. In most situations, eBay removed such listings within twelve hours. *Id.*

¹²⁹ *Tiffany*, 600 F.3d at 105–07.

¹³⁰ *Id.* at 107. On appeal, eBay dropped its argument that it was not subject to *Inwood*, leading the Second Circuit to assume that *Inwood* applied. *Id.* at 105–06 (citing *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982)).

¹³¹ *Id.* at 97–98.

¹³² See Brief for Defendant-Appellee at 27–28, *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010) (No. 08-3947-cv), 2008 WL 8430999, at *15–16.

¹³³ See Reply Brief for Plaintiffs-Appellants at 2, *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010) (No. 08-3947-cv), 2008 WL 8595304, at *4.

¹³⁴ *Tiffany*, 600 F.3d at 109–10.

¹³⁵ *Id.* at 109.

willfully blind.¹³⁶ eBay was not liable for contributory trademark infringement for the counterfeiting that Tiffany found on the website.¹³⁷

B. The French Approach: Hermes and Louis Vuitton Malletier

eBay did not fare as well in two lawsuits in France that were decided shortly before *Tiffany* ended.¹³⁸ Under a similar set of facts, eBay was found liable for contributory trademark infringement. The French courts had a different view on whether eBay's level of knowledge could trigger liability, which depended on the courts' interpretations of whether eBay was an active participant in transactions on its website or a passive venue provider for third-party transactions.

In the first case, *Hermes v. eBay*, Hermes sued eBay after discovering that an eBay user sold counterfeit products bearing a counterfeit Hermes mark.¹³⁹ Hermes sued eBay in France, seeking to hold eBay jointly liable for the infringement.¹⁴⁰ Section 6.1.2 of France's On-Line Trade Confidence Act of 2004, which complements Article L713-2 of the French Intellectual Property Code,¹⁴¹ uses a test similar to that from *Inwood*: A party is liable for contributory infringement if they knew of, yet failed to remove infringing merchandise from the "on-line communication services" geared toward public use.¹⁴² But unlike the Second Circuit, the *Hermes* court did not construe the statute in eBay's favor.¹⁴³ If the *Hermes* court had considered eBay a "hosting site," then it would not have been liable for counterfeiting on the website.¹⁴⁴ Instead, the court considered eBay an active provider of tools and services, helping sellers to publish their items, communicate with other users, and facilitate monetary transactions.¹⁴⁵ Because of its substantial role in

¹³⁶ *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 515 (S.D.N.Y. 2008), *aff'd in part, rev'd in part*, 600 F.3d 93 (2d Cir. 2010).

¹³⁷ *Tiffany*, 600 F.3d at 109.

¹³⁸ *Id.* at 105 n.9.

¹³⁹ *See* *Hermes* case, *supra* note 32, at 1.

¹⁴⁰ *Id.*

¹⁴¹ Goldwasser, *supra* note 100, at 221.

¹⁴² *See* *Hermes* case, *supra* note 32, at 14.

¹⁴³ *Id.* at 17.

¹⁴⁴ *Id.* at 15.

¹⁴⁵ *Id.* ("eBay companies provide tools, permitting to market the sold goods to the sellers, organize object presentation on their site . . . [and] communication services for intermediation purposes").

facilitating these online exchanges—including illicit sales of counterfeit items—eBay was responsible for policing its own site for illegal activity.¹⁴⁶ As a service provider, eBay had the burden of implementing effective anti-counterfeiting measures, such as requiring sellers to provide an item’s serial number, type number, or certificate of authenticity.¹⁴⁷

This reasoning was confirmed by *LVMH*, a case decided three weeks after *Hermes*.¹⁴⁸ As in the *Hermes* and *Tiffany* cases, Louis Vuitton Malletier sued eBay after finding that counterfeit merchandise was being sold from its website.¹⁴⁹ The court viewed eBay as a “brokerage site” under Section 6.1.2, not a “mere hoster.”¹⁵⁰ eBay was a “mandatory player in sales taking place on its sites,” playing “a very active role, particularly through commercial reminders, in order to increase the number of transactions.”¹⁵¹ Furthermore, eBay derived profits from engaging in commercial activities, and, “by its very nature, [did] not imply lack of knowledge and control of the information transmitted on its sites.”¹⁵² Like the *Hermes* court, the *LVMH* court found eBay’s VeRO program an insufficient means to combat counterfeiting on its website.¹⁵³ The court declared that eBay should have taken preemptive steps such as requiring sellers to provide a certificate of authenticity.¹⁵⁴

III. WHY ONLINE MARKETPLACES SHOULD DO MORE TO PREVENT COUNTERFEITING

In evaluating the decisions of the Second Circuit and the French courts, it is important to keep in mind the overarching goals of trademark law: to encourage healthy competition in the marketplace by (1) protecting consumers, (2) preventing confusion regarding the origin of a particular product, and (3) encouraging trademark holders’ investments in quality goods and services.¹⁵⁵ The Second Circuit and the French courts used

¹⁴⁶ *Id.*

¹⁴⁷ *Id.* at 16.

¹⁴⁸ See *LVMH* case, *supra* note 33, at 12.

¹⁴⁹ *Id.* at 10.

¹⁵⁰ *Id.* at 10–11.

¹⁵¹ *Id.* at 11.

¹⁵² *Id.*

¹⁵³ *Id.* at 12.

¹⁵⁴ *Id.*

¹⁵⁵ See *supra* Part I.A.

similar standards for contributory trademark infringement but arrived at opposite conclusions about eBay's level of knowledge. This led to different evaluations of how many steps eBay should be expected to take to satisfy its role in combating trademark infringement online. With each approach, there are pros and cons for trademark owners and online marketplaces.

The Second Circuit's decision, which favors online marketplaces, reflects an appreciation for how the Internet made possible a booming e-commerce industry.¹⁵⁶ Certainly, the court recognized the value of eBay's business model—and similar e-commerce models—and wished to avoid interfering with it.¹⁵⁷ eBay and other similar sites give consumers more options, which is an incentive for trademark owners to create more quality products and maintain their reputation. American courts do not want to impose duties on these businesses that would be so costly or inefficient so as to cripple valuable businesses like eBay.¹⁵⁸ On some level, a DMCA-style notice-and-takedown procedure as implemented by VeRO is an important step to help trademark owners police their brand.¹⁵⁹ The knowledge requirement, however, is very difficult to meet, which hinders a trademark owner's efforts to protect its mark.¹⁶⁰

On the other hand, the French courts' decision favors trademark owners. Instead of an appreciation for how the Internet allowed the prosperous development of e-commerce, the French courts emphasized how the Internet endangered legitimate business by "foster[ing] the marketing of fraudulent products, among them those that are the result of infringement, that scourge of the legal economy."¹⁶¹ The *LVMH* court was particularly unimpressed with eBay's motto that "anyone, anywhere and at any time, [could] offer, sell or buy practically anything he or she wishes,"¹⁶² including counterfeiters.

¹⁵⁶ See *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 96 (2d Cir. 2010), *cert. denied*, 131 S. Ct. 647 (2010).

¹⁵⁷ See, e.g., Levin, *supra* note 34, at 526.

¹⁵⁸ Emily Favre, Note, *Online Auction Houses: How Trademark Owners Protect Brand Integrity Against Counterfeiting*, 15 J.L. & POL'Y 165, 195–96 (2007).

¹⁵⁹ See *infra* Part IV.A.

¹⁶⁰ Matthew C. Berntsen, Note, *Knowledge and Misfeasance: Tiffany v. eBay and the Knowledge Requirement of Contributory Trademark Infringement*, 16 B.U. J. SCI. & TECH. L. 102, 128 (2010) (explaining that *Tiffany* requires trademark owners to prove a very high degree of knowledge, which is difficult to do).

¹⁶¹ *LVMH* case, *supra* note 33, at 9.

¹⁶² *Id.* at 10.

Ultimately, the French courts did not think that eBay's VeRO system was effective.¹⁶³ Since modern technology allows counterfeiters to closely imitate trademarks, a counterfeiter could easily circumvent VeRO if no one identifies the replica. Failing to implement measures to prevent counterfeiters from using the website was tantamount to encouraging the sale of counterfeit merchandise, and eBay stood to profit from this.¹⁶⁴ Even though the French courts required sites like eBay to implement more preventive measures against counterfeiting, in doing so they have forced online auction sites to take more responsibility in fighting trademark infringement.¹⁶⁵

The French approach to contributory trademark counterfeiting, which requires online marketplaces to do more than react to notices of counterfeiting, is consistent with the United States' traditionally aggressive stance against counterfeiting. The current American standard, combined with the difficulty of tracking counterfeiters online, enables significant amounts of counterfeiting to continue in online marketplaces, even if it is a generally known fact that counterfeiting occurs there.¹⁶⁶ The current American contributory trademark infringement standards must adapt accordingly to the special challenges posed by online marketplaces. One way to do this is by creating a safe-harbor provision similar to § 512(c) of the Digital Millennium Copyright Act, which provides incentives for online service providers to work with copyright owners by promptly removing infringing material posted by third parties on their websites.¹⁶⁷ Like § 512(c), a trademark safe-harbor provision for online marketplaces should require them to meet certain standards before they can claim the provision's protection from liability. eBay's VeRO program, which was modeled after § 512(c), is an effective reactive mechanism to trademark owners' allegations of counterfeiting—within a reasonable time, eBay can take down infringing material while leaving legitimate goods posted. But eBay's take-down mechanism is not triggered until the trademark owner notifies eBay, and the *Tiffany* decision does

¹⁶³ *Id.* at 12; *Hermes case*, *supra* note 32, at 16.

¹⁶⁴ *See Hermes case*, *supra* note 32, at 14–16.

¹⁶⁵ It is well established that trademark owners are responsible for policing their own mark. 6 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 31:38 (4th ed. 2011).

¹⁶⁶ Goldwasser, *supra* note 100, at 208–09.

¹⁶⁷ 17 U.S.C. § 512(c) (2006 & Supp. IV 2010).

not require affirmative anti-counterfeiting action from the online marketplace.¹⁶⁸ Even though online marketplaces should not have the burden of policing anyone's trademark,¹⁶⁹ more should be expected from online marketplaces—they derive profit from counterfeit sales that go undetected, they solicit second-hand sales, and they are in a better position than the trademark owners are to regulate who can use their services. The French eBay cases made this point, and it would be prudent for the United States to adopt it to some degree, given the United States' strong position against counterfeiting.¹⁷⁰ Thus, in addition to a reactive take-down mechanism, the proposed trademark safe-harbor provision would also require online marketplaces to implement preventive anti-counterfeiting measures. These should deter would-be counterfeiters from using the website and encourage accountability. Requiring online marketplaces to implement both preventive and reactive measures will strike a better balance between the rights and duties of both parties¹⁷¹ and set forth clear expectations from both parties.

IV. CREATING A SECONDARY TRADEMARK LIABILITY SAFE-HARBOR PROVISION FOR ONLINE MARKETPLACES

A. *Borrowing from Copyright Law's Approach to Online Infringement*

Because of similarities between the goals of trademark law and copyright law, some concepts that have been useful for copyright issues on the Internet can address certain trademark issues. Like trademark law, copyright law protects intangible property rights.¹⁷² Copyright law protects the form of expression of an author's ideas so that the author will not be discouraged from investing time and energy in creative endeavors and displaying the fruits of his or her creative labor in public.¹⁷³ As is the case in trademark law, the Internet can be a great tool for disseminating ideas in the copyright context. But the Internet

¹⁶⁸ See *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 107–08 (2d Cir. 2010), *cert. denied*, 131 S. Ct. 647 (2010).

¹⁶⁹ See 6 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 31:38 (4th ed. 2011).

¹⁷⁰ See Goldwasser, *supra* note 100, at 235–36.

¹⁷¹ See JOINT STRATEGIC PLAN, *supra* note 13, at 17.

¹⁷² See Bartholomew & Tehranian, *supra* note 30, at 1364–66.

¹⁷³ COLIN GOLVAN, COPYRIGHT LAW AND PRACTICE 7 (2007).

can make infringement easier, faster, and harder to control.¹⁷⁴ In a world where technology enables immediate and perfect copies of speech to be made and distributed, speakers and authors have an interest in being able to exert greater control over their works on the Internet. One response to this problem was the DMCA,¹⁷⁵ which updated the United States Copyright Act to cope with issues due to technological advances.¹⁷⁶ The law attempts to balance two interests: a creator's right to control the distribution and use of their work, and society's interest in easily accessing such valuable contributions on the Internet.¹⁷⁷

The effects of this balancing act can be seen in § 512(c) of the DMCA, which contains a safe-harbor provision. Essentially, an Internet Service Provider ("ISP") can limit its liability for material on its website that infringes copyright by meeting three requirements¹⁷⁸: (1) the ISP should not have actual or constructive knowledge of the infringing material posted on its website, or of circumstances that create an awareness of such infringement; (2) the ISP should not receive a financial benefit directly attributable to the infringing activity; and (3) should the ISP be notified of infringing material on its website, the ISP should immediately remove it.¹⁷⁹ If the online service provider

¹⁷⁴ See H.R. REP. NO. 105-551, pt. 2, at 25 (1998).

¹⁷⁵ 17 U.S.C. § 512(a) (2006).

¹⁷⁶ See H.R. REP. NO. 105-551, pt. 2, at 21 (1998).

¹⁷⁷ COPYRIGHT AND FREE SPEECH 145 (Jonathan Griffiths & Uma Suthersanen eds., 2005).

¹⁷⁸ § 512(c) states:

(1) In general.—A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider, if the service provider—

(A)(i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;

(ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or

(iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;

(B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and

(C) upon notification of claimed infringement as described in paragraph (3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.

17 U.S.C. § 512(c).

¹⁷⁹ *Id.*

satisfies these requirements, it will not be liable for infringement by its users. It strikes a balance between the competing interests of the copyright owner and the ISP by forcing both parties to work with each other—ISPs are encouraged to set up mechanisms to promptly address copyright owners' allegations of infringing material on their websites.¹⁸⁰ Since its adoption, the DMCA has been tested in courts a number of times and followed.¹⁸¹

Trademark law could benefit from a safe-harbor provision similar to § 512(c) because it encourages cooperation between trademark owners and online marketplaces. After *Tiffany*, a trademark law similar to § 512(c) would itemize the specific mechanisms that online marketplaces should have in place to fight counterfeiting on their sites. First, a trademark safe-harbor provision would keep the knowledge requirement prescribed by § 512(c). As demonstrated by *Inwood* and the cases leading up to *Tiffany*, holding service providers liable for infringement that they had specific knowledge of, or were willfully blind to, encourages them to be diligent and vigilant about trademark infringement occurring on their sites.¹⁸² The level of knowledge required by *Tiffany* does not allow online marketplaces to look the other way if they learn of specific instances of counterfeiting; they must address the problem adequately.

Another feature to borrow directly from § 512(c) is a notice-and-takedown requirement. The Second Circuit praised eBay for expeditiously removing listings of counterfeit items when they were reported.¹⁸³ The elements of eBay's VeRO program should form the basis of a statutory requirement for online auction sites. First, available notice-and-takedown measures should be clear to trademark owners and simple to use. Second, the auction site should respond promptly to a good-faith notification of alleged infringement on the website with a timely investigation. With

¹⁸⁰ See S. REP. NO. 105-190, at 21 (1998); see also *In re Aimster Copyright Litig.*, 334 F.3d 643, 655 (7th Cir. 2003) (describing the goal of safe harbors as encouraging service providers to do "what it can reasonably be asked to do to prevent the use of its service by 'repeat infringers.'" (citing 17 U.S.C. § 512(i)(1)(A))).

¹⁸¹ See Justin D. Fitzdam, Note, *Private Enforcement of the Digital Millennium Copyright Act: Effective Without Government Intervention*, 90 CORNELL L. REV. 1085, 1094 (2005).

¹⁸² See, e.g., *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

¹⁸³ *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 109 (2d Cir. 2010), cert. denied 131 S. Ct. 647 (2010).

regard to a reasonable time frame to expect a response, *Tiffany* is an appropriate standard. Third, if there is infringement, the auction site should promptly remove the listing. Such provisions would promote communication and cooperation between the trademark owner and the website, and set a standard for a proper reactionary mechanism.

B. Tailoring a Safe-Harbor Provision for Trademark Law

Due to the nature of the harm caused by trademark infringement, requiring online marketplaces to implement only a notice-and-takedown mechanism like VeRO is not enough. Because the window of harm in the case of trademark infringement is wider than that of copyright infringement, a safe-harbor provision like § 512(c) should be modified accordingly. For copyright owners, infringement occurs precisely when unauthorized copying occurs. When the unauthorized copies are removed or destroyed, there is no more copyright infringement. In contrast, the harms caused by trademark infringement do not necessarily end with the removal of a listing. There are two examples to illustrate. First, the concept of pre-sale confusion suggests that a trademark owner's rights are injured, even if a consumer decided not to buy it because the replica is less appealing than an authentic item, or the item was taken down beforehand.¹⁸⁴ The unauthorized use of Tiffany's mark to attract a buyer already constitutes harm to the trademark owner.¹⁸⁵ Taking down a listing is also ineffective because some users deliberately seek counterfeit goods.¹⁸⁶ The sale of counterfeit goods creates post-sale confusion, which is also injurious to the trademark owner.¹⁸⁷ A notice-and-takedown mechanism alone cannot adequately address these harms. The VeRO program still leaves the trademark owner with the immensely daunting challenge of monitoring eBay listings and assessing the authenticity of items being sold.¹⁸⁸ Adding to the difficulty is the fact that the trademark owner can view the listings only as they are accessible to the general public, preventing the owner from

¹⁸⁴ See *supra* Part I.A.

¹⁸⁵ See *supra* Part I.A.

¹⁸⁶ See *supra* note 52. Searching for "replica" is easier on some websites than on others (for example, on Yahoo! and not eBay).

¹⁸⁷ See *supra* Part I.A.

¹⁸⁸ See *Tiffany*, 600 F.3d at 99.

making initial assessments of the item before it is listed.¹⁸⁹ *Tiffany* suggests that, for a significant number of counterfeit listings, a trademark owner would never get to those listings that are offered for a relatively short window of time, or even instant sale.¹⁹⁰ In such a case, they could not even avail themselves of services like VeRO.

To address this problem, the proposed safe-harbor legislation should also require online marketplaces to implement preventive anti-counterfeiting measures that deter people from using the website to sell counterfeit merchandise. Online marketplaces should screen users more rigorously¹⁹¹ and require those selling luxury brand goods to attest to its authenticity. Besides having a deterrent effect, such measures would encourage accountability from both the seller and the online marketplace. Together, these measures would do away with some of the online anonymity that counterfeiters hide behind. For instance, before allowing users to list luxury, name-brand items, eBay could require users to provide a certificate of authenticity for sales of brand-name goods, or a notarized letter attesting to the product's authenticity. Another possibility is to work together with reputable credit card or other payment services to implement stricter sign-up requirements that include a credit check.¹⁹² Depending on the available technology, the online marketplace should have some freedom in designing preventive anti-counterfeiting measures. The bottom line is that a more effective standard¹⁹³ for online marketplaces for contributory trademark infringement would include both preventive and reactive anti-counterfeiting components.

¹⁸⁹ James Ciula, *What Do They Know? Actual Knowledge, Sufficient Knowledge, Specific Knowledge, General Knowledge: An Analysis of Contributory Trademark Infringement Considering Tiffany v. eBay*, 50 IDEA 129, 140 (2009).

¹⁹⁰ *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 485 (S.D.N.Y. 2008), *aff'd in part, rev'd in part*, 600 F.3d 93 (2d Cir. 2010), *cert. denied* 131 S. Ct. 647 (2010); see also Steven Seidenberg, *Mark Trail: Online Companies Get a Bye on Using Trademarks*, A.B.A. J., Aug. 1, 2010, available at http://www.abajournal.com/magazine/article/mark_trail/.

¹⁹¹ In her Note, Fara Sunderji suggested a statutory scheme imposing a "duty to monitor" on online auction sites. Sunderji, *supra* note 76, at 943–44. This Note's suggestions for other ways to create an effective trademark safe-harbor provision are based on a different perspective of the theories underpinning trademark law.

¹⁹² Miriam R. Albert, *E-Buyer Beware: Why Online Auction Fraud Should Be Regulated*, 39 AM. BUS. L.J. 575, 606 (2002).

¹⁹³ See *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1382 (9th Cir. 1984).

CONCLUSION

Counterfeiting is dangerous on many levels, and so it should be dealt with as seriously online as it is offline. A more effective way to do so is to implement an anti-counterfeiting scheme that has preventive and reactive elements. The current contributory trademark infringement standard set forth in *Tiffany* is deficient because it requires only reactive mechanisms from online marketplaces, making it very difficult for trademark owners to seek redress for infringement online. And in the case of the most successful online marketplaces—which attract sellers of both authentic and counterfeit items—trademark owners will have a hard time proving that the defendant had “specific knowledge” of counterfeiting.¹⁹⁴ Worsening the problem is the added difficulty of detecting and addressing online counterfeiting, thanks to the speed, reach, and anonymity of the Internet. eBay’s VeRO program is a powerful tool and a good model for similar sites. Such a mechanism should be required for online marketplaces to take advantage of a trademark safe-harbor statute. Take-down mechanisms like eBay’s VeRO program, however, do not address all the harms to trademark owners and consumers. Such mechanisms are never triggered if nobody detects the counterfeiting. While it is true that trademark owners, rather than online marketplaces, are ultimately responsible for policing their brand, online marketplaces are in a better position to find more effective ways to combat counterfeiting because of their greater expertise and access to the virtual marketplace.

Trademark law can benefit from a statutory safe-harbor provision like the DMCA. Just as the DMCA did for copyright law, an analogous trademark safe-harbor statute would encourage online marketplaces to set up effective anti-counterfeiting measures. This would also encourage a better balance between the duties of trademark owners and those of online marketplaces. Given how large the counterfeiting problem is, the burden of enforcing trademark rights is too much for only one party to bear.

¹⁹⁴ See Berntsen, *supra* note 160.