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Life, Liberty, and the Pursuit of Luxury: eBay's Liability for Contributory Trademark Infringement in the United States, Germany, and France

*Sofia H. Ahmed**

I. INTRODUCTION

Tales of consumer woes abound after disgruntled eBay customers recognize they have been duped into purchasing counterfeit luxury items for too-good-to-be-true prices. Luxury goods trademark holders are likewise disgruntled about the proliferation of counterfeit versions of their products appearing on eBay. Despite customer complaints and protective trademark holders, eBay has gained a reputation as a haven for counterfeit goods.¹

To protect the interests of customers and trademark holders, eBay must first consider the approach to trademark regulation adopted by a given jurisdiction. Secondary markets like eBay present a difficult regulatory challenge to which there is no obvious solution. One possible approach would be to require consumers to be more wary in their purchases and trademark owners to be more vigilant in their enforcement. Another approach would make the government or trademark owners—not eBay—responsible for all trademark enforcement. A third alternative would require eBay to bear the entire burden of trademark enforcement. Regardless of where the regulatory burden rests, more strict regulation of trademark infringements is imperative if eBay is to continue dealing in luxury goods.

Recent court decisions in lawsuits against eBay filed in the United States, Germany, and France have yielded divergent results, leaving all involved uncertain of eBay's status as an international

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1. See *Portero.com Buyer's Protection Plan Protects Consumers Where Law Doesn't*, REUTERS, July 15, 2008, <http://www.reuters.com/article/pressRelease/idUS223801+15-ul-2008+PRN20080715> (citing Professor Susan Scafidi).

dealer in luxury goods.² The courts in each of these countries arrived at different conclusions primarily based on the application and analysis of their respective trademark and anti-counterfeiting laws. Luxury goods makers consistently argue that eBay's efforts to curb the rising threat of counterfeiting are inadequate, as evidenced by the large number of counterfeit goods found on the site at any given time. eBay asserts in response that it employs numerous measures to combat counterfeiting, and that any more would in effect ban the sale of luxury goods on the site altogether. Thus, the underlying issue in all three cases is whether eBay's anti-counterfeiting measures have been sufficient.

This Note will examine the judicial interpretations of trademark and anti-counterfeiting laws in France, Germany, and the United States, and the implications of these decisions on eBay and other online marketplaces. Ultimately, the approach taken by U.S. trademark law, embodied in the Lanham Act, seems to strike the most appropriate balance between eBay's interest in allowing loosely regulated sales and the customers' and trademark holders' interest in protecting themselves. The Lanham Act requires eBay to engage in self-monitoring, while also recognizing that trademark rights are private rights that are most-effectively enforced by the trademark owner.

Part II of this Note discusses the manner in which the three jurisdictions approach trademark and counterfeiting issues. It then examines the historical context of each country's trademark and counterfeiting laws, as well as some of the rights and remedies available to trademark holders in each country. Part III looks at eBay, its operations as a global company, and its potential for use as a platform for the sale of luxury goods, both real and counterfeit. This Part explores eBay's policies and mechanisms to fight the sale of counterfeit goods and discusses the sufficiency of these policies.

Parts IV through VI provide detailed explanations of cases against eBay in the United States, Germany, and France, respectively, with each lawsuit alleging that the site contributed to trademark infringement by facilitating the sale of counterfeit luxury goods. Specifically, Part IV analyzes the United States decision in *Tiffany, Inc. v. eBay, Inc.* and consider how the application of previous tests for contributory trademark infringement led a U.S. District Court to find in favor of eBay. Part V discusses a German lawsuit against eBay

2. *See infra* Parts IV–VI.

that the German Federal Supreme Court remanded for further fact finding as to the sufficiency of eBay's anti-counterfeiting measures, although the court's opinion strongly suggests that eBay is indeed vicariously liable.³ Part VI examines three French decisions that have held eBay grossly negligent for its inadequate anti-counterfeiting measures and have punished eBay by awarding significant damages.⁴ Lastly, Part VII considers what eBay can do, in light of these decisions, to adequately protect the rights of trademark holders and consumers without destroying its business model.

II. TRADEMARK AND ANTI-COUNTERFEITING LAWS IN FRANCE, GERMANY, AND THE UNITED STATES

Trademark and anti-counterfeiting laws vary from country to country, making it difficult for an international online company such as eBay to adhere to the laws of every nation. This Part introduces and compares the relevant laws of three prominent nations—France, Germany, and the United States.

A. France: Early Trademark Protection for Luxury Goods Makers

France houses a number of the world's most recognized luxury brands, which its legal system aggressively and effectively protects. In 1857, France established the first truly comprehensive trademark system in the world.⁵ Then in 1994, private sector anti-counterfeiting efforts successfully influenced the passage of even more protective measures, giving customs authorities the power to seize counterfeit goods.⁶ Acting under this authority, French customs agents seized more than six million items in 2007.⁷ Today, a

3. Bundesgerichtshof [BGH] [Federal Court of Justice] Apr. 19, 2007, *Entscheidungen des Bundesgerichtshofes in Zivilsachen* [BGHZ] 1149 (F.R.G.).

4. *SA Louis Vuitton Malletier v. eBay*, Tribunal de Commerce de Paris [T.C.] [Commercial Court] Paris, June 30, 2008; *Christian Dior Couture v. eBay*, Tribunal de Commerce de Paris [T.C.] [Commercial Court] Paris, June 30, 2008; *SA Parfums Christian Dior v. eBay*, Tribunal de Commerce de Paris [T.C.] [Commercial Court] Paris, June 30, 2008.

5. *The IP Guide to France*, IP REV. ONLINE, Oct. 24, 2006, http://www.cpaglobal.com/ip-review-online/1175/the_ip_guide_to____france.

6. Dimitra Kessenides, *LVMH to eBay: Knock It Off!*, AM. LAW., January 11, 2007, available at <http://www.law.com/jsp/article.jsp?id=1168471808673>.

7. BENOÎT BATISTELLI, THE FRENCH ANTI-COUNTERFEITING POLICY INPI AND THE NATIONAL ANTI-COUNTERFEITING COMMITTEE 2 (2008), available at <http://www.usibc.com/NR/rdonlyres/exw4e2ei4lgydasxdbohbayplelo7rnkz5dp5vi53kflr46bamfzeymm6y66nhm4nykk4kc7u4jggenqtsx5euec7d/ProtectingIP27thBattistelli.pdf>.

tourist arriving in France with a counterfeit handbag may be fined and the item may be confiscated.⁸

French regulations established a broad system to protect luxury brand companies from counterfeiting. The 1994 legislation led to the creation of the Comité National Anti-Contrefaçon (CNAC), or the National Anti-Counterfeiting Committee.⁹ The CNAC derives its authority from the Institut National de la Propriété Industrielle (INPI), the National Intellectual Property Office of France.¹⁰ The CNAC's primary task is to apprise the public of the "dangers" of counterfeiting, and to ensure public compliance with anti-counterfeiting laws. The CNAC supports the activities of the Colbert Committee (an association of seventy French luxury goods makers) which include anti-counterfeiting education campaigns.¹¹ A recent Colbert Committee poster campaign emphasized the legal consequences to those purchasing or possessing counterfeit goods.¹² The poster featured visuals of luxury goods (such as Cartier watches, Louis Vuitton shoes, Christian Dior sunglasses, etc.) and read: "In France, buying or carrying a counterfeit product is a criminal offense punishable by up to 3 years imprisonment and a €300,000 fine. Counterfeiting is a real menace to society."¹³ Current French law, in addition to imposing fines and jail time, requires mandatory forfeiture of counterfeit goods.¹⁴ Thus, trademark owners in France work in concert with the government to combat the proliferation of counterfeit goods at every level of the distribution chain, including the consumer level.¹⁵

8. Kessenides, *supra* note 6.

9. Marie Le Berre, *Nobody is Supposed to Ignore the Law!*, LE MAGAZINE DE LA HAUTE HORLOGERIE, Sept. 18, 2007, http://journal.hautehorlogerie.org/spip.php?page=article&cid_article=4540.

10. *Id.*

11. *Id.*

12. *Id.*

13. *Id.*; Comité Colbert, New Anti-counterfeiting Campaign, http://www.comitecolbert.com/internet/index.php?option=com_content&task=view&id=236&Itemid=221&lang=en (last visited Aug. 21, 2009); see also Alessandra Galloni, *Bagging Fakers and Sellers—Makers of Luxury Goods Try New Legal Tactics against Those Who Aid Counterfeiters*, WALL ST. J., Jan. 31, 2006, at B1.

14. See ORG. FOR ECON. CO-OPERATION AND DEV., THE ECONOMIC IMPACT OF COUNTERFEITING AND PIRACY 231 (2008).

15. See *id.* at 231–32.

B. Germany: Strong Trademark Protection with Initiative Required of Trademark Owners

Following the establishment of French trademark law, Germany passed its first trademark act in 1894.¹⁶ A form of that act still exists today, but the addition in 1995 of a standard method for registration changed many aspects of this law.¹⁷ Today, Germany is one of the European Union's largest commercial markets. Germany's approach differs from France's approach in that it requires the trademark holder to take the initiative in investigating incidences of counterfeiting.¹⁸ Furthermore, the state only prosecutes infringers when the counterfeiting is clear and will affect the public interest.¹⁹ Nevertheless, German luxury good makers often seek preliminary injunctions to halt further distribution of infringing goods and to confiscate counterfeit merchandise.²⁰

In Germany, unlike other nations in the European Union, trademark owners may also seek protection under the German Act against Unfair Competition (UCA).²¹ For trademark holders to make a claim under the UCA they must show that the counterfeit goods are (1) offered for sale in Germany; and (2) "either create avoidable confusion in consumers' minds as to the product's origin, or exploit or damage the reputation of rights holders or of their genuine products."²² Additionally, trademark owners from Germany and France may obtain protection throughout the European Union by registering their marks under the Community Trademark Regulation.²³ This directive has increased harmonization, but has left intra-national trademark law unaffected.²⁴

16. *The IP Guide to Germany*, IP REV. ONLINE, Feb. 15, 2007, http://www.cpaglobal.com/ip-review-online/2331/the_ip_guide_to___germany.

17. *Id.*

18. Nils Weber & Katja Grabienski, *Anti-counterfeiting Law and Practice in Germany*, WORLD TRADEMARK REV., Mar./Apr. 2008, at 60, available at <http://www.worldtrademarkreview.com/issues/article.ashx?g=21a493e3-7844-4995-9bde-a25dab87b7ab>.

19. *Id.*

20. *Id.*

21. Gesetz gegen den unlauteren Wettbewerb [UWG] [German Act against Unfair Competition], July 3, 2004, BGBl I at 1414.

22. Weber & Grabienski, *supra* note 18.

23. Council Regulation 40/94, 1994 O.J. (L 11) 1, amended by Council Regulation 422/2004 (EC).

24. GEORGE A. BERMAN ET AL., CASES AND MATERIALS ON EUROPEAN UNION LAW 770 (2d ed. 2002).

C. The United States: Protection Focusing on Prevention of Counterfeiting

Trademark law in the United States evolved somewhat differently than it did in France and Germany, struggling much in its early stages. The first U.S. trademark statute, the short lived Federal Trade Mark Act of 1870,²⁵ collapsed in 1879 when the Supreme Court held that the act was unconstitutional because Congress had improperly relied on the Patent and Copyright Clause (Article 1, Section 8, Clause 8) to regulate trademarks.²⁶ Additionally, the Court held that the act was too broad to fit within Congress' powers under the Commerce Clause.²⁷ In 1881, Congress passed new trademark legislation narrowly tailored to pass muster under its Commerce Clause powers. Congress substantially revised and broadened the 1881 act in 1905 as another major step in modern U.S. trademark regulation.²⁸

The next major development in U.S. trademark law occurred in 1946 with the passing of the Lanham Act, which imposed civil penalties for trademark infringement.²⁹ A few decades later, in 1984, Congress passed the Trademark Counterfeiting Act, a criminal trademark infringement statute punishing intentional traffickers of counterfeit goods or services.³⁰ Because the Lanham Act is the basis for the Trademark Counterfeiting Act, the Trademark Counterfeiting Act criminalizes only conduct prohibited by the Lanham Act—conduct defined as “traffick[ing]”³¹ or selling or trading counterfeit goods.³² Until recently, criminal liability did not exist under these statutes for producing or purchasing counterfeit items. In 2006, however, the United States enacted new legislation to combat the proliferation of counterfeit goods from Asia.³³

25. Patent Act of 1870, Ch. 230, 16 Stat. 198 (1870).

26. Trade-Mark Cases, 100 U.S. 82, 93-94 (1879).

27. *Id.* at 96-97.

28. Robert G. Bone, *Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law*, 86 B.U. L. REV. 547, 578 n.162 (2006).

29. Lanham Act, 15 U.S.C. §§ 1051-1141 (2008).

30. 18 U.S.C. § 2320 (2008).

31. *Id.*

32. *Id.* Trafficking is defined as “trad[ing] or deal[ing] in (goods, esp. illicit drugs, or other contraband).” BLACK’S LAW DICTIONARY 1534 (8th ed. 2004).

33. See Susan Krause, *Legislators Detail Concerns About Counterfeit Goods from China*, BUREAU OF INT’L INFO. PROGRAMS, U.S. DEP’T OF STATE, June 12, 2006, <http://www.america.gov/st/washfile-english/2006/June/20060612124226ASesuarK0.5563623.html>.

Specifically, the Stop Counterfeiting in Manufactured Goods Act established new criminal laws dealing with actual counterfeiting.³⁴

The United States has taken a different approach than that of France and other nations by focusing its attention on preventing counterfeiting before it reaches the consumer. In this respect, American law goes further than French law by attempting to prevent trade in components that comprise a finished counterfeit good.³⁵ Individuals and companies are prohibited from trafficking in counterfeit “labels, patches, stickers, wrappers, badges, emblems, medallions, charms, boxes, containers, cans, cases, hangtags, documentation, or packaging of any type or nature” if those products are likely to cause confusion.³⁶ On the other hand, U.S. law places no responsibility or liability on individuals who seek out (or inadvertently buy) counterfeit products; in fact, no criminal liability is incurred when purchasing counterfeit goods in the United States.³⁷ As a result, trademark holders in the United States must still actively pursue counterfeiters through their own initiatives.

The above-outlined differences in anti-counterfeiting laws between jurisdictions pose a challenge to a global company such as eBay in determining whether its anti-counterfeiting efforts are legally sufficient in all jurisdictions. Until various nations reach a consensus as to how best to protect trademark holders, international online marketplaces such as eBay may have no alternative other than to withdraw from the luxury goods market altogether, fight a losing battle, or bear a disproportionate enforcement burden without clear guidance.

III. EBAY: HOW IT OPERATES AND ITS ANTI-COUNTERFEITING MEASURES

eBay, located at www.ebay.com, allows users to buy and sell from one another.³⁸ eBay calls itself “the World’s Online Marketplace,”³⁹ and currently boasts 84.5 million active users.⁴⁰ Its

34. 18 U.S.C. § 2320 (2008).

35. *Id.*

36. *Id.*

37. Galloni, *supra* note 13.

38. See Brad Stone, *Amid the Gloom, An E-Commerce War*, N.Y. TIMES, Oct. 11, 2008, at BU1.

39. eBay, About eBay, <http://pages.ebay.com/aboutebay.html> (last visited Aug. 21, 2009) [hereinafter About eBay].

40. Stone, *supra* note 38.

purpose is to “enabl[e] trade on a local, national and international basis,” and it features “a diverse and passionate community of individuals and small businesses, [through which] eBay offers an online platform where millions of items are traded each day.”⁴¹ eBay explicitly requires sellers to ensure that their goods do not infringe on the rights of others and expects intellectual property owners to monitor the site for infringing items. In addition, eBay provides “Guidelines for Creating Legally Compliant Listings,” which explain that sellers must not list replicas or counterfeits for sale on its site.⁴²

eBay has two primary mechanisms to thwart the sale of counterfeit products: (1) the Verified Rights Owner (VeRO) Program, and (2) a “fraud engine.” VeRO is a notice-and-takedown system that allows intellectual property owners to report a listing with a potentially infringing item to eBay, which subsequently removes the listing.⁴³ The fraud engine itself operates automatically and utilizes 13,000 different search rules designed to capture listings containing signs of counterfeit items.⁴⁴ These systems allow eBay to detect infringing products without requiring its own personnel to become experts in the brands or products of trademark owners sold on their site.⁴⁵

Despite these mechanisms, in 2006 eBay experienced a decline in active users coupled by a push by intellectual property owners such as Tiffany, Rolex, and LVMH to eliminate all infringing goods from the site.⁴⁶ This push eventually led to lawsuits worldwide. Responding to the decline of active users, eBay introduced new measures to assure users that the site was safe for buyers to use.⁴⁷

One of these new safety measures was the enactment of certain requirements for the categories listing most of the counterfeit goods. For example, sellers are limited in the number of auctions they may list under the “Clothing and Accessories” category, and the length of

41. About eBay, *supra* note 39.

42. See Brian W. Brokate, *What's New in Anticounterfeiting*, 947 PLI/PAT 615, 639 (2008).

43. eBay, How eBay Protects Intellectual Property (VeRO), <http://pages.ebay.com/help/tp/programs-vero-ov.html> (last visited Aug. 21, 2009).

44. *Tiffany, Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 477 (S.D.N.Y. 2008).

45. *Id.* See also Keith Kupferschmid, *No Silver Lining in Tiffany's Infringement Case*, INFORMATION TODAY, Sept. 1, 2008, at 1, available at <http://www.infotoday.com/it/sep08/Kupferschmid.shtml>.

46. Brad Stone, *eBay Reports Progress against Fraud*, INT'L HERALD TRIB., June 14, 2007, at F1.

47. *Id.*

the sale time is longer than for other categories. Requiring a longer sale period ensures that sellers cannot take the money and run⁴⁸ and gives eBay a longer period of time to review the listings.⁴⁹ For Tiffany silver jewelry, for example, the minimum sale period is five days.⁵⁰ Geographical restrictions offer further protection by banning sellers in China and Hong Kong from listing items in the categories most affected by luxury goods counterfeiting, such as “Accessories.”⁵¹ The adequacy of these efforts undertaken by eBay to fight the sale of counterfeit goods on its site is at issue in all three cases reviewed below.

IV. UNITED STATES: *TIFFANY, INC. v. EBAY, INC.*

Among the many luxury brands that have taken issue with eBay, the jewelry giant Tiffany & Co. has waged a comprehensive anti-counterfeiting legal battle against the online marketplace. Tiffany & Co., established in 1837, is a stationery and “fancy goods emporium.”⁵² Tiffany, well known for its luxury goods, is now one of the world’s top jewelry companies.⁵³ Since 2000, Tiffany’s own retail stores, catalogs, website, and Corporate Sales Department have exclusively sold new Tiffany jewelry.⁵⁴ Tiffany does not explicitly authorize its merchandise for resale at online marketplaces, such as eBay, and does not sell its merchandise through liquidators or at discounted prices.⁵⁵

Prior to 2003, Tiffany pursued legal action against individual eBay sellers of counterfeit Tiffany items, particularly sellers of counterfeit silver Tiffany jewelry. In that year, however, Tiffany transitioned from suing individual eBay sellers to suing eBay itself. Tiffany began the attack on eBay by asking the site to “(i) remove

48. *Id.*

49. Kupferschmid, *supra* note 45.

50. *Id.*

51. Stone, *supra* note 46.

52. Tiffany, History & Timeline, <http://press.tiffany.com/Local/en-US/Doc/History&Timeline.pdf> (last visited Aug. 21, 2009).

53. *Survey: Harry Winston Top Luxury Jewelry Brand*, NAT’L JEWELER, Jan. 18, 2007, http://www.nationaljewelersnetwork.com/njn/content_display/fashion/e3i96ed72e4599f729559d3fd85b19f2c40?inp=true; Rigel Celeste, *The Top 10 Jewelry Brands (As Ranked by Wealthy Consumers)*, LUXIST, Feb. 9, 2008, <http://www.luxist.com/2008/02/09/the-top-10-jewelry-brands-as-ranked-by-wealthy-consumers>.

54. *Tiffany, Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 472–473 (S.D.N.Y. 2008) (citing Michael Kowalski, President and CEO of Tiffany).

55. *Id.* at 473.

listings for all Tiffany counterfeit merchandise currently on the eBay website; and (ii) take appropriate and continuing measures to eliminate the sale of counterfeit merchandise through the eBay website in the future; and [(iii)] cease using any ‘Tiffany’ identifier to label counterfeit goods.”⁵⁶

According to Tiffany, eBay responded by encouraging Tiffany to utilize the VeRO program in combination with the efforts made by eBay to remove listings that contained obvious infringements.⁵⁷ Tiffany replied a year later after conducting an illustrative survey in which they asserted that at least seventy-three percent of the sterling silver Tiffany merchandise on eBay was counterfeit and that only a definitive five percent was genuine.⁵⁸ Based on the results of this survey, Tiffany demanded that eBay ban the sale of lots of five or more Tiffany non-silver jewelry items, ban the sale of Tiffany silver jewelry altogether (because most of it was counterfeit), and stop advertising the sale of Tiffany merchandise completely.⁵⁹ Tiffany subsequently sued eBay in New York federal district court.⁶⁰

In its complaint, Tiffany alleged that eBay was liable for contributory trademark infringement “by virtue of the assistance that it provides to, and the profits it derives from, individuals who sell Tiffany counterfeit goods on eBay.”⁶¹ The issue of first impression in the case was whether an internet site such as eBay, which only acts as an intermediary in transactions, may be liable for contributory trademark infringement.

The Lanham Act does not specifically address contributory trademark liability.⁶² However, the Supreme Court expressly recognized liability for contributory trademark infringement in the 1982 case *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*⁶³ After numerous pharmacists sold generic pills as brand name drugs, Ives Laboratories—manufacturer and distributor of the brand name prescription drug Cyclospasmol—sued for damages and for injunctive relief against companies which produced look-alike generic

56. *Id.* at 481.

57. *Id.* at 482.

58. *Id.*

59. *Id.*

60. *Id.*

61. *Id.* at 470.

62. See Brian D. Kaiser, *Contributory Trademark Infringement by Internet Service Providers: An Argument for Limitation*, 7 J. TECH. L. & POL’Y 65, 86 (2002).

63. 456 U.S. 844 (1982).

pills.⁶⁴ The District Court held that Inwood Laboratories and other generic drug manufacturers were only liable for trademark infringement if they encouraged the substitution, or if once they knew about the substitution, continued to distribute to the substituting pharmacists.⁶⁵ Ultimately, the Supreme Court affirmed the ruling of the District Court, holding that a party is vicariously liable for contributory trademark infringement only when that party actually encouraged or participated in the infringement.⁶⁶

The Supreme Court noted that contributory trademark infringement could arise in either of two ways. First, although not pertinent to the facts in *Inwood*, infringement may occur if one party purposefully induces another to infringe a trademark.⁶⁷ Second, contributory infringement may attach to one who, as “a manufacturer or distributor . . . continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.”⁶⁸ Because Inwood had no personal contact with pharmacists and there were only a few instances of pill substitution, the Court held that there was no reason for Inwood or other generic drug manufacturers to know of the pill substitutions.⁶⁹

When analyzing eBay in light of this second type of infringement, the issue in *Tiffany* was whether eBay knew or should have known about the infringements of Tiffany’s trademarks occurring on the site. eBay did not dispute that it possessed a general knowledge of the fact that some isolated items being sold on the site were counterfeit, especially in light of Tiffany’s Notice of Claimed Infringements (NOCIs), its own fraud engine, and complaints from buyers about counterfeit Tiffany items sold on eBay.⁷⁰ Thus, the Court was forced to determine whether this “generalized knowledge” was sufficient to require affirmative action by eBay to avoid contributory infringement liability.⁷¹

eBay argued that generalized knowledge alone is insufficient to meet the knowledge requirement of *Inwood*’s second contributory infringement category, asserting that not all Tiffany goods sold on

64. *Id.*

65. *Id.* at 852.

66. *Id.*

67. *Tiffany, Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463 (S.D.N.Y. 2008).

68. *Inwood*, 456 U.S. at 854.

69. *Id.* at 852–53.

70. *Tiffany*, 576 F. Supp. 2d at 508, 511.

71. *Id.* at 508.

eBay are counterfeit.⁷² eBay argued that *Inwood* requires the third party to receive specific knowledge of the infringement, either independently or in the form of notice from the rights owner.⁷³ eBay had a mechanism in place for specific notice—VeRO, which it encouraged Tiffany to utilize.⁷⁴ Nevertheless, Tiffany argued that eBay was “willfully blind” by not investigating or understanding the counterfeiting on its site.⁷⁵

The district court in *Tiffany* held that under *Inwood*, the “reason to know” standard may be met by demonstrating that the “defendant was willfully blind to the infringing activity.”⁷⁶ To be willfully blind, “a person must suspect wrongdoing and deliberately fail to investigate.”⁷⁷ Willful blindness also requires “more than mere negligence or mistake”;⁷⁸ it requires that defendants keep themselves ignorant of suspicious behavior.⁷⁹ Despite eBay’s general knowledge of counterfeit goods selling on its site, however, the court found that eBay attempted to eliminate the problem through its fraud engine and VeRO. These efforts demonstrate that eBay did suspect wrongdoing and made efforts to investigate through technological and human measures, including dedicating employees to monitoring listings.⁸⁰

Ultimately, the court held that eBay was not liable for contributory trademark infringement.⁸¹ If the court had found eBay willfully blind under these circumstances, the decision would have transformed the “reason to know” standard into an affirmative duty to fight against counterfeiting, even without specific knowledge.⁸² Furthermore, if generalized knowledge of infringement were sufficient, Tiffany (and other trademark owners) could prevent owners who had previously purchased goods with no conditions on

72. *Id.* at 509.

73. *Id.* at 508.

74. *Id.* at 478, 514–15.

75. *Id.* at 513.

76. *Id.*

77. *Id.*

78. *Nike, Inc. v. Variety Wholesalers, Inc.*, 274 F. Supp. 2d 1352, 1369–70 (S.D. Ga.2003) (cited in *Tiffany*, 576 F. Supp. 2d at 515).

79. *Tiffany*, 576 F. Supp. 2d at 515; *see Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148 (7th Cir. 1992).

80. *Tiffany*, 576 F. Supp. 2d at 476–79.

81. *Id.* at 527.

82. *Id.* at 515.

their disposal or resale from reselling their items.⁸³ Owners of Tiffany goods did not purchase those goods on the condition that they would not subsequently be able to resell the goods—such a restriction might have resulted in lower initial prices for the goods. Allowing Tiffany to exercise this power would run contrary to one of the purposes of trademark law embodied in the Lanham Act—to enable the public to purchase (and resell) goods with confidence,⁸⁴ not to enable trademark owners to exert complete and continued control over products carrying their marks.

A business such as eBay has an economic incentive to ensure that users are happy with their goods, both because they receive a final value fee from each successful sale, and because mischaracterized goods require additional time and resources for resolving disputes and grievances.⁸⁵ Trademark rights are to some extent a public good, but commentators generally agree that they fundamentally represent the private rights of the trademark owner.⁸⁶ As a holder of a private right, a trademark owner bears personal responsibility for enforcing his right in the trademark.⁸⁷ Based on evidence presented by eBay, Tiffany spent few of its own resources in monitoring the eBay site to ensure that infringement was not occurring, but sought instead to pass that expense on to eBay.⁸⁸

Tiffany's motives were also suspect. Had Tiffany been concerned only with counterfeit goods, it would not have suggested the five-items-or-more rule as a blanket rule that applied to both new and old Tiffany goods.⁸⁹ According to evidence presented by eBay, Tiffany's retail stores instituted a similar rule as an anti-diversion tool rather than an anti-counterfeiting tool. As such, the court reasoned

83. *Id.* at 473.

84. Joseph D. Garon, *The Lanham Act: A Living Thing*, 7 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 55, 55–56 (1996).

85. See eBay, About Our Buyer Protection Programs, <http://pages.ebay.com/help/buy/protection-programs.html#bpp> (last visited Aug. 21, 2009); eBay, What Does It Cost to Sell on eBay, <http://pages.ebay.com/help/sell/questions/what-fees.html> (last visited Aug. 21, 2009).

86. See Katherine E. Gasparek, *Applying the Fair Use Defense in Traditional Trademark Infringement and Dilution Cases to Internet Meta Tagging or Linking Cases*, 7 GEO. MASON L. REV. 787, 795–96 (1999).

87. *Id.* at 799.

88. *Tiffany*, 576 F. Supp. 2d at 484–85. Limited resources were budgeted by Tiffany for combating the problem of online counterfeiting with only \$763,000 budgeted in 2003. That amount represented only 0.05% of net sales in 2003 despite the “rampant” nature of counterfeit goods on eBay.

89. *Id.* at 483.

that Tiffany was more concerned about the resale of authentic Tiffany goods purchased directly from their stores than they were about the sale of counterfeit items.⁹⁰ For example, Tiffany has allowed a single buyer to buy twenty-five pieces at a time in its retail store.⁹¹ Tiffany's fixation with the five-items-or-more rule suggests that Tiffany was most concerned about remaining the exclusive provider of Tiffany goods.⁹² However, as the Court identified in its opinion, no information was provided regarding "the actual size and scope of the legitimate secondary market in authentic Tiffany silver jewelry" that was at issue.⁹³ Insofar as secondary markets are concerned, the Court further concluded, "eBay and other online market websites may properly promote and facilitate the growth of legitimate secondary markets in brand name goods."⁹⁴

Under the rule enunciated in *Tiffany*, it is clear that for a party to be liable for contributory trademark infringement, there must be specific knowledge of trademark infringement, and in the face of such specific knowledge, the defendant must choose not to act. While eBay was generally aware of counterfeit Tiffany goods on its site, it made efforts on its own and in cooperation with rights owners to eliminate the sale of counterfeit goods.⁹⁵ In summary, the *Tiffany* court held that the knowledge requirement in contributory trademark infringement suits is not satisfied by merely showing general knowledge of counterfeit goods sales or by a showing of simple negligence.⁹⁶

The approach to trademark law articulated in the *Tiffany* case is, to the great dismay of eBay, unique to the United States. In both Germany and France, as described below, no knowledge requirement exists. Therefore, in contrast to the *Tiffany* court's finding, eBay may be held liable under tort theories of negligence and vicarious liability in those jurisdictions.

V. GERMANY: ROLEX, INC. V. EBAY, INC.

The decision in *Rolex, Inc. v. eBay, Inc.*, implies that eBay's methods for tracking and eliminating counterfeit items are

90. *Id.*

91. *Id.*

92. *Id.*

93. *Id.* at 473.

94. *Id.*

95. *See id.* at 470.

96. *See id.* at 515.

insufficient. The decision also suggests that an increased affirmative duty may be placed on eBay to monitor its listings. The result of the ruling could be to restrict sellers' ability to vend products at the price they determine, and to place an unreasonable burden on eBay.

Montres Rolex S.A. (Rolex) was founded in London in 1905 as Wilsdorf and Davis. By 1919 the company moved to Geneva, Switzerland, and began doing business under its current name.⁹⁷ Rolex watches are known for their superb movement and hand craftsmanship.⁹⁸ As a leading company in the luxury goods industry, its products are known as portable status symbols, just like Tiffany jewelry.⁹⁹ A typical Rolex watch costs over \$7,000.¹⁰⁰ Rolex holds national and community trademarks in Germany and the European Union.¹⁰¹ Like Tiffany, Rolex grew concerned with the number of counterfeit products with the Rolex marks being sold on eBay, especially on eBay.de, the German site.

A myriad of watches listed on eBay.de between June 7, 2000 and January 25, 2001 were labeled "Rolex" or were embossed with its other trademarks such as the stylized crown.¹⁰² Some items were described as "Rolex-like" or "Rolex replica."¹⁰³ In a cease-and-desist letter sent to eBay.de dated September 8, 2000,¹⁰⁴ Rolex argued that the "very low reserve price in comparison to the list of the original watches was sufficient to give rise to a suspicion of a trademark infringement."¹⁰⁵

eBay.de refused to comply with Rolex's request to cease the sale of counterfeit items bearing the Rolex names and marks.

97. Hautehorlogerie.org, Rolex Story, <http://www.hautehorlogerie.org/en/players/brands/rolex/rolex.html> (last visited Aug. 21, 2009).

98. Shelly Branch, *Why Vintage Watches Surged 20% in the Past 18 Months*, CNNMONEY.COM, May 1, 1997, http://money.cnn.com/magazines/moneymag/moneymag_archive/1997/05/01/225689/index.htm (last visited Aug. 21, 2009).

99. *Id.*

100. Galt.com, Rolex Watches, <http://www.galttech.com/research/fashion/rolex-watches.php>. This is the average cost for a brand new watch, but even an authorized seller, such as Essential Watches of Beverly Hills, sells a covered pre-owned model like the Explorer II for thousands below retail. *See, e.g.*, Essential Watches.com, Rolex Explorer II Circa 2000-White Dial 16570, <http://www.essential-watches.com/Rolex-Used-16570-Explorer-II-Circa-2000-White-Dial-10164.aspx> (last visited Aug. 21, 2009).

101. Bundesgerichtshof [BGH] [Federal Court of Justice] Apr. 19, 2007, *Entscheidungen des Bundesgerichtshofes in Zivilsachen* [BGHZ] 1149 (F.R.G.).

102. *Id.* at 1150.

103. *Id.*

104. *Id.*

105. *Id.*

Consequently, Rolex sought injunctive relief from the courts. The cease-and-desist order sought by Rolex requested that eBay “cease and desist from marketing [items bearing the ROLEX Community trademarks] . . . when supplying watches . . . and using them or permitting them to be used [in internet auctions] . . . if and insofar as the bid reveals that the goods offered are not from the business owned by [ROLEX].”¹⁰⁶ Both lower courts refused to issue the order on the basis that an internet auctioneer, such as eBay, could not be held liable for trademark infringement by an auctioneer’s offer.¹⁰⁷ Rolex appealed the decisions of the lower courts.¹⁰⁸

By applying for injunctive relief, Rolex forestalled eBay from claiming the “host provider privilege” under the EC Directive on Electronic Commerce (EC Directive) because it does not apply to injunctive relief.¹⁰⁹ If eBay had been able to seek relief under the directive, it would have been shielded from liability. The EC Directive operates in a manner similar to the *Inwood* test in the United States, in that it requires specific knowledge of the infringement.¹¹⁰ The EC Directive holds that a provider is not liable if it did not have actual knowledge of the illegal behavior, or if it acted expeditiously to remove the information once it obtained such information.¹¹¹

The *Bundesgerichtshof* (German Federal Supreme Court) (BGH) remanded the case to the appellate court for further findings of fact, holding that a provider could be liable as a *störer* (disquieter) for obvious and clear infringements if the platform enables the offering

106. Simon Chapman et al., *Has Time Run Out for Internet Auction Sites*, Oct. 15, 2007, <http://www.fww.com/publications/all/articles/has-time-run-out-for-internet.aspx>.

107. *Id.*

108. Bundesgerichtshof [BGH] [Federal Court of Justice] Apr. 19, 2007, *Entscheidungen des Bundesgerichtshofes in Zivilsachen* [BGHZ] 1149 (1156) (F.R.G.), 2007 E.T.M.R. 70; Chapman et al., *supra* note 106. Under §§ 8 and 11 of Act on the Utilization of Teleservices (Gesetz über die Nutzung von Telediensten) (2001), an internet service provider such as eBay is not liable for third-party content unless it has knowledge of such content and can be reasonably expected to block the use of such content. The BGH in its opinion, however, suggested that case law decided after the intermediate court decision dictates that the sections it relied on for its decision do not apply to prohibitory injunctions.

109. European Community Directive on Electronic Commerce (EC) No. 2000/31 of 8 June 2000 art. 14, 2000 O.J. (L 178) 1. “Host provider privilege,” as defined in art. 14, § 1, states that a service provider may not be held liable for illegal content stored at the request of the recipient of the service on condition that (a) the provider does not have actual knowledge of the illegal activity or information or (b) the provider, upon obtaining such knowledge or awareness, acts expeditiously to remove or to enable access to the information.

110. *Id.*

111. *Id.*

of counterfeit products.¹¹² Although the Community Trade Mark Regulation does not recognize liability for intermediaries, the BGH held that the provision on prohibitory injunctions, which had been left to individual member states to interpret, had to be supplemented to create liability for intermediaries.¹¹³ The court also applied Article 11 of the European Enforcement Directive (Directive).¹¹⁴ The Directive obliges Member States to ensure that in the case of intellectual property infringement, the holder of the rights may apply for an injunction “against intermediaries whose services are used by a third party to infringe an intellectual property right.”¹¹⁵ Recital 23 of the Directive states that the procedures for the injunctions are determined by the individual member states.¹¹⁶

Under Article 14, § 3 of the EC Directive, the law of a member state controls and a member state may require a “service provider to terminate or prevent an infringement.”¹¹⁷ If a member state’s law requires a service provider to terminate or prevent an infringement by injunction, eBay has an affirmative duty not to allow future infringement. eBay may comply by either having the appropriate means in place to prevent infringement or by not selling Rolex items at all.

Because European Community law leaves open whether eBay may be liable as an intermediary for the actions of another, the court was free to apply German law. A *störer* or disquieter in German law is one who “knowingly participated in an infringing action.”¹¹⁸ Under this type of liability, one must not be negligent or purposefully act, but one must willingly contribute to the action.¹¹⁹

The BGH reverted the case to the Appellate Court in Düsseldorf to determine whether eBay’s existing preventive measures were

112. Chapman et al., *supra* note 106.

113. *Id.*; see Council Regulation 40/94, Community Trade Mark, art. 98, § 2, 1994 O.J. (L 11) 1; Bundesgerichtshof [BGH] [Federal Court of Justice] Apr. 19, 2007, Entscheidungen des Bundesgerichtshofes in Zivilsachen [BGHZ] 1149 (1159) (F.R.G.).

114. Chapman et al., *supra* note 106 (noting BGHZ 1149, (1159); Council Directive 2004/48, Enforcement of Intellectual Property Rights, art. 11, 2004 O.J. (L 157) 45, 76).

115. Chapman et al., *supra* note 106 (citing Bundesgerichtshof [BGH] [Federal Court of Justice] Apr. 19, 2007, Entscheidungen des Bundesgerichtshofes in Zivilsachen [BGHZ] 1149 (1159) (F.R.G.); Council Directive 2004/48, at 76).

116. Chapman et al., *supra* note 106 (noting Council Directive 2004/48, at 54).

117. Chapman et al., *supra* note 106 (citing Council Directive 2000/31, Electronic Commerce, art. 14, 2000 O.J. (L 178) 1, 13).

118. Gesetz über Urheberrecht und verwandte Schutzrechte [German Copyright Law] [UrhG], § 97 I S.1.

119. *Id.*

sufficient and, if not, what preventive measures may be considered as “technically possible and reasonable.”¹²⁰ The remand, however, did not clarify whether eBay acted knowingly in allowing infringement to occur on its site despite the measures it had in place (the fraud engine, VeRO, and manual searches by its employees). The decision by the German courts requires that eBay take all possible measures to avoid any infringements in the future. Arguably, if the facts of *Tiffany* are accurate, eBay has already been doing this.¹²¹ Yet, by ruling as it did, the BGH implied that these measures are insufficient. Indeed, eBay must take additional precautions, limited to the extent that those precautions endanger eBay’s business model. The cost of additional monitoring will likely dissuade eBay from allowing auctions of Rolex watches, thus ensuring that the listing does not infringe on Rolex’s rights.

The German court went further than simply remanding the issue of preventive measures. It also suggested that there ought to be triggering mechanisms, such as a starting price of less than €800 (about \$1000), that might obligate eBay to prevent infringement.¹²² However, such requirements may place unreasonable burdens on eBay and on customers wishing to sell or purchase Rolex watches.

A triggering mechanism that requires a low starting price as conclusive evidence of infringement will require eBay to investigate based on general knowledge. It will also deny the right of legitimate Rolex owners to re-sell their items on eBay under the terms that they desire (which may also be very desirable to purchasers as well), without being provided notice when purchasing the watch, that they would be limited in any way in their ability to resell their item on the secondary market. Thus, the rule suggested by the BGH is overly extensive.

VI. FRANCE: LVMH v. EBAY, INC.

Enabling intellectual property owners to control the secondary market restricts the original purchaser’s right to re-sell his or her items. Yet allowing the intellectual property owners the right to control the secondary market for their goods is precisely the result of

120. Bundesgerichtshof [BGH] [Federal Court of Justice] Apr. 19, 2007, *Entscheidungen des Bundesgerichtshofes in Zivilsachen* [BGHZ] 1149 (1160) (F.R.G.).

121. *See Tiffany, Inc. v. eBay, Inc.*, 576 F.Supp.2d 463, 477 (S.D.N.Y. 2008).

122. Bundesgerichtshof [BGH] [Federal Court of Justice] Apr. 19, 2007, *Entscheidungen des Bundesgerichtshofes in Zivilsachen* [BGHZ] 1149 (F.R.G.).

the French decisions against eBay. Three cases by luxury goods producers against eBay in France illustrate how intellectual property owners are using trademark laws to hinder eBay's reasonable business activities and further unfair business practices against eBay consumers and sellers in France.

Louis Vuitton Moët Hennessy (LVMH) was created in 1987 when Bernard Arnault merged storied luxury brands Louis Vuitton and Moët Hennessy.¹²³ Throughout the 1990s, LVMH acquired additional luxury brands, including Thomas Pink, Chaumet jewelry, Fendi leather goods, the Pucci and Donna Karan fashion lines, Krug champagne, and TAG Heuer watches.¹²⁴ LVMH employs the "star brand" formula, which Arnault explains as "[s]harply defin[ing] the brand identity by mining the brand's history and find[ing] the right designer to express it, creat[ing] masterful marketing buzz, and tightly control[ing] quality and distribution."¹²⁵ Sales of both counterfeit and legitimate LVMH goods on eBay destroy the efforts of LVMH to tightly control quality and distribution. In this effort, LVMH has investigated individual sellers and distributors of counterfeit goods and sued eBay and other internet service providers like Google.¹²⁶

In 2006, LVMH filed three suits against eBay in the Tribunal de Commerce de Paris (France's Commercial Court), accusing eBay of listing counterfeit goods for sale on its site.¹²⁷ All three decisions were announced on June 30, 2008.¹²⁸ In the two non-fragrance-related suits, LVMH alleged that since 1999, eBay has refused to take effective measures against counterfeiting by requiring sellers to

123. Janet Guyon, *The Magic Touch*, FORTUNE, Sep. 6, 2004, available at http://money.cnn.com/magazines/fortune/fortune_archive/2004/09/06/380345/index.htm.

124. *Id.*

125. Slavin Marinovich, *Louis Vuitton*, BRANDCHANNEL.COM, Nov. 13, 2006, http://www.brandchannel.com/features_profile.asp?pr_id=310.

126. *Id.* LVMH employs a dedicated staff to deal with anti-counterfeiting efforts and employs other agents, investigators, and lawyers to investigate and prosecute counterfeiting. Similar to what has been done in the entertainment industry, LVMH is trying to educate the public about the counterfeiting problem.

127. SA Louis Vuitton Malletier v. eBay, Tribunal de Commerce de Paris [T.C.] [Commercial Court] Paris, June 30, 2008; Christian Dior Couture v. eBay, Tribunal de Commerce de Paris [T.C.] [Commercial Court] Paris, June 30, 2008; SA Parfums Christian Dior v. eBay, Tribunal de Commerce de Paris [T.C.] [Commercial Court] Paris, June 30, 2008.

128. However, the case involving the LVMH group's fragrance brands utilized a different legal theory than the other two cases and will be discussed separately.

ensure the authenticity of goods or to otherwise close the account of a seller as soon as it was found to sell counterfeits.¹²⁹ LVMH also argued that eBay's new technological measures in 2006 aimed at preventing the sale of counterfeit goods proved its past negligence in failing to more proactively prevent the sale of infringing goods on its site.¹³⁰ LVMH alleged in its complaint that of 300,000 Dior-branded items and 150,000 Louis Vuitton bags offered on eBay during the first six months of 2006, 90% were counterfeit.¹³¹ The Tribunal de Commerce found eBay liable for the damage under a negligence theory, determining that like the German court in *Rolex*, eBay had not taken sufficient measures to prevent transactions involving infringing items on its site.¹³²

Once again, eBay argued that it was a mere host and as such could not be held liable under Article 6 of the Act on Confidence in the Digital Economy—an act which protects businesses that provide host services.¹³³ The Commercial Court dismissed eBay's argument and applying the analysis of the court in *Tiffany*, held that eBay was not merely passively involved in the transactions that occurred on its site, but should be considered a broker. The court believed that eBay's provision of marketing tools to sellers with information on brands, eBay's ability to create virtual stores, and eBay's ability to become a PowerSeller were sufficient to consider it a broker.¹³⁴ eBay acted as it did to earn the commission (listing fees and final value fees), and could thus be considered an intermediary. These actions were also the actions that the *Tiffany* court cited in determining that eBay had sufficient control to be considered more than a mere host, and thus could in principle be found liable for contributory trademark infringement.¹³⁵

As in *Tiffany* and *Rolex*, LVMH alleged that eBay failed to

129. *SA Louis Vuitton Malletier*, T.C. Paris at 7 A; *Christian Dior Couture*, T.C. Paris at 7 A.

130. *SA Louis Vuitton Malletier*, T.C. Paris at 7 A; *Christian Dior Couture*, T.C. Paris at 7 A.

131. Brokate, *supra* note 42, at 628.

132. *SA Louis Vuitton Malletier*, T.C. Paris at 12 A; *Christian Dior Couture*, T.C. Paris at 12 A.

133. Amélie Blocman, *Constitutional Council Publishes its Decision on the Act on Confidence in the Digital Economy*, July 10, 2004, http://merlin.obs.coe.int/show.php?format=pdf&iris_r=2004%207%2018.

134. *SA Louis Vuitton Malletier*, T.C. Paris at 11 A; *Christian Dior Couture*, T.C. Paris at 12 A.

135. *Tiffany, Inc. v. eBay, Inc.*, 576 F.Supp.2d 463, 506–07 (S.D.N.Y. 2008).

remove listings of known intellectual property infringers or to close accounts of repeat offenders.¹³⁶ The Tribunal de Commerce considered eBay's preventative measures in 2006 as efforts to mitigate the effects of its past negligence.¹³⁷ eBay's apparent knowledge of improper activity was sufficient to satisfy the court that eBay was negligent in taking adequate measure to combat the problem.¹³⁸ The Tribunal fined eBay a staggering €38.6 million (almost \$54 million) for financial and reputational damage in the three cases, and imposed daily fines for eBay's failure to remove listings and advertisements containing LVMH goods.¹³⁹

The court emphasized that counterfeiting is the "scourge of the legal economy," and that eBay's inaction is what perpetuates the position of LVMH as a victim of counterfeiting.¹⁴⁰ The fact that eBay removes infringing listings, and has a mechanism in place for doing so in VeRO, did not refrain the court from finding eBay negligent, nor did the fact that LVMH elected to not participate in VeRO to monitor eBay and to prevent infringement.¹⁴¹ The court found eBay grossly negligent, thus imposing a strict duty on eBay to prevent the sale of infringing goods on its site.¹⁴² Practically speaking, requiring eBay to establish additional measures to combat infringement simply makes it more cost-prohibitive to allow the sale of luxury goods on the site at all.

The LVHM case affects items legitimately sold on the secondary market as seen in the third of the three French cases, the *Parfums* case. Christian Dior, Kenzo, Guerlain and Givenchy are LVMH

136. *SA Louis Vuitton Malletier*, T.C. Paris at 7 A; *Christian Dior Couture*, T.C. Paris at 7 A.

137. *SA Louis Vuitton Malletier*, T.C. Paris at 7 A; *Christian Dior Couture*, T.C. Paris at 7 A.

138. *SA Louis Vuitton Malletier*, T.C. Paris at 7 A; *Christian Dior Couture*, T.C. Paris at 7 A.

139. *SA Louis Vuitton Malletier*, T.C. Paris at 17 A-18 A; *Christian Dior Couture*, T.C. Paris at 17 A-18 A; *SA Parfums Christian Dior v. eBay*, Tribunal de Commerce de Paris [T.C.] [Commercial Court] Paris 1 A, 18A-19 A (June 30, 2008) *translated in* <http://legalpad.blogs.fortune.cnn.com/2008/10/08/eBay-rulings-relating-to-counterfeiting-english-translations/>.

140. *SA Louis Vuitton Malletier*, T.C. Paris at 9 A; *Christian Dior Couture*, T.C. Paris at 9 A.

141. *SA Louis Vuitton Malletier*, T.C. Paris at 12 A; *Christian Dior Couture*, T.C. Paris at 12 A.

142. *SA Louis Vuitton Malletier*, T.C. Paris at 12 A; *Christian Dior Couture*, T.C. Paris at 12 A.

perfume brands.¹⁴³ Perfume companies requested that the government fine eBay €100,000 per day to prevent distribution of LVMH brand perfume advertisements, and that eBay also be fined for allowing perfume listings originating in France or allowing buyers in France to bid on the listing.¹⁴⁴ The perfume companies prevailed, receiving separate damages of €3.2 million as well as injunctions.¹⁴⁵

In defending against the claims in the *Parfums* case, eBay argued that the VeRO program and other anti-counterfeiting measures protected the plaintiff's intellectual property rights to the best of eBay's ability.¹⁴⁶ In France, goods are marketed in approved physical points of sale that are part of a framework of a selective distribution network.¹⁴⁷ A selective distribution network is a system in which a supplier or in this case, a manufacturer such as LVMH, agrees to supply products to approved distributors, and the distributors agree to sell to only end users or distributors within the network.¹⁴⁸ Article 81(1) of the Treaty that established the European Community prohibited all agreements and concerted practices that might have an effect on trade between the Member States and are designed to "prevent, restrict or distort competition within the common market."¹⁴⁹ However, an exemption is available under Article 81(3) for vertical agreements for the supply of goods and services, irrespective of whether the goods or services are supplied for resale or for use.¹⁵⁰ Selective distribution networks are therefore permitted under this exception to European Community Regulation (EC) 2790/1999.¹⁵¹ A further requirement for the exemption is that the supplier must fall below a market-share cap.

The market-share cap requirement is of particular relevance in the *Parfums* case. Article 3(1) of the Regulation limits the exemption to suppliers whose "market share . . . does not exceed 30% of the relevant market on which it sells the contract goods or

143. LVMH, *Perfumes and Cosmetics*, <http://www.lvmh.com/>.

144. *SA Parfums Christian Dior*, T.C. Paris at 2–3 A.

145. *Id.* § 4 A.

146. *Id.*

147. *Id.* § 1 A.

148. Practical Law Company, *Selective Distribution*, <http://corporate.practicallaw.com/8-107-7235>.

149. Treaty Establishing the European Community, 1997 O.J. (C 340) 81(3) [hereinafter EC Treaty].

150. *Id.*

151. Commission Regulation 2790/1999, *On the Application of Article 81(3) of the Treaty to Categories of Vertical Agreements and Concerted Practices*, 1999 O.J. (L 336) 21.

services.”¹⁵² eBay argued that LVMH’s selective distribution network for perfumes did not qualify, indicating that LVMH possessed only 23.9% of the selective distribution perfume market.¹⁵³ However, this percentage did not account for LVMH’s market shares in the cosmetics market or market shares of sister companies under the LVMH umbrella.¹⁵⁴ eBay argued that before a fine could be implemented for its failure to stop listings and sales of LVMH perfumes on eBay.fr, a hearing should be held before the Competition Council to determine whether the selective distribution network for LVMH was in violation of Article 81(1).¹⁵⁵

Instead of ordering further fact-finding on the LVMH selective distribution network, the court addressed the manner in which sites such as eBay undermine and victimize selective distribution networks.¹⁵⁶ The court failed to consider the possibility that the selective distribution network might facially meet the criteria for an exception but still frustrate the purpose of Article 81(1)—promotion of competition between the Member States.

The injunction granted in the *Parfums* case far exceeds protecting the selective distribution network. By making it impossible to list LVMH perfumes on eBay.fr or to purchase such perfumes when listed in other countries, the injunction is now effectively restricting even legitimate sales of the perfumes on the secondary market.

Such an injunction directly contradicts the “first sale” doctrine under U.S. law. This doctrine provides that a trademark owner has no right to control the distribution of its trademarked product after its first sale (with certain exceptions such as contracting for that right).¹⁵⁷ Under this doctrine, resale of a trademarked item by the original purchaser is neither trademark infringement nor unfair competition.¹⁵⁸ The first sale doctrine is designed to (1) allocate the

152. EC Treaty, *supra* note 148.

153. SA Parfums Christian Dior v. eBay, Tribunal de Commerce de Paris [T.C.] [Commercial Court] Paris, June 30, 2008 at 5 A.

154. *Id.* § 6A.

155. *Id.*

156. *Id.*

157. *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368 (1924).

158. *Sebastian Intern., Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1074 (9th Cir. 1995). For cases where U.S. courts have applied the doctrine, see, e.g., *NEC Electronics v. CAL Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir. 1987); *Matrix Essentials v. Emporium Drug Mart*, 988 F.2d 587, 593 (5th Cir.1993); *H.L. Hayden Co. v. Siemens Medical Sys.*, 879 F.2d 1005, 1023 (2d Cir. 1989). The doctrine’s premise also finds expression in the

brand identification benefits to the manufacturer, and (2) to assure the consumer that he is receiving a genuine version of the product.¹⁵⁹ However, at the same time the doctrine limits the manufacturer's control over the product by creating terminating that control after the first sale.¹⁶⁰ Secondary sales on eBay fall within this doctrine because the doctrine protects eBay buyers seeking discounts from secondary owners.

The first sale doctrine exists within European Union law as well. However, the applicable regulations in the European Union allow only for community-wide exhaustion; the doctrine does not apply to trademarked goods that the maker places on the market outside of the community.¹⁶¹ Still, given that the first sale doctrine does exist in some form in all three jurisdictions, it lends credence to eBay's allegation that the actions of the luxury goods makers are nothing more than a means to prevent competition. In a press release after the French decisions, eBay declared that the decisions had nothing to do with counterfeits but rather were an "attempt by LVMH to protect uncompetitive commercial practices at the expense of consumer choice and the livelihood of law-abiding sellers that eBay empowers every day."¹⁶² eBay further argued that the French decisions deny consumers the basic market freedom to determine from whom they buy their goods.¹⁶³

VII. WHO SHOULD BEAR THE EXPENSE?

Generally, luxury goods makers in France, under the umbrella groups of the Comité Colbert and CNAC, cooperate with each other and with the government to combat counterfeits by punishing offenders and educating the public.¹⁶⁴ Conversely, some luxury goods makers, such as LVMH, think that eBay should bear complete responsibility for monitoring its own site. It is true that eBay profits

Restatement (Third) of Unfair Competition § 24 cmt. b (1995): "[T]rademark owner cannot ordinarily prevent or control the sale of goods bearing the mark once the owner has permitted those goods to enter commerce."

159. *Sebastian Intern., Inc.*, 53 F.3d at 1075.

160. *Id.*

161. Council Directive 89/104/EEC, First Directive to Approximate the Laws of the Member States Relating to Trade Marks, 1989 O.J. (L 40) 1; Community Trade Mark Regulation [EC] No. 40/94 of 20 Jan. 1994, 1994 O.J. (L 11) 1.

162. eBayInk, eBay Vows to Fight Following Overreach by LVMH, <http://eBayinkblog.com/2008/06/30/eBay-vows-to-fight-following-overreach-by-lvmh/>.

163. *Id.*

164. Le Berre, *supra* note 9; Comité Colbert, *supra* note 13.

from the sale of goods on its site, but it also makes efforts through VeRO and its other programs to fight counterfeiting.¹⁶⁵ No one is in a better position than Tiffany to be able to identify an original Tiffany product from a counterfeit, yet Tiffany will only authenticate a product if it is shown to be purchased from a Tiffany store, which would actually remove the need for authentication.¹⁶⁶ Even when a maker such as Tiffany authenticates a good on eBay, it can only accurately determine if a good is genuine seventy-eight percent of the time.¹⁶⁷ How could eBay, which sells hundreds of thousands of different brands on a daily basis, be expected to authenticate all the brands and their marks, when the mark holders themselves cannot identify their own mark a hundred percent of the time? The Lanham Act strikes an appropriate balance and ensures protection for trademarks. The Act provides information to consumers while recognizing that a trademark is a private right that requires the holder to be ultimately responsible.¹⁶⁸

Buyers on eBay could also take more responsibility for the counterfeits they find on the site. Like other national sites, eBay.fr has a page that details how it protects intellectual property rights.¹⁶⁹ On the bottom of each listing, there is a link entitled *signaler cet objet*, "to announce this item."¹⁷⁰ By clicking on this button, one can report an item directly to eBay.fr for intellectual property rights infringement. The infringement could be because of a prohibition on selling the item on the site, or for infringing the copyright or trademark of another.¹⁷¹ By allowing consumer reporting, eBay.fr allows its customers to participate in combating counterfeit goods. Although the level of motivation to report differs for individuals in France where the purchase of counterfeit goods is a crime, the same system may work worldwide.¹⁷² Even ordinary consumers will often know the general value of items they want to purchase. If they see a bargain that is too good to be true or an item that looks suspicious, they can report it to eBay for further investigation. Also, by allowing

165. What Does It Cost to Sell on eBay, *supra* note 85; How eBay Protects Intellectual Property, *supra* note 43.

166. Tiffany, Inc. v. eBay, Inc., 576 F.Supp.2d 463, 517 n.39 (S.D.N.Y. 2008).

167. *See id.* at 482.

168. Garon, *supra* note 84, at 56; *see* Gasparek, *supra* note 86, at 799.

169. eBay.fr, <http://www.eBay.fr>.

170. *Id.*

171. eBay.fr, Aide eBay: Nous Contacter, http://pages.eBay.fr/help/contact_us/_base/index_4.html?tier0=report_listing.js&item=140289067588 (last visited Aug. 21, 2009).

172. Le Berre, *supra* note 9.

consumers to report, they become more aware of the procedures that eBay has in place to fight counterfeiting, thereby rebuilding confidence in the authenticity of eBay goods. Involving consumers and trademark holders is one way to preserve the secondary market for luxury goods on eBay and prevent trademark infringement.

VIII. CONCLUSION

Over the past two years, eBay has received diametrical litigation outcomes in Europe and at home. European and American courts fundamentally disagree about the legal sufficiency of eBay's anti-counterfeiting efforts. The European decisions ultimately threaten to destroy eBay's business model, while the American result leaves consumers with little recourse against fly-by-night sellers. While reducing the trade of counterfeit goods is an admirable goal, it should not come at the cost of legitimate owners' ability to sell an unwanted product. eBay can only continue to be a viable secondary market for luxury goods by taking a multi-pronged approach: continue to independently police the eBay sites, cooperate with intellectual property holders, and encourage consumers to be proactive in stopping the sale of counterfeit goods through a revived ethic of *caveat emptor*.