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# PLAYING THE BLAME GAME, ONLINE: WHO IS LIABLE WHEN COUNTERFEIT GOODS ARE SOLD THROUGH ONLINE AUCTION HOUSES?

Todd Evan Lerner\*

## INTRODUCTION

“Today’s consumer wants everything now, if not sooner.”<sup>1</sup> Thanks primarily to the creation and development of the Internet, there has been a significant change in the way people engage in commerce.<sup>2</sup> The Internet provides low cost communication, the capacity for global reach, and “a presumptive veneer of credibility stemming from the anonymity of cyberspace.”<sup>3</sup> However, the growth of Internet commerce has also created new legal challenges regarding liability for the sales of counterfeit products. “Intellectual property owners are trying to effectively protect and enforce their rights, while online providers are trying to avoid liability for infringements committed by users of their sites.”<sup>4</sup> Despite recent case law and legislation providing some clarity on copyright infringement in Internet commerce,<sup>5</sup> the state of

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<sup>1</sup> Paul Meads, *E-Consumer Protection – Distance Selling*, I.C.C.L.R. 2002, 13(4), 179.

<sup>2</sup> Miriam R. Albert, *E-Buyer Beware: Why Online Auction Fraud Should Be Regulated*, 29 AM. BUS. L.J. 575 (2002).

<sup>3</sup> *Id.* at 579.

<sup>4</sup> Dominique R. Shelton, *EU, US Grapple with Online Counterfeit Goods*, LAW 360, Oct. 1, 2008, [http://www.law360.com/print\\_article/69316](http://www.law360.com/print_article/69316).

<sup>5</sup> The Digital Millennium Copyright Act (DMCA), 17 U.S.C. § 512 (2000), was enacted in response to rampant online copyright infringement and provides copyright holders with the tools to combat online infringement as well as on-line and Internet Service Providers (ISPs) with greater clarity “concerning their legal exposure for infringements that may occur in the course of their activities.” S. REP. NO. 105-90, at 20 (1998). In particular, Title II of the DMCA limits

trademark law on the Internet “remains somewhat ambiguous.”<sup>6</sup>

A vast majority of jurisprudence in the area of online trademark infringement has involved the online marketplace.<sup>7</sup> Several recent cases involving the online auction house giant eBay,<sup>8</sup> illustrate “the fragmented state of law” concerning Internet commerce.<sup>9</sup> In each instance, the brand owner sued eBay exclusively rather than the individual sellers, with the goal of preventing an increase in counterfeit and infringing activities at the preeminent online auction house.<sup>10</sup> In France, the luxury French brand owner Louis Vuitton Moët Hennessy (“LVMH”) brought action against eBay for failure to police its website for counterfeit products<sup>11</sup> and for taking part in the marketing of infringing goods outside of the approved distribution networks.<sup>12</sup>

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copyright infringement liability of ISPs that meet certain criteria. This clause, known as the “safe harbor” provision, “preserves strong incentives for service providers and copyright owners to cooperate to detect and deal with copyright infringements that take place in the digital networked environment.” *Id.* A service provider which qualifies for a “safe harbor” is granted limited liability from claims of copyright infringement provided they follow certain steps in removing infringing material once notified. 17. U.S.C. § 512(c).

<sup>6</sup> Emily Favre, Comment, *Online Auction Houses: How Trademark Owners Protect Brand Integrity Against Counterfeiting*, 15 J.L. & POL'Y 165, 177-78 (2007). Despite the DMCA's effectiveness in policing copyright infringement on the Internet, there is no similar statutory provision or law which addresses online trademark infringement. Michael A. Capiro, *Protection of Copyrights and Trademarks in the Online World*, 55 JUN FED. L. 14 (2008).

<sup>7</sup> Capiro, *supra* note 6.

<sup>8</sup> eBay was founded in 1995 by Pierre Omidyar, a computer programmer, who wrote the code for an auction website that he ran from his home computer. Today eBay is the world's largest online marketplace with a presence in 39 markets, including the United States, and approximately 84 million active users worldwide. eBay has been described as “nothing less than virtual, self-regulating global economy,” and has forever changed the face of Internet commerce. E.Biz 25 – Empire Builders: Meg Whitman, eBay, *BusinessWeek*, Sept. 29, 2003 available at [http://www.businessweek.com/magazine/content/03\\_39/b3851602.htm](http://www.businessweek.com/magazine/content/03_39/b3851602.htm) (last visited Feb. 1, 2010).

<sup>9</sup> Shelton, *supra* note 4.

<sup>10</sup> Xavier Buffet Delmas d'Autane & Thomas Zeggane, *Internet Counterfeit: Recent Divergent Decisions*, Dec. 10, 2008, [http://www.law360.com/print\\_article/78905](http://www.law360.com/print_article/78905) (last visited Jan. 11, 2010).

<sup>11</sup> See SA Louis Vuitton Malleiteir v. eBay, Inc., Tribunal de Commerce [T.C.] [commercial court] Paris, June 30, 2008, First Section B, No. 2006077799, CL-1; Christian Dior Couture, SA v. eBay Inc., Tribunal de commerce [T.C.] [commercial court] Paris, June 30, 2008, First Section B, No. 2006077807, translations available at <http://www.law.pace.edu/files/pilr/AllCasesTranslated.pdf>.

<sup>12</sup> See SA Parfums Christian Dior v. eBay Inc., Tribunal de commerce [T.C.]

On June 30, 2008, the Commercial Court of Paris handed down its decision in favor of LVMH and against eBay in a judgment that “shook the retail world.”<sup>13</sup> Consequently, eBay was ordered to pay €38.6 million (approximately \$60.8 million)<sup>14</sup> to LVMH for allowing the sale of counterfeit goods on its website.<sup>15</sup> The ruling is consistent with an earlier French decision that awarded Hermès, also a French luxury brand owner, €20,000 (approximately \$31,000) over the sale of two counterfeit handbags sold on eBay.<sup>16</sup> In a striking turn of events, the French court also granted LVMH a sweeping injunction that required eBay to not only stop all sales of counterfeit LVMH products on its site, but also to stop all sales of *genuine* LVMH perfumes and cosmetics on the ground that eBay is not part of the approved distribution channel.<sup>17</sup> Immediately following the ruling, eBay asked the French Court of Appeals to stay the injunctive portion of the ruling while it appealed the rest of the ruling, but the stay was denied.<sup>18</sup>

Thus, in the LVMH case, for the first time in France, a court ruling had “clearly stated the principle under which auction sites

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[commercial court] Paris, June 30, 2008, First Section B, No. 2006065217, obs. Tant. This lawsuit involved the sale of Christian Dior, Kenzo, Givenchy and Guerlain perfumes, all of which are subsidiaries of LVMH. The plaintiffs argued that “regardless of the authenticity of the products sold on eBay, the sale of these products were illegal because they were conducted outside the selective distribution channel. Shelton, *supra* note 4. In France, these products are marketed and sold through a “selective distribution system.” This system allows the companies manufacturing these products to reserve the sale of their products strictly through approved distributors only. SA Parfums Christians Dior, No. 2006065217 at 10-11.

<sup>13</sup> Charles R. Macedo, *EBay: A Tale of Two Defenses*, LAW360, Aug. 22, 2008, [http://www.law360.com/print\\_article/67086](http://www.law360.com/print_article/67086).

<sup>14</sup> Doreen Carvajal, *EBay Ordered to Pay \$61 Million in Sale of Counterfeit Goods*, N.Y. TIMES, July 1, 2008, at C1, available at [http://www.nytimes.com/2008/07/01/technology/01ebay.html?\\_r=2&scp=1&sq=lvmh&st=cse&oref=slogin&oref=slogin](http://www.nytimes.com/2008/07/01/technology/01ebay.html?_r=2&scp=1&sq=lvmh&st=cse&oref=slogin&oref=slogin).

<sup>15</sup> EBay.Fr, <http://www.ebay.fr> (last visited Jan. 11, 2010).

<sup>16</sup> Hermès Int'l v. Feitz, Tribunal de Grande Instance [T.G.I.] [ordinary court of original jurisdiction] Troyes, June 4, 2008, No. 06/02604, translation available at <http://www.law.pace.edu/files/pilr/AllCasesTranslated.pdf>.

<sup>17</sup> Roger Parloff, *eBay Scrambles to Reverse Loss in LVMH Case*, FORTUNE, July 9, 2008, <http://legalpad.blogs.fortune.cnn.com/2008/07/09/ebay-scrambles-to-reverse-loss-in-lvmh-case/>.

<sup>18</sup> Cour d'appel [CA] [regional court of appeal] Paris, 1e ch., July 11, 2008, Section P, available at [http://www.legalis.net/jurisprudence-decision.php?id\\_article=2372](http://www.legalis.net/jurisprudence-decision.php?id_article=2372).

that operate on the internet have to ensure that their activities do not permit unlawful dealings.”<sup>19</sup> However, some legal experts viewed this ruling as “a loss not only for [eBay] but for [all] consumers and small businesses selling online.”<sup>20</sup> The French ruling is also at odds with a recent U.S. decision, *Tiffany (NJ), Inc. v. eBay, Inc.*,<sup>21</sup> which held that companies like eBay cannot be held liable for trademark infringement based solely on their “generalized knowledge” that trademark infringement *might* be occurring on their site, and that is it not the online auction site but the trademark owner that has the burden of policing its mark online.<sup>22</sup>

Today, the sophistication of counterfeits “makes the potential liability of online vendors even more problematic.”<sup>23</sup> Modern technological innovations have made it possible to create near-perfect replicas.<sup>24</sup> In some instances, “the only way to tell a real good from a fake one is to return it to the producer and have it taken apart . . . [which] means that the question of who should bear the responsibility of determining whether a good is fake has no clear answer.”<sup>25</sup>

This comment seeks to explore the problem of trademark infringement encountered on the World Wide Web and to come to a conclusion as to who should bear the responsibility for the sale of counterfeit goods. Section I provides a brief overview of the epidemic of counterfeit goods and trademark infringement that is occurring in the digital world today. Section II reviews the French standard for online trademark infringement by examining several recent landmark French decisions. Section III examines the American standard for online trademark infringement. Section IV compares and contrasts the French and American decisions, balancing the interests of both the online marketplace and the brand owner and discusses which country’s regime, if either, will

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<sup>19</sup> Brian W. Brokate, *What’s New in Anti-Counterfeiting*, 947 PLI/PAT 615, 629 (2008).

<sup>20</sup> Vidya Ram, *eBay Branded By French Ruling*, FORBES ONLINE, June 30, 2008, [http://www.forbes.com/markets/2008/06/30/ebay-lvmh-closer-markets-equity-cx\\_vr\\_mp\\_0630markets46.html](http://www.forbes.com/markets/2008/06/30/ebay-lvmh-closer-markets-equity-cx_vr_mp_0630markets46.html) (last visited Jan. 19, 2010).

<sup>21</sup> *Tiffany (NJ), Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463 (S.D.N.Y. 2008).

<sup>22</sup> *Id.*

<sup>23</sup> Ram, *supra* note 20.

<sup>24</sup> Favre, *supra* note 6, at 167.

<sup>25</sup> Ram, *supra* note 20.

be more effective in the ongoing prevention of online trademark violations. Finally, Section V suggests a more appropriate method of dealing with the daunting task of policing auction sites for counterfeits and infringing materials.

#### I. BACKGROUND

The increasing popularity of the Internet and the resulting volume of electronic commerce transactions have provided users with a multitude of opportunities to commit cyber crimes.<sup>26</sup> After all, the Internet is ripe for the treachery of a small, but insidious number of people who have tarnished it with a dark side: counterfeiting. Internet commerce has helped facilitate the distribution of forgeries worldwide, primarily through online auction houses such as eBay. “As the Internet’s reach is global, so is the problem.”<sup>27</sup> In fact, the problem has become so massive that “it is difficult to determine exactly how much economic damage is done by counterfeiting.”<sup>28</sup> In recent years, Internet auctions have become the hottest phenomenon on the Web, facilitating a “virtual flea-market” which features an endless assortment of merchandise from around the world.<sup>29</sup> Consequently, these auction sites have gained instantaneous popularity for the distribution of counterfeit goods, much to the chagrin of both global online service providers and intellectual property rights holders. However, the question remains whether the operator of an online auction site should be liable for the sale of counterfeit goods on its site or should the trademark owner bear the responsibility of policing online infringing activities? Balancing the interests of each party involved is a harrowing task.<sup>30</sup> Unfortunately, neither American nor French laws provide an easy answer to this question.

Historically, investigating and taking legal action against

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<sup>26</sup> Albert, *supra* note 2, at 578.

<sup>27</sup> Barry Werbin, *Counterfeit Trademark Goods in Online Auctions*, INTA BULLETIN, June 1, 2007, at 3, available at <http://www.herrick.com/siteFiles/Publications/87DE39D505E3435DB410D7DB951C17E4.pdf>.

<sup>28</sup> *Id.* at 1.

<sup>29</sup> The Comm. on Trademarks and Unfair Competition, *Online Auction Sites and Trademark Infringement Liability*, 58 REC. ASS’N B. N.Y. CITY 236, (2003), available at <http://www.abny.org/pdf/report/Online%20Auction%20Sites%20Final%20Report.pdf> [hereinafter The Comm. on Trademarks].

<sup>30</sup> Delmas d’Autane & Zeggane, *supra* note 10.

street vendors or substandard retailers who sold counterfeit goods was “relatively straightforward, costs aside, because the goods are tangible, in plain view and can be seized, and the sellers are real people who can be prosecuted and sued for selling counterfeit merchandise.”<sup>31</sup> But in the digital world, tracking and prosecuting sellers of counterfeit goods “is not only costly but often futile, as unscrupulous sellers can hide behind aliases, use shifting IP [Internet Protocol] addresses, and upload sales data from virtually any computer in the world that is connected to the Internet.”<sup>32</sup> Therefore, it comes as no surprise that luxury brand owners are now seeking to impose liability on some of the world’s more renowned online auction sites based on theories of both direct and contributory trademark infringement.<sup>33</sup>

However, direct trademark infringement is unlikely to be applied by the courts because ultimately the site operators are not the sellers of the goods. Instead, “courts have attempted to reconcile brick-and-mortar ‘flea market’ cases with the Internet world under a theory of contributory infringement.”<sup>34</sup> But, if an online auction site is found liable for contributory trademark infringement, it could do “severe damage to consumers and small businesses that use the online auction houses in legal and legitimate ways.”<sup>35</sup> Holding the auction house liable could result in an increase in consumer search costs and a reduction in the functionality of the websites.<sup>36</sup> Due to the ease with which online auction sites can be utilized to facilitate counterfeiting and trademark infringement, there is much interest in how the law will respond to such emerging technology. The issue of online auction site liability fosters much debate and speculation.<sup>37</sup>

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<sup>31</sup> *Id.*

<sup>32</sup> *Id.*

<sup>33</sup> *Id.*

<sup>34</sup> Capiro, *supra* note 6.

<sup>35</sup> Favre, *supra* note 6, at 167.

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

<sup>37</sup> The Comm. on Trademarks, *supra* note 29.

II. EBAY'S LIABILITY IN FRANCE AS A "PUBLISHER," NOT A MERE "HOST"

A. *The Hermès Case*

Following a report of fraudulent merchandise purchased by a buyer of a Hermès Birken handbag and accessories on eBay, the Hermès International Company ("Hermès") discovered that an eBay user by the name of Cindy Feitz was selling counterfeit products under its brand name.<sup>38</sup> On December 14, 2006, Hermès filed a petition in France against Ms. Feitz to force her to stop selling counterfeit Hermès items in the form of reproductions and imitations, and to obtain compensation. In orders dated February 1, 2007 and February 8, 2007, Hermès filed petitions against eBay France SA and eBay International AG to hold them jointly liable with Ms. Feitz for facilitating and participating in acts of brand counterfeiting. On June 28, 2007, the two cases were joined.

eBay argued that it was exempt from liability for illegal content uploaded by its users because eBay was considered a "host" in accordance with Article 6 of the Act dated June 21, 2004 on Confidence in the Digital Economy ("LCEN Law").<sup>39</sup> According to the LCEN Law, unless it can be demonstrated that eBay, as a "host," was aware of the illicit nature of stored information on its site and did not take prompt action to remove it or restrict access to it, eBay has no accountability. eBay claimed that its activity was considered that of a "brokerage of auctions conducted remotely through electronic means" in accordance with the terms of section L. 321-3 of the Commercial Code. This section falls into the category of content "hosting" services as defined by the LCEN Law and therefore, unless eBay [was] "effectively . . . aware of the illegal nature of facts or circumstances identifying the illegal

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<sup>38</sup> *Hermès Int'l*, No. 06/02604, at 1.

<sup>39</sup> LCEN Law (Loi sur la confiance dans l'économie numérique) was enacted to implement the European Directive, 2000/31/EC of June 8, 2000, into national law. Article 6 of the LCEN Law created a "safe harbor," similar to the provision found in Title II of the DMCA whereby hosting providers are under no general obligation to monitor the information they transmit and store unless the host was aware of the unlawful content or did not take prompt action to remove the content upon notification. See Emelie Blocman, *Act on Confidence in the Digital Economy Adopted*, <http://merlin.obs.coe.int/iris/2004/6/article23.en.html>; see also Delmas d'Autane & Zeggane, *supra* note 10; Patrick Van Eecke & Maarten Truyens, *Recent Events in EU Internet Law*, 12 NO. 2 J. INTERNET L. 25 (2008).



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nature of activities or information stored at their customers' behest, or if, when they became aware of this illegal nature, they did not take prompt action to remove the data or render it inaccessible,"<sup>40</sup> eBay was not liable for the infringing activity of its users.

In response, Hermès contended that eBay was not only acting as a "host" pursuant to the LCEN Law, but also as an Internet site "author" because it controlled the presentation of pages on the site while obtaining profit from the operation of the hosted ads.<sup>41</sup> Specifically, Hermès argued that since eBay "provide[s] tools, permitting to market the sold goods to sellers, organize[s] object presentation on their site in exchange for remuneration and create[s] functioning rules and architecture of their auction site, [eBay] must be considered [an author] of on-line communication services for intermediate purposes."<sup>42</sup> The French court agreed and eBay was ordered to pay €20,000 (approximately \$31,000) in damages to Hermès jointly with the seller of the bags, Ms. Feitz. The Troyes Court of First Instance found that eBay assumed two distinct roles, both as a "host" and as a service "author," and consequently was obliged to actively monitor online listings as well as search for potentially infringing items. The *Hermès* court also rejected eBay's argument that eBay takes all reasonable efforts to prevent the sale of counterfeit goods through its Verified Rights Owner Program ("VeRO")<sup>43</sup> while additionally providing extensive information on counterfeiting to the users of its website. The court also found that eBay should be forcing sellers to extensively identify the items put up for sale with information such as the product code, serial number, type indication, and

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<sup>40</sup> *Hermès Int'l*, No. 06/02604, at 8.

<sup>41</sup> *Id.* at 15.

<sup>42</sup> *Id.*

<sup>43</sup> eBay's VeRO program has been described as arguably the best structured and most comprehensive program offered by online auction sites to deal with intellectual property owners' complaints of infringement. The VeRO program is a "notice-and-takedown" system, whereby rights owners can report to eBay any potentially infringing or counterfeit listings, so that eBay can immediately remove them. The report must attest that the owner possessed a "good faith belief" that the item infringed on a copyright or a trademark. VeRO also offers participants in the program the opportunity to create an informational page to assist eBay users. VeRO is described at <http://pages.ebay.com/help/community/vero-program.html>.

authenticity certificate.<sup>44</sup>

The *Hermès* decision served as the “first successful case against eBay in France” and only the second time “an online intermediary ha[d] been found liable in relation to counterfeit charges.”<sup>45</sup> However, it was not the money, but the precedent that mainly concerned eBay and legal analysts. “It’s not so much the size of the fine that’s likely to be keeping eBay executives awake at night: €20,000 [\$27,239] is relatively small change for a company [that] the market values at \$38.5 billion. Rather, it’s the precedent that the ruling sets, as it could apply to cases that might cost eBay a lot more [money] and force it to rethink its entire selling strategy.”<sup>46</sup> According to other attorneys, the decision in the *Hermès* case “could also make eBay vulnerable to counterfeit claims outside the luxury goods market. It’s the precedent the case sets in terms of how expensive it could become for eBay both across multiple product categories and across different countries. Losing such a case sets an uncomfortable precedent for online vendors.”<sup>47</sup>

*B. The LVMH Cases*

The *Hermès* decision was indeed a precursor to a result that many legal experts had feared. In December of 2006, French luxury retailer LVMH brought suit against eBay for negligence in allowing the sale of counterfeit bags, clothing and perfume. LVMH alleged that nearly all Louis Vuitton and Christian Dior items being sold on eBay were counterfeit. These allegations were based on a study where LVMH and Christian Dior Couture purchased 150,000 items of Louis Vuitton and Dior merchandise being sold on eBay and determined that 90% were counterfeit merchandise.<sup>48</sup>

On June 30, 2008, the Tribunal de Commerce de Paris (Commercial Court of Paris) found eBay liable for negligence in allowing the sale of counterfeit LVMH bags, clothes, and perfume, which eBay was otherwise not licensed to sell. The Court rejected

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<sup>44</sup> *Id.* at 16.

<sup>45</sup> Vidya Ram, *eBay’s Faux Pas*, FORBES ONLINE, June 9, 2008, [http://www.forbes.com/2008/06/09/eBay-counterfeit-hermes-tech-enter-cx\\_vr\\_0609ebay.html](http://www.forbes.com/2008/06/09/eBay-counterfeit-hermes-tech-enter-cx_vr_0609ebay.html).

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

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

<sup>48</sup> Favre, *supra* note 6, at 194-95.

eBay's argument that it should not be held responsible for the act of its users' selling illegal knockoffs and ordered eBay to pay LVMH €38.9 million (approximately \$61 million). The total judgment was actually the result of three separate suits brought by LVMH and its subsidiaries, but "because of the degree of similarity in the underlying facts of each case and the legal issues, the suits were joined."<sup>49</sup>

### 1. Jurisdiction

eBay's "first line of defense" in the LVMH cases was to challenge the French Court's personal jurisdiction over the dispute.<sup>50</sup> eBay contended that the French courts lacked jurisdiction to impose the country's "unusually restrictive" commercial regulations on worldwide e-commerce.<sup>51</sup> eBay first asserted that since the disputed advertisements were hosted on eBay servers located in the United States, the dispute could only be heard by U.S. courts.<sup>52</sup> eBay also argued that the French public was not the intended target of these advertisements.<sup>53</sup> After carefully considering the merits of this argument, the Tribunal de Commerce de Paris reasoned that, pursuant to the 1968 Brussels Convention, it had jurisdiction over tort actions based on where the damage occurred. Additionally, citing French case law, the *LVMH* Court held that "as soon as a website is accessible to the French public, the French courts are competent to compensate the damage suffered in France, which is the case here."<sup>54</sup> Thus, the Court found eBay's jurisdictional challenge to be "ill-founded" and that jurisdiction extended not only to advertisements directed within France, "but to counterfeit sales throughout all of eBay's worldwide operations."<sup>55</sup>

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<sup>49</sup> Shelton, *supra* note 4.

<sup>50</sup> Macedo, *supra* note 13.

<sup>51</sup> Parloff, *supra* note 17.

<sup>52</sup> *SA Louis Vuitton Malletier*, No. 2006077799, at 4.

<sup>53</sup> *Id.*

<sup>54</sup> *Id.* at 6

<sup>55</sup> Macedo, *supra* note 13.

## 2. eBay's Status

As in the *Hermés* case, eBay again claimed simple status as a “host” site pursuant to Article 6.1.2 of the LCEN Law.<sup>56</sup> However, the French Court once again rejected eBay's claim and found that eBay engaged in “paid commercial activities in relation to the sale of products through bidding and do[es] not, therefore, restrict . . . [its] business to that of a ‘hoster’ of Internet sites.”<sup>57</sup> The Court also found eBay's role to be that of “a mandatory player in the sales taking place on its site,” a role by which eBay profited “through commission it made on each sale.”<sup>58</sup> The Court concluded by explaining that the “essence” of eBay's services consisted of acting as an “intermediary between sellers and buyers” and providing tools specifically designed to ensure the promotion and development of sale on its sites.<sup>59</sup> Accordingly, the Court found eBay to be a “broker” and subject to the same common regime of civil liability “as any other commercial player.”<sup>60</sup>

## 3. The Merits of LVMH's Claims

The LVMH suits against eBay, “brought respectively by Louis Vuitton Malletier and Christian Dior Couture (collectively “LVMH”), alleged that eBay had not done enough to prevent the counterfeit sales of handbags, clothes and other fashion accessories.”<sup>61</sup> In the first action, Louis Vuitton Malletier charged eBay with “failing to ensure, as is its duty, that its business does not generate any illicit acts to the detriment of any other economic operator.”<sup>62</sup> Additionally, LVMH added that “eBay's willingness to

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<sup>56</sup> This section of the LCEN Law provides an exemption from civil liability for site “hosting” services. “Franch law recognizes . . . [w]hen a party merely hosts another's website, the liability for illicit acts performed by others on that website is limited.” *Id.*

<sup>57</sup> *SA Louis Vuitton Malletier*, No. 2006077799, at 11.

<sup>58</sup> Macedo, *supra* note 13.

<sup>59</sup> *Id.*

<sup>60</sup> *SA Louis Vuitton Malletier*, No. 2006077799, at 11.

<sup>61</sup> Shelton, *supra* note 4.

<sup>62</sup> *SA Louis Vuitton Malletier*, No. 2006077799, at 11.

accept clearly illegal listings on all its sites encourages infringement and is responsible for a host of damages to [LVMH].”<sup>63</sup> The Tribunal de Commerce acknowledged that eBay recently adopted some substantial measures to prevent the sale of counterfeit items on its site,<sup>64</sup> but ultimately focused its decision on sales occurring between 2001 and 2006. In finding eBay liable for damages, the Court noted that eBay had “deliberately refused” to set up effective and appropriate measures for combating counterfeiting and trademark infringement, such as “requiring the sellers to supply, upon request, the purchase invoice or a certificate of authenticity of the products offered for sale” or sanctioning any guilty vendor found to be selling infringing goods by closing their account and withdrawing illicit advertising.<sup>65</sup>

In a separate claim, Christian Dior Couture, a subsidiary of LVMH, asserted that eBay, despite repetitive warnings, failed to take any measures that would efficiently fight counterfeiting.<sup>66</sup> Dior also contended that eBay’s willingness to accept “clearly illegal listings on all its sites” encourages trademark infringement and therefore can be held liable for damages.<sup>67</sup> Disputing these charges, eBay claimed that its practice is to immediately remove obviously illegal advertising and listings when reported by rights owners. Furthermore, eBay had implemented the voluntary VeRO program to help protect the owners’ intellectual property rights and noted that Dior chose not to participate in this preventive program. Moreover, eBay pointed to other additional measures it had adopted since the end of 2006<sup>68</sup> and argued that the measures constituted a “new indication of its intention to efficiently fight counterfeiting and, at the same time, maintain the freedom of expression of Internet users.”<sup>69</sup>

In the end, the Tribunal de Commerce found that eBay did

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<sup>63</sup> *Id.* at 2.

<sup>64</sup> See VeRO, *supra*, note 45.

<sup>65</sup> *SA Louis Vuitton Malletier*, No. 2006077799, at 12.

<sup>66</sup> *Christian Dior Couture*, No. 2006077807, at 7.

<sup>67</sup> *Id.* at 1-2.

<sup>68</sup> eBay’s additional measures included restrictions on the number of items being sold in short one- or three-day auctions and certain geographical restrictions. See Brad Stone, *eBay Says Fraud Crackdown Has Worked*, N.Y. TIMES, June 14, 2007, at C9, available at <http://www.nytimes.com/2007/06/14/technology/14ebay.html>.

<sup>69</sup> *Christian Dior Couture*, No. 2006077807, at 8.

not fulfill its obligation “of making sure that its activity does not result in illegal acts, in this particular case, passing off, [and] causing prejudice to other businesses.”<sup>70</sup> Additionally, the Court ruled that eBay recognized, or should have recognized, that the quantity of products being sold on its online auction site indicated their counterfeit nature. The Court also rejected eBay’s VeRO program, stating that eBay “is not entitled to ask companies that are victim[s] of counterfeiting that takes place on [eBay’s] site, to contribute financially to the fight against illegal activities . . . .”<sup>71</sup> Finally, the Court explained that recent measures adopted by eBay served as admissions by eBay of its past negligence and awareness of its responsibility to prevent the sale of counterfeit goods on its site. The Court held that as a result of its “gross violations of omission and negligence, violating the rights of [Dior],” eBay was liable for the illegal use of the Dior’s trademark rights, harmful conduct to the mark’s image and moral prejudice.<sup>72</sup>

Dior, Guerlain, Givenchy and Kenz,<sup>73</sup> also subsidiaries of LVMH, filed a third lawsuit against eBay, involving the sale of their perfumes and beauty products on eBay. These perfume brands introduced a different claim, however, arguing that such fragrances can only be sold in selective distribution networks,<sup>74</sup> of which eBay was not a part.<sup>75</sup> eBay responded to these allegations by attacking “the illegal nature” of the selective distribution networks.<sup>76</sup> eBay emphasized the need to “preserve free trade” and asserted that this type of distribution network promoted unfair competition.<sup>77</sup>

In finding eBay liable, the Tribunal de Commerce emphasized that for many years LVMH and its subsidiaries had been the victim of attacks on the company’s selective distribution network, and that “these attacks thrive today on the Internet, in particular

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<sup>70</sup> *Id.* at 11.

<sup>71</sup> *Id.* at 12.

<sup>72</sup> *Id.* at 12-15.

<sup>73</sup> Collectively suit was brought by “Parfums Christian Dior.”

<sup>74</sup> Selective distribution allows companies to reserve the sale of their products to approved distributors only and to oppose the sale of the same products by sellers other than their approved distributors.

<sup>75</sup> Delmas d’Autane & Zeggane, *supra* note 10.

<sup>76</sup> *SA Parfums Christian Dior*, No. 2006065217, at 10.

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

due to the practices put in place on the sites of [eBay].”<sup>78</sup> The Court found that eBay had not met its obligation to prevent the sale of products on its site which were exclusively reserved for selective distribution.<sup>79</sup> The Court further noted that the setting up of selective distribution networks “allow monitoring of the environment and the sales structure of the products concerned,” and protection against sites such as eBay where brands “lose control of the environment for the sale of their products.”<sup>80</sup>

#### 4. Damages

In what has been described as a “hometown” verdict,<sup>81</sup> eBay was ordered to pay €38.9 million in damages to LVMH and its subsidiaries.<sup>82</sup> Most importantly, the injunction sought by LVMH was granted to effectively prevent eBay from selling *genuine* perfumes on its site because “no licensed LVMH distributor is authorized to sell over eBay.”<sup>83</sup> eBay criticized the ruling and insisted the injunction was “impossible to execute” and failed to “acknowledge the reality of the Internet, which has no frontiers and [has] created a new way to consume.”<sup>84</sup> Consequently, eBay urged the French Court of Appeals to stay the injunctive portion of the ruling, but the stay was denied. Outside counsel for LVMH noted that the ruling applied not only to eBay France, but to “all eBay sites worldwide to the extent that they are accessible from France.”<sup>85</sup> Hypothetically, this would mean that individuals, for instance, who receive LVMH perfumes as unwanted Christmas or birthday gifts, would be barred from reselling them on eBay.<sup>86</sup> Additionally, other luxury brand owners could potentially use this decision to bolster efforts to get their legitimate, but discounted products removed from eBay’s website.<sup>87</sup>

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<sup>78</sup> *Id.* at 12.

<sup>79</sup> *Id.* at 14

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

<sup>81</sup> Dan Slater, *Did French Retailers Win ‘Hometown’ Verdict Against eBay?*, WALL ST. J. ONLINE, June 30, 2008, <http://blogs.wsj.com/law/2008/06/30/did-french-retailers-win-hometown-verdict-against-ebay/> (last visited Jan. 19, 2010).

<sup>82</sup> *Id.*

<sup>83</sup> Parloff, *supra* note 17.

<sup>84</sup> *Id.*

<sup>85</sup> *Id.*

<sup>86</sup> *Id.*

<sup>87</sup> Catherine Holahan & Carol Matlack, *EBay Gets Buffeted in Europe*,

Vowing to fight the French ruling on behalf of its consumers, eBay issued a statement asserting that the French ruling was not about the fight against counterfeiting, but was an “attempt by LVMH to protect uncompetitive commercial practices at the expense of consumer choice and the livelihood of law-abiding sellers.” Spokesman for the popular online auction site went on to say that “it is clear that eBay has become a focal point for certain brand owners’ desire to exact ever greater control over e-commerce.” eBay maintains that it invests more than \$20 million annually to fight counterfeiting on its site.<sup>88</sup> eBay issued a statement proclaiming that the French decision should be viewed as “a step backwards for the consumers and businesses whom we empower every day.”<sup>89</sup> Finally, eBay promised to continue its fight against counterfeiting, but assured its consumers that it will “not accept outdated attempts to restrict unfairly the Internet to the detriment of our Community. We will continue to fight for consumer value through e-commerce, and we will be appealing the ruling in France.”<sup>90</sup>

### III. THE AMERICAN STANDARD FOR ONLINE TRADEMARK LIABILITY

On July 14, 2008, just two weeks after the monumental ruling in France, the United States District Court for the Southern District of New York ruled in a case brought by Tiffany & Co. (“Tiffany”) against eBay that under existing U.S. law, eBay is not liable for the sales of counterfeit Tiffany products on its website. Judge Richard Sullivan stated: “it is the trademark owner’s burden to police its mark, and companies like eBay cannot be held liable for trademark infringement based solely on their

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BUSINESSWEEK.COM, July 1, 2008, [http://www.businessweek.com/technology/content/jun2008/tc20080630\\_374448.htm](http://www.businessweek.com/technology/content/jun2008/tc20080630_374448.htm) (last visited Jan. 19, 2010).

<sup>88</sup> Ram, *supra* note 20. Additionally, eBay now says it has over 2000 people worldwide to tackle counterfeiting and that 95 percent of fraudulent listings are removed before the auction ends. The company also released a statement saying that in 2007 alone it removed over two million potentially counterfeit listings, and suspended over 50,000 sellers whom they believed may have been attempting to sell fake goods. Carvajal, *supra* note 14; David Pride, *A Message from Trust & Safety's David Pride – Counterfeits & the LVMH Lawsuit*, EBAY, <http://www2.ebay.com/aw/core/200807041422572.html>.

<sup>89</sup> Ram, *supra* note 20.

<sup>90</sup> Pride, *supra* note 88.



*generalized knowledge* that trademark infringement might be occurring on their websites.”<sup>91</sup> The ruling was a major victory for eBay and reaffirmed the notion that online companies, at least in the United States, do not have to actively monitor and filter their sites for infringing material. Rather, eBay can rely on the intellectual property owners to survey its sites, as long as it immediately removes material when the rights owners complain.<sup>92</sup> Despite being an issue of first impression in the United States, the ruling is certain to have global implications because of the millions of eBay users around the world, foreign buyers and sellers, and brand owners.<sup>93</sup>

#### A. *The Tiffany Case*

Tiffany<sup>94</sup> products are among the most popular sold and auctioned on eBay.<sup>95</sup> More recently, however, the sale and promotion of counterfeit and infringing Tiffany products has become a significant problem.<sup>96</sup> In an effort to prove the rampant selling of counterfeit Tiffany jewelry taking place on eBay, Tiffany conducted a survey to assess just how many of its trademarked items being sold on eBay were, in fact, counterfeit. Specifically, beginning in 2004, Tiffany implemented a “Buying Program” to randomly purchase jewelry on eBay bearing its brand name and found that 73% of those products were counterfeit.<sup>97</sup> Tiffany

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<sup>91</sup> *Tiffany, Inc.*, 576 F. Supp. 2d at 527 (emphasis added).

<sup>92</sup> Brad Stone, *Court Clears eBay in Suit Over Sale of Counterfeit Goods*, N.Y. TIMES, July 15, 2008, at C1, available at [http://www.nytimes.com/2008/07/15/technology/15ebay.html?\\_r=1&oref=slogin](http://www.nytimes.com/2008/07/15/technology/15ebay.html?_r=1&oref=slogin).

<sup>93</sup> Fara S. Sunderji, *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, 910-11 (2005).

<sup>94</sup> According to its website, Tiffany is an American world-renowned purveyor of high-quality and luxury goods including jewelry, watches, crystal, clocks and home items such as china. Since 1837, Tiffany & Co. has been the world’s premier jeweler and “America’s house of design.” The company has spent over 170 years building its famous trademarked brand, which has become synonymous with luxury and high quality. Tiffany & Co., <http://www.tiffany.com/About/Default.aspx?isMenu=1&> (last visited Jan. 20, 2010).

<sup>95</sup> Charles R. Macedo, *Duty on Trade Mark Owner To Police Its Own Mark*, 3 J. INTELL. PROP. L. & PRAC. ONLINE 356 (2008), available at [http://www.arelaw.com/downloads/ARElaw\\_DutyOnTradeMark.pdf](http://www.arelaw.com/downloads/ARElaw_DutyOnTradeMark.pdf).

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

<sup>97</sup> Favre, *supra* note 6, at 192.

acknowledged that individual sellers, rather than eBay, were responsible for the listing and selling of the counterfeit items, but nevertheless insisted that eBay had sufficient notice of such widespread counterfeiting on its site to obligate eBay to investigate and control the illegal activities of its users. On July 18, 2004, Tiffany filed suit against eBay in the United States District Court for the Southern District of New York, seeking to hold eBay liable primarily for direct and contributory trademark infringement, Tiffany also sued for unfair competition, false advertising, and direct and contributory trademark dilution, on the grounds that eBay facilitated and allowed counterfeit items to be sold on its website.<sup>98</sup>

### 1. Direct Trademark Infringement<sup>99</sup>

Tiffany sued eBay for direct infringement in violation of section 32(1) of the Lanham Act.<sup>100</sup> Tiffany argued that eBay should be held liable for direct trademark infringement because eBay promoted the availability of Tiffany products by advertising on its home page and also through sponsored links on popular search engines, such as Yahoo! and Google. In order to prevail on a direct trademark infringement claim, Tiffany had to prove that its mark was valid and entitled to protection, and that eBay's use of the mark was likely to cause confusion as to the origin of the goods.<sup>101</sup> The first prong of the test was undisputed, as eBay stipulated that the Tiffany mark is plainly valid and entitled to protection.<sup>102</sup> The Court concluded, however, that even if eBay's use of the trademark also satisfied the second prong of the test, whether eBay's use of the Tiffany trademark is likely to cause confusion as to the origin of the goods, this use was still protected

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<sup>98</sup> See *Tiffany, Inc.*, 576 F. Supp. 2d at 463.

<sup>99</sup> Tiffany also argued unfair competition, false advertising and trademark dilution but those arguments are outside the scope of this note. *Id.* at 468.

<sup>100</sup> The Lanham Act, 15 U.S.C. §§ 1051-1141 (2008), regulates the use of trademark activity in the United States and imposes civil and criminal liability for infringement, dilution and false advertising.

<sup>101</sup> *Tiffany, Inc.*, 576 F. Supp. 2d at 495. This "two-pronged" test is a condensed version courts have used to analyze direct trademark infringement. See *Savin Corp. v. Savin Group*, 391 F.3d 439 (2d Cir. 2004); *Virgin Enters. v. Nawab*, 335 F.3d 141 (2d Cir. 2003).

<sup>102</sup> *Tiffany, Inc.*, 576 F. Supp. 2d at 495.

activity under the nominative fair use doctrine.<sup>103</sup>

An integral part of eBay's defense was the fact that *authentic secondhand* Tiffany items were being sold on the website. The Court stressed that Tiffany had no legal grounds to object to the sale of genuine items on eBay.<sup>104</sup> It had analyzed eBay's use of Tiffany's trademarks in advertising on both its homepage and sponsored links purchased through Yahoo! and Google, under the doctrine of nominative fair use.<sup>105</sup> The Court found that "[eBay] used only so much of the mark or marks as reasonably necessary to identify the product or service."<sup>106</sup> Given the presence of authentic goods sold on eBay, the Court found that generalized knowledge of counterfeiting was "insufficient to impute knowledge to eBay of any specific acts of actual infringement."<sup>107</sup>

## 2. Contributory Trademark Infringement

With respect to the contributory trademark infringement claim,<sup>108</sup> the Court found that eBay had acted responsibly in

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<sup>103</sup> *Id.* at 495-96.

<sup>104</sup> This ruling is in stark contrast to the *LVMH* decision, which specifically prohibited the resale of any authentic secondhand Dior, Givenchy, Guerlain or Kenzo perfumes due to the selective distribution networks set up in France. See *supra* Part II.B.3 and note 74. In the United States, a trademark owner has no right to control the distribution of its product after its first sale. This principle is known as the "first sale" doctrine. See *NEC Elecs. v. CAL Circuit Abco*, 810 F.2d 1506 (9th Cir. 1987).

<sup>105</sup> Under the doctrine of nominative fair use, "[a] defendant may use a plaintiff's trademark to identify the plaintiff's goods so long as there is no likelihood of confusion about the source of defendant's product or the markholder's sponsorship or affiliation." *Merck & Co., Inc., v. Mediplan Health Consulting, Inc.*, 425 F. Supp. 2d 402, 413 (S.D.N.Y. 2006), *reconsideration denied*, 431 F. Supp. 2d 425 (S.D.N.Y. 2006); see also *Nihon Keizai Shimbun, Inc. v. Comline Bus. Data, Inc.*, 166 F.3d 65, 73 (2d Cir. 1999); 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 23:11 (4th ed. 2007).

<sup>106</sup> *Tiffany, Inc.*, 576 F. Supp. 2d at 497.

<sup>107</sup> *Id.* at 511.

<sup>108</sup> There is no statutory rule for contributory trademark infringement in the United States. Contributory trademark infringement is a judicially constructed doctrine articulated by the Supreme Court in *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982). The *Inwood* standard recognizes contributory liability when: (1) "[a] manufacturer or distributor intentionally induces another to infringe a trademark"; or (2) "[a] manufacturer or distributor . . . continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement." *Inwood*, 456 U.S. at 854. There is an alternative test for contributory trademark liability articulated in the RESTATEMENT (THIRD) OF

addressing this issue and noted that eBay only had “generalized notice” that some portion of Tiffany items being sold on its website might be counterfeit.<sup>109</sup> Furthermore, the Court found that when eBay was alerted to any specific information about counterfeit listings, it promptly terminated the auction. The Court was also impressed with eBay’s commitment to fighting counterfeiting, evidenced by the \$20 million each year that it invested and the fact that roughly 25% of its employees are devoted to trust and safety.<sup>110</sup> Additionally, the Court noted that eBay’s VeRO program is available to provide rights owners with the ability to notify eBay of any listing that offers potentially infringing items, so that eBay could immediately remove such reported listings.<sup>111</sup>

The Court’s standard in determining liability for contributory trademark infringement was not whether eBay could “reasonably anticipate” possible infringement, but rather whether eBay continued to supply its services to sellers when it knew or had reason to know of infringement by those sellers.<sup>112</sup> The Court noted that “when Tiffany put eBay on notice of specific items that they believed were infringing, eBay immediately removed those listings.”<sup>113</sup> Consequently, the Court determined that Tiffany has a duty, as the rights owner, to identify counterfeiters. Similarly, eBay has a duty, as the website operator, to take down counterfeits upon receiving specific notices of infringement. The Court also rejected Tiffany’s claim that eBay should have preemptively refused to post any single listing offering five or more Tiffany items because Tiffany’s corporate policy prevents consumers from purchasing more than five items at a time. According to Tiffany, such listings should have put eBay on notice because products sold in bulk by a single online vendor were more likely to be counterfeit.<sup>114</sup>

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UNFAIR COMPETITION § 27 (1995), however the *Tiffany* Court concluded that the *Inwood* test governed. *Tiffany, Inc.*, 576 F. Supp. 2d at 502-03.

<sup>109</sup> *Id.* at 514.

<sup>110</sup> *Id.* at 476.

<sup>111</sup> At the time of the suit, Tiffany, along with 14,000 other rights owners, participated in eBay’s VeRO program.

<sup>112</sup> See *Inwood Labs.*, 456 U.S. at 854.

<sup>113</sup> *Tiffany, Inc.*, 576 F. Supp. 2d at 469-70.

<sup>114</sup> *Id.* at 483.

### 3. Significance

The District Court's ruling in *Tiffany v. eBay* is one of the first U.S. decisions to address online auction site liability for trademark infringement and the associated burden of policing counterfeits on respective auction sites.<sup>115</sup> In the United States, this decision is seen as "a wakeup call to trademark owners that they have the initial burden to prevent the sale of counterfeit goods on eBay and other similar websites."<sup>116</sup> According to a statement released by eBay shortly after the decision, the ruling "appropriately establish[ed] that protecting brands and trademarks is the primary burden of rights owners."<sup>117</sup> Yet despite the ruling, eBay pledged to continue to lead the industry with "innovative solutions to stop the sale of counterfeits."<sup>118</sup>

## IV. WHO SHOULD BEAR THE BURDEN OF POLICING TRADEMARKS IN INTERNET COMMERCE?

### A. *Tiffany and LVMH Decisions*

It is important to note the significant disparity between the French and American decisions and how similar facts yielded different results implicating eBay. The *Tiffany* Court found that "generalized knowledge" of counterfeit items being sold on its site was insufficient to hold eBay liable; rather, "specific knowledge" is required. Consequently, it held that eBay did not have a duty to preemptively take down listings that sold more than five Tiffany items simply because they were likely to be counterfeit. Conversely, the *LVMH* Court found that eBay *should have known* that certain items were counterfeit and automatically removed the listings "simply on the basis of the prices asked and of the quantities offered."<sup>119</sup> Moreover, the *Tiffany* Court held that

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<sup>115</sup> Macedo, *supra* note 95, at 3.

<sup>116</sup> Holly Pekowsky & Anthony F. Lo Cicero, *Tiffany v. eBay: Trademark Owners Beware*, LAW 360, July 16, 2008, available at [http://www.arelaw.com/downloads/ARElaw\\_TiffanyVsEbay.pdf](http://www.arelaw.com/downloads/ARElaw_TiffanyVsEbay.pdf).

<sup>117</sup> Posting of Linda Rosencrance to Computerworld Blogs, [http://www.computerworld.com/s/article/9110038/Ebay\\_wins\\_major\\_victory\\_in\\_trademark\\_dispute\\_with\\_Tiffany](http://www.computerworld.com/s/article/9110038/Ebay_wins_major_victory_in_trademark_dispute_with_Tiffany) (July 14, 2008, 12:00 EST).

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

<sup>119</sup> Macedo, *supra* note 13.

eBay's VeRO program was substantial evidence that eBay had acted responsibly in its attempt to combat counterfeiting on its website. The *LVMH* Court, however, found the VeRO program to be direct evidence that eBay's prior efforts to combat counterfeiting were insufficient and only helped to show its past negligence, and therefore, awareness and acknowledgement that infringing products were being sold on its site.<sup>120</sup> Lastly, the *Tiffany* Court based its decision, in part, on the fact that Tiffany did not spend enough money on its participation in eBay's VeRO program. In contrast, the *LVMH* Court held that Louis Vuitton's limited participation in the VeRO program was acceptable, and that eBay was "not entitled to ask companies that are victims of counterfeiting that takes place on [eBay], to contribute financially to the fight against illegal activities."<sup>121</sup>

The eBay cases in France and America epitomize "the fragmented state of law" governing intellectual property rights and e-commerce.<sup>122</sup> These decisions illustrate the competing views on whose duty it is to identify and act on illegal activity through online sales of counterfeit items.<sup>123</sup> The two conflicting findings by the U.S. and French courts provide a benchmark for other international courts, as a number of cases regarding similar infringement and counterfeit issues are making their way through court systems around the world.<sup>124</sup> Specifically, in Germany, U.K. and Belgium, rights owners have brought suits against online auction houses.<sup>125</sup> As courts around the world "continue to grapple with the complexities of e-commerce and intellectual property rights, many Internet service providers will be keeping a watchful eye on the legal developments that provide the extent to which online auction sites will be held liable for infringement and how stringently [online] content should be monitored."<sup>126</sup>

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

<sup>121</sup> *Christian Dior Couture*, No. 2006077807, at 12.

<sup>122</sup> Shelton, *supra* note 4.

<sup>123</sup> Macedo, *supra* note 13.

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

<sup>125</sup> See *Ricardo v. Rolex, S.A.*, 1 ZR 73/05 (German Fed. S. Ct., Apr. 30, 2008); *Lancôme Parfums v. eBay Int'l AG*, No. A/07/06032 (Brussels Commercial Court, Aug. 12, 2008); *Rolex v. eBay Inc.*, Bundesgerichtsof [BGH] [Federal Court of Justice] Apr. 30, 2007, URT. v. 30.4.2008 - AZ I ZR 73/05 (F.G.R.); *L'Oreal SA & Ors v. EBay Int'l AG & Ors*, [2009] EWHC 1094 (Ch.) (U.K.).

<sup>126</sup> Shelton, *supra* note 4.

### *B. Balancing the Interests*

The online counterfeit and infringement epidemic shows no sign of slowing down. In fact, it is likely to continue increasing as online auction houses continue to “broaden their economic platforms and enter the international market.”<sup>127</sup> Balancing the interests of brand owners with online auction sites requires courts to decide “whether the ability of the trademark owner to identify counterfeit goods and enforce its rights should prevail over the extent of [online auction houses’] control of its platform.”<sup>128</sup>

Brand owners maintain that online auction houses are in the best position to police respective sites for counterfeit and trademarked products. They argue that auction houses, in addition to profiting from the listing and selling of counterfeit items, created a meeting forum for the buyers and sellers and also created and implemented the enabling software. Brand owners insist that, as a matter of fairness and practicality, the most obvious parties to bear the burden of controlling the rampant illicit activity are the online auction sites.<sup>129</sup> On the other hand, online auction houses argue that the intellectual property owners are in the best position to identify counterfeit products, considering the sophisticated quality of counterfeit products in today’s marketplace. Their argument is that only the brand owners themselves are truly able to differentiate the authentic piece of merchandise from its well-made counterfeit.<sup>130</sup> While both arguments make salient points, neither is entirely correct.

### *C. Reasons for Imposing Liability on the Trademark Owners*

There are several reasons why liability should be placed on trademark owners. First and foremost, it is “quite time-consuming, expensive and impractical for an online auction site to monitor every single listing for possible infringing content.”<sup>131</sup> If online auction sites are ultimately held liable for user infringement then this “will raise the cost of using such sites, as

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<sup>127</sup> Favre, *supra* note 6, at 209.

<sup>128</sup> Delmas d'Autane & Zeggane, *supra* note 10.

<sup>129</sup> The Comm. on Trademarks, *supra* note 29, at 3.

<sup>130</sup> *Id.* at 13.

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

the cost will have to be spread among all users, and smaller online auction sites, unable to afford the risks of infringement liability, may be forced out of business.”<sup>132</sup> Even if the online auction site was able to somehow afford enough employees to monitor each and every listing and to provide additional training, it is clear that the trademark owner is arguably in a better position to determine the authenticity of a product it manufactures. Moreover, if a named company gains considerable value from its brand, “it is reasonable to assume that the company should manage financial risk internally and build an infrastructure to protect and monitor [its own] brand.”<sup>133</sup> A trademark is one that is earned and, therefore, it should be the burden of the respective trademark owner to be vigilant in protecting its mark.<sup>134</sup> Imposing the liability on the online auction house would stifle the benefits and creativity of the Internet – specifically “the convenience and ease” of the online marketplace that consumers have grown to love.<sup>135</sup> After all, trademark owners have the most to lose by user infringement.

In addition to lost profits, the brand owner’s image can be tarnished by the circulation of cheap imitations and reproductions. The ability to sell counterfeits through online auction sites amount to illegal activities that divert the potential sales of authentic products. The result is likely to tarnish the named company’s reputation, cause confusion and irritation among uninformed consumers especially because counterfeit purchases are not covered by the manufacturer’s warranties and simply fail to meet the quality standards of an authentic product.<sup>136</sup>

#### *D. Reason for Imposing Liability on the Online Auction Site*

A number of factors support the proposition that online auction sites should bear the liability for the sale of counterfeit goods on their respective sites. First, online marketplaces derive profits (sometimes substantial) from the sale of infringing goods

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<sup>132</sup> *Id.*

<sup>133</sup> Favre, *supra* note 6, 205.

<sup>134</sup> *Id.* at 208.

<sup>135</sup> The Comm. on Trademarks, *supra* note 29, at 13.

<sup>136</sup> *Id.*



through vendor fees for each listing, as well as a percentage of the final sale price.<sup>137</sup> If the online auction sites are receiving money every time someone posts or sells a counterfeit item, then it is logical to hold the auctions sites responsible for monitoring and filtering the infringing activities. Furthermore, online auction houses have demonstrated, to a certain extent, an ability to control their sites.<sup>138</sup> Additionally, if any online auction site is ultimately held liable for its users' infringement, "this may act as a deterrent for future infringing activities by transforming online auctions sites into trademark owners' policing partners."<sup>139</sup> Finally, the online auction site created the forum for buyers and sellers to come together and conduct business. Regardless of intent on the part of the online auction site, is it this forum that has fostered the sale of counterfeit products.

#### V. THE AMERICAN STANDARD WILL BE MORE EFFECTIVE IN THE ONGOING PREVENTION OF ONLINE TRADEMARK INFRINGEMENT

After a thorough examination of both the American and French rulings, the American decision appears to be predicated on a more pragmatic and a more equitable means of combating online trademark infringement. To begin, the American court's decision in *Tiffany v. Ebay* is more practical because it takes into consideration the sheer magnitude of policing every listing. As discussed, *supra*, the efforts required for either the auction house or brand owner to solely filter every auction listing would not only be painstakingly time consuming and expensive, but nearly impossible. The American decision shares this sentiment, as it requires the online auction house to have "specific knowledge" of counterfeit items being sold on its site, as opposed to the French court's corresponding "generalized knowledge" requirement. The French "generalized knowledge" is too impractical and would effectively force online auction houses to "take action to discontinue supplying its service to all those who *might* be engaged in counterfeiting."<sup>140</sup>

The decisions are also clear in that both Courts acknowledge

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<sup>137</sup> *Id.* at 14.

<sup>138</sup> Specifically through eBay's VeRO program. *See id.*

<sup>139</sup> *Id.*

<sup>140</sup> *Tiffany, Inc.*, 576 F. Supp. 2d 463 at 511.

that eBay made significant efforts to protect its website from counterfeiters.<sup>141</sup> However, only the American court gave favorable consideration to the preventive measures taken by eBay. The American court noted that once Tiffany alerted eBay to the problem, eBay worked with Tiffany to take down over 19,000 counterfeit products from its site.<sup>142</sup> The American court also found that eBay's VeRO program was further evidence that the auction site had acted responsibly in its prevention of trademark infringement. In contrast, not only did the French court find eBay's VeRO program to be evidence that its prior efforts to combat counterfeits were insufficient, it found that eBay has no right to even ask brand owners, classified as victims of counterfeiting, to help contribute financially to the fight against illegal activities.<sup>143</sup> Thus, the French court used eBay's efforts to combat counterfeiting only as evidence that eBay was not fulfilling its obligation to monitor its site in years past.

Lastly, the American court looked at specific actions the brand owners implemented themselves or in conjunction with eBay to help prevent sales of counterfeits, while the French courts only looked at eBay's preventive efforts. However, the online counterfeiting problem is simply too massive to place responsibility solely on either the auction site or the brand owner, so the logical conclusion is to have them both share the responsibility of policing online auction houses. This approach is practical and more consistent with the American court's analysis in *Tiffany v. eBay* because it equally distributes responsibility to the brand owner and the online auction house.

#### *A. A Different Approach to the Problem*

Litigation may not be the best answer to the online counterfeit problem. Online auction sites and brand owners should be required to partner together to fight against counterfeiting, since it adversely affects both. Today, many trademark owners and online auction houses are likely to agree that court action to litigate online sale of counterfeits is generally

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<sup>141</sup> See discussion *supra* Part III.A.1.

<sup>142</sup> Shelton, *supra* note 4.

<sup>143</sup> *Id.* at 12.

too expensive and risky.<sup>144</sup> Frankly, it is “not the ideal way to shape policy.”<sup>145</sup> In fact, in recent years, most auction sites have been “receptive to concerns of infringement,”<sup>146</sup> as evidenced by their development of infringement reporting procedures and the prompt termination of specific listings found to contain infringing material.<sup>147</sup> The best way to deal with the sale of counterfeit goods is for “trademark owners to create a strong brand management plan that aligns with their corporate entity, while simultaneously incorporating and relying on partners and intermediates, such as online auction houses, to help build their branding strategies.”<sup>148</sup>

One suggestion is for online auction sites to partner with the brand owners to split the cost of hiring a full-service corporate identity management company to protect their brands online.<sup>149</sup> For example, MarkMonitor is a full-service provider which offers comprehensive solutions intended to enable brand owners to establish and defend their brands against multiple online risks.<sup>150</sup> Companies such as MarkMonitor are designed to help brand owners fight against fraud, brand abuse and unauthorized channel distribution. Another suggestion is to have individual online auction sites hire employees directly from the brand owner that can provide the online auction house with qualified staff whose sole purpose is to detect and de-list counterfeit goods.

#### CONCLUSION

In conclusion, the conflicting decisions by the American and French courts illustrate just one of the many challenges faced by courts worldwide when trying to apply principles of liability to the economy of emerging and ever changing technology.<sup>151</sup> Intellectual property owners need to acknowledge that online auction sites are, and will continue to remain the world's largest

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<sup>144</sup> The Comm. on Trademarks, *supra* note 29, at 14.

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

<sup>146</sup> *Id.*

<sup>147</sup> *Id.*

<sup>148</sup> Favre, *supra* note 6, at 170.

<sup>149</sup> *Id.* at 205.

<sup>150</sup> See generally MarkMonitor, <http://www.markmonitor.com> (last visited Jan. 22, 2010).

<sup>151</sup> Delmas d'Autane & Zeggane, *supra* note 10.

and fastest growing channel of commerce. In order to help combat the growing market for counterfeits, it is essential for brand owners to embrace online distribution channels “as an opportunity to promote their brand, and proactively partner with third-party intermediaries to foster open dialogue and creative problem-solving.”<sup>152</sup> By the same token, online auction sites need to recognize that a retailer’s brand is its most important asset and “[i]t should be treasured and protected.”<sup>153</sup> “While it is unlikely that the sale of counterfeit goods will ever be stopped entirely,”<sup>154</sup> with trademark owners and online auction sites working together, “online sales of infringing goods can, to some extent, be managed.”<sup>155</sup> In the meantime, courts around the world dealing with the problem need to take into account the totality of the circumstances and carefully examine the preventive procedures and measures adopted by brand owners in tandem with online auction sites. The sooner the parties begin working together, the sooner the counterfeit problem can be curtailed.

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<sup>152</sup> Favre, *supra* note 6, at 210.

<sup>153</sup> Macedo, *supra* note 13.

<sup>154</sup> The Comm. on Trademarks, *supra* note 29, at 14.

<sup>155</sup> *Id.*