

CONTRIBUTORY LIABILITY FOR TRADEMARK INFRINGEMENT IN THE WAKE OF TIFFANY V. EBAY

Lisa Pearson
KILPATRICK STOCKTON LLP
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The Test Case



Tiffany (NJ) Inc. and Tiffany & Co. v. eBay, Inc., No. 04
Civ. 4607 (S.D.N.Y. July 14, 2008)

Who should bear the burden of policing an on-line marketplace for trademark counterfeits?

How Tiffany Teed Up The Issue

- eBay created a new business model, made possible by the Internet.
- Soon the counterfeiters and grifters of the world realized that the site could be exploited by them without risk.
- eBay created a system that allows sellers to act anonymously and without accountability for their illegal sale of counterfeit goods.

- eBay had reason to know that there was pervasive and fundamental misuse of its system for the sale of counterfeit Tiffany goods.
- eBay has the obligation to investigate and control the illegal activities of those sellers.
- Specifically, eBay should
 - 1) preemptively refuse to list any offerings of 5 or more Tiffany items; and
 - 2) immediately suspend sellers upon receiving notice they are selling counterfeits.

- 1) No direct trademark infringement because eBay's use of TIFFANY marks in advertising was nominative fair use
- 2) No contributory trademark infringement because:
 - eBay did not continue to supply its services to sellers knowing or having reason to know of infringement by those sellers.
 - the law requires more "specific knowledge" as to which items and which sellers are infringing than Tiffany proved.
 - eBay promptly removed listings of allegedly counterfeit items upon receiving notice.
 - eBay has no affirmative obligation to monitor more than it did.

“The law does not impose liability for contributory trademark infringement on eBay for its refusal to take . . . preemptive steps in light of eBay’s ‘reasonable anticipation’ or generalized knowledge that counterfeit goods might be sold on its website. Quite simply, the law demands more specific knowledge as to **which items are infringing and which seller is listing those items** before requiring eBay to take action.”

Tiffany's Proof: Tiffany Counterfeits Sold on eBay

- Tiffany had notified eBay that there were no authorized resellers of Tiffany jewelry and so sellers offering significant quantities (5 or more pieces) were likely counterfeiters.
- Tiffany twice surveyed Tiffany offerings on eBay through a buying program and found >73% of the TIFFANY offerings on eBay were fake.
- From May 2003-June 2004, Tiffany submitted >46,000 notices to the VeRO program. In total over the 2003-2007 time period, it sent take down notices for >284,000 listings.
- Customers complained to eBay that they got counterfeit Tiffany goods. In last 6 weeks of 2004, eBay received 25 such complaints.
- Tiffany claimed 200 counterfeit sellers were repeat offenders.

Tiffany's Proof: eBay Encouraged Sales of Tiffany Items

- eBay derives substantial revenues from both listings and sales of counterfeit goods.
- eBay actively assists sellers, most notably “Power Sellers”, and helps them with advertising.
- eBay advised sellers of demand for Tiffany goods and suggested use of TIFFANY as key word.
- It “actively took steps to grow the sales of Tiffany items” on its website, e.g. it included “Tiffany” on its “Holiday Hot List” sent to sellers.

Tiffany's Proof: eBay Could Have Done More to Screen Counterfeits

- eBay has the ability to screen listings.
- Expert testified that eBay could have used more extensive screening techniques.
- eBay did not block listings of 5 or more Tiffany items.
- eBay did not employ a “1 strike, you’re out” suspension rule.

eBay's Proof: Proactive Steps Taken by eBay

- 1) Requires all users to register with eBay and sign eBay's User Agreement, which prohibits violations of any laws, third party rights, and eBay policies.
- 2) Prohibits certain listings and screens to be sure they are not listed, e.g., drugs, firearms and alcohol.
- 3) Substantial investment (\$20 million/year) to promote trust and safety
 - >200 employees focus exclusively on combating infringement
 - 70 employees who work exclusively with law enforcement.
 - eBay information has led to arrest of counterfeiters.

eBay's Proof: Proactive Steps Taken by eBay

- 4) Employs technological “fraud engine” to “ferret out” illegal listings, including counterfeits, at cost of >\$5 million per year.
- monitors “knock-off,” “counterfeit,” “replica,” “pirated,” listings where seller “cannot guarantee authenticity”
 - evaluates other data, such as Seller’s Internet address, issues with eBay account, feedback from other eBay users
 - flagged listings sent to eBay customer service reps for further investigation and action

eBay's Proof: Proactive Steps Taken by eBay

- 5) Maintains Verified Rights Owner (“VeRO”) Program, a “notice and take down system” whereby rights owners can report potentially infringing items by submitting Notice of Claimed Infringement (NOCI) attesting to good faith belief item infringes

eBay's Proof: Proactive Steps Taken by eBay

Notice of Claimed Infringement

Date: _____

eBay Inc.
Attn: eBay VeRO Program
2145 Hamilton Ave.
San Jose, CA 95125
Fax Number: (408) 516-8811

Dear eBay:

I, the undersigned, state **UNDER PENALTY OF PERJURY** that

- I am the owner, or an agent authorized to act on behalf of the owner, of certain intellectual property rights ("IP Owner");
- I have a good faith belief that the listings identified (by item number) in the addendum attached hereto, offer items or contain materials that are not authorized by the IP Owner, its agent, or the law, and therefore infringe the IP Owner's rights; and
- The information in this notice is accurate.

Please act expeditiously to remove the listings identified in the addendum.

I May Be Contacted At (*required)

Name of IP Owner:* _____
 Name and Title:* _____
 Company: _____
 Address:* _____
 City, State, and Zip:* _____
 email address (for correspondence with eBay): _____
 email address (to be given to eBay sellers):* _____
 Telephone:* _____
 Fax: _____

In addition to the undersigned, the following persons have the proper authority to sign future Notices of Claimed Infringement on behalf of the IP Owner:

Name: _____	Email: _____
Name: _____	Email: _____
Name: _____	Email: _____

Truthfully,

Signature

Addendum to Notice of Claimed Infringement List of Allegedly Infringing Listings, Items, or Materials

A Note on Reason Codes: When identifying item numbers please use the reasons below. When removing items from the site, eBay will inform sellers of the specific reason for the removal of their items. We believe providing sellers with this information benefits all parties.

Select the most appropriate reason. Please associate each item you report with only one reason code.

<p>Reason Codes (Note that the numbers may not be sequential everywhere. This is not a mistake, but simply reflects that some reason codes are not legally applicable in all countries.)</p> <p>Trademark – <i>Item</i> infringement</p> <ol style="list-style-type: none"> 1. Trademark owner doesn't make this type of product 1.2. Item(s) is an unlawful replica of a product made by the trademark owner 1.3. Item(s) is an unlawful importation of product bearing trademark <p>Trademark – <i>listing content</i> infringement</p> <ol style="list-style-type: none"> 2.1. Listing(s) contains unlawful comparison to trademark owner's brand name 2.2. Listing(s) contains unlawful use of trademark owner's logo <p>Copyright – <i>item</i> infringement</p> <ol style="list-style-type: none"> 3.1. Software offered for sale in violation of a license 3.2. Item(s) is a bootleg recording of live performance 3.3. Item(s) is an unlawful copy of media (software, games, movies, etc.) 3.4. Item(s) is unlawful duplication of printed material 3.5. Item(s) is an unlawful copy of other copyrighted work (paintings, sculptures, etc.) <p>Copyright – <i>listing content</i> infringement</p> <ol style="list-style-type: none"> 4.1. Listing(s) uses unauthorized copy of copyrighted text 4.2. Listing(s) uses unauthorized copy of copyrighted image 4.3. Listing(s) uses unauthorized copy of copyrighted image and text <p>Other infringement</p> <ol style="list-style-type: none"> 5.1. Item(s) infringes a valid patent (requires patent registration number) 5.3. Item(s) violates a celebrity's right of publicity 5.4. Listing(s) content violates a celebrity's right of publicity

<p>Reason Code _____</p> <p>Work(s) infringed: _____</p> <p>Item Number(s): _____</p>

<p>Reason Code _____</p> <p>Work(s) infringed: _____</p> <p>Item Number(s): _____</p>

eBay's Proof: Proactive Steps Taken by eBay

- offers rights owners automated search tools.
- reviews and removes reported listings within 24 hours or less.
- notifies sellers and buyers listing removed and bids cancelled.
- advises seller why and provides educational information (including link to owner's About Me Page).
- if bidding ended, cancels transaction, removes listings, refunds fees.
- under some circumstances, reimburses buyer if it can prove counterfeit.
- reviews seller's account and routinely takes further remedial action.

6) Encourages rights owners to create “About Me” pages

The screenshot shows an eBay 'About Me' page for a user named 'tiffanytrademark2'. The page header includes the eBay logo, a welcome message, and navigation links for 'Buy', 'Sell', 'My eBay', 'Community', and 'Help'. Below the header, there are search bars and category links. The main content of the page is a warning message from Tiffany & Co. regarding counterfeit goods on eBay.

TIFFANY & CO.

This page is maintained by tiffanytrademark2

BUYER BEWARE:

Most of the purported TIFFANY & CO. silver jewelry and packaging available on eBay is counterfeit.

Genuine, new Tiffany & Co. merchandise is available only through TIFFANY & CO. stores and boutiques, TIFFANY & CO. catalogs and via the web at www.tiffany.com. Tiffany & Co. carefully controls distribution of its high-quality merchandise. Tiffany & Co. does NOT use liquidators or sell overstock merchandise nor do its vendors sell overruns or surplus. Most authentic TIFFANY & CO. silver jewelry is manufactured by Tiffany & Co. in the U.S. None of it is manufactured in Asia. TIFFANY & CO. packaging (the Tiffany Blue Box) is never offered for sale alone by Tiffany & Co., but poor quality copies of the box and felt inserts have become widely available on eBay.

Unfortunately, unscrupulous sellers are auctioning on eBay inferior silver jewelry marked with the TIFFANY & CO. trademarks, whether passing them off as genuine or claiming that they are fake, faux, replicas or look-alikes. Manufacture and sale of these goods in any such case constitutes counterfeiting, a crime and a civil action punishable under federal and state laws with steep penalties.

Tiffany & Co. marketing materials are graphically beautiful, appealing and copyrighted. Unauthorized use of Tiffany & Co. photography and graphics constitutes copyright infringement.

Tiffany & Co. has established a worldwide reputation for jewelry and luxury goods. It has invested significant time, effort and money over more than 150 years to promote its trademarks and trade name TIFFANY & CO. and its renowned packaging, the Tiffany Blue box through copyrighted marketing campaigns. As a result of these efforts, the TIFFANY & CO. trademarks and copyrights have enjoyed widespread fame and recognition throughout the world.

The Company works diligently to protect its reputation for providing the highest quality products and to protect its customers from duplicitous sellers who offer fake merchandise that is inferior to genuine Tiffany & Co. merchandise. Tiffany & Co. files lawsuits worldwide and works closely with law enforcement, the F.B.I., customs and investigative agencies to protect its intellectual property rights.

TIFFANY & CO. RIGOROUSLY PROTECTS ITS TRADEMARKS AND COPYRIGHTS

Do Other Internet Marketplaces Have the Same "Best Practices"?

Critical Findings Against Tiffany

- 1) No testimony on “crucial topic of the size of the secondary market in Tiffany goods.”

- 2) “Little support” for Tiffany’s “5 or more” rule.
 - Legitimate sales on eBay of lots of 5 or more genuine pieces.
 - Tiffany’s own “5 or more” policy was to prevent diversion of its product (i.e., prevent secondary market) not to detect counterfeits.
 - Tiffany itself did not automatically apply the 5 or more rule and its corporate sales department routinely sold much larger quantities.
 - CEO conceded it was a “compromised effort” and “shorthand solution”

Critical Findings Against Tiffany

- 3) Tiffany's buying program survey evidence of "very limited probative value." (Nevertheless, even eBay's expert admitted 30% or more of its so-called Tiffany offerings were counterfeit.)

- 4) Early on, Tiffany had brought individual actions against several eBay counterfeits. In 2003, it decided instead to address the situation by suing eBay itself. “Aggressive pursuit of direct infringement actions against sellers might have had significant deterrent effect.”

Critical Findings Against Tiffany

- 5) Court found that Tiffany did not invest substantial resources in monitoring for counterfeiters on eBay (1.1-1.6 fulltime equivalents monitoring).

6) Insufficient proof of repeat offenders.

- Of the 284,000 Tiffany reports, only 23 instances in which a previously reported counterfeit seller appeared under same user name.
- 178 repeat offenders returned under different user names.
- 17 appeared under different user names 5 or more times, but no further evidence.
- repeat offenders usually repeated in short time span, i.e. too short a time to realize they should have been suspended after the first time.
- eBay never refused to take down listings upon receipt of NOCI.

Primary theories: Tiffany claimed eBay was liable for direct infringement because it

1. advertised availability of Tiffany jewelry on eBay.
2. used TIFFANY name on home page and in publications.
3. purchased sponsored links on outside search engines, using TIFFANY as a key word.

Held: For eBay. This was nominative fair use.

Someone is entitled to describe what is being sold.

Best word available to describe the product.

eBay did not make excessive use of the mark or suggest an affiliation with Tiffany.

Trademark owners cannot prevent use of their marks to prevent resale of genuine products.

No Direct Infringement

Alternative theory: eBay “jointly and severally” liable for direct infringement because it was like an officer of a store who is liable for infringement that the company commits.

Held: For eBay. eBay never takes possession of the counterfeit goods or sells them to buyers.

The Court found:

- generalized knowledge of infringing activity is not enough to show that eBay knew or had reason to know of infringement
- eBay was not willfully blind to the infringing activity
- when it did have knowledge, it took reasonable steps to remove listings and suspend service

Tiffany’s Argument:

“Here, the situation on eBay with respect to the sale of Tiffany silver jewelry was a ‘rat’s nest’, the listings for Tiffany silver jewelry overwhelmingly consisted of counterfeit goods. Thus, the knowledge requirement is satisfied if eBay had knowledge that the ‘rat’s nest’ existed – it is not necessary to establish that eBay had knowledge of each and every particular rat infesting the nest in order for the obligation to remedy the infringing conduct to arise. In other words, eBay’s obligation to act is not limited to just the particular and individual listings that have been brought to its attention.”

“Knew or Had Reason to Know” Contributory Infringement Standard

“If a manufacturer or distributor

- intentionally induces another to infringe a trademark, or
- **if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement,**

the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.”

Inwood Labs, Inc. v. Ives Labs, Inc., 456 U.S. 844
(1982) (emphasis supplied)

“Reasonable Anticipation” Contributory Infringement Standard

Restatement (Third) of Unfair Competition § 27

Party may be held liable for contributory trademark infringement where:

- the actor intentionally induces the third person to engage in the infringing conduct; or
- **the actor fails to take reasonable precautions against the occurrence of the third person's infringing conduct in circumstances in which the infringing conduct can be reasonably anticipated.**

Willful Blindness

Willful blindness means a person must suspect wrongdoing and deliberately fail to investigate.

- Defendant knew of high probability of illegal conduct and purposefully contrived to avoid learning of it.
- Requires more than mere negligence or mistake.

Scorecard on Contributory Infringement Principles



	Tiffany	eBay
“Reason to know” (<u>Inwood</u>) or “reasonable anticipation” (<u>Restatement</u>) standard of contributory infringement?		✓
<u>Inwood</u> inapplicable because eBay does not offer a “product” but a “service” or “venue”?	✓	
<u>Inwood</u> inapplicable because eBay, like an online classified ad service, lacks direct control over means of infringement?	✓	
“Willful blindness” sufficient to establish knowledge?	✓	
Generalized or specific knowledge?		✓

No Contributory Infringement

- Court found that eBay's methods for deterring counterfeiting were reasonable and effective.
- "To the extent that eBay had actual or constructive knowledge or reason to know of *specific* instances of infringement and *specific* infringing sellers . . . the question is whether eBay continued to supply its product to those sellers."

Findings on Specific Counterfeit Sellers

- Of over 284,000 Tiffany reports, only 23 repeat offenders using same user name and 178 using different user names.
- 17 recidivists using different user names popped up five times or more.
- Vast majority appeared three or fewer times, frequently within short period of time, indicating VeRO effective.
- Small percentage total listings.
- eBay never refused to take down listings upon receipt of NOCI.
- NOCI not a determination of counterfeiting.

Failure of Proof on Continued Supply to Known Infringers?

- Tiffany failed to prove eBay did not take appropriate action against these sellers upon receiving notice.
- “eBay reasonably proceeded with caution in suspending sellers based on NOCIs because NOCIs were a good faith determination of infringement, not an exact finding of infringement.”
- “evidence does not show that alleged counterfeiters could return with impunity to sell counterfeit Tiffany products on eBay” or that “eBay encouraged sellers whose listings were previously removed ...to simply re-list their previously removed items, or to return to eBay to list other counterfeit items.”
- “Accordingly, the Court concludes that Tiffany has failed to prove that eBay continued to supply its service to sellers whom eBay knew to be selling counterfeits.”

No Contributory Infringement

- In short, while eBay did have general knowledge that some sales on its platform were counterfeit, there were also undisputed sales of genuine product, and Tiffany failed to prove eBay continued to provide its services to those it specifically knew or had reason to know were selling counterfeits.

European eBay Suits Went the Other Way

Coty Prestige Lancaster Group GmbH v. eBay Int'l,
Dusseldorf Regional Court, February 13, 2008

- eBay users selling 20ml ECHO DAVIDOFF bottles
- Coty did not manufacture or distribute the products in a 20ml size.
- Court found eBay liable as an indirect violator and ordered eBay to prevent any offers for sale in which a scent bearing the ECHO DAVIDOFF mark was advertised in a 20ml size.

European eBay Suits Went the Other Way

L'Oreal S.A. v. eBay Int'l, Hamburg Regional Court, May 13, 2008

- eBay users selling 20 ml AQUA DI GIO
- Product was not available in this size in the legitimate marketplace.
- Because eBay had been made aware that the 20ml packages were always imitations, eBay did not need to know any more to fulfill its supervisory duties and was held liable as an indirect infringer.

European eBay Suits Went the Other Way

Hermès Int'l v. eBay France, Troyes Tribunal de Grande Instance, June 4, 2008

- eBay held jointly liable with the seller of the goods for 3000 euros worth of sales and ordered to pay 20,000 euros in damages.
- “by failing to act within their powers to prevent reprehensible use of the site” the seller and eBay “committed acts of counterfeiting and imitation of French brand names.”
- The case was limited in scope, involving just two bags sold in 2006.

European eBay Suits Went the Other Way

SA Louis Vuitton Malletier v. eBay Inc., Commercial Court of Paris, June 30, 2008

- eBay not mere host of another's website but broker who fostered marketing of infringing goods
- eBay defaulted on its duties to insure its business does not generate any illicit actions; to verify sellers are duly registered with competent authorities; and to set up effective measures to combat infringement
- eBay should have known that certain items were counterfeit "simply on the basis of the prices asked and of the quantities offered"

European eBay Suits Went the Other Way

SA Louis Vuitton Malletier v. eBay Inc., Commercial Court of Paris, June 30, 2008 (cont'd)

- Focused on subsequent remedial measures as an admission of guilt
- Jurisdiction extended to counterfeit sales worldwide, including in U.S., because damage to LVMH in France.
- Ordered eBay to pay 20 million euros in damages.

The U.S. Court's Conclusion

“Tiffany must ultimately bear the burden of protecting its trademark. Policymakers may yet decide that the law as it stands is inadequate to protect rights owners in light of the increasing scope of Internet commerce and the concomitant rise in potential trademark infringement...[T]he issue is whether eBay continued to provide its website to sellers when eBay knew or had reason to know that those sellers were using the website to traffic in counterfeit Tiffany jewelry. The Court finds that when eBay possessed the requisite knowledge, it took appropriate steps to remove listings and suspend service. Under these circumstances, the Court declines to impose liability for contributory trademark infringement.”

eBay Cooperation Checklist

- ✓ Stop advertising branded goods on eBay site.
- ✓ Stop buying sponsored links.
- ✓ Respond promptly to NOCIs.
- ✓ Provide seller's contact information.
- ✓ Suspend seller's account if prior warning, false contact info, etc.
- ✓ Implement brand specific filters in fraud engine
- ✓ Use special warning messages to seller when branded item listed.
- ✓ If seller continues to list, flag for review.
- ✓ Delay listings and manually review them before posting.
- ✓ Prohibit 1 to 3 day auctions of branded items.
- ✓ Restrict cross-border trading.

- 1) Less exemplary marketplaces
- 2) Bad sellers/bad products
- 3) Better proof of bright line rules
 - Lack of secondary market in genuine goods
 - Knowledge of repeat infringers
 - Wholesale quantities may be more viable than “5 or more” rule
- 4) Sue sellers (alone or with marketplaces)
- 5) Pick your fights with eBay outside the Second Circuit (preferably in France)

Is there a better legislative solution?

A Happy Ending?

