E NATIONAL NEWS FOR THE PROFESSION MONDAY, AUGUST 11, 2008 DAILY UPDATES ON V.NLJ.COM

An incisivemedia publication

TRADEMARK LAW

'Tiffany v. eBay'

he emergence of online retailers like eBay Inc. creates a wealth of new opportunities for buyers and sellers to enter into legitimate transactions nearly anywhere around the globe. Those same Web sites, however, also provide a powerful platform for counterfeiters to sell fake goods. As the popularity of such Web sites grows, the question of who must police them for trademark infringement becomes increasingly important.

Secondary liability-liability for the wrongful acts of others-may be imposed under the doctrine of contributory trademark infringement when a person "intentionally induces another to infringe a trademark," or "continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement." Inwood Labs. Inc. v. Ives Labs. Inc., 456 U.S. 844, 854 (1982).

In a closely watched case, after a bench trial, Judge Richard Sullivan of the Southern District of New York rejected claims that eBay should be responsible under the trademark laws for the sale of counterfeit Tiffanybranded jewelry on eBay's Web site. Tiffany (NI) Inc. v. eBay Inc., No. 04 Civ. 4607, 2008 WL 2755787 (S.D.N.Y. July 14, 2008). The case echoes part of the debate over whether file-sharing services should bear secondary liability under the copyright laws-a debate that produced the U.S. Supreme Court's decision in Metro-Goldwyn-Mayer Studios Inc. v. Grokster Ltd., 545 U.S. 913 (2005). The

Lewis R. Clayton is a litigation partner in the New York office of Paul, Weiss, Rifkind, Wharton & Garrison LLP and co-chairman of the firm's intellectual property litigation group. He can be reached at lclayton@paulweiss.com. Darren W. Johnson, an associate at the firm, assisted in the preparation of this article.

By Lewis R. Clayton



decision also illustrates the view of several courts and commentators that contributory trademark liability is far narrower than secondary liability for copyright violations.

eBay's business model: not merely a passive conduit

eBay is probably the most successful online marketplace, featuring auction-style listings, and a more traditional classified ad service. It claims to offer roughly 100 million items on any given day. Sellers are responsible for the content of listings and the description of items; eBay does not inspect or take possession of goods. eBay charges an "insertion fee" for each listing, and collects a "final value fee" of 5.25% to 10% if an item is sold.

Unlike a traditional classified ad service, eBay is not a passive conduit. Sullivan found that eBay "works closely with sellers to foster the increase of their sales on eBay, including the sale of Tiffany jewelry." Traders must register and sign an eBay user agreement. eBay offers sellers marketing seminars and workshops and information on "hot sales opportunities." Large-volume sellers receive access to dedicated "account managers," and may purchase health care benefits and liability insurance and obtain lines of credit.

eBay polices the site by searching for listings that contain words such as "knock-off," or "replica," or that indicate that the seller will not guarantee authenticity. It also has a "notice and takedown" system, under which an IP owner can submit a notice identifying specific items it believes infringe a copyright or trademark. eBay typically removes items identified in these notices, and reviews the accounts of the sellers involved.

Tiffany-branded items are a major eBay attraction, a fact eBay actively exploits. eBay told its sellers that "Tiffany" was one of the most popular search keywords, particularly during the holiday season. The court found that eBay "considered itself to be a competitor of Tiffany and the principal source of 'value' pricing of Tiffany jewelry." 2008 WL 2755787, at *11.

Tiffany, on the other hand, regards eBay as a major source of counterfeit merchandise, particularly silver jewelry. Tiffany's distribution of branded goods is limited to its retail stores, catalogs and Web site, and Tiffany generally limits the number of items individuals may buy in a given purchase. Starting in 2003, Tiffany complained about the appearance of a large volume of counterfeit items on eBay, arguing that, in view of its restrictions on distribution, any seller of five or more pieces of Tiffany-branded jewelry is "almost certainly selling counterfeit merchandise." Tiffany ultimately reported more than 280,000 listings it believed offered counterfeit merchandise. The court concluded that a "significant portion" of the Tiffany-branded silver goods on eBay was counterfeit.

eBay responded to Tiffany's complaints by removing specific listings identified by Tiffany, suspending certain sellers and instituting "special warning messages" on some occasions when sellers applied to list Tiffanybranded products. However, eBay refused two principal demands made by Tiffany: that eBay refuse any listing offering five or more Tiffany items, and that it immediately suspend sellers who offered merchandise that Tiffany claimed was counterfeit.

Unsatisfied with eBay's posture, Tiffany brought suit in 2004, alleging both direct and contributory trademark infringement. While "not unsympathetic to Tiffany and other rights owners who have invested enormous resources in developing their brands, only to see them illicitly and efficiently exploited by others," Sullivan nevertheless dismissed all of Tiffany's claims. Id. at *56.

The court first disposed of claims that eBay directly infringed Tiffany's marks by advertising the availability of its jewelry on eBay, using the Tiffany name on the eBay home page and purchasing sponsored links on Google and Yahoo! advertising eBay listings that offer Tiffany jewelry for sale. These uses, the court found, are shielded by the doctrine of nominative fair use, which allows someone who sells a product to describe it by its brand name, so long as the seller does not create confusion by implying an affiliation with the mark owner. The doctrine applied because Tiffany's jewelry was not readily identifiable without the use of its mark and eBay did nothing to suggest Tiffany's sponsorship or endorsement. "While customers may have been confused about whether the product they purchased was an authentic Tiffany silver jewelry item or a counterfeit, they were certainly not confused about the immediate source of the silver jewelry-namely, individual eBay sellers." Id. at *29.

The real battle concerned Tiffany's claims of secondary trademark infringement under the Inwood standard. Here, the court found without difficulty that eBay had "generalized" notice that "a high percentage of the merchandise sold as Tiffany sterling was counterfeit." The court construed Inwood, however, to require particularized knowledge of specific instances of infringement before eBay would be required to take action. This general notice was "insufficient to require eBay to ban all Tiffany listings, particularly because Tiffany presented no evidence that eBay ever failed to remove a specific listing" that Tiffany had reported as counterfeit. Id. at *43. The court also rejected Tiffany's argument that eBay "continued to supply" listings to parties that it knew were infringers. Given that the notices were not definitive evidence of infringement-they merely stated Tiffany's beliefeBay appropriately acted "with caution" before suspending sellers.

The *Inwood* "knows or has reason to know" standard can be satisfied, even without notice of specific infringement, by a showing that a party was "willfully blind to the infringing activity." But the court held that "willful blindness" may not be found "unless the defendant knew of a high probability of illegal conduct and purposefully contrived to avoid learning of it, [e.g], by failing to inquire further out of fear of the result of the inquiry." Id. at *44. That proof, it found, was lacking.

Significantly, Tiffany was unable to persuade the court that the remedies it sought were necessary, or would be effective, to stop infringement without deterring a good deal of legitimate activity. Tiffany failed to prove that a seller of five or more items "is presumptively dealing in counterfeit merchandise." The court noted that "the trial record contains virtually no testimony, expert or otherwise, on the crucial topic of the size of the legiti-

The decision illustrates the view that contributory trademark liability is far narrower than secondary copyright liability.

mate secondary market in Tiffany goods." Id. at *5. The case may well have come out differently had Tiffany shown that nearly all bulk sellers were counterfeiters, or established another rule that would have reliably identified fraudulent conduct.

The court wrote that "[p]olicymakers" may decide that existing law is "inadequate" to protect trademark owners against infringement on the Internet. But until then, "it does not matter whether eBay or Tiffany could more efficiently bear the burden of policing the eBay website for Tiffany counterfeits—an open question left unresolved by this trial." Id. at *2.

Implications of the ruling on policing infringement

The district court's decision should not necessarily cause Web site operators to relax efforts to police trademark infringement. Of course, it is possible that a reviewing court of appeals will reverse, finding that the "generalized knowledge" eBay had comes close enough to the *Inwood* "reason to know" standard. Moreover, the district court's decision was clearly influenced by eBay's showing of cooperation with Tiffany, particularly the fact that eBay expeditiously removed listings after each Tiffany complaint.

And, as noted above, secondary liability under the copyright laws is far broader than in the trademark context. Had the items sold on eBay been copyrighted, Tiffany might have been able to take advantage of the more liberal rule under the Copyright Act, which recognizes liability when a defendant profits directly from the infringement and has the right and ability to control the direct infringer, even if the defendant lacked prior knowledge of specific infringement.

Finally, the *Tiffany* decision does not apply abroad. A few weeks ago, a Paris court granted a sweeping injunction requiring eBay to block all sales of counterfeit products bearing marks owned by LVMH Moët Hennessy Louis Vuitton, as well as sales of genuine LVMH perfumes being sold by unauthorized distributors.

This area of law will continue to evolve, as courts apply (or change) principles of secondary liability developed decades before the establishment of the Internet.

Reprinted with permission from the August 11, 2008 edition of the NATIONALLAW JOURNAL©2008 ALM Properties, Inc. All rights reserved. Further duplication without permission is prohibited. For information, contact 877-257-3382 or reprintscustomerservice@incisivemedia. com. ALM is now Incisive Media, www.incisivemedia. com. # 005-08-08-0005