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Counterfeit Trademark Goods in Online Auctions

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We are all too familiar with articles about how counterfeiting costs the global business community hundreds of billions of dollars in lost revenues annually, not to mention legal enforcement costs. The problem is so massive that it is difficult to determine exactly how much economic damage is done by counterfeiting.

Investigating and taking legal action against goods bearing counterfeit trademarks that are peddled by vendors on city street corners or sold by shoddy retailers is 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.

But in the world of online auctions, tracking and prosecuting sellers of counterfeit goods for infringement is not only costly but often futile, as unscrupulous sellers can hide behind aliases, use shifting IP addresses and upload sales data from virtually any computer in the world that is connected to the Internet. Also, consumers can be lulled into a false sense of security in purchasing counterfeit goods by seeing a seller's high positive "ratings" on Internet auction sites—but those ratings can be manipulated. Dilution of a famous or distinctive mark is also possible because most counterfeits are made with inferior materials and workmanship compared with the genuine articles.

No wonder then that owners of famous and well-known marks are now seeking to impose liability on some of the more prominent online auction sites based on theories of direct and contributory infringement. But proving direct infringement against otherwise reputable auction sites is unlikely, because the site operators are not the sellers of the goods and the sites are generally passive conduits used by the actual sellers of goods, which are not screened before they are listed.

While the U.S. Lanham Act does not expressly provide a remedy for contributory infringement, in 1982 the U.S. Supreme Court held that such a cause of action was implied, so that a party who "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...is contributorily responsible for any harm done as a result of the deceit." *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982). Proof of such required intent, however, can be elusive.

Tiffany & Company filed an action against eBay in 2004 in a New York federal district court that is being closely watched by the retail industry. *Tiffany (NJ) Inc. v. eBay Inc.*, S.D.N.Y., No. 1:04-cv-04607-KMK. The case is set for a non-jury trial in mid to late 2007. In the action, Tiffany accuses eBay of engaging in a pervasive pattern of facilitating and promoting sales of thousands of counterfeit "Tiffany" silver jewelry items, alleging in its complaint that an "overwhelming" majority of jewelry items sold under the "Tiffany"

name on eBay's auction site are counterfeit. Tiffany has alleged that eBay's practice of purchasing "Tiffany" name links from major search engines like Google amounts to direct infringement because such links drive consumers to eBay's site, where counterfeits are sold. The contributory infringement claim is premised on the theory that eBay knowingly facilitates the sale of counterfeit goods.

eBay's position from its pleadings is that it has no liability because it enforces a standing policy against the sale of counterfeit goods, it employs a "feedback" system where buyers and sellers rate one another publicly, and it provides a mechanism for brand owners to have eBay remove counterfeit goods that are posted for sale. The company has implemented a Verified Rights Owner (VeRO) program, which allows brand owners to report infringing sales that, upon verification, eBay promptly terminates. eBay also has taken action against recidivist sellers of counterfeit goods.

Existing law bars retailers, flea-market operators and auction houses from selling goods they know are counterfeit on grounds of contributory liability. But with Internet auctions, reputable site operators cannot readily monitor the millions of items posted daily for sale. eBay has historically cooperated with brand owners in removing infringing items brought to its attention and assisting with anticounterfeiting investigations and even criminal prosecutions.

Tiffany, however, wants eBay to take affirmative steps to authenticate branded sale items and monitor infringing activity, similar to brick-and-mortar auction houses. Implementing such procedures on a global scale raises many practical and economic impediments.

The bigger issue is whether, as a matter of policy and considering the openness of the Internet with respect to global commerce, initial enforcement responsibility should lie with the online auction houses acting as gatekeepers or with brand owners to initiate enforcement and work cooperatively with auction sites.

The U.S. Congress previously made a policy statement encouraging Internet service providers (ISPs) to take some responsibility with respect to sales of infringing copyrighted works in passing the Digital Millennium Copyright Act (DMCA) 17 U.S.C. § 512. The DMCA provides a conditional safe harbor for ISPs against infringement claims by copyright owners, provided ISPs institute a statutory "take-down" policy, register a contact person for receipt of such notices and post and enforce required policy statements on their web sites. Congress has also provided protection for ISPs against tort claims. Under the Communications Decency Act (CDA), ISPs have virtual blanket immunity against a broad category of tortious conduct, such as defamation (47 U.S.C. § 230). However, the Act expressly does not apply to IP claims.

Thus, when brand owners seek traditional trademark infringement remedies against ISPs, including auction sites, the ISPs cannot take advantage of the DMCA safe harbor applicable to copyright claims or the CDA's immunity for tort-type claims. Nevertheless, major auction sites, including eBay and Yahoo! Auctions, have adopted strict anticounterfeiting policies and employ voluntary take-down procedures with respect to trademark infringements similar to those called for by the DMCA (see box below). And the absence of a statutory safe harbor defense may not put trademark owners in a better position to enforce their rights than copyright owners for another reason: the vast volume of counterfeits available online and the concomitant enforcement costs for both mark owners and ISPs create an almost losing battle that is constantly being waged.

Online auction sites' anticounterfeiting strategies include:

Yahoo! Auctions uses an Auction form to allow anyone to report abuses of its policies and terms of service.

Overstock.com Auctions deletes listings that violate its Prohibited Items Policy and employs a Content Reporting System for reporting violations.

uBid randomly purchases goods from its site to verify authenticity.

Bid4Assets uses account managers to review auction postings

See www.ecommercetimes.com/story/50424.html (May 10, 2006)

As the Internet's reach is global, so is the problem. In September 2006, LVMH Moët Hennessy Louis Vuitton SA sued eBay's U.S. parent company and its Swiss affiliate in a Paris court, asserting that eBay failed to take steps to thwart sales of counterfeit goods and seeking some US \$50 million in damages. LVMH alleges that 90 percent of all Dior and Louis Vuitton items sold on eBay are counterfeit. France has some of the strictest anticounterfeiting laws in the world, and LVMH has had success in suing Google in France for selling ads promoting sites that were selling counterfeit LVMH goods. In February 2005, Paris's court of first instance awarded LVMH US \$400,000 in damages against Google in a decision that was upheld on appeal in early 2006.

A decision in favor of LVMH or Tiffany will have significant ramifications for the entire online auction economy. Imposing contributory infringement liability upon auction sites certainly would give brand owners a powerful tool to combat counterfeiting. Absent legislative intervention, however, auction sites could be forced to incur enormous expense to institute technological and other processes to block counterfeits and deter unscrupulous sellers, or block sales of famous branded goods altogether to avoid potential liability, thereby forcing a retrenchment of a burgeoning online industry. Legitimate sellers may become reluctant to list legitimate items for sale, and auction sites may be compelled to seek other sources of revenue to offset high costs of implementing counterfeiting controls.

But litigation is not necessarily the best alternative for mark owners—it is expensive, and conflicting court decisions could create even more uncertainty. In the United States, Congress itself has not shown a propensity for imposing substantial statutory curbs on Internet commerce; instead, as with the DMCA safe harbor for copyrights, it has sought to reach compromises or let the affected industries work out their own solutions.

For now, brand owners seeking to combat counterfeit online auction sales may have little choice but to engage anticounterfeiting technology vendors and investigative firms to be their eyes and police force on the Internet. To this end, specialty vendors have emerged, offering technologies that are helping brand owners combat online auction counterfeiting. These technologies include web-crawling software that weeds out counterfeits by looking for telltale signs like deeply discounted prices, non-original packaging and colors, and keywords like "cheap," "discount" and "authentic." Software tools and monitoring services are offered by vendors such as Brandimensions, Cyveillance, GenuOne, MarkMonitor, Net Enforcers and OpSec Security Group. Cyveillance has tools that examine packaging by using software robots and web crawlers to make repeat visits to auction sites, and offers investigation services that will make anonymous purchases of suspect products to trace the source. GenuOne's software looks for certain keyword combinations, then filters out results, generates take-down requests to auction sites like eBay and archives suspect auctions.

Regardless of the outcomes of the Tiffany and LVMH lawsuits, and barring legislative action, the most effective solution may end up being ongoing close cooperation between auction sites and brand owners, coupled with utilization of emerging software technologies to sniff out and shut down sales of counterfeit goods. A sharing of such technology costs between both sides on some equitable basis may be the ultimate solution and the one that Congress and other legislatures may be counting on.

Although every effort has been made to verify the accuracy of items carried in the INTA Bulletin, readers are urged to check independently on matters of specific concern or interest.

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