

# A SAFE HARBOR FOR TRADEMARK: REEVALUATING SECONDARY TRADEMARK LIABILITY AFTER *TIFFANY V. EBAY*

By Elizabeth K. Levin

The risk of trademark infringement poses a tremendous threat to a company's business and reputation. As merchandise sales on the Internet have skyrocketed, so have online sales of counterfeit goods.<sup>1</sup> United States "businesses and industries lose about \$200 billion a year in revenue and 750,000 jobs due to the counterfeiting of merchandise,"<sup>2</sup> and worldwide, counterfeiting accounts for more than half a trillion dollars in global trade each year.<sup>3</sup> Counterfeiters can easily distribute forgeries globally through online auction websites such as eBay.com,<sup>4</sup> where warranties of authenticity and quality are basically nonexistent. Meanwhile, the cost for an individual trademark holder to police the Internet for infringement is enormous. As a result, trademark owners across the globe have brought lawsuits against eBay for trademark infringement on the eBay website.<sup>5</sup> First, European companies including Montres Rolex SA, L'Oreal, Christian Dior

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1. According to the National Consumer League, goods never delivered or misrepresented through auction sites made up thirteen percent of all internet scams in 2007. National Consumer League Internet Fraud Watch, 2007 Top 10 Internet Scams, <http://www.fraud.org/ifw.htm> (last visited Mar. 2, 2009).

2. Press Release, U.S. Customs and Border Protection, U.S. Customs Announces International Counterfeit Case Involving Caterpillar Heavy Equipment (May 29, 2002), available at [http://www.cbp.gov/xp/cgov/newsroom/news\\_releases/archives/legacy/2002/52002/05292002.xml](http://www.cbp.gov/xp/cgov/newsroom/news_releases/archives/legacy/2002/52002/05292002.xml).

3. Press Release, U.S. Customs and Border Protection, Passage of Anti-Counterfeiting Law Strengthens CBP's Efforts to Seize Counterfeit Goods (Apr. 03, 2006), available at [http://www.cbp.gov/xp/cgov/newsroom/news\\_releases/archives/2006\\_news\\_releases/042006/04032006\\_5.xml](http://www.cbp.gov/xp/cgov/newsroom/news_releases/archives/2006_news_releases/042006/04032006_5.xml).

4. "During 2007, Internet auction fraud was by far the most reported offense, comprising 35.7% of referred crime complaints." NATIONAL WHITE COLLAR CRIME CENTER, 2007 INTERNET CRIME REPORT 5 (2007), [http://www.ic3.gov/media/annualreport/2007\\_IC3Report.pdf](http://www.ic3.gov/media/annualreport/2007_IC3Report.pdf).

5. This threat is also reflected in the recently enhanced criminal penalties for trademark counterfeiting in the Prioritizing Resources and Organization for Intellectual Property Act (PRO-IP Act). Public Law No. 110-403 § 204 (amending 18 U.S.C. § 2320) (2008).

Couture and its subsidiary LVMH Moët Hennessy Louis Vuitton SA complained of counterfeit fashion goods on eBay.<sup>6</sup> Then, New York-based Tiffany & Co. claimed eBay should improve its system for identifying and removing counterfeit goods.<sup>7</sup> Currently, experts warn that the rapid spread of counterfeit sales on eBay hurts legitimate vendors and turns away both buyers and sellers from online marketplaces such as eBay.<sup>8</sup>

This Note addresses the problem of counterfeit good sales online by examining both the district court's decision in *Tiffany v. eBay* and relevant law in order to propose a statutory solution that clarifies the legal rights of both online marketplaces and trademark owners. The Note focuses on eBay because it is the world's largest online marketplace and is thus the website that luxury-goods companies like Tiffany are most likely to sue. Although this Note does not discuss other large online marketplaces such as Amazon.com, Google, and Yahoo, the legal remedy proposed also applies to those sites.

This Note begins by reviewing European case law addressing eBay's trademark liability and the relevant legal framework in the U.S. Part II describes the growth of e-commerce sites and eBay's current system for protecting against the sale of counterfeit goods. Part III discusses *Tiffany v. eBay* and the district court's refusal to find eBay responsible for monitoring trademark infringement on its site. Parts IV and V review the doctrines of secondary liability for trademark and copyright law. Specifically, Part IV illustrates how courts have used common law secondary liability principles in cases involving trademark infringement, while Part V examines how courts have applied secondary liability in the copyright context and how the safe harbor provisions of the Digital Millennium Copyright Act (DMCA) protect ISPs from copyright infringement claims. Lastly, Part VI demonstrates that, despite the fundamental differences between copyright and trademark law, a statutory solution similar to the DMCA safe harbor provisions would provide greater certainty in the area of trademark infringement on the Internet.

This Note will propose that Congress adopt a DMCA-like safe harbor to protect online auction websites from liability for contributory trademark

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6. See, e.g., *Ricardo v. Rolex, S.A.*, 1 ZR 73/05 (German Fed. S. Ct., Apr. 30, 2008); *Rolex, S.A. v. eBay GmbH*, 1 ZR 35/04 (German Fed. S. Ct., Apr. 19, 2007); *S.A. Louis Vuitton Malletier v. eBay, Inc.*, Tribunal de Commerce de Paris, Première Cass. B. (Paris Commercial Court), Case No. 200677799 (June 30, 2008); *Stokke A/S v. eBay Int'l AG*, Hanseatisches Oberlandesgericht (Hanseatic Provincial High Court and Court of Appeal), Case No. 3U 216 06 (July 24, 2008).

7. *Fed Up With Fakes*, BUSINESS WEEK, Oct. 9, 2006, at 56.

8. *Id.*

infringement. If courts were to hold that eBay must seek out infringement on its site, this would increase the strength of trademark holders' rights without a policy justification for doing so. Yet, if eBay had no responsibility for infringement on its site, trademark infringement on the Internet would likely increase, causing more consumer confusion and a decrease in the goodwill of trademarks. A safe harbor will provide balanced protection for online marketplaces, while also guarding trademark owners' rights. Recognizing that society wants to support companies like eBay that contribute valuable services, a statute would require online auction sites to work with intellectual property rights holders in regulating infringement.

## I. EBAY AND THE SALE OF COUNTERFEIT PRODUCTS: DIFFERING LEGAL TREATMENT AROUND THE WORLD

### A. Europe

While *Tiffany v. eBay* is among the first of its kind of cases in the United States,<sup>9</sup> European law has tended to protect makers of status and luxury goods. For example, several European courts have held that eBay is not doing enough to combat counterfeit sales. In July 2008, a French court ordered eBay to pay \$60.8 million in damages to the French luxury goods company LVMH.<sup>10</sup> LVMH claimed that 90 percent of the Louis Vuitton bags and Dior perfumes sold on eBay were fakes.<sup>11</sup> In June 2008, a French court ordered eBay to pay 20,000 euros to Hermes for eBay's role in the sale of three counterfeit handbags.<sup>12</sup> In 2007, the Federal Supreme Court of Germany ordered eBay to take preventative measures against the sale of counterfeit goods when Rolex sought damages and an injunction preventing the sale of fake Rolex watches on the online auctioneer.<sup>13</sup> According to the Federal Supreme Court, a price of less than 800 euros provided sufficient evidence that an auctioned watch was a fake.<sup>14</sup>

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9. See Cathleen Flahardy, *Tiffany & Co. Cracks Down on Ebay Counterfeiters: Kate Spade and Prada Join the Fight to Protect Their Brands*, CORP. LEGAL TIMES, Sept. 2004, at 20.

10. Doreen Carvajal, *French Court Tells eBay To Pay for Counterfeits*, N.Y. TIMES, July 1, 2008, at C1.

11. *Id.*

12. Dan Goodin, *French court fines eBay for sale of counterfeit handbags*, THE REGISTER, June 5, 2008, [http://www.theregister.co.uk/2008/06/05/eBay\\_counterfeit\\_ruling/](http://www.theregister.co.uk/2008/06/05/eBay_counterfeit_ruling/).

13. Eric Auchard, *EBay dealt blow on fake Rolexes by German court*, REUTERS, July 27, 2007.

14. *Id.*

## B. United States

Stateside, in contrast, the law is less likely to protect luxury-goods companies. In July 2008, the Southern District of New York's decision in *Tiffany v. eBay* was the first U.S. case to address the trademark liability of online auction websites.<sup>15</sup> The court held that trademark law cannot force online auctioneers to filter for trademarked material.<sup>16</sup> Rather, provided that the website removes the material when an intellectual property owner files a complaint, trademark owners must monitor for infringement.<sup>17</sup> Though this decision provided some clarity in the area of secondary trademark liability, it raised the question of when auction websites such as eBay should be required to investigate and take action against trademark infringement on their sites.

While Congress addressed e-commerce providers' secondary liability for copyright infringement with the Digital Millennium Copyright Act (DMCA),<sup>18</sup> the law on trademark infringement over the Internet is undeveloped in comparison. Courts have not yet answered the question of whether internet service providers (ISPs) are liable for a user's infringement of a trademark. Because of "fundamental differences" between copyright and trademark law, the U.S. Supreme Court has said secondary liability for trademark infringement should be more narrowly drawn than secondary liability for copyright infringement.<sup>19</sup> A statutory solution, based on the balance developed by the Southern District of New York in *Tiffany v. eBay*, will clarify for both trademark owners and ISPs what constitutes contributory trademark infringement.

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15. *Tiffany Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 527 (S.D.N.Y. 2008). On August 11, 2008, Tiffany appealed the district court's decision. *Tiffany files eBay ruling appeal*, BBC NEWS, Aug. 11, 2008, available at <http://news.bbc.co.uk/1/hi/business/7555147.stm>.

16. *Tiffany Inc.*, 576 F. Supp. 2d at 527.

17. *Id.*

18. See 17 U.S.C. § 512 (2000).

19. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984) (noting the fundamental differences between copyright law and trademark law, the Court refused to look to the standard for contributory infringement set forth in *Inwood Labs. v. Ives Labs.*, 456 U.S. 844, 854-55 (1982), which was created for use in trademark cases).

## II. EXPLORING EBAY

eBay.com, which describes itself as “the world’s largest personal on-line trading community,”<sup>20</sup> has also become one of the largest online venues for the sale of counterfeit goods. Founded in 1995, it pioneered the online auction model. Since going public in 1998, eBay has grown into a community of 81 million unique visitors per month.<sup>21</sup> Though eBay is best known for auction-style listings, sellers can also sell through fixed price or “Buy It Now” listings.<sup>22</sup> Separately, eBay offers a classified ad service through which sellers publish advertisements for available goods.<sup>23</sup>

To buy or sell on eBay, a user must provide personal information, choose a unique username and password,<sup>24</sup> and accept eBay’s User Agreement.<sup>25</sup> eBay collects listing fees and commissions from auction sellers. A seller pays a listing fee to put an item up for auction by listing a picture, description, and opening bid in the appropriate eBay category.<sup>26</sup> Each auction runs for a fixed time, and at its conclusion, the highest bidder “wins” and is then expected to purchase the item.<sup>27</sup> This bidder and the seller complete the transaction on their own without further involvement from eBay; the buyer pays the seller and the seller sends the product to the buyer and pays a commission to eBay.<sup>28</sup>

eBay seeks to avoid legal liability for fraud by staying out of the transaction and characterizing itself as only “a venue” for people to buy and sell goods.<sup>29</sup> eBay does not sell items and never takes physical possession

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20. Press Release, eBay, eBay Inc. Outlines Global Business Strategy (Sept. 20, 2000), *available at* <http://investor.ebay.com/releasedetail.cfm?ReleaseID=26939>.

21. Press Release, eBay, eBay Inc. Reports Second Quarter 2008 Results (July 16, 2008), *available at* <http://files.shareholder.com/downloads/EBAY/449703089x0x213648/375348ca-3cd2-4c58-98a5-e24a06092b30/213648.pdf>.

22. eBay, Selling using a fixed price, <http://pages.ebay.com/help/sell/price.html> (last visited Dec. 20, 2008).

23. eBay, Advertising with Classified Ads, <http://pages.ebay.com/help/sell/classified.html> (last visited Dec. 20, 2008).

24. eBay, Privacy Policy, <http://pages.ebay.com/help/policies/privacy-policy.html> (last visited Dec. 20, 2008).

25. eBay, Your User Agreement, <http://pages.ebay.com/help/policies/user-agreement.html> (last visited Dec. 20, 2008).

26. eBay, Creating a Listing, [http://pages.ebay.com/help/sell/listing\\_ov.html](http://pages.ebay.com/help/sell/listing_ov.html) (last visited Feb. 7, 2009).

27. *See* eBay, Sell an Item—Getting Started, <http://pages.ebay.com/help/sell/sell-getstarted.html> (last visited Dec. 20, 2008).

28. *See id.*

29. eBay, Your User Agreement, *supra* note 25. The eBay user agreement states: You will not hold eBay responsible for other users' content, actions or inactions, or items they list. You acknowledge that we are not a tradi-

of the goods sold, though it does exercise some control by requiring users to register with eBay and sign a user agreement.<sup>30</sup> eBay expressly forbids its sellers from directly infringing third parties' copyright and trademark rights,<sup>31</sup> and it restricts the types of items sellers can list.<sup>32</sup>

#### A. eBay's Response to Counterfeits

In response to growing concern over counterfeit products on the site, eBay has increased its regulation and responsiveness to complaints of fraud.<sup>33</sup> Specifically, eBay "now performs a number of fraud protection activities, including cooperating with law enforcement to remove illegal items and assist investigations, working with intellectual property rights owners to remove allegedly infringing items, investigating some user complaints, and providing users some limited forms of financial coverage against fraud loss."<sup>34</sup> eBay also developed the Verified Rights Owner program (VeRO), which allows intellectual property rights owners to request the removal of eBay listings that contain infringing material.<sup>35</sup> According to eBay, it spends \$5 million a year maintaining VeRO, "which has 13,000 rules that are designed to identify counterfeit listings based on words such as 'replica' or 'knock-off.'"<sup>36</sup>

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tional auctioneer. Instead, the sites are a venue to allow anyone to offer, sell, and buy just about anything, at anytime, from anywhere, in a variety of pricing formats and venues, such as stores, fixed price formats and auction-style formats. We are not involved in the actual transaction between buyers and sellers. We have no control over and do not guarantee the quality, safety or legality of items advertised, the truth or accuracy of users' content or listings, the ability of sellers to sell items, the ability of buyers to pay for items, or that a buyer or seller will actually complete a transaction.

*Id.*

30. *See id.*

31. *See id.*

32. *See generally*, eBay, Prohibited and Restricted Items, <http://pages.ebay.com/help/policies/items-ov.html> (last visited Dec. 20, 2008) (listing prohibited items such as drugs, firearms and alcohol).

33. Brad Stone, *EBay Says Its Crackdown on Fraud Is Showing Results*, N.Y. TIMES, June 14, 2007, at C9.

34. Mary M. Calkins, Alexei Nikitov & Vernon Richardson, *Mineshafts on Treasure Island: A Relief Map of the eBay Fraud Landscape*, 8 U. Pitt. J. Tech. L. & Pol'y 1, 4 (Fall 2008).

35. eBay, What is VeRO and why was my listing removed because of it?, <http://pages.ebay.com/help/policies/questions/vero-ended-item.html> (last visited Mar. 3, 2009).

36. Holly Jackson, *Software makers threaten to sue eBay over counterfeits*, CNET NEWS, July 25, 2008, [http://news.cnet.com/8301-1023\\_3-9999429-93.html](http://news.cnet.com/8301-1023_3-9999429-93.html).

VeRO is a “notice-and-takedown” system, whereby rights owners must first file a Notice of Claimed Infringement (NOCI) form to report to eBay any listing offering potentially infringing items.<sup>37</sup> The NOCI form requires rights owners or their authorized agents to assert, under penalty of perjury: (1) ownership of an intellectual property right and (2) a “good faith belief” that the listings identified constitute infringement.<sup>38</sup> An allegedly infringing listing can be removed based on the submission of a NOCI.<sup>39</sup> eBay provides the seller with the email address of the rights holder who submitted the NOCI,<sup>40</sup> and it is then up to the accused seller to prove that the sale is legitimate for it to be relisted.<sup>41</sup>

Judging by the wording of its NOCI policy, eBay appears to have based its counterfeit crackdown system on the DMCA. The NOCI system and the DMCA have striking parallels. For instance, VeRO provides that only an intellectual property rights owner or authorized agent can report potentially infringing items or listings to eBay.<sup>42</sup> If such an owner has a good faith belief that a listing on eBay infringes its copyright, trademark, or other intellectual property right, the owner can submit a NOCI form to eBay.<sup>43</sup> eBay then has discretion to remove the listing or leave it up.<sup>44</sup> Similarly, the DMCA prescribes a notice-and-takedown system under which a person authorized to act on behalf of the intellectual property owner may submit a notice of claimed infringement to the internet service provider.<sup>45</sup> Under the DMCA, an ISP that properly implements such a takedown process is not liable for any subsequent claim of infringement, provided the ISP disabled access to or removed the material claimed to be infringing.<sup>46</sup>

According to eBay, its practice is to remove listings flagged in a NOCI within twenty-four hours, and, according to eBay’s internal calculations,

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37. eBay, Reporting Intellectual Property Infringements (VeRO), <http://pages.ebay.com/help/tp/vero-rights-owner.html> (last visited Mar. 3, 2009).

38. eBay, Notice of Claimed Infringement, <http://pages.ebay.com/help/community/NOCI1.pdf> (last visited Dec. 20, 2008).

39. eBay, What is VeRO and why was my listing removed because of it?, *supra* note 35.

40. *Id.*

41. Alorie Gilbert, *Software takes aim at auction fakes*, CNET NEWS, May 5, 2003, [http://news.cnet.com/Software-takes-aim-at-auction-fakes/2100-1017\\_3-999876.html](http://news.cnet.com/Software-takes-aim-at-auction-fakes/2100-1017_3-999876.html).

42. eBay, Reporting Intellectual Property Infringements (VeRO), *supra* note 37.

43. *Id.*

44. Tiffany (NJ) Inc. v. eBay, Inc., 576 F. Supp. 2d 463, 478 (S.D.N.Y. 2008). According to the court, “eBay’s practice was to remove reported listings within 24 hours of receiving a NOCI.” *Id.*

45. 17 U.S.C. § 512(c)(3)(A)(1) (2000).

46. *Id.* § 512(g)(1).

about ninety-five to ninety-nine percent are removed during that time-frame.<sup>47</sup> In fact, during the course of the *Tiffany v. eBay* litigation, eBay claimed that seventy to eighty percent of reported listings were removed within twelve hours and nearly three quarters were removed within four hours.<sup>48</sup> Additionally, if bidding on a listed item has not ended, eBay notifies the seller and any bidders that the listing has been removed and that all bids have been cancelled.<sup>49</sup> If bidding has ended, eBay cancels the transaction retroactively, removes the listing, and informs both the winning bidder and the seller that the listing has been terminated and that the parties should not complete the transaction.<sup>50</sup>

Although eBay has not always been forthcoming about problems with fraud, in recent years it has increased efforts to protect eBay members.<sup>51</sup> In 2007, it attempted to reduce sales of counterfeit goods and revised its feedback system to provide buyers and sellers with more information about each other.<sup>52</sup> eBay directed these efforts towards the 100 categories favored by counterfeiters, including clothing and luxury goods.<sup>53</sup> Under these rules, eBay limits the number of items sellers can sell and prohibits sales using short one- or three-day auctions.<sup>54</sup> eBay claims that it has “over 2,000 trust and safety personnel” who work around the clock to minimize fraud.<sup>55</sup>

eBay maintains that, because it never takes possession of items for sale, it is not a traditional auctioneer and is instead a venue to allow others to offer, sell, and buy products and services.<sup>56</sup> It states that it is not involved in the actual transaction between buyers and sellers and does not guarantee the quality, safety, or legality of items advertised, or truth of

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47. Defendant eBay’s Post-Trial Memorandum at 12, *Tiffany (NJ) Inc. v. eBay Inc.*, No. 04 Civ. 4607, (RJS) (S.D.N.Y. Dec. 7, 2007).

48. *Id.*

49. *Tiffany (NJ) Inc.*, 576 F. Supp. 2d at 478.

50. *Id.*

51. See Stone, *supra* note 33.

52. *Id.*

53. *Id.*

54. *Id.* eBay users have found that shorter auction listings can be a sign of fraud. See, e.g., eBay, eBay Guides—Fraud Scam Warning, [http://reviews.ebay.com/FRAUD-SCAM-WARNING-Ebay-Auction-URGENT\\_W0QQugidZ1000000002186085](http://reviews.ebay.com/FRAUD-SCAM-WARNING-Ebay-Auction-URGENT_W0QQugidZ1000000002186085) (last visited Mar. 3, 2009).

55. *Cyber crime on the rise* (Australian Broadcasting Corp. television broadcast Feb. 10, 2008), transcript available at <http://www.abc.net.au/7.30/content/2008/s2380759.htm>.

56. See eBay, Your User Agreement, *supra* note 25.



listings. It also does not guarantee the ability of sellers to sell, the ability of buyers to pay, or that parties will complete a transaction.<sup>57</sup>

## B. eBay's Response to Competition

In recent years eBay has tried to remain seller friendly in order to compete with other online marketplaces, while still responding to complaints of fraud from buyers and intellectual property owners. Although eBay's single auction-oriented marketplace helped to propel eBay to high profits in the early 2000s, sites including Amazon and Google have been catching up. Three years ago eBay had 30 percent more traffic than Amazon.<sup>58</sup> Today eBay has 84.5 million active users, while Amazon reported 81 million active customer accounts in June 2007.<sup>59</sup> Amazon has focused on attracting small online vendors, becoming more like eBay, while eBay has emphasized fixed-price sales of new and old merchandise, becoming more like Amazon.<sup>60</sup>

On January 29, 2008, eBay announced policy changes to make its business more competitive with Amazon, which does not charge independent sellers to list items for sale.<sup>61</sup> To reward sellers who have high satisfaction and to lower shipping fees, eBay decreased the fees it charges to list an item and increased the percentage it takes from the final sale price.<sup>62</sup> Further, eBay decided that sellers can only leave positive feedback for buyers, and can no longer leave negative or neutral feedback.<sup>63</sup> eBay also announced that it will give higher volume "Powersellers"<sup>64</sup> up to a

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57. *Id.*

58. Brad Stone, *Amid the Gloom, an E-Commerce War*, N.Y. TIMES, Oct. 12, 2008, at B1.

59. *Id.*

60. *Id.*

61. Saul Hansell, *Sellers Give Negative Feedback on eBay Changes*, N.Y. TIMES, Jan. 29, 2008, (Bits Blog), <http://bits.blogs.nytimes.com/2008/01/29/sellers-give-negative-feedback-on-ebay-changes/>.

62. *See id.*

63. *Id.* eBay's feedback system allows sellers and buyers to leave feedback after each transaction is complete. Feedback can only be left for eBay members, and is public and permanent. Buyers can leave an overall feedback rating for a seller, as well as detailed seller ratings in four areas: item as described, communication, shipping time and shipping and handling charges. eBay, *How do I leave Feedback?*, <http://pages.ebay.com/help/feedback/questions/leave.html> (last visited Mar. 3, 2009).

64. According to eBay.com, the requirements for being a Powerseller are: "consistent sales volume, 98% total positive Feedback, eBay marketplace policy compliance, an account in good financial standing, and beginning in July 2008, detailed seller rating (DSRs) of 4.5 or higher in all four DSRs—item as described, communication, shipping time, and shipping and handling charges." eBay, *Becoming a PowerSeller*, <http://pages.ebay.com/help/sell/sell-powersellers.html> (last visited Mar. 3, 2009).

fifteen percent discount on the final value fees.<sup>65</sup> Powersellers can also receive better terms on shipping costs and preferential positioning in search results.<sup>66</sup> Though eBay advertised the changes as leading to a decrease in prices, AuctionBytes, a newsletter for online merchants, claims that because of the new policies, in some situations sellers would actually pay more than they did before.<sup>67</sup>

A more recent change may make eBay more vulnerable to claims of secondary infringement. In August 2008, eBay announced that beginning in late October it would stop accepting checks and money orders for payment.<sup>68</sup> Now buyers must use eBay's PayPal, pay with a credit or debit card through a seller's merchant credit card account, use ProPay, or pay upon physical pick up.<sup>69</sup> In early 2009, eBay integrated all of its electronic payment options into its checkout process.<sup>70</sup> In an explanation to customers, eBay said the change would make payments faster and more reliable.<sup>71</sup> eBay noted that buyers who pay with a check or money order were eighty percent more likely to file an "item not received" dispute, and fifty percent more likely to leave a negative feedback than buyers who pay with PayPal or a credit card.<sup>72</sup> Because most buyers now use eBay's PayPal to complete their purchases, eBay has become more involved in each transaction, thereby making its claim that all transactions take place independently less tenable.

### III. *TIFFANY V. EBAY*

Tiffany & Co. is a world-renowned seller of luxury goods, including jewelry, watches, crystal, and china. Tiffany's dispute with eBay is not about whether counterfeit Tiffany products should be sold on eBay, but rather about who should bear the burden of policing Tiffany's valuable

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65. See Ina Steiner, *eBay Lowers Insertion Fees, Raises Commission Fees*, AUCTIONBYTES, Jan. 29, 2008, <http://www.auctionbytes.com/cab/abn/y08/m01/i29/s05>. A final value fee is charged by email if a seller's item sells or ends with a winning bid. The fee applies whether or not the sale is completed. eBay, *Final Value Fees*, <http://pages.ebay.com/help/sell/fvf.html> (last visited Mar. 3, 2009).

66. Hansell, *supra* note 61.

67. *Id.* (citing AuctionBytes.com). "In one comparison, the fees increased by 33 percent." *Id.*

68. eBay, *Fees August 2008 Accepted Payments Policy Changes*, <http://pages.ebay.com/sell/August2008Update/Payments> (last visited Feb. 7, 2009).

69. *Id.*

70. *Id.*

71. *Id.*

72. *Id.*

trademarks in internet commerce.<sup>73</sup> In 2004, Tiffany sued eBay and alleged that hundreds of thousands of counterfeit jewelry items were offered for sale on eBay's website from 2003 to 2006.<sup>74</sup> Tiffany attempted to hold eBay liable for "direct and contributory trademark infringement, unfair competition, false advertising, and direct and contributory trademark dilution," arguing that eBay facilitated and allowed the sale of imitation goods through its website.<sup>75</sup> Tiffany claimed that eBay was on notice that its sellers offered counterfeit Tiffany products on eBay and that eBay thus had the obligation to investigate and control these illegal activities.<sup>76</sup> eBay, however, responded that it was Tiffany's burden, as the intellectual property holder, to monitor eBay's website for counterfeits and to bring such counterfeits to eBay's attention.<sup>77</sup>

Judge Richard J. Sullivan found that eBay was not liable for contributory trademark infringement.<sup>78</sup> The court applied a knowledge standard that considered 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 them.<sup>79</sup> The court found that the test developed by the U.S. Supreme Court in *Inwood*

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73. *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 469 (S.D.N.Y. 2008). Tiffany quality control personnel inspect Tiffany merchandise before it is released for distribution. Tiffany does not sell or authorize the sale of Tiffany merchandise on eBay or other online marketplaces, nor does it use liquidators, sell overstock merchandise, or put its good on sale at discounted prices. Despite the evidence of Tiffany's controls, the court noted that the trial record contained virtually no testimony about the size of the legitimate secondary market in Tiffany goods. *Id.* at 472-73.

74. *Id.* at 469. Tiffany filed an Amended Complaint in the Southern District of New York on July 15, 2004:

Specifically, Tiffany's Amended Complaint asserts the following six causes of action: (1) direct and contributory trademark infringement of Tiffany's trademarks in violation of Section 32(1), 15 U.S.C. § 1114(1), and 34(d), 15 U.S.C. § 1116(d), of the Lanham Act; (2) trademark infringement and the use of false descriptions and representations in violation of Sections 43(a)(1)(A) and (B) of the Lanham Act, 15 U.S.C. § 1125(a)(1)(A) and (B); (3) direct and contributory trademark infringement under common law; (4) direct and contributory unfair competition under common law; (5) trademark dilution in violation of Section 43(c) of the Lanham Act, 15 U.S.C. § 1125(c); and (6) trademark dilution in violation of New York General Business Law § 360-1.

*Id.* at 470-71.

75. *Id.* at 469.

76. *Id.*

77. *Id.*

78. *Id.* at 468.

79. *Id.*

*Laboratories, Inc. v. Ives Laboratories, Inc.*<sup>80</sup> applied to eBay because, as the *Inwood* test requires, eBay provided a marketplace for infringement and maintained direct control over that venue.<sup>81</sup> The *Inwood* test states that liability can be imposed not only if a distributor induces a retailer to infringe a trademark, but also if a company “continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.”<sup>82</sup> The court found, under *Inwood*, that although eBay possessed generalized knowledge of counterfeiting on its website, this general knowledge was neither sufficient to impute knowledge to eBay of specific acts of actual infringement nor to impose on eBay an affirmative duty to remedy the situation.<sup>83</sup> “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.”<sup>84</sup> Further, the court found that eBay was not willfully blind to the evidence of counterfeiting on its website, and when eBay had the requisite knowledge of infringement—“knows or has reason to know”<sup>85</sup>—it took appropriate steps to cut off the supply of its service to the infringer.<sup>86</sup>

Tiffany argued that because eBay was able to screen out potentially counterfeit Tiffany listings more cheaply, quickly, and effectively than Tiffany, the burden to police the Tiffany trademark should have shifted to eBay.<sup>87</sup> The court, however, held that even if it were true that eBay were best situated to prevent trademark infringement, the burden of policing the Tiffany mark rests with Tiffany.<sup>88</sup> “The owner of a trade name must do its own police work.”<sup>89</sup> Judge Sullivan rejected eBay’s argument that it was just an online classified advertising venue.<sup>90</sup> Because of the value-added

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80. 456 U.S. 844 (1982).

81. *Tiffany (NJ) Inc.*, 576 F. Supp. 2d at 502. The Court found that the relevant inquiry for contributory trademark infringement is the “extent of control exercised by the defendant over the third party’s means of infringement.” *Id.* (citing the Ninth Circuit’s reasoning in *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999)). The Court noted that while the Second Circuit had not explicitly endorsed this reasoning, the Southern District of New York had cited the case with approval. *Id.* at 506.

82. *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

83. *Tiffany (NJ) Inc.*, 576 F. Supp. 2d at 508, 510.

84. *Id.* at 470.

85. *Id.* at 513.

86. *Id.* at 470.

87. *Id.* at 518.

88. *Id.*

89. *Id.* (citing *MDT Corp. v. New York Stock Exch.*, 858 F.Supp. 1028, 1034 (C.D. Cal. 1994)).

90. *Id.* at 507.

services eBay provides to its sellers and the significant control that eBay retains over transactions on its website, the court found eBay more like an online swap meet than a classified ad service.<sup>91</sup>

On August 11, 2008, Tiffany appealed the district court's decision to the U.S. Court of Appeals for the Second Circuit, which has not yet scheduled oral arguments.<sup>92</sup> Several amici have already filed briefs. The Electronic Frontier Foundation, Public Citizen and Public Knowledge, Yahoo, Amazon, Google, and others have filed in support of eBay, while beauty-products manufacturer Coty, Inc., the Council of Fashion Designers of America, and the International Anticounterfeiting Coalition have filed in support of Tiffany's.<sup>93</sup>

#### IV. COMMON LAW SECONDARY LIABILITY FOR TRADEMARK LAW

To understand the current law on trademark infringement over the Internet, it is helpful to look at the development of indirect trademark liability. Section IV.A discusses the policy differences behind trademark and copyright law. Section IV.B traces the development of indirect trademark liability and examines the current standard for contributory trademark liability as set forth in *Inwood*. Finally, Section IV.C examines principles of secondary trademark infringement in the online context.

##### A. Comparison: Trademark and Copyright Law

The differences between trademark and copyright law result, in part, from their differing rationales. Copyright law originates in the Constitution and encompasses a broad range of subject matters.<sup>94</sup> It gives exclusive rights to creators of original work in order to provide authors an incentive to create new works and to share existing works. Copyright protection attaches from the moment a work is fixed in a tangible medium of expression<sup>95</sup> and, generally, is limited to the life of the author plus seventy years.<sup>96</sup>

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91. *See id.*

92. As of April 2009, the Second Circuit had not yet scheduled oral arguments.

93. *See* Electronic Frontier Foundation, Tiffany v. eBay, <http://www EFF.org/cases/tiffany-v-ebay> (last visited Apr. 1, 2009).

94. *See* U.S. CONST., art. I § 8, cl. 8 (“The Congress shall have power . . . [t]o promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.”)

95. *See* 17 U.S.C. § 102 (1994).

96. *Id.* § 302(a) (1998).

Trademark law, on the other hand, “focuses on ensuring the integrity of the marketplace by protecting consumers against confusion as to the source of products.”<sup>97</sup> It facilitates and enhances consumer decisions and encourages businesses to supply quality products and services.<sup>98</sup> A trademark does not “depend upon novelty, invention, discovery, or any work of the brain. It requires no fancy or imagination, no genius, no laborious thought.”<sup>99</sup> Trademark rights are acquired when a trademark is used in commerce, and continue only so long as that use continues.<sup>100</sup> Traditionally, there has been no federal policy to encourage the creation of more trademarks, unlike the desire to encourage invention and creation that underlies patent and copyright law.<sup>101</sup> Instead, trademark law has developed from tort-based causes of action: the tort of misappropriation of the goodwill of the trademark owner and the tort of deception of the consumer.<sup>102</sup>

The Lanham Act,<sup>103</sup> enacted in 1946, codified federal trademark protection and was introduced as a bill “to place all matters relating to trademarks in one statute and to eliminate judicial obscurity . . . and [to make] relief against infringement prompt and effective.”<sup>104</sup> The Lanham Act promotes three policies: it prevents consumer confusion, protects the goodwill of businesses, and encourages competition within the market.<sup>105</sup>

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97. See Peter S. Menell & David Nimmer, *Unwinding Sony*, 95 CALIF. L. REV. 941, 971 (2007). The core mission of trademark law is to protect consumers by improving the quality of information in the marketplace. Stacey L. Dogan & Mark A. Lemley, *Grounding Trademark Law Through Trademark Use*, 92 IOWA L. REV. 1669, 1690 (2007).

98. See Peter S. Menell & Suzanne Scotchmer, 2 HANDBOOK OF LAW AND ECONOMICS 1537 (A. Mitchell Polinsky & Steven Shavell eds., Elsevier 2007).

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

100. Robert P. Merges, Peter S. Menell & Mark A. Lemley, INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 635 (4th ed. 2007). Under the Trademark Law Revision Act of 1998, “it is now possible to register and protect a trademark based on an *intention* to use that mark in commerce at some time within the next three years.” *Id.* at 635 n.6 (citing 15 U.S.C. § 1051(b) (1988)).

101. Menell & Scotchmer, *supra* note 98, at 1538.

102. *Id.*

103. Lanham Act, Pub. L. No. 79-489, 60 Stat. 427 (codified as amended at 15 U.S.C. § 1127 (2000)).

104. U.S. Patent and Trademark Office, Transforming Work: The E-Government Work Place, <http://www.uspto.gov/web/offices/com/strat21/action/pl1t01.htm>. (last visited Dec. 20, 2008).

105. 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, 917-18 (2005).

Neither the Lanham Act nor the Copyright Act contains express contributory liability provisions.<sup>106</sup> Rather, the imposition of contributory infringement liability derives from common law tort theories.<sup>107</sup> Similarly, common law guides the appropriate boundaries of contributory liability in the trademark context.<sup>108</sup>

## B. Indirect Trademark Liability

The concept of indirect trademark infringement has had a long history, and yet is still underdeveloped.<sup>109</sup> The Lanham Act contains no express provisions for contributory infringement or vicarious liability;<sup>110</sup> instead, courts borrow principles of indirect trademark infringement from tort law to reflect the impulse that “[o]ne who induces another to commit a fraud and furnishes the means of consummating it is equally guilty and liable for the injury.”<sup>111</sup> Courts have compared indirect liability principles in copyright and trademark law; for example, both indirect trademark infringement<sup>112</sup> and indirect copyright infringement<sup>113</sup> share a similar knowledge requirement. Courts have also recognized, however, that the doctrine of contributory trademark infringement is narrower than its copyright counterpart.<sup>114</sup>

### 1. Contributory Trademark Infringement

The doctrine of contributory infringement originated in tort law and developed from the notion that one who directly contributes to another’s infringement should be held accountable.<sup>115</sup> A contributory infringer is

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106. By contrast, the Patent Act defines direct and contributory infringement. 35 U.S.C. § 271 (2000) (defining liability for those who directly infringe, “actively induce[]” infringement, and who sell components “knowing” them to be adapted for use to infringe). *Id.* at §§ 271(a)-(c).

107. John T. Cross, *Contributory Infringement and Related Theories of Secondary Liability for Trademark Infringement*, 80 IOWA L. REV. 101, 109-29 (1994).

108. *Hard Rock Cafe Licensing Corp. v. Concession Servs, Inc.*, 955 F.2d 1143, 1148 (7th Cir. 1992).

109. Dogan & Lemley, *supra* note 97, at 1678.

110. 15 U.S.C. § 1127 (2000); *see also* *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, 855 F. Supp. 648, 650 (S.D.N.Y. 1994).

111. *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 530-31 (1924).

112. *See Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982) (footnote and citations omitted).

113. *See Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 435 (1984).

114. *See, e.g., Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*, 494 F.3d 788, 806 (9th Cir. 2007) (“The tests for secondary trademark infringement are even more difficult to satisfy than those required to find secondary copyright infringement.”).

115. Menell & Nimmer, *supra* note 97, at 977.

“one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another.”<sup>116</sup> Contributory liability is properly imposed on one who is in a position, but fails, to take reasonable precautions against a third person’s infringing conduct under circumstances in which his knowledge of the infringing conduct is so apparent that the infringement could be reasonably anticipated.<sup>117</sup>

The Supreme Court first recognized the doctrine of contributory liability in *William R. Warner & Co. v. Eli Lilly & Co.*,<sup>118</sup> a case involving manufacturers of chocolate quinine beverages. Two manufacturers each sold the beverage to druggists in bottles with clearly distinguishing labels; the druggists then sold the liquid in different containers.<sup>119</sup> The plaintiff sold a high-quality version; defendant, a cheaper one.<sup>120</sup> According to evidence presented at trial, the defendant’s salesmen suggested to druggists “that, without danger of detection, prescriptions and orders for [the original] could be filled by substituting” the defendant’s product.<sup>121</sup> Although the manufacturer had not directly caused any confusion or deception, the Court imposed liability.<sup>122</sup> “The wrong was in designedly enabling the dealers to palm off the preparation as that of the respondent.”<sup>123</sup>

*Coca-Cola Co. v. Snow Crest Beverages*, which also addressed whether a manufacturer could be held liable for downstream undisclosed substitution of its product for another, further developed the doctrine.<sup>124</sup> In *Snow Crest*, Coca-Cola alleged that when bars received orders for rum and Coca-Cola, they frequently substituted the defendant’s product for Coca-Cola.<sup>125</sup> The issue was whether the defendant had a duty to investigate

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116. *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971).

117. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 27 (1995); *see also* RESTATEMENT (FIRST) OF TORTS § 302(b) (1934) (supporting the notion that the standard for contributory liability is based on the core common law principle that a party can be liable for creating “unreasonable risk” of injury based on the “expectable action” of third parties); RESTATEMENT (SECOND) OF TORTS § 877(c) (1965) (stating that contributory liability attaches if one permits use of “premises” or “instrumentalities, knowing or having reason to know” that another “is acting or will act tortiously”).

118. 265 U.S. 526 (1924).

119. *Id.* at 529-30.

120. *Id.*

121. *Id.* at 530.

122. *Id.*

123. *Id.* (citations omitted); *see also* *Coca-Cola Co. v. Gay-Ola Co.*, 200 F. 720 (6th Cir. 1912); *N. K. Fairbank Co. v. R. W. Bell Manuf’g Co.*, 77 Fed. 869, 875, 877-78 (2d Cir. 1896).

124. 64 F. Supp. 980 (D. Mass. 1946).

125. *Id.* at 988.



such substitution or to curtail sales of its product after it had notice that some unnamed bars had used its product instead of Coca-Cola.<sup>126</sup>

The court held that the defendant could be contributorily liable if the plaintiff had given the defendant (1) reliable information that would have caused a normal bottler in defendant's position to believe that bars were substituting defendant's product for Coca-Cola or (2) notice that specific bars which defendant was continuing to supply were serving defendant's product when plaintiff's product was requested.<sup>127</sup> The court found that the plaintiff met neither standard.<sup>128</sup> To be held as a contributory infringer, one who supplies another with the instruments that the other uses to commit a tort must be shown to have knowledge that the other will or can reasonably be expected to commit a tort with the instruments.<sup>129</sup> The test is whether the defendant might have anticipated wrongdoing by the purchaser.<sup>130</sup> The court noted that the issue was whether a reasonable person in the defendant's position would realize that he had created the temptation to wrong or that he was dealing with a customer whom he should know would be particularly likely to use the defendant's product wrongfully.<sup>131</sup>

In 1982, the Supreme Court, relying on *Snow Crest*, set forth the current test for contributory trademark infringement in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*<sup>132</sup> There, the Court considered an action against a manufacturer of generic pharmaceuticals.<sup>133</sup> Non-party pharmacists packaged the defendant's less-expensive generic pills, but labeled them with the plaintiff's protected trademark rather than a generic label.<sup>134</sup> The plaintiff stated a cause of action for contributory infringement by alleging that the defendant "continued to supply [the product] to pharmacists who the petitioners knew were mislabeling generic drugs."<sup>135</sup> The Court wrote that:

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 trade-

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126. *Id.*

127. *Id.* at 990 (citation omitted).

128. *Id.*

129. *Id.* at 989 (citations omitted).

130. *Id.* (citations omitted). This test is an example of the judicial indeterminacy that the Lanham Act was intended to eliminate.

131. *Id.*

132. 456 U.S. 844 (1982).

133. *Id.* at 846.

134. *Id.*

135. *Id.* at 854.

mark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.<sup>136</sup>

However, the Court upheld the district court's holding that manufacturer of the generic drug had not intentionally induced the pharmacists to mislabel generic drugs, nor had it continued to supply its product to pharmacists whom the manufacturer knew were mislabeling generic drugs,<sup>137</sup> and thus was not contributorily liable.<sup>138</sup>

Justice White, concurring, noted that the majority's rule expanded the knowledge requirement for contributory liability.<sup>139</sup> Before *Inwood*, contributory infringement required *actual* knowledge that others would use the product for infringing purposes.<sup>140</sup> The *Inwood* formulation of the knowledge requirement, however, specified that the contributory infringer must only know or have reason to know, suggesting that something less than actual knowledge could be adequate.<sup>141</sup>

a) Applying *Inwood*

Courts applying *Inwood* have found contributorily liable operators of swap meets or flea markets in which counterfeit products are sold if the operators exercise "[d]irect control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark."<sup>142</sup>

In *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*, the Seventh Circuit applied the *Inwood* test for contributory trademark liability to the operator of a flea market.<sup>143</sup> The flea market rented stalls to vendors, charged vendors fees for reservations and storage, charged admission fees to customers, and operated concession stands.<sup>144</sup> Although there was no proof that the flea market had actual knowledge that vendors were selling counterfeit Hard Rock Cafe trademark merchandise, the court held that

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136. *Id.* (footnote omitted) (citing *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 530-31 (1924), and *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 989 (D. Mass. 1946), *aff'd*, 162 F.2d 280 (1st Cir. 1947)).

137. *Id.* at 855.

138. *Id.* at 856-58.

139. *Id.* at 861.

140. See Brian D. Kaiser, *Contributory Trademark Infringement by Internet Service Providers: An Argument for Limitation*, 7 J. TECH. L. & POL'Y 4, 86-87 (2002).

141. *Inwood Labs.*, 456 U.S. at 854.

142. *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999).

143. *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148-89 (7th Cir. 1992). A flea market or swap meet is arguably the brick-and-mortar equivalent of eBay.

144. *Id.* at 1146.

contributory liability could be imposed if the swap meet was “willfully blind” to ongoing violations.<sup>145</sup> It held that a company is responsible for the torts of vendors it permits on its premises if it knows or has reason to know that the vendor “is acting or will act tortiously,”<sup>146</sup> though it still “has no affirmative duty to take precautions against the sale of counterfeits.”<sup>147</sup> To be held contributorily liable, a party must suspect wrongdoing and deliberately fail to investigate.<sup>148</sup> The Seventh Circuit ruled that because the district court had made little mention of the flea market operator’s state of mind, there was no evidence that the operator knew or had reason to know of the vendor’s trademark violations. Hard Rock did not publicize the information that legitimate Hard Rock clothing could only be found in its cafes and there was no “particular reason to believe that inexpensive t-shirts with cut labels [were] obviously counterfeit.”<sup>149</sup> The operator was therefore not willfully blind and not contributorily liable for the violations.<sup>150</sup>

b) eBay Under the *Inwood* Standard

Under the *Inwood* standard, as developed in *Hard Rock Cafe*, a court could find eBay contributorily liable for trademark infringement on its site. For example, using the considerations set forth in *Hard Rock Cafe* as to whether the flea market operator was willfully blind, eBay provides its sellers with the digital space to sell goods and charges sellers fees both to post items for sale and for completed sales. Arguably, once trademark owners notify eBay of infringement, if eBay does not take action, it is “willfully blind” to ongoing violations. In particular, once eBay is aware that a particular vendor has attempted to violate another’s trademark rights, it, unlike the swap meet operator in *Hard Rock*, has reason to know the seller “is acting or will act tortiously.”<sup>151</sup> Furthermore, as the *Snow Crest* court framed the issue, in such a scenario, eBay could certainly anticipate the wrongdoing.

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145. *Id.* at 1149. A person who suspects wrongdoing and deliberately fails to investigate is willfully blind and is considered knowledgeable under the Lanham Act. *Id.*

146. *Id.* (quoting RESTATEMENT (SECOND) OF TORTS § 877(c) & cmt.d (1979)).

147. *Id.*

148. *Id.*

149. *Id.*

150. *Id.* at 1149-50. “We decline to extend the protection that Hard Rock finds in the common law to require CSI, and other landlords, to be more dutiful guardians of Hard Rock’s commercial interests. Thus the district court’s findings do not support the conclusion that CSI bears contributory liability for Parvez’s transgressions.” *Id.* at 1149.

151. *Id.* at 1149 (quoting RESTATEMENT (SECOND) OF TORTS § 877(c) & cmt.d (1979)).

## 2. *Vicarious Trademark Infringement*

Vicarious trademark liability requires the defendant and the infringer to have an apparent or actual partnership, to have authority to bind one another in transactions with third parties, or to exercise joint control over the infringing product.<sup>152</sup> A defendant “exercises control over a direct infringer when he has both a legal right to stop or limit the directly infringing conduct, as well as the practical ability to do so.”<sup>153</sup> Agency principles underlie vicarious trademark liability, and even an independent contractor relationship may be sufficient.<sup>154</sup> The more control exercised by a defendant over a third-party’s means of infringement, the more likely a court is to find vicarious liability.<sup>155</sup> If a defendant has direct control and the ability to monitor the instrumentality used by a third party to infringe a plaintiff’s mark, courts are likely to find vicarious liability.<sup>156</sup>

In *Hard Rock*, the court held that a flea market owner could not be vicariously liable under trademark law for infringing acts by vendors who rented space there.<sup>157</sup> The court noted that the owner’s supervision of the flea markets was minimal: no one looked over the vendors’ wares before they entered the market and the owner did not keep records of the names and addresses of the vendors.<sup>158</sup> Thus, the owner did not exercise control over the vendors beyond that exercised by a landlord over his tenants.<sup>159</sup>

This case directly contrasts with *Fonovisa, Inc. v. Cherry Auction, Inc.*, where the plaintiff, who owned copyrights and trademarks to certain music recordings, claimed that the defendant, a swap meet proprietor, was liable for third-party vendors’ sales of counterfeit recordings. The Ninth Circuit found that the proprietor could be held vicariously liable for the infringement of its vendors, and thus Fonovisa had stated a claim for contributory trademark infringement.<sup>160</sup> Because the swap meet proprietor had the right to terminate vendors for any reason, the court held, it had the ability to control the activities of vendors on the premises.<sup>161</sup> Unlike in

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152. *Id.* at 1150 (citing *David Berg & Co. v. Gatto Int’l Trading Co.*, 884 F.2d 306, 311 (7th Cir. 1989)).

153. *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1173 (9th Cir. 2007).

154. *AT&T Co. v. Winback and Conserve Program, Inc.*, 42 F.3d 1421, 1435-36 (3d Cir. 1994).

155. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 262 (9th Cir. 1996).

156. *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999).

157. *Hard Rock Cafe Licensing Corp.*, 955 F.2d at 1149-50.

158. *Id.* at 1146.

159. *Id.* at 1149-50.

160. *Fonovisa, Inc.*, 76 F.3d at 262, 265.

161. *Id.*

*Hard Rock*, the proprietor in *Fonovisa* also promoted the swap meet and controlled customers' access to the swap meet area.<sup>162</sup>

### C. Principles of Secondary Trademark Infringement in the Online Context

It can be difficult to apply principles of secondary trademark infringement in the online context because many ISPs do not have actual knowledge of infringements on their servers. For example, in *Lockheed Martin Corp. v. Network Solutions, Inc.*, the plaintiff asked the district court to extend contributory liability to the relationship between a domain name registrar and domain name registrants alleged to have infringed the plaintiff's mark.<sup>163</sup> The court held the registrars not subject to secondary liability for infringing domain names because the service they provide is "remote from domain name uses that are capable of infringement."<sup>164</sup> The Ninth Circuit affirmed, agreeing with the district court that the defendant could not "reasonably be expected to monitor the Internet" for evidence of infringement by its registrants.<sup>165</sup>

In *Gucci v. Hall & Assoc.*, the Southern District of New York, however, declined to apply *Lockheed* where the alleged contributory trademark infringer was an ISP.<sup>166</sup> In this case, the direct infringer used the ISP's services to advertise counterfeit Gucci jewelry.<sup>167</sup> The ISP had ignored two notices from Gucci alleging that the direct infringer was using the ISP's services for trademark infringement.<sup>168</sup> The court distinguished domain name registries from ISPs, whose computers provide the actual storage and communications for infringing material, and were therefore more accurately compared to flea market operators.<sup>169</sup> Therefore, the accused ISP could have prevented the infringing conduct by exercising direct control and monitoring sites using its services.<sup>170</sup> Thus, the plaintiff had stated a triable claim for relief from contributory trademark infringement against

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162. *Id.*

163. *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 960 (C.D. Cal. 1997), *aff'd*, 194 F.3d 980 (9th Cir. 1999).

164. *Id.* at 962.

165. *Lockheed*, 194 F.3d at 985 (quotations omitted). The court identified a two-prong test: (1) did the domain name registrar supply a product and (2) did the domain name registrar have actual or constructive knowledge of any direct infringement. *Id.*

166. *Gucci Am., Inc. v. Hall & Assocs.*, 135 F. Supp. 2d 409, 416 (S.D.N.Y. 2001).

167. *Id.* at 411.

168. *Id.*

169. *Id.* at 416.

170. *Id.* at 416 n.14.

the ISP.<sup>171</sup> The court noted that *Lockheed* did not foreclose “the application of contributory [trademark] infringement in the Internet context.”<sup>172</sup>

## V. SECONDARY COPYRIGHT LIABILITY AND THE DMCA

To highlight the differences between trademark and copyright law, this section will examine how courts have applied secondary liability in the copyright context and how the DMCA’s safe harbor provisions protect ISPs from claims of copyright infringement.

### A. Contributory Copyright Infringement

The common law doctrine that one who knowingly participates in or furthers a tortious act is jointly and severally liable with the prime tortfeasor underpins contributory copyright infringement law.<sup>173</sup> Although the Copyright Act does not address secondary liability, the Supreme Court has explained this does not exclude the imposition of liability on third parties.<sup>174</sup> Proving contributory infringement requires: (1) an act of direct infringement by someone other than the secondary party, (2) that the secondary party have knowledge of the infringing activity, and (3) that the secondary party induced, caused, or materially contributed to the infringement.<sup>175</sup> This standard does not differ substantially from contributory trademark infringement, which holds that one who induces another to infringe a trademark, or continues to supply a 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.<sup>176</sup>

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171. *Id.* at 422.

172. *Id.* at 416 (quotations omitted).

173. 1 NIEL BOORSTYN, BOORSTYN ON COPYRIGHT § 10.06[2], at 10-21 (1994) (“In other words, the common law doctrine that one who knowingly participates in or furthers a tortious act is jointly and severally liable with the prime tortfeasor, is applicable under copyright law”).

174. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 435 (1984).

175. *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (footnote omitted). “Recognizing the impracticability or futility of a copyright owner’s suing a multitude of individual infringers . . . the law allows a copyright holder to sue a contributor to the infringement instead, in effect as an aider and abettor.” *In re Aimster Copyright Litig.*, 334 F.3d 643, 644 (7th Cir. 2003) (citations omitted).

176. *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982) (footnote omitted) (citing *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 530-31 (1924), and *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 989 (D. Mass. 1946), *aff’d*, 162 F.2d 280 (1st Cir.)).

## B. Vicarious Copyright Infringement

The Second Circuit developed the doctrine of vicarious copyright liability as an “outgrowth of the agency principles of respondeat superior.”<sup>177</sup> A party may be vicariously liable if it (1) has the right and ability to supervise the infringing activity and (2) obtains a direct financial benefit from the infringing activities.<sup>178</sup> Vicarious liability creates liability for an indirect infringer whose economic interests are intertwined with the direct infringer’s, even without a traditional employer/employee relationship.<sup>179</sup> Unlike contributory liability, vicarious liability does not require knowledge.<sup>180</sup> “[A] defendant exercises control over a direct infringer when he has both a legal right to stop or limit the directly infringing conduct, as well as the practical ability to do so.”<sup>181</sup>

In *Fonovisa, Inc. v. Cherry Auction, Inc.*, the Ninth Circuit found sufficient elements of control where the swap meet proprietor had the right to terminate vendors for any reason, promoted the swap meeting, controlled customers’ access to the swap meet area, and was aware that vendors were selling counterfeit recordings in violation of plaintiff’s copyrights and trademarks.<sup>182</sup> The court rejected defendant’s argument that the financial benefit prong of the test for finding vicarious liability could only be satisfied where the defendant earned a commission directly tied to the sale of a particular infringing item.<sup>183</sup>

In *A&M Records, Inc. v. Napster, Inc.*, the Ninth Circuit then extended *Fonovisa* to the online context.<sup>184</sup> In that case, where Napster facilitated the transmission of copyrighted music between its users free of charge, the court stated that “[t]he ability to block infringers’ access to a particular environment for any reason” constituted evidence of Napster’s right and ability to supervise.<sup>185</sup> The court then explained that because Napster had the right and ability to supervise its users’ conduct, to escape the imposition of vicarious liability it was required to exercise the right to police to its fullest extent. “Turning a blind eye to detectable acts of infringement

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177. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261-62 (9th Cir. 1996).

178. *Gershwin Publ’g Corp.*, 443 F.2d at 1162 (citing Shapiro, Bernstein & Co., Inc. v. H. L. Green Co., 316 F.2d 304 (2d Cir. 1963)); see also *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1023 (9th Cir. 2001).

179. *Gershwin Publ’g Corp.*, 443 F.2d at 1162.

180. 3 NIMMER ON COPYRIGHT 12.04[A][1], at 12-70.

181. *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1173 (9th Cir. 2007).

182. *Fonovisa*, 76 F.3d at 261-62.

183. *Id.* at 263.

184. *Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

185. *Id.* at 1023 (citing *Fonovisa*, 76 F.3d at 262).

for the sake of profit gives rise to liability.”<sup>186</sup> The plaintiffs were successful in establishing a likelihood of success on the merits because Napster controlled access to its system, reserved the right to terminate user accounts for any reason, and could locate infringing material listed on its search indices.<sup>187</sup> The court remanded the case, finding that Napster could be vicariously liable when it failed to “affirmatively use its ability to patrol its system and preclude access to potentially infringing” users.<sup>188</sup>

### C. Statutory Scheme for Contributory Infringement on the Internet

The Digital Millennium Copyright Act was enacted in 1998 as a response to the difficulty of applying offline legal standards to online actors. This subsection will examine the DMCA, which serves as a model for the proposed statute in this Note. The DMCA represents an effort by Congress to provide greater certainty to ISPs concerning their legal exposure for copyright infringement.<sup>189</sup> It was “designed to facilitate the robust development and world-wide expansion of electronic commerce, communications, research, development, and education in the digital age.”<sup>190</sup> Title II of the DMCA, the Online Copyright Infringement Liability Limitation Act (known as the “safe harbor provisions”), seeks to “preserve[] 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.”<sup>191</sup> These safe harbors shield service providers from liability for secondary copyright infringement provided that the service providers remove infringing materials upon proper notification from copyright owners.<sup>192</sup> The safe harbors protect ISPs from liability for all monetary relief for direct and secondary infringement,<sup>193</sup> but “do not affect the question of ultimate liability under the various doctrines of direct, vicarious, and contributory liability.”<sup>194</sup>

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186. *Id.*

187. *Id.* at 1023-24.

188. *Id.* at 1027.

189. *See* *Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir. 2004) (quoting S. REP. NO. 105-190, at 20 (1998); H.R. REP. NO. 105-551(II), at 49 (1998)).

190. S. REP. NO. 105-190, at 1-2 (1998).

191. *Id.* at 20; H.R. REP. 105-551(II), at 49 (1998).

192. 17 U.S.C. §§ 512(a)-(d) (2000).

193. *See Corbis Corp. v. Amazon, Inc.*, 351 F.Supp.2d 1090, 1098-99 (W.D. Wash. 2004).

194. *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102, 1109 (9th Cir. 2007) (quoting *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F.Supp.2d 1146, 1174 (C.D. Cal. 2002)).



To take advantage of the DMCA safe harbors, a defendant must satisfy certain threshold requirements.<sup>195</sup> The defendant must be a “service provider”<sup>196</sup> and it must adopt, reasonably implement, and inform subscribers of a policy that it may, in appropriate circumstances, terminate the accounts of repeat infringers.<sup>197</sup> Section 512(c) states that “[a] service provider shall not be liable for monetary relief” if it does not know of infringement or if it acts “expeditiously to remove, or disable access to, the material” when it (1) has actual knowledge, (2) is aware of facts or circumstances from which infringing activity is apparent, or (3) has received notification of claimed infringement meeting the requirements of section 512(c)(3).<sup>198</sup> Section 512(i) does not require service providers to track users in a particular way or to police users for evidence of repeat infringement.<sup>199</sup> Instead, “[a] policy is unreasonable only if the service provider failed to respond when it had knowledge of the infringement.”<sup>200</sup>

The DMCA prescribes a notice-and-takedown system similar to eBay’s VeRO policy.<sup>201</sup> A copyright owner submits a notification under penalty of perjury, including a list of specified elements, to the ISP’s designated agent.<sup>202</sup> Failure to comply substantially with the statutory requirements means that the notification will not be considered in determining the requisite knowledge by the service provider.<sup>203</sup> The notice must be in written form and contain a physical or electronic signature of a person authorized to represent the copyright owner.<sup>204</sup> It must contain a statement that the complaining party has a good faith belief that infringement is occurring. The statement also must identify the infringed copyrighted work, the allegedly infringing material, and the location of the material.<sup>205</sup> Finally, the complaining party must certify that the notice is truthful and that the party is authorized to represent the copyright owner.<sup>206</sup>

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195. See 17 U.S.C. §§ 512(a)-(d).

196. *Id.* § 512(k).

197. See *id.* § 512(i)(1)(A).

198. *Id.* §§ 512(c)(1)(A)-(C). “[T]he plain language of section 512(c) indicates that the pertinent inquiry is not whether Veoh has the right and ability to control its *system*, but rather, whether it has the right and ability to control the *infringing activity*.” *Io Group, Inc. v. Veoh Networks, Inc.*, 586 F.Supp.2d 1132, 1151 (N.D.Cal.2008).

199. *Perfect 10, Inc.*, 488 F.3d at 1111.

200. *Id.* at 1113.

201. See *supra* Section II.A.

202. See 17 U.S.C. §512(c)(3).

203. *Id.*

204. *Id.*

205. *Id.*

206. *Id.*

An ISP, upon such notice, must expeditiously remove any material identified as infringing.<sup>207</sup> The ISP is required to take reasonable steps to notify the creator of the offending content that its page was removed as a result of a DMCA takedown request.<sup>208</sup> The accused infringer then has the opportunity to “counter notify” the ISP if it believes the takedown was the result of a mistake or misidentification.<sup>209</sup> The ISP is then required to notify the original claimant that unless it receives notice of pending legal action within fourteen days, the material will be reinstated.<sup>210</sup>

The DMCA was not intended to protect ISPs that facilitate or turn a blind eye to infringement. The liability limitations are “not presumptive, but granted only to ‘innocent’ service providers who can show that they do not have a defined level of knowledge . . . .”<sup>211</sup> For innocent service providers that choose to comply with the DMCA and are deemed eligible, “the DMCA represents a legislative determination that copyright owners must themselves bear the burden of policing for infringing activity—service providers are under no such duty.”<sup>212</sup> If an ISP fails to comply with the DMCA, the threshold for liability is the common law standard for contributory or vicarious liability.

#### **D. *Hendrickson v. eBay*: Secondary Liability under the DMCA**

*Hendrickson v. eBay* established that eBay qualifies as an ISP entitled to DMCA protection.<sup>213</sup> Hendrickson, the copyright owner, sued eBay for the third-party sale of counterfeit copies of his documentary.<sup>214</sup> The issue was whether the DMCA’s safe harbor provisions afforded protection to eBay when Hendrickson sought to hold eBay secondarily liable for copyright infringement by its sellers.<sup>215</sup> The court held Hendrickson’s failure to comply with the DMCA’s procedural formalities was fatal to his claim.<sup>216</sup>

The court analyzed each of the three prongs necessary for an ISP to qualify for DMCA protection, and held under the second prong—which

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207. *Id.* § 512(c)(1)(C).

208. *Id.* § 512(g)(2)(A).

209. *Id.* § 512(g)(3).

210. *Id.* § 512(g)(2)(C).

211. *In re Aimster Copyright Litigation*, 252 F. Supp. 2d 634, 657 (N.D. Ill. 2002) (citation omitted), *aff’d*, 334 F.3d 643 (7th Cir. 2003).

212. *Id.*

213. *Hendrickson v. Ebay, Inc.*, 165 F. Supp. 2d 1082, 1088 (C.D. Cal. 2001). “There is no dispute over whether eBay is an Internet ‘service provider’ within the meaning of Section 512. eBay clearly meets the DMCA’s broad definition of online ‘service provider.’” *Id.* (citation omitted).

214. *Id.* at 1086.

215. *Id.* at 1083-84.

216. *Id.* at 1092.

mimics the test for vicarious liability—that because eBay did not have the “right and ability to control” infringing activity, there was no need to address whether it received a “direct financial benefit” as a result of the infringement.<sup>217</sup>

[T]he “right and ability to control” the infringing activity, as the concept is used in the DMCA, cannot simply mean the ability of a service provider to remove or block access to materials posted on its website or stored in its system. To hold otherwise would defeat the purpose of the DMCA and render the statute internally inconsistent.<sup>218</sup>

The court rejected the plaintiff’s request for an injunction covering all future possible infringing advertisements because this would require eBay to “monitor the millions of new advertisements posted on its website each day and determine, on its own, which of those advertisements infringe . . . .”<sup>219</sup> The court explained that the law does not impose an affirmative duty on companies like eBay to engage in such monitoring.<sup>220</sup>

## VI. HOW SHOULD INDIRECT TRADEMARK INFRINGEMENT BE REGULATED IN THE DIGITAL AGE?

### A. Relying on Common Law for a Safe Harbor is Ineffective

Courts have applied secondary liability to determine whether an internet service provider should be found liable for trademark infringement. Current law does not provide effective and reliable measures for insulating ISPs from liability, so ISPs are overly cautious in removing material from their sites, which can jeopardize free speech rights.<sup>221</sup> The developments of the digital revolution have hindered the Lanham Act’s goals of placing all trademark matters in one statute and eliminating judicial obscurity. The *Tiffany v. eBay* decision provided some clarity on what steps an ISP can take to detect and control misconduct in order to escape liability. However, the development of this law has been haphazard. Courts should not create the doctrine of secondary trademark liability piecemeal; instead,

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217. *Id.* at 1089-90. eBay had argued that it is too large to “control” and “monitor.”

218. *Id.* at 1093.

219. *Id.* at 1095.

220. *Id.*

221. Telephone Interview with Michael Kwun, Sr. Intellectual Property Attorney, Electronic Frontier Foundation (Dec. 19, 2008) (on file with author) [hereinafter Kwun Interview]; see also Lisa M. Bowman, *Free speech feels Net copyright chill*, CNET NEWS, Oct. 24, 2002, <http://news.cnet.com/2100-1023-963122.html>.

Congress should look to Judge Sullivan's decision in *Tiffany v. eBay* for guidance in determining what the law requires from ISPs. Under the current law, a court could still reject the Southern District of New York's analysis, hold eBay accountable for counterfeiting on its site, and thereby force eBay to find a way to decrease the number of infringements.<sup>222</sup> Although such a result would arguably serve the goals of trademark law—to reduce consumer confusion and to protect the goodwill trademark owners have built in their marks—it would place too great a burden on eBay.

One of the primary features of trademark law is that it is the trademark owner's duty to police its own mark.<sup>223</sup> Trademark holders bear the burden of protecting their marks from infringement.<sup>224</sup> If courts were to hold that ISPs must seek out infringement on their sites, the trademark holder's right would be dramatically strengthened without a policy justification for doing so. The benefit of trademarks in reducing consumer search costs requires that the trademark owner maintain consistent quality in order to preserve its reputation.<sup>225</sup> Trademark's self-policing feature means that the market will generally discipline the trademark owner who fails to maintain quality by "whittling away the distinctiveness" of its mark.<sup>226</sup> For a website such as eBay, where thousands of listings are available at any given time, such a responsibility would be debilitating and nearly impossible to achieve successfully.<sup>227</sup>

Commentators have suggested multiple ways to improve regulation of counterfeit goods sold through online auction sites such as eBay. These proposals include a registration and feedback system whereby a user builds a public online reputation by engaging in transactions and receiving public feedback;<sup>228</sup> consumer laws similar to state consumer protection laws;<sup>229</sup> internal industry action;<sup>230</sup> and a licensing scheme that would re-

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222. See, e.g., *S.A. Louis Vuitton Malletier v. eBay, Inc.*, Tribunal de Commerce de Paris, Première Cass. B (Paris Commercial Court), Case No. 200677799 (June 30, 2008).

223. Merges, Menell & Lemley, *supra* note 100, at 635-36.

224. *Id.*

225. Steven M. Auvil, *Gray Market Goods Produced by Foreign Affiliates of the U.S. Trademark Owner: Should the Lanham Act Provide a Remedy?*, 28 AKRON L. REV. 437, 448 (1995).

226. *Id.*

227. For example, the Communications Decency Act does not apply to intellectual property claims. 47 U.S.C. § 230(e)(2) (2000).

228. Mary M. Calkins, *My Reputation Always Had More Fun than Me: The Failure of eBay's Feedback Model To Effectively Prevent Online Auction Fraud*, 7 RICH. J.L. & TECH. 33 (2001).

229. Matthew Fornaro, *A Parallel Problem: Grey Market Goods and the Internet*, 8 J.TECH.L. & POL'Y 69, 89 (2003).

230. *Id.*

quire websites and merchants who sell new merchandise featuring U.S. trademarks on the Internet to pay a licensing fee to the affected valid U.S. trademark holder.<sup>231</sup>

None of these proposals are as practical as a statutory solution. According to James B. Swire, who represents Tiffany in the *Tiffany v. eBay* litigation, strengthening consumer laws would not effectively improve regulation of counterfeit goods sold through online auction sites.<sup>232</sup> It is also unlikely that websites such as eBay would accept a licensing scheme, as there is little basis for such a system under current law.<sup>233</sup> Under the first sale doctrine, once a trademark owner has sold its goods, it has exhausted its trademark rights in those goods.<sup>234</sup> Thus, the owner cannot rely on its trademark rights to dictate how or where the buyer uses or redistributes those goods.<sup>235</sup> Sites like eBay, which often sell redistributed items the trademark owner has already “sold” for purposes of the first sale doctrine, are likely to balk at having to pay licensing fees.

### **B. Why a Statutory Solution Makes Sense**

Both Congress and the courts have attempted to strike a balance so that ISPs are not liable for damages for content posted on their systems. If internet intermediaries were liable every time someone posted infringing content on their site, the resulting liability would likely force all sites, including eBay, to shut down. Such balancing efforts are evident in, for example, section 512 of the DMCA, which protects ISPs from allegations of copyright infringement, providing they follow statutorily prescribed steps in removing infringements upon notice.<sup>236</sup> Similarly, section 230 of the Communications Decency Act, by establishing a safe harbor for internet intermediaries from liability arising from third-party generated content, effectively grants ISPs immunity from torts such as defamation committed

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231. *Id.* at 90.

232. Telephone Interview with James B. Swire, Partner, Arnold & Porter LLP (Dec. 18, 2008) (on file with author).

233. *Id.*

234. 17 U.S.C. § 109 (2000).

235. *Id.* In Europe, however, trademark rights give owners greater control over how their goods are distributed. According to Stanford University intellectual property professor Mark Lemley, the different outcomes in the eBay cases in Europe result “[b]ecause the U.S. has a legal system that respects and encourages the development of the Internet, and France, so far, does not.” Posting of Zusha Elinson to Legal Pad, France hates the Internet. And your shoes., [http://legalpad.typepad.com/my\\_weblog/2008/07/france-hates-th.html](http://legalpad.typepad.com/my_weblog/2008/07/france-hates-th.html) (July 14, 2008, 16:29 PST).

236. 17 U.S.C. § 512(c) (2000).

by their users.<sup>237</sup> And finally, section 1114(2) of the Lanham Act<sup>238</sup> creates a safe harbor from trademark infringement for printers and publishers; the definition of publishers includes online providers of content written by a third party.<sup>239</sup> “It exempts at least some Internet intermediaries—those who are ‘innocent infringers,’ a term that is not defined in the Lanham Act—from damages liability, and also from liability for injunctive relief in circumstances where an injunction would interfere with the normal operation of the online publisher.”<sup>240</sup>

In the past, Congress has responded to other trademark infringement concerns on the Internet by enacting legislation. For example, the Anticybersquatting Consumer Protection Act<sup>241</sup> prohibits the unauthorized registration of trademarks as internet domain names by creating civil liability for anyone who “registers, traffics in, or uses a domain name” that is identical to, confusingly similar, or dilutes a trademark. The registrant must have a “bad faith intent to profit.”<sup>242</sup> The Act created an easier procedure whereby trademark owners can obtain a court order for the forfeiture or cancellation of the domain name or the transfer of the domain name to the owner.<sup>243</sup>

In light of the above comparison of secondary copyright and trademark liability and the similarities between the two doctrines, Congress should enact a safe harbor to regulate trademark infringement on online auction sites. Although the rationales behind copyright and trademark law differ, for both doctrines courts have held that one who contributes to the fraud or tort of another should also be held liable. Secondary liability for both trademark and copyright has been created by courts and is not found in the Lanham Act or the Copyright Act.

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237. 47 U.S.C. § 230(c)(1) (2000). “No provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider.” *Id.*

238. 15 U.S.C. § 1114(2) (2000).

239. *Id.* § 1114(2)(B)-(C).

240. Mark Lemley, *Rationalizing Internet Safe Harbors* 7 (Stanford Public Law Working Paper No. 979836, 2007), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=979836](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=979836). According to Lemley, it is unclear how broadly the exemption applies to internet intermediaries, like eBay, who are not themselves publishing the content. *Id.*

241. 15 U.S.C. § 1125(d) (2006).

242. *Id.* § 1125(d)(1)(A).

243. *Id.* § 1125(d)(2)(D)(i).

### C. A Safe Harbor for Trademark Infringement

Trademark law does not currently have any provisions similar to the DMCA's safe harbor rules for copyright infringement on the Internet. In most cases, a trademark owner's only option is to contact an ISP and request that a listing be removed. A trademark owner can file an action against the service provider for contributory trademark infringement, but unless the ISP has made no effort to regulate infringement on its site, and has in fact taken steps to "intentionally induce another to infringe a trademark," the suit is unlikely to be successful. Further, it is often too costly and time consuming for trademark owners to file suit in every case of alleged infringement on the Internet.

Although copyright and trademark law are both based on the common law of torts, they serve different policy goals. It is therefore not obvious that trademark infringement on the Internet should be regulated in the same manner as copyright infringement. However, courts regularly apply principles from one area of intellectual property law to another<sup>244</sup> and many courts have analogized between different areas of law to impose liability in intellectual property cases.<sup>245</sup> Early copyright cases looked to tort principles in recognizing third party liability.<sup>246</sup> Then, "on the basis of what it asserted as a[n] 'historic kinship between the patent and copyright law,' the [Supreme] Court engrafted an express provision from the Patent Act of 1952 onto the Copyright Act of 1976."<sup>247</sup>

A parallel safe harbor for trademark law would support the same goals as the DMCA: to preserve strong incentives for service providers and trademark owners to detect and deal with trademark infringements that take place on the Internet; to allow ISPs to take clear steps that will limit their liability; and to encourage the development of the Internet. "The common element of . . . safe harbors is that the service provider must do what it can reasonably be asked to do to prevent the use of its service by 'repeat infringers.'"<sup>248</sup> eBay has already developed the VeRO system,

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244. See, e.g., *MGM Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 932 (2005); see also *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 435 (1984) (explaining that "vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying circumstances in which it is just to hold one individual accountable for the actions of another.").

245. Menell & Nimmer, *supra* note 97, at 996-97.

246. *Id.* (citing *Sony Corp. of Am.*, 464 U.S. at 439).

247. *Id.* at 943.

248. *In re Aimster Copyright Litig.*, 334 F.3d 643, 655 (7th Cir. 2003) (citing 17 U.S.C. § 512(i)(1)(A) (2000)).

which regulates both copyright and trademark infringement and functions according to the DMCA takedown-and-notice provisions. By codifying the safe harbor for trademark, Congress will eliminate uncertainty and unnecessary lawsuits for both ISPs and trademark holders. In the digital age, responsibilities of companies like eBay need to be clearly defined so as to promote their growth.

#### **D. Proposed Statute**

Congress should enact a trademark statute modeled after the DMCA, though with a few critical changes. This statute, which could stand on its own or be added to the DMCA, should conditionally limit the liability of online auction websites for infringing products listed on their systems. Like the DMCA, the statute should require online auction sites to meet the following conditions: (1) the online auction site must not have actual knowledge of the infringing activity and must not be aware of facts or circumstances from which infringing activity is apparent; (2) if the site has the right and ability to control the infringing activity, it must not receive a financial benefit directly attributable to the infringing activity; and (3) upon receiving proper notification of claimed infringement, the site must expeditiously take down or block access to the material. Like section 512(i) of the DMCA, the proposed statute will not require online auction sites to track users in a particular way or affirmatively police users for evidence of repeat infringement.

However, the trademark statute should not model section 512(c)(1)(B) of the DMCA, which explains that the DMCA does not protect any intermediary that receives a financial benefit directly attributable to the infringing activity if the ISP has the right and ability to control such activity.<sup>249</sup> This section leaves ISPs open to liability for vicarious infringement, and courts have gradually expanded the scope of vicarious infringement, finding that the direct financial benefit prong could be satisfied without proof of any revenue and the ability to control infringement prong is satisfied if a site owner could stop infringement by shutting down the system.<sup>250</sup> In *Tiffany v. eBay*, though Judge Sullivan did not find eBay liable for vicarious infringement, another court could easily find that eBay does in fact receive a financial benefit directly attributable to the infringing activity of the third party and therefore is vicariously liable for trademark infringement. To give eBay and others certainty that legitimate, responsive, com-

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249. 17 U.S.C. § 512(c)(1)(B) (2006).

250. Lemley, *supra* note 240, at 17 (citing *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001) and *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996)).



pliant procedures will shield it from potentially crushing liability, this gap in the safe harbor must be closed concerning trademarks.

The statute should also establish procedures for proper notification, such as those under the DMCA's section 512(c)(3),<sup>251</sup> and for counter notification, such as those under 512(g) of the DMCA.<sup>252</sup> If the online auc-

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251. 17 U.S.C. § 512(c)(3) (2006). The relevant portion is:

(3) Elements of notification.

(A) To be effective under this subsection, a notification of claimed infringement must be a written communication provided to the designated agent of a service provider [including]:

(i) A physical or electronic signature of a person authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

(ii) Identification of the copyrighted work claimed to have been infringed . . . .

(iii) Identification of the material that is claimed to be infringing . . . and information reasonably sufficient to permit the service provider to locate the material.

(iv) Information reasonably sufficient to permit the service provider to contact the complaining party . . . .

(v) A statement that the complaining party has a good faith belief that use of the material . . . is not authorized by the copyright owner, its agent, or the law.

(vi) A statement that the information in the notification is accurate, and under penalty of perjury, that the complaining party is authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

(B)(i) Subject to clause (ii), a notification from a copyright owner [or an authorized agent] . . . that fails to comply substantially with the provisions of subparagraph (A) shall not be considered . . . in determining whether a service provider has actual knowledge or is aware of facts or circumstances from which infringing activity is apparent.

(ii) In a case in which the notification . . . fails to comply substantially with . . . subparagraph (A) but substantially complies with clauses (ii), (iii), and (iv) of subparagraph (A), clause (i) of this subparagraph applies only if the service provider promptly attempts to contact the person making the notification or takes other reasonable steps to assist in the receipt of notification that substantially complies with all the provisions of subparagraph (A).

252. 17 U.S.C. § 512(g) (2006). The relevant portion is:

(g) Replacement of removed or disabled material and limitation on other liability.

(1) No liability for taking down generally. Subject to paragraph (2), a service provider shall not be liable . . . for any claim based on the service provider's good faith disabling of access to, or removal of, material or activity claimed to be infringing . . . .

tion site receives a counter notification complying with statutory requirements, including a statement under penalty of perjury that the material was removed through mistake or misidentification, then unless the trademark owner files an action seeking a court order against the subscriber, the site must put the listing back up. Unlike the DMCA, which requires an ISP to repost the material within ten to fourteen business days after receiving the counter notification,<sup>253</sup> the trademark statute should require the auction site to repost the listing within a slightly shorter period of time in order to encourage ISPs to repost legitimate content quickly, especially where the complaint is frivolous.

The DMCA requires that contested material remain off the Internet until any litigation between the copyright owner and alleged infringer is re-

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(2) Exception. Paragraph (1) shall not apply with respect to material residing at the direction of a subscriber of the service provider on a system or network controlled or operated by or for the service provider that is removed . . . pursuant to a notice provided under subsection (c)(1)(C), unless the service provider—

(A) takes reasonable steps promptly to notify the subscriber that it has removed . . . the material;

(B) upon receipt of a counter notification . . . promptly provides the person who provided the notification . . . with a copy of the counter notification, and informs that person that it will replace the removed material . . . in 10 business days; and

(C) replaces the removed material . . . not less than 10, nor more than 14, business days following receipt of the counter notice, unless its designated agent first receives notice from the person who submitted the notification . . . that such person has filed an action seeking a court order to restrain the subscriber from engaging in infringing activity relating to the material . . . .

(3) Contents of counter notification. To be effective under this subsection, a counter notification must be a written communication provided to the service provider's designated agent that includes substantially the following:

(A) A physical or electronic signature of the subscriber.

(B) Identification of the material that has been removed . . . and the location at which the material appeared . . . .

(C) A statement under penalty of perjury that the subscriber has a good faith belief that the material was removed or disabled as a result of mistake or misidentification of the material . . . .

(D) The subscriber's name, address, and telephone number, and a statement that the subscriber consents to the [U.S.] jurisdiction of [either the subscriber or the ISP].

(4) Limitation on other liability. A service provider's compliance with paragraph (2) shall not subject the service provider to liability for copyright infringement with respect to the material identified . . . .

253. *Id.* § 512(g)(2)(C).

solved.<sup>254</sup> This means that a copyright owner may receive the benefit of an injunction without meeting the traditional standard required for an injunction.<sup>255</sup> Further, after the ISP receives a counter notification, the copyright owner has up to fourteen days to decide whether to file an action seeking a court order against the subscriber.<sup>256</sup> A two-week waiting period may seem short, but as the EFF has pointed out, “if you’re doing something targeted towards what’s happening at the moment, if your material is down for two weeks, it may no longer have any useful voice.”<sup>257</sup> In order to counteract these potential problems, the trademark statute should shorten the window before the listing must be reposted.<sup>258</sup> While it is likely inevitable that some legitimate listings will be temporarily removed, limiting the time before they are reposted will minimize damage to the content creator—or in the case of eBay, to the seller.

Finally, the statute should broadly define online auction website.<sup>259</sup> For example, a definition could read: “a website where third parties can offer goods for sale.” This would include websites that provide both fixed price and auction-format listings, and would encompass eBay, Amazon, and Google, among others.

The proposed statute provides online auction websites with clear steps to protect them from liability. Currently, eBay’s VeRO system is modeled after the DMCA. As Judge Sullivan recognized in *Tiffany v. eBay*, eBay’s efforts to regulate trademark infringement on its site are likely sufficient. This statute would codify Judge Sullivan’s analysis, thereby clarifying

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254. *Id.* Upon receipt of a valid counter notification, the ISP must replace the removed material unless it “receives notice from the person who submitted the notification . . . that such person has filed an action seeking a court order to restrain the subscriber from engaging in infringing activity relating to the material on the service provider’s system or network.”

255. *Id.* A plaintiff seeking a permanent injunction must satisfy a four-factor test: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.

eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388, 391 (2006).

256. 17 U.S.C. § 512(g)(2)(C).

257. Kwun Interview, *supra* note 221.

258. I would argue that the DMCA should soon follow suit, in particular because copyright law implicates First Amendment concerns more often than trademark.

259. The DMCA defines “internet service provider” broadly, as “a provider of online services or network access, or the operator of facilities therefore.” 17 U.S.C. § 512(k)(1)(B).

eBay's legal liability so that it would no longer need to rely on common law for the safe harbor.

## VII. CONCLUSION

This article seeks to establish that the current method of regulating trademark infringement for counterfeit goods on the Internet leaves unclear the rights of trademark holders and the responsibilities of ISPs. Fraud perpetrated over the Internet continues to grow and ISPs continue to be unsure of their liability.<sup>260</sup> If Tiffany prevails at the Second Circuit, online auction sites, in their current form, would face potentially crippling litigation costs, jeopardizing their business models.<sup>261</sup> And if eBay succeeds, trademark infringement on the Internet will likely increase, causing more consumer confusion and a decrease in the goodwill of well-known trademarks.<sup>262</sup> By providing a safe harbor for trademark infringement we can prevent further litigation similar to the *Tiffany v. eBay* dispute and avoid an incentive for online auction websites to limit speech. This statutory solution will afford protection to online auction sites, trademark owners, and honest sellers.

Once this statute is enacted, if eBay then chooses not to implement the monitoring procedures or not to follow the appropriate take-down requirements, Tiffany would have a valid claim of contributory trademark infringement against eBay. In such a case a court could apply contributory liability to determine whether eBay should be held liable, and there would

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260. A more recent dispute over trademark infringement on the Internet arose earlier this year over Scrabulous, an online version of Scrabble that, until it was forced to shut down, had more than two million users worldwide. Hasbro, the maker of the board game Scrabble, sued the two brothers who designed Scrabulous. Brad Stone, *Hasbro Notches Triple-Word Score Against Scrabulous With 'Lawsuit'*, N.Y. TIMES, July 24, 2008, (Bits Blog), <http://bits.blogs.nytimes.com/2008/07/24/hasbros-notches-triple-word-score-against-scrabulous-with-lawsuit/>. Here again, it was unclear whether Facebook.com, the ISP that supported Scrabulous, could be liable for contributory infringement. Hasbro has dropped its lawsuit against the makers of Scrabulous. *Hasbro Drops Scrabulous Lawsuit*, N.Y. TIMES, Dec. 17, 2008, (Dealbook Blog), <http://dealbook.blogs.nytimes.com/2008/12/17/hasbro-drops-scrabulous-lawsuit/>.

A related case is also currently pending in the copyright context. Viacom, in its \$1 billion U.S. copyright lawsuit against Google, is making the same argument as Tiffany did in the eBay litigation. In response to Viacom's accusation that Google is an "unlawful business model," Google says it respects rights holders and complies with their take-down notices. David Kravets, *Judge Doesn't Give Tiffany a Trademark Silver Spoon in eBay Flap*, Wired Blog Network, July 14, 2008, <http://blog.wired.com/27bstroke6/2008/07/judge-doesnt-gi.html>.

261. Sunderji, *supra* note 105, at 940.

262. *Id.*

be direct evidence that eBay had failed to comply with the provisions of the trademark version of the DMCA. Congress should act to ensure that the rights of trademark holders and responsibilities of ISPs are concretely set forth in a statute.