

AUTHENTICATE THIS: REVAMPING SECONDARY TRADEMARK LIABILITY STANDARDS TO ADDRESS A WORLDWIDE WEB OF COUNTERFEITS

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For years, eBay has described itself as an online sales platform that links buyers and sellers. In recent years, however, eBay has not only become the world's largest online marketplace, but also "the center of a new universe of counterfeit products."¹ Although eBay did not create the counterfeiting problem, its success as a forum for sales of counterfeit products has made it a target for luxury brand owners.² Premier jeweler Tiffany & Co. ("Tiffany") first filed suit against eBay in New York district court, claiming that eBay facilitated and allowed the sale of thousands of pieces of fake Tiffany products and, in the process, devalued the 150-year-old Tiffany brand.³ On appeal, the Second Circuit affirmed the district court's conclusion that eBay was not contributorily liable for trademark infringement.⁴ Specifically, the court found that eBay's prompt responses to notices of potentially infringing listings prevented it from possessing the specific knowledge of infringement necessary for a finding of contributory liability.⁵

This Note addresses the problem of trademark infringement of luxury brands on eBay. By examining the Second Circuit's decision in *Tiffany v. eBay*, the efficacy of eBay's current anti-fraud systems, and the conflicting interests at stake, this Note proposes a balancing framework that will likely promote the integrity of the online marketplace while allowing room for the public to engage in legitimate secondary market activity. Although counterfeiting is not limited to premium goods, luxury brands—especially coveted names like

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1. Katie Hafner, *Tiffany and eBay in Fight Over Fakes*, N.Y. TIMES (Nov. 27, 2007), <http://www.nytimes.com/2007/11/27/technology/27ebay.html> ("[A]s the biggest online marketplace, eBay is the center of a new universe of counterfeit products.").

2. See EBAY 2009 ANNUAL REPORT 18 (2009), available at <http://investor.ebay.com/annuals.cfm>.

3. *Tiffany Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 469 (S.D.N.Y. 2008).

4. *Tiffany Inc. v. eBay, Inc.*, 600 F.3d 93, 109 (2d Cir. 2010).

5. *Id.*

Tiffany, Louis Vuitton, and Gucci—are among the fastest-growing targets for counterfeits on the Internet.⁶

This Note proceeds in five parts. Part I examines the differences between trademark law and copyright law, discusses the development of secondary trademark liability principles, and reviews the current standards for secondary copyright liability. Part II describes eBay's business model and its current anti-counterfeiting efforts. Part III discusses *Tiffany v. eBay* and explains the Second Circuit's affirmance of the district court's holding that generalized knowledge is insufficient to impose upon eBay an affirmative duty to remedy the counterfeiting problem on its website. Finally, Part IV discusses why, after considering and weighing the legitimate interests at stake, courts should adopt a balancing framework—akin to tort law's reasonable alternative design theory—to determine the contours of secondary trademark liability.

This Note explains how the Second Circuit's approach to eBay's secondary liability fails to lay a reasonable template for addressing misaligned interests and complex issues of technological change. Shielding eBay from liability where it lacks specific knowledge of infringement largely eliminates worthwhile incentives for the company to develop more effective solutions. As there is evidence that eBay's efforts at combating infringement have not been effective, a balancing framework will likely encourage eBay to adopt more effective alternative anti-counterfeiting mechanisms as they become available. Importantly, by putting pressure on eBay and Tiffany to work together, a balancing framework can promote a legitimate secondary marketplace without restricting technological innovation.

I. SECONDARY TRADEMARK LIABILITY

A. COMPARING TRADEMARK AND COPYRIGHT LAW

Trademark and copyright protection differ in scope partly because of their differing rationales. Copyright law originates in the Constitution and encompasses a broad range of subject matters. By granting authors a set of exclusive rights over their works, copyright law incentivizes creativity to benefit the public.⁷ Copyright protection attaches from the moment a work is

6. Maura Kutner, *The Fight Against Fakes Online*, HARPER'S BAZAAR (Dec. 14, 2010), <http://www.harpersbazaar.com/fashion/fashion-articles/fight-against-fakes-online-0111>.

7. See U.S. CONST., art. I, § 8, cl. 8 (“The Congress shall have power . . . to 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”).

fixed in a tangible medium of expression,⁸ and it generally extends to the life of the author plus seventy years.⁹

Trademark law, on the other hand, focuses upon the quality of information in the marketplace.¹⁰ Trademark rights are acquired when a trademark is used in commerce and endure as long as the use continues.¹¹ Rather than protecting innovation or creativity directly, trademark law aims to “protect the integrity of the marketplace by prohibiting the use of marks associated with particular manufacturers in ways that would cause confusion as to the sources of the goods.”¹² In doing so, trademark law reduces consumer confusion as to source and incentivizes firms to invest in activities that improve brand reputation, such as supplying quality products and services.¹³

Both consumers and sellers benefit from having access to truthful information about the source of products and services.¹⁴ Sellers benefit by being able to invest and capitalize in goodwill without fear that others will appropriate it.¹⁵ In markets where the quality of information is accurate and consistent, consumers can determine the attributes without confronting information problems.¹⁶ By contrast, an “information asymmetry” exists in many secondary markets, like eBay, where sellers typically have better information about the products being offered than buyers can readily discern.¹⁷ Because the efficiency of the marketplace is largely contingent upon the quality of information available to consumers, proliferation of unreliable information increases consumer search costs.¹⁸ Consumers will have to spend more time and effort evaluating the merchandise and researching the product market to ensure the accuracy of claims or the authenticity of an item.

8. See 17 U.S.C. § 102 (2006).

9. 17 U.S.C. § 302(a).

10. Peter S. Menell & Suzanne Scotchmer, *Intellectual Property Law*, in 2 HANDBOOK OF LAW AND ECONOMICS 1536 (A. Mitchell Polinsky & Steven Shavell eds., 2007).

11. See generally ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 735 (5th ed. 2010) (“[Trademarks] are rights acquired with the use of a trademark in commerce, and they continue only so long as that use continues.”).

12. Menell & Scotchmer, *supra* note 10, at 1536.

13. *Id.*

14. Stacey Dogan & Mark Lemley, *Trademark in Transition: Institute for Intellectual Property & Information Law Symposium: Trademarks and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777, 787 (2004).

15. *Id.*

16. Menell & Scotchmer, *supra* note 10, at 1536.

17. *Id.*

18. *Id.* at 1537.

B. SECONDARY TRADEMARK LIABILITY

Secondary liability—imposing liability on a defendant who did not directly commit the infringing act—originates in tort law. Though the Lanham Act does not explicitly reference the liability of third-party infringers, courts have justified the importation of secondary tort liability principles into trademark law on the grounds that the Lanham Act is derived “generally and purposefully from the common law tort of unfair competition.”¹⁹ Secondary trademark liability comes in two flavors: contributory and vicarious.²⁰

1. *Contributory Trademark Infringement*

Contributory trademark infringement is a judicially created doctrine that grows out of tort law jurisprudence.²¹ A contributory infringer is “one who, with knowledge of the infringing activity, induces, causes, or materially contributes to the infringing conduct of another.”²²

In 1982, the Supreme Court articulated the current test for contributory trademark infringement in *Inwood Laboratories v. Ives Laboratories*.²³ There, a manufacturer of generic pharmaceuticals continued to supply pills to pharmacists who were intentionally mislabeling generic drugs with plaintiff’s protected trademark, rather than the appropriate generic label. The plaintiff stated a cause of action for contributory infringement by alleging that the defendant manufacturer “continued to supply [the product] to pharmacists who the petitioners knew or should have known were mislabeling generic drugs.”²⁴ The Court stated 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 trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.”²⁵

19. *AT&T Co. v. Winback & Conserve Program, Inc.*, 42 F.3d 1421, 1433 (3d Cir. 1994).

20. *See Perfect 10, Inc. v. Visa Int’l Serv. Ass’n*, 494 F.3d 788, 806–08 (9th Cir. 2007).

21. *See, e.g., Tiffany Inc. v. eBay, Inc.*, 600 F.3d 93, 103–04 (2d Cir. 2010); *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148 (7th Cir. 1992); *cf. Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005) (“[T]hese doctrines of secondary liability emerged from common law principles and are well established in the law.”) (citations omitted).

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

23. 456 U.S. 844 (1982).

24. *Id.*

25. *Id.* at 854 (emphasis added).

The Ninth Circuit read *Inwood* broadly, holding that the Supreme Court “laid down no limiting principle that would require defendant to be manufacturer or distributor.”²⁶ Indeed, other circuits have not confined contributory infringement in its application to manufacturers and distributors.²⁷ For example, the Eleventh Circuit acknowledged that a franchisor could be contributorily liable for a franchisee’s infringing actions if the franchisor had intentionally induced the infringing acts or actively participated in any infringement scheme.²⁸ Moreover, the Seventh Circuit observed that the landlord of a flea market could be contributorily liable for a tenant’s sale of infringing products where the landlord was found to have been “willfully blind” to the infringing acts.²⁹

In the years following *Inwood*, technological changes precipitated by the Internet have made possible situations where a defendant could contribute in some way to trademark infringement without supplying a product to the direct infringer. In one such case, the court applied a modified standard in which *Inwood*’s test for contributory trademark infringement applies if a defendant exercises sufficient control over the infringing conduct.³⁰

2. Vicarious Trademark Infringement

Vicarious trademark infringement has evolved in the federal courts under traditional tort and agency principles.³¹ Vicarious liability is appropriate where the defendant and the infringer “have an apparent or actual partnership, have

26. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996).

27. *See, e.g., Procter & Gamble Co. v. Haugen*, 317 F.3d 1121, 1128 (10th Cir. 2003) (stating that action may extend to “licensors, franchisors, or to similarly situated third parties”); *Mini Maid Servs. Co. v. Maid Brigade Systems, Inc.*, 967 F.2d 1516, 1521 (11th Cir. 1992) (extending the contributory liability analysis in *Inwood Laboratories* to govern the relationship between a franchisor and its franchisees); *Habeeba’s Dance of the Arts, Ltd. v. Knoblauch*, 430 F. Supp. 2d 709, 714–15 (S.D. Ohio 2006) (sustaining contributory liability claim against landlords who allowed trademark infringers to use their property).

28. *Mini Maid Servs. Co.*, 967 F.2d at 1522.

29. *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992).

30. Specifically, “when measuring and weighing a fact pattern in the contributory infringement context without the convenient ‘product’ mold dealt with in *Inwood Lab.*, we consider the extent of control exercised by the defendant over the third party’s means of infringement.” *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999); *see also Tiffany Inc. v. eBay, Inc.*, 600 F.3d 93, 105 (2d Cir. 2010).

31. *See AT&T Co. v. Winback & Conserve Program, Inc.*, 42 F.3d 1421, 1437 (3rd Cir. 1994); *David Berg & Co. v. Gatto Int’l Trading Co.*, 884 F.2d 306, 311 (7th Cir. 1989); *Hard Rock Cafe*, 955 F.2d at 1150 (citing *David Berg*, 844 F.2d at 311).

authority to bind one another in transactions with third parties, or exercise joint ownership or control over the infringing product.”³²

In *Hard Rock Cafe*, the Seventh Circuit declined to extend vicarious trademark infringement to the owner of a flea market because it did not exercise control over the third-party vendors beyond that exercised by a landlord over his tenants.³³ The court noted that the supervision of the flea markets was minimal, as the vendors were subject to very few rules and limitations, no one screened the vendors’ wares before they entered the market and set up their stalls, and any examination after that was cursory.³⁴

C. SECONDARY COPYRIGHT LIABILITY

Courts have also generally looked to tort law in developing secondary copyright liability.³⁵ Although the Copyright Act does not expressly address secondary liability, the Supreme Court has explained that this does not preclude the imposition of liability on third parties.³⁶ Moreover, secondary copyright liability finds support in the legislative history underlying the 1976 Copyright Act, which makes two direct references to indirect liability standards.³⁷ Secondary copyright liability also comes in two forms: contributory liability and vicarious liability.³⁸

1. *Contributory Copyright Infringement*

Contributory copyright infringement finds its roots in the common law tort doctrine of joint liability—that one who knowingly participates in or furthers a tortious act is jointly and severally liable with the primary tortfeasor.³⁹ To be held liable for contributory copyright infringement, one

32. *Hard Rock Cafe*, 955 F.2d at 1150 (citing *David Berg*, 884 F.2d at 311).

33. *Id.* at 1150 n.4.

34. *Id.* at 1146.

35. Peter S. Menell & David Nimmer, *Unwinding Sony*, 95 CALIF. L. REV. 941, 996–97 (2007).

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

37. H.R. REP. NO. 94-1476, at 61, 159–60 (1976).

38. Mark Bartholomew & John Tehranian, *The Secret Life of Legal Doctrine: The Divergent Evolution of Secondary Liability in Trademark and Copyright Law*, 21 BERKELEY TECH. L.J. 1363, 1366 (2006).

39. 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”).

must have knowledge of the infringing activity and induce, cause, or materially contribute to the infringing conduct of another.⁴⁰

In *Fonovisa, Inc. v. Cherry Auction, Inc.*,⁴¹ for example, the Ninth Circuit upheld a claim for contributory copyright infringement against a swap meet proprietor for the infringing activities of vendors on its property.⁴² There, the knowledge prong of the contributory copyright infringement was satisfied because the proprietor was aware that vendors in its swap meet were selling counterfeit recordings in violation of the plaintiff's copyrights.⁴³ In concluding that the material contribution prong was also met, the court noted that "it would be difficult for the infringing activity to take place in the massive quantities alleged without the support services provided by the swap meet."⁴⁴ The supporting services provided by the defendants included the provision of space, utilities, parking, advertising, plumbing, and customers.⁴⁵

2. *Vicarious Copyright Infringement*

Like vicarious trademark infringement, vicarious copyright infringement grew out of the agency branch of indirect tort liability.⁴⁶ Nevertheless, a defendant may be guilty of vicarious copyright liability even in the absence of a formal agency relationship.⁴⁷ To succeed on a claim for vicarious liability, a plaintiff must demonstrate that the defendant has the right and ability to supervise the infringing activity and obtains a direct financial benefit from the infringement. Unlike contributory liability, vicarious liability does not require knowledge, as "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."⁴⁸

In *Fonovisa*, the Ninth Circuit found that the swap meet proprietor could also be vicariously liable for the third-party vendors' copyright infringement.⁴⁹ Because the swap meet proprietor had the right to terminate vendors for any reason, promoted the swap meet, patrolled the premises,

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

41. 76 F.3d 259 (9th Cir. 2006).

42. *Id.* at 264.

43. *Id.* at 261, 264.

44. *Id.* at 264. The court took the view that "providing the site and facilities for known infringing activity is sufficient to establish contributory liability." *Id.*

45. *Id.*

46. *Menell & Nimmer*, *supra* note 35, at 1014.

47. *Bartholomew & Tehranian*, *supra* note 38, 1394–95.

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

49. 76 F.3d 259, 264 (9th Cir. 1996).

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, it had the ability to control the activities of the vendors.⁵⁰ Moreover, the court concluded that a daily rental fee by each of the infringing vendors, an admission fee by each customer, and incidental payments for parking, food, and other services by customers seeking to purchase infringing recordings can satisfy the direct financial benefit prong of the vicarious copyright infringement test.⁵¹ The court rejected the proprietor's argument that a commission—directly tied to the sale of particular infringing items—is required.⁵²

3. *Secondary Copyright Liability in the Digital Age*

In 1998, Congress enacted the Digital Millennium Copyright Act (DMCA) in an effort to mitigate the problems presented by copyright enforcement in the digital age.⁵³ The DMCA provides a series of safe harbors to shield service providers from liability, provided that the service providers remove infringing materials upon proper notification from copyright owners.⁵⁴ The safe harbor provisions thus endeavor to facilitate cooperation between service providers and copyright owners by striking a balance between their competing interests.⁵⁵

In order to enjoy the limited immunities afforded under the DMCA safe harbors, a defendant must satisfy four threshold conditions. First, the defendant must be a “service provider”⁵⁶ and must “adopt[] and reasonably implement[] a policy” that terminates accounts of users who are repeat infringers.⁵⁷ Second, a service provider is insulated from liability for copyright

50. *Id.* at 261–62.

51. *Id.* at 263.

52. *Id.*

53. 17 U.S.C. § 512 (2006); *see also* *Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir. 2004).

54. *Id.*

55. H.R. REP. NO. 105-551, pt. 2, at 49 (1998).

56. 17 U.S.C. § 512(k)(1) (A service provider is “a provider of online services or network access, or the operator of facilities therefor” and “an entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user's choosing, without modification to the content of the material as sent or received.”).

57. *Id.* § 512(i)(1)(A). Although the statute does not define “implemented,” one court has held that a service provider has implemented a policy if it has “a working notification system, a procedure for dealing with DMCA-compliant notifications, and if it does not actively prevent copyright owners from collecting information needed to issue such notifications.” *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102, 1109 (9th Cir. 2007). A policy

infringement if it (1) does not have actual knowledge of infringing activity, (2) is not aware of facts or circumstances from which infringing activity is apparent, or (3) expeditiously removes the allegedly infringing material upon obtaining such knowledge or awareness.⁵⁸ Third, a service provider must not receive a financial benefit directly attributable to the infringing activity, if it had the ability to control such activity.⁵⁹ Fourth, a service provider must remove the allegedly infringing material upon notification of claimed infringement.⁶⁰

The DMCA prescribes a notice-and-takedown regime that enables copyright owners to notify service providers about allegedly infringing activity and demand that such material be removed.⁶¹ When a copyright owner suspects that her copyright has been infringed, she must follow the notice-and-takedown provisions set out in § 512(c)(3) of the DMCA. Upon proper notice,⁶² the service provider must expeditiously remove any material that is claimed to be infringing or to be the subject of infringing activity.⁶³ The service provider is then required to take reasonable steps to notify the creator of the allegedly infringing material that the material has been removed as a result of the DMCA notice-and-takedown request.⁶⁴ In response to the removal of her material, the accused infringer may submit a “counter-notification” that she has a good faith belief that her material was removed as a result of mistake or misidentification.⁶⁵ Upon receipt of a counter-notification, the service provider is then required to notify the original claimant that unless it receives notice of a pending legal action within fourteen days, the material will be replaced.⁶⁶

II. WHAT IS EBAY?

eBay operates the world’s largest online marketplace,⁶⁷ www.ebay.com, that allows individuals and businesses to buy and sell a broad variety of

is “unreasonable only if the service provider failed to respond when it had knowledge of the infringement.” *Id.*

58. 17 U.S.C. § 512(c)(1).

59. *Id.* § 512(c)(1)(B).

60. *Id.* § 512(c)(1)(C).

61. *Id.* § 512.

62. *See id.* § 512(c)(3).

63. *Id.* § 512(d)(3).

64. *Id.* § 512(g)(2)(A).

65. *Id.* § 512(g)(3).

66. *Id.* § 512(g)(2)(B)–(C).

67. *See The eBay Company*, EBAY, <http://pages.ebay.com/aboutebay/thecompany/companyoverview.html> (last visited Feb. 9, 2011); TRADEMARKS AND UNFAIR

goods and services worldwide.⁶⁸ Since eBay's founding in 1995, it has become one of the world's largest and most popular shopping destinations.⁶⁹ With over 300 million registered users, eBay offers localized sites in some thirty countries and facilitates tens of millions of transactions every day.⁷⁰

Unlike many electronic marketplaces, eBay's business model has never included maintaining physical inventory or possession of third party seller merchandise.⁷¹ As a platform for sales, eBay brings buyers and sellers together in a manner where sellers list items for sale, buyers bid on items of interest, the parties consummate the transaction on their own, and eBay collects its final value fee independent of payment and shipment.⁷²

Unfortunately, eBay's popularity and convenience has also attracted dishonest individuals looking to sell or buy counterfeit items. An estimated 29 percent of online auction fraud happens on eBay.⁷³ As such, eBay accounts for approximately 15 percent of known fraud on the Internet.⁷⁴ In recent years, numerous luxury brand owners have filed suit against eBay seeking to hold eBay liable for alleged counterfeit items listed on its website by third parties.⁷⁵

A. EBAY'S BUSINESS MODEL

eBay's goals as a publicly traded company are twofold: to provide its users with a well-functioning trading platform, and to maximize profits, both

COMPETITION COMMITTEE, ONLINE AUCTION SITES FINAL REPORT 1, *available at* www.abcny.org/pdf/report/Online%20Auction%20Sites%20Final%20Report.pdf.

68. According to eBay's mission statement, "eBay's mission is to provide a global trading platform where practically anyone can trade practically anything." *The Company*, EBAY CANADA, <http://pages.ebay.ca/aboutebay/thecompany/companyoverview.html> (last visited Feb. 10, 2011); *see also* Aron Hsiao, *What Is eBay?*, ABOUT, http://ebay.about.com/od/gettingstarted/a/g_s_whatisebay.htm (last visited Feb. 9, 2011).

69. Aron Hsiao, *About eBay the Business*, ABOUT, http://ebay.about.com/od/ebaylifestyle/a/el_bus09.htm (last visited Feb. 9, 2011).

70. *Id.*

71. *Tiffany Inc. v. eBay, Inc.*, 600 F.3d 93, 97 (2d Cir. 2010).

72. *The eBay Business Model*, ALLBUSINESS, <http://www.allbusiness.com/sales/internet-ebay/3251-1.html> (last visited Feb. 9, 2011).

73. Matthew C. Berntsen, *Knowledge and Misfeasance*, 16 B.U. J. SCI. & TECH. L. 102, 103 (2010).

74. *Id.*

75. EBAY INC., 2009 ANNUAL REPORT / FORM 10-K 18, 46–47 (2009), *available at* <http://investor.ebay.com/annuals.cfm>. Luxury brand owners that have filed suit against eBay alleging trademark infringement include Louis Vuitton Malletier, Christian Dior Couture, Parfums Christian Dior, Kenzo Parfums, Parfums Givenchy, Guerlain Société, L'Oreal SA, and Tiffany, Inc. *Id.* at 46–47.

in the short term and over the long term.⁷⁶ The two goals are interdependent. eBay attracts hundreds of millions of users by acting as a highly efficient middleman. Because eBay's revenue stream is reliant upon the various fees it charges its users, the more transactions it facilitates, the more money it makes.⁷⁷

Browsing and bidding on auctions is free of charge, but sellers are charged two basic kinds of fees. For each item listed on eBay, a nonrefundable insertion fee is charged based on the seller's opening bid on the item.⁷⁸ Once the auction is completed, eBay charges a final value fee that is based on the final sale price, listing format (i.e., auction-style or fixed price), and category of goods.⁷⁹ eBay charges additional fees for optional features designed to boost sales, such as hosting pictures to help buyers see more of the seller's listed item or selling with a reserve price.⁸⁰ Further, PayPal, the online payment service eBay acquired in 2002,⁸¹ also collects a fee from sellers for each payment completed through its service.⁸²

B. EBAY'S ANTI-FRAUD EFFORTS

1. *Trust and Safety Department*

eBay expends as much as \$20 million annually on tools to promote trust and safety on its website.⁸³ One quarter of eBay's workforce, roughly 4,000 employees, is devoted to addressing "trust and safety" issues.⁸⁴ Of these 4,000 employees, 2,000 serve as eBay Customer Service Representatives

76. Aron Hsiao, *Buyer vs. Seller Bias on eBay*, ABOUT, http://ebay.about.com/od/ebaylifestyle/a/el_bias.htm (last visited Dec. 24, 2010).

77. *See Fees for Selling on eBay*, EBAY, <http://pages.ebay.com/help/sell/fees.html> (last visited Dec. 24, 2010).

78. *Insertion Fees*, EBAY, <http://pages.ebay.com/help/sell/insertion-fee.html> (last visited Feb. 16, 2011).

79. *Final Value Fees*, EBAY, <http://pages.ebay.com/help/sell/fvf.html> (last visited Feb. 9, 2011).

80. *Optional Fees*, EBAY, <http://pages.ebay.com/help/sell/fees.html#optional> (last visited Feb. 9, 2011).

81. *The eBay Company*, <http://pages.ebay.com/aboutebay/thecompany/companyoverview.html> (last visited Feb. 9, 2011).

82. *Fees*, PAYPAL, https://www.paypal.com/cgi-bin/webscr?cmd=_display-fees-outside (last visited Feb. 9, 2011). Though eBay does not require sellers to use PayPal as a payment method, recent surveys show that three out of four buyers prefer paying with PayPal to any other method because PayPal payments are generally safer and more efficient. Auction Tools for eBay, PAYPAL, https://www.paypal.com/cz/cgi-bin/webscr?cmd=_auction-outside&nav=1.4.0 (last visited Feb. 16, 2011).

83. *Tiffany Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 476 (S.D.N.Y. 2008).

84. *Id.*; Brief for Appellee at 18, *Tiffany, Inc. v. eBay, Inc.*, 600 F.3d 93 (2d Cir. 2010) (No. 08-3947).

(“CSRs”).⁸⁵ More than 200 CSRs focus exclusively on combating infringement. Furthermore, eBay employs seventy individuals who work exclusively with law enforcement.⁸⁶

2. *Fraud Engine*

eBay devotes more than \$5 million annually to maintaining and enhancing a fraud engine that automatically searches for activity that violates eBay policies.⁸⁷ The fraud engine uses over 13,000 different search criteria to identify listings that contain indicia of counterfeiting apparent on the face of the listings without requiring expertise in rights owners’ brands or products.⁸⁸ eBay developed the fraud engine to flag or remove listings that expressly offer “knock-off” or “replica” merchandise, contain blatant disclaimers of genuineness, or include statements that the seller “cannot guarantee the authenticity” of the item.⁸⁹ Additionally, the fraud engine contains data elements designed to evaluate listings based on the seller’s Internet Protocol (IP) address and any issues associated with the seller’s account.⁹⁰ Beyond these “red flags,” the fraud engine cannot determine whether a listed item is actually counterfeit.

Listings flagged by the fraud engine are sent to eBay’s CSRs for review and possible further action.⁹¹ Upon reviewing a potentially infringing listing, the CSR may (1) remove the listing from eBay; (2) send a warning to the seller; (3) place restrictions on the seller’s account, such as a selling restriction or suspension; or (4) refer the matter to law enforcement.⁹² eBay removes thousands of listings per month based on CSR review of listings captured by the fraud engine.⁹³ Nevertheless, eBay’s ability to detect infringement is limited by virtue of the fact that eBay cannot physically inspect merchandise in the listings.⁹⁴ Listings that offer potentially infringing or counterfeit items inevitably require a more in-depth review.

85. *Tiffany (NJ) Inc.*, 576 F. Supp. at 476.

86. *Id.*

87. Brief for Appellee, *supra* note 84, at 18–19.

88. *Id.*

89. *Id.* at 19.

90. *Id.*

91. *Id.*

92. *Tiffany Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 477 (S.D.N.Y. 2008).

93. Brief for Appellee, *supra* note 84, at 19–20.

94. *Tiffany Inc.*, 576 F. Supp. 2d at 477–78.

3. *User Suspensions*

eBay primarily employs a “three-strikes rule” against sellers for repeat offenses.⁹⁵ Nevertheless, a seller can be suspended for a first violation if it is determined that, for example, she listed a number of infringing listings and this appears to be the only reason she uses eBay’s services.⁹⁶ eBay has also invested substantial resources in developing tools to “detect patterns of fraudulent activity, identify previously suspended users, and prevent such users from re-registering, even with different personally identifying information.”⁹⁷ These suspension policies apply to every user, including high-volume sellers known as PowerSellers.⁹⁸

4. *The Verified Rights Owner (“VeRO”) Program*

Introduced in 1998, VeRO is now a large part of eBay’s anti-fraud efforts.⁹⁹ VeRO reflects eBay’s recognition that, in order to effectively combat counterfeiting on its site, eBay must rely on cooperation from rights owners whose goods are offered on the site.¹⁰⁰ Currently, more than 14,000 rights owners, including Tiffany, participate in the VeRO program.¹⁰¹

The core of VeRO is a notice-and-takedown system. Detection of counterfeit goods requires expertise in identifying those aspects of the goods that are different from the genuine versions. Because intellectual property rights owners are intimately familiar with their own merchandise, VeRO allows a rights owner who identifies a potentially infringing item to report the listing to eBay by submitting a Notice of Claimed Infringement (“NOCI”).¹⁰² Upon receiving a NOCI that contains the necessary information and has indicia of accuracy, eBay CSRs remove the reported listing. eBay’s practice has been to remove reported listings within twenty-four hours of receiving a NOCI.¹⁰³ Currently, three-quarters of reported listings are removed within

95. Brief for Appellee, *supra* note 84, at 21.

96. *Id.*

97. *Id.*

98. *Id.*

99. Daniel NISSANOFF, *FUTURESHOP: HOW THE NEW AUCTION CULTURE WILL REVOLUTIONIZE THE WAY WE BUY, SELL, AND GET THE THINGS WE REALLY WANT* 163 (2006).

100. Brief for Appellee, *supra* note 84, at 13; EBAY, *FIGHTING AGAINST ONLINE SOLICITATIONS OF COUNTERFEITS* 25 (2009), www.ebaymainstreet.com/files/Fighting_Against_online_Solicitations.pdf.

101. *Tiffany Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 478 (S.D.N.Y. 2008).

102. *FIGHTING AGAINST ONLINE SOLICITATIONS OF COUNTERFEITS*, *supra* note 100, at 25.

103. *Tiffany Inc.*, 576 F. Supp. 2d at 478.

four hours of notification.¹⁰⁴ eBay typically removes thousands of listings per week based on the submission of NOCIs by rights holders.¹⁰⁵

When eBay removes a listing before bidding has ended, eBay cancels all bids and notifies the seller and bidders that it has removed the listing.¹⁰⁶ eBay also informs the seller of the reason for the removal and provides educational information to prevent the seller from committing the same violation.¹⁰⁷ If the bidding has ended, eBay cancels the transaction retroactively, removes the listing, and informs the winning bidder and the seller that it has removed the listing and that the parties should not complete the transaction.¹⁰⁸ Each time a listing is removed, eBay refunds associated fees, including listing fees, feature fees, and final value fees.¹⁰⁹ eBay also reviews the seller's account and routinely takes remedial action, including suspending the seller's account.¹¹⁰

5. "About Me" Page

As an additional educational tool, eBay encourages rights owners to create an "About Me" webpage on the eBay website to inform users about their products, intellectual property rights, and legal positions.¹¹¹ eBay does not exercise any control over the content of a rights owner's "About Me" page.¹¹² After eBay removes their listings, sellers are directed to the relevant rights owner's "About Me" page for information about why eBay removed their listings and how they can avoid posting infringing listings in the future.¹¹³

Tiffany, for example, has maintained an "About Me" page since the beginning of 2004.¹¹⁴ Tiffany's "About Me" page states that "most of the purported TIFFANY & CO. silver jewelry and packaging available on eBay is counterfeit."¹¹⁵ Tiffany's "About Me" page further claims that genuine

104. *Id.*

105. *Id.*

106. *Id.*

107. *Id.*

108. *Id.*

109. *Id.* at 478–79; Brief for Appellee, *supra* note 84, at 14–15.

110. Brief for Appellee, *supra* note 84, at 15.

111. FIGHTING AGAINST ONLINE SOLICITATIONS OF COUNTERFEITS, *supra* note 100, at 20.

112. *Tiffany Inc.*, 576 F. Supp. 2d at 479.

113. *Id.*

114. *Id.*

115. *eBay View About Me for tiffanytrademark2*, eBay, <http://cgi3.ebay.com/ws/eBayISAPI.dll?ViewUserPage&userid=tiffanytrademark2> (last visited Feb. 10, 2011).

Tiffany merchandise is available only through stores, catalogs, and Tiffany's own website, and that the manufacture and sale of counterfeit Tiffany goods on eBay is a crime.¹¹⁶ The page concludes by stating that "TIFFANY & CO. RIGOROUSLY PROTECTS ITS TRADEMARKS AND COPYRIGHTS."¹¹⁷

III. TIFFANY V. EBAY

Tiffany has created a brand of jewelry known for its high-end quality and style.¹¹⁸ Since 2000, all new Tiffany jewelry sold in the United States has been available exclusively through Tiffany's retail stores, catalogs, and website, and through its Corporate Sales Department.¹¹⁹ Tiffany does not, nor can it, control the legitimate secondary market in authentic Tiffany jewelry.¹²⁰

In 2004, Tiffany brought an action against eBay, alleging that hundreds of thousands of counterfeit silver jewelry items were offered for sale on eBay's website from 2003 to 2006.¹²¹ Tiffany sought to hold eBay liable for contributory trademark infringement, among other things, for facilitating and allowing the counterfeit goods to be sold on its website.¹²² Though Tiffany acknowledged that individual sellers, rather than eBay, are responsible for listing and selling counterfeit Tiffany items,¹²³ Tiffany nevertheless argued that eBay was on notice about the counterfeiting activity and therefore had an affirmative duty to remedy the problem or be held contributorily liable.¹²⁴ Tiffany also asserted that eBay's failure to conduct an investigation to determine the extent of counterfeiting on its website constituted willful blindness.¹²⁵ In response, eBay argued that it is the proprietor's burden, not eBay's, to monitor the eBay website for counterfeits and to bring counterfeits to eBay's attention.¹²⁶ eBay also claimed that it undertook extensive, voluntary efforts to combat counterfeiting on its website.¹²⁷

116. *Id.*

117. *Id.*

118. *Tiffany Inc. v. eBay, Inc.*, 600 F.3d 93, 96 (2d Cir. 2010).

119. *Id.* at 97.

120. *Id.*

121. *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 469 (S.D.N.Y. 2008).

122. *Id.*

123. *Id.*

124. *Id.*

125. *Id.* at 513.

126. *Id.*

127. *Id.*

Although eBay has no direct means of inspecting the goods and making authenticity determinations, the district court found that eBay had taken expensive and time-consuming measures to remove counterfeit Tiffany items and to police against their being sold on eBay.¹²⁸ The district court concluded, “eBay consistently took steps to improve its technology and develop anti-fraud measures as such measures became technologically feasible and readily available.”¹²⁹ Following a bench trial, the district court ruled in favor of eBay on all claims.¹³⁰ Tiffany appealed from the district court’s judgment for eBay.¹³¹

The Second Circuit affirmed the district court’s conclusion that eBay’s generalized knowledge of infringement of Tiffany’s trademark on its website was not sufficient to impose upon eBay an affirmative duty to remedy the problem. Therefore, eBay was not liable for contributory trademark infringement for facilitating the infringing conduct of counterfeiting vendors.¹³²

In reaching its holding, the Second Circuit looked to the seminal case on secondary liability for trademark infringement, *Inwood Laboratories, Inc.*¹³³ The Second Circuit stated that “when applying *Inwood* to service providers, there are two ways in which a defendant may become contributorily liable for the infringing conduct of another: first, if the service provider intentionally induces another to infringe a trademark, and second, if the service provider continues to supply its [service] to one whom it knows or has reason to know is engaging in trademark infringement.”¹³⁴ Because inducement was not an

128. *Id.* at 476 (“eBay has made substantial investments in anti-counterfeiting initiatives.”).

129. *Id.* at 493.

130. *Id.* at 527.

131. *Tiffany Inc. v. eBay, Inc.*, 600 F.3d 93, 101 (2d Cir. 2010).

132. *Id.* at 107.

133. *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982) (“[I]f a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.”). For further discussion, see *supra* Section I.B.1. Note, however, that eBay argued in the district court that the *Inwood* test applies only to manufacturers and distributors of products and not to online service providers, as the language in *Inwood* explicitly states; but it did not raise this issue on appeal. *Tiffany Inc.*, 600 F.3d at 105. Accordingly, the Second Circuit applied the *Inwood* standard without examining the issue of whether or not the standard applies to online service providers. *Id.* at 105–06.

134. *Id.* at 106 (internal quotations omitted). The district court acknowledged that cases decided after *Inwood* have imposed liability for contributory trademark infringement beyond manufacturers and distributors of products, and thus concluded that the *Inwood* test can be

issue in this case, the Second Circuit focused its analysis on the “knows or has reason to know” prong of the test.¹³⁵

The Second Circuit agreed with the district court that the “knows or has reason to know” prong of the *Inwood* test requires more than a general knowledge of counterfeiting activity.¹³⁶ In support of its conclusion, the Second Circuit looked to the Supreme Court’s comments about the *Inwood* test in *Sony Corp. of America*.¹³⁷ There, the Court explained that *Inwood*’s “narrow standard” would have required knowledge by Sony of “identified individuals” engaging in infringing conduct.¹³⁸ Based on this language, the Second Circuit concluded that for contributory trademark infringement liability to lie, a service provider must have “[s]ome contemporary knowledge of which *particular* listings are infringing or will infringe in the future.”¹³⁹

The Second Circuit dismissed Tiffany’s concerns about willful blindness on the part of service providers. First, the court explained that private market forces incentivize service providers like eBay to reduce or eliminate the counterfeit goods sold on their websites.¹⁴⁰ Indeed, eliminating counterfeit merchandise preserves the reputation of online service providers as safe places to do business.¹⁴¹ Second, the court stated that willful blindness is equivalent to actual knowledge for purposes of the Lanham Act.¹⁴² Therefore, a service provider will not be immune to liability if it has reason to know that certain users of its service are engaging in infringing activity but chooses to look the other way.¹⁴³

applied to service providers like eBay. *Tiffany Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 504–06 (S.D.N.Y. 2008).

135. *Tiffany Inc.*, 600 F.3d at 106.

136. *Id.* at 106–07.

137. *Id.* at 108; *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984).

138. *Tiffany Inc.*, 600 F.3d at 108 (citing *Sony*, 464 U.S. at 439, n.19).

139. *Id.* at 107 (emphasis added).

140. *Id.* at 109.

141. See FIGHTING AGAINST ONLINE SOLICITATIONS OF COUNTERFEITS, *supra* note 100, at 16 (“eBay’s business model is built on trust. All online businesses and eBay especially, need to convince users that their services are safe vehicles through which to purchase items without needing to first meet the sellers.”).

142. *Tiffany Inc.*, 600 F.3d at 109.

143. *Id.*

IV. ADDRESSING SECONDARY TRADEMARK INFRINGEMENT IN THE DIGITAL AGE

A. A DMCA-LIKE SAFE HARBOR DOES NOT EFFECTIVELY ADDRESS THE COUNTERFEITING PROBLEM ON eBay

In the *Tiffany v. eBay* decision, the Second Circuit effectively placed eBay into a DMCA-like safe harbor to shield it from contributory trademark infringement liability. By requiring knowledge of *specific* instances of actual infringement beyond those that were addressed in Tiffany's notices, the court gave the "knows or has reason to know" prong of the *Inwood* test an interpretation that parallels the knowledge requirement in the copyright contributory infringement context.¹⁴⁴ The court then found eBay's practices under VeRO—which functions according to the DMCA notice-and-takedown provisions: promptly removing any challenged listing, informing the seller of the reason for cancellation, and warning buyers not to purchase the disputed item¹⁴⁵—sufficient for eBay to avoid possessing the requisite level of knowledge for liability.¹⁴⁶ Thus, by commending eBay's implementation of VeRO and finding that this system prevented eBay from meeting the new knowledge-plus threshold for contributory liability, the Second Circuit essentially imported a DMCA-like safe harbor into the contributory trademark infringement context.

Unfortunately, by failing to examine the efficacy of eBay's anti-counterfeiting programs or to explore the possibility of alternative methods of reducing infringement, the Second Circuit effectively authorized eBay's current state of anti-fraud efforts. This is problematic because statistics show that eBay has a long way to go before its website can be deemed a safe place to do business.¹⁴⁷

144. *See id.* at 109; *Viacom Int'l, Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514, 525 (S.D.N.Y. 2010). In discussing the requirements for DMCA safe harbor eligibility, the court explained, "if a service provider knows (from notice from the owner, or a 'red flag') of specific instances of infringement, the provider must promptly remove the infringing material. If not, the burden is on the owner to identify the infringement. General knowledge that infringement is 'ubiquitous' does not impose a duty on the service provider to monitor or search its service for infringements." *Id.*

145. *See Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082 (C.D. Cal. 2001). In *Hendrickson*, the court found that "eBay has established that it meets the test for safe harbor under Section 512(c) . . . [and is thus] entitled to summary judgment in its favor on the copyright claims." *Id.* at 1094.

146. *Tiffany Inc.*, 600 F.3d at 106.

147. In 2004 and 2005, Tiffany conducted two surveys known as "Buying Programs" in an attempt to assess the extent of counterfeit Tiffany merchandise sold on eBay's site. *Id.* at 97. Tiffany's quality management personnel found that 73.1 percent of the "Tiffany" jewelry

Despite eBay's commendable efforts in implementing anti-counterfeiting programs, it continues to serve as a haven for counterfeit goods. While VeRO has been in place for over a decade,¹⁴⁸ the number of counterfeit items sold on eBay has generally risen over the past few years.¹⁴⁹ Furthermore, despite eBay's significant investments in its Trust and Safety program and fraud engine, Tiffany still found that approximately 73.1 percent of the Tiffany-marked sterling silver merchandise on eBay was counterfeit, and that only 5 percent was genuine.¹⁵⁰ More than \$1.5 million worth of Tiffany products is traded on eBay per month.¹⁵¹ If, according to eBay's statistical expert, at least 30 percent or more of Tiffany-marked jewelry on eBay "could safely be deemed counterfeit,"¹⁵² eBay profits substantially from sales of counterfeit goods.

B. EXAMINING THE TRANSACTIONS AT ISSUE AND CONSIDERING THE LEGITIMATE INTERESTS AT STAKE

The Second Circuit's approach to the trademark infringement problem on eBay does not achieve a satisfactory net social balance. The court's ultimate finding—that eBay was not contributorily liable because it only had generalized knowledge of infringing activity¹⁵³—will have a substantial adverse impact on the legitimate interests of eBay users with concomitantly little reduction in cognizable harm to Tiffany and other luxury brand owners. Tiffany will continue to carry the immense burden of policing eBay's vast marketplace for infringing versions of its branded items, while eBay will continue profiting from illegitimate transactions that go unnoticed by rights owners. Perhaps most importantly, legitimate eBay users will be deprived of a secondary market with integrity.

purchased in the 2004 Buying Program and 75.5 percent of those purchased in the 2005 Buying Program were counterfeit. *Id.* Although the district court concluded that the Buying Programs were "methodologically flawed and of questionable value," even eBay's expert conceded that 30 percent or more of the "Tiffany" jewelry listed on eBay's website could safely be deemed counterfeit. *Tiffany Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 486, 512 (S.D.N.Y. 2008).

148. NISSANOFF, *supra* note 99, at 163.

149. Kate Goldwasser, *Knock It Off: An Analysis of Trademark Counterfeit Goods Regulation in the United States, France, and Belgium*, 18 CARDOZO J. INT'L & COMP. L. 207, 210 (2010).

150. *Tiffany Inc.*, 576 F. Supp. 2d at 482. Tiffany's quality management personnel deemed the remaining 21.9 percent potentially actionable but did not determine that they were counterfeit. *Id.* at 485.

151. NISSANOFF, *supra* note 99, at 168.

152. *Tiffany Inc.*, 576 F. Supp. 2d at 486.

153. *Tiffany Inc. v. eBay, Inc.*, 600 F.3d 93, 109 (2d Cir. 2010).

Finding an effective yet practical solution to the infringement problem on eBay requires an examination of the transactions at issue. A consideration and weighing of the legitimate interests at stake may reveal that it is in the public's interest for eBay to take additional, affirmative steps to combat infringement, even if it only has generalized knowledge of illegitimate activity on its website.

Figure 1: MATRIX OF INTERESTS

	Honest Buyers	Dishonest Buyers
Honest Sellers	1. H-H: <i>Legitimate</i>	3. H-DH: <i>Unlikely</i>
Dishonest Sellers	2. DH-H: <i>Duped Buyers</i>	4. DH-DH: <i>Squalor Zone</i>
eBay: Prefers all transactions in its marketplace.		
Tiffany: Arguably has an incentive to eliminate all transactions in the secondary market.		

1. *Honest Sellers-Honest Buyers*

Both Honest Sellers and Honest Buyers have a substantial, legitimate interest in having access to a secondary marketplace like eBay. eBay's popularity and growth is in large part attributable to its ability to reduce consumer search costs. In just a few seconds, eBay's automated search engine can sort through millions of listings in over 50,000 different product categories to help consumers find what they are looking for.¹⁵⁴ As the largest secondary market in the world, eBay enables buyers to access goods they would have been hard-pressed to locate, such as antiques, collectibles, and discontinued items. Consumers can also use eBay to conveniently locate authentic luxury items without paying high retail prices. Moreover, many buyers find that eBay is one of the best places to window shop.¹⁵⁵ Side-by-side comparisons of item listings can help users make better purchasing decisions by providing insight into the real market value of most types of goods.¹⁵⁶

Furthermore, eBay's democratic marketplace allows individual sellers with few resources to compete on an equal footing with the largest corporations.¹⁵⁷ eBay has lowered operating expenses by helping sellers

154. DAVID BUNNELL, THE EBAY PHENOMENON: BUSINESS SECRETS BEHIND THE WORLD'S HOTTEST INTERNET COMPANY 6 (2000); FIGHTING AGAINST ONLINE SOLICITATIONS OF COUNTERFEITS, *supra* note 100, at 24.

155. Hsiao, *supra* note 68.

156. *Id.*

157. ADAM COHEN, THE PERFECT STORE: INSIDE EBAY 10 (2002). In fact, as many as 730,000 people make their living by selling on eBay. ELLEN LEWIS, THE EBAY

circumvent high-priced retailing space, exclusive distribution channels, and costly advertising, all the while allowing them to market directly to millions of buyers.¹⁵⁸ Registering on eBay and listing items is relatively fast, simple, and inexpensive. Transacting online eliminates physical distance and allows individuals to buy and sell on a 24/7 basis, as buyers and sellers need not be available at the same time to do business.

Before sites like eBay emerged, sellers had to take their unwanted goods to physical secondary-market channels, such as consignment stores, that are generally selective in what they accept.¹⁵⁹ Even if the shops accepted the goods, sellers seldom had control over where the shopkeeper set the price and how the merchandise was marketed.¹⁶⁰ Many traditional secondary-market channels collect high commissions on sales,¹⁶¹ denying Honest Sellers—who often paid retail prices—the resale value of their goods.

Though it is evident from this discussion that Honest Buyers and Sellers have legitimate interests in accessing eBay, Tiffany is arguably interested in eliminating this secondary market for genuine Tiffany merchandise.¹⁶² As the district court noted, “every sale of Tiffany jewelry on eBay potentially represents a lost sales opportunity via Tiffany’s own authorized distribution channels.”¹⁶³ Tiffany’s refusal to authenticate merchandise in non-Tiffany stores evidences its economic interest in diminishing competition in the market for genuine Tiffany merchandise.¹⁶⁴ Indeed, if Tiffany’s only concern

PHENOMENON: HOW ONE BRAND TAUGHT MILLIONS OF STRANGERS TO TRUST ONE ANOTHER 14 (2008).

158. COHEN, *supra* note 157, at 10; *cf.* NISSANOFF, *supra* note 99, at 45 (“[Consignment] stores [] offer only limited, local exposure for your goods.”).

159. NISSANOFF, *supra* note 99, at 44–45.

160. *See id.*

161. In jewelry sales, for example, the most common consignment percentage is 60/40, where 60 percent of the final sale price goes to the artist, and 40 percent to the shop. Rena Klingenberg, *Jewelry Consignment Percentage*, HOME JEWELRY BUSINESS SUCCESS TIPS, <http://www.home-jewelry-business-success-tips.com/jewelry-consignment-percentage.html> (last visited Feb. 10, 2011).

162. Companies besides Tiffany have used VeRO to discourage sellers from their products in the secondary marketplace. NISSANOFF, *supra* note 99, at 168. Since the early days of VeRO, eBay users have complained about companies indiscriminately shutting down auctions and purposefully closing legitimate auctions involving secondhand items. *Id.* at 168–69.

163. *Tiffany Inc. v. eBay, Inc.*, 576 F. Supp. 463, 473 (S.D.N.Y. 2008).

164. Sofia H. Ahmed, *Life, Liberty, and the Pursuit of Luxury*, 5 BYU INT’L L. & MGMT. REV. 247, 271 (2009); *Tiffany Inc.*, 576 F. Supp. 2d at 517, n.39. In fact, Tiffany will only authenticate merchandise purchased from one of its stores, which would defeat the purpose of requesting authentication. Ahmed, *supra*, at 271. Interestingly, more and more designers

were reputational, Tiffany would likely want to authenticate Tiffany-labeled items so as to distance itself from cheap imitations. Furthermore, the district court found that the Tiffany-suggested “five-or-more” rule served more as an anti-diversion tool rather than an anti-counterfeiting tool because Tiffany itself failed to regularly enforce a five-item limit.¹⁶⁵ Clearly, Tiffany would like to serve as the exclusive provider of Tiffany goods. This interest should not be given any weight, however, as the law only protects trademark holders from counterfeit goods.¹⁶⁶

2. Dishonest Sellers-Honest Buyers

Though the vast majority of eBay sellers are law-abiding citizens,¹⁶⁷ eBay’s success has also attracted a customer base that eBay does not as readily acknowledge: criminal counterfeiters. These Dishonest Sellers turn to eBay because it makes counterfeit products easier to distribute. Policing for counterfeits on eBay is difficult due to the anonymity of users, the vast quantity of goods that pass through the site, and the relatively short timeframe of auctions.¹⁶⁸ Honest Buyers are often duped either when they are deprived of the ability to evaluate a product’s quality or authenticity through physical inspection, or when the counterfeit is a compelling fake.

To the extent that the consuming public is dominated by Honest Buyers, market forces incentivize eBay to reduce infringing activity on its website in several ways. First, eBay’s business model is built on trust.¹⁶⁹ To be successful, eBay needs to convince users that the eBay marketplace is a safe place to purchase items without having to meet the sellers first. Purchasing items that turn out to be counterfeit is a negative experience for consumers

are making it corporate policy not to authenticate merchandise. *See Frequently Asked Questions, MYPOUPETTE*, <http://mypoupette.com/faq.php> (last visited Feb. 10, 2011).

165. In fact, Tiffany has allowed a single buyer to purchase more than twenty pieces at a time in its retail store. Ahmed, *supra* note 164, at 260; *Tiffany Inc.*, 576 F. Supp. 2d at 511–12.

166. *Tiffany Inc.*, 572 F. Supp. 2d at 512 (citing *Polymer Tech. Corp. v. Mimran*, 975 F.2d 58, 61–62 (2d. Cir. 1992)) (“[T]rademark law does not reach the sale of genuine goods bearing a true mark even though the sale is not authorized by the mark owner”).

167. Sarah D. Scalet, *Auction Blocks*, CIO (Sept. 22, 2005, 10:09), http://www.cio.com.au/article/140981/auction_blocks/.

168. Emily Favre, *Online Auction Houses: How Trademark Owners Protect Brand Integrity Against Counterfeiting*, 15 J.L. & POL’Y 165, 168 (2007). Much of the counterfeiting activity that used to take place at flea markets has moved online, where unlike flea markets and pawn shops, sellers are not required to show receipts for merchandise, or to register and fill out paperwork before selling certain goods. *See Scalet, supra* note 167.

169. FIGHTING AGAINST ONLINE SOLICITATIONS OF COUNTERFEITS, *supra* note 102, at 16.

and will drive them away from the eBay marketplace.¹⁷⁰ The proliferation of counterfeit listings erodes consumer trust¹⁷¹ and decreases the success of the eBay business model.¹⁷²

Second, eBay has an economic incentive to ensure customer satisfaction because addressing grievances and disputes require additional time and resources.¹⁷³ As long as certain requirements are met, customers who suspect the item they purchased was not as the seller described in the listing may file a case under the eBay Buyer Protection Policy.¹⁷⁴ The review process can be time-consuming, as it sometimes involves examining messages sent between the transacting parties through eBay messages and contacting the seller about the case.¹⁷⁵ The resolution may include refunding the customer up to the full cost of the item plus original shipping charges.¹⁷⁶ Therefore, eBay has an interest in eliminating counterfeit merchandise from its website, lest Honest Buyers complain and force eBay to provide compensation.¹⁷⁷

Tiffany also has significant reputational and economic interests in eliminating transactions involving counterfeit versions of its products. The protection of the quality and integrity of its brand is critical to Tiffany's success as a retailer of luxury goods. Through the dedicated protection of its brand, a company like Tiffany "establishes a higher level of branding consistency, drives revenue, increases market share, and improves customer

170. *Id.*

171. Survey data in 2006 indicated that users who are defrauded into purchasing counterfeit merchandise are unlikely to return to eBay. *Id.*

172. *Id.*

173. Ahmed, *supra* note 164, at 259.

174. *eBay Buyer Protection Program*, EBAY, <http://pages.ebay.com/help/policies/buyer-protection.html#overview> (last visited Feb. 11, 2011).

175. *Id.*

176. *See id.* If the case is based on an item not as described case, the resolution would include:

- Responding to the case by providing proof to eBay that the item was described accurately and consistently throughout the listing and all associated communication (for example, providing documentation that supports "original," "first edition," or similar claims);
- Agreeing to send a replacement item after the buyer returns the original, if this is what the buyer would prefer;
- Refunding the buyer up to the full cost of the item (including any applicable sales tax) plus original shipping. *Id.*

177. In its appellate brief, eBay states that it has "committed tens of millions of dollars annually to pay claims through its buyer protection program, whereby eBay reimburses buyers for the cost of counterfeit items they have purchased on the site, including Tiffany items." Brief for Appellee, *supra* note 84, at 11.

loyalty.”¹⁷⁸ The circulation of cheap imitations can tarnish Tiffany’s image as a famed purveyor of luxury jewelry.¹⁷⁹ Cheap imitations may also damage Tiffany’s reputation through third party post-sale confusion.¹⁸⁰

Tiffany also maintains an interest in eliminating counterfeit goods of equal quality. Even if high quality fakes present little harm to the reputation earned by the trademarked Tiffany goods, present quality is no assurance of continued quality. As the Ninth Circuit cogently explained, “[t]he wrong inheres in involuntarily entrusting one’s business reputation to another business.”¹⁸¹

Moreover, when the value of a luxury brand inheres in the exclusivity it signals,¹⁸² individuals might lose interest in a previously coveted luxury item if it is readily available to everyone else at a discount price.¹⁸³ The proliferation of Burberry counterfeits, for example, prompted the *Financial Times* to report, “Burberry is no longer a symbol of luxury, taste and refinement, but has become a uniform for loutish, drunken hooligans, known today as chavs—men and women more likely to pick a fight than be picked for the world’s best-dressed list.”¹⁸⁴ Where a branded good is sought after for display reasons, then, counterfeiting will lower the demand for the authentic good, and the value of the trademark will be reduced.¹⁸⁵ The proliferation of counterfeits will also reduce a firm’s incentive to produce quality goods, as others will be able to free ride on its reputation.¹⁸⁶

3. *Honest Sellers-Dishonest Buyers*

Transactions between Honest Sellers and Dishonest Buyers are unlikely. Dishonest Buyers want to enjoy the benefits of owning luxury branded items without paying the corresponding premium price tag. Honest Sellers of authentic goods who paid retail prices for such products are unlikely to charge unreasonably low prices at resale. Of course, it is possible that a genuine luxury item may be offered for sale at such an unusually low price so

178. Favre, *supra* note 168, at 165–66.

179. *See, e.g.*, NISSANOFF, *supra* note 99, at 159.

180. *See generally* MERGES ET AL., *supra* note 11, at 835.

181. *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 353 (9th Cir. 1979).

182. Richard S. Higgins & Paul H. Rubin, *Counterfeit Goods*, 29 J.L. & ECON. 211, 214 (1986); Alex Kozinski, *Trademarks Unplugged*, 68 N.Y.U. L. REV. 960, 970 (1993).

183. Ellie Mercado, *As Long As “It” Is Not Counterfeit: Holding Ebay Liable for Secondary Trademark Infringement in the Wake of LVMH and Tiffany Inc.*, 28 CARDOZO ARTS & ENT. L.J. 115, 135 (2010); Kozinski, *supra* note 182, at 970.

184. NISSANOFF, *supra* note 99, at 159–60.

185. Higgins & Rubin, *supra* note 182, at 214.

186. *See* Menell & Scotchmer, *supra* note 10, at 1537.

as to cause a Dishonest Buyer to unintentionally purchase an authentic piece. However, these transactions are rare and thus not at issue in this Note.

4. *Dishonest Sellers-Dishonest Buyers*

Unfortunately, the advantages of shopping on eBay have also attracted Dishonest Buyers. In contrast to duped Honest Buyers, Dishonest Buyers are those who buy fakes precisely because they are fake.¹⁸⁷ They want to reap the image-enhancing benefits of owning a luxury item without having to pay the corresponding premium price. eBay makes counterfeit products easily accessible to Dishonest Buyers, as it eliminates additional search costs that would otherwise be incurred in order to locate counterfeit goods. For example, those who used to have to venture out to Canal Street in lower Manhattan¹⁸⁸ for a fake Coach handbag can now peruse a wide selection of counterfeit handbags on eBay simply by typing in a few search terms.

To the extent that a portion of its buying users is dishonest, eBay arguably has an incentive to permit sales of counterfeit merchandise because it profits from these transactions.¹⁸⁹ Moreover, private market forces generally will not incentivize reducing illegitimate transactions where both parties are dishonest. One of eBay's primary goals is to satisfy its customers, and many buyers seek out—or at the very least, do not care if they end up with—counterfeit goods.¹⁹⁰

The Second Circuit's decision does not address transactions involving Dishonest Buyers who seek out counterfeit merchandise. After the court's decision, eBay is obligated to continue promptly removing reported listings upon receiving a NOCI if it wants to avoid contributory trademark liability.¹⁹¹ However, the decision does not put pressure on eBay to affirmatively root out specific counterfeit listings that rights owners failed to bring to its attention, especially when eBay profits from these illegitimate transactions.

187. Kozinski, *supra* note 182, at 970.

188. Scalet, *supra* note 167.

189. As the Second Circuit acknowledged, “insofar as eBay receives revenue from undetected counterfeit listings and sales through the fees it charges, it has an incentive to permit such listings and sales to continue.” *Tiffany Inc. v. eBay, Inc.*, 600 F.3d 93, 109 n.13 (2d Cir. 2010); *see also* Scalet, *supra* note 167 (“The people who eBay really wants to please are its customers, and many buyers simply don’t care if they end up with stolen or counterfeit goods.”).

190. Scalet, *supra* note 167.

191. *See Tiffany Inc.*, 600 F.3d at 109 (“[A]lthough the NOCIs and buyer complaints gave eBay reason to know that certain sellers had been selling counterfeits, those sellers’ listings were removed and repeat offenders were suspended from the eBay site.”).

C. LOOKING TO TORT LAW PRINCIPLES TO DELINEATE THE CONTOURS OF EBAY'S INDIRECT TRADEMARK LIABILITY

By sheltering eBay in a DMCA-like safe harbor, the Second Circuit largely eliminated eBay's motivation to continue refining its anti-counterfeiting programs to ensure their efficacy. Before Tiffany brought suit against eBay, the ambiguous contours of secondary trademark liability counseled against permitting the proliferation of these items on its website and encouraged eBay to devote resources to improve its technology and develop anti-fraud systems as such measures became technologically feasible and reasonably available.¹⁹² After the Second Circuit's decision, however, it seems as though eBay has few obligations beyond implementing a notice-and-takedown system, even if alternative mechanisms are feasible.

Given the varied and substantial legitimate interests at stake, the Second Circuit would have been better advised to adopt a balancing framework akin to tort law's reasonable alternative design theory to determine the scope of eBay's liability. After all, indirect trademark liability derives from tort law, which is particularly well-suited to balancing conflicting social interactions.¹⁹³ This framework would examine (1) whether alternative designs were reasonably available at the time of infringement, and (2) whether the reduction in risk of infringement outweighs the loss in utility.¹⁹⁴

A balancing framework will help create the conditions for the parties who can efficiently solve the problem to work together. With eBay's ability to control its website, however limited, and Tiffany's knowledge of its own proprietary standards, a balancing framework can encourage the two parties to combine their efforts to fight aggressively and effectively to curb the spread of counterfeits in the eBay marketplace. Unlike a DMCA-like safe harbor for secondary trademark liability, the absence of blanket immunity upon notice and takedown will incentivize eBay to adopt more effective methods of combating infringement as such methods become available. Moreover, a balancing framework will incentivize eBay to root out counterfeit listings that rights owners fail to detect. At the same time, placing the burden on Tiffany to prove the availability of these mechanisms will likely incentivize Tiffany to assist eBay in authenticating.

192. See *Tiffany Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 493 (S.D.N.Y. 2008).

193. Menell & Nimmer, *supra* note 35, at 1006. As Professors Peter Menell and David Nimmer have argued in the contributory copyright context, "tort law serves as the default framework for balancing conflicting social interactions. Its doctrines reflect a dynamism driven by changes in social conditions, technology, and institutions." *Id.*

194. See RESTATEMENT (THIRD) OF TORTS: PROD. LIAB. § 2 (1998).

D. ANTI-COUNTERFEITING DESIGN ALTERNATIVES

eBay has anti-counterfeiting systems in place, but there are improvements that can be made. This section will recommend several anti-counterfeiting design alternatives that eBay might consider implementing to maximize the efficacy of its programs without having substantial adverse impacts on eBay's business or the legitimate interests of its users.

1. *Authentication*

Either eBay or the proprietary rights holder may be able to authenticate merchandise based on the listings alone if the listings provide photos and detailed descriptions of the featured items. Several third-party authenticating companies specialize in spotting counterfeit items based on electronic listings. MyPoupette, for example, considers the authenticity of an item by examining the entire transaction, including the photos, written description, and the seller's feedback record.¹⁹⁵ For an additional fee, MyPoupette provides a written statement that approves or disproves authenticity.¹⁹⁶ Volunteer experts at The Purse Forum will also authenticate items—with no written or implied guarantees—by examining photos provided in online listings and giving recommendations based off of their knowledge of a certain brand or item.¹⁹⁷

For items that can be authenticated based on manual review of electronic listings alone, Tiffany can lend manpower to help comb through listings flagged by eBay's fraud engine. Although eBay currently has employees reviewing flagged listings, those employees may not be as experienced in spotting fakes as individuals with knowledge of a brand's exacting

195. See *Frequently Asked Questions*, MYPUPETTE, <http://www.mypoupette.com/faq.php> (last visited Feb. 10, 2011). However, MyPoupette acknowledges that there are now "Super Fakes" that make it nearly impossible to judge authenticity without having designer experts examine the item in person. *Id.* MyPoupette will sometimes perform in-person authentication if the item is not eligible for electronic authentication. *Id.* In addition to MyPoupette, other professional authenticators include Caroldiva (specializing in LV), Etinceler Authentications (specializing in Chanel), Castira (specializing in Gucci), Fakespotters (specializing in Balenciaga, Chloe, Dior, Hermes, Miu Miu, Mulberry, and Prada), Amourauthentic (specializing in Goyard, LV, Ugg), and Authentic-Luxury (specializing in LV). See *Need an Authentication Letter for an eBay Claim?*, The Purse Forum (Oct. 19, 2010, 11:20 AM), <http://forum.purseblog.com/ebay-forum/bought-a-fake-online-please-read-on-657186.html>.

196. *Authentication Services*, MYPUPETTE, <http://www.mypoupette.com/authentications.php> (last visited Feb. 10, 2011).

197. *Authenticate This . . .*, THE PURSE FORUM, <http://forum.purseblog.com/authenticate-this/> (last visited Dec. 24, 2010).

standards.¹⁹⁸ Assigning the review process to Tiffany experts will increase the number of accurately identified infringing listings and reduce the number of legitimate auctions being erroneously suspended.¹⁹⁹

Designer brand Kate Spade, for example, hired a team of law students to monitor eBay for fakes.²⁰⁰ The intern authenticators are provided with detailed archives of its collections to help spot counterfeits from uploaded photos on listings.²⁰¹ This approach appears to be working. According to Kate Spade's general counsel, "[e]verybody has occasionally—rarely, but occasionally—misidentified. We just reinstate the auction. . . . Almost all the time we're right because we know our products so well."²⁰² By comparing detailed archives of its collections with uploaded photos on eBay listings, Kate Spade's authenticators can spot design prints that have never appeared on a real Kate Spade bag or fabric labels with letters that are slightly off.²⁰³

2. Refining Brand-Specific Filtering Criteria

Because counterfeiting luxury goods has become much more sophisticated in recent years,²⁰⁴ in-person inspection is the only way to authenticate certain items.²⁰⁵ With the help of technological advances and the encouragement of greater economic incentives, counterfeiters have become very skilled, producing fakes that rival their authentic counterparts in both appearance and quality.²⁰⁶ Additionally, certain goods are particularly easy to counterfeit. For example, eBay auctions most frequently involve entry-level sterling silver Tiffany items which, due to the simplistic nature of their design, can be counterfeited remarkably well.²⁰⁷ There are no hidden

198. Mercado, *supra* note 183, at 145. The district court found that, as part of eBay's targeted efforts to "clean-up" Tiffany listings, members of eBay's infringement group focused on Tiffany listings and, using their best judgment, searched the website manually to find counterfeit listings. *Tiffany Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 491 (S.D.N.Y. 2008).

199. Mercado, *supra* note 183, at 145.

200. NISSANOFF, *supra* note 99, at 176.

201. *Id.*

202. *Id.*

203. *Id.*

204. *Id.* at 159 ("Fakes used to be cheap junk, but now their apparent quality often rivals that of the original.").

205. To determine if an item is an authentic Tiffany silver jewelry, for example, Tiffany quality inspectors must be able to physically inspect the item. *Tiffany Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 472 (S.D.N.Y. 2008).

206. NISSANOFF, *supra* note 99, at 158–59.

207. A quick search on eBay.com for "Tiffany & Co." items will produce mostly listings featuring sterling-silver items. "*Tiffany & Co. Items on eBay*, EBAY, <http://shop.ebay.com/> (search "tiffany & co") (last visited Feb. 10, 2011).

markings on genuine Tiffany items, and the material is relatively inexpensive and easily accessible. Often times, the only way to distinguish a genuine Tiffany article from a counterfeit version is by detecting a difference in weight, as Tiffany silver is usually heavier.²⁰⁸ Occasionally, however, counterfeiters can fool even the experts. During its 2004 anti-counterfeiting investigation, Tiffany itself could only make accurate authenticity determinations of “Tiffany”-marked goods approximately 78 percent of the time.²⁰⁹

Requiring in-person authentication of every item that can only be authenticated upon physical inspection is not a practical solution. Most sterling silver Tiffany items, for example, are listed for sale on eBay for anywhere between twenty to two hundred dollars.²¹⁰ In-person authentication may cost just as much as the item itself, if not more.²¹¹ Furthermore, because of the large number of Tiffany sterling silver jewelry available on eBay and the short timeframes for auction transactions, in-person authentication for each individual item is simply not a feasible option for eBay, even with Tiffany’s help.

Due to the prohibitively high costs associated with providing in-person inspections for each Tiffany-marked item listed on eBay, Tiffany can help eBay refine its automated filtering criteria so as to accurately flag infringing listings. Many of eBay’s current Tiffany-specific filters fail to target characteristics that speak to an item’s authenticity and often erroneously target legitimate listings.²¹² eBay’s fraud engine screens listings and detects blatantly infringing activities including, for example, listings that contain terms such as “counterfeit Tiffany” or “faux Tiffany.”²¹³ However, Dishonest

208. See *Very Useful Tips to Spot Fake Tiffany Jewel Online*, IOFFER EBAY, <http://www.ioffer-ebay.com/very-useful-tips-to-spot-fake-tiffany-jewel-online-213.html> (last visited Feb. 10, 2011); *How To Spot Fake Tiffany Jewelry*, EBAY GUIDES, http://reviews.ebay.com/How-To-Spot-Fake-Tiffany-Jewelry_W0QQugidZ1000000001241859 (last updated Feb. 10, 2011).

209. *Tiffany Inc.*, 576 F. Supp. 2d at 485. In Tiffany’s 2004 Buying Program—a survey conducted to determine the extent of counterfeit Tiffany jewelry available on eBay—Tiffany experts found that out of 186 pieces of “Tiffany” jewelry, 73.1 percent were counterfeit, 5 percent were genuine, and the remaining 21.9 percent were potentially actionable but not necessarily counterfeit. *Id.*

210. A quick eBay search for “Tiffany sterling silver” will reveal that prices for these items range from twenty to two hundred dollars. EBAY, *supra* note 210.

211. See *Authentication Services*, MYPPOUPETTE, <http://www.mypoupette.com/authentication.php> (last visited Feb. 10, 2011).

212. Scalet, *supra* note 167 (“Sellers are already complaining about abuses of the VeRO program.”).

213. *Tiffany Inc.*, 576 F. Supp. 2d at 491.

Sellers can easily escape these types of triggers. Moreover, some sellers have discovered that by designating listed items as “preowned” or “gift,” they are able to dodge some of the Tiffany-specific filters.²¹⁴

Tiffany employees, the best experts on Tiffany products, know how to narrow the automated filtering search to the most suspicious activity.²¹⁵ Tiffany can provide eBay with criteria to flag listings featuring Tiffany-branded merchandise with a high likelihood of counterfeiting, including ostensibly brand new items that are listed for prices significantly below retail prices, inaccurate descriptions of Tiffany items, and descriptions of Tiffany items not yet available in stores.²¹⁶

3. *Refining Brand-Neutral Filtering Criteria*

Many Dishonest Sellers who are familiar with the fraud engine filters will avoid using explicit terms, such as “counterfeit” and “replica,” to evade detection. In addition to identifying listings that explicitly offer counterfeit items, there are other approaches that eBay might consider as filters to flag more subtle forms of infringing activity. For example, filters that flag the following criteria will likely identify potentially counterfeit items. Moreover, these filters generally do not require knowledge of a rights owner’s mark or its exacting product standards.

- a) One-Day Auctions. Auctions with short timeframes are less likely to be spotted by a rights owner’s policing program.²¹⁷ Even if a rights owner identifies such an offer, the transaction will likely be completed before VeRO can act to remove the listing.²¹⁸
- b) Large Lots of the Same Item. Though the district court dismissed Tiffany’s “five or more” rule as unfounded in light of Tiffany’s own sporadic implementation of this policy, a user who offers for sale identical items in lots of five are likely engaging in infringing activity.²¹⁹ Of course, adopting this filter would require rights owners to consistently implement this policy in its authorized distribution channels.

214. See *eBay Forum*, THE PURSE FORUM, <http://forum.purseblog.com/eBay-forum/> (last visited Dec. 24, 2010).

215. See Scalet, *supra* note 167.

216. See Mercado, *supra* note 183, at 144–45.

217. Brief for Coty Inc. as Amicus Curiae Supporting Petitioners at 29, *Tiffany, Inc. v. eBay, Inc.* 600 F.3d 93 (2d Cir. 2010) (No. 08-3947).

218. *Id.*

219. *Tiffany Inc.*, 576 F. Supp. 2d at 482–83.

- c) Unusually Low Sales Prices. Honest Buyers who paid retail prices for authentic items are unlikely to resell for extremely low prices.²²⁰ Whether or not an asking price is unusually low requires some knowledge of the original retail price.
- d) Same Graphics and Text. Sometimes a Dishonest Seller will register under multiple accounts and use different usernames to avoid being shut down altogether by VeRO. These sellers often use the same photographs and text to describe their products.²²¹

V. CONCLUSION

An explication of the Matrix of Interests, *supra* Figure 1, reveals that many of the interests at stake are misaligned. Tiffany has an interest in completely eliminating sales of both fake and genuine Tiffany goods from the secondary market to maintain its reputation and to boost its profits in the primary market. eBay, on the other hand, profits from sales of infringing goods, and thus may want to permit some of these illegitimate transactions. Perhaps most importantly, the public has a significant interest in having access to a legitimate secondary market.

Under the existing law of secondary trademark liability, the Second Circuit reached the correct result in ruling in favor of eBay. Nevertheless, the court's approach—creating a DMCA-like safe harbor for eBay—will not properly address the regular and widespread trademark infringement eBay facilitates. Despite eBay's commendable anti-fraud efforts, there is evidence that counterfeiting remains a serious problem in the eBay marketplace. eBay's lack of expertise limits its ability to effectively combat the counterfeiting problem. At the same time, the vast quantity of goods offered for sale on eBay makes policing extremely difficult and costly for Tiffany. Rather than shielding eBay from liability upon the implementation of a simple notice-and-takedown system, the court could have used this opportunity to articulate a more nuanced legal standard and thereby encourage cooperation between the parties most capable of solving the problem efficiently.

Where multiple legitimate interests collide, a balancing framework can promote a legitimate secondary marketplace without chilling the development of useful new technologies.²²² Placing the burden on the

220. Brief for Coty Inc., *supra* note 217, at 29.

221. *See id.*; Scalet, *supra* note 167.

222. In the copyright context, it has been argued that “[c]areful application of [tort principles] would have [] provided a limited immunity for technology companies while

plaintiff to prove the availability of feasible alternative mechanisms would likely lead to cooperation between the eBays and Tiffanys of the world. Moreover, requiring eBay to implement alternative anti-counterfeiting measures when such measures are feasible would incentivize eBay to root out counterfeit listings that rights owners failed to detect. Applying this approach to the dispute between eBay and Tiffany would have likely produced the same result with regards to secondary liability for infringement, but it would have provided a sounder and more dynamic template for resolving complex issues of technological change moving forward.

fostering dynamic incentives with content industries.” Menell & Nimmer, *supra* note 35, at 1022.

