
THIS VERSION DOES NOT CONTAIN PARAGRAPH/PAGE REFERENCES.
PLEASE CONSULT THE PRINT OR ONLINE DATABASE VERSIONS FOR
PROPER CITATION INFORMATION.

NOTE

TIFFANY V. EBAY: ITS IMPACT AND IMPLICATIONS ON THE DOCTRINES OF SECONDARY TRADEMARK AND COPYRIGHT INFRINGEMENT

*Andrew Lehrer**

I.	INTRODUCTION	
II.	BACKGROUND ON EBAY AND EBAY'S ANTI-COUNTERFEITING MEASURES	
	A. <i>eBay – A Brief Overview</i>	
	B. <i>eBay's Profit Structure</i>	
	C. <i>Counterfeiting</i>	
	D. <i>eBay's Anti-counterfeiting Measures</i>	
	i. <i>eBay's Fraud Engine</i>	
	ii. <i>eBay's VeRO Program</i>	
	iii. <i>eBay Users</i>	
III.	CONTRIBUTORY INFRINGEMENT IN INTELLECTUAL PROPERTY LAW	
	A. <i>Differences Between Copyright and Trademark Law</i>	
	B. <i>Contributory Copyright Infringement</i>	
	i. <i>Background</i>	
	ii. <i>Digital Millennium Copyright Act</i>	
	iii. <i>Hendrickson v. eBay</i>	
	iv. <i>The Potential for Future Copyright Claims against eBay</i>	
	C. <i>Contributory Trademark Infringement</i>	
	i. <i>Background</i>	
	ii. <i>Tiffany v. eBay</i>	
	a. <i>District Court</i>	
	b. <i>Second Circuit Court of Appeals</i>	
IV.	THE AFTERMATH OF <i>TIFFANY V. EBAY</i>	
	A. <i>Negative Impact on Intellectual Property Owners</i>	
	B. <i>Negative Impact on Legitimate eBay Sellers</i>	
	C. <i>Negative Impact on eBay Buyers</i>	
V.	POSSIBLE SOLUTIONS TO THE CURRENT PROBLEMS	
	A. <i>Summary of the Problem</i>	
	B. <i>Solution One: Create a Statute for Trademark Law that Mirrors the DMCA</i>	

* J.D., Boston University School of Law, Class of 2012.

C. *Solution Two: Create a Clearer and Broader Knowledge Requirement*

D. *Solution Three: Increase Buyers' Ability to Report Infringing Items*

VI. CONCLUSION

I. INTRODUCTION

Jack decided to buy his girlfriend, Jill, the blue Burberry handbag that she had been eyeing for months. Before buying the bag directly from the Burberry website for the retail price of \$500, he realized that he might be able to locate the bag for a cheaper price elsewhere. A Google search for the bag brought him to eBay.com, where much to his delight he found exactly the same bag for half the price. Concerned both that the price was “too good to be true” and that the bag might be a counterfeit, Jack looked at the eBay seller’s feedback.¹ The seller had over 5000 positive reviews from eBay buyers. Furthermore, the seller listed his location as Des Moines, Iowa – hardly the counterfeit capital of the world. Jack purchased the bag, confident that he got an amazing bargain. A week later, he received the bag and it looked great; he surprised Jill that night with the fantastic present. She was thrilled, but her excitement quickly turned to disappointment. Jill, a handbag connoisseur, noticed the material was not quite right and the tags were fake – the bag was a cleverly disguised counterfeit.

Jack, furious, left the seller negative feedback and contacted the seller to demand his money back. The seller politely responded to the e-mail, denied that the bag was fake, and offered a full refund once the bag was returned. Jack did as instructed and received a full refund. He went onto eBay a few weeks later and noticed the same exact seller was selling the same exact Burberry bag, describing it as “new” and “authentic.” Jack also discovered that the seller was listing other Burberry and designer bags well below retail value. Concerned, Jack reported to eBay that this seller sent him a fake bag and that the seller was listing several similar bags.² Jack received a response

¹ For every eBay transaction, buyers are given the opportunity to leave “Feedback” for the seller. A buyer can give the seller positive, negative, or neutral feedback, and can write a short comment. According to eBay, “sellers build reputations that are based on all the Feedback ratings and comments left by [buyers],” and Feedback ratings “[help] prospective trading partners buy and sell with confidence.” *Feedback Forum*, EBAY.COM, <http://pages.ebay.com/services/forum/feedback.html> (last visited Aug. 11, 2012).

² To report an item that potentially violates a trademark or copyright, an eBay user can submit a “report item form” provided by eBay. *See How Can I Report a Listing that Appears to be Violating eBay Rules and Policies?*, EBAY.COM,

2012]

TIFFANY v. eBAY

from eBay that it would investigate the matter, but to date the seller continues to sell bags at prices well below retail value.

The scenario described above is common³, and the market for counterfeit products is thriving.⁴ Over the past decade, the buying and selling of counterfeit goods rapidly shifted from street corners to the online marketplace, presenting copyright and trademark owners with new difficulties in protecting their intellectual property. Because many online sellers of counterfeit goods are difficult to locate,⁵ and because litigation against individual infringers is usually financially inefficient, intellectual property owners are bringing suit against online marketplaces such as eBay, alleging secondary infringement.⁶ In *Tiffany v. eBay*, the Second Circuit Court of Appeals held that eBay was not liable for contributory trademark infringement unless eBay (1) has contemporary knowledge about particular items on its site that infringe or will infringe in the future and (2) subsequently refuses to act on that knowledge.⁷

Section II of this Note provides a background on eBay, the counterfeiting industry, and the measures eBay takes to prevent sellers from listing counterfeit products on its site. Section III explores the doctrines of secondary copyright and trademark infringement, including the recent Second Circuit opinion of *Tiffany v. eBay*. Section IV contemplates the practical implications of the *Tiffany* decision and its impact on eBay, rights holders, sellers, and buyers. Lastly, Section V provides some possible solutions to problems resulting from today's intellectual property laws as applied to eBay, while attempting to balance the interests of eBay, rights holders, sellers, and buyers.

<http://pages.ebay.com/help/policies/questions/how-report-violation.html> (last visited Aug. 11, 2012).

³ The scenario described was based on my own personal experience. *See also* *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F.Supp. 2d 463, 487 (S.D.N.Y. 2008) (stating that between 2003 and 2007, Tiffany's Customer Service department received thousands of complaints about counterfeit Tiffany items purchased through eBay).

⁴ *See infra*, Part II(C).

⁵ *See infra*, note 30.

⁶ *See generally* *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010) (jewelry maker sues eBay for secondary trademark infringement); *Hendrickson v. eBay Inc.*, 165 F. Supp. 2d 1082 (C.D. Cal. 2001) (copyright owner in documentary DVD sues eBay for secondary copyright infringement).

⁷ *Tiffany*, 600 F.3d at 107.

II. BACKGROUND ON EBAY AND EBAY'S ANTI-COUNTERFEITING MEASURES

A. *eBay* – A Brief Overview

eBay, founded in 1995 by Pierre Omidyar,⁸ is a popular online marketplace that facilitates transactions between buyers and sellers around the world. eBay's mission is to provide a forum where "practically anyone can trade practically anything, enabling economic opportunity around the world."⁹ The site dominates the online auction market, representing more than 95 percent of auction listings found on the Internet.¹⁰ Over 100 million items are listed on eBay at any given time, with more than 7 million new auctions and listings posted daily.¹¹ eBay currently has over 90 million active users, and in 2009, the total worth of goods sold on the site was \$60 billion, equal to \$2,000 every second.¹² eBay does not directly participate in the transactions and never physically possesses any goods listed on its site; eBay simply "provides the venue for the sale [of goods] and support for the transaction[s]."¹³ Buyers and sellers directly carry out eBay transactions; after the buyer purchases and pays for an item, the seller ships the item directly to the buyer.¹⁴ Still, eBay exercises a certain level of control over transactions and items that sellers list on its site.¹⁵ Users must register with eBay before being allowed to buy or sell items on eBay and, as part of the registration process, must sign a User Agreement that requires users to refrain from violating any laws and

⁸ *History – eBay Inc.*, EBAY.COM , <http://www.ebayinc.com/history> (last visited Apr. 9, 2011).

⁹ *VeRO: Helping to Protect Intellectual Property*, EBAY.COM , <http://pages.ebay.com/vero/intro/index.html> (last visited Apr. 9, 2011).

¹⁰ Bob Tedeschi, *EBay Moves to Recharge Its Auctions*, N.Y. TIMES, June 18, 2007, available at <http://www.nytimes.com/2007/06/18/technology/18ecom.html?ex=1339819200&en=3eb260a9fbb02f33&ei=5088&partner=rssnyt&emc=rss>.

¹¹ Tiffany 576 F.Supp. 2d at 475; Ina Steiner, *eBay Reveals Seller Restrictions after SIIA Threatens Lawsuit*, ECOMMERCEBYTES.COM (July 29, 2008), <http://www.auctionbytes.com/cab/cab/abn/y08/m07/i29/s01>.

¹² *Ebay: Who We Are*, EBAY.COM , <http://www.ebayinc.com/who> (last visited Apr. 9, 2010).

¹³ *Tiffany*, 576 F.Supp. 2d at 475.

¹⁴ *Id.*

¹⁵ *Id.*

2012]

TIFFANY v. eBAY

Intellectual Property rights.¹⁶ If a seller violates the User Agreement, eBay reserves the right to remove the seller's listing(s) and/or suspend the seller.¹⁷ eBay provides users with a list of fifty-five categories of prohibited and restricted items that eBay will remove from its site and sale of these items will potentially result in sanctions to the seller.¹⁸

B. eBay's Profit Structure

eBay primarily generates revenue through (1) fees it charges sellers for listing items and (2) fees it collects from taking a portion of the sale price of each item sold on its site.¹⁹ eBay sellers have the option of listing their item in either "auction-style format," where buyers place bids and the seller sells to the highest bidder once the auction is completed, or in "fixed price format," where sellers list the item at a set price and the buyer can purchase the item immediately.²⁰ Sellers also can choose to "upgrade" their listings by adding certain features that make the item stand out to buyers searching for a particular item.²¹ Once the item sells, eBay charges the seller a "final value fee," which can range from seven to fifteen percent of the selling price, depending on the type of product and format of the listing.²² For example,

¹⁶ *Id.* at 456.

¹⁷ *Id.*

¹⁸ *Prohibited and Restricted Items – Overview*, EBAY.COM, <http://pages.ebay.com/help/policies/items-ov.html> (last visited Apr. 14, 2012). Such prohibited and restricted items include alcohol, artifacts, credit cards, drugs and drug paraphernalia, lottery tickets, medical devices, offensive material, plants, and tobacco.

¹⁹ *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F.Supp. 2d 463, 475 (S.D.N.Y. 2008).

²⁰ *Selecting a Selling Format*, EBAY.COM, <http://pages.ebay.com/help/sell/formats.html> (last visited May 17, 2012). For auction-style listings, eBay charges sellers between \$0.10 and \$2.00 to list the item, depending on the starting price of the auction. *Fees For Selling on Ebay*, EBAY.COM, <http://pages.ebay.com/help/sell/fees.html> (last visited May 17, 2012). For fixed priced listings, eBay charges a flat \$0.50 fee to sellers. *Id.*

²¹ *Fees For Selling on Ebay*, EBAY.COM, <http://pages.ebay.com/help/sell/fees.html> (last visited May 17, 2012). These optional upgrade fees range from \$.10 to \$4.00. Optional features include creating a "buy it now" price where buyers can purchase the item immediately, bolding the title, adding a subtitle, adding additional pictures, and scheduling the exact time when the listing will be posted to the site.

²² *Id.* The final value fee for auction-style listings is 9%, with a maximum charge of \$250. The final value fee for fixed-price listings ranges from 7% (electronics) to 13% (books, DVDs, movies, music, video games), with most categories have a final value fee of 10-11%. *See also Final Value Fees*, EBAY.COM, <http://pages.ebay.com/help/sell/fvf.html> (last visited May 17, 2012).

eBay would charge the seller of a \$250 Burberry handbag \$24.50 in fees if the seller chose no upgrade options.²³

C. Counterfeiting

Unfortunately, many counterfeiters use eBay as a forum to sell their products. Some intellectual property rights holders estimate that ninety-nine percent of items sold on eBay using their brand names are fake.²⁴ The counterfeiting²⁵ of trademarked²⁶ goods has become increasingly rampant due to advanced counterfeiting technology and the Internet.²⁷ In the past thirty years, the global trade for counterfeit goods jumped from a \$5.5 billion dollar industry to a \$600 billion industry.²⁸ In 2010, sales of counterfeit goods on the Internet were estimated at \$135 billion.²⁹ As opposed to physical flea markets

²³ For a \$250 item sold in a fixed-price format, the listing fee is \$0.50, and the final value fee is \$24.00. See *Fees For Selling on Ebay*, EBAY.COM, <http://pages.ebay.com/help/sell/fees.html> (last visited Aug. 11, 2012).

²⁴ *World Consumer Goods: Cyberspace fakes make brands truly worried*, FINANCIAL TIMES (Apr. 11, 2007), available at http://www.eiu.com/index.asp?layout=ib3PrintArticle&article_id=982082483&printer=printer&rf=0.

²⁵ A counterfeit is a false mark indistinguishable from a trademark registered with the United States Patent and Trademark Office, the use of which is likely to cause confusion, mistake, or deception. 18 U.S.C. §2320(e)(1) (2010). Section 32 of the Lanham Act provides civil liability for “[a]ny person who shall, without the consent of the registrant ... use in commerce any ... counterfeit ... of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive.” 15 U.S.C. § 1114(1)(a) (2010).

²⁶ A trademark is “any word, name, symbol, or device” that is distinctive and used in commerce. 15 U.S.C. § 1127 (2010).

²⁷ In 2007, the Internet accounted for an estimated 14% of the global counterfeit trade, a percentage that is likely to increase given the trend of consumer to buy more of their products online. *World Consumer Goods; Cyberspace fakes make brands truly worried*, *supra* note 24.

²⁸ *The Truth About Counterfeiting*, INTERNATIONAL ANTICOUNTERFEITING COALITION, <http://www.iacc.org/about-counterfeiting/the-truth-about-counterfeiting.php> (last visited Apr. 14, 2012).

²⁹ Brief for The International Anticounterfeiting Coalition as Amici Curiae Supporting Petitioners at 14, *Tiffany (NJ) Inc. v. eBay, Inc.*, 600 F.3d 93 (2d Cir. 2010) (No. 10-300), 2010 WL 4163756 (citing *Knock-offs Catch On: Fake Goods Are Proliferating, to the Dismay of Companies and Governments*, THE ECONOMIST, Mar. 4, 2010, available at http://www.economist.com/business-finance/displaystory.cfm?story_id=

2012]

TIFFANY v. eBay

and street corners, the Internet provides distinct advantages to those selling counterfeit products, including anonymity, ease of entry into the market, immediate global reach, and ease of deception.³⁰

Consumers who buy counterfeit items over the Internet generally fall into one of two categories: those who knowingly purchase a counterfeit item in order to save money, and those who believe they are purchasing an authentic item.³¹ Those who knowingly purchase counterfeit goods may not realize the national and global impact of counterfeiting. According to the International AntiCounterfeiting Coalition, counterfeiting costs United States businesses up to \$250 billion dollars each year and is “directly responsible for the loss of 750,000 American jobs.”³² The profits derived from sales of counterfeit products often flows to people involved with organized crime, drug trafficking, and terrorist activity.³³ Additionally, counterfeiters often use child labor in third world countries to make the products.³⁴

D. eBay’s Anti-counterfeiting Measures

Unlike many eBay buyers, eBay is well aware that many individuals use its site to sell counterfeit products. The website utilizes various systems and processes to identify and remove counterfeit listings from its pages. eBay spends over \$20 million a year “on tools to promote trust and safety on its website” and employs 200 individuals within its Trust and Safety Department who focus exclusively on combating copyright and trademark infringement.³⁵ eBay uses two major programs to remove counterfeit items from its site: (1)

15610089&source=hptextfeature).

³⁰ The internet allows counterfeiters to hide their identity, sell items without incurring traditional business expenses, reach a global audience at any time of day, and can sell items without having the buyer inspect the item. Brief for the Petitioners, *supra* note 29, at 13 (citing Organization for Economic Cooperation & Development, *The Economic Impact of Counterfeiting and Piracy*, 14 (2007), available at <http://www.oecd.org/dataoecd/13/12/38707619.pdf> (last visited May. 17, 2012)).

³¹ Organization for Economic Cooperation & Development, *supra* note 30, at 5.

³² *The Truth About Counterfeiting*, *supra* note 28.

³³ *Id.* According to U.S. authorities, Hezbollah, the militant group in Lebanon, receives the proceeds of counterfeit operations. Also, the group accused of the Madrid train bombings in 2004 used proceeds from the sale of counterfeit goods to fund their terrorist activities. See *Counterfeit Goods are Linked to Terror Groups*, N.Y. TIMES, Feb. 12, 2007, available at <http://www.nytimes.com/2007/02/12/business/worldbusiness/12iht-fake.4569452.html>.

³⁴ *The Truth About Counterfeiting*, *supra* note 28.

³⁵ *Tiffany*, 600 F.3d at 98 (citing *Tiffany*, 576 F. Supp. 2d at 476).

eBay's personally developed "fraud engine", and (2) the Verified Rights Owner ("VeRO") Program.

i. eBay's Fraud Engine

eBay's fraud engine is a system that "uses rules and complex models that automatically search for activity that violates eBay policies."³⁶ According to eBay, the site spends over \$5 million annually to maintain this system.³⁷ The fraud engine primarily detects and removes listings that "explicitly offer[] counterfeit items, contain[] blatant disclaimers of genuineness, or include[] statements that the seller [cannot] guarantee the authenticity of the items."³⁸ In addition, the fraud engine attempts to detect counterfeit items by analyzing potentially relevant "data elements" such as "the seller's Internet protocol address, any issues associated with the seller's account on eBay, and the feedback the seller has received from other eBay users."³⁹

The fraud engine removes blatantly infringing items, but eBay's computer program is not capable of detecting all counterfeit items listed on the site. eBay admits that it "cannot be an expert in . . . intellectual property rights in over 25,000 categories, and cannot verify that sellers have the right to sell the millions of items they post on eBay each day."⁴⁰ For every infringing item not caught by the fraud engine, eBay relies upon the intellectual property rights holders themselves to police eBay and report these items.⁴¹

ii. eBay's VeRO Program

In addition to the fraud engine, eBay's Verified Rights Owner ("VeRO") Program allows copyright and trademark owners to police eBay for items that they, in good faith, believe are counterfeit and infringe upon their rights.⁴² For each item that a rights owner wants removed, she must file a "Notice of Claimed Infringement," ("NOCI") which gives notice to eBay of the potentially infringing item.⁴³ In most cases, eBay removes an item within

³⁶ *Tiffany*, 600 F.3d at 99.

³⁷ *Tiffany*, 576 F. Supp. 2d at 477.

³⁸ *Id.*

³⁹ *Id.*

⁴⁰ *Reporting Intellectual Property Infringements (VeRO)*, EBAY.COM, <http://pages.ebay.co.uk/help/tp/vero-rights-owner.html> (last visited May 17, 2012).

⁴¹ *Id.*

⁴² *Id.*

⁴³ *Id.* In the NOCI, rights holders must identify the exact items that they believe infringe upon their rights and sign a statement, under penalty of perjury, that they own the

2012]

TIFFANY v. eBay

twenty-four hours of receiving the NOCI, cancels any bids on the item, and informs the seller why the listing was removed.⁴⁴ There are over 5,000 intellectual property rights owners participating in the VeRO program, covering fifteen different categories of items.⁴⁵ eBay encourages VeRO members to create their own “About Me” page on the site that provides consumers and potential infringers with information about their products and legal positions.⁴⁶

Between eBay’s fraud engine and VeRO program, eBay removes thousands of listings each week.⁴⁷ In certain situations, eBay places selling restrictions on the infringing seller’s account, or suspends the seller temporarily or indefinitely from the site.⁴⁸ eBay primarily employs a “three strikes rule” to suspend sellers of suspected counterfeit goods, resulting in tens of thousands of suspensions each year.⁴⁹ This policy provides that if a seemingly legitimate seller lists a potentially infringing item, eBay will remove the item and warn the seller.⁵⁰ If the seller proceeds to list potentially infringing items again, eBay will suspend the seller indefinitely.⁵¹ Sometimes, eBay will bypass the three strikes rule and “suspend sellers after the first violation if it [is] clear that ‘the seller ‘list[s] a number of infringing items,’ and ‘[selling counterfeit merchandise] appears to be the only thing they’ve come to eBay to do.’”⁵²

intellectual property right to the product in question. *Hendrickson v. eBay Inc.*, 165 F. Supp. 2d 1082, 1085 (C.D. Cal. 2004).

⁴⁴ *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 478 (S.D.N.Y. 2008).

⁴⁵ *Reporting Intellectual Property Infringements (VeRO)*, *supra* note 40; *VeRO: Participant About Me Pages*, EBAY.COM, <http://pages.ebay.com/help/community/vero-aboutme.html> (last visited Apr. 14, 2012). The categories are apparel and handbags; arts, crafts, and photography; computers and networking; electronics; food services and restaurants; health and beauty; home and garden; jewelry, sunglasses, and watches; movies, television, and radio; music; music equipment; organizations; publishing; sporting goods and memorabilia; and travel and transportation. *Id.*

⁴⁶ *Reporting Intellectual Property Infringements (VeRO)*, *supra* note 40.

⁴⁷ *Tiffany*, 576 F.Supp. 2d at 478.

⁴⁸ *Id.* at 477-79; *See also Replicas, Counterfeit Items, and Unauthorized Copies Policy*, EBAY.COM, <http://pages.ebay.com/help/policies/replica-counterfeit.html> (last visited Apr. 14, 2012).

⁴⁹ *Tiffany*, 576 F.Supp. 2d at 489. According to eBay spokesperson Catherine England, in 2007 eBay suspended 50,000 sellers of counterfeit goods and blocked 40,000 previously suspended sellers from returning to the site. Steiner, *supra* note 11.

⁵⁰ *Tiffany*, 576 F.Supp. 2d at 489.

⁵¹ *Id.*

⁵² *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 100 (2d Cir. 2010) (quoting *Tiffany (NJ)*

iii. eBay Users

Even though eBay removes many items as a result of the “fraud engine” or a NOCI complaint from a VeRO member, thousands of eBay transactions involving counterfeit goods occur every day. Once a sale takes place, the product buyer is the only party who can discover and report the counterfeit. In these situations, the buyer can open a case through eBay’s “Resolution Center” to potentially receive a refund.⁵³ eBay encourages users that receive counterfeit goods to contact the legitimate rights owner to report sellers they believe are selling infringing items.⁵⁴ eBay also instructs the buyer to leave the seller negative feedback, and a seller with a high percentage of negative feedback may be suspended from selling.⁵⁵ In addition, for current and completed auctions, eBay users can “report” any item they believe to be counterfeit by submitting an online form to eBay Customer Support.⁵⁶ However, eBay also states that “due to privacy laws, eBay cannot follow up and let [the user] know the status of [the] report or inform [the user] of any action [eBay] may have taken.”⁵⁷ It is unclear to what extent, if any, eBay uses buyer reports about receiving counterfeit items in determining whether to take action against sellers.

While non-rights holders cannot force eBay to remove infringing items from the site, eBay does allow any eBay user to create a “member guide” in order to share their expertise on a particular topic or category.⁵⁸ Several eBay users who unsuspectingly bought a counterfeit product have created guides that describe their negative experience, instruct buyers on how to distinguish real products from fake products, and list various pitfalls for buyers to avoid.⁵⁹ As

Inc. v. eBay, Inc., 576 F.Supp. 2d 463, 489 (S.D.N.Y. 2008)).

⁵³ *Resolving transaction problems in the Resolution Center*, EBAY.COM, <http://pages.ebay.com/help/buy/resolving-problems.html> (last visited Apr. 14, 2012).

⁵⁴ *VeRO: If you are not a rights owner*, EBAY.COM, <http://pages.ebay.com/vero/others.html> (last visited Apr. 15, 2012).

⁵⁵ *eBay Against Counterfeits: Find out how eBay is working to prevent the sale of counterfeit items*, EBAY.COM, <http://pages.ebay.com/againstcounterfeits/index.html> (last visited Apr. 14, 2012).

⁵⁶ *Replicas, Counterfeit Items, and Unauthorized Copies Policy*, *supra* note 48.

⁵⁷ *Resolving transaction problems in the Resolution Center*, *supra* note 53.

⁵⁸ *Reviews & Guides*, EBAY.COM, http://pages.ebay.com/learn_more.html (last visited Aug. 11, 2012).

⁵⁹ *See, e.g., Detect Authentic Coach vs Fake Coach – Your eBay Guide: eBay Guides*, EBAY.COM, http://reviews.ebay.com/DETECT-AUTHENTIC-COACH-vs-FAKE-COACH-YOUR-EBAY-GUIDE_W0QQugidZ1000000003643909 (last visited Jan. 29, 2011). This

2012]

TIFFANY v. eBay

of January 2011, eBay users have created over 5,000 guides relating to fake items on eBay.⁶⁰ The most frequent item categories are clothing, shoes and accessories; collectibles; jewelry and watches; and books.⁶¹

III. CONTRIBUTORY INFRINGEMENT IN INTELLECTUAL PROPERTY LAW

Several intellectual property rights holders have sued eBay under a theory of secondary infringement.⁶² Rights holders acknowledge that eBay itself does not post infringing listings, but argue that eBay is obligated to do more to “investigate and control the illegal activities” of those sellers who use eBay to sell counterfeit goods.⁶³

A. *Differences Between Copyright and Trademark Law*

While copyrights and trademarks may seem similar at first glance, and although many products contain both copyrighted and trademarked elements, the rationale behind copyright and trademark law differs markedly. The foundation of copyright law is that “by granting authors the exclusive right to reproduce their works, they are given an incentive to create,” which in turn benefits the public and “promotes the Progress of Science and useful Arts.”⁶⁴ In contrast, according to the Senate Report behind the Lanham Act, there are two purposes behind every trademark statute: (1) “to protect the public so it may be confident” that the product bearing a trademark is the product they actually believe it to be; and (2) protecting the trademark owner’s investment from misappropriation from “pirates and cheats.”⁶⁵ In essence, trademark law seeks to protect symbols and marks that identify a certain product and prevent consumer confusion in the marketplace, and copyright law seeks to protect the actual content of the product.⁶⁶ Accordingly, copyright laws and trademark laws differ in many regards. When it comes to secondary liability, “the

guide alone has been viewed over 180,000 times as of January 2011.

⁶⁰ *Reviews & Guides*, *supra* note 58.

⁶¹ *Id.*

⁶² *See, e.g., Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010); *Hendrickson v. eBay Inc.*, 165 F. Supp. 2d 1082 (C.D. Cal. 2004).

⁶³ *See Tiffany*, 576 F.Supp. 2d at 469.

⁶⁴ *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 477 (1984) (quoting U.S. CONST. art. I, § 8, cl. 8).

⁶⁵ *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 782 n.15 (1992) (quoting S. Rep. No. 1333, at 33 (1946)).

⁶⁶ *American Express v. Goetz*, 515 F.3d 156, 159 (2d Cir. 2008).

Supreme Court tells us that secondary liability for trademark infringement should . . . be more narrowly drawn than secondary liability for copyright infringement.”⁶⁷

B. Contributory Copyright Infringement

i. Background

In order to be held contributorily liable for copyright infringement, a party must (1) have “knowledge of the infringing activity” and (2) “induce[], cause[], or materially contribute[] to the infringing conduct of another.”⁶⁸ In *Fonovisa, Inc. v. Cherry Auction Inc.*, the Ninth Circuit found that a flea market operator materially contributed to the direct infringement of its vendors that sold copyrighted music.⁶⁹ According to the court in *Fonovisa*, the widespread copyright infringements taking place on the flea market’s property could not have taken place without the support of the flea market operator, who provided benefits to the seller such as space, advertising, and customers.⁷⁰

In 2001, the Ninth Circuit applied *Fonovisa* to hold that Napster, a computer systems operator that allowed users to locate and download copyrighted music files, materially contributed to direct infringing activity.⁷¹ The court in *Napster* found material contribution because Napster provided “‘the site and facilities’ for direct infringement” and because “[w]ithout the support services [Napster] provide[d], Napster users could not find and download the music. . . .”⁷²

In order to fulfill the knowledge requirement for contributory copyright infringement, the defendant must “supply its product to identified individuals known by it to be engaging in continuing infringement of . . . copyrights.”⁷³ In *Napster*, the Ninth Circuit held that if a computer systems operator “learns of

⁶⁷ *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992) (citing *Sony Corp. of Am.*, 464 U.S. at 439, n. 19).

⁶⁸ *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996) (quoting *Gershwin Publ’ Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

⁶⁹ *Fonovisa, Inc.*, 76 F.3d at 264.

⁷⁰ *Id.*

⁷¹ *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001).

⁷² *Id.* (quoting *A & M Records, Inc. v. Napster*, 114 F. Supp. 2d 896, 919-20 (N.D. Cal. 2000)).

⁷³ *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439n.19 (1984).

2012]

TIFFANY v. eBay

specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement.”⁷⁴ On the other hand, “absent any specific information which identifies infringing activity, [the operator] cannot be liable for contributory infringement merely because the structure of the system allows for the exchange of copyrighted material.”⁷⁵ Using this standard, the court found Napster liable for contributory copyright infringement because Napster had “actual knowledge that *specific* infringing material [was] available using its system, that it could block access to the system by suppliers of the infringing material, and that it failed to remove the material.”⁷⁶ In 2007, the Ninth Circuit upheld the *Napster* standard, holding that contributory copyright liability exists when the computer system operator has actual knowledge of specific infringements on its system, “can ‘take simple measures to prevent further damage’ to [the] copyrighted works, yet continue[] to provide access to [the] infringing works.”⁷⁷

Similar to the defendants in *Fonovisa* and *Napster*, eBay provides a venue and significant support services to the sellers of counterfeit products. eBay allows sellers to easily list and display their products, provides a marketplace with millions of buyers, and simplifies transactions. eBay likely materially contributes to the direct infringement that occurs on its site, but the more difficult issue is whether eBay has sufficient knowledge to be held contributorily liable for copyright infringement.

ii. Digital Millennium Copyright Act

In 1998, Congress enacted the Digital Millennium Copyright Act (DMCA) “to strengthen copyright protection in the digital age.”⁷⁸ Title II of the DMCA limits the liability of online service providers such as eBay from contributory copyright infringement.⁷⁹ According to the Senate Report behind the DMCA,

⁷⁴ Napster, 239 F.3d at 1021.

⁷⁵ *Id.*

⁷⁶ *Id.* at 1022.

⁷⁷ Perfect 10, Inc. v. Amazon.com, Inc., 508 F.3d 1146, 1172 (9th Cir. 2007) (quoting Napster, 239 F.3d at 1022; Religious Tech. Ctr. v. Netcom Online Commc’n Servs., Inc., 907 F. Supp. 1361, 1375 (N.D. Cal. 1995)).

⁷⁸ Universal City Studios, Inc. v. Corley, 273 F.3d 429, 435 (2d Cir. 2001).

⁷⁹ Hendrickson v. eBay Inc., 165 F. Supp. 2d 1082, 1088 (C.D. Cal. 2004). A service provider, as defined by the DMCA, is “a provider of online services or network access, or the operator of facilities therefor[.]” 17 U.S.C. § 512(k)(1)(B). “eBay clearly meets the DMCA’s broad definition of online ‘service provider.’” Hendrickson, 165 F. Supp. 2d at

“Title II preserves strong incentives for service providers and copyright owners to cooperate to detect and deal with copyright infringements that take place [online].”⁸⁰

Section 512(c) of the DMCA is the safe harbor provision eBay is most likely to rely upon to combat claims alleging secondary copyright infringement. Section 512(c) provides courts with a three-part test to determine whether the safe harbor applies.⁸¹ First, the service provider must either: (a) not have actual knowledge of infringing material on the site; (b) in the absence of actual knowledge, not be aware of any apparent infringing activity on its site; or (c) upon obtaining actual knowledge, act quickly to remove the infringing material.⁸² Second, if the service provider has the “right and ability to control” the infringing activity, the provider cannot “receive a financial benefit directly attributable to the infringing activity. . . .”⁸³ Third, “upon notification of claimed infringement” (“NOCI”) from the rights holder, the service provider must respond quickly to remove the allegedly infringing material.⁸⁴ Under the third prong of the test, the rights holders must include certain elements in the NOCI, including, among others: (i) a physical or electronic signature; (ii) identification of the allegedly infringing item; (iii) a statement that the rights holder has a good faith belief that the item infringes her copyright; and (iv) a statement that the information in the NOCI is accurate and that, under penalty of perjury, she is authorized to act on behalf of the copyright owner.⁸⁵

iii. *Hendrickson v. eBay*

In 2001, early in eBay’s operations, the copyright owner of a documentary DVD sued eBay under a theory of secondary copyright infringement.⁸⁶ The California district court granted eBay’s motion for summary judgment, finding that eBay met the safe harbor requirements under § 512(c) of the DMCA.⁸⁷ The court found that eBay met the first prong of the § 512(c) test because, prior to the lawsuit, eBay did not have actual or constructive knowledge that

1088. (citing 17 U.S.C. § 512(k)(1)(B)).

⁸⁰ S. Rep. No. 105-190, at 40 (1998).

⁸¹ 17 U.S.C. § 512(c) (2006).

⁸² 17 U.S.C. § 512(c)(1)(A) (2006).

⁸³ 17 U.S.C. § 512(c)(1)(B) (2006).

⁸⁴ 17 U.S.C. § 512(c)(1)(C) (2006).

⁸⁵ 17 U.S.C. § 512(c)(3)(A) (2006).

⁸⁶ *Hendrickson v. eBay Inc.*, 165 F. Supp. 2d 1082, 1087 (C.D. Cal. 2004).

⁸⁷ *Id.* at 1094.

2012]

TIFFANY v. eBay

sellers were listing allegedly infringing copies of the plaintiff's DVDs.⁸⁸ eBay also satisfied the second prong of the test because eBay did "not have the right and ability to control the infringing activity."⁸⁹ The court rejected plaintiff's argument that eBay had the "ability to control" infringements simply because it had the capability of removing items from the site; if this were the case, then the additional requirement of notice from rights holders would be irrelevant.⁹⁰ Under the third prong of the § 512(c) test, the court found that eBay never had a duty to act because the plaintiff did not provide eBay with the proper notice required by rights holders.⁹¹ In this instance, the rights holder refused to join eBay's VeRO program, refused to fill out a Notice of Infringement form, and never provided eBay with specific item numbers he sought to be removed.⁹² Because the rights holder did not comply with his duties under the DMCA, eBay was not required to remove any items from its site and fell under the safe harbor.⁹³

iv. The Potential for Future Copyright Claims against eBay

In 2008, the Software Information Industry Association ("SIIA"), which represents hundreds of software vendors including IBM and Oracle, announced plans to sue eBay for secondary copyright infringement.⁹⁴ According to Keith Kupferschmid, SIIA's senior vice president, SIIA would be "suing under copyright, not trademark, law and the standards for determining liability would be different and more established."⁹⁵ Additionally, SIIA's case would be distinguished from *Hendrickson* in that the sellers had provided notice to eBay

⁸⁸ *Id.* at 1093.

⁸⁹ *Id.*

⁹⁰ *Id.*

⁹¹ *Id.* at 1089-90 (citing 17 U.S.C. § 512(c)(3)(2006)). Here, the rights holder: did not provide eBay with a written statement under penalty of perjury that the information in the notification was accurate and that he was authorized to act on behalf of the rights owner (required by 512(c)(3)(A)(vi)); did not provide eBay with a written statement that he had a good faith belief that certain items infringed the copyright (required by § 512(c)(3)(A)(v)); and did not provide eBay with specific information identifying the allegedly infringing DVDs (required by § 512(c)(3)(A)(iii)).

⁹² *Id.* at 1085.

⁹³ *Id.* at 1092, 1094.

⁹⁴ Antone Gonsalves, *Software Group Contemplates Suing eBay*, INFORMATIONWEEK (July 25, 2008), <http://www.informationweek.com/news/internet/retail/showArticle.jhtml?articleID=209601> 138.

⁹⁵ Steiner, *supra* note 11.

about specific infringing items.

The SIIA identified eBay as the largest source of pirated software on the Internet⁹⁶ and estimated that 75 percent of the software sold on eBay is illegal.⁹⁷ SIIA noted that eBay takes down infringing items once SIIA provided notice to eBay of the item through the VeRO program.⁹⁸ However, SIIA sharply criticized eBay for not taking proactive measures in situations where eBay was in a much better position to prevent the massive amounts of pirated software from being sold on its site that SIIA could not report in time.⁹⁹ Examples of proactive measures might include making an indication that a seller's previous listings were suspected counterfeits or developing technology to identify repeat direct infringers using multiple identities to sell on eBay.¹⁰⁰

C. Contributory Trademark Infringement

i. Background

The Supreme Court enumerated the test for secondary trademark infringement in *Inwood Labs, Inc. v. Ives Labs, Inc.*¹⁰¹ In *Inwood*, the Court held drug manufacturers contributorily liable when pharmacists intentionally mislabeled generic drugs as brand name drugs in order to deceive customers.¹⁰² The opinion created the *Inwood* test, which provides that a manufacturer or distributor is responsible for any harm done as a result of direct trademark infringement, if he: (1) "intentionally induces another to infringe a trademark," or (2) "continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement."¹⁰³

In *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*, the Seventh Circuit held that the *Inwood* standard applies to those that provide *services* to direct infringers, rather than just applying to manufacturers and distributors.¹⁰⁴ In *Hard Rock Cafe*, the court concluded that a flea market

⁹⁶ *Id.*

⁹⁷ Richard M., *Software Piracy May be eBay's Next Legal Hurdle*, GEEK NEWS (July 28, 2008), <http://www.geek-news.net/2008/07/software-piracy-may-be-ebays-next-legal.html>.

⁹⁸ Gonsalves, *supra* note 94.

⁹⁹ *Id.*

¹⁰⁰ *Id.*

¹⁰¹ *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

¹⁰² *Id.*

¹⁰³ *Id.*

¹⁰⁴ *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992).

2012]

TIFFANY v. eBAY

operator could be liable for secondary trademark infringement (the sellers at the market were primary infringers), noting that the operator promoted, advertised, and supervised the market, as well as profited from ticket sales.¹⁰⁵ The Ninth Circuit, in *Fonovisa*, reached a similar conclusion in similar circumstances, holding that “a swap meet [operator] cannot disregard its vendors’ blatant trademark infringements with impunity.”¹⁰⁶ The court in *Fonovisa* agreed with the *Hard Rock Cafe* decision, holding that *Inwood* “laid down no limiting principle that would require [a] defendant to be a manufacturer or distributor” in order to impose secondary trademark infringement liability.¹⁰⁷ The Ninth Circuit extended this rationale to the Internet context in *Lockheed Martin Corp. v. Network Solutions, Inc.*, holding that online service providers can be held liable for secondary trademark infringement under *Inwood* depending on “the extent of control exercised by the defendant over the third party’s means of infringement.”¹⁰⁸ If the online venue has “[d]irect control and monitoring” over a third party’s use of the site to infringe trademarks, then *Inwood*’s “supplies a product” requirement for contributory infringement is satisfied.¹⁰⁹

ii. *Tiffany v. eBay*

In *Tiffany v. eBay*, the Second Circuit affirmed the district court’s ruling that eBay is not contributorily liable for the direct trademark infringement of those eBay sellers that list counterfeit goods on the popular auction website.¹¹⁰ Tiffany, the well-known jewelry maker, complained to eBay in 2003 about the “deluge of counterfeit Tiffany merchandise, the vast majority of which has been sold through eBay.”¹¹¹ Tiffany demanded “that eBay immediately (i) remove listings for all Tiffany counterfeit merchandise currently on the eBay website; [and] (ii) take appropriate and continuing measures to eliminate the sale of counterfeit merchandise through the eBay website in the future . . .

¹⁰⁵ *Id.* at 1148-49. The court ultimately decided that, in this instance, the flea market operator was not liable for secondary trademark infringement in this case, but made clear that liability was possible depending on the facts of the particular case.

¹⁰⁶ *Fonovisa Inc. v. Cherry Auction Inc.*, 76 F.3d 259, 265 (9th Cir. 1996).

¹⁰⁷ *Id.*

¹⁰⁸ *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999).

¹⁰⁹ *Id.*

¹¹⁰ *Tiffany*, 600 F.3d at 107.

¹¹¹ *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 481 (S.D.N.Y. 2008) (quoting plaintiff’s exhibit).

.”¹¹² eBay responded by noting that between its “fraud engine” and Trust and Safety Department, eBay “monitored listings on its website and removed those that appeared, on their face, to be counterfeit.”¹¹³ eBay also encouraged Tiffany to utilize the VeRO program to report suspected counterfeit items.¹¹⁴ Tiffany took advantage of the VeRO program, reporting 284,149 NOCIs between June 2003 and September 2007.¹¹⁵ Upon the receipt of a NOCI, eBay always took down the listing that Tiffany reported,¹¹⁶ and in most cases deleted the listing within twelve hours of receiving notice.¹¹⁷ In addition, eBay made note that it suspends tens of thousands of copyright infringing sellers each year, primarily through the use of its three strikes policy.¹¹⁸

a. District Court

Tiffany, still unsatisfied about the widespread infringement of its trademark, filed suit against eBay in the Southern District of New York, alleging that “hundreds of thousands of counterfeit silver jewelry items” were sold on eBay over a three year period.¹¹⁹ Between 2000 and 2005, there were 456,551 completed sales of “Tiffany” jewelry on eBay,¹²⁰ and between 2000 and 2004, eBay “earned \$4.1 million in revenue from completed listings with ‘Tiffany’ in the listing title.”¹²¹ In 2004 and 2005, Tiffany decided to conduct its own research to approximate the scope of infringement that existed. Tiffany ran searches on eBay for “Tiffany” items and used a random number generator to purchase 186 pieces of “Tiffany” silver jewelry in 2004 and 139 pieces in 2005.¹²² Tiffany’s quality management personnel inspected and evaluated each item, and found that 73.1% and 75.5% of the 2004 and 2005 samples, respectively, were counterfeit.¹²³ In addition, between April 2003 and October

¹¹² *Id.*

¹¹³ *Id.* at 477, 482.

¹¹⁴ *Id.* at 482.

¹¹⁵ *Id.* at 484.

¹¹⁶ *Tiffany*, 576 F. Supp. 2d at 490.

¹¹⁷ *Id.* at 478.

¹¹⁸ *Id.* at 489.

¹¹⁹ *Id.* at 469.

¹²⁰ *Id.* at 481.

¹²¹ *Id.*

¹²² *Tiffany*, 576 F. Supp. 2d at 485.

¹²³ *Id.* If 73.1% of all Tiffany items sold on eBay were counterfeit, and eBay earned \$4.1 million in revenue from Tiffany sales on its site between 2000 and 2004, then eBay earned approximately \$3 million from sales of counterfeit Tiffany products during this period.

2012]

TIFFANY v. eBay

2007, Tiffany’s Customer Service Department received over 3,900 emails from people complaining about counterfeit Tiffany items purchased on eBay.¹²⁴ eBay also acknowledged receiving numerous buyer complaints about receiving counterfeit Tiffany items purchased on eBay; during a six-week period in 2004, eBay received 125 emails from buyers claiming that they received fake Tiffany jewelry.¹²⁵ Given these facts, Tiffany sought to hold eBay liable, *inter alia*, for direct and contributory trademark infringement under the Lanham Act, because “of the assistance that [eBay] provides to, and the profits [eBay] derives from, individuals who sell counterfeit Tiffany goods on eBay.”¹²⁶

The district court concluded that eBay was not liable for direct trademark infringement by using the Tiffany mark on its homepage.¹²⁷ Under the nominative fair use doctrine, trademark owners cannot prevent the lawful resale of its genuine goods even if they do not authorize the transaction.¹²⁸ The trademark owner’s right “generally does not prevent one who trades a branded product from accurately describing it by its brand name, so long as the trader does not create confusion by implying an affiliation with the owner of the product.”¹²⁹ In this case, eBay did not use the Tiffany trademark on its site to suggest an affiliation with Tiffany; rather, eBay used the Tiffany trademark to accurately describe those authentic Tiffany products offered for sale on its site, precluding any liability for direct trademark infringement.¹³⁰

The main issue in *Tiffany v. eBay* was contributory trademark infringement, and the district court found eBay not liable. First, following the other circuits’ holdings in *Hard Rock Cafe* and *Fonovisa*, the court found that the *Inwood* standard does apply to service providers that exercise “sufficient control over the means of infringing conduct.”¹³¹ Given eBay’s “significant control” over the transactions and listings on its site, eBay squarely fell under this standard.¹³² Tiffany focused on the second prong of the *Inwood* test, arguing that eBay “continued to supply its services” to the sellers of counterfeit Tiffany

¹²⁴ *Id.* at 487.

¹²⁵ *Id.* at 513.

¹²⁶ *Id.* at 470.

¹²⁷ *Id.* at 496.

¹²⁸ *Tiffany*, 576 F. Supp. 2d at 496. (citing *Polymer Tech. Corp. v. Mimran*, 975 F.2d 58, 61-62 (2d Cir. 2006)).

¹²⁹ *Tiffany*, 576 F. Supp. 2d at 496 (quoting *Dow Jones & Co. v. Int’l Sec. Exch., Inc.*, 451 F.3d. 295, 308 (2d Cir 2006)).

¹³⁰ *Tiffany*, 576 F. Supp. 2d at 497.

¹³¹ *Id.* at 505-06.

¹³² *Id.* at 506.

goods while knowing or having reason to know that numerous sellers were infringing Tiffany's mark.¹³³

The district court disagreed with Tiffany, concluding that "while eBay clearly possessed general knowledge as to counterfeiting on its website, such generalized knowledge is insufficient under the *Inwood* test to impose upon eBay an affirmative duty to remedy the problem."¹³⁴ To hold eBay contributorily liable, the court continued, Tiffany bears the burden of showing that eBay "knew or had reason to know of specific instances of actual infringement" and subsequently failed to act; Tiffany failed to meet this burden.¹³⁵

b. Second Circuit Court of Appeals

Tiffany, on appeal, argued that the district court misinterpreted the *Inwood* standard of "knows or has reason to know."¹³⁶ Tiffany believed that under the *Inwood* standard, eBay was liable for contributory trademark infringement if "all of the knowledge, when taken together, puts [eBay] on notice that there is a substantial problem of trademark infringement."¹³⁷ Using this standard, eBay would likely be liable, given the results of Tiffany's "buying program" in 2004 and 2005, the hundreds of thousands of NOCIs that Tiffany filed with eBay, and the numerous complaints from buyers to eBay about receiving counterfeit Tiffany items.¹³⁸ After all, Tiffany argued, these pieces of evidence "established eBay's knowledge of the widespread sale of counterfeit Tiffany products on its website" and "despite that knowledge, [eBay] continued to make its services available to infringing sellers."¹³⁹

The Second Circuit disagreed and sided firmly with the district court, holding that "[f]or contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary."¹⁴⁰ In support of this conclusion, the Second Circuit looked to the Supreme Court's discussion of *Inwood* in *Sony Corp. of America*

¹³³ *Id.* at 469, 507.

¹³⁴ *Id.* at 508.

¹³⁵ *Id.* at 510.

¹³⁶ *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 107 (2d Cir. 2010).

¹³⁷ *Id.*

¹³⁸ *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 507 (S.D.N.Y. 2008).

¹³⁹ *Tiffany*, 600 F.3d at 106.

¹⁴⁰ *Id.* at 107.

v. Universal City Studios, Inc. *Sony* a well-known Supreme Court copyright case, was the only Supreme Court case to interpret the knowledge prong of the *Inwood* test at issue in *Tiffany*.¹⁴¹ In *Sony* the Court refused to hold Sony contributorily liable under the *Inwood* test when some consumers used Sony's video tape recorders to infringe certain copyrighted television programs, stating that "Sony certainly does not 'intentionally induce[e]' its customers to make infringing uses of . . . copyrights, nor does it supply its products to *identified individuals known by it* to be engaging in continuing infringement of . . . copyrights."¹⁴²

Using this interpretation, the Second Circuit found persuasive authority for the conclusion that eBay needed to have specific knowledge of specific sellers of counterfeit Tiffany products and then continue to supply services to those sellers to be liable for contributory trademark infringement.¹⁴³ Tiffany failed to meet this standard, according to the Second Circuit, because: (1) neither Tiffany's 2003 demand to eBay nor its 2004-05 Buying Program "identif[ied] particular sellers" that were selling or planned to sell counterfeit Tiffany jewelry on eBay,¹⁴⁴ and (2) when eBay did have knowledge of specific individuals selling Tiffany products through NOCIs and buyer complaints, eBay took action by removing the items and, in some cases, suspending the seller.¹⁴⁵

The Second Circuit also affirmed the district court's rejection of Tiffany's subsequent argument that if eBay is only contributorily liable when it has specific knowledge of specific infringing sellers, eBay has incentive to "intentionally shield[]" itself from learning of the infringing conduct.¹⁴⁶ The Second Circuit noted that if eBay were willfully blind to users selling counterfeit items on its site, the "reason to know" standard of the *Inwood* test would be satisfied and eBay would be liable for contributory trademark infringement.¹⁴⁷ The court cited the Seventh Circuit's *Hard Rock Cafe* decision that declared "willful blindness is equivalent to actual knowledge for

¹⁴¹ *Id.* at 108 (citing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984)).

¹⁴² *Sony Corp. of Am.*, 464 U.S. at 439 n.19 (first alteration in original) (quoting *Inwood Labs., Inc.*, 456 U.S. at 855).

¹⁴³ *Tiffany*, 600 F.3d at 109.

¹⁴⁴ *Id.* (citing *Tiffany*, 576 F.Supp. 2d 463 (S.D.N.Y. 2008)).

¹⁴⁵ *Tiffany*, 600 F.3d at 109.

¹⁴⁶ *Id.*

¹⁴⁷ *Id.*

purposes of [trademark infringement].”¹⁴⁸ According to the Court, willful blindness would require eBay to “suspect wrongdoing and deliberately fail to investigate,” and under this standard, eBay was not willfully blind.¹⁴⁹ Between eBay’s substantial investment in its anti-counterfeiting initiatives, specifically its Trust and Safety Department, VeRO Program, and fraud engine, eBay “did not ignore the information it was given about counterfeit sales on its website.”¹⁵⁰ The Second Circuit further opined that eBay, despite the court’s ruling, still has incentive to eliminate counterfeit items from its site.¹⁵¹ Because eBay wants to maintain a satisfied community of buyers, and in light of the numerous complaints buyers expressed after receiving counterfeit Tiffany items, it may be in eBay’s best interest to identify and remove counterfeit items even if it would not necessarily be contributorily liable for trademark infringement.¹⁵²

IV. THE AFTERMATH OF *TIFFANY V. EBAY*

A. *Negative Impact on Intellectual Property Owners*

Intellectual property rights holders view the VeRO program as a step in the right direction but remain heavily critical of the program, upset that so many infringing items are being sold before they can report the items to eBay.¹⁵³ Often times, sellers of counterfeit goods will list the item with an extremely low “Buy it Now” price, or as a 1-day auction, in order to complete a sale before being reported by the rights owner.¹⁵⁴ In these situations, a spokesman on behalf of the software industry announced, “it’s virtually impossible to [report] those auctions before a sale is consummated.”¹⁵⁵ The district court in *Tiffany* acknowledged as much, stating that “potentially counterfeit

¹⁴⁸ *Id.* at 109-10 (quoting *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992)); *see also* *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996) (Under the Inwood test for contributory trademark infringement, “a swap meet can not disregard its vendors’ blatant trademark infringements with impunity.”)

¹⁴⁹ *Id.* (quoting *Hard Rock Cafe*, 955 F.2d at 1149)).

¹⁵⁰ *Id.* at 110.

¹⁵¹ *Id.* at 109.

¹⁵² *Id.*

¹⁵³ *See e.g.*, Gonsalves, *supra* note 94.

¹⁵⁴ Steiner, *supra* note 11 (noting a recent study that found that 75 percent of the software products on eBay were listed as a 1-day, 3-day, or Buy it Now auction).

¹⁵⁵ *Id.*

2012]

TIFFANY v. eBay

merchandise could be listed and sold before Tiffany had even had the opportunity to review the listing,” especially for weekend listings when Tiffany employees were not reviewing the site.¹⁵⁶ Additionally, for many products such as DVDs, it is customary for sellers to use a stock photo for the item rather than provide an actual photograph, making it extremely difficult for eBay or the rights holder to detect whether the item is counterfeit.¹⁵⁷

B. Negative Impact on Legitimate eBay Sellers

eBay sellers without any intellectual property rights are also critical of the VeRO program, claiming that VeRO members abuse their rights by reporting eBay listings that do not violate any trademarks or copyrights.¹⁵⁸ VeRO members know that when they submit a NOCI form to eBay, eBay will remove the listing in question without assessing the validity of the claim.¹⁵⁹ In addition, rights holders may rely on inexperienced employees to monitor eBay and report infringing items. For example, in *Tiffany*, the jewelry company had paralegals, interns, and a temporary employee reviewing eBay and submitting NOCIs, despite limited knowledge of Tiffany jewelry.¹⁶⁰ Given this, VeRO members often report legitimate listings that feature authentic items for sale. The district court in *Tiffany* acknowledged that rights holders can make mistakes when submitting a NOCI in good faith, and that “a NOCI [does] not constitute a definitive finding that the listed item was counterfeit.”¹⁶¹ While a study on eBay NOCIs has not been performed, in 2009 Google reported that 37% of “takedown notices” it received from rights holders under the DMCA “were not valid copyright claims.”¹⁶² In an anonymous survey of VeRO participants, one rights holder “admitted removing listings despite knowing that the items were likely [original] and would only permit the listing to be

¹⁵⁶ *Tiffany*, 576 F.Supp. 2d at 485.

¹⁵⁷ See Jim Copley, *Avoiding DVD Knock-off and Illegal Copies Myth and Reality*, EBAY.COM (Dec. 14, 2010), http://reviews.ebay.com/Avoiding-DVD-knock-offs-and-ILLEGAL-copies-MYTH-and-REALITY_W0QQugidZ10000000001985347.

¹⁵⁸ See *infra* notes 16376-183.

¹⁵⁹ *Responding to a DMCA Takedown Notice Targeting Your Content*, CITIZEN MEDIA LAW PROJECT, <http://www.citmedialaw.org/legal-guide/responding-dmca-takedown-notice-targeting-your-content> (last visited Apr. 9, 2011).

¹⁶⁰ *Tiffany*, 576 F.Supp. 2d at 484.

¹⁶¹ *Id.* at 489.

¹⁶² Ted Gibbons, *Google Submission hammers section 92A*, NEW ZEALAND PC WORLD (Mar. 16, 2009), <http://pcworld.co.nz/pcworld/pcw.nsf/feature/93FEDCEF6636CF90CC25757A0072B4B7>.

reinstated if pressed on the point by a seller with knowledge of the law” and another admitted removing listings when “someone is selling the product below market value.”¹⁶³ As the *Tiffany* court noted, rights holders have incentive to over-report items in order to “shut down the legitimate secondary market in authentic . . . goods,” in addition to shutting down the counterfeit market.¹⁶⁴

If a seller believes that eBay wrongfully removed her item, and the alleged infringement is copyright, the Digital Millennium Copyright Act provides the seller with a right to file a counter notice.¹⁶⁵ A counter notice must include, among other things, “a statement under penalty of perjury that the [seller] has a good faith belief that the material was removed or disabled as a result of mistake or misidentification.”¹⁶⁶ On eBay’s counter notice website, sellers are instructed to “consider carefully” their claim, because filing a false claim “may come back to haunt you.”¹⁶⁷ If the seller chooses to file a counter notice, the VeRO participant has ten business days to inform eBay that she has filed an action seeking a court order to restrain the seller from relisting the items.¹⁶⁸ If the VeRO participant does not respond to the counter-notice, eBay will relist the items.¹⁶⁹ If the alleged infringement is trademark, then the DMCA does not apply, and the eBay seller does not have the counter-notice option. In this instance, eBay encourages the seller to contact the rights owner directly, and only if the rights owner admits to eBay that she made a mistake will eBay allow the seller to relist the item.¹⁷⁰

Sellers can rely on both copyright and trademark statutes when disputing an alleged infringement. For copyright infringement, sellers might claim that copyright law does not apply to their item, that their sale of the work

¹⁶³ Scott Pilutnik, *eBay’s Secondary Trademark Liability Problem and its VeRO Program*, INTELLECTUAL PROPERTY LAW SECTION OF THE NEW YORK STATE BAR ASSOCIATION, Spring-Summer 2007, at 27, available at http://www.auctionbytes.com/eBays_Secondary_Trademark_Liability_Problem.pdf.

¹⁶⁴ *Tiffany*, 600 F.3d at 98.

¹⁶⁵ 17 U.S.C. § 512 (g) (2006).

¹⁶⁶ 17 U.S.C. § 512 (g)(3) (2006).

¹⁶⁷ CITIZEN MEDIA LAW PROJECT, *supra* note 159. Under the DMCA, any person who “knowingly materially misrepresents . . . that material or activity was removed or disabled by mistake or misidentification, shall be liable for any damages” incurred by the copyright owner or service provider. 17 U.S.C. § 512 (f) (2006).

¹⁶⁸ *How eBay protects intellectual property (VeRO)*, EBAY.COM, <http://pages.ebay.com/help/policies/programs-vero-ov.html> (last visited Aug. 11, 2012).

¹⁶⁹ *Id.*

¹⁷⁰ *Id.*

constitutes fair use, or that their sale is protected by the first sale doctrine.¹⁷¹ For trademark infringement, accused sellers usually rely upon a nominative fair use claim, stating that the item is authentic and in order to accurately describe the product, use of the trademarked term is necessary.¹⁷² The practical problem that sellers encounter when faced with an infringement claim is that they often have no way to prove they own a legally purchased, authentic product. Without a receipt for the item, the seller cannot challenge the rights holder's accusation of infringement unless the seller brings the rights holder to court, which in almost all cases will not be a cost-effective course of action for the seller.¹⁷³ Under copyright law, the seller might be able to recover court costs and attorney fees against overreaching VeRO participants, but only if the seller can prove that the rights holder "knowingly" removed an item that the rights holder had no right to remove.¹⁷⁴ This is an extremely difficult burden to meet, as rights holders might provide several reasons why they believed in good faith that a particular item infringed upon their rights.¹⁷⁵

As the system currently stands, intellectual property rights owners have strong incentives to create a VeRO account and take down any item on eBay that might infringe upon their rights, without doing any research on particular items. Because sellers do not have a trademark counterpart to the counter-notice option under the DMCA, rights holders have further incentive to remove items claiming trademark infringement as opposed to copyright infringement. By doing so, the rights holder circumvents the more seller-friendly copyright law and effectively prevents the seller from sending a counter-notice.¹⁷⁶ The

¹⁷¹ Sections 102 and 103 of the Copyright Act limit copyright protection to certain categories. 17 U.S.C. § 102-103 (2006); Section 107 of the Copyright Act provides a non-exclusive list of fair uses of copyrighted works. Fair uses include purposes such as criticism, comment, teaching, and research. 17 U.S.C. § 107; Section 109(a) of the Copyright Act describes the fair use doctrine: "The owner of a particular copy . . . lawfully made under this title . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy." 17 U.S.C. § 109(a).

¹⁷² To demonstrate nominative fair use, the seller must prove: (1) that the use of the mark is necessary to describe the item for sale; (2) that the seller used only so much of the mark as necessary to describe the item for sale; and (3) that the seller's language reflect the true and accurate relationship between the seller and the right holder's product. *Century 21 Real Estate Corp. v. Lendingtree, Inc.*, 425 F.3d 211, 222 (3d Cir. 2005).

¹⁷³ Pilutnik, *supra* note 163, at 29.

¹⁷⁴ 17 U.S.C. § 512 (f) (2006).

¹⁷⁵ Reasons might include that the seller was new to eBay, the picture was fuzzy or the description was unclear.

¹⁷⁶ eBay only notifies sellers that they have the right to file a counter-notice when the

seller's only legitimate remaining option, in this case, is to bring the VeRO accuser to court.

A few eBay sellers have brought VeRO participants to court and fared successfully. Mike Meadors and Karen Dudnikov, a married couple with the eBay user name "Tabberone," are well-known crusaders against over-reaching VeRO members.¹⁷⁷ Tabberone maintains a website that provides legal resources to eBay sellers subjected to wrongful VeRO takedowns.¹⁷⁸ Tabberone's "Hall of Shame" lists over one hundred eBay VeRO members that use(d) "highly questionable, or down-right illegal, tactics to interfere with . . . legitimate auctions," along with detailed descriptions of the wrongful tactics used by the rights holders and their legal counsel.¹⁷⁹

Tabberone sold various fabrics bearing the trademarks and logos of such companies as Disney, Peanuts, and the NFL.¹⁸⁰ Many of Tabberone's eBay items have been removed by VeRO members, and rights owners often threaten to sue the couple for trademark and copyright infringement. Meadors and Dudnikov represent themselves in court, and citing copyright's first sale and fair use doctrine, and trademark's nominative fair use doctrine, win eighty percent of the time.¹⁸¹ The couple normally proceeds by filing a motion for declaratory judgment against the VeRO member, seeking a declaration that they have the right to sell certain products.¹⁸² The VeRO member usually opts

rights holder files a complaint alleging copyright infringement. *See* Pilutnik, *supra* note 163, at 29.

¹⁷⁷ Pilutnik, *supra* note 163, at 31.

¹⁷⁸ *See Trademark Definitions & Trademark Law*, TABBERONE.COM, <http://www.tabberone.com/Trademarks/TrademarkLaw/TrademarkLaw.shtml> (last visited Aug. 11, 2012); *Copyright Law and Definitions*, TABBERONE.COM, <http://www.tabberone.com/Trademarks/CopyrightLaw/CopyrightLaw.shtml> (last visited Aug. 11, 2012).

¹⁷⁹ *Tabberone's Trademark and Copyright Abusers' Hall of Shame*, TABBERONE.COM, <http://www.tabberone.com/Trademarks/HallOfShame/HallOfShame.shtml> (last visited Apr. 15, 2012).

¹⁸⁰ *Tabber's Temptations*, TABBERONE.COM, www.tabberone.com (last visited Aug. 11, 2012). Currently, the site only offers "M&M's Brand" fabrics and collectibles.

¹⁸¹ *Tabberone's Trademark Home Page*, TABBERONE.COM, <http://www.tabberone.com/Trademarks/trademarks.shtml> (last visited Aug. 11, 2012) (some of the companies that Tabberone has fought off include Warner Brothers, Disney, Major League Baseball, and Sanrio.).

¹⁸² *See, e.g., Tabbers Temptations v. Disney Enterprises*, CA No. 02-WM-2402(PAC), *available at* <http://www.tabberone.com/Trademarks/DisneyLawsuit/ourlawsuit/complaint.html> (last

2012]

TIFFANY v. eBay

to settle with Meadors and Dudnikov, agreeing to retract their eBay complaint and cease reporting Tabberone as an infringing seller.¹⁸³

Most eBay sellers, however, do not have the time or resources to file a civil action against an accusatory VeRO member.¹⁸⁴ Therefore, in an overwhelming majority of instances where a VeRO member files a NOCI complaint against a seller, the seller will not be able to relist the item and they may receive potentially severe sanctions from eBay, regardless of whether the item was actually infringing.¹⁸⁵ Given that over 700,000 Americans rely on eBay sales as their primary or secondary source of income, false NOCIs that result in item removals and seller suspensions can result in substantial harm to legitimate sellers.¹⁸⁶ Even more disturbing, some eBay sellers use false information to join the VeRO program and submit NOCI forms against competing sellers, knowing that eBay does not take steps to ascertain whether the user actually owns intellectual property rights in the items she claims.¹⁸⁷

C. *Negative Impact on eBay Buyers*

An unsuspecting eBay buyer of a counterfeit good can either keep the item

visited Aug. 11, 2012).

¹⁸³ See, e.g., *Settlement Agreement with Disney*, TABBERONE.COM, <http://www.tabberone.com/Trademarks/DisneyLawsuit/Agreement.shtml> (last visited Apr. 9, 2011).

¹⁸⁴ See Brian L., *eBay's Vero: Safe Harbor – At What Expense?* (Feb. 17, 2009), <http://ipinthedigitalage.com/ebays-vero-safe-harbor-at-what-expense/> (finding that “[t]he sheer amount of time involved and the often-frightening prospect of making statements under penalty of perjury and being embroiled in litigation—particularly against behemoth corporations—serve as deterrent to fighting the takedowns.”).

¹⁸⁵ See *supra*, section II(D)(2).

¹⁸⁶ *New Study Reveals 724,000 Americans Rely on eBay Sales for Income*, EBAY.COM (July 21, 2005), available at <http://investor.ebay.com/releasedetail.cfm?releaseid=170073>. Indeed, the district court in *Tiffany* recognized that a seller suspension “was a very serious matter, particularly to those sellers who relied on eBay for their livelihoods.” *Tiffany*, 576 F.Supp. 2d at 489.

¹⁸⁷ According to a Google report, “57 percent of takedown notices received under the DMCA were sent by businesses targeting competitors.” Gibbons, *supra* note 162. See e.g., Pilutnik, *supra* note 163, at 22 (explaining that “VeRO can even be exploited fraudulently by anyone clever enough to submit a NOCI form filled out using information from a throwaway email account and prepaid-for-in-cash cell phone, as eBay apparently does not ascertain whether the applicant is indeed the owner of the rights it claims”) (internal citations omitted).

or attempt to return the item to the seller for a refund.¹⁸⁸ If the seller refuses to provide a refund, then eBay can review the case and potentially provide a refund to the buyer.¹⁸⁹ However, if the seller offers a refund upon the buyer's return of the item, then the buyer is obligated to return the item to the seller in order to receive a refund.¹⁹⁰

Forcing buyers to return potentially infringing items in order to receive a refund presents a host of problems. First, many buyers are reluctant to ship counterfeit items in the mail out of fear that they are violating federal law.¹⁹¹ Second, buyers are not enamored with the idea that they are returning an infringing item back to a seller that will likely sell the same product to another unassuming buyer.¹⁹² eBay does not inspect any items itself and does not give buyers the option of sending the item to a third party for review. Third, buyers must pay for return shipping costs out of their own pocket.¹⁹³ Fourth, if the returned item is not received by the seller with confirmation of delivery, the buyer not only loses the return shipping costs, but she will not receive a refund for the product either.¹⁹⁴ This is particularly problematic because sellers of counterfeit items often list multiple addresses, confusing buyers as to where they should return the product.¹⁹⁵ One buyer explained his experience after receiving a flash drive confirmed to be bootleg: (1) the return address on the

¹⁸⁸ *Returning an item and receiving a refund for an eBay Buyer Protection case*, eBay.com, <http://pages.ebay.com/help/buy/refunds.html> (last visited Apr. 9, 2012).

¹⁸⁹ *What to do if you don't receive an item or it doesn't match the seller's description*, EBAY.COM <http://pages.ebay.com/help/buy/item-not-received.html> (last visited Apr. 15, 2012).

¹⁹⁰ *What happens if a buyer believes an item is not authentic?*, EBAY.COM, <http://pages.ebay.com/help/policies/buyer-protection.html#authentic> (last visited Apr. 15, 2012).

¹⁹¹ *See, e.g.*, Posting of momoftwo to Purseforum (June 23, 2008, 16:47 EST), <http://forum.purseblog.com/ebay-forum/illegal-mail-counterfeit-items-using-us-postal-service-314559.html>.

¹⁹² Techreporters, *How Many Addresses Do Fake Sellers Have – a Buyer's Confusion*, FAKE FLASH NEWS (Apr. 27, 2009), <http://fakeflashnews.wordpress.com/2009/04/27/ebay-refunds-for-fake-flash-usb-drives-returning-for-refunds-how-many-addresses-do-fake-flash-sellers-have-a-buyers-confusion/>.

¹⁹³ *What happens if a buyer believes an item is not authentic?*, EBAY.COM, <http://pages.ebay.com/help/policies/buyer-protection.html#authentic> (last visited Apr. 9, 2011).

¹⁹⁴ *Resolution of cases*, EBAY.COM, <http://pages.ebay.com/help/policies/buyer-protection.html#authentic> (last visited Mar. 12, 2012).

¹⁹⁵ Techreporters, *supra* note 192.

2012]

TIFFANY v. eBAY

package was from Hong Kong; (2) when the buyer demanded a refund, the seller told him to return the item to an address in mainland China; (3) when the buyer contacted eBay, the site told him to return the item to a Fish and Chips restaurant in Cary, North Carolina.¹⁹⁶

V. POSSIBLE SOLUTIONS TO THE CURRENT PROBLEMS

A. *Summary of the Problem*

The VeRO system is a step in the right direction, but it is currently extremely flawed. Rights holders are upset because they are unable to constantly monitor eBay and remove infringing items, resulting in thousands of infringing items being sold each day. They believe that eBay could, and should, be doing a better job of removing infringing items from the site. Legitimate eBay sellers are upset, claiming that rights holders abuse the VeRO system and that there is usually no way to respond to false allegations that they are selling fake items. eBay buyers are unhappy, as they are receiving fake items and then feel as though their complaints to eBay fall on deaf ears. Furthermore, buyers do not like the concept of having to send back an item, which they believe to be fake, back to a seller whom they know will resell that item to another unsuspecting buyer.

The only party satisfied, other than sellers of counterfeit items, may be eBay itself. In *Tiffany*, the Second Circuit acknowledged that it “appreciate[s] the argument that 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.”¹⁹⁷ Yet, the ruling did nothing to increase eBay’s incentives to remove infringing items from the site. The Second Circuit’s sentiment in *Tiffany*, that eBay has incentive to eliminate counterfeit goods despite the lack of liability in the name of maintaining buyer satisfaction, is not particularly realistic. Because most buyers of counterfeit products either (1) intentionally buy counterfeit products to save money or (2) are unaware that the product they received is counterfeit, most buyers of counterfeit products are satisfied.¹⁹⁸ In fact, several eBay user guides about counterfeit items point out that many infringing sellers are eBay “PowerSellers” that have close to 100 percent positive feedback.¹⁹⁹

¹⁹⁶ *Id.*

¹⁹⁷ *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 107 n. 4 (2d Cir. 2010).

¹⁹⁸ See Organization for Economic Cooperation & Development, *supra* note 31, at 5.

¹⁹⁹ See *Beware! 100% Authentic Handbags can be 100% Fake*, EBAY.COM, <http://reviews.ebay.com/BEWARE-quot-100-AUTHENTIC-quot-HANDBAGS-can-be->

eBay, courts, and lawmakers face difficult dilemmas in determining how to strike a balance between the interests of eBay, rights holders, eBay sellers, and buyers. Decreasing eBay's incentive to remove counterfeit listings on its own benefits eBay but has a negative impact on rights holders, legitimate sellers, and buyers. On the other hand, increasing eBay's incentive to remove listings might place an unreasonable restraint on business, given that the site is not a direct infringer. Placing greater requirements on eBay would also increase the site's operating costs, likely resulting in higher fees for eBay sellers. Additionally, it would upset the long-held view that rights holders are the ones ultimately responsible for policing the marketplace for infringing items.²⁰⁰

Placing greater requirements on rights holders to prove infringement would result in greater costs to rights holders, and those costs may be passed onto consumers in the form of higher prices. In addition, the current system requires rights holders to often rely on reasonable suspicion, rather than on objective evidence, to remove certain items from eBay.²⁰¹ Actual evidence that an item is infringing, just by looking at the auction page, is often impossible to prove. On the other hand, placing greater requirements on rights holders will decrease their incentive to abuse the VeRO program, protect legitimate sellers on eBay, and keep the policing power in the hands of the rights holders.

Increasing eBay buyers' ability to report infringing items will result in eBay removing more counterfeit items and infringing sellers from eBay. However, buyers do not have the same expertise as rights holders in determining whether

100-FAKE_W0QQuqidZ10000000004274911 (last visited Apr. 9, 2011) (“[B]eing a “Power Seller” means absolutely nothing as far as whether or not the merchandise is authentic. All you have to do to become a Power Seller is sell \$1,000 worth of merchandise (any type, fake or not) each month and maintane [sic] a decent feedback score.”). *See also Detect Authentic Coach from Fake Coach, supra* note 59 (instructing buyers to not “assume 100% feedback equates to an honest seller. The majority of photos [of counterfeit bags] posted at the top of this guide were derived from sellers with 100% feedback.”).

²⁰⁰ *See, e.g., Tiffany*, 576 F.Supp. 2d at 518 (“[W]hile the Court is sympathetic to Tiffany's frustrations . . . the fact remains that rights holders bear the principal responsibility to police their trademarks.”); 2 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 11:91 (4th ed. 2011) (“[T]he corporate owners of trademarks have a duty to protect and preserve the corporation's trademark assets though vigilant policing and appropriate acts of enforcement.”).

²⁰¹ For instance, if a seller that recently joined eBay listed ten “new” Coach purses at the same time, the rights holder has reasonable suspicion to believe that the items are counterfeit, even if the seller provides an accurate description and picture of authentic purses.

2012]

TIFFANY v. eBay

an item is authentic or infringes upon any intellectual property rights. In addition, buyers, unlike rights holders, do not face legal ramifications for fraudulently reporting a seller. With these various factors in mind, there are a few possible solutions that may prove beneficial for all parties involved.

B. Solution One: Create a Statute for Trademark Law that Mirrors the DMCA

When reporting items to eBay, many VeRO members characterize infringements as trademark-related rather than copyright-related, in order to circumvent the DMCA's counter-notice provision.²⁰² Several commentators raise the point that the VeRO program was designed to fulfill the safe harbor requirements of the DMCA and because there is no Lanham Act equivalent to the DMCA, the law regarding secondary trademark infringement remains up in the air.²⁰³ In order to resolve this discrepancy, some suggest that Congress enact legislation that mirrors the DMCA and applies to contributory trademark infringement on the Internet.²⁰⁴ This legislation should serve the same purposes of the DMCA – creating incentive for auction sites and rights holders to work together to prevent counterfeiting, and providing clearer guidelines to auction sites on how to avoid secondary liability.²⁰⁵

C. Solution Two: Create a Clearer and Broader Knowledge Requirement

Courts, and ideally Congress, should provide a clearer definition regarding the type of “knowledge” that service providers must acquire before action is required. The district court in *Tiffany* held that in order to be contributorily liable for trademark infringement, eBay needed to have *specific* knowledge of actual infringement and then fail to act on that knowledge.²⁰⁶ The Second Circuit affirmed, stating that *contemporary* knowledge of particular infringing listings, and subsequent failure to act, is necessary.²⁰⁷ *Napster's* contributory liability test for copyright infringement suggests a similar knowledge

²⁰² See Pilutnik, *supra* note 163 at 28.

²⁰³ See, e.g., 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, 138 (2010).

²⁰⁴ Fara S. Sunderji, *Protecting Online Auctions Sites from the Contributory Trademark Liability Storm: A Legislative Solution to the Tiffany Inc. v. eBay Inc. Problem*, 74 FORDHAM L. REV. 909, 940 (2005).

²⁰⁵ *Id.* at 940-41.

²⁰⁶ *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 107 (2d Cir. 2010).

²⁰⁷ *Id.*

requirement, requiring *actual* knowledge of specific infringing material on its system.²⁰⁸

Because the “knowledge” prong is unclear, courts have the ability to elaborate specifically on what types and sources of knowledge requires service providers to act. In *Hendrickson*, the court held that because the rights holder did not provide eBay with proper notification of an infringement, eBay never retained *actual* knowledge of specific infringing items and therefore was not liable.²⁰⁹ An intriguing issue that the neither the *Hendrickson* nor *Tiffany* court addressed, and may arise in the future, is whether eBay *users* can provide information constituting sufficient knowledge that triggers a duty on eBay to act. Courts have seemingly concluded that actual knowledge of an infringement can only be provided by the rights holder. However, DMCA Section 512(c)(1)(A)(ii) states that service providers only get safe harbor when, “in the absence of . . . actual knowledge, [the online service provider] is not aware of facts or circumstances from which infringing activity is *apparent*.”²¹⁰ Rights holders, under this language, have a viable argument that eBay users provide eBay with the requisite “awareness” about certain sellers and products that are likely counterfeits, through the use of feedback and reports to eBay Customer Support. Currently, eBay does not disclose any certain positive feedback percentage that a seller must maintain to avoid sanctions or item removals. Additionally, eBay does not reveal whether there is a requisite amount of user “reports” identifying a particular seller’s items as potentially infringing that prompts eBay to remove certain items.²¹¹

eBay would likely argue that information provided by eBay users does not equate to “facts or circumstances from which infringing activity is *apparent*.”²¹² Buyers of products, as opposed to the actual rights holders, are not experts in intellectual property law or counterfeit products. Buyers therefore might be mistaken in their belief that a product that they received is

²⁰⁸ *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1021 (9th Cir. 2001).

²⁰⁹ *Hendrickson v. eBay Inc.*, 165 F. Supp. 2d 1093 (C.D. Cal. 2004).

²¹⁰ 17 U.S.C. § 512(c)(1)(A)(ii) (2010) (emphasis added). The Ninth Circuit, in a recent copyright case, opined that a “user email” that informs the service provider of specific infringing material on the site could meet the requirement for knowledge under U.S.C. § 512(c)(1)(A)(ii). *UMG Recordings, Inc. v. Shelter Capital Partners, LLC*, 667 F.3d 1022, 1040 n. 14 (9th Cir. 2011). While this standard applies for copyright cases, it does not necessarily follow for trademark cases.

²¹¹ eBay informs users who file a report of infringement that, due to privacy laws, it cannot follow up with the user about any action eBay may have taken against the seller. See *Replicas, counterfeit items, and unauthorized copies policy*, *supra* note 48.

²¹² 17 U.S.C. § 512(c)(1)(A)(ii) (2006).

2012]

TIFFANY v. eBay

illegal. Furthermore, buyers can send false reports or leave false feedback about sellers without worrying about repercussions, whereas the DMCA provides serious sanctions to any rights holder who intentionally files a false report.

D. Solution Three: Increase Buyers' Ability to Report Infringing Items

Despite eBay's legitimate concerns about relying upon buyers as a source of information, there are possible ways that buyers can provide reliable information to eBay regarding counterfeits. One possibility is that eBay create a team of trusted users who: (1) are familiar with eBay; (2) have high eBay feedback and a solid seller and buyer reputation, and (3) an expertise in a given field, and give those users the ability to report suspected infringements. In fact, eBay UK launched a similar system in 2008 called "Enhanced Member Reporting" ("EMR").²¹³ The program "selected trusted eBayers to more easily report listings which breach eBay policies" and reports sent by these members were "given higher priority for investigation by support staff."²¹⁴ While eBay used to rely on these trusted members' reports to remove suspected infringing items, UK apparently abandoned the EMR program by January 2010 and no longer expeditiously removes listings reported by users.²¹⁵ Such a system would cost eBay little money to implement and operate, since the trusted users would volunteer their time to report counterfeits.

A more involved solution could involve all eBay buyers who believe they purchased and received an infringing item. This solution would allow eBay buyers to send a potentially infringing item to eBay's Trust and Safety Department or a third party expert, at the buyer's own expense. This third party would inspect the item and determine whether it is authentic or counterfeit. If the item is counterfeit, eBay would require the seller to refund the buyer entirely or face possible selling restrictions. If the seller refuses to refund, then eBay will refund the buyer, a remedy already provided by eBay's Buyer Protection Program.²¹⁶ If eBay found a particular seller to have sold two or more counterfeit products, eBay would suspend the seller. Also as part

²¹³ Sue Bailey, *eBay UK Launches Enhanced Member Reporting*, TAMEBAY, (Sept. 23, 2008, 2:58 PM), <http://tamebay.com/2008/09/eBay-uk-launches-enhanced-member-reporting.html>.

²¹⁴ *Id.*

²¹⁵ Ina Steiner, *AuctionBytes Soundoff: Letters to the Editor*, ECOMMERCE BYTES (July 11, 2010), <http://www.auctionbytes.com/cab/abu/y210/m07/abu0266/s08>.

²¹⁶ *Buyer Protection Programs*, eBay.com, <http://pages.eBay.com/help/buy/protection-programs.html> (last visited Apr. 9, 2012).

of this proposed program, the buyer, when sending the item to the third party, must include the return address listed on the package in which their item was sent. eBay can then create a database of addresses, which will help identify sellers who use multiple accounts to sell infringing products. eBay can pass this information along to the rights holders who can take action against that individual if they wish.

Under this proposed solution, buyers will feel better protected because not only are they receiving a refund, but they also feel assured that the seller cannot take advantage of another buyer and that eBay will take appropriate action against the infringing seller. Rights holders will be more satisfied because an extra level of protection would exist. If buyers assist the process of reporting counterfeit goods, VeRO members would have to guess whether an item on an eBay page is fake less often. This, in turn, would please legitimate eBay sellers who would be less concerned about being subjected to false reporting. Additionally, counterfeiters, the primary trademark infringers, would be deterred from selling on eBay if they knew that buyers had the power to assist eBay in detecting infringing items and locating infringing sellers.

eBay will likely not approve of this system because it would be expensive to implement and operate. eBay will fall back on the notion that it is not a direct infringer and insist it bears no obligation to rights holders to police the marketplace beyond the current measures in place. However, if such a system is implemented, eBay will be able to recoup some costs. Buyers who unsuspectingly bought a counterfeit product on eBay and were unsatisfied with eBay's response may have lost confidence in eBay and instead shop elsewhere.²¹⁷ This new system would help boost consumer confidence and satisfaction. Furthermore, many sellers have likely left eBay because they feel as though they can no longer compete with the lower prices offered by the thousands of sellers stocked with cheaper counterfeit versions of items. Those sellers may return to eBay with the knowledge that that they could compete on an even playing field with other sellers.

VI. CONCLUSION

The counterfeit industry is growing exponentially, largely in part to the worldwide, 24/7 marketplace that eBay provides to counterfeiters.

²¹⁷ Michael Fowlkes, *eBay shares hit a seven-year low*, BLOGGINGSTOCKS, (Feb. 27, 2009, 3:30 PM), <http://www.bloggingstocks.com/2009/02/27/ebay-ebay-shares-hit-a-seven-year-low/> ("One of the big reasons why the site has been struggling has been the lack of confidence among buyers stemming from rampant [sic] counterfeiting that has been taking place on the site.").

THIS VERSION DOES NOT CONTAIN PARAGRAPH/PAGE REFERENCES.
PLEASE CONSULT THE PRINT OR ONLINE DATABASE VERSIONS FOR
PROPER CITATION INFORMATION.

2012]

TIFFANY v. eBAY

Nonetheless, eBay has managed to escape major liability in the United States for secondary intellectual property infringement. The doctrines of secondary trademark and copyright infringement, as they stand today, are not entirely clear. In the midst of this lack of clarity, counterfeiters are thriving, leaving rights holders, sellers, and buyers angry and frustrated. Given the realities of the situation, the legislature and courts would be wise to: (1) better define these doctrines, especially the knowledge requirements, (2) increase the types and sources of information upon which online service providers rely in order to remove infringing items from their sites, and (3) take into account the methods today's counterfeiters use when determining how to approach secondary liability for service providers. If such steps are not taken, counterfeiters will likely continue to enjoy a relative safe haven by selling their products on eBay.