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All Not Lost For Retail In Wake of Tiffany v. eBay

Initial press coverage of Monday's decision in *Tiffany (NJ) Inc. v. eBay Inc.* presented the decision as a sweeping victory for eBay and a devastating defeat for brand owners, particularly those in the luxury and other high-end retail industries.

Judge Richard Sullivan of the United States District Court for the Southern District of New York, following a bench trial, ruled in eBay's favor on each claim brought by Tiffany, including direct and contributory trademark infringement and false advertising.

A closer reading of the lengthy opinion, however, reveals that on some key underlying points, the Court actually ruled against eBay. Moreover, while the Court's opinion can fairly be read as endorsing eBay's thorough fraud and counterfeit prevention efforts, other indirect trademark infringers, such as other online marketplaces, landlords or franchisors, who do not treat allegations of counterfeiting as seriously, may have reason to remain concerned.

As most luxury and other high-end brand owners are aware, the trade in counterfeit merchandise on eBay and other online marketplaces, as well as in certain discount retail operations and flea markets, is rampant.

While some legitimate used or discounted merchandise is offered for sale in these settings, for certain brands the trade in counterfeit merchandise dwarfs the trade in legitimate items.

Accordingly, many brand owners, including Tiffany, participate in eBay's Verified Rights Owner ("VeRO") Program. Under this program, when a participating owner becomes aware of an eBay listing that it believes in good faith to be a counterfeit item, the owner can submit a Notice of

Claimed Infringement ("NOCI"), following receipt of which eBay will remove the objected-to listing and warn the seller.

In addition, eBay operates an internal fraud engine based in part on the use of certain flagged terms in proposed listings, which prevents some suspect listings from even making it onto the eBay site.

This case arose because Tiffany claimed that eBay's measures did not sufficiently protect Tiffany's rights in light of the continuing infringement on the site through the sale of counterfeit Tiffany-labeled merchandise.

Therefore, Tiffany sued eBay for, among other claims, contributory trademark infringement, asserting that based on its generalized knowledge of the infringing activity, eBay had a duty to prevent the sale of counterfeit Tiffany-labeled merchandise by, for example, preemptively barring the sale of any lot of five or more TIFFANY items, or denying access to the site to a seller who had listed even a single counterfeit item.

eBay in opposition argued that, as a mere marketplace operator that does not ever have ownership or possession of the goods being sold through the site, it had no duty to address the sale of counterfeit items, and if it did have a duty, that the duty was sufficiently discharged through the VeRO Program and its other anti-fraud measures.

On the first question, whether or not eBay was under a duty, the Court found that eBay does exercise sufficient direct control over the sales activity on its site such that it cannot simply avoid contributory infringement by claiming that it is analogous to an online classified ad service.

In making this finding, the Court noted that eBay provides the software to set up and store listings, that eBay actively promoted the sale of TIFFANY items on the site, that eBay directly profits from the listing of items and the sales of items, and that eBay maintains control over the listings through User Agreements and other measures.

Therefore, eBay was and is under a duty avoid contributory trademark infringement on its site subject to the test addressed below.

The Court next analyzed whether eBay had satisfied that duty in light of the controlling test set forth by the Supreme Court in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844 (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 contributorially responsible for any harm done as a result of the deceit." 456 U.S. at 854.

The Court held that the *Inwood* test imposed liability only as to specific infringers or instances that eBay had knowledge of, or had reason to know of, and not to generalized possibilities of infringement arising from the prevalence of counterfeit Tiffany-labeled items.

The Court stated that, "Were Tiffany to prevail on its arguments that generalized statements of infringement were sufficient to impute knowledge to eBay of any and all infringing acts, Tiffany's rights in its mark would dramatically expand, potentially stifling legitimate sales of Tiffany goods on eBay." (Op. at

47.)

Therefore the Court was left to analyze how eBay responded to specific instances of infringement that it knew or had reason to know of, and the Court held that eBay satisfied its duty with respect to these instances through measures such as the VeRO Program and its own internal anti-fraud engine.

The Court also ruled against Tiffany on its claim that eBay directly infringed the TIFFANY trademarks through its own advertisements touting the sale of Tiffany items on the site.

The Court held that eBay's use of the marks to promote the sale of genuine TIFFANY items constituted a "nominative fair use." While the Court's analysis holds up with respect to the sale of genuine items, the Court did not specifically address whether eBay's use of the marks in advertising when connected to the sale of counterfeit items would be likely to cause confusion among consumers.

The most important points for brand owners to take away in evaluating this decision seem to be the following:

First, the Court's opinion lauded eBay's internal measures and the VeRO Program while at the same time dismissing as inadequate Tiffany's assigning only the equivalent of more than one full-time employee from 2004 forward to monitor eBay sales, and spending an amount no greater than 0.05% of its net sales to combat on-line counterfeiting, as against the tens of millions of dollars spent by eBay.

The message from this judge, at least, is that the more a brand owner invests in brand protection, the more likely the court may be to listen to that owner's complaints. (Moreover, the Court did not address how much money brand owners in aggregate have had to invest in combating eBay-abetted counterfeiting.)

Second and relatedly, because the Court found the VeRO Program to be so effective, brand owners looking for a sympathetic ear from a court are well advised to participate in that program. If brand owners have experiences with the program that undercut the sterling reputation accorded to it by Judge Sullivan, those instances should be documented so they can be used in any litigation that may ensue.

Third, and perhaps most significantly, the Court held that eBay does bear some responsibility for items offered through its site.

Many other indirect marketers of merchandise, such as other online marketplace sites, franchisors or landlords, depending on their particular situation, may also be found to bear responsibility for their sellers', franchisees' or lessees' actions, but will not have in place anti-fraud measures that are nearly as effective as those that the Court found to have satisfied eBay's duties in this case.

Therefore, this decision should not act as a deterrent to strong enforcement measures by brand holders against other alleged indirect infringers.

There are many additional nuances and details surrounding the Court's 66-page opinion that are beyond the scope of this brief summary, including the differences between the Court's rulings here and the different conclusions reached by the Commercial Court of France less than one month earlier. Moreover, Tiffany may appeal Judge Sullivan's ruling, and further proceedings may clarify or change some of his findings here.

In summary, however, this decision is not nearly so weighted against brand owners as initial reports have indicated, and brand owners continue to have many weapons in their arsenal to take action to prevent the sale of counterfeit and other non-genuine goods.