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## Fashion Forward: The Need for a Proactive Approach to the Counterfeit Epidemic

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# FASHION FORWARD: THE NEED FOR A PROACTIVE APPROACH TO THE COUNTERFEIT EPIDEMIC

## INTRODUCTION

While walking down Canal Street in Manhattan a man whispers: “I have Chanel, Chloé, Gucci, Louis Vuitton.”<sup>1</sup> A few strides later, another cautious man hands over a pamphlet containing rows upon rows of luxury designer handbags,<sup>2</sup> including a \$90 Louis Vuitton handbag that would retail for \$710 at the Louis Vuitton store on Fifth Avenue, a few subway stops away. It does not take a savvy shopper to recognize that what he is offering is not simply the deal of a lifetime, but instead a counterfeit good—an illegal imitation of a trademarked product.<sup>3</sup>

Trademarks have identified goods for thousands of years.<sup>4</sup> Consequently, the advent of trademarks spawned the opportunity for the counterfeit market.<sup>5</sup> Dating back to the Greco-Roman era, a nexus between luxury goods and social status existed, and those who could not afford such goods sought cheaper imitations in the hopes of achieving a similar purpose.<sup>6</sup> As

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1. Leah Goldman & Julie Zevloff, *An Undercover Look at the Billion-Dollar Fake Goods Market Of Chinatown*, BUS. INSIDER (May 7, 2011), <http://www.businessinsider.com/fake-purse-shopping-china-town-2011-5?op=1>.

2. Michael Wilson, *Fake Guccis, and a Real Cat-And-Mouse Game*, N.Y. TIMES, July 16, 2011, at A15.

3. A likely assumption, although not confirmed.

4. “Some form” of trademark has been utilized since ancient times. PEGGY E. CHAUDHRY & ALAN ZIMMERMAN, PROTECTING YOUR INTELLECTUAL PROPERTY RIGHTS: UNDERSTANDING THE ROLE OF MANAGEMENT, GOVERNMENT, CONSUMERS AND PIRATES 8 (2013). For example, four to five thousand years ago, “marked pottery appeared in China,” and in Greco-Roman times, “Greek vases identified both the maker and also the wholesaler of the item.” *Id.*

5. *Id.* at 7. Counterfeiting has been affecting trade for at least two thousand years. *Id.* For example, Pliny the elder described Romans as favoring counterfeit coins. As such, “[g]oldsmiths, soldiers, bankers, convicts on galleys, and even priests were involved in developing counterfeit coinage.” *Id.*

6. See Katherine B. Felice, *Fashioning A Solution for Design Piracy: Considering Intellectual Property Law in the Global Context of Fast Fashion*, 39 SYRACUSE J. INT’L L. & COM. 219, 220 (2011). Pliny the Elder warned consumers of wearing opals made of glass. See CHAUDHRY & ZIMMERMAN, *supra* note 4, at 8.

history progressed,<sup>7</sup> the nexus between social status and luxury goods continued, thus promoting the consistently increasing demand for counterfeit goods.<sup>8</sup> Today, it is estimated that the total value of counterfeit and pirated products is \$650 billion annually.<sup>9</sup> This estimate is not solely based on the goods exchanged interpersonally on Canal Street and like methods; rather, this estimate also encompasses digital counterfeiting.<sup>10</sup> Today, the threat of the counterfeit market stretches domestically,<sup>11</sup> internationally,<sup>12</sup> and perhaps most importantly—digitally.<sup>13</sup> This threat is particularly problematic because it not only hurts trademark holders<sup>14</sup> and consumers,<sup>15</sup> but also imposes costs on the global economy.

In the last two decades, the overall activity of the counterfeit market has risen 10,000 percent, which is largely due to the popularity of the Internet.<sup>16</sup> With approximately 3.2 billion In-

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7. In the seventeenth century, a Spanish priest by the name of Domingo Navarette lamented “the Chinese are very ingenious at imitation. They have imitated to perfection whatsoever they have seen brought out of Europe.” *Counterfeiting: Imitating Property is Theft*, ECONOMIST (May 15, 2003), <http://www.economist.com/node/1780818>.

8. *See id.*

9. Bus. Action to Stop Counterfeiting & Piracy (BASCAP), *Estimating the Global Economic and Social Impacts of Counterfeiting and Piracy* 5 (2011) [hereinafter *BASCAP Social Impact Study*], <http://www.iccwbo.org/Data/Documents/Bascap/Global-Impacts-Study—Full-Report/>.

10. *See id.* at 8.

11. In 2008, the value of counterfeit and pirated goods produced and consumed domestically was estimated between \$140–\$215 billion. *Id.* at 5.

12. In 2008, the value of counterfeit and pirated goods moving across international channels alone was estimated between \$285–\$360 billion. *Id.*

13. Internet traffic growth has been correlated with the increase in manufacture and sale of counterfeit and pirated products. *See id.* at 8. Further, the Counterfeit Intelligence Bureau estimated that \$25 billion in counterfeit goods were traded over the Internet in 2003 alone. *See Counterfeiting: Imitating Property is Theft*, *supra* note 7.

14. *See* discussion of the effect on trademark holders *infra* Section II.B.

15. *See* discussion of the effect on consumers *infra* Section II.B.

16. Tamlin H. Bason, *Explosion of Online Counterfeiting Requires Diligence, Awareness of Evolving Schemes*, BLOOMBERG BNA (Oct. 12, 2011), <http://www.bna.com/explosion-online-counterfeiting-n12884903849/>; *see also Counterfeiting: Imitating Property is Theft*, *supra* note 7 (“[T]he internet has been a boon to counterfeiters, giving them detailed information about which goods to copy and allowing them to link consumers and suppliers with ease and relative anonymity.”).

ternet users worldwide,<sup>17</sup> counterfeiters now can cater to virtually any willing customer with Internet access.<sup>18</sup> Naïve is the person who believes these knockoff products are contained only in shady vans and distributed pamphlets on Canal Street. Buyers can now find these illegitimate goods on commonly used household websites such as eBay and Amazon.<sup>19</sup> For example, on eBay, a consumer can purchase a \$375 Gucci wallet for \$120 from a vendor in South Korea.<sup>20</sup> The digital age has married the appeal of obtaining cheap and illegitimate luxury goods with the simplicity of a mouse click.

With the aid of the Internet, the counterfeit market has now turned global. Such globalization, however, has fostered a variety of new concerns, including how to determine who is responsible for the distribution of these knockoffs, and who should be charged to limit them in the marketplace. More specifically, there is extreme difficulty regarding the prosecution of counterfeiters.<sup>21</sup> Intellectual property rights owners (“IPROs”), such as owners of trademarks, look to other parties involved in counterfeit sales when seeking accountability.<sup>22</sup> Generally, in U.S. and EU law, intermediaries such as Google, Amazon, and eBay are unlikely to be found liable for direct trademark infringement because they are not the physical seller of the goods.<sup>23</sup> Further, while trademark holders can and do seek accountability in the

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17. INTERNET LIVE STATS, <http://www.internetlivestats.com/internet-users/> (last visited Feb. 1, 2016).

18. See Bason, *supra* note 16; see also Brad Stone, *Battle Over Stolen Goods Sold Online Goes to Washington*, N.Y. TIMES (Sept. 22, 2008), <http://bits.blogs.nytimes.com/2008/09/22/battle-over-stolen-goods-sold-online-goes-to-washington/> (quoting Joe LaRocca, Vice President of loss prevention for the National Retail Federation, who testified that thieves become “hooked” by the anonymity selling illegal goods online provides, and “the ease with which they gain exposure to millions of customers”).

19. See Loretta Chao, *What Happens When an eBay Steal is a Fake?*, WALL ST. J. (June 29, 2006), <http://online.wsj.com/articles/SB115154214225593742>.

20. Gucci confirmed that this product was a counterfeit—the product did not match any style produced by Gucci. See *id.*

21. See Todd Evan Lerner, *Playing the Blame Game, Online: Who is Liable When Counterfeit Goods are Sold Through Online Auction Houses?*, 22 PACE INT’L L. REV. 241, 246 (2010). See generally Org. for Econ. Co-operation & Dev., *The Economic Impact of Counterfeiting and Piracy* (2007), <http://www.oecd.org/sti/38707619.pdf>.

22. See *id.*

23. See *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 527 (S.D.N.Y. 2008) *aff’d in part, rev’d in part*, 600 F.3d 93 (2d Cir. 2010).

form of secondary liability,<sup>24</sup> the threshold is high for a successful case.<sup>25</sup> This then leaves the burden on IPROs to address the costs associated with counterfeit sales as well as the damage to their trademarks. It has been estimated that in the United States alone, counterfeit sales cost legitimate businesses \$250 billion a year in lost revenue.<sup>26</sup> Additionally, infringement damages trademarks in the form of customer confusion, deception, and mistake, as to the origin of the goods or services.<sup>27</sup>

This Note argues that the burden structure currently in place by U.S. and EU laws to police this activity is insufficient, from both a cost<sup>28</sup> and a pragmatic perspective. In requiring IPROs to carry the burden of preventing trademark infringement, the law fails to acknowledge that it would be more reasonable to shift the responsibility partially to the intermediaries when both parties are put at risk by counterfeit infringement. In response, this Note proposes that the EU and the United States should take steps to follow the recent U.K. High Court decision,<sup>29</sup> *Cartier Int'l AG v. British Sky Broad. Ltd.*,<sup>30</sup> which al-

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24. "Secondary liability" encompasses several types of liability for trademark infringement, including contributory infringement, which will be discussed further in this Note. Secondary liability does not blame the defendant for directly infringing on the mark, but rather holds the defendant responsible for infringement by a third party who is usually under the defendant's control. See Graeme Dinwoodie, *Secondary Liability for Online Trademark Infringement: The International Landscape*, 37 COLUM. J.L. & ARTS 463, 463 (2014).

25. See *Gucci Am., Inc. v. Hall & Assocs.*, 135 F. Supp. 2d 409, 420 (S.D.N.Y. 2001) ("[T]rademark plaintiffs bear a high burden in establishing 'knowledge' of contributory infringement."). "Knowledge" refers to the notion that "generalized knowledge" is insufficient to prove secondary liability, and a rights holder therefore must send a notice of every instance of trademark violations to the intermediary. *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 106 (2d Cir. 2010) (internal citations omitted).

26. See Maura Kutner, *The Fight Against Fakes Online*, HARPER'S BAZAAR (Dec. 14, 2010, 3:00 PM), <http://www.harpersbazaar.com/fashion/fashion-articles/fight-against-fakes-online-0111>.

27. *About Trademark Infringement*, U.S. PAT. & TRADEMARK OFF., [http://www.uspto.gov/trademarks/trademark\\_infringement.jsp](http://www.uspto.gov/trademarks/trademark_infringement.jsp) (last visited Oct. 10, 2015).

28. It would be more cost efficient for the intermediaries to monitor such activity on their own. See Ronald J. Mann & Seth R. Belzley, *The Promise of Intermediary Liability*, 47 WM. & MARY L. REV. 239, 264 n.81 (2005).

29. Shifting partial responsibility to intermediaries in the form of secondary liability is conducive to society on both economic efficiency grounds as

lowed the United Kingdom to be the first EU-Member State to require intermediaries to block trademark-infringing websites. It concludes, therefore, that the increase in the global counterfeit market requires a heightened standard of care from intermediaries than currently required by law and practice. Consequently, the United States and other EU-Member States should follow the *Cartier* approach.

Part I of this Note will provide a brief outline of the counterfeit market in the twenty-first century. Additionally, it will explain what a trademark is and why this form of intellectual property matters. Part I will then identify the costs—both financially and in terms of goodwill—and victims of the counterfeiting industry. Part I will also discuss the intermediaries and the role they play in the larger counterfeit epidemic.

Part II will provide an overview of the current law on secondary liability for trademark infringement in the United States. Specifically, this Part will discuss the Trademark Act of 1964 (the “Lanham Act”)<sup>31</sup> and examine the U.S. case law currently governing secondary liability. These cases include *Inwood Labs., Inc. v. Ives Labs., Inc.*,<sup>32</sup> *Tiffany (NJ) Inc. v. eBay Inc.*,<sup>33</sup> and other successive cases, which analyze contributory and direct infringement. Subsequently, Part III will discuss current EU law on secondary liability for trademark infringement. Additionally, this Part will conduct a comparative analysis between U.S. and EU law, with particular attention to differences in procedural aspects. It will also discuss the E-Commerce directive in the context of how it relates to secondary liability for trademark infringement, and review case law from different EU-Member States regarding the differing degrees of judicial doctrine across Member-State lines.

Part IV will argue that despite attempts to quell the problem, the counterfeit market is still growing exponentially. Current issues will be discussed to illustrate the point that further

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

30. *Cartier Int'l AG v. British Sky Broad. Ltd.* [2014] EWHC (Ch) 3354, [2014] Ch. 464 (Eng.), <http://www.bailii.org/we/cases/EWHC/Ch/2003/3354.html>.

31. 15 U.S.C. §§ 1051–72, 1091–96, 1111–27, 1141, 1141a–41n (2010).

32. 456 U.S. 844 (1982).

33. 600 F.3d 93 (2d Cir. 2010).

steps must be taken to address the counterfeit epidemic. Finally, Part V will examine *Cartier* and conclude that the U.K. court was just in its landmark decision. It will also propose a workable solution for moving forward in combatting cyber-trademark misconduct. Ultimately, Part V will argue that legislation should be passed that requires intermediaries to implement website-blocking technologies to prevent sellers from using their channels to encourage the counterfeit epidemic. Rather than placing the burden entirely on IPROs to combat the counterfeit market, current legislation must be amended or passed that distributes the burden of policing trademark infringements. This solution would produce a harmonious relationship between the intermediary and the trademark holders, as well as enforce improved business practices globally.

## I. COUNTERFEITING IN THE TWENTY-FIRST CENTURY

In both the United States and EU, there is an unfortunate propinquity between trademarks and counterfeit goods. This interrelationship is destructive for multiple parties, collectively described as the “stakeholders.” These groups are composed of IPROs, consumers, governments, and even the intermediaries. While IPROs have the heaviest burden in divorcing this linkage, all stakeholders feel injury. This Part will discuss the nexus between trademarks and counterfeit goods, and the stakeholders in the overall counterfeit quandary. This Part aims to provide an adequate foundation, which will later help illustrate how the current burden structure is inadequate.

### *A. The Nexus Between Trademarks and Counterfeit Goods*

Legal mechanisms for trademark protection vary globally. In the United States, trademark law is governed under the Lanham Act.<sup>34</sup> A trademark is defined as “any word, name, symbol, or device” used to distinguish and protect one’s good or service from another’s in the marketplace.<sup>35</sup> Rather than protecting the design of the good itself,<sup>36</sup> trademark law protects market in-

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34. 15 U.S.C.A. § 1051 (West 1946). The Trademark Act of 1946 (Lanham Act) regulates the use of trademark activity and imposes civil and criminal liability for infringement, dilution, and false advertising.

35. 15 U.S.C. § 1127 (1946).

36. Alternatively, while patents and design patents may protect the design of a product, patents have proven to be “impracticable” in the fashion indus-

tegrity by guarding against unfair competition and rewarding fair and continuous use.<sup>37</sup> Internationally, the Madrid System<sup>38</sup> is used for registering trademarks. Under the Madrid System, which employs a singular registration scheme, a trademark holder may be subject to the protection of the laws under the eighty-eight member countries.<sup>39</sup> In the EU, the Trademark Regulation administers community trademarks, while Directive 2008/95 harmonizes national trademark law.<sup>40</sup> The trademark is then registered with the Office for Harmonization in the Internal Market, and in a single registration, procedure<sup>41</sup> protection is given across all EU-Member States.

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try due to the time it takes to be issued when compared to the length of a fashion-season cycle. See Lauren Indvik, *Why Patent-Holding Designs Still Get Knocked Off: A Case Study With Alexander Wang*, FASHIONISTA (Dec. 18, 2013), <http://fashionista.com/2013/12/why-fashion-designers-get-knocked-off-alexander-wang>. In the United States, copyright protection does not extend to the fashion industry. Also, copyright protection is not practicable for designers either. Copyright “does not typically extend to designs, such as the style, cut, shape, or dimensions of an article of clothing.” Steven I. Weisburd et al., *The Design Privacy Prohibition Act*, N.Y. L.J., at 2 (Jan. 20, 2009), [http://www.dicksteinshapiro.com/sites/default/files/Design\\_Piracy\\_Prohibition\\_Act.pdf](http://www.dicksteinshapiro.com/sites/default/files/Design_Piracy_Prohibition_Act.pdf). Thus, trademarks are the most viable route for a designer looking to protect their work.

37. See generally *About Trademarks*, WORLD INTEL. PROP. ORG. (WIPO), [http://www.wipo.int/trademarks/en/about\\_trademarks.html#function](http://www.wipo.int/trademarks/en/about_trademarks.html#function) (last visited Oct. 11, 2015).

38. The Madrid Protocol is a single filing system for trademarks. See *The Madrid Protocol*, U.S. PAT. & TRADEMARK OFF., <http://www.uspto.gov/trademarks/law/madrid/> (last visited Oct. 11, 2015). Using one application and only one set of fees, the applicant can potentially receive protection under numerous jurisdictions, providing for both a cost-effective and efficient method of registration. No local agent of the jurisdiction is needed for approval of the trademark. See *id.* Once the trademark has been accepted, however, it is as if the jurisdiction itself has approved it. See *id.*

39. Each member country decides whether or not to protect the applicant under their domestic laws. See *Madrid FAQs*, U.S. PAT. & TRADEMARK OFF., <http://www.uspto.gov/trademarks/law/madrid/madridfaqs.jsp#q2> (last visited Oct. 12, 2015).

40. Council Regulation 207/2009, 2009 O.J. (L 78) 1 (EC).

41. The Office for Harmonization in the Internal Market (OHIM) registration process is a streamlined method of protecting a trademark across the EU. The registrant is able to apply online, and under a single fee, one can receive a “community trademark.” See *Trade Marks in the European Union*, OFF. FOR HARMONIZATION IN THE INTERNAL MKT., <https://oami.europa.eu/ohportal/en/trade-marks-in-the-european-union>



Trademark protection relates to counterfeits by way of unfair competition.<sup>42</sup> The Lanham Act defines a counterfeit item as “a spurious mark, which is identical with, or substantially indistinguishable from, a registered [trade]mark.”<sup>43</sup> Through trademark protection, an imitation good that hinders unfair competition is legally barred from the marketplace. Of course, its continued illegal presence in the marketplace remains a current issue. Under U.S. law, a remedy for trademark infringement typically includes an injunction of the *specific instance* of infringement<sup>44</sup> and potentially monetary damages.<sup>45</sup>

Trademark protection aids consumers in their decision to purchase a specific product. A trademark serves as an informed indicator as to the specific origin<sup>46</sup> and level of quality of a good.<sup>47</sup> Conversely, consumers who purchase a deceptive, counterfeit good will likely be confused from the misguided belief

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(last visited Oct. 12, 2015). The jurisdictions currently covered under the community trademark system are Austria, Belgium, the Netherlands, Luxembourg, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom. *Global Trademark Resources: What is the Community Trade Mark?*, INT'L TRADEMARK ASS'N, <http://www.inta.org/TrademarkBasics/FactSheets/Pages/CommunityTradeMarkFactSheet.aspx> (last visited Oct. 12, 2015).

42. This is because “fake goods compete unfairly with genuine products.” Eur. Comm'n Memo, *Too Good to be True: the Real Price of Fake Products*, EUR. COMM'N (Apr. 19, 2013) [hereinafter *Brussels Memo*], [http://europa.eu/rapid/press-release\\_MEMO-13-346\\_en.pdf](http://europa.eu/rapid/press-release_MEMO-13-346_en.pdf).

43. 15 U.S.C. § 1127 (1946).

44. *See generally* 15 U.S.C. § 1116 (1946).

45. *See generally* 15 U.S.C. § 1114 (1946).

46. *See* Stacey Dogan & Mark Lemley, *Trademark in Transition: Institute for Intellectual Property & Information Law Symposium: Trademarks and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777, 786–87 (2004).

47. *See* World Intell. Prop. Org., *World Intellectual Property Report: Brands—Reputation and Image in the Global Marketplace* 6 (2013), [http://www.wipo.int/edocs/pubdocs/en/intproperty/944/wipo\\_pub\\_944\\_2013.pdf](http://www.wipo.int/edocs/pubdocs/en/intproperty/944/wipo_pub_944_2013.pdf).

that they have purchased a genuine, trademarked good.<sup>48</sup> As a result, those consumers may lose confidence in the market.<sup>49</sup>

Trademarks are essential to sellers as well, particularly with respect to luxury brands.<sup>50</sup> For luxury brands like Louis Vuitton and Chanel, given the relative unavailability of patent and copyright law for the fashion industry, trademark law is the central protective measure of the overall brand.<sup>51</sup> Sellers are given both the freedom and incentive to invest funds to develop a product without fear that the product will be imitated and sold by a competing brand.<sup>52</sup> Further, sellers are able to develop goodwill<sup>53</sup> and brand image free of the threat of illegal copycats. In short, trademark protection offers sellers and consumers alike obvious benefits. Unfortunately, they also carry the heaviest burden due to counterfeit costs.

### *B. The Stakeholders*

The distribution of counterfeit goods on the Internet affects multiple parties: the IPROs, the general public, the government, and the intermediaries. While the burden of policing forgeries is placed unevenly among parties,<sup>54</sup> all endure injury.

48. *Cartier Int'l AG v. British Sky Broad. Ltd.* [2014] EWHC (Ch) 3354, ¶ 14 (“[Counterfeit goods] may subsequently be sold in a manner which deceives the purchaser into believing that the goods are genuine . . .”).

49. Counterfeit goods are damaging to the consumer because “the availability of counterfeit goods may have the effect of damaging the confidence of some consumers in the legitimate market for such goods.” *Id.*

50. For example, trademarks of luxury brands aid the goodwill of the sellers’ customers.

51. See Dianna Michelle Martinez, *Fashionably Late: Why the United States Should Copy France and Italy to Reduce Counterfeiting*, 32 B.U. INT’L L.J. 509, 518 (2014).

52. *The Madrid Protocol*, *supra* note 38.

53. An objective of trademark law, “[i]t is customary to refer to trademark law as protecting a seller’s goodwill in its mark.” Robert G. Bone, *Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law*, 86 B.U. L. REV. 547, 549 (2006).

54. Phillip A. Rosenberg, *A Legislative Response to Tiffany v. Ebay: In Search of an Online Commerce Certification Act*, 36 RUTGERS COMPUTER & TECH. L.J. 99, 108 (2009) (“[The] overwhelming status quo in the anti-counterfeiting struggle burdens IPROs and law enforcement with most of the ‘heavy lifting’ despite their budgetary constraints . . .”). Under U.S. Trademark law, IPROs not policing their trademarks adequately and not maintaining a degree of control over them may be deemed complete abandonment of the mark. *Id.* at 108 n.42.

With the availability of counterfeit goods on the Internet expected to grow exponentially,<sup>55</sup> the burden of policing must be shifted to avoid drastic increases in the injuries sustained by all parties.<sup>56</sup>

### 1. IPROs

The effects of counterfeiting are most self-evident for IPROs. Although IPROs police websites that intermediaries control,<sup>57</sup> the counterfeit epidemic is so widespread and fast-paced that IPROs cannot view the counterfeits posted online until the moment they are accessible by the general public.<sup>58</sup> Thus, despite valiant efforts taken to protect their trademarks,<sup>59</sup> both large multinational companies and small IPROs are subject to injuries sustained by forgeries of their trademarks.<sup>60</sup> Such

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55. In 2005, trade in counterfeit goods was estimated to equal \$200 billion. See *BASCAP Social Impact Study*, *supra* note 9, at 8–9. Today, that statistic has risen to \$1.8 trillion. See *Prominent Chinese Banks Are at the Center of the \$1.8 Trillion Counterfeit Money Market*, BUS. INSIDER (May 8, 2015) <http://www.businessinsider.com/prominent-chinese-banks-are-at-the-center-of-the-18-trillion-counterfeit-money-market-2015-5>. Counterfeiting has grown 10,000 percent in the past two decades. See CHAUDHRY & ZIMMERMAN, *supra* note 4 at 9.

56. Counterfeiting has resulted in over €200 billion losses for the world economy, and that loss is projected to increase. See *Brussels Memo*, *supra* note 42.

57. See Brief for Council of Fashion Designers of Am., Inc. as Amici Curiae Supporting Appellants, *Tiffany (NJ) Inc. v. eBay, Inc.*, 600 F.3d 93 (2d Cir. 2010) (No. 08-3947-CV), 2008 WL 8595307, at \*5–6 [hereinafter Brief for Council of Fashion Designers of Am.] (“[The Tiffany ruling essentially] requires all fashion designers to police eBay and other web sites around the world, 24 hours a day, and 365 days a year . . . . [F]ashion designers, big and small, are under the obligation to spend unspecified amounts of resources to police those marketplaces around the clock. Because it would be nearly impossible . . . to meet this new burden, the district court has critically weakened the fight against counterfeiting.”).

58. See *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 485 (S.D.N.Y. 2008).

59. IPROs also use “holograms, ‘special package design[s],’ micro printing, chemically sensitized particles, specialty inks, watermarks, tamper evident labels, encrypted bar codes, and chemical tracers in an effort to deter counterfeiting.” Rosenberg, *supra* note 54, at 122.

60. While large IPROs may complain the loudest about the effects of counterfeiting, small companies in counterfeiting “hotspots” can also be drastically affected. See *Counterfeiting: Imitating Property is Theft*, *supra* note 7.

harm is in the form of loss of goodwill,<sup>61</sup> as well as monetary damages.<sup>62</sup> For some small IPROs, the threat is heightened to the complete ruin of the company.<sup>63</sup> For larger companies, the costs of policing trademarks are also burdensome.<sup>64</sup> To help alleviate this harsh reality, jurisdictions should lessen the responsibilities imposed on IPROs.<sup>65</sup>

## 2. Consumers

The effects of counterfeiting experienced by consumers are inescapable as well. However, the goods are not viewed by consumers as hazardous but rather as a normal purchase because these counterfeit goods have become so widely available, which therefore drastically exacerbates the overall problem. Physical-

61. Haig Simonian, *Counterfeiting: Silence of the Brands Hides Fight against Fakes*, FIN. TIMES (June 6, 2011), <http://www.ft.com/cms/s/0/89366414-8dad-11e0-a0c4-00144feab49a.html#axzz3GvauP2IH> (“[Counterfeits] erode a luxury brand’s expensively established and marketed core values.”); Cartier, [2014] EWHC (Ch) 3354, ¶ 14 (“The circulation of substandard counterfeit goods which are not easily distinguished from the genuine articles can easily damage the reputation of the latter”).

62. See Kristi Ellis, *Copyright vs. Vendor: Battle Over Copyright Issue Hits Congress*, WOMEN’S WEAR DAILY (Feb. 15, 2008), <http://www.wwd.com/business-news/government-trade/designer-vs-vendor-battle-over-copyright-issue-hits-congress-465497> (reporting \$12 billion in lost revenues in 2006 due to counterfeiting and piracy in the fashion industry alone); Cartier, 3354 EWHC (Ch) ¶ 14 (noting that IPROs “may lose sales” as a result of counterfeit goods in the market).

63. Some small companies cannot afford or produce the manpower to appropriately protect against illegal reproduction. See Brief for Council of Fashion Designers of Am., *supra* note 57, at \*9–10 (noting that small fashion houses are unable to hire sufficient staff to monitor infringing online transactions, let alone attorneys to advise on such issues); Sarah E. Needleman & Kathy Chu, *Entrepreneurs Bemoan Counterfeit Goods: Small Businesses Have Fewer Resources to Fight Fakes on Internet*, WALL ST. J. (Apr. 28, 2014) <http://online.wsj.com/articles/SB10001424052702304163604579529790140841718> (“They lack the financial and technological resources that large companies have to deter or fight offenders”). As a result, young designers cannot survive the dilution of their designs. See Ellis, *supra* note 62.

64. See *Counterfeiting: Imitating Property is Theft*, *supra* note 7 (noting Procter & Gamble’s statement that \$3 million is spent each year on “fighting the copycats”); Tiffany (NJ) Inc. v. eBay, Inc., 576 F. Supp. 2d 463, 484 (S.D.N.Y. 2008) (“[O]ver the past five years, Tiffany has budgeted \$14 million to anti-counterfeiting efforts . . .”).

65. IPROs are solely responsible for policing their marks on the Internet. See Tiffany (NJ) Inc. v. eBay, Inc., 600 F.3d 93, 109 (2d Cir. 2010).

ly, counterfeit products pose large, imminent risks<sup>66</sup> to consumers' health<sup>67</sup> and safety. For example, faulty, counterfeit parts have been the cause of plane crashes, which have resulted in multiple deaths.<sup>68</sup> In broad terms, the counterfeit market also affects the welfare of the general public, whether or not the person purchased a knockoff product.<sup>69</sup> For example, there exists a causal relationship between counterfeit goods and job loss.<sup>70</sup> Yet despite this fact, consumers view counterfeits as normal products in the market rather than the destructive

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66. Note however, that research suggests many consumers are actually unaware of the deceptive and dangerous nature of counterfeit goods. See Lyn Amine & Peter Magnusson, *Targeting Buyers of Counterfeit Goods*, WIPO (Sept. 2008), [http://www.wipo.int/wipo\\_magazine/en/2008/05/article\\_0008.html](http://www.wipo.int/wipo_magazine/en/2008/05/article_0008.html).

67. The manufacture and distribution of counterfeit pharmaceuticals is a major threat to public health. Ambassador Michael B.G. Froman, Off. Of the U.S. Trade Representative, *2014 Special 301 Report to Congress*, at 20 (2014), <https://ustr.gov/sites/default/files/USTR%202014%20Special%20301%20Report%20to%20Congress%20FINAL.pdf> (“[T]he bulk active pharmaceutical ingredients (API) that are used to manufacture pharmaceuticals that bear counterfeit trademarks are not made according to good manufacturing practices. Hence, these products may contain sub-standard and potentially hazardous materials.”).

68. See *Counterfeiting: Imitating Property is Theft*, *supra* note 7. In 1989, the crash of a Partnair plane was caused by faulty counterfeit bolts holding the tail to the body of the plane; a 2011 American Airlines flight may have also been caused by counterfeit parts. *Id.* Counterfeit automotive parts also pose major risks to consumer safety. See ORG. FOR ECON. CO-OPERATION & DEV., *THE ECONOMIC IMPACT OF COUNTERFEITING AND PIRACY* 148 (2008), [http://www.keepeek.com/Digital-Asset-Management/oecd/trade/the-economic-impact-of-counterfeiting-and-piracy\\_9789264045521-en#page1](http://www.keepeek.com/Digital-Asset-Management/oecd/trade/the-economic-impact-of-counterfeiting-and-piracy_9789264045521-en#page1) (“Counterfeit brake pads, hydraulic hoses, engine and chassis parts, suspension and steering components and airbag mechanisms are among the items that have been counterfeited.”); Marc Santia, *Counterfeit Brake Pads Sold to NYC Taxi Operators*: *FBI*, NBC N.Y. (Feb. 20, 2013), <http://www.nbcnewyork.com/news/local/FBI-Raid-Fake-Taxi-Part-Warehouse-New-York-New-Jersey-191828741.html>.

69. Counterfeiting decreases the number of available jobs. See Press Release, *Int'l Anti-Counterfeiting Coal., Senator Nia Gill Fights Piracy, Protects New Jersey's Consumers and Businesses*, IACC (Nov. 15, 2007), <http://www.iacc.org/announcements/senator-nia-gill-fights-piracy-protects-new-jerseys-consumers-and-businesses> (“Counterfeiters have put over three-quarters of a million Americans out of work . . .”).

70. See *Brussels Memo*, *supra* note 42 (“[F]ake goods create unfair competition for European artisans and businesses, harming legitimate enterprises and increasing unemployment . . .”).

force that they truly are.<sup>71</sup> Further, such purchases can negatively affect the consumer's trust in the market,<sup>72</sup> as well as pose financial risks for the consumer if the product is faulty and/or is not delivered.<sup>73</sup> Lastly, as it is a criminal offense to purchase a counterfeit good in some countries,<sup>74</sup> the market poses criminal risks to consumers as well. Paradoxically,<sup>75</sup> despite all of these imminent threats, consumer demand for counterfeit goods still remains high, and consumers view these goods as ordinary purchases.<sup>76</sup> For 78 percent of consumers, a

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71. See Rebecca Smithers, *Surge in Purchases of Consumer Goods*, *GUARDIAN* (Oct. 1, 2013), <http://www.theguardian.com/money/2013/oct/02/counterfeit-goods-surge-uk> (quoting Mark James of PwC's anticounterfeiting team stating, "Counterfeits have an obvious impact on profit and jobs, yet people increasingly see access to fakes as a normal, consumer choice."); Jason Carpenter & Karen Edwards, *U.S. Consumer Attitudes toward Counterfeit Fashion Products*, 8 *J. TEXTILE & APPAREL, TECH. & MGMT.* 1, 9 (2013), <http://ojs.cnr.ncsu.edu/index.php/JTATM/article/view/2761> ("There appears to be an overall trend toward consumers viewing counterfeit products of various categories as normal goods that are legitimately within our economy.").

72. See Kurt M. Saunders & Gerlinde Berger-Walliser, *The Liability of Online Markets for Counterfeit Goods: A Comparative Analysis of Secondary Trademark Infringement in the United States and Europe*, 32 *NW. J. INT'L L. & BUS.* 37, 38 (2011) ("[U]nknowing consumers may conclude that the knock-offs are genuine and that all items made by the actual luxury brand are inferior or not worth the upscale price . . .").

73. In 2012, Internet fraud, including "bogus online merchandise scams" accounted for over half of all scams reported. *Familiar Faces in 2012 Top Ten Scams Report*, NAT'L CONSUMERS LEAGUE (Mar. 2013), [http://www.nclnet.org/familiar\\_faces\\_in\\_2012\\_top\\_ten\\_scams\\_report](http://www.nclnet.org/familiar_faces_in_2012_top_ten_scams_report).

74. In the United States and "almost everywhere else in the world," liability only lies on the selling side, not the buying side. However, in France and Italy, buying fraudulent goods is illegal. See Jennifer Saranow Schultz, *The Legality of Buying Knockoffs*, *N.Y. TIMES* (Oct. 28, 2010), [http://bucks.blogs.nytimes.com/2010/10/28/the-legality-of-buying-knockoffs/?\\_php=true&\\_type=blogs&\\_r=0](http://bucks.blogs.nytimes.com/2010/10/28/the-legality-of-buying-knockoffs/?_php=true&_type=blogs&_r=0) (quoting Susan Scafidi). In Italy, consumers can be fined, whereas in France consumers can also face fines and even jail time. See *id.*

75. There is a "fundamental contradiction" in consumer attitudes towards counterfeit goods. See Lee Hoe et al., *Fakin' It: Counterfeiting and Consumer Contradictions*, 6 *EUR. ADVANCES CONSUMER RES.* 60, 67 (2003), <http://www.acrwebsite.org/search/view-conference-proceedings.aspx?Id=11444>.

76. See Travis D. Johnson, *Supply and Demand: The Need for a Comprehensive Approach to Combating Counterfeits*, *IACC*, <http://www.worldtrademarkreview.com/Intelligence/Anti-counterfeiting/2015/Introduction/Supply-and-demand-the-need-for-a->

major driving factor behind their counterfeit purchases is availability of the goods.<sup>77</sup> Another reason is the commonly held belief that the lower price of the counterfeit good compared to the genuine article outweighs the contrasting quality of the illegitimate good.<sup>78</sup> With the purchase normalization of these goods comes the notion that consumers should not be expected to quell the problem. The market is continuously growing,<sup>79</sup> and with the persistent destructive appeal, it is up to the authoritative bodies to quash it.

### 3. Governmental Regimes

Like IPROs and consumers, government bodies are affected by the effects of the counterfeit market—both in the United States and EU alike. National crises, such as terrorist attacks and debt crisis have links to the counterfeit trade. For example, there is a close connection between imitation goods and national security crises—multiple terrorist bombings are linked to the counterfeit market. For example, sales from a counterfeit t-shirt shop in Manhattan funded the 1993 truck bomb attack on the World Trade Center, while counterfeit sales also partially funded the 2004 train bombings in Madrid.<sup>80</sup> Additionally, the

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comprehensive-approach-to-combating (last viewed Oct. 13, 2015) (“Although illegal, the trafficking of counterfeit goods is big business . . . . As long as the consumer market for counterfeit goods remains, goods will be supplied to fill it.”).

77. See Mary Lambkin & Yvonne Tyndall, *Brand Counterfeiting: A Marketing Problem That Won't Go Away*, 20 IRISH MARKETING REV. 35, 40 (2009).

78. See Carpenter & Edwards, *supra* note 71, at 4 (“Although consumers might recognize that counterfeit products are not equal in quality compared to authentic products, some consumers, especially from Western cultures, may be willing to sacrifice quality to purchase a lower priced counterfeit version.”).

79. See Gene Quinn, *Counterfeiting, A Growing Worldwide Problem*, IP WATCHDOG (Aug. 14, 2011), <http://www.ipwatchdog.com/2011/08/14/counterfeiting-a-growing-worldwide-problem/id=18428/> (“[U]ntil individuals who purchase counterfeits cease their fueling of the industry the problems will only continue to grow.”).

80. Katherine B. Felice, *Fashioning A Solution for Design Piracy: Considering Intellectual Property Law in the Global Context of Fast Fashion*, 39 SYRACUSE J. INT'L L. & COM. 219, 223 (2011). See generally *Counterfeit Goods—Easy Cash for Criminals and Terrorists: Hearing on Terrorism Financing Before the S. Comm. on Homeland Security and Governmental Affairs*, 109th Cong. 1 (2005) (statement of Sen. Susan M. Collins, Chairman, S. Comm. on

counterfeit market taps into taxpayer dollars<sup>81</sup> and ultimately reduces the amount of funds available to spend on overall public welfare.<sup>82</sup> In response, governments allocate large amounts of time<sup>83</sup> and resources<sup>84</sup> to control the market. Despite international harmonizing efforts to suppress the counterfeit epidemic,<sup>85</sup> however, the growing problem still exists.<sup>86</sup>

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Homeland Security and Governmental Affairs) (linking terrorism to counterfeit products).

81. Approximately €62 billion in taxpayer funds is lost from counterfeiting annually, which therefore reduces the availability of funds for public welfare. See *BASCAP Social Impact Study*, *supra* note 9, at 44.

82. Counterfeiting and related activities cost G20 nations approximately \$125 billion annually. See *id.* at 7; *Counterfeiting: Imitating Property is Theft*, *supra* note 7 (“As counterfeiters rarely pay duties or taxes, governments lose further revenue.”).

83. Consumer complaints relating to online auction fraud placed with the U.S. Federal Trade Commission increased from 4,400 in 1998 to over 25,000 in 2001. See Kyo M. Dolan, *Internet Auction Fraud: The Silent Victims*, J. ECON. CRIME MGMT. 1, 2–3 (2004).

84. In the United States, the number of IP-infringing goods seized by border patrol in 2013 increased by 7 percent to 24,361 (from 22,848 in 2012), had a retail value totaling \$1,743,515,581 (had they been genuine), and the items most seized were apparel and accessories totaling 35 percent of the seizures (up 6 percent from 2012). *Intellectual Property Rights Seizure Statistics: Fiscal Year 2013*, DEP’T. HOMELAND SECURITY, <http://www.cbp.gov/sites/default/files/documents/2013%20IPR%20Stats.pdf> (last visited Mar. 28, 2016). In the EU, 87,000 IP-infringing goods were seized by customs in 2013 (the vast majority “most probably as a result of internet sales”), had a retail value totaling €768 million (had they been genuine), and the items most seized were apparel and accessories totaling 12 percent of the seizures. *Counterfeit and Piracy: Facts and Figures*, EUR. COMM’N, [http://ec.europa.eu/taxation\\_customs/customs/customs\\_controls/counterfeit\\_piracy/statistics/index\\_en.htm](http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/statistics/index_en.htm) (last visited Oct. 10 2015) (citing statistics from *Report on EU Customs Enforcement of Intellectual Property Rights*, at 7 (2014), [http://ec.europa.eu/taxation\\_customs/resources/documents/customs/customs\\_controls/counterfeit\\_piracy/statistics/2015\\_ipr\\_statistics.pdf](http://ec.europa.eu/taxation_customs/resources/documents/customs/customs_controls/counterfeit_piracy/statistics/2015_ipr_statistics.pdf)).

85. The Anti-Counterfeiting Trade Agreement (“ACTA”) was signed by the United States, Australia, Canada, Korea, Japan, New Zealand, Morocco, and Singapore, with additional support from the EU, to increase criminal sanctions for counterfeiting and strengthening intellectual property rights. *Anti-Counterfeiting Trade Agreement (ACTA)*, U.S. TRADE REPRESENTATIVE, <http://www.ustr.gov/acta> (last visited Oct. 12, 2015). While the intentions appear promising, the realities are not so bright; unfortunately, ACTA has been regarded as ineffective due to its “problematic design.” Miriam Bitton, *Rethinking the Anti-Counterfeiting Trade Agreement’s Criminal Copyright Enforcement Measures*, 102 J. CRIM. L. & CRIMINOLOGY 67, 70–71 (2012). The



## 4. Intermediaries

Lastly, intermediaries also experience effects of the counterfeit market. While the consequences are not as severe and may even possibly be beneficial in some cases,<sup>87</sup> intermediaries nevertheless claim that they also are negatively affected by counterfeit items sold on their platforms.<sup>88</sup> The main threat to their businesses, however, are litigation costs in fighting IPROs.<sup>89</sup> This threat, combined with the burdens intermediaries face due to the presence of counterfeits in the market,<sup>90</sup> suggests that like the other stakeholders in the counterfeit epidemic, intermediaries would also be relieved if a more ardent ap-

problematic design involves a “lack of transparency and secrecy in the negotiating process, [a] limited number of negotiating participants, [an] undemocratic process, and [a] lack of accountability.” *Id.* Another criticism of ACTA’s failures has been the “country club” approach it has taken by “ignoring important players such as Brazil, China, India, and Russia” in implementing the Agreement. Peter Yu, *Enforcement, Enforcement, What Enforcement?*, 52 IDEA: INTELL. PROP. L. REV. 239, 268–69 (2012). Thus, ACTA for the most part remains unreliable in the fight against counterfeiting, and as such, other measures must be taken by the authorities.

86. See *BASCAP Social Impact Study*, *supra* note 9, at 3. For increases in the counterfeit market, see *supra* note 55.

87. In a stark contrast, eBay expects its revenues to increase over the next few years, while IPROs are losing revenues. See Ali Sternburg & Matt Schruers, *Modernizing Liability Rules to Promote Internet Trade*, COMPUTER & COMM. INDUS. ASS’N (Sept. 28, 2013) at 2, <http://www.cciainet.org/wp-content/uploads/2013/09/CCIA-Liability-Rules-Paper.pdf> (reporting that eBay had 2012 revenues of \$14.1 billion and expects to enable \$300 billion of global commerce by 2015); Kimareanna Ross, *Senator Calls for Federal Crackdown on Counterfeit Wedding Gowns*, STYLE OF THE CASE (Oct. 6, 2014), <http://thestyleofthecase.wordpress.com/2014/10/06/u-s-senator-from-new-york-calls-for-federal-crackdown-on-counterfeit-wedding-gowns/> (noting that annual revenue losses from counterfeit wedding gowns are as high as \$300 million).

88. eBay’s 2013 Annual Report states, “The listing or sale by our users of items that allegedly infringe the intellectual property rights of rights owners, included pirated or counterfeit items, may harm our business.” EBAY INC FORM 10-K (2013 ANNUAL REPORT) 21 (2014) [hereinafter EBAY ANNUAL REPORT], <http://files.shareholder.com/downloads/eBay/3556611513x0xS1065088%2D14%2D10/1065088/filing.pdf>.

89. See *id.*

90. In the final six weeks of 2004, eBay received 125 complaints by users regarding counterfeit products on its website relating to the plaintiff’s trademarks alone. *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 487 (S.D.N.Y. 2008).

proach were taken in removing counterfeits online. Namely, this note suggests a shift from a reactive approach to a proactive approach, with heightened removal responsibility placed on the intermediary.

## II. A SURVEY OF U.S. LAW ON SECONDARY LIABILITY FOR ONLINE TRADEMARK INFRINGEMENT

While the Lanham Act<sup>91</sup> governs U.S. trademarks generally, the Act is silent on the subject of intermediary liability. In attempts to fill this gap, common law cases such as *Inwood*<sup>92</sup> and *Tiffany*<sup>93</sup> laid the foundation for what constitutes secondary liability in the United States, while the cases that follow analyze this notion. Despite the judiciary's valiant attempts at addressing the issue, these cases also exhibit existing flaws in the system.

### *A. The Lanham Act and Inwood: Foundations of Intermediary Trademark Liability*

In U.S. intellectual property law, the Lanham Act<sup>94</sup> enforces the protection of trademarks. The Lanham Act has three goals relating to the health of the trademark: (1) to prevent consumer confusion, (2) protect the goodwill of businesses, and (3) encourage competition within the market.<sup>95</sup> The Lanham Act, however, fails to address circumstances fostered by the digital age.<sup>96</sup> Specifically, the Act neglects to address intermediary liability, also known as secondary liability, for trademark infringement.<sup>97</sup> As a result, the authority to decide whether intermediaries can be held liable for trademark offenses, and

91. 15 U.S.C. §§ 1051–72, 1091–96, 1111–27, 1141, 1141a–41n (2010).

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

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

94. 15 U.S.C. §§ 1051–72, 1091–96, 1111–27, 1141, 1141a–41n (2010).

95. See Fara S. Sunderji, *Protecting Online Auction Sites from the Contributory Trademark Liability Storm: A Legislative Solution to the Tiffany Inc. v. eBay Inc. Problem*, 74 *FORDHAM L. REV.* 909, 917–18 (2005).

96. According to Elizabeth K. Levin, “the digital revolution has hindered the Lanham Act’s goals of placing all trademark matters in one statute and eliminating judicial obscurity.” Elizabeth Levin, *A Safe Harbor for Trademark: Reevaluating Secondary Trademark Liability After Tiffany v. Ebay*, 24 *BERKELEY TECH. L.J.* 491, 517 (2009).

97. By contrast, the Patent Act defines direct and contributory infringement for imposing liability on intermediaries. 35 U.S.C. § 271 (2000).

what is required of them in regards to trademark protection, is left to the judiciary.<sup>98</sup>

In response to the legislature's silence on the subject,<sup>99</sup> federal courts framed a standard for secondary liability. First, in *Inwood Labs., Inc. v. Ives Labs., Inc.*,<sup>100</sup> the U.S. Supreme Court provided the foundation for secondary liability of intermediaries. *Inwood* involved a pharmaceutical manufacturer whose patent had expired on a specific, trademarked drug, which was also manufactured in generic form.<sup>101</sup> However, the pharmaceutical manufacturer alleged that pharmacists were mislabeling the generic medicine as the trademarked drug and argued that this mislabeling was due to the generic drug's nearly identical appearance.<sup>102</sup> Consequently, the pharmaceutical manufacturer brought suit against the generic drug manufacturers, despite the defendant never actually committing trademark infringement.<sup>103</sup> The Court introduced the theory of "contributory liability" for intermediaries in relation to direct infringement of a trademark. Contributory liability exists when an intermediary intentionally induces another to infringe a trademark or continues to supply a service to another when the intermediary knows or should know that the other party is engaging in trademark infringement.<sup>104</sup> Focusing on the importance of knowledge regarding the activities,<sup>105</sup> intermediar-

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98. *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148 (7th Cir. 1992). The Seventh Circuit concluded that an intermediary "is responsible for the torts of those it permits on its premises 'knowing or having reason to know that the other is acting or will act tortiously[.]'" *Id.* at 1149 (citing RESTATEMENT (SECOND) OF TORTS § 877(c) & cmt. d (AM. LAW. INST. 1979)).

99. See discussion *supra* Part II.

100. 456 U.S. 844 (1982).

101. *Id.*

102. See *id.*

103. See *id.* at 850.

104. The *Inwood* standard recognizes contributory liability when manufacturer or distributor (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." *Id.* at 854.

105. For those intermediaries who lack knowledge of the direct infringement, they may still be found liable under vicarious liability. A party may be vicariously liable if it exercises direct control "over a direct infringer when he has both a legal right to stop or limit the directly infringing conduct, as well as the practical ability to do so." *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1173 (9th Cir. 2007).

ies who respond to notifications of infringement receive broad protection under this standard. *Tiffany* further broadened this protection.

### *B. Tiffany v. eBay*

The Second Circuit decision in *Tiffany* amplified the broad protection given under the *Inwood* standard by adding a good-faith element to secondary trademark liability. High-end jewelry brand Tiffany & Co. (“Tiffany”), brought suit against online auction house eBay<sup>106</sup> for trademark infringement, false advertising, and trademark dilution, when it discovered that between 2004 and 2005 three-quarters of TIFFANY<sup>107</sup> goods sold on eBay’s website were counterfeit.<sup>108</sup> During the case, the court found that eBay, the intermediary, was not liable for direct trademark infringement<sup>109</sup> or contributory infringement.<sup>110</sup> Rather than adhering to the already broad *Inwood* standard, however, the court went beyond what was required by that standard. The court found that eBay was also not liable for secondary liability because the company was a “good faith” user of the trademark.<sup>111</sup> In other words, eBay stood as a good-faith

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106. Tiffany brought suit against eBay alleging that hundreds of thousands of counterfeit silver jewelry items bearing Tiffany’s trademark were offered for sale on eBay’s website from 2003–2006. *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 469 (S.D.N.Y. 2008).

107. “TIFFANY” refers to Tiffany & Co.’s trademark.

108. *Tiffany*, 600 F.3d at 97.

109. eBay was within its lawful authority to use Tiffany’s trademark under the test for direct infringement because “eBay used the mark to describe accurately the genuine Tiffany goods offered for sale on its website.” *Id.* at 103.

110. Tiffany argued that eBay was liable because “all of the knowledge, when taken together, puts [eBay] on notice that there is a substantial problem of trademark infringement.” *Id.* at 107. However, the Second Circuit decided that generalized knowledge of trademark infringement was not enough, and instead the intermediary must be provided with specific instances of infringement. *Id.* (“[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.”). This essentially requires an IPRO to provide all instances of trademark infringement to every intermediary for notice-and-takedown of all illegal activity. See Brief of the Council of Fashion Designers of Am., *supra* note 57, at \*5–6 (“[I]t would be nearly impossible for many, if not most, fashion designers to meet this new burden.”).

111. Stacey L. Dogan, *We Know It When We See It: Intermediary Trademark Liability and the Internet*, STAN. TECH. L. REV. 7, 24 (2011).

user of the trademark and was excused from liability, because eBay complied with Tiffany's notice-and-takedown requests,<sup>112</sup> took steps to police eBay's own website for counterfeits,<sup>113</sup> and allowed Tiffany to host an "About Me" profile on the eBay website.<sup>114</sup> Therefore, the result of *Tiffany* is that the burden to police the trademark lies entirely with the IPRO,<sup>115</sup> and the intermediary is given broad protection so long as the intermediary is a good faith user of the trademark, and the intermediary acts on specific instances of trademark infringement properly when knowledge is raised by the IPRO.<sup>116</sup>

### C. *The Aftermath of the Tiffany Decision*

Subsequently, courts have reinforced the standard set out in *Tiffany* by applying the idea of good-faith user and the notion of intent to different circumstances. In *Gucci America, Inc. v. Frontline Processing Corp., Inc.*, Gucci brought suit against a group of intermediaries who sold credit card processing software to a seller of counterfeit goods.<sup>117</sup> This case exhibits that liability not only extends to the seller of counterfeit goods but also to parties that endorse the illegal activity. The court held the group of intermediaries jointly and severally liable because each intermediary had the knowledge to infringe on an IPRO's trademark rights.<sup>118</sup> Once again, in *Rosetta Stone Ltd. v.*

112. eBay "promptly removed all listings that Tiffany challenged as counterfeit and took affirmative steps to identify and remove illegitimate Tiffany goods." *Tiffany*, 600 F.3d at 103.

113. The court spent a significant amount of time discussing eBay's "fraud engine," "VeRo program," and time and money spent to "promote trust and safety on its website." *Id.* at 98–99.

114. *See id.* at 99–100; Susan Kayser, *The Duties of Online Service Providers*, TRADEMARKS & BRANDS ONLINE (Mar. 27, 2014), <http://www.trademarksandbrandsonline.com/article/the-duties-of-online-service-providers>, ("eBay's efforts and expenditures to prevent counterfeiting clearly influenced the court's ruling . . .").

115. *See* Brief of the Council of Fashion Designers of Am., *supra* note 57, at \*9.

116. *See* Dogan, *supra* note 111, at 26.

117. *Gucci America, Inc. v. Frontline Processing Corp., Inc.*, 721 F. Supp. 2d 228, 236 (S.D.N.Y. 2010).

118. In the court's decision to hold the intermediaries accountable, motive was a major factor in each instance. *Id.* at 239–40 (noting that card processors charged higher rates to merchants of counterfeit goods); *id.* at 248–49 (mentioning evidence that one of the intermediaries had reached out to "high-

*Google, Inc.*, intent was a central theme when Google, the intermediary, failed to escape liability.<sup>119</sup> In this case, Rosetta Stone brought suit against Google for “misleading Internet users into purchasing counterfeit Rosetta Stone software” when Google sold ad words that advertised counterfeit Rosetta Stone products.<sup>120</sup> On appeal, the court—finding for Rosetta Stone—determined that Google intended to cause customer confusion between the counterfeit and the trademarked product.<sup>121</sup>

The distinction between how trademarks and copyrights are protected is best exhibited by the legislative burden structure in place. In the United States, while the courts acknowledge a duty on intermediaries to investigate notices of infringing content if first brought to their attention by IPROs, intermediaries generally will not be found liable if their intent shows a lack of a motive to encourage infringement,<sup>122</sup> even when they have general knowledge that infringement may be occurring through their individual forums.<sup>123</sup> Even though trademark infringement may plague an intermediary’s channel, an IPRO has to detect each incident for the intermediary to investigate the material.<sup>124</sup> And even then, if the intermediary deems it

risk” merchants, “including those who sell ‘replica products’”); *id.* at 250 (pointing to evidence of intermediaries’ knowledge of counterfeit sales).

119. *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144, 152 (4th Cir. 2012). From September 2009 to March 2010, Rosetta Stone reported 190 cases of infringing activity to Google. *Id.*

120. *Id.*

121. A Fourth Circuit court reversed the district court’s grant of summary judgment for Google as to contributory infringement because “Google intended to cause confusion in that it acted with the knowledge that confusion was very likely to result from its use of the mark.” *Id.* at 156.

122. Except if they willfully turn a blind eye to the obvious infringement. *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 109–10 (2d Cir. 2010).

123. *Id.* at 107 (“[A] service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods . . .”).

124. It is up to an IPRO to uncover the trademark-infringing activity; if not, the intermediary may continue to profit from it. See 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, 143 (2013). (“[U]nless the trademark owner files a claim with the site to end a suspicious auction, the listing remains available for bidding, and eBay shares in the sales proceeds, regardless of whether the item is genuine or not.”).

appropriate, only the one instance of counterfeiting will be removed. Unlike in copyright law—where intermediaries have a statutory duty to block infringing material<sup>125</sup>—in trademark law, because the legislation remains silent, courts have imposed unduly burdensome obligations on the IPROs to monitor and protect the marks. This is despite the counterfeit industry's devastating impact on all parties involved. Rather than require intermediaries to block websites and sellers who counterfeit, courts inadequately necessitate an IPRO to detect individual instances of trademark infringement, and only then obligate an intermediary to investigate the activities.<sup>126</sup> If the intermediary then removes the content from their forum, this eradication will add to the “good faith” element courts consider. However, removal is not required by law; failing to take down infringing material does not necessarily lead to automatic liability. In essence, the courts applied a Digital Millennium Copyright Act (DMCA)-like safe harbor shield<sup>127</sup> around intermediaries, protecting them from liability in most instances.<sup>128</sup> However, unlike the DMCA as it applies to copyright, the courts have not heightened the burden on what is required of the intermediaries for sufficient trademark protection. Thus, while the intermediaries are given broad protection, the burden is still placed on IPROs. Unlike copyright law, where the DMCA requires removal of infringing material,<sup>129</sup> which shifts

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125. See Susan Neuberger Weller, *Copyright Owners Using DMCA To Take Down URLs*, NAT'L L. REV., (June 22, 2012), <http://www.natlawreview.com/article/copyright-owners-using-dmca-to-take-down-urls> (noting that in the United States, the DMCA is currently being used to block websites). See generally 17 U.S.C. § 512 (j) (1998).

126. See Serena Ng & Greg Bensinger, *Lucrative Role as Middleman Puts Amazon in Tough Spot*, WALL ST. J. (Jan. 22, 2014), <http://online.wsj.com/articles/SB10001424052702304419104579322282141674084> (“Amazon, eBay Inc. and other e-commerce companies also are protected by a 2010 federal appeals-court ruling that put the onus on trademark holders to police the Web for counterfeit or other problematic merchandise.”).

127. See Michelle Leu, *Authenticate This: Revamping Secondary Trademark Liability Standards to Address a Worldwide Web of Counterfeits*, 26 BERKELEY TECH. L.J. 591, 598 (2011) (“[The] DMCA provides a series of safe harbors to shield service providers from liability, provided that the service providers remove infringing materials upon proper notification from copyright owners.”).

128. *Id.* at 607.

129. Once notified,

the burden to the intermediaries by requiring them to take steps to prevent infringement, in trademark law it is up to the judiciary to decide what is required, and as has been exhibited, the requirement is low.

### III. A SURVEY OF EU LAW ON SECONDARY LIABILITY FOR ONLINE TRADEMARK INFRINGEMENT

The EU offers two methods for attaining intermediary liability: primary liability and secondary liability. This Part will conduct a comparative analysis between U.S. and EU law, paying particular attention to differing procedural aspects. This Part will also discuss the E-Commerce directive of the EU in the context of how it relates to secondary liability for trademark infringement, and examine case law from different EU-Member States regarding the differing degrees of judicial doctrine across Member-State lines.

#### A. *EU Trademark Law*

In the EU, like the United States, counterfeit goods can severely damage a brand's reputation and pressure IPROs financially.<sup>130</sup> Additionally, the EU has also encouraged a notice-and-takedown system on the part of intermediaries. However, contrary to U.S. law, EU law allows for the possibility of greater intermediary focus. First, the EU protects the intermediary by extending safe-harbor immunity to trademark law, rather than keeping the protection within the realm of copyright law.<sup>131</sup> Second, Article 11 of the European Enforcement Di-

the service provider must expeditiously remove any material that is claimed to be infringing or to be the subject of infringing activity . . . . then . . . take reasonable steps to notify the creator of the allegedly infringing material that the material has been removed as a result of the DMCA notice-and-takedown request.

*Id.* at 599 (citing 17 U.S.C. § 512(d)(3), (g)(2)(A)).

130. Paul Maeyart, *Grey and Counterfeit Goods in Transit: Trademark Law in No-man's Land*, 2009 I AM 12 (2009), <http://m.iam-magazine.com/Intelligence/Brands-in-the-Boardroom/2009/Articles/Grey-and-counterfeit-goods-in-transit-trademark-law-in-no-mans-land>.

131. See Griffin M. Barnett et al., *Who's Left Holding the [Brand Name] Bag? Secondary Liability for Trademark Infringement on the Internet* (2013), [http://apps.americanbar.org/dch/thedl.cfm?filename=/PT020100/otherlinks\\_files/20131126-SecondaryLiabilityforTrademarkInfringementontheInternet-Report.pdf](http://apps.americanbar.org/dch/thedl.cfm?filename=/PT020100/otherlinks_files/20131126-SecondaryLiabilityforTrademarkInfringementontheInternet-Report.pdf) ("In essence, Article 14 [of the E-Commerce Directive] provides a



rective<sup>132</sup> requires Member States to ensure that “rights holders are in a position to apply for an injunction against intermediaries whose services are used by third parties to infringe an intellectual property right.”<sup>133</sup> Essentially, while an intermediary receives protection against damages, this protection is given only as long as the intermediary takes “appropriate, commercially reasonable and technically feasible measures” to reduce trademark infringement on the internet.<sup>134</sup> If they fail, IPROs may bring suit against them to require their cooperation.<sup>135</sup>

EU law is often formed by way of directives, amongst many other forms such as Treaty provisions, regulations, and decisions from the European Court of Justice (ECJ). As a result, the law is at times minimally harmonizing, resulting in each Member State enforcing its own law, with these mandates varying from State to State. Strict adherence is not required. Established practice dictates that “domestic legislation, and in particular legislation specifically enacted or amended to implement an EU directive, must be construed so far as is possi-

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safe harbor comparable to Section 512(c) of the DMCA in US law, though Article 14 applies equally to trademark, copyright, and also to some tort claims under European national laws.”). Yet the intermediaries nevertheless have a duty to remove infringement “under Article 14 of the e-Commerce Directive . . . to remove or disable access to any infringing information expeditiously upon becoming aware of it.” Susan M. Kayser et al., *Combating Contributory Infringement on the Internet*, INTA BULL. (May 1, 2014) <http://www.inta.org/INTABulletin/Pages/CombatingContributoryInfringementontheInternet.aspx>. Under Article 14, an intermediary can avoid liability for the information it hosts or stores if, “upon obtaining [actual] knowledge or awareness [of illegal activities], [it] acts expeditiously to remove or to disable access to the information.” Council Directive 2000/31, art. 14, 2000 O.J. (L 178) 1, 16 (EC).

132. Council Directive 2004/48, art 11, 2004 O.J. (L 195) 16 (EC).

133. *Id.*

134. *Id.*

135. EU Memorandum of Understanding Regarding Counterfeit Goods, at 5 (May 4, 2010), [http://ec.europa.eu/internal\\_market/iprenforcement/docs/memorandum\\_0405\\_2011\\_en.pdf](http://ec.europa.eu/internal_market/iprenforcement/docs/memorandum_0405_2011_en.pdf). Stakeholders, including IPROs and intermediaries, collaboratively crafted self-made rules in addition to the policies already in place by the judiciary, entitled the Memorandum of Understanding (the “MoU”), to balance the interests of both parties, to encourage e-commerce, and protect intellectual property infringement online. *See id.* at 1. While the MoU is not legally binding, its creation exhibits willingness on the part of EU stakeholders to address cohesively intellectual property cyber issues.

ble in conformity with, and to achieve the result intended by, the directive.”<sup>136</sup> When the EU adopts a Regulation, this type of legislation is directly applicable in Member States and hence there is no room for divergence. In contrast, Directives (whether minimally or maximally harmonizing) may include optional provisions and their scope may be limited. Hence, subsequently promulgated domestic laws can differ and often supersede. To summarize the procedural differences between EU and U.S. law regarding secondary liability:

A key difference between EU law under the E-Commerce Directive and US law in regards to the *Tiffany* case is that under EU law, failing to comply with notice or any safe harbor provision will only eliminate your automatic immunity while under US law, e.g. *Tiffany*, continuing to supply services after notice would trigger liability. In Europe, liability will only arise if the standard of accessory liability under national law is also satisfied.<sup>137</sup>

Thus, in the United States, if an intermediary continues to encourage infringement when they have proper notice of the instance, liability will be signaled. In the EU, such instance will remove safe harbor protection, but liability will only arise if the Member State’s national law dictates it.

### *B. EU Primary Liability and Article 14*

When issues concerning the interpretation of EU law arise in a national context, a court or tribunal in a Member State may request a ruling from the ECJ. Thus, trademark regulation is ultimately a matter of national law, but the sole interpreter of the law is the ECJ as provided by the preliminary reference procedure.<sup>138</sup> Additionally, while decisions of the ECJ are only

136. *Cartier Int’l AG v. British Sky Broad. Ltd.* [2014] EWHC (Ch) 3354, ¶ 89 (Eng.).

137. Barnett et al., *supra* note 131.

138. A Member State

may, if it considers that a decision on the question is necessary to enable it to give judgment, request the Court [of Justice of the European Union] to give a ruling thereon. Where any such question is raised in a case pending before the highest court or tribunal of a Member State, that court or tribunal shall bring the matter before the Court [of Justice of the European Union].

binding on that specific Member State, the decision is often quite persuasive to other Member States.<sup>139</sup> An example of such a case is *L'Oréal SA v. eBay International*.<sup>140</sup> In 2007, L'Oréal sent eBay a letter expressing its concerns "about the widespread incidence of transactions infringing its intellectual property rights on eBay's European websites."<sup>141</sup> When eBay replied, L'Oréal was not "satisfied with the response" and subsequently brought suit.<sup>142</sup> On appeal from the High Court of England and Wales, the ECJ held that intermediaries can only be liable if they are negligent in not reporting counterfeit goods where: (a) they have taken an active role<sup>143</sup> in the "knowledge of, or control over," the counterfeit goods,<sup>144</sup> or (b) they are "aware of facts or circumstances on the basis of which a diligent economic operator should have identified" infringing activities and did not act to remove them.<sup>145</sup>

A second and recently settled case that addressed intermediary liability<sup>146</sup> is *Louis Vuitton Malletier SA (LVMH) v. Google France*.<sup>147</sup> Louis Vuitton ("LVMH") brought suit in France against Google when LVMH, as the IPRO, realized, in as early as 2003, that Google's "AdWord" feature<sup>148</sup> allowed advertisers

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Consolidated Version of the Treaty on the Functioning of the European Union art. 267, Oct. 26, 2012, 2012 O.J. (C 326) 47.

139. See Kayser et al., *supra* note 131 ("Even though judgments technically are not binding on courts and administrative authorities in other Member States, they still have a strong persuasive effect with regard to the interpretation of harmonized European law.")

140. Case C-324/09, *L'Oréal SA v. eBay Int'l AG*, 2011 E.C.R. I-6011.

141. *Id.* ¶ 32.

142. *Id.* ¶ 33.

143. An intermediary plays an "active role" when it "provide[s] assistance which entails, in particular, [optimizing] the presentation of the offers for sale in question or promoting those offers." *Id.* ¶ 116.

144. *Id.* ¶ 113.

145. *Id.* ¶ 120.

146. In September 2014, Google and LVMH signed a cooperation agreement, ending years of litigation. See *Google and LVMH Join Forces to Fight Fakes*, LVMH.COM (Sept. 4, 2014), <http://www.lvmh.com/news-documents/press-releases/lvmh-and-google-join-forces-to-fight-fakes/>.

147. Cases C-236/08 to C-238/08, *Louis Vuitton Malletier SA (LVMH) v. Google France SARL*, 2010 E.C.R. I-2417.

148. Google's "AdWord" service is a paid system that

enables any economic operator, by means of the reservation of one or more keywords, to obtain the placing, in the event of a correspondence between one or more of those words and that/those entered as a

to purchase “AdWords” of luxury brand names, so that when a consumer searched on Google for LVMH, Google automatically offered links under its “sponsored links” tab<sup>149</sup> to websites that offered knockoff LVMH products.<sup>150</sup> Using the previously established standard in *L’Oreal*, the ECJ held that Google was not liable because the intermediary’s position was “merely technical, automatic and passive,” and thus did not hold the sufficient degree of knowledge required.<sup>151</sup> This was the court’s holding, despite the ECJ stating that the “AdWords,” which were sold by Google, could well cause “a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trade mark.”<sup>152</sup> Nevertheless, the ECJ held that LVMH could still demand that Google remove the infringing advertisements,<sup>153</sup> essentially fostering the utilization of a notice-and-takedown scheme.

These cases exhibit telling details. They illustrate that common law standards may be utilized above multiple jurisdic-

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request in the search engine by an internet user, of an advertising link to its site.

*Id.* ¶ 23.

149. The “advertising link,” as referenced in the above note, “appears under the heading ‘sponsored links’, which is displayed either on the right-hand side of the screen . . . or on the upper part of the screen . . . [t]hat advertising link is accompanied by a short commercial message.” *Id.* ¶¶ 23–24. Together, the link and the message constitute the advertisement. *Id.* ¶ 24.

150. *Id.* ¶¶ 29–30; see also Kim Ross, *Louis Vuitton, Google Ends 11-Year Dispute, Join to Fight Counterfeits*, STYLE OF THE CASE (Sept. 6, 2014), <http://thestyleofthecase.wordpress.com/2014/09/06/louis-vuitton-google-ends-11-year-dispute-join-to-fight-counterfeits/> (“LVMH claimed Google violated its trademarks by selling protected keywords such as ‘imitation’, ‘replica’, ‘fake’, ‘copies’ or ‘knock-offs’ that linked users who searched for ‘Vuitton’ and ‘LV’ to websites selling counterfeit goods.”).

151. Cases C-236/08 to C-238/08, 2010 E.C.R. I-2417, ¶¶ 114, 120.

152. *Id.* ¶ 3; see also Ross, *supra* note 149 (summarizing the holding of the case, “Google cannot be held liable for trademark infringement when advertisers choose keywords related to existing brands on its self-service AdWords online advertising service and that the consumers could well become confused by such keyword ads . . .”).

153. See Christina Passariello & Max Colchester, *EU Court Backs Google on Linking Ad Sales to Brands: In Setback for LVMH, Court Clears Way for Search Engine to Sell Advertising Linked to Trademarked Brand Names*, WALL ST. J. (Mar. 24, 2010), <http://online.wsj.com/articles/SB10001424052748704896104575139132778398608> (stating that LVMH can demand that Google remove the ads).

tions, even though common law may originate from different Member States. Further, these cases also illustrate that even though an intermediary receives payment for its part in hosting trademark infringement, they nevertheless may escape liability. However, what *LVMH v. Google* illustrates is willingness of EU Courts to favor a notice-and-takedown system, which the plaintiff in *Cartier* argued is ineffective, and to which the High Court of England and Wales agreed.<sup>154</sup>

### C. EU Secondary Liability and Article 11

EU-Member States have adopted disparate approaches to the issue of secondary liability.<sup>155</sup> The French cases, which found eBay and other intermediaries liable under tort law for failing to act reasonably, exhibit the most favorable approach.<sup>156</sup> Other Member States, however, have been unwilling to impose secondary liability where the intermediary hosts the infringement.<sup>157</sup> In Germany, the Federal Supreme Court has also displayed a willingness to enforce a notice-and-takedown scheme, albeit in limited circumstances. In Bundesgerichtshof, (“Internet-Versteigerung II”),<sup>158</sup> Montres Rolex SA brought suit against eBay over the sale of counterfeit ROLEX<sup>159</sup> watches on eBay’s website. The court held that “eBay must take reasonable measures to prevent recurrence once it is informed of clear-

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154. Richemont (the plaintiff in *Cartier*) argued that notice and takedown is ineffective because, (1) “as soon as an offending website is taken down by one host, the almost invariable response of the operator is to move the website to a different host;” (2) “sooner or later, the website will be moved to a host, typically based offshore or in a non-Western jurisdiction, which does not respond to notice and takedown requests;” and (3) “once that happens, the intellectual property owner faces obvious difficulties in jurisdiction and/or enforcement if it attempts to bring proceedings against the host to compel it to take down the website.” *Cartier Int’l AG v. British Sky Broad. Ltd.* [2014] EWHC (Ch) 3354, ¶ 201 (Eng.). Justice Arnold agreed that notice-and-takedown systems would unlikely “be effective to achieve anything other than short-term disruption” to trademark infringement. *Id.*

155. See Dinwoodie, *supra* note 24, at 484.

156. See *id.* (citing M. Leistner, *Structural Aspects of Secondary (Provider) Liability in Europe*, 9 J. INTEL. PROP. L. & PRAC. 75, 86 (2014)).

157. See *id.*

158. Bundesgerichtshof [BGH] [Federal Court of Justice] Apr. 19, 2007, I ZR 35/04 (Ger.), <http://juris.bundesgerichtshof.de/cgi-bin/rechtsprechung/document.py?Gericht=bgh&Art=en&sid=c44eb2a83f373def8b45527795eec1b0&Sort=3&nr=40136&pos=0&anz=4>.

159. “ROLEX” refers to the trademark of Montres Rolex SA.

ly identified infringement.”<sup>160</sup> In Bundesgerichtshof (“Internet-Versteigerung III”),<sup>161</sup> the “leading case” for secondary liability in Germany,<sup>162</sup> the court observed that “more extensive control obligations may be necessary when well-known or famous trademarks, which are susceptible to infringements by third parties, are at stake.”<sup>163</sup> Unfortunately, while this statement is beneficial to large IPRO stakeholders, it fails to recognize the small businesses that arguably need protection just as much. Thus in the EU, while intermediaries may escape liability in certain circumstances, courts have begun to shift the burden of responsibility in protecting trademarks to intermediaries by enforcing notice-and-takedown schemes.

Article 11 of the Enforcement Directive offers another avenue of imposing secondary liability, rendering the picture more complex while also more harmonized. Article 11 requires Member States to ensure that “right holders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe an intellectual property right.”<sup>164</sup> Thus, Article 11 might “offer the possibility of injunctive relief even when the intermediary is *within* the safe harbour and thus immune from monetary liability.”<sup>165</sup> This was the issue Justice Arnold faced in the High Court portion of the *L’Oreal* saga. In the case, he indicated that he might be willing to offer limited relief under Article 11 to implement U.K. obligations.<sup>166</sup> When the case was brought before the ECJ, a prominent issue was whether, under Article 11, IPROs could secure injunctions against the intermediary to require the intermediary to *prevent future* infringements of those rights.<sup>167</sup> While the ECJ held that this would be permissible, the court left it up to

160. Eric Auchard, *eBay Dealt Blow on Fake Rolexes by German Court*, REUTERS (Jul. 27, 2007), <http://uk.reuters.com/article/2007/07/27/oukin-uk-ebay-rolex-idUKN2736988920070727> (citing eBay’s 10-Q).

161. Bundesgerichtshof [BGH] [Federal Court of Justice] Apr. 30, 2008, I ZR 73/05 (Ger.), <https://openjur.de/u/74820.html>.

162. Kayser et al., *supra* note 131.

163. *Id.*

164. Directive 2004/48/EC, 2004 O.J. (L 195) 22; *see* Dinwoodie, *supra* note 24, at 489.

165. Dinwoodie, *supra* note 24 at 489–90 (emphasis added).

166. *L’Oreal SA & Ors v EBay International AG & Ors*, [2009] EWHC (Ch) 1094, ¶ 454 (Eng.).

167. Dinwoodie, *supra* note 24, at 490; *see L’Oreal* [2011] E.C.R. I-6011, ¶ 126.

the Member States to devise appropriate laws individually. The ECJ did offer minimal guidance when stating that measures must be “effective and dissuasive,” but also proportionate, and that measures “need to strike a fair balance between the various rights and interests.”<sup>168</sup> Nevertheless, what this means in practice is “not entirely clear.”<sup>169</sup> While the ECJ has exhibited a willingness to hold intermediaries accountable by delegating individual Member States to both define and enforce Article 11, the ECJ neglects to provide a harmonization tool, which is ultimately needed to prevent a prevalent and global epidemic like online counterfeiting.

In summation, while intermediaries in the EU may escape liability in certain circumstances, courts have begun to shift the burden of responsibility in protecting trademarks to intermediaries by enforcing notice-and-takedown schemes. Conversely, U.S. courts remain hesitant to offer any sort of constructive recourse for IPROs. Nevertheless, regardless of the legal structures currently in place in both the EU and the United States, the counterfeit crisis remains a problem largely unresolved.

#### IV. THE COUNTERFEIT EPIDEMIC: A PROBLEM UNSETTLED

To the delight of IPROs,<sup>170</sup> some intermediaries have taken initiative to battle counterfeiting. For example, Taobao Marketplace,<sup>171</sup> a subsidiary of the China-based company Alibaba, signed separate agreements with the International AntiCounterfeiting Coalition and LVMH, in which Taobao promised to “proactively take down product listings of suspected counterfeit goods and implement preventive measures to stop sellers from listing fake items,” on Taobao’s own website.<sup>172</sup> This followed Taobao’s 2012 removal from the United States Trade Repre-

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168. Dinwoodie, *supra* note 24, at 490; see *L’Oréal* [2011] E.C.R. I-6011, ¶¶ 136, 141, 143.

169. Dinwoodie, *supra* note 24, at 491.

170. See James L. Bikoff et al., *Hauling in the Middleman: Contributory Trademark Infringement in North America*, 5 J. INTELL. PROP. L. & PRAC. 332, 340 (2010), (“[IPROs] are eager to have internet service providers such as eBay and Twitter step up their precautionary activities.”).

171. Taobao Marketplace is referred to as the “Chinese version of eBay.” Kayser et al., *supra* note 131.

172. J.T. Quigley, *Taobao to Crack Down on Fake Louis Vuitton Goods*, DIPLOMAT (Oct. 11, 2013), <http://thediplomat.com/2013/10/taobao-to-crack-down-on-fake-louis-vuitton-goods/>.

sentative's ("USTR") "Notorious Markets" list, on which the intermediary was previously included due to its prolific part in "the widespread availability of counterfeit and pirated goods in its electronic marketplace."<sup>173</sup> Additionally, Amazon<sup>174</sup> and Google<sup>175</sup> have adopted anticounterfeiting programs, while eBay has implemented its VeRO system,<sup>176</sup> which all aim to

173. Lei Mei, *New Ways to Combat Counterfeiting and Piracy in China*, LAW 360 (Mar. 11, 2014), <http://www.law360.com/articles/511427/new-ways-to-combat-counterfeiting-and-piracy-in-china>.

174. See Ng & Bensinger, *supra* note 126 ("Amazon has policies to prevent unauthorized sellers from listing some branded products, and its investigators comb through listings and customer reviews to identify sellers that may be violating its rules."). But see CBS News, *Amazon Struggling to Keep Counterfeits Off Market, Retailer Says*, CBS NEWS (May 14, 2014), <http://www.cbsnews.com/news/amazon-struggling-to-keep-counterfeits-off-market-retailer-says/> ("The safety checks in place aren't always strong enough to stop [Amazon] from selling knock-offs to a customer . . . because counterfeiters are sending knock-offs to Amazon's warehouses where they can be mixed in with real products."). See generally *Amazon Anti-Counterfeiting Policy*, AMAZON, <http://www.amazon.com/gp/help/customer/display.html?ie=UTF8&nodeId=201166010> (last visited Oct. 12, 2015).

175. See Hayley Tsukayama, *Google Announces Anti-Counterfeit Measures*, WASH. POST (Mar. 13, 2011), [http://www.washingtonpost.com/blogs/post-tech/post/google-announces-anti-counterfeit-measures/2011/03/15/ABetJ9W\\_blog.html](http://www.washingtonpost.com/blogs/post-tech/post/google-announces-anti-counterfeit-measures/2011/03/15/ABetJ9W_blog.html), ("First, [Google] will address reliable AdWords counterfeit claims within 24 hours. Second, it will work with brand owners to identify counterfeiters and possibly expel them from the AdSense network. Finally, it has launched a center help page for reporting counterfeits"). See generally *Counterfeit Goods Policy*, GOOGLE, <https://support.google.com/adwordspolicy/answer/176017?hl=en> (last visited Oct. 12, 2015).

176. See Olivia M. Fleming, *Oh La La! How Will the Polarized Decisions of the United States and France Regarding the Responsibility for Policing Trademarks on Online Auction Sites Be Synthesized?*, 20 IND. INT'L & COMP. L. REV. 313, 323 (2010), ("VeRO is a notice and takedown system in which intellectual property owners can inform eBay of any listing that potentially infringes their rights, and then eBay can remove the listing."). But see Jessica L. Hilliard, *Rights Versus Commerce: Balancing Online Trademark Policing with the Emerging Online Marketplace*, 11 J. MARSHALL REV. INTELL. PROP. L. 217, 234-45 (2011), ("In many cases, the eBay auction or sale is completed before action can be taken by the trademark owner via the VeRO program . . . . Trademark owners claim that the late notice of the VeRO system renders it largely ineffective in policing alleged counterfeiting."). See generally *VeRo*, EBAY, <http://pages.ebay.com/help/policies/programs-vero-ov.html> (last visited Oct. 11, 2015).



remove instances of trademark infringements on their platforms.

These initiatives, while promising on the surface, are indeed quite counterfeit themselves. Despite the anticounterfeiting measures taken by intermediaries, trademark infringement—in particular the counterfeit epidemic—is an ever-growing crisis. Luxury brands are the “fastest growing targets for counterfeits” on the Internet.<sup>177</sup> Further, despite its promise,<sup>178</sup> Alibaba remains a notorious intermediary for allegations of trademark infringement.<sup>179</sup> In October 2015, the American Apparel & Footwear Association lobbied to return Taobao to the USTR “Notorious Markets” list for its continued widespread dissemination of counterfeit goods.<sup>180</sup> Additionally, certain sellers refuse to sell their products on Amazon’s website because they feel the intermediary is not active enough in reducing trademark infringement on its platform.<sup>181</sup> In eBay’s 2013

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177. Ashley Bumatay, *A Look at Tradekey: Shifting Policing Burdens from Trademark Owners to Online Marketplaces*, 11 HASTINGS BUS. L.J. 341, 341 (2015).

178. See discussion *supra* Part IV.

179. In May 2015, Gucci, Yves Saint Laurent, and other luxury brands under the name Kering SA filed suit in the United States—which was later directed to mediation—against Alibaba, alleging the intermediary’s shopping, marketing, and payment platforms “knowingly make it possible for an army of counterfeiters to sell their illegal wares throughout the world,” while being “compensated by the counterfeiters for enabling the illegal sale of counterfeit products.” Matthew Bultman, *Kering To Resume Mediation In Alibaba Counterfeit Case*, LAW360 (Nov. 13, 2015), <http://www.law360.com/articles/726682> (citing Complaint, Gucci Am. Inc. et al v. Alibaba Grp. Holdings Ltd. et al, No. 15-03784 (S.D.N.Y. 2015)).

180. Bill Donahue, *Alibaba Site Belongs On ‘Notorious Markets’ List, USTR Told*, LAW 360 (Oct. 6, 2015), <http://www.law360.com/articles/711374/alibaba-site-belongs-on-notorious-markets-list-ustr-told>. In response, the USTR published a warning to Alibaba (and Taobao), urging the company to create a “stronger and more efficient system” to combat counterfeiting “without delay.” See U.S. TRADE REPRESENTATIVE, EXEC. OFFICE OF THE PRESIDENT, 2015 OUT-OF-CYCLE REVIEW OF NOTORIOUS MARKETS 8 (2015), <https://ustr.gov/sites/default/files/USTR-2015-Out-of-Cycle-Review-Notorious-Markets-Final.pdf>.

181. For example, Estée Lauder Cos. does not distribute its products on Amazon, and Johnson & Johnson temporarily halted sales on the website in 2013. See Serena Ng & Jonathan D. Rockoff, *Amazon and J&J Clash Over Third-Party Sales*, WALL ST. J. (Nov. 10, 2013), <http://www.wsj.com/articles/SB10001424052702303460004579190270427483810>.

Annual Report, the company conceded that they “may be unable to prevent [its] users from selling unlawful or stolen goods or unlawful services, or selling goods or services in an unlawful manner.”<sup>182</sup> Furthermore, IPROs sue companies that sell their alleged counterfeit products on eBay and Amazon.<sup>183</sup> Perhaps most profound is the statistic that the global counterfeit market has reached a value of \$1.77 trillion, a drastic increase from an estimated \$550 billion in 2008.<sup>184</sup>

### A. Consumer Demand

The question remains as to why trademark infringement is rapidly rising when efforts to quell the issue have been implemented by both IPROs and intermediaries. One reason is the availability of the Internet,<sup>185</sup> which has facilitated the accessibility of counterfeit goods.<sup>186</sup> For example, over six million new items are listed on eBay each day, with one hundred million seller postings on the website at any moment.<sup>187</sup>

182. EBAY ANNUAL REPORT, *supra* note 88, at 23.

183. For example, Dolce and Gabbana recently brought suit in the District Court for the Southern District of Ohio against eyewear manufacturer TXT for deliberate trademark infringement and civil counterfeiting. See Kim Ross, *Dolce & Gabbana Alleges Manufacturer Imitates Luxury Brands' Trademarks, Sues for Trademark Infringement, Counterfeiting*, STYLE OF THE CASE (Nov. 9, 2014), <http://thestyleofthecase.wordpress.com/2014/11/09/dolce-gabbana-alleges-manufacturer-imitates-luxury-brands-trademarks-sues-for-trademark-infringement-counterfeiting/>. According to the complaint, TXT sells the products “specifically on eBay [and] Amazon.” *Id.*

184. See *BASCAP Social Impact Study*, *supra* note 9, at 5.

185. See *Knock-offs Catch On: Fake Goods are Proliferating, to the Dismay of Companies and Governments*, ECONOMIST (Mar. 4, 2010) [hereinafter *Knock-offs Catch On*], <http://www.economist.com/node/15610089> (“Thanks to the rise of the internet . . . counterfeit goods are everywhere.”); *Cartier Int'l AG v. British Sky Broad. Ltd.* [2014] EWHC (Ch) 3354, ¶ 13 (Eng.) (“The internet has become an increasingly important channel of trade in counterfeit goods.”).

186. In *Cartier*, the court noted that in 2014, “the top six categories of goods seized (measured by number of cases) were the kind of goods often shipped by post or courier after an order via the internet.” *Cartier*, [2014] EWHC (Ch) 3354, ¶ 13 (citing *Report on EU Customs Enforcement of Intellectual Property Rights*, at 7 (2014), [http://ec.europa.eu/taxation\\_customs/resources/documents/customs/customs\\_controls/counterfeit\\_piracy/statistics/2015\\_ipr\\_statistics.pdf](http://ec.europa.eu/taxation_customs/resources/documents/customs/customs_controls/counterfeit_piracy/statistics/2015_ipr_statistics.pdf)).

187. *Tiffany (NJ) Inc.*, 576 F. Supp. 2d at 475.

In conjunction with Internet availability, another reason is consumer demand.<sup>188</sup> A 2009 study commissioned by Business Action to Stop Counterfeiting and Piracy, the International Chamber of Commerce's intellectual property initiative, found that "[e]ighty percent of consumers surveyed reported having bought some kind of [counterfeit] product at least once."<sup>189</sup> Evidence shows that while consumers understand that intellectual property protection is important, consumers continue to drive demand that encourages intellectual property destruction.<sup>190</sup> For example, a 2013 EU study by Office for Harmonization in the Internal Market found that "96% of Europeans consider that 'it is important that inventors, creators and performing artists are able to protect their rights and be paid for their work.'"<sup>191</sup> Yet counterintuitively, "34% of Europeans, and 52% of 15 to 24-year-olds, believe that buying counterfeit products is 'a smart purchase that enables you to have the items that you want while preserving your purchasing power.'"<sup>192</sup> Coming full circle, one of the predominant drivers behind counterfeit purchases—a reason consumers consider counterfeiting "socially acceptable"—is the availability of the trademark-infringing goods.<sup>193</sup> Thus, availability drives consumer demand<sup>194</sup>—mostly

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188. Consumer demand is a major driving factor in the counterfeit sales market. See Saurabh Verma, Rajender Kumar, & P.J. Philip, *Economic and Societal Impact of Global Counterfeiting and Piracy*, 6 PACIFIC BUS. R. INT'L, 98, 99 (2014) (citing Gary Bamossy and Debra L. Scammon, L., *Product Counterfeiting: Consumers and Manufacturers Beware*, 12 ADVANCES IN CONSUMER RES. 334 (1985)) ("[V]arious researchers have argued that consumer demand for counterfeits is one of the leading causes of the existence and upsurge in growth of the counterfeiting phenomenon.").

189. BASCAP, *Research Report on Consumer Attitudes and Perceptions on Counterfeiting and Piracy* 12 (2009) [hereinafter *BASCAP Consumer Research Report*], <http://www.iccwbo.org/Advocacy-Codes-and-Rules/BASCAP/BASCAP-Research/Consumer-attitudes-and-perceptions/>.

190. See generally Trevor Little, *Public Awareness of IP Crime Rises, but Counterfeit Purchases Continue*, WORLD TRADEMARK REV. (Oct. 10, 2014), <http://www.worldtrademarkreview.com/blog/detail.aspx?g=11c772bc-4b8e-4e79-bf62-c0647a3a18a7>.

191. Office for Harmonization in the Internal Mkt., *European Citizens and Intellectual Property: Perception, Awareness and Behaviour* 1 (2013) [hereinafter *EU Perception Study*], [https://oami.europa.eu/tunnel-web/secure/webdav/guest/document\\_library/observatory/documents/IPContributionStudy/25-11-2013/european\\_public\\_opinion\\_study\\_web.pdf](https://oami.europa.eu/tunnel-web/secure/webdav/guest/document_library/observatory/documents/IPContributionStudy/25-11-2013/european_public_opinion_study_web.pdf).

192. *Id.* at 4.

193. See *BASCAP Consumer Research Report*, *supra* note 189, at 8.

by way of the Internet—and consequently, consumer demand drives the counterfeit market. Therefore, the most logical solution to subjugate the counterfeit issue would be to reduce the overall availability of counterfeit goods. As such, while the steps taken by intermediaries are valiant, further regulation must be implemented to help eliminate the problem. Specifically, regulation must mandate that intermediaries block websites and sellers that infringe trademarks, not just specific instances of trademark violations. The United Kingdom has become the first EU Member State to take a step in this right direction.

## V. RETHINKING THE PARADIGM

In the United States, while the *Tiffany* standard encouraging notice and takedown is widely used,<sup>195</sup> courts are beginning to issue permanent “landmark” injunctions<sup>196</sup> in response to the growing counterfeit epidemic. In the EU, the United Kingdom was the first EU-Member State to require intermediaries to block websites.<sup>197</sup> However, other EU States still give broad protection to intermediaries by only requiring a notice-and-takedown scheme, thus decreasing the incentive to block counterfeiting in larger quantities. In response to the growing counterfeit issue, EU standards should be harmonized to increase protection against trademark infringement.

### A. *Cartier*: A Step in the Right Direction

In a monumental decision and the first of its kind in the EU, the High Court of England and Wales took a stand against counterfeiting with *Cartier*.<sup>198</sup> Richemont, on behalf of Car-

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194. However, it is important to note that “[s]ocial and contextual factors also play a part, particularly the place where the purchase is made, the purchase situation and the *legislation and enforcement mechanism in place*.” *Id.* at 35 (emphasis added).

195. See discussion, *supra* Section II.C.

196. See *Chloe* discussion, *infra* Section V.B..

197. See Julia Powles, *Internet Service Providers Must Help Crack Down on Fake Goods, High Court Rules*, *GUARDIAN* (Oct. 20, 2014), <http://www.theguardian.com/technology/2014/oct/20/internet-service-providers-fake-goods-high-court-rules> (“[*Cartier*] is thought to be the first ruling of its kind.”).

198. *Cartier Int’l AG v. British Sky Broad. Ltd.* [2014] EWHC (Ch) 3354 (Eng.).

tier,<sup>199</sup> sued five intermediaries<sup>200</sup> in an effort to require the intermediaries to “block, or at least impede, access by their respective subscribers to six websites which advertise and sell counterfeit goods.”<sup>201</sup> The IPRO claimed that these six intermediaries, who at the time held “market share of some 95% of UK broadband users,”<sup>202</sup> and controlled at least 239,000 potentially infringing websites,<sup>203</sup> were negatively affecting the integrity of Richemont’s trademarks, in particular by using the IPRO’s long-standing status as a luxury brand<sup>204</sup> to sell counterfeit products of the branded items.<sup>205</sup> After cease and desist letters to the trademark-infringing websites were ignored,<sup>206</sup> and it was concluded that notice-and-takedown systems were ineffective,<sup>207</sup> Richemont brought suit for a more permanent and effective solution.

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199. Collectively, “Richemont” refers to “the owners of a large number of [U.K.] Registered Trade Marks for CARTIER, MONTBLANC, IWC and other brands.” *Cartier*, [2014] EWHC (Ch) 3354, ¶ 1. The court noted that Cartier is “well known for its [jewelry] and watches, and also sells leather goods, writing instruments and a range of other accessories,” *id.* ¶ 15; Montblanc is “well known for its writing instruments, and also sells watches, leather goods and a range of related accessories,” *id.*; IWC is a “Swiss watch manufacturer,” *id.* Together, under the Richemont name, the company had revenues totaling “€10,649 million in the year ending 31 March 2014.” *Id.*

200. The defendants in the suit were Sky, BT, EE, TalkTalk, and Virgin. *Id.* ¶ 1.

201. *Id.*

202. *Id.*

203. *Id.* ¶ 246.

204. The three brands have been in commerce since the late nineteenth and early twentieth century, *id.* ¶ 15, and “the goods bearing these brand names are expensive luxury items.” *Id.*

205. *See id.* ¶ 18 (“Each [website] sells replicas of a single brand, that is to say, either Cartier or Montblanc or IWC. In each case, the [website] incorporates the brand name in its domain name. Some of the [websites] make it very clear that the goods offered are replicas, whereas others make this much less clear.”).

206. *See id.* ¶ 198. Justice Arnold, found the ignored letters “unsurprising,” and since “the registrants all gave addresses outside the United Kingdom, many in China, Richemont faced obvious difficulties of jurisdiction and/or enforcement if they were to attempt to bring proceedings against the registrants.” *Id.*

207. Richemont argued that notice-and-takedown scheme is ineffective for a host of reasons. *See id.* ¶ 201.

Once it was determined that the intermediaries had sufficient knowledge of the infringing activities,<sup>208</sup> (the preliminary step in determining intermediary liability in the EU) the court held that the burden of trademark protection should not fall solely with the IPRO, but that the intermediary should police as well. Justice Arnold reasoned that “the [intermediaries] have an essential role in these infringements, since it is via the [intermediaries] services that the advertisements and offers for sale are communicated to 95% of broadband users in the UK.”<sup>209</sup> While the court acknowledged that the requirement to police trademark infringement would impose additional costs on the intermediaries,<sup>210</sup> Justice Arnold was not “persuaded, however, that the implementation costs on their own lead to the conclusion that the orders should be refused.”<sup>211</sup> In the court’s conclusion, the intermediaries were required to block websites that infringe on the IPRO’s trademarks. The court reasoned that it was not “persuaded that there [were] alternative measures open to [the IPRO] which would be equally effective, but less burdensome.”<sup>212</sup>

*Cartier* is crucial because it both lifted a portion of the burden off IPROs, while imposing a greater responsibility onto the intermediaries. As a “test case” for future litigation,<sup>213</sup> *Cartier* “could be followed by trademark owners both in the [United Kingdom] and other countries, given the Internet is an increasingly large channel for trade in counterfeit goods.”<sup>214</sup>

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208. *See id.* ¶ 157.

209. *Id.* ¶ 155.

210. *Id.* ¶ 195. However, “[c]ounsel for Richemont submitted that the implementation costs imposed on the [intermediaries] by website blocking orders were very small compared to the [intermediaries] total operating costs.” *Id.* ¶ 249.

211. *Id.* ¶ 253.

212. *Id.* ¶ 217.

213. *Id.* ¶ 6 (“It is a test case, which, if successful, is likely to be followed by other applications by Richemont and other trade mark owners, both here and in other countries.”).

214. Daniel Thomas, *ISPs Told to Block Fake Luxury Goods Sales*, FIN. TIMES (Oct. 17, 2014), <http://www.ft.com/cms/s/0/2f463ed8-5605-11e4-a3c9-00144feab7de.html>.

### B. *Chloe*: American Hope?

Like *Cartier*, a U.S. District Court recently ordered a “landmark”<sup>215</sup> decision when the court ordered a group of intermediaries to monitor their content for infringement. In *Chloe SAS v. Sawabeh Info. Servs. Co.*, six luxury brands sued the online marketplace TradeKey.com.<sup>216</sup> While the luxury brands did not send any notices of infringement to the intermediary, a U.S. District Court in California still found the intermediary liable based on intent.<sup>217</sup> By fostering and encouraging the sales of counterfeit goods,<sup>218</sup> the intermediary “deliberately established a haven for trademark infringement and counterfeiting.”<sup>219</sup> As a result, the District Court judge, along with the other requirements common to U.S. secondary liability case law,<sup>220</sup> ordered TradeKey to monitor their websites of illegal infringing activity on an on-going basis.<sup>221</sup>

While only a District Court decision, the order’s underlying remedial effects should not be discounted. *Chloe* is similar to *Cartier* in that the court mandated the intermediary to monitor its website content. Rather than requiring the intermediary to react to instances of infringement, as demonstrated in the *Tiffany* decision,<sup>222</sup> the court here insisted that the intermediary take a proactive approach to its website content.

### C. A Proactive Rather than Reactive Solution

The United States and the EU should take both the ruling and logic of *Cartier* and implement it into legislation. More specifically, governments should abandon notice-and-takedown schemes and instead heighten potential liability by requiring

215. Bumatay, *supra* note 177, at 353.

216. See *Chloe SAS v. Sawabeh Info. Servs. Co.*, No. CV 11-04147 GAF MANX, 2012 WL 7679386, at \*2 (C.D. Cal. May 3, 2012).

217. See Kayser et al., *supra* note 131.

218. TradeKey’s website had a section dedicated to “replica” goods. Further, a “TradeKey salespersons approved, encouraged, and assisted Plaintiffs’ investigators to offer ‘replica’ items for sale, stating that doing so was ‘not a problem,’ and that the sale of counterfeit luxury goods was ‘one of [TradeKey’s] main industries.’” *Chloe*, 2012 WL 7679386 at \*5.

219. *Id.* at \*22.

220. Such as requiring a notice-and-takedown system. See Bumatay, *supra* note 177, at 354.

221. *Chloe*, 2012 WL 7679386 at \*22.

222. See discussion of *Tiffany supra* Part II.

website blocking. Doing so will shift the burden onto the intermediary: while the IPRO will be required to detect infringement, the intermediary will be required to block the infringing pages entirely, and not just the one specific instance of infringement.<sup>223</sup> This system would be more effective and less burdensome than notice-and-takedown schemes.<sup>224</sup> Further, increasing liability of the intermediary “may act as a deterrent for future infringing activities by transforming [intermediaries] into trademark owners’ policing partners.”<sup>225</sup> Additionally, scholars have argued that the intermediaries, as the least cost avoider, should receive some of the burden of policing.<sup>226</sup> While costs are of course a valid consideration,<sup>227</sup> the *Cartier* court determined that the costs imposed on the intermediaries would be “proportionate and strike a fair balance between the

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223. The shared burden would be as follows:

the [IPROs] bear the costs of the application (other than costs occasioned by the [intermediaries] resistance to an order), while the [intermediaries] bear the costs of implementation. Similarly, the [IPROs] bear the costs of monitoring the targeted websites after implementation of the order and notifying the [intermediaries] of updates, while the [intermediaries] bear the costs of implementing such updates.

*Cartier Int’l AG v. British Sky Broad. Ltd.* [2014] EWHC (Ch) 3354, ¶ 239 (Eng.).

224. *Id.* ¶ 202 (“[O]ne of the key advantages of website blocking from the [IPROs] perspective was that the updating machinery built into the orders provided a mechanism for dealing with circumvention by the website operators which was not only more effective in the long run than notice-and-takedown, but also less burdensome. In particular . . . because it enabled the [IPROs] to use automated procedures . . . to update the orders and hence the blocking carried out by the [intermediaries].” *Id.* ¶ 204. The Court accepted “that website blocking has advantages over notice-and-takedown.” *Id.*

225. Comm. on Trademarks and Unfair Competition, *Online Auction Sites and Trademark Infringement Liability*, 58 REC. N.Y. CITY B.A. 236, 249 (2003), <http://www.nycbar.org/pdf/report/Online%20Auction%20Sites%20Final%20Report.pdf>.

226. See Mann & Belzley, *supra* note 28, at 264; Barnett et al., *supra* note 131 (quoting Graeme Dinwoodie, Professor at the University of Oxford) (“[The] EU also has appeared to consider intermediaries as the ‘lowest cost avoiders.’”).

227. See *Cartier*, [2014] EWHC (Ch) 3354 ¶, 204 (“The key question, to my mind, is whether the benefits of website blocking . . . justify the costs, and in particular the implementation costs which are imposed on the [intermediaries.]”).



respective rights that are engaged, including the rights of individuals who may be affected by the orders but who are not before the Court.”<sup>228</sup> Further, while some may believe that imposing this mandate would impair the intermediary’s freedom to conduct business, such concern has been determined to be erroneous.<sup>229</sup>

With the counterfeit epidemic being such a pressing problem, a judicial approach is not a viable solution. While the logic behind the *Cartier* case exists within the judicial forum, if enforcement is kept to the judiciary and not extended to the legislature, the costs may prove unworkable.<sup>230</sup> Further, with the current standards, “the jurisdiction where a case is filed can dictate whether a claim for contributory infringement will be successful,” because each jurisdiction<sup>231</sup> has differing common law. This is why harmonization is both appropriate and necessary. Therefore, if enforcement is kept to the judiciary, it will likely not be effective because the interpretation of the law will vary, and maximum harmonization can only be achieved through legislative means.<sup>232</sup>

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228. *Id.* ¶ 261.

229. The *Cartier* court found this notion erroneous. *Id.* ¶ 195 (“As to the [intermediary’s] freedom to carry on business, [website blocking] would not impair the substance of this right . . . . The orders would not interfere with the provision by the [intermediary] of their services to their customers.”).

230. Simon Baggs of Wiggin LLP, the law firm representing *Cartier*, stated that the legal costs alone of seeking a court order to block counterfeit goods are around £14,000—this figure is when intermediaries have no objection, the figure would be higher for cases when there is an objection. See Chris Cooke, *Recent Case Provides Insight into the Costs of Web-Blocking*, COMPLETE MUSIC UPDATE (Oct. 22, 2014), <http://www.completemusicupdate.com/article/recent-case-provides-insight-into-the-costs-of-web-blocking/>.

231. Kayser et al., *supra* note 131; see also Katja Weckström, *Liability for Trademark Infringement for Internet Service Providers*, 16 MARQ. INTELL. PROP. L. REV. 1, 9 (2012) (“Due to the weighty and far-reaching interests at stake, courts, at least in Europe, are not suited to decide these cases without specific legislative guidelines . . .”).

232. For maximum harmonization, the U.S. government may transpose the guidelines into the United States Code—much like the DMCA for copyright law—essentially elaborating on the Lanham Act, and the EU would create a directive, or even more ideal, a regulation, so that compliance across each Member State is guaranteed. *But see* Robert W. Payne, *Unauthorized Online Dealers of “Genuine” Products in the Amazon Marketplace and Beyond: Remedies for Brand Owners*, 18 J. INTERNET L. 3, 9 (2014) (“[T]he

Governments should embrace a heightened standard. In addition to shifting the burden off the IPROs, governments have an incentive to broaden trademark protection: in the United States, the Chamber of Commerce estimated that “for every dollar invested in the fight against counterfeiting,” the government would receive \$5 in additional tax revenue.<sup>233</sup> Further, there has already been a call for change in the United States by a member of Congress. U.S. Senator Robert Menendez, the Chairman of the Senate Committee on Foreign Relations, recently announced that he “wants the federal government to crackdown” on counterfeiting through Internet channels.<sup>234</sup> With the issue of trademark infringement on the rise, the time to act is now, and the means are to require more from the intermediary by way of website and seller blocking.

#### CONCLUSION

Trademark protection should be a top priority for all U.S. and EU intellectual property-related legislation. A 2001 study of intellectual property-infringing cases across EU-Member States revealed that “78 percent of infringements related to trade marks, 15 percent to copyright, 6 percent to design rights and 1 percent to patents.”<sup>235</sup> The gross disproportion of these statistics alone reveals that trademark infringement is the highest targeted method of intellectual property offences. The conundrum is that for other intellectual property infringements, intermediaries are required to remove violations. However, in the United States, intermediaries only face liability if they know of specific instances of trademark infringement and fail to investigate or partake in the violation. While in the EU, failure to investigate will only eliminate automatic immunity from liability. A rigorous government mandate that requires website blocking is lacking yet trademark violations have never been more rampant. While the United Kingdom with *Cartier* was the first EU-Member State to require intermediaries to block general trademark infringing material, it should not be the last. The United States and EU should utilize the burden-

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DMCA and VeRO programs are sometimes referred to as a ‘whack a mole’ game, having little real effect.”)

233. *Knock-offs Catch On*, *supra* note 185.

234. Ross, *supra* note 87.

235. Lambkin & Tyndall, *supra* note 77, at 36.

shifting framework articulated in the *Cartier* decision and transpose it into legislation to better protect trademarks and shift some of the burden and responsibility of combatting the counterfeit epidemic onto the intermediaries.

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