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ONLINE AUCTION HOUSES: HOW TRADEMARK OWNERS PROTECT BRAND INTEGRITY AGAINST COUNTERFEITING

*Emily Favre**

INTRODUCTION

A robin's-egg-blue box with a clean white ribbon is a recognizable image all over the world. This visual and the trademarked color have come to symbolize luxury and exclusivity, and by extension, TIFFANY & CO ("Tiffany")¹ has leveraged its brand to do more than represent a product. It represents a lifestyle. The strength of Tiffany's time-honored brand can be traced to the dedicated protection of its image. By vigorously managing its brand,² a company like Tiffany extends

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¹ Tiffany is a purveyor of high-quality goods, including specialty gift items such as jewelry, silver, china, glassware, crystal and clocks, under the trademark and trade name Tiffany and its variant Tiffany & Co. Tiffany spent approximately \$395 million in advertising and promotion for fiscal years 2003-2005. Tiffany & Co., Annual Report (Form 10-K), at K-12 (March 31, 2006).

² Internal brand management strategies can include:
restricting employee authority to use, license, or alter the brand without approval; creating a brand standards committee or trademark czar to monitor and approve brand use; limiting the number of vendors that provide branded products to the company; standardizing contracts to protect brand use;

“influence beyond its own domain, which helps maintain the integrity of distribution channels, establishes a higher level of branding consistency, drives revenue, increases market share, and improves customer loyalty.”³ Counterfeiting⁴ and trademark⁵ infringement⁶ in connection with a brand⁷ pose tremendous

establishing a licensing program; requiring employee education on brand use; and requiring employees and vendors to obtain copies of company trademarks from a single source.

TALCOTT J. FRANKLIN, *PROTECTING THE BRAND: A CONCISE GUIDE TO PROMOTING, MAINTAINING, AND PROTECTING A COMPANY'S MOST VALUABLE ASSET* 71 (2003).

³ BRIAN H. MURRAY, *DEFENDING THE BRAND: AGGRESSIVE STRATEGIES FOR PROTECTING YOUR BRAND IN THE ONLINE ARENA* 3 (2004).

⁴ Counterfeiting is defined as: “To unlawfully forge, copy, or imitate an item . . . or to possess such an item without authorization and with the intent to deceive or defraud by presenting the item as genuine.” *BLACK'S LAW DICTIONARY* 376 (8th ed. 2004). The Lanham Act defines a counterfeit mark as “a spurious mark which is identical with, or substantially indistinguishable from, a registered mark.” 15 U.S.C. § 1127 (1994). The Trademark Counterfeiting Act of 1984 defines a counterfeit mark as:

a spurious mark that is used in connection with trafficking in goods or services that is identical with, or substantially indistinguishable from a mark in use and registered on the principal register for those goods or services and the use of which is likely to cause confusion, mistake or deceive

18 U.S.C. § 2320 (2006).

⁵ A trademark is a “word, phrase, logo, or other graphic symbol used by a manufacturer or seller to distinguish its product or products from those of others. The main purpose of a trademark is to designate the source of goods or services.” *BLACK'S LAW DICTIONARY* 1530 (8th ed. 2004).

⁶ A trademark infringer is any person who shall, without the consent of the registrant:

- (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or
- (b) reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale,

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threats to the company's business and good name. Tiffany, perfectly aware of this fact, is currently suing eBay, Inc. ("eBay"), claiming that counterfeit jewelry sold on the auction site "has eroded the reputation of the 150-year-old Tiffany brand."⁸

From counterfeit jewelry to golf clubs, the scope and the scale of high-quality counterfeit products are growing at rapid speed.⁹ Technological innovations have made it possible to create a near-perfect copy of products. These forgeries are then

distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive.

15 U.S.C. § 1114 (1) (1994).

⁷ Further,

[b]y protecting established trademarks against confusing imitation, the law ensures a reliable vocabulary for communications between producers and consumers. Both sellers and buyers benefit from the ability to trust this vocabulary to mean what it says it means. Sellers benefit because they can invest in goodwill with the knowledge that others will not appropriate it. Consumers benefit because they don't have to do exhaustive research or even spend extra time looking at labels before making a purchase; they can know, based on a brand name, that a product has the features they are seeking. Trademark law, in other words, aims to promote rigorous, truthful competition in the marketplace by preserving the clarity of the language of trade.

Stacey L. Dogan & Mark A. Lemley, *Symposium: Trademark in Transition: Institute for Intellectual Property & Information Law Symposium: Trademarks and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777, 787-88 (2004).

⁸ Michael Bobelian, *Tiffany and eBay Clash Over Sales of Fake Goods*, NEW YORK LAW JOURNAL, Col. 4 (Aug. 19, 2004).

⁹ The International Chamber of Commerce estimates that 5-7% of world trade consists of counterfeit goods and that the counterfeit market is estimated at \$600 billion annually. International Anti-counterfeiting Coalition, <http://www.iacc.org/counterfeiting/counterfeiting.php> (last visited Nov. 27, 2006). Internet auction fraud is the most reported offense, comprising of 62.7% of the complaints. INTERNET CRIME COMPLAINT CENTER, 2005 IC3 ANNUAL REPORT 3, available at <http://www.ic3.gov/media/annualreports.aspx>.

easily distributed worldwide through the Internet, and in particular, through online auctions¹⁰ sites such as eBay.com,¹¹ Amazon.com,¹² Yahoo.com,¹³ uBid.com,¹⁴ and Overstock.com.¹⁵ These online auction houses have quickly grown into mainstream shopping venues, reshaping consumer buying and selling behavior.¹⁶

The popularity and growth of online auctions present a variety of regulatory problems. The anonymity of buyers and sellers,¹⁷ the vast quantity of goods passing through the site, and the short timeframe of auctions make policing counterfeits difficult. Many online auction sites attempt to prohibit the sale of counterfeit and infringing merchandise in their terms and conditions or user agreements.¹⁸ The language of these legal contracts is drafted specifically in attempt to circumvent secondary liability.¹⁹ Some websites accept and investigate

¹⁰ For an overview of P2P online auction business models, see Peter R. Wurman, *Online Auction Site Management*, THE INTERNET ENCYCLOPEDIA, VOL. 2 709-19 (2004), available at <http://www.csc.ncsu.edu/faculty/wurman/Papers/Wurman-article.pdf>. See also DAVID BUNNELL, THE EBAY PHENOMENON: BUSINESS SECRETS BEHIND THE WORLD'S HOTTEST INTERNET COMPANY 13 (2002).

¹¹ eBay, <http://www.ebay.com> (last visited Nov. 27, 2006).

¹² Amazon, <http://www.amazon.com> (last visited Nov. 27, 2006).

¹³ Yahoo, <http://auctions.yahoo.com> (last visited Nov. 27, 2006).

¹⁴ uBid, <http://www.ubid.com> (last visited Nov. 27, 2006).

¹⁵ Overstock, <http://www.overstock.com> (last visited Nov. 27, 2006).

¹⁶ For additional reading on how online marketplaces are re-shaping consumer culture, see generally DANIEL NISSANOFF, HOW THE NEW AUCTION CULTURE WILL REVOLUTIONIZE THE WAY WE BUY, SELL AND GET THE THINGS WE REALLY WANT (Penguin Books 2006).

¹⁷ Generally, most buyers are simply required to provide a valid email address. The auction websites request a name and mailing address; however, anything can be added into the fields. No validation step is required.

¹⁸ Amazon Participation Agreement, <http://www.amazon.com/exec/obidos/tg/browse/-/537790/104-4065965-9240735> (last visited Nov. 27, 2006); eBay User Agreement, <http://pages.ebay.com/help/policies/user-agreement.html> (last visited Nov. 27, 2006); Yahoo Terms of Service, <http://docs.yahoo.com/info/terms> (last visited Nov. 27, 2006).

¹⁹ *Online Auction Sites and Trademark Infringement Liability*, 58 THE RECORD 236, 240 (2003) (“[A]nticipating the threat of legal action by

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complaints brought by intellectual property owners, take down listings from the auction sites, and cancel sellers' accounts.²⁰ Other websites offer online forums where buyers can post complaints about fraudulent purchases.²¹ Despite these measures, auction sites rarely proactively scrutinize listings²² to ensure that counterfeit or infringing merchandise is not posted on the websites.²³

In response to the recent increase of counterfeit goods on online auctions,²⁴ Tiffany, like other companies, takes aggressive steps to protect against the devaluation of its brand,²⁵

trademark owners for secondary infringement, virtually all auction sites have crafted their legal terms in efforts to avoid such liability.”).

²⁰ Counterfeiters, however, are easily able to set up new accounts in order to display their counterfeit goods. On eBay, for example, the registration process is short. eBay merely requires its members to provide a valid credit card number and email address. Once a member is registered, he can list an item for auction, and eBay ensures that the item is available to be viewed and purchased by any other registered user for a maximum of ten days. For additional information, see eBay, <http://www.ebay.com> (last visited Nov. 27, 2006).

²¹ Yahoo! Auctions, <http://www.auctions.yahoo.com> (last visited Nov. 27, 2006).

²² Some auction sites, including Bid4Assets and Property Room, are more pro-active about fraud prevention given their relationships with enforcement agencies. Ina Steiner, *Fraud: What's An Online Auction Site to Do?*, AuctionBytes.com (Mar. 8, 2006), available at <http://www.auctionbytes.com/cab/abn/y06/m03/i08/s04>. The U.S. Marshals Service sells forfeited assets on Bid4Assets.com, and over 600 law enforcement agencies use PropertyRoom.com to auction “seized, stolen, lost and forfeited goods online.” *Id.*

²³ *Online Auction Sites*, *supra* note 19, at 238.

²⁴ In 2004, the Federal Trade Commission found that Internet auction fraud “accounted for the top category of consumer fraud complaints.” NISSANOFF, *supra* note 16, at 160. The number of complaints related to Internet auctions rose from “51,003 in 2002 to 98,653 in 2004.” *Id.* at 161.

²⁵ Some have argued that

Counterfeiting affects the value of a brand, because when market demand is reduced for a particular brand due to the deception experienced by the consumer (i.e. the brand not delivering what is promised in quality or service), the market price of the asset declines. Likewise, greater costs are incurred in fighting the

including suing the auction houses for secondary liability and hiring outside consultants to help police the sites in search of counterfeit goods.²⁶ Trademark owners themselves are in the best position to identify counterfeit products, particularly given the quality of counterfeit items²⁷ in the marketplace, because they are, and should be, more knowledgeable about the brand than a particular online auction house. Trademark owners must create strong brand management plans that align with their corporate entity, while simultaneously incorporating and relying on partners and intermediaries, such as online auction houses, to help build their branding strategies.²⁸

This note will address the myriad solutions that trademark owners use to combat counterfeiting on the Internet and will argue that holding online auction houses secondarily liable is the wrong solution. Section I will highlight the most popular online auction houses and their efforts to prevent the sale of counterfeit goods and the commission of fraudulent transactions. Section II will then provide an overview of secondary liability, discuss prior unsuccessful litigation brought by intellectual property owners against online auction houses, and explain why litigation is the weakest solution to this problem. Section III will analyze potential legislative solutions to help monitor counterfeit online activity. Section IV will outline creative ways intellectual property owners can protect their brand identity. Ultimately, this note will show that intellectual property owners must develop a

counterfeiters, and lower income results from losing sales and market share to them as well.

DAVID M. HOPKINS, ET AL., COUNTERFEITING EXPOSED: HOW TO PROTECT YOUR BRAND AND MARKET SHARE 26 (2003).

²⁶ See *infra* Section IV.

²⁷ See Geoffrey Colvin, *From Knockoff Bags to Knockout Brands*, FORTUNE, June 27, 2005, at 52 (stating that the high quality of the counterfeit goods is surprisingly unexpected and that a counterfeit company produces high-quality goods “worthy of being marketed under its own name, which could presumably be built into a valuable brand,” yet the companies chose to steal someone else’s name).

²⁸ “Partner roles have expanded to the extent that a customer’s exposure to a brand is entirely outside the brand owner’s direct control, from the point of brand awareness through fulfillment.” MURRAY, *supra* note 3, at 75.

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solution that matches their corporate strategy. Building strong relationships and communicating with online auction sites will strengthen a corporation's brand management plan and reduce the existence of counterfeit goods sold in cyberspace.

I. POPULAR ONLINE AUCTION HOUSES

This section will highlight the most popular online auction houses and then analyze the ways in which they seek to regulate and police the sale of counterfeit goods. After addressing the programs built by the most well-known sites of eBay, Amazon, Yahoo!, uBid, and Overstock, the section will conclude with a comparison of the different measures and a recommendation that all online auction houses implement detailed take-down procedures for trademark owners to remove counterfeit goods quickly and efficiently.

A. eBay

eBay²⁹ markets itself as the world's largest online marketplace for the sale of goods and services amongst its registered users.³⁰ With over 212 million registered users in

²⁹ eBay, User Agreement, <http://pages.ebay.com/help/policies/user-agreement.html> (last visited Nov. 27, 2005). The Agreement states:

You will not hold eBay responsible for other users' actions or inactions, including things they post. You acknowledge that we are not a traditional auctioneer. Instead, the Sites are a venue to allow anyone to offer, sell, and buy just about anything, at anytime, from anywhere, in a variety of pricing formats and venues, such as stores, fixed price formats and auction-style formats. We are not involved in the actual transaction between buyers and sellers. We have no control over and do not guarantee the quality, safety or legality of items advertised, the truth or accuracy of listings, the ability of sellers to sell items, the ability of buyers to pay for items, or that a buyer or seller will actually complete a transaction.

Id.

³⁰ eBay, About eBay, <http://pages.ebay.com/aboutebay.html> (last visited Nov. 27, 2006). The eBay community includes more than 200 million

2006, a 26% increase from the previous year, and net revenues totaling over \$1.5 billion,³¹ eBay has quickly become one of the largest online venues for the sale of counterfeit goods.³² In response to growing concern over counterfeit goods on the site, eBay established the Verified Rights Owner (VeRO) program, allowing intellectual property owners to register and then gain the right to close down auctions.³³ An auction can be closed down immediately based on the rightful trademark owner's good faith belief that the item is a fake.³⁴ Additionally, the VeRO program includes access to a customer support group dedicated to servicing VeRO participants, dedicated priority email queues for reporting alleged infringing activities, and the ability to conduct automatic searches for potentially infringing items.³⁵

eBay's VeRO program³⁶ is one of the most robust of the online auctions;³⁷ however, the technology partnered with the more than 1,000 employees charged with stopping illegal website sales is dwarfed by the 60 million items.³⁸

registered members all over the world. *Id.*

³¹ Press Release, eBay Inc., eBay Inc. Announces Third Quarter 2006 Financial Results (Oct. 18, 2006), *available at* <http://investor.ebay.com/releases.cfm>.

³² Katie Hafner, *Seeing Fakes, Angry Traders Confront eBay*, N.Y. TIMES, Jan. 29, 2006 (discussing how "eBay, the biggest online marketplace, is the center of a new universe of counterfeit").

³³ Additional information about the VeRO program can be found online. eBay, Reporting Intellectual Property Infringements, <http://pages.ebay.com/help/tp/programs-vero-ov.html> (last visited Nov. 26, 2006).

³⁴ *Id.* A seller who believes that his auction has been wrongfully removed may contact the auction site and dispute the decision. *Id.*

³⁵ *Id.*

³⁶ For an overview of the VeRO program and its faults, see Mary M. Calkins, *My Reputation Always Had More Fun Than Me: The Failure of eBay's Feedback Model to Effectively Prevent Online Fraud*, 7 RICH. J.L. & TECH. 33 (2001).

³⁷ "Fortunately, eBay has a very good system. It took many years to get there, by threatening to sue them under the doctrines of contributory and vicarious infringement. . . . But that is only one tiny piece of the picture." Symposium, *Panel III: The New Campaign Against Counterfeiting and Piracy*, 14 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 955, 973 (2004).

³⁸ Hafner, *supra* note 32.

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B. Amazon Marketplace and Amazon Auctions

Amazon.com, Inc., operator of Amazon Marketplace and Amazon Auctions,³⁹ began as an online bookstore in 1994 and has since established itself as an intricate online commerce company.⁴⁰ Amazon launched its own Web auction service in March 1999 that laid the groundwork for the November 2000 launch⁴¹ of Amazon Marketplace,⁴² a fixed-price online marketplace that allows consumers to sell used books, CDs, DVDs, and other products alongside new items.

In its public documents, Amazon notes that they are not the “sellers of record in these third-party seller transactions.”⁴³ Amazon’s Prohibited Content Guide⁴⁴ informs sellers that they are expected to ensure that all postings are not in violation of any laws. The procedures contain the following language regarding replicas of trademarked items: “the sale of

³⁹ Amazon Auctions, <http://www.auctions.amazon.com> (last visited Nov. 27, 2006).

⁴⁰ See Selling at Amazon.com, <http://www.amazon.com/gp/help/customer/display.html?nodeId=1161232> (last visited Nov. 27, 2006). zShops, a fixed-price marketplace business launched by Amazon in December 1999 was consolidated into Amazon Marketplace as of October 24, 2006. See Amazon Seller Community, <http://www.amazon.com/sellercommunity.com/forums/thread.jspa?threadID=122979> (last visited Nov. 27, 2006).

⁴¹ Press Release, Amazon.com, Amazon Marketplace a Winner for Customers, Sellers and Industry (Mar. 19, 2001), available at <http://phx.corporate-ir.net/phoenix.zhtml?c=176060&p=irol-newsArticle&ID=159444&highlight=>.

⁴² In its 2006 Annual Report, Amazon notes that Amazon Marketplace enables “third-parties to sell their products on our websites, allows customers to shop for products owned by third parties using our features and technologies, and allows individuals to complete transactions that include multiple sellers in a single checkout process.” Amazon.com, Inc., Annual Report (Form 10-K), at 5 (Feb. 17, 2006), available at <http://library.corporate-ir.net/library/97/976/97664/items/193688/AMZN2005AnnualReport.pdf>.

⁴³ *Id.*

⁴⁴ Amazon.com, Amazon Prohibited Content Guide, <http://www.amazon.com/gp/help/customer/display.html?nodeId=537780#dp-prohibited> (last visited Nov. 27, 2006).

unauthorized replicas, pirated, counterfeit, and knockoff merchandise is not permitted. For instance, replicas of Rolex watches may not be posted on Amazon.com.⁴⁵ Although Amazon does reserve the right to remove any listing with inappropriate content,⁴⁶ it offers no mechanism by which trademark owners can report potential violations. While Amazon's transaction feedback system does provide some protection to consumers, it does not provide sufficient security to trademark owners regarding the removal of counterfeit goods.

C. Yahoo! Auctions

Yahoo!, Inc. is an Internet portal that offers a full range of products and services, including a search engine, web-based email, online shopping, and online auction facilities.⁴⁷ In contrast to eBay and Amazon, Yahoo! Inc. has taken a different approach to the issue of counterfeit and infringing items on its website. Yahoo!, operator of Yahoo! Auctions,⁴⁸ developed a Neighborhood Watch Program that allows users to review and report potentially fraudulent auctions.⁴⁹ Yahoo! Auctions relies on direct feedback from users. If an auction seller becomes the subject of Neighborhood Watch reports, he is given the opportunity to review the auction and then make appropriate changes or close the auction.⁵⁰ If continued problems persist, Yahoo! Customer Care is notified, and an associate reviews the auction and takes the appropriate action as outlined in the Terms of Service.⁵¹ Also, in order to submit a multi-quantity auction, a seller must fall into one of two categories: he must have a rating

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ For a history of Yahoo!, see <http://docs.yahoo.com/info/misc/history.html> (last visited Nov. 27, 2006).

⁴⁸ Yahoo! Auctions, <http://www.auctions.yahoo.com> (last visited Nov. 27, 2006).

⁴⁹ Yahoo! Neighborhood Watch Program, <http://auctions.yahoo.com/phtml/auc/us/promo/safe.html> (last visited Nov. 27, 2006).

⁵⁰ *Id.*

⁵¹ *Id.*

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of at least ten and be a Yahoo! Auctions user for at least sixty days or he must have a verified address with Yahoo PayDirect from HSBC.⁵² Such procedures will help reduce the existence of large-volume counterfeiters. While Yahoo! Auctions⁵³ does not have a formal infrastructure in place specifically for trademark owners to report abuse,⁵⁴ it has created policies to limit the existence of fraudulent actions.

D. uBid

uBid⁵⁵ is an online auction marketplace that connects consumers with pre-screened, certified sellers supplying new, close-out, overstock, and refurbished consumer goods. Founded in 1997, uBid re-entered the market in 2005 claiming to be “The Marketplace you can Trust”⁵⁶ due to the secure nature of the transactions compared to other Internet auctions. The site offers both products sold through uBid and products offered by other established businesses through the uBid Certified Merchant Program.⁵⁷ The Program requires participants to show they are authorized dealers before selling certain brands.⁵⁸ In order to prove their products are not counterfeit and accurately depicted,

⁵² *Id.* For additional information, see Press Release, HSBC and Yahoo! Enter Strategic Agreement to Allow Worldwide Person-to-Person Payments (July 30, 2001), available at <http://docs.yahoo.com/docs/pr/release797.html>.

⁵³ Yahoo! Auctions also use automatic “bots,” a technology that scans the website for words and phrases that might indicate prohibited items. *Online Auction Sites*, *supra* note 19, at 239.

⁵⁴ Yahoo! Auctions does have an online feedback form where a Yahoo! user may report activity that abuses the Auctions service. Yahoo! Auctions Feedback Form, http://add.yahoo.com/fast/help/us/auct/cgi_abuse (last visited Nov. 27, 2006).

⁵⁵ uBid Company Overview, <http://ubid.com/about/companyinfo.asp> (last visited Nov. 27, 2006). According to the website, uBid has 5 million registered users and has sold over \$1 billion dollars in merchandise since it started in 1997. *Id.*

⁵⁶ uBid Promise of Trust, <http://ubid.com/about/trust.asp> (last visited Nov. 27, 2006).

⁵⁷ *Id.*

⁵⁸ *Id.*

they must go through a rigorous approval process that includes credit checks, trade references and numerous other requirements.⁵⁹ In addition to establishing seller requirements, uBid also monitors its website by “randomly purchasing products and verifying their authenticity.”⁶⁰ Although the volume of 5 million users is more manageable than the 212 million registered users of eBay,⁶¹ uBid created a system with a foundation in fraud protection that provides a strong model for protecting trademark owners against counterfeiting.

E. Overstock Auctions

Overstock.com is an Internet company whose relationship with large brand owners allows it to sell over-produced products and cancelled orders at discounted prices.⁶² In 2004, Overstock launched an auction site⁶³ with a focus on fraud prevention. The company focuses on consumer education, including the words “How to Spot a Scam” in every listing item page.⁶⁴ Similar to uBid, Overstock Auctions created a Trusted Merchant Program that limits search results to mainstream merchants such as Olympus and Sharper Image.⁶⁵ Overstock Auctions also

⁵⁹ *Id.*

⁶⁰ Steiner, *supra* note 22, at 2.

⁶¹ Press Release, eBay Inc., eBay Inc. Announces Third Quarter 2006 Financial Results (Oct. 18, 2006), available at <http://investor.ebay.com/releases.cfm>.

⁶² Overstock.com, About Us, http://www.overstock.com/cgi-bin/d2.cgi?SEC_IID=20356&PAGE=staticpage&page_id=5&TRACK=FOOT_OI_L3#Pricing (last visited Nov. 27, 2006).

⁶³ Overstock Auctions, <http://auctions.overstock.com> (last visited Nov. 27, 2006).

⁶⁴ The Q&A on “How to Spot a Scam” includes red flags to protect consumers. Overstock Auctions, FAQ “How can I protect myself from fraud? How do I spot a scam?” <http://auctions.overstock.com/cgi-bin/auctions.cgi?PAGE=FAQ&MODE=ANSW&ID=61> (last visited Nov. 27, 2006).

⁶⁵ Overstock Auction Trusted Merchant Program, <http://auctions.overstock.com/cgi-bin/auctions.cgi?PAGE=static&pagenum=106532#trusted> (last visited Nov. 27, 2006). The program is provided by

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introduced a social networking feature, allowing buyers and sellers to rate transactions, and a Content Reporting system for customers and businesses to report violations.⁶⁶ Although the audience for the system is not specifically trademark owners, like eBay's VeRO program, Overstock Auction does provide an outlet where counterfeit goods may be reported.

While Amazon Marketplace, Yahoo! Auctions, uBid, and Overstock Auctions each employ important and distinct measures to protect consumers, the process for intellectual property owners to monitor their brands remains inadequate. Using a trademark-owner-focused program like eBay's as a baseline, all online auctions and marketplaces should implement formal takedown procedures by which verified rights owners can report suspicious behavior and request quick removal of allegedly infringing auction listings. These changes would reduce lawsuits brought by intellectual property owners and create new forums through which auction sites and intellectual property owners could create more efficient programs to reduce the sale of counterfeit goods.

II. POTENTIAL CAUSES OF ACTION AGAINST ONLINE AUCTION HOUSES

Although recent case law and legislative acts, such as the Digital Millennium Copyright Act,⁶⁷ have provided some clarity on the issue of copyright infringement in Internet commerce, the state of trademark law over the Internet remains somewhat

BuySafe, a service that bonds online seller transactions, guaranteeing purchases up to \$25,000. *Id.*

⁶⁶ For information on Overstock's Trusted Overstock Auction Sellers Affiliate, see Trusted Overstock Auction Sellers Affiliate, <http://auctions.overstock.com/cgi-bin/auctions.cgi?PAGE=static&pagenum=852> (last visited Nov. 27, 2006).

⁶⁷ 17 U.S.C. § 512(c) (1998). The Digital Millennium Copyright Act simultaneously provides "strong incentives for service providers and copyright owners to cooperate to detect and deal with copyright infringements that take place in the digital network environment" and advances guidance to ISPs on their direct, contributory and vicarious liability for the infringing actions of others. S. REP. NO. 105-190, at 20 (1998).

ambiguous.⁶⁸ In recent years, trademark owners have attempted to bring suit against online marketplaces under the Lanham Act⁶⁹ for secondary trademark infringement.⁷⁰ While no U.S. courts have directly addressed potential trademark liability of online auction houses, it is likely that courts will look to prior litigation against those sites involving claims of copyright infringement.⁷¹ This section will provide an overview of secondary liability under both trademark and copyright law and will then address prior and active litigation against online auction houses. Finally,

⁶⁸ See Matthew Fornaro, *A Parallel Problem: Grey Market Goods and the Internet*, 8 J. TECH. L. & POL'Y 69, 71 (2003) (stating that trademark law has "labored to keep pace with the proliferation of technology. Although recent case law and legislative acts such as the Digital Millennium Copyright Act (DMCA) have addressed these issues as they apply to copyright law, current law does not adequately protect trademark owners, especially in light of increasing Internet-based commerce.").

⁶⁹ 15 U.S.C. § 1127 (1994). The Lanham Act defines the scope of a trademark, the process by which a federal trademark registration can be obtained from the U.S. Patent and Trademark Office, and penalties for trademark infringement. *Id.* The Lanham Act prevents consumer confusion, protects the goodwill of businesses, and promotes competition. See *Windsor, Inc. v. Intravco Travel Ctrs., Inc.*, 799 F. Supp. 1513, 1520 (S.D.N.Y. 1992) *citing* *Scarves By Vera, Inc. v. Todo Imports, Ltd.* 544 F.2d 1167, 1172 (2d Cir. 1976).

⁷⁰ Online buyers have also tried unsuccessfully to bring suit under unfair competition laws. In *Lars Gentry v. eBay, Inc.*, online buyers of forged autographed sports paraphernalia sued eBay for negligence and unfair business practices under California state law. 121 Cal. Rptr. 2d 703 (Cal. Ct. App. 2002). The court affirmed that eBay had immunity under the Communications Decency Act, 47 U.S.C.S. § 230, as an interactive computer service provider. *Id.* Section 230 provides a federal immunity to any cause of action that would make interactive service providers liable for information originating with a third party user of the service. *Id.* The court also noted that eBay had no responsibility to authenticate the items in question, since eBay was not the party physically responsible for selling the items. *Id.* at 711.

⁷¹ See generally, *MGM Studios, Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764 (2005); *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984); *A&M Records, Inc. v. Napster, Inc.* 239 F.3d 1004 (9th Cir. 2001); *ALS Scan, Inc. v. Remarq Communications, Inc.*, 239 F.3d 619 (4th Cir. 2001); *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082 (C.D. Cal. 2001); *Earth Flag, Ltd. v. Alamo Flag Co.*, 153 F. Supp. 2d 349 (S.D.N.Y. 2001).

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it will argue why holding online auction houses liable for secondary trademark infringement will ultimately do damage to consumers, without providing relief to trademark owners combating devalued brands due to counterfeiting.

A. Contributory and Vicarious Trademark Infringement

To date, no court decisions have held auction websites or global marketplaces *directly* liable for providing services,⁷² however limited or automated in nature, to sellers of counterfeit goods.⁷³ In search of a remedy, many intellectual property owners turned to the theory of secondary liability: contributory and vicarious infringement.⁷⁴ This section analyses those theories and addresses how the actions of online auction houses could lead to liability.

1. Contributory Trademark Infringement

The doctrine of contributory infringement originates in tort law and suggests that one who directly contributes to another's infringement should be held accountable.⁷⁵ A contributory

⁷² To make out a claim for direct trademark infringement under the Lanham Act, a plaintiff must establish that (1) its mark is protectable and (2) the defendant's use of the mark is likely to cause confusion among consumers. 15 U.S.C. § 1127 (1994).

⁷³ See Ian C. Ballon, *Pinning the Blame on Cyberspace: Towards a Coherent Theory for Imposing Vicarious Copyright, Trademark, and Tort Liability for Conduct Occurring over the Internet*, 18 HASTINGS COMM. & ENT. L.J. 729, 762 (1999). "Because so much of what happens online is automatic-based on operating software and established protocols—direct copyright and trademark liability should not be imposed on an access or content provider unless there is some element of volition or causation present." *Id.*

⁷⁴ A party that does not directly infringe on another's mark may be found secondarily liable for the infringement, under either a contributory or vicarious theory of liability. *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143 (7th Cir. 1992).

⁷⁵ MARY LAFRANCE, *UNDERSTANDING TRADEMARK LAW* 222 (LexisNexis 2005).

infringer is “one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another.”⁷⁶ The standard for contributory trademark infringement originates in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, where the Supreme Court considered whether the manufacturer of a generic drug could be secondarily liable for the direct infringement of pharmacists.⁷⁷ The Court held that a manufacturer or a distributor could be held contributorily liable for the direct infringing actions of others if it: “(1) intentionally induces a third party 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.”⁷⁸ Liability requires proof of direct infringement by a third party, as well as the defendant’s intent and knowledge of the wrongful activities.⁷⁹ Once courts applied the *Inwood* test to other third parties including landlords⁸⁰ and flea market operators,⁸¹ trademark owners began to aggressively police their marks.

Courts found difficulty applying the existing tests for contributory trademark liability to situations arising over the Internet, as web-based business models are neither based on a

⁷⁶ *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971).

⁷⁷ *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982).

⁷⁸ *Id.* at 854. *Accord* *Polymer Tech. Corp. v. Mimran*, 975 F.2d 58, 64 (2d Cir. 1992); *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, 855 F. Supp. 648, 650 (S.D.N.Y. 1994).

⁷⁹ *David Berg & Co. v. Gatto Int’l Trading Co., Inc.*, 884 F.2d 306, 311 (7th Cir. 1989).

⁸⁰ *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992) (holding that a flea market operator could fall under this rule like a manufacturer or distributor when vendors at the markets sold t-shirts with counterfeited Hard Rock logos. Ultimately, the vendor was not liable because his acts were negligent and not willfully blind.).

⁸¹ *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F. 3d 259, 265 (9th Cir. 1996) (holding that the operator of a swap meet could be contributorily liable for its independent vendors’ sales of infringing goods because it was “supplying the necessary marketplace for their sale”).

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distributor/manufacturer nor a landlord/tenant relationship.⁸² In *Lockheed Martin Corp. v. Network Solutions, Inc.*, the Ninth Circuit affirmed that a domain name registrar could not be liable simply because it registered, and refused to cancel, domain names that contained a registered mark.⁸³ Two years later, in *Gucci America, Inc., v. Hall & Associates*, a New York District Court found Mindspring, an ISP, akin to a flea market operator because it provided the “actual storage and communication for infringing material.”⁸⁴ The District Court ruled that the ISP could prevent the infringing conduct by monitoring sites using its services or terminating service to wrongful parties accused of selling counterfeits.⁸⁵ In *Government Employees Insurance Co., v. Google, Inc.*, a 2004 District Court in Virginia found that the Google search engine could be held liable under a theory of contributory infringement for the actions of banner advertisers if the plaintiff showed that the defendant monitored and controlled the third-party advertisements.⁸⁶ Although courts have explored the question of contributory trademark liability in the Internet context,⁸⁷ a clear standard has not been established.

⁸² Some argue that in an effort to extend the test to the Internet, many courts have “significantly and inappropriately altered the underlying standard.” Jason Kessler, *Correcting the Standard for Contributory Trademark Liability over the Internet*, 39 COLUM. J.L. & SOC. PROBS. 375, 386 (2006). Kessler further argues that in lieu of “considering only knowledge of infringement as a factor, many courts have considered the extent of control or monitoring by a defendant over the means of infringement. Even if such an extension is a positive outcome, these courts have altered the test without purporting to have changed it at all.” *Id.*

⁸³ *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 986 (9th Cir. 1999).

⁸⁴ *Gucci America, Inc., v. Hall & Assocs.*, 135 F. Supp. 2d 409 (S.D.N.Y. 2001).

⁸⁵ *Id.*

⁸⁶ *Gov’t Employees Ins. Co., v. Google, Inc.*, 330 F. Supp. 2d 700 (E.D. Va. 2004).

⁸⁷ Congress has also limited the liability of ISPs for libelous statements published by third parties using the ISP’s service. *See, e.g., Zeran v. America Online, Inc.*, 129 F.3d 327, 333 (4th Cir. 1997) (noting that the imposition of liability on ISPs for publishing third-party libel would “create an impossible burden in the Internet context” that would deter ISPs from

2. Vicarious Trademark Infringement

In contrast, the theory of vicarious trademark liability “requires a finding that the defendant and the infringer have an apparent or actual partnership, have authority to bind one another in transactions with third parties or exercise joint ownership or control over the infringing product.”⁸⁸ In determining liability, courts consider the extent of control exercised by a defendant over a third-party’s means of infringement.⁸⁹ “Direct control and monitoring of the instrumentality used by a third party to infringe the plaintiff’s mark” can lead to liability.⁹⁰

In *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*, the Seventh Circuit held that a flea market owner could not be vicariously liable under trademark law for infringing acts by vendors who rented space in the market, noting that the owner did not hire the vendors, take a portion of the vendors’ sales, or exercise control over the vendors beyond that exercised by a landlord over its tenants.⁹¹ Some argue that vicarious liability only occurs when the parties’ paths “cross on a daily basis, and the character of this intersection must be such that the party against whom liability is sought is in a position to control the personnel and activities responsible for the direct infringement.”⁹² Perhaps it is the stringency of the common law

engaging in self-regulation, and holding that Congress passed the Communications Decency Act of 1996, 47 U.S.C. § 230, to ensure that ISPs would not face publisher liability for third-party libel).

⁸⁸ *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992).

⁸⁹ *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996).

⁹⁰ *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999).

⁹¹ *Hard Rock*, 955 F.2d at 1149.

⁹² *Banff Ltd. v. Limited, Inc.*, 869 F. Supp. 1103, 1109-111 (S.D.N.Y. 1994) (finding Express’s parent company not vicariously liable for infringement because “the day-to-day decisions of Express are made by Express employees only”). See also *David Berg & Co. v. Gatto Int’l Trading Co.*, 884 F.2d 306, 311 (7th Cir. 1989) (finding defendants not liable

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standard—requiring a partnership, joint ownership/control, or employment relationship—which makes the establishment of vicarious liability for trademark infringement rare.

While under current secondary trademark law, trademark owners could find success in holding online auctions—depending on functionality—liable, it would not result in a reduction of counterfeit goods. To better understand how future courts might apply secondary trademark liability, it is appropriate to briefly review secondary liability under copyright law.

B. Comparison: Tests for Contributory and Vicarious Copyright Infringement

In assessing infringement liability, the Supreme Court has stated that “secondary liability for trademark infringement should, in any event, be more narrowly drawn than secondary liability for copyright infringement.”⁹³ This section will highlight the key differences between copyright and trademark law, and will then address the current state of copyright law related to secondary liability. It will conclude by assessing how these concepts can be extrapolated to cover potential liability of online auction houses.⁹⁴

Although the concepts of copyright and trademark fall under the umbrella of intellectual property, the laws differ in whom they seek to protect and the overall public policy goals they hope to achieve. Copyright law applies to a broad range of works and exists to promote the wide dissemination of

because of lack of evidence that they had “any type of partnership agreement, that they held themselves out to the public or operated as a partnership, that either had authority to bind the other in any transaction with any third party, or that they exercised joint ownership of, or control over, the (allegedly infringing products) after they were sold.”).

⁹³ *Hard Rock*, 955 F.2d at 1150 (citing *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984)).

⁹⁴ In *Sony*, the Supreme Court noted that the standard used in *Inwood*, which imposed liability on a manufacturer who suggested, even by implication, that a retailer used the manufacturer’s goods to infringe the trademark of another, was “equally appropriate in the copyright context.” 464 U.S. at 489.

information.⁹⁵ Copyright protection is predominantly in place to protect the author and provide an incentive for him to share his work, ultimately benefiting the public.⁹⁶ In contrast, trademarks exist mainly to benefit consumers by preventing confusion and reducing consumer search costs.⁹⁷ The rights of copyright owners are created the moment the idea is expressed in a tangible medium,⁹⁸ and are limited to the life of the author plus seventy years.⁹⁹ Trademark holders, however, must continue to use their trademarks in commerce in order to maintain their rights.¹⁰⁰ Various tests have been created for both contributory and vicarious liability and will be discussed below.¹⁰¹

1. Contributory Copyright Infringement

The Copyright Act¹⁰² does not specifically address secondary liability; however, the Supreme Court noted that the lack of explicit reference does not exclude the imposition of liability on

⁹⁵ See 17 U.S.C. § 102 and 17 U.S.C. § 103.

⁹⁶ MARSHALL LEAFFER, UNDERSTANDING COPYRIGHT LAW 18 (LexisNexis 2005).

⁹⁷ *Id.* at 18. See *Smith v. Chanel, Inc.*, 402 F.2d 562 (9th Cir. 1968).

Preservation of the trademark as a means of identifying the trademark owner's products . . . makes effective competition possible in a complex, impersonal marketplace by providing a means through which the consumer can identify products which please him and reward the producer with continued patronage. Without some such method of product identification, informed consumer choice, and hence meaningful competition in quality, could not exist.

Id. at 566.

⁹⁸ LEAFFER, *supra* note 96, at 49.

⁹⁹ 17 U.S.C. § 302 (1998).

¹⁰⁰ LEAFFER, *supra* note 96, at 36.

¹⁰¹ Secondary liability for copyright infringement does not exist without direct infringement by a third party. *A&M Records v. Napster, Inc.*, 239 F.3d 1004, 1013 n.2. To make out a claim for direct copyright infringement, a plaintiff must establish (1) that it owns a copyright for the allegedly infringed work and (2) that the alleged infringers violated at least one exclusive right under 17 U.S.C. § 501(a). *Id.*

¹⁰² 17 U.S.C. § 106 (1994).

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third parties.¹⁰³ In order to prove liability for contributory infringement, there must be: (1) an act of direct infringement by someone other than the secondary party, and the secondary party must (2) have knowledge of the infringing activity, and (3) induce, cause, or materially contribute to the infringement.¹⁰⁴ The knowledge element may be satisfied by either actual or constructive knowledge.¹⁰⁵ In *Sony Corp. v. Universal City Studios, Inc.*, the Supreme Court found that a manufacturer of VCRs, suitable for substantial non-infringing uses, was not liable as a contributory infringer since the product was a “stable item of commerce” and the manufacturer had not encouraged the infringing use.¹⁰⁶ The 1984 *Sony* case was the first Supreme Court decision to apply secondary liability for copyright infringement and continues to be one of the principal authorities.¹⁰⁷

In a later online music file-sharing case, *MGM Studios Inc. v. Grokster, Ltd.*,¹⁰⁸ the Supreme Court sidestepped the issue of proper interpretation of knowledge in *Sony*, finding that the standard in *Sony* is inapplicable where there is evidence that the

¹⁰³ *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 435 (1984). Some argue, however, that the legislature intended the language “to authorize” to avoid any questions regarding the liability of contributory infringers. MARSHALL LEAFFER, UNDERSTANDING COPYRIGHT LAW 426 (LexisNexis 2005).

¹⁰⁴ See *Sony*, 464 U.S. at 417.

¹⁰⁵ *Id.* at 439. See also *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (holding that liability for contributory infringement can arise when the secondary party had “knowledge, or reason to know” of the direct infringement).

¹⁰⁶ *Sony*, 443 F.2d at 426.

¹⁰⁷ Elizabeth Miles, *In Re Aimster & MGM, Inc. v. Grokster, Ltd.: Peer-to-Peer and the Sony Doctrine*, 19 BERKELEY TECH. L.J. 21 (2004).

¹⁰⁸ *MGM Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764 (2005). The court found the music file-sharing system in *Grokster* differed from *Napster* in two substantial ways: (1) it was a general file-sharing program, with more significant non-infringing uses than *Napster*; and (2) it did not use a central server, stopping the software distributor from the ability to control the user’s actions. *Id.* at 2769 (Ginsburg, J., concurring) (exemplifying that the Supreme Court remains deeply divided over the proper interpretation of *Sony*’s “capable of substantial non-infringing use” standard).

defendant distributed a device “with the object of promoting its use to infringe copyright.”¹⁰⁹ The standard set forth in *Grokster* shifts the focus away from the qualities of the product or device itself to the intent¹¹⁰ of the distributing party.¹¹¹ In *Grokster*, the court dealt with a claim where there was actual intent and affirmative steps taken to encourage copyright infringement.¹¹² It is unlikely that the *Grokster* test would be used in cases against eBay and other online auction houses, as the sites have no actual intent to induce infringing activity and take affirmative steps to discourage infringement.

2. Vicarious Copyright Infringement

The related concept of vicarious copyright liability has been established by case law, and developed under the theory of

¹⁰⁹ *Id.* at 2770, 2779. The Supreme Court set out an alternative inducement theory analysis to determine the existence of contributory copyright liability. *Id.* Under the new test, a company is liable for contributory infringement if (1) they intend to bring about the infringement, (2) by distributing a device suitable for infringing use, and (3) actual infringement occurred. *Id.* at 2782. The Court reconciled the new rule with the staple article of commerce doctrine from *Sony* by stating that *Sony* dealt with the more narrow issue of whether there is a claim “of liability based solely on distributing a product with alternative lawful and unlawful uses, with knowledge that some users would follow the unlawful course.” *Id.*

¹¹⁰ *Id.* at 2781, n.12. The court in *Grokster* sets forth three categories of evidence that can be used to demonstrate a defendant’s intent. *Id.* at 2782. One of the categories is the failure to take any affirmative steps to prevent infringing use, such as attempting to develop filtering tools. *Id.* This perhaps suggests a duty to attempt to minimize infringement.

¹¹¹ Laura E. Hancock, *Contributory and Vicarious Copyright Infringement as Applied to Auctions, Flea Markets, and Swap Meets: How Fonovisa and Napster Have Set the Standard*, 9 COMP. L. REV. & TECH. J. 295, 318-19 (2005).

¹¹² *Grokster* specifically targeted Napster users by inserting “digital codes into its Web site so that computer users using Web search engines to look for ‘Napster’ or ‘[f]ree filesharing’ would be directed to the *Grokster* Web site, where they could download the *Grokster* software.” *Grokster*, 125 S. Ct. at 2773.

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respondeat superior.¹¹³ Vicarious liability occurs where a “supervisory party bears for the actionable conduct of a subordinate or associate based on the relationship between the parties.”¹¹⁴ Courts fashioned a principle to create liability for an indirect infringer whose economic interests are intertwined with the direct infringers, even without a traditional employer-employee relationship.¹¹⁵ A party is vicariously liable for copyright infringement if it (1) can supervise or control the premises under which infringing material is sold and (2) obtains a direct financial benefit from the infringing activities.¹¹⁶ When determining if vicarious copyright infringement exists, courts look to see if the defendant had the “right and ability to supervise the infringing activity,” leveraging decisions in *Fonovisa, Inc. v. Cherry Auction, Inc.*¹¹⁷ and *A&M Records, Inc. v. Napster, Inc.*¹¹⁸

In the 1996 *Fonovisa* decision, the Ninth Circuit held that flea market organizers had the right and ability to control the sale of counterfeit items because they could terminate vendors for any reason, control the access of customers to the booth area, control direct infringers through its rules and regulations,

¹¹³ *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 262 (9th Cir. 1996).

¹¹⁴ BLACK’S LAW DICTIONARY 934 (8th ed. 2004).

¹¹⁵ *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971). *See Shapiro, Bernstein & Co. v. H. L. Green Co.*, 316 F.2d 304 (2d Cir. 1963) (finding that even in the absence of “an employer-employee relationship, one may be vicariously liable if he has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.”).

¹¹⁶ *Shapiro*, 316 F.2d at 307 (holding that a department store was vicariously liable for an independent concessionaire’s sale of counterfeit recordings on store premises). In the Ninth Circuit, the mere potential to influence is inadequate to satisfy the control requirement. *See Frank Music Corp. v. Metro-Goldwyn-Mayer Inc.*, 886 F.2d 1545 (9th Cir. 1989), *cert. denied*, 494 U.S. 1017 (1990). “[A] parent corporation cannot be held liable for the infringing actions of its subsidiary unless there is a substantial and continuing connection between the two with respect to the infringing acts.” *Id.* at 1553.

¹¹⁷ *Fonovisa*, 76 F.3d at 259.

¹¹⁸ *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

and promote the show.¹¹⁹ In 2001, the Ninth Circuit in *Napster* built upon *Fonovisa* and identified similar aspects of influence and control, holding that (1) Napster had the right and ability to supervise its users' conduct; (2) the users were required to register with Napster in order to access the file-sharing system; (3) Napster possessed and exercised the power to terminate access to users; and (4) Napster had the "ability to block infringers' access to a particular environment for any reason whatsoever." The court found that Napster could be vicariously liable when it failed to "affirmatively use its ability to patrol its system and preclude access to potentially infringing" users.¹²⁰ Vicarious liability, like direct infringement, does not require a showing of knowledge or intent.¹²¹

Despite the inherent differences between copyright and trademark law, courts are likely to look to copyright law in determining the existence of secondary trademark liability. It will be a difficult endeavor as the Supreme Court in *Sony* recognized that the "lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn."¹²²

C. *Hendrickson v. eBay: A Victory for eBay regarding Copyright and Trademark Liability*

In *Hendrickson v. eBay*,¹²³ eBay won a victory under copyright theory that could impact secondary liability under trademark law.¹²⁴ The case evaluated whether § 512(c) of the

¹¹⁹ *Fonovisa*, 76 F.3d at 262.

¹²⁰ *Napster*, 239 F.3d at 1027. Napster had "both the ability to use its search function to identify infringing musical recordings and the right to bar participation of users who engage in the transmission of infringing files." *Id.*

¹²¹ The *Napster* court noted that *Sony's* "staple article of commerce" analysis has no application to Napster's potential liability for vicarious copyright infringement. *Id.* at 1020.

¹²² *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 435 n.17 (1984).

¹²³ *Hendrickson v. eBay*, 165 F. Supp. 2d 1082 (D. Cal. 2001).

¹²⁴ *Id.*

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safe harbor provisions of the Digital Millennium Copyright Act (“DMCA”)¹²⁵ afforded protection to the online auction house when the copyright owner sought to hold the company secondarily liable for copyright infringement.¹²⁶ The matter was one of first impression in the federal courts.¹²⁷

The plaintiff, Robert Hendrickson, sued eBay for copyright infringement claiming that unauthorized copies of his documentary film about Charles Manson were being sold on eBay.¹²⁸ Prior to filing suit, Hendrickson sent a cease and desist letter to eBay complaining of the infringement; however, the letter failed to specify sufficient details of the infringing auction to satisfy the statutory guidelines of a takedown notice.¹²⁹ The District Court held that the safe harbor notice provision in § 512(c)¹³⁰ of the DMCA protected eBay from secondary liability

¹²⁵ The DMCA “is designed to facilitate the robust development and world-wide expansion of electronic commerce, communications, research, development, and education.” S. Rep. No. 105-190, at 1 (1998). Title II of the DMCA, included in 17 U.S.C. § 512, “protects qualifying Internet service providers from liability for all monetary relief for direct, vicarious and contributory infringement.” *Hendrickson*, 165 F. Supp. 2d at 1083.

¹²⁶ *Hendrickson*, 165 F. Supp. 2d at 1083.

¹²⁷ *Id.*

¹²⁸ *Id.* at 1086.

¹²⁹ *Id.* at 1084-85 (eBay requested that Hendrickson “identify the exact items which you believe infringe your rights. In addition, we would need a statement from you, under penalty of perjury, that you own (or are the agent of the owner) the copyrights in the documentary.”).

¹³⁰ Under the third prong, section (c), the service provider’s duty to act is triggered upon receipt of proper notice. 17 U.S.C. § 512(c)(1)(3)(C) (1998). The notification must include “substantially” the following six elements:

- (i) a physical or electronic signature of a person authorized to act on behalf of the owner of an exclusive right that is allegedly infringed;
- (ii) identification of the copyrighted work claimed to have been infringed;
- (iii) identification of the material that is claimed to be infringing or to be the subject of infringing activity and that it is to be removed or access to which is to be disabled, and information reasonably sufficient to permit the service provider to locate the material;
- (iv) information reasonably sufficient to permit the service provider to contact the complaining party;
- (v) a statement that the complaining party

for copyright infringement.¹³¹ The Court noted that just because a service provider has the ability to remove or block access to materials posted on its website, it does not follow that it has the right and ability to control the infringing activity.¹³² Both the legislative history of the DMCA and the court in *Hendrickson* focused on Congress's lack of intent to penalize a service provider for engaging in voluntary monitoring efforts, such as eBay's VeRO program.¹³³

The facts in *Hendrickson* worked strongly in eBay's favor because the plaintiff's efforts to notify eBay of the infringement were minimal and lacked sufficient detail.¹³⁴ If a vicarious trademark infringement case was brought against an online auction house using *Hendrickson*, it is likely that the auction house would prevail.¹³⁵ The court held that eBay's voluntary monitoring using the VeRO program was insufficient to constitute a right and ability to control the infringing activity under the DMCA.¹³⁶ The court also noted that if the Lanham Act¹³⁷ claim from one of the consolidated cases had moved forward, then eBay would be an innocent infringer¹³⁸ since the

has a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent or the law; and (vi) a statement that the information in the notification is accurate, and under penalty of perjury, that the complaining party is authorized to act on behalf of the copyright owner.

Hendrickson, 165 F. Supp. 2d at 1089.

¹³¹ *Id.* at 1092.

¹³² *Id.*

¹³³ *Id.* See also *Hendrickson v. Amazon.com, Inc.*, 298 F. Supp. 2d 914 (D. Cal. 2003) (holding that the imposition on a service provider of a continuing duty to monitor its site for infringing activity was contrary to the intent of Congress in enacting § 512 of the DMCA).

¹³⁴ Trademark owners who are considering suit against online auction houses could easily distinguish this case on its facts. *Online Auction Sites*, *supra* note 19, at 253.

¹³⁵ *Id.*

¹³⁶ *Id.* at 253-54.

¹³⁷ Lanham Act, 15 U.S.C. § 1127 (1994).

¹³⁸ The Lanham Act provides for an innocent infringer defense where:

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facts showed that eBay had no knowledge of a potential violation prior to suit.¹³⁹ The innocent infringer ruling was based on the Court's determination that eBay had "no affirmative duty to monitor its own website" violations.¹⁴⁰ The *Hendrickson* case exemplifies the "dark prospects of a judicial victory for trademark holders against such alleged violations."¹⁴¹

*D. The Effect of Active and Future Trademark Litigation
Against Online Auction Houses*

The ambiguity of the law regarding secondary trademark liability of online auction sites could soon be resolved. There are currently both national and international suits pending against online auction houses. Tiffany filed suit against eBay in the District Court for the Southern District of New York accusing the online company of direct and contributory trademark infringement for the "facilitation and participation in the counterfeiting, infringement and false advertising of the federally registered trademarks owned, licensed and/or used by Tiffany."¹⁴²

the infringement or violation complained of is contained in or is part of paid advertising matter in a newspaper, magazine, or other similar periodical or in an electronic communication as defined in section 2510(12) of Title 18, the remedies of the owner of the right infringed or person bringing the action under section 1125(a) of this title as against the publisher or distributor of such newspaper, magazine, or other similar periodical or electronic communication shall be limited to an injunction against the presentation of such advertising matter in future issues of such newspapers, magazines, or other similar periodicals or in future transmissions of such electronic communications. The limitations of this subparagraph shall apply only to innocent infringers and innocent violators.

15 U.S.C. § 1114.

¹³⁹ *Hendrickson v. eBay*, 165 F. Supp. 2d 1082, 1095 (D. Cal. 2001).

¹⁴⁰ *Id.* at 1096.

¹⁴¹ Matthew Fornaro, *A Parallel Problem: Grey Market Goods and the Internet*, 8 J. TECH. L. & POL'Y 69, 86 (2003).

¹⁴² First Amended Complaint, *Tiffany, Inc. v. eBay, Inc.*, 2004 WL

According to the company, Tiffany tried to leverage eBay's VeRO system to manage its problems with counterfeit items.¹⁴³ Tiffany hired two full-time employees to work with eBay over the course of five months, removing over 19,000 auctions that were selling counterfeit Tiffany merchandise.¹⁴⁴ In early 2004, Tiffany implemented a program to purchase at random through eBay auctions jewelry bearing its brand name and found that 73% were not genuine merchandise.¹⁴⁵ Tiffany brought the lawsuit and argued that "eBay has facilitated the promotion and sale in the United States of counterfeit Tiffany jewelry by providing a forum for, and actually promoting, such sales."¹⁴⁶ Tiffany argues that the main issue is "whether eBay is akin to an innocent landlord, or whether its direct and indirect support of counterfeiters on its auction sites, with knowledge of their activities and the means to stop it, makes it liable as well for such illegal activity."¹⁴⁷

eBay arguably has a strong defense against Tiffany's claim of contributory trademark infringement. The second prong of the modified *Inwood*¹⁴⁸ test finds liability if the defendant continues to supply a product to one whom it knows or has reason to know is engaging in trademark infringement. It would be difficult to argue that eBay supplied or "controlled and monitored" the infringement since the sellers have independent control to create an account, select the duration of the auction and payment preferences, write the language describing the product, and post pictures of the item.¹⁴⁹ eBay has the power to

1413904, para. 4 (S.D.N.Y. July 14, 2004) (No. 04CV4607) [hereinafter Complaint.]

¹⁴³ *Id.*

¹⁴⁴ *Id.* at para. 37.

¹⁴⁵ *Id.* at para. 38.

¹⁴⁶ *Id.* at para. 21.

¹⁴⁷ Plaintiffs' Memorandum of Law in Opposition to Defendant's Motion to Amend Its Answer, *Tiffany, Inc. v. eBay, Inc.*, 2005 WL 2582299 (S.D.N.Y. Aug. 29, 2005) (No. 04CV4607).

¹⁴⁸ *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982).

¹⁴⁹ *See Corbis Corp. v. Amazon.com, Inc.*, 351 F. Supp. 2d 1090, 1110 (W.D. Wash. 2004) (holding that Amazon.com had no right or ability to

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shut down an auction; however, that power is usually only exerted upon the active request of buyers who question the authenticity or trademark owners who feel that the item is a counterfeit.¹⁵⁰

In this case, eBay had direct knowledge of infringements from Tiffany and promptly removed the infringing auctions.¹⁵¹ eBay's partnership and active involvement with Tiffany to remove counterfeit auctions strengthens the argument that eBay lacks the intent to create a forum for counterfeiters. With the Supreme Court's recent focus on proactive monitoring as evidenced by the *Grokster* decision, it is likely that courts will begin to focus more on intermediaries' intent, regardless of the type of intellectual property infringement. eBay's VeRO program and ongoing interaction with trademark owners will likely limit the company's liability under contributory infringement.¹⁵² If the case was brought against an online auction house with a poor reporting program for intellectual property owners, it would be more difficult to show that the website did not continue to facilitate the infringement and was not willfully blind.¹⁵³

control products of third party vendors, as it never had them in its control).

¹⁵⁰ For additional information regarding eBay's removal and reporting procedures, see eBay Reporting Intellectual Property Infringements (VeRO), <http://pages.ebay.com/help/tp/vero-rights-owner.html> (last visited Nov. 27, 2006).

¹⁵¹ Complaint, *supra* note 142. One could also argue that eBay had knowledge that the items were counterfeit since Tiffany publicizes that it is the only source for new authentic jewelry. *Id.* at paras. 10-11. However, under the first-sale doctrine, owners of authentic Tiffany jewelry are able to sell their items on eBay. See *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908) (first recognizing the first-sale doctrine). While eBay was aware of specific listings communicated by Tiffany up through the VeRO program, it would be impossible for eBay to have actual direct knowledge of all of the billions of listings on the site.

¹⁵² For an in-depth analysis of the legal and policy arguments for and against Tiffany's claim of contributory trademark infringement, 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 (2005).

¹⁵³ *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir.

Tiffany elected not to bring a suit against eBay for vicarious infringement.¹⁵⁴ Although the Court in *Hard Rock* rejected the possibility that landlords might be vicariously liable for any direct infringement of their tenant,¹⁵⁵ there have been no cases addressing such trademark liability in an Internet context. It could easily be argued that eBay received a monetary benefit from the infringement and that they were aware of the infringements through their relationship with Tiffany. It would be more difficult to determine that the auction website had sufficient control to influence the counterfeit activity. If the court in *Tiffany & Co.* followed the same rationale employed by the District Court in *Henderson*, it would find that eBay's voluntary monitoring using the VeRO program was insufficient to constitute a right and ability to control the infringing activity.¹⁵⁶

In addition to the pending New York suit, eBay was recently sued by two major Paris fashion houses for allegedly selling counterfeit goods.¹⁵⁷ LVMH Moët Hennessy Louis Vuitton and its sister company, Christian Dior Couture, brought suit in France seeking fifty million in damages.¹⁵⁸ Contending that

1996).

¹⁵⁴ Tiffany also did not bring suit for contributory liability for dilution. At the time of suit, only one district court case had actually recognized a cause of action for encouraging another to dilute a trademark. *See, e.g.,* John T. Cross, *Contributory and Vicarious Liability for Trademark Dilution*, 80 OR. L. REV. 625, 630 (2001). On March 8, 2006, the Senate passed an amended version of the House's Proposed Amendment to the Federal Trademark Dilution Act. 151 CONG. REC. § 1921-23 (Mar. 8, 2006). The Senate added facilitative language to address concerns from Internet service providers about secondary liability. 151 CONG. REC. § 1921-23.

¹⁵⁵ *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992).

¹⁵⁶ *See eBay's Liability is Cleared in Suit*, N.Y. TIMES, Jan. 20, 2001, at C14 (discussing a San Diego court's dismissal of a class action suit against the online auction house claiming that the company did not have a responsibility to ensure the authenticity of the items sold through its website).

¹⁵⁷ Carol Matlack, *Fed Up With Fakes*, BUS. WK. ONLINE, Oct. 9, 2006, available at http://www.businessweek.com/magazine/content/06_41/b4004060.htm.

¹⁵⁸ *Id.*

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nearly all Vuitton and Dior items sold on the auction site are fakes, the companies purchased 150,000 Vuitton items and 300,000 Dior products offered on eBay and determined that 90% were counterfeits.¹⁵⁹ While France's anti-counterfeiting laws are tough, its courts are unlikely to award large damages.¹⁶⁰ If eBay is found liable, the French court could decide that a France-only fix is insufficient and instead order eBay to remove the counterfeit items from its website worldwide.¹⁶¹ While the pending litigation against eBay both in France and New York could lead to disastrous results for Internet commerce, it would provide needed clarity on the law regarding secondary trademark liability.

Tiffany and other multi-million dollar brands¹⁶² are combating a raging problem with counterfeiting and are exploring several outlets for liability. Instead of partnering to build a solution, some trademark owners have targeted the online auction houses as one of those outlets.¹⁶³ If online auction houses are found liable for secondary trademark infringement, it will ultimately do severe damage to consumers and small businesses that use the online auction houses in legal and legitimate ways.¹⁶⁴ Liability would result in increased consumer search costs¹⁶⁵ and reduced functionality of the websites. Making

¹⁵⁹ *Id.*

¹⁶⁰ In France, one who is found owning a fake Vuitton handbag is punishable by a fine of twice the value of the genuine bag. *Id.*

¹⁶¹ *Id.*

¹⁶² Rolex identified 180 infringing auctions in 1998 and over 4,000 in 2005. Microsoft shuts down an average of 40,000 auctions a year. 7 For All Mankind shuts down 10,000 individual sellers of counterfeit jeans per month. Dean Takahashi, *Online Auction Counterfeit Spurs Companies to Fight Back*, SAN JOSE MERCURY NEWS (Feb. 15, 2006).

¹⁶³ This ultimately results in trademark owners focusing their litigation efforts on third-party intermediaries instead of directly seeking out counterfeiters.

¹⁶⁴ eBay estimates that over 500,000 Americans earn at least a portion of their incomes by selling goods on eBay. See *Meg and the Power of Many*, THE ECONOMIST, June 11, 2005, at 65.

¹⁶⁵ Stacey L. Dogan & Mark A. Lemley, *Symposium: Trademark in Transition: Institute for Intellectual Property & Information Law Symposium:*

online auctions houses liable would force them to stop selling new trademarked goods, thereby destroying their economic models. In many cases, companies can leverage online auction houses' pre-existing communication vehicles, such as eBay's VeRO program, to adequately remedy counterfeiting issues.

Large companies with famous brands have successfully partnered with online auction houses to fight counterfeiting. For example, the Callaway Golf Company,¹⁶⁶ a producer of high-end golf equipment, worked with eBay to bring criminal charges against a suspect who was selling counterfeit clubs on the auction site.¹⁶⁷ After eBay removed the suspect listing, Callaway received the seller's contact information and filed suit against the infringer.¹⁶⁸ A Callaway spokesperson stated that they received

Trademarks and Consumer Search Costs on the Internet, 41 HOUS. L. REV. 777, 831 (2004).

¹⁶⁶ According to the company website, Callaway Golf Company's philosophy is to "help every golfer become a better golfer." Callaway Golf, Corporate Philosophy, <http://www.callawaygolf.com/en.cg.Corporate.OurPhilosophy.html> (last visited Nov. 27, 2006).

¹⁶⁷ Bobelian, *supra* note 8, at col.4.

¹⁶⁸ *Id.* Callaway Golf Company actively seeks out counterfeiters and brings suit both domestically and internationally. *See id.*; Press Release, Callaway Golf, Thai Police Raid Golf Club Counterfeiters (Nov. 2, 2005), available at <http://www.callawaygolf.com/mediacenter/pressReleases.aspx?pid20051102>. In a recent police raid in Bangkok, Thailand, two people were arrested and \$100,000 worth of counterfeit goods was seized. *Id.* Further, the Thai police,

[a]cting on a complaint filed by attorneys representing Callaway Golf and five other U.S. golf equipment manufacturers . . . raided both a retail store and its associated warehouse. The Commissioner of the Bangkok government's Central Investigative Bureau, Police Lieutenant-General Montree Jamran, reported that police raiders seized more than 6500 counterfeit clubs and other accessories. The two persons arrested in the counterfeiting operation were charged with trademark infringement under the Thai Trademark Act. Thailand's criminal law provides for a sentence of 2 years imprisonment and a fine of US \$5,000 for this offense.

Counterfeit products, including golf clubs and golf balls, are prevalent in Thailand and China. Numerous golf shops carry large inventories of counterfeit golf equipment, selling to local

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“‘excellent cooperation from eBay’” and that “the process works almost perfectly” with limited “sellers complaining they were wrongly shut down.”¹⁶⁹ On a typical day, Callaway investigators locate three to six suspects operating on eBay.¹⁷⁰ Callaway’s successful partnership with eBay directly combated the issue by holding the counterfeiter directly liable and building a relationship between the two companies.¹⁷¹

Kate Spade¹⁷² also worked with eBay’s VeRO program to develop a creative strategy to combat counterfeiting of their luxury handbag line. The company hired a team of law students to monitor online auctions, including eBay, for counterfeit goods.¹⁷³ The students reviewed detailed archives of Kate Spade

residents and tourists. Some of this product finds its way to the Internet, where it is marketed on retail web sites and auction sites. Callaway Golf and other U.S. manufacturers of premium brand golf equipment established a joint effort in 2004 to petition foreign governments in the fight against counterfeiting. This industry effort has led to enforcement actions by Thai and Chinese government authorities against counterfeit factories, warehouses, and retailers. More than 100,000 counterfeit golf clubs, balls, and accessories have been seized and destroyed, as well as factory equipment used to manufacture fakes. The street value of seized goods is in the millions of dollars.

Id.

¹⁶⁹ Bobelian, *supra* note 8, at col.4.

¹⁷⁰ *Id.*

¹⁷¹ Callaway recently added a consumer warning on its website stating that,

consumers in the United States, Europe, Australia, and Canada have recently purchased sets of so-called “brand new Callaway Golf clubs” at very low prices on eBay.com and other Internet auction sites. These clubs and bags were in fact low-quality fakes. Callaway Golf’s authorized retailers are not permitted to sell new Callaway Golf clubs on eBay.com.

Callaway Golf, Consumer Alert: Fake Clubs Sold on Auction Sites, <http://www.callawaygolf.com/en.cg.ContactUs.ConsumerAlertCounterfeitClubs.html> (last visited Nov. 27, 2006).

¹⁷² For more information, see Kate Spade, <http://www.katespade.com> (last visited Nov. 27, 2006).

¹⁷³ Dan Nissanoff, *Op-Ed: Tiffany Actually Loses If It Wins eBay*

collections, identified counterfeit items, and used eBay tools to report the offenders and terminate the auctions.¹⁷⁴ Strong brands such as Callaway and Kate Spade “already know what Tiffany and many other companies have yet to realize—that the secondary market is a good thing for brands because it actually increases the value of their products in the primary market.”¹⁷⁵ As these examples demonstrate, partnership with online auction houses and not litigation can help deter counterfeiters, both strengthening brand defense strategies and increasing brand value.¹⁷⁶

III. PROPOSED LEGISLATION

Legislative solutions do not currently address secondary trademark liability of online auction houses, although various recommendations have been made by academics. One proposed solution is to create a scheme of intermediary liability where the auction house is responsible for searching and monitoring its marketplace.¹⁷⁷ It is argued that as the “least cost avoider”¹⁷⁸ in

Lawsuit, AUCTIONBYTES.COM, May 21, 2006, <http://www.auctionbytes.com/cab/abu/y206/m05/abu0167/s05>.

¹⁷⁴ *Id.*

¹⁷⁵ *Id.*

¹⁷⁶ The creation of “robust secondary online sales for their goods presents companies with many exciting opportunities to strengthen brand loyalty and grow their sales, but the initial reaction of too many companies has been to simply try to clamp down. That strategy is not only ineffective, it’s actually high risk.” NISSANOFF, *supra* note 16, at 161-62.

¹⁷⁷ Ronald J. Mann & Seth R. Belzley, *The Promise of Internet Intermediary Liability*, 47 WM. & MARY L. REV. 239 (2005).

¹⁷⁸ The burden of managing a risk is placed on the party who can manage it most cheaply (the least cost avoider).

The Internet’s rise has brought about three changes that make intermediaries more likely to be least cost avoiders in the Internet context than they previously have been in offline contexts: (1) an increase in the likelihood that it will be easy to identify specific intermediaries for large classes of transactions, (2) a reduction in information costs, which makes it easier for the intermediaries to monitor the conduct of end users, and (3) increased anonymity, which makes remedies against end users

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the Internet context, the intermediary website is best able to prevent the conduct.¹⁷⁹ A takedown regime would be implemented wherein an online auction house would be obligated to remove all counterfeit products for the owners of famous marks that made a suitable request.¹⁸⁰ To dilute the cost of compliance, the auction house could charge content owners a reasonable fee for compliance with a statutory mandate to remove counterfeit products.¹⁸¹ Still, this solution is impracticable. It would require an overwhelming and unrealistic burden on online auction houses to monitor millions of listings. Additionally, online auction houses are not sufficiently aware of the nuances of each trademarked brand in order to properly identify a counterfeit good. Training employees at each online auction site would be expensive and inefficient. For example, as of third quarter 2006, eBay had 212 million registered users, “representing a 26% increase over the 168 million” reported the year prior.¹⁸² eBay’s new listings totaled 584 million for the quarter, 27% higher than the new listings reported in the third quarter 2005.¹⁸³ The logistics involved in each online auction site monitoring every individual listing would be overwhelming, unreasonable and ineffective.

Another legislative recommendation is to enact a digital safe

generally less effective.

Id. at 243.

¹⁷⁹ *Id.* at 249.

[I]ntermediaries are more likely to be least cost avoiders . . . [for the following reasons]: (1) an increase in the likelihood that it will be easy to identify specific intermediaries for large classes of transactions, (2) a reduction in the information costs which makes it easier for the intermediaries to monitor the conduct of end users, (3) and increased anonymity, which makes remedies against end users generally less effective.

Id. at 240.

¹⁸⁰ *Id.* at 270.

¹⁸¹ *Id.* at 270-71.

¹⁸² Press Release, eBay Inc., eBay Inc. Announces Third Quarter 2006 Financial Results (Oct. 18, 2006), *available at* <http://investor.ebay.com/releases.cfm>.

¹⁸³ *Id.*

harbor amendment to the Lanham Act, comparable to the DMCA. The DMCA exception provides a safe harbor¹⁸⁴ to online service providers¹⁸⁵ who promptly take down inappropriate content after receiving notice of copyright infringement from a copyright owner. In order to benefit from the proposed exception, the auction house would have to comply with a three-part statute based on “knowledge, financial benefit, and prompt take-down procedures.”¹⁸⁶ The knowledge prong is satisfied when the site cannot possess “either knowledge of the direct trademark infringement or knowledge of conditions that make the infringement obvious.”¹⁸⁷ If direct knowledge later becomes available, the auction house must promptly take down

¹⁸⁴ A safe harbor is available if the defendant meets a three-prong test. 17 U.S.C. § 512(c)(1) (1999). In *Hendrickson v. eBay, Inc.*, the District Court of California characterized the safe harbor as requiring the following:

First, the service provider must demonstrate that it does not have actual knowledge that an activity using the material stored on its website is infringing *or* an awareness of facts or circumstances from which infringing activity is apparent. Alternatively, the service provider must show that it expeditiously removed or disabled access to the problematic material upon obtaining knowledge or awareness of infringing activity. Second, the service provider must show it does not receive a financial benefit directly attributable to the infringing activity *if* the service provider has the right and ability to control such activity. Third, the service provider must show that it responded expeditiously to remove the material that is the subject of infringing activity upon receiving notification of the claimed infringement in the manner described in Section 512(c)(3).

Hendrickson v. eBay, Inc., 165 F. Supp. 2d 1082, 1088 (D. Cal. 2001) (internal citations omitted).

¹⁸⁵ The DMCA defines a service provider as “a provider of online services or network access, or the operator of facilities therefore” and an “entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user’s choosing, without modification to the content of the material as sent or received.” 17 U.S.C. § 512(k)(1) (1999).

¹⁸⁶ Sunderji, *supra* note 152, at 941. One proposed solution is substantially based on the DMCA safe harbor.

¹⁸⁷ *Id.*

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the infringed listing.¹⁸⁸ To satisfy the financial benefit prong, the online auction house must not gain profit as a “direct result of the infringing activity if it possesses control over the instrumentality used to infringe.”¹⁸⁹ To comply with the final prong, the site must promptly take down infringing listings upon being alerted by the trademark owner.¹⁹⁰ Creating a safe harbor against secondary trademark liability would motivate online auction houses to create reporting infrastructures similar to eBay’s VeRO program and allow them to reallocate resources from defending lawsuits to working with trademark owners to protect against counterfeiting. The safe harbor provision under the Lanham Act, like the DMCA, would provide strong incentives for service providers and trademark owners to partner in detecting and dealing with infringers.¹⁹¹

Although legislative solutions regarding third-party intermediaries might strengthen reporting structures and create an opportunity to learn more details about the counterfeiters, they will not reduce the existence of counterfeit goods, or re-value damaged brands. The majority of counterfeit items sold on the Internet are a small part of a larger, global counterfeit concern.¹⁹² The most effective solution to help trademark owners

¹⁸⁸ *Id.*

¹⁸⁹ *Id.*

¹⁹⁰ *Id.* Under the current DMCA, Section 512(g)(1) offers service providers a safe harbor from copyright liability for wrongful takedown, but conditions that safe harbor on 512(g)(2), which requires service providers to notify targets that they will put back material if a counter-notice is received. 17 U.S.C. § 512(c)(1). While a service provider might, in theory, “be subject to tort or contractual liability for a wrongful takedown of content, in practice, service providers limit their liability with their terms of service.” Jennifer M. Urban & Laura Quilter, *Symposium Review: Efficient Process or “Chilling Effects”? Takedown Notices Under Section 512 of the Digital Millennium Copyright Act*, 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 621, 629 (2006).

¹⁹¹ eBay qualified for protection under the DMCA. *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1088 (C.D. Cal., 2001).

¹⁹² Four primary factors contribute to the exponential growth of counterfeiting: the widespread availability of technology, the increased globalization of trade, limited legal penalties and the influence of organized

is to partner with the government and demand a stronger and more targeted anti-counterfeiting regime, relying on criminal statutes such as the Trademark Counterfeiting Act (“TCA”).¹⁹³

In March 2004, Christopher Wray, Assistant Attorney General for the Criminal Division of the Department of Justice, addressed the Senate Judiciary Committee on Counterfeiting and Theft of Tangible Intellectual Property.¹⁹⁴ Wray testified that: “We are at a pivotal time in the history of intellectual property rights enforcement. A number of factors¹⁹⁵ have come together to create unprecedented challenges to intellectual property rights holders and to law enforcement.” He further noted that there exists only “sporadic and inconsistent enforcement throughout the world, which is compounded by the emergence of organized crime syndicates in international piracy and counterfeiting. Counterfeiters have become experts at infringing on trademarks

crime and terrorists. HOPKINS, *supra* note 25, at 5-8.

¹⁹³ 18 U.S.C. § 2320 (2000). Under the TCA, one can be criminally liable for the intentional trafficking of counterfeit goods or services. *Id.* An individual who “intentionally traffics or attempts to traffic in goods . . . and knowingly uses a counterfeit mark” may face a prison term of not more than ten years, a fine of up to \$2M, or both. *Id.* To prove a violation, “the government must establish that: (i) the defendant trafficked or attempted to traffic in goods or services; (ii) such trafficking or attempt was intentional; (iii) the defendant used a counterfeit mark on or in connection with such goods or services; and (iv) the defendant knew that the mark so used was counterfeit.” *United States v. Hanafy*, 302 F.3d 485, 487 (5th Cir. 2002) (presenting requirements for prosecuting criminal trademark counterfeiting offense) *quoting* *United States v. Sultan*, 115 F.3d 321, 325 (5th Cir. 1997).

¹⁹⁴ Lauren D. Amendolara, *Knocking Off Knock-offs: Effectuating the Criminalization of Trafficking in Counterfeit Goods*, 15 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 789, 823-24 (2005) (quoting Counterfeiting and Theft of Tangible Intellectual Property: Challenges and Solutions: Hearing Before the S. Comm. on the Judiciary, 108th Cong. (2004), *available at* http://judiciary.senate.gov/testimony.cfm?id=1119&wit_id=3192 (Mar. 23, 2004)).

¹⁹⁵ Some of these factors include: (1) the increase value of intellectual property rights; (2) the ease and low cost of reproducing and distributing copyrighted and trademarked products; (3) the simplicity with which millions of illegal copies can be disseminated throughout the world over the Internet; (4) the difficulty of detection; and (5) the ability to make a perfect or near perfect copy of the original. *Id.* at 823.

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and evading the law.” Suggestions made to reduce the trafficking in counterfeit goods include: strengthening the language of the TCA,¹⁹⁶ making counterfeit investigations a priority with federal law enforcement agencies, and heightening border security with regard to counterfeit products.¹⁹⁷ Wray concluded his testimony by adding that “without stronger protection, trademarks will lose their value and place within American business transactions.”¹⁹⁸

In 2005, the Bush administration created an initiative to combat global piracy and counterfeiting called the Strategy Targeting Organized Piracy (“STOP”).¹⁹⁹ Attorney General Alberto R. Gonzales, while speaking at the U.S. Chamber of Commerce’s Anti-Counterfeiting and Piracy Summit, highlighted the Justice Department’s STOP initiative²⁰⁰ and announced a

¹⁹⁶ On March 16, 2006, the Stop Counterfeiting in Manufactured Goods Act, (H.R. 32) became law. The Act amends the Anti-Counterfeiting Statute, 18 U.S.C. § 2320, to close the loophole exposed by the Tenth Circuit in the *United States v. Giles*, 213 F.3d 1247 (10th Cir. 2000) (holding that persons who sold counterfeit labels that were not actually attached to goods did not violate the statute). The new Act also provides for: (1) the forfeiture and destruction of counterfeit goods and any machinery used to make such goods; (2) the forfeiture of any property and/or assets derived from counterfeiting; (3) modification of the definition of trafficking to include making, importing, exporting, possession, or control of counterfeit goods with intent to distribute them; and 4) modification of the definition of financial gain to include the receipt of or expected receipt of anything of value. 18 U.S.C. § 2320.

¹⁹⁷ Amendolara, *supra* note 194, at 824.

¹⁹⁸ *Id.*

¹⁹⁹ Strategy Targeting Organized Piracy, <http://www.stopfakes.gov/> (last visited Nov. 27, 2006).

²⁰⁰ *Attorney General Alberto R. Gonzales Announces Intellectual Property Legislation*, U.S. NEWSWIRE, Nov. 10, 2005, available at <http://releases.usnewswire.com/GetRelease.asp?id=56509>.

As part of the STOP initiative, the Department created the Task Force on Intellectual Property in 2004. In October 2004, the Task Force issued a comprehensive report with recommendations to increase the Department’s effectiveness in protecting intellectual property rights and enforcing federal intellectual property laws. In February 2005, Attorney General Gonzales renewed the Department’s commitment to the Task Force, announcing that the Department would implement all of

comprehensive legislative proposal entitled the Intellectual Property Protection Act of 2005 (IPPA). The IPPA would “strengthen penalties for repeat copyright criminals, expand criminal intellectual property protection, and add critical investigative tools for both criminal and civil enforcement.”²⁰¹ Also, the FBI created a new Cyber Division to address online theft of intellectual property and trade secrets.²⁰² Given the government’s creation of task forces, it is clear that the legislature is aware of the issue of rampant counterfeiting on the Internet and has chosen to remain silent on requiring active monitoring of auction sites. Until the issue of counterfeit goods is dealt with globally, piece-meal legislation solely addressing liability of online marketplaces in the U.S. will only work as a stop-gap solution.

IV. CREATIVE WAYS TO PROTECT BRAND IDENTITY

Intellectual property owners have gotten creative and aggressive regarding the management of their brands. Companies, like Tiffany, with million dollar brands and easily

the IP Task Force report’s recommendations and would continue its aggressive strategy.

Id.

²⁰¹ If enacted, the proposed Intellectual Property Protection Act of 2005 would enhance the Department’s ability to pursue crimes and protect the intellectual property rights of citizens and industries. The Act includes provisions to: [i]mplement broad forfeiture reforms to ensure the ability to forfeit property, including illicit proceeds, derived from or used in the commission of criminal intellectual property offenses; [c]riminalize intellectual property theft motivated by any type of commercial advantage or private financial gain; and [s]trengthen restitution provisions for victim companies and rights holders in order to maximize protection for those who suffer most from these crimes. *Attorney General Alberto R. Gonzales Announces Intellectual Property Legislation*, <http://www.linuselectrons.com/article.php/20051110200125623> (last visited Nov. 27, 2006).

²⁰² For a detailed analysis of criminalizing intellectual property violations, see Breana C. Smith, et al, *Intellectual Property Crimes*, 43 AM. CRIM. L. REV. 663 (2006).

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replicated products require strong programs to combat counterfeiting. Arguably, blanket liability should not fall onto online auction houses when the corporate brand-owners have the resources and the ability to partner and internalize the work. If a company gains substantial value from its brand,²⁰³ it is reasonable to assume that the company should manage financial risk internally and build an infrastructure to protect and monitor that brand.

In addition to the varied actions of the online auction houses, trademark owners have attempted a wide array of measures to protect their brand identity from rampant counterfeiting. Some brand owners hire full-service corporate identity management companies to help protect their brands online.²⁰⁴ MarkMonitor, for example, offers various services that include domain name portfolio management, brand monitoring and fraud protection.²⁰⁵ MarkMonitor works with more than 37% of Fortune 100 companies, and 17% of Global 500 companies.²⁰⁶ The company's computer technology identifies instances of online

²⁰³ Al Ehrbar, *Breakaway Brands*, FORTUNE, Oct. 31, 2005, at 154.

A company's intangible value

is its market value minus its tangible capital (i.e., property, plant, equipment, and net working capital). A BrandEconomic analysis found that companies with strong, well-regarded brands had an intangible value of 250% of annual sales; companies with listless brands had one of only 70%. In important ways, though, the value of a brand is incalculable. A rising brand secures more customer loyalty, higher margins, greater pricing flexibility, and new opportunities for growth. And brands on the way up, BrandEconomics research shows, ride through economic downturns with less trauma. "The combination of faster growth with less risk . . . is business nirvana."

Id.

²⁰⁴ McDonald's relies on trademark watch services to scour trademark offices around the world and keep the company apprised of potentially infringing registrations. Daphne Eviatar, *Guarding the Golden Arches: It Takes a Global Village to Protect McDonald's Trademark*, IP LAW & BUSINESS (Jan. 2005).

²⁰⁵ MarkMonitor, <http://www.markmonitor.com/about/> (last visited Nov. 27, 2006).

²⁰⁶ *Id.*

abuse and provides central locations for managing all activities associated with taking action against online counterfeiters.²⁰⁷

Other companies hire private investigators, such as IP Cybercrime, to troll through auctions for culprits.²⁰⁸ The private investigators initially identify small mom-and-pop sellers in hopes of uncovering larger distributors.²⁰⁹ Firms have also established entire businesses out of managing take-down notices for trademark owners. OpSec Security²¹⁰ uses proprietary technology to comb through eBay's database, through a special deal with the auction house, and locate trademark problems for well-established brands.²¹¹ The technology automates delivery of takedown notices, with an average of 10,000 each month just on eBay alone.²¹² Technological advances will continue to provide new and innovative options for monitoring online infringements.²¹³

Companies also create new departments and implement legal policies²¹⁴ within their organizations to oversee counterfeiting

²⁰⁷ MarkMonitor, Protect Corporate Brands, Customers and Revenue against Online Counterfeit and Gray Market Sales, <http://www.markmonitor.com/solutions/graymarket/> (last visited Nov. 27, 2006).

²⁰⁸ Dean Takahashi, *Online Auction Counterfeit Spurs Companies to Fight Back*, SAN JOSE MERCURY NEWS, Feb. 15, 2006.

²⁰⁹ *Id.*

²¹⁰ OpSec Security recently purchased GenuOne, Inc. in 2006. For company history, see <http://www.opsecsecurity.com/company/history.htm> (last visited Nov. 27, 2006).

²¹¹ Bob Sullivan, *eBay Fights its Toughest Legal Battle*, MSNBC.com (Sep. 21, 2004), available at <http://www.msnbc.msn.com/id/6030048/>.

²¹² *Id.*

²¹³ Cheaper avenues exist for those smaller companies who may not have the budget to implement an intricate technology infrastructure. Brandcrawler is an online searching robot that scans 40 million websites for specific words or phrases. Bulkregister, <http://www2.bulkregister.com/prBrAnnPreMem.php> (last visited Nov. 27, 2006). The service, offered through bulkregister.com, provides monthly reports to subscribers to locate websites that are using a brand wrongly or selling a product without permission. *Id.* The report fee is \$199. *Id.*

²¹⁴ An internal can include educating:

employees on brand integration along with brand protection;

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issues and protect brands from misuse. Although costly, these organizations understand the long-term financial implications of not adequately monitoring a company's brand. To combat the growing problem with counterfeiting, Philip Morris created a brand integrity department in 2002 solely to disrupt contraband cigarette trafficking.²¹⁵ Other companies, like McDonald's, rely on an informal network of employees, customers, local franchise owners, and suppliers to report infringements to the brand protection group.²¹⁶ Sheila Lehr, McDonald's managing counsel and lead trademark lawyer, recommends developing close ties with local franchise owners and food companies in each country where the company operates.²¹⁷

Other companies have banded together to monitor auction sites, identify individuals and groups selling infringing goods, and collectively sue infringers. For instance, the Software and Information Industry Association ("SIIA") is a software trade group with members including Apple Computer, Hewlett-Packard, IBM and Time Warner, Inc.²¹⁸ In 2006, SIIA unveiled the Auction Litigation Program which tracks the incidence of eBay and Yahoo! Auctions offering pirated software and files suits against the most egregious.²¹⁹ On May 15, 2006, SIIA filed

limit ownership of the brand through a holding company to insulate the brand from misuse; limit authority to approve use, licensing, and alteration of the brand by creating either a trademark czar or brand standards committee to oversee such activities; and create a single source for accessing downloadable reproductions of the brand that educates employees on use policies and the consequences of misuse.

TALCOTT J. FRANKLIN, *PROTECTING THE BRAND: A CONCISE GUIDE TO PROMOTING, MAINTAINING, AND PROTECTING A COMPANY'S MOST VALUABLE ASSET* 72 (2003).

²¹⁵ Daphne Eviatar, *At Philip Morris, Jack Holleran Smokes Out Smugglers and Counterfeiters*, IP LAW & BUSINESS (Jan. 2005).

²¹⁶ *Id.*

²¹⁷ *Id.*

²¹⁸ SIIA List of Members, <http://www.sii.net/membership/memberlist.asp> (last visited Nov. 27, 2006).

²¹⁹ SIIA Anti-Piracy, <http://www.sii.net/piracy/internet.asp> (last visited Nov. 27, 2006).

a copyright infringement suit²²⁰ in the District Court, Central District of California, against three defendants for selling software pirated from Symantec Corporation and McAfee, Inc. sold through eBay auctions in the fall of 2005. The efforts of SIIA have decreased the number of illegal auctions of software.²²¹ Following the announcement of the lawsuits, there was a 20-50% decrease in Symantec and McAfee pirated software auctions placed on eBay.²²² The partnership between SIIA and companies in the software and digital content industry proved a successful way to battle copyright infringers, and could easily be applied in the trademark context.

A trademark right is one that is earned and it is the burden of the trademark owner to be vigilant in monitoring the use of the mark. Ultimately, it is the responsibility of the corporate brand-owner to protect and defend its trademark rights, in partnership with outside parties.²²³ Open communication with intermediaries who provide online distribution forums is essential, as they are “online ambassadors of the brand.”²²⁴ If

²²⁰ SIIA Press Release, http://www.sii.net/press/releases/20060516Auction_Lit.pdf. Peter Beruk of McAfee, Inc. noted that, “. . . professional criminals [are] using popular auction sites like eBay to rip off innocent people. At the same time, we hope that Internet auction providers will offer a greater commitment to work with copyright holders to stem the tide of infringing sales of our software in order to protect the buying public from receiving illegitimate goods.” *Id.*

²²¹ SIIA Press Release, http://www.sii.net/press/releases/Auction_Piracy_Litigation_Impact.pdf. SIIA monitored the prevalence of eBay actions selling 18 types of pirated software products and found that the lawsuits had a discernable impact of the number of illegal auctions posted. *Id.*

²²² *Id.*

²²³ Requiring online auction houses like eBay to verify the authenticity of products would “be like ordering newspapers to take responsibility for the authenticity of the goods” that appear in classified advertising. NISSANOFF, *supra* note 16, at 168 *quoting Psst, Wanna Buy a Cheap Bracelet?* THE ECONOMIST, July 3, 2004. “In the end, it is the job of a brand’s owner to defend its intellectual property rights, although that owner clearly deserves the active co-operation of any middleman whose services are being used to peddle fakes.” *Id.*

²²⁴ “[P]artner roles have expanded to the extent that a customer’s

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neglected, these partners can “undermine the customer experience, destroy brand equity, and divert revenues to competitors.”²²⁵ Intellectual property owners must leverage the reporting programs implemented by the third party intermediaries and offer additional solutions.

CONCLUSION

The issue of rampant counterfeiting and brand dilution will only increase in the future, especially as U.S. online auction houses broaden their economic platforms²²⁶ and enter the international market.²²⁷ As many countries do not have stringent

exposure to a brand is entirely outside the brand owner’s direct control, from the point of brand awareness through fulfillment.” BRIAN H. MURRAY, *DEFENDING THE BRAND: AGGRESSIVE STRATEGIES FOR PROTECTING YOUR BRAND IN THE ONLINE ARENA* 75 (2004).

²²⁵ *Id.* at 76.

²²⁶ For example, eBay “owns the online shopping comparison service Shopping.com, the listing site Rent.com, used-car dealer AutoTrader.com, and even a percentage of the grassroots classifieds phenom Craigslist.” NISSANOFF, *supra* note 16, at 71.

²²⁷ eBay Quarterly Report (Form 10-Q), at 38 (Oct. 20, 2005), *available at* <http://www.sec.gov/Archives/edgar/data/1065088/000095013405008154/f07687e10vq.htm>. Currently, eBay has online auction websites in the United States, Australia, Austria, Belgium, Canada, China, France, Germany, Hong Kong, India, Ireland, Italy, Malaysia, the Netherlands, New Zealand, the Philippines, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan, and the United Kingdom. *Id.* at 6. Yahoo!, Inc. recently became a 40% owner in Chinese online marketplace alibaba.com, a website known for having issues with counterfeit goods. Alibaba, a Chinese online marketplace, aggregates importer traffic and exporter content to create a community in support of global trade. Alibaba, <http://alibaba.com> (last visited Nov. 27, 2006). The Alibaba businesses have more than 14 million registered users in 200 countries and territories, adding 18,000 new members daily. *Id.* In 2004, over US \$4 billion in trade was estimated to have come from buyers and sellers connecting through Alibaba sites. *Id.* Alibaba’s growing reputation and brand recognition in the United States is soon to revival that of eBay. Such a presence results in a tremendous opportunity for counterfeit producers. Alibaba’s insufficient tracking measures and use of background checks, partnered with its lack of formal process to enable verified rights owners to report infringements, will result in rampant counterfeiting. *Id.*

laws protecting copyright and trademarks,²²⁸ it is likely that complaints against online auction houses will continue to surface.

By remaining silent on whether online auction houses create a forum deserving of contributory or vicarious trademark liability, the courts and legislature should create enough apprehension to compel third party intermediaries to actively partner with trademark and brand owners to remove counterfeit auctions and create brand management strategies. The recent copyright litigation involving Internet service providers should also create an incentive to induce smaller online auction houses to build or strengthen their notification, take-down, and monitoring processes. Trademark owners need to accept that online auctions are the world's largest and fastest growing channels of commerce. They need to embrace these new channels as an opportunity to promote their brand, and proactively partner with third-party intermediaries to foster open dialogue and creative problem-solving.

²²⁸ Amendolara, *supra* note 194, at 816.