



TIFFANY CAN'T SELL TRADEMARK SUIT AGAINST EBAY

Judge says auction site not responsible for halting counterfeit jewelry sales

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After congratulating yourself on winning an eBay auction, have you ever wondered whether the item about to arrive in your mailbox is authentic? Well, if you were spending money on an item wrapped up in that coveted little blue box, you just might! More importantly, if your company manufactures or distributes consumer goods, you may be concerned about the relative rights and obligations of the various entities involved in the proliferating sale of brand-name goods over the Internet. In a recent decision from the Southern District of New York, Judge Richard J. Sullivan ruled that eBay is not liable for direct or contributory trademark infringement in connection with the advertisement and sale of counterfeit Tiffany jewelry through its web site. *Tiffany (NJ) Inc. v. eBay, Inc.*, F. Supp.2d, 2008 WL 2755787 (S.D.N.Y. July 14, 2008).

Background

The self-professed "world's largest online marketplace," eBay is an Internet forum that allows registered sellers to sell goods directly to third-party buyers in auction or fixed-price formats. It provides the venue to connect sellers and buyers and supports the sales transactions, but is not a party to the transactions. As it does with many other types and brands of products, eBay advertises the availability of Tiffany-brand jewelry, includes the Tiffany name



on its home page, and receives a fee from the seller upon the sale of Tiffany-brand jewelry. Officials at eBay do not condone the sale of counterfeit goods and employ a variety of mechanisms and procedures for detecting and removing product listings involving actual or suspected counterfeit goods.

Tiffany is a world-renowned purveyor of high-end luxury goods, including jewelry, watches, china, crystal and clocks. Tiffany holds its goods to exacting quality standards and limits the sale and distribution of its products to company-owned retail outlets. While Tiffany does not authorize the sale of its products on eBay, it cannot

prevent the re-sale of authentic products. Because its jewelry is desirable in large part because of the prestigious name, Tiffany is a frequent victim of counterfeiters hoping to profit from status-conscious but cash-poor consumers. In fact, Tiffany presented evidence suggesting that hundreds of thousands of counterfeit silver jewelry items were offered for sale on eBay from 2003 to 2006. Tiffany argued that eBay's efforts to facilitate those sales amounted to contributory infringement of the famous Tiffany trademarks.

As the court aptly noted, "the heart of this dispute is not whether counterfeit Tiffany jewelry should flourish on eBay, but rather, who should bear the burden of policing Tiffany's valuable trademarks in Internet commerce." The court's detailed ruling, issued after a bench trial, unequivocally places the burden squarely on the shoulders of Tiffany, the trademark owner.

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INTELLECTUAL PROPERTY

The Inwood Analysis

In tackling the contributory infringement claim, the court applied the test articulated in *Inwood Laboratories Inc. v. Ives Laboratories Inc.*, 546 U.S. 844 (1982), which imposes liability upon a manufacturer or distributor who “intentionally induces another to infringe a trademark” or “continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.” The court held that the fact that eBay offers a service rather than a product does not render *Inwood* inapplicable, as courts have long invoked *Inwood*, for example, to impose liability upon flea market and swap meet operators. When a service is involved, courts must consider whether the service provider offered a forum or venue for trademark infringement and whether the service provider had “direct control” over the means for infringement. eBay fit the bill on both counts.

As many eBay users know, eBay never takes physical possession of the products sold on its site. However, eBay is more than just a passive classified ad site. The court reasoned that, unlike a classified site, the *Inwood* test for contributory infringement applies to eBay because it provides the necessary marketplace for the Tiffany counterfeit sellers and controls and monitors the content and operation of its web site. For example, eBay provides software needed to set up product listings, provides server storage, actively solicits and supplies customers, promotes Tiffany jewelry on its own web site and elsewhere, earns a profit from all product sales, controls the types of items sold, and screens for fraud or suspected fraud through its Fraud Engine.

Tiffany actively monitored eBay for jewelry listings and regularly notified eBay of suspected counterfeit items pursuant to eBay’s procedures. eBay repeatedly took down product listings for actual or suspected counterfeit goods. Tiffany estimated

that upwards of 70 percent of the jewelry listed as Tiffany on eBay was, in fact, counterfeit. Despite the frequency and volume of such counterfeit activities, the court determined that eBay had only a “generalized knowledge” of infringement occurring on its web site, which is not sufficient to satisfy the “knowledge or reason to know” element of the *Inwood* test. The court found that the *Inwood* standard requires specific knowledge of actual infringement without uncertainty as to the extent and nature of the infringement. The court emphasized the importance of this last requirement because “contributory trademark infringement should not be used to require defendants to refuse to provide a product or service to those who merely *might* infringe a trademark.” Any lower standard of proof would put legitimate sales off authentic Tiffany jewelry at risk and expand the scope of Tiffany’s trademark rights beyond what is otherwise provided under the law.

With that standard in mind, what, how much, and what type of specific knowledge is sufficient for purposes of contributory trademark infringement? The court does not offer a rigid calculus or threshold quantum of proof. Tiffany sent demand letters to eBay asserting that any seller of five or more items was certainly a counterfeiter; but Tiffany failed to demonstrate why selling five or more items warranted such a presumption. Based upon its own monitoring, Tiffany also notified eBay of specific product listings that Tiffany believed to constitute specific instances of counterfeiting. While these notices may provide the “specific knowledge” needed to satisfy *Inwood*, eBay’s responsiveness to them, including the issuance of warnings to the parties involved and the removal of the questionable product listings, mitigates against the imposition of contributory liability.

Although eBay had only generalized knowledge of the counterfeiting activities taking place on its forum, the court rea-

soned that the “knowledge or reason to know” requirement could also be satisfied by proof that eBay showed “willful blindness” to the infringement of Tiffany marks on its web site. “Willful blindness” means a person must suspect wrongdoing and deliberately fail to investigate. The court rejected Tiffany’s argument that eBay should have and could have done more to counteract the widespread counterfeiting activities, pointing specifically to eBay’s Fraud Engine and notice-and-takedown procedure as the opposite of willful blindness.

Conclusion

In light of its detailed *Inwood* analysis, the court concluded that Tiffany failed to prove that eBay continued to supply its services to those persons or entities it knew or had reason to know were engaging in infringement. Moreover, it found that eBay took reasonable and appropriate steps to make its services unavailable in those specific instances where Tiffany alerted eBay to infringing activities. As such, eBay could not be held liable for contributory trademark infringement in connection with the sale of counterfeit goods offered through its website.

This decision provides much-needed guidance to trademark holders and other companies competing in the digital world. Importantly, the court affirmatively states that “rights’ holders bear the principal responsibility to police their trademarks.” A mark owner cannot shift this burden to a third party by evoking the doctrine of contributory infringement. Even if eBay could have flushed out more counterfeiting activities on its web site faster and cheaper than Tiffany, the court held that law does not require it to do so. The court’s concern regarding the potential impermissible expansion of Tiffany’s trademark rights and the stifling of legitimate product sales by third parties is also instructive, particularly in light of the widespread debate related to similar concerns in the copyright arena. ■