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DUTY ON TRADE MARK OWNER TO POLICE ITS OWN MARKS

Tiffany (NJ) Inc. v eBay, Inc. No. 04 CIV 4607, US District Court for the Southern District of New York, 14 July 2008

Only after the trade mark owner has performed its duty to police trade mark rights against counterfeiters does the duty then switch to internet service providers to take down counterfeiters.

Legal context

Tiffany is a famous retailer of luxury items located in the United States. eBay runs a series of websites on which third parties can post for auction or sale virtually any item. Every year tens of thousands of counterfeit Tiffany items are sold on eBay by third parties. The problem of counterfeit items for sale on eBay is widely recognized and difficult to solve.

Based on the view that these problems are created by eBay, and most easily policed by the software designed and operated by eBay to run its websites, Tiffany brought a suit against eBay for not adequately policing its websites against Tiffany counterfeits. eBay maintained that it had done nothing wrong, relying upon principles of 'notice-and-takedown' under which, upon receipt of specific notices of wrongful conduct by its users, it would take down the offers for sale attributable to such violators.

The primary issue raised in this case was that of who bears the burden in the first instance of identifying third party wrongdoers: is it the rights owner (ie Tiffany) or the hosting website (ie eBay). After 4 years of proceedings and extensive bench trial, in a 66-page Slip Opinion, the New York District Court concluded that the duty lay in the first instance on the rights holder, shifting to the website provider only upon receipt of specific notices of wrongdoing.

Facts

Tiffany is a retailer of luxury jewelry and other items. Its famous brand is world renowned, and its unique designs are well recognized. Tiffany items are sought-after and desired by many consumers. eBay operates a series of well publicized websites that are electronic marketplaces where third party providers can auction or sell virtually anything.

Tiffany items are among the most popular items that third parties desire to auction or sell on eBay websites. Recognizing the popularity of Tiffany items, eBay set up specific promotional programmes to help consumers locate eBay auctions selling Tiffany items and to encourage sellers to offer Tiffany items due to their consumer appeal. These programmes included not only advertisements using Tiffany's famous marks on eBay's websites, but also the use of these marks as keywords on other websites, like Yahoo! and Google, and eBay reimbursed others who took out such advertisements.

The sale of infringing and counterfeit Tiffany items being sold on eBay became a major problem. To address problems associated with infringing and counterfeit items, eBay set up a variety of programmes where rights owners can help eBay police illicit auctions on the eBay websites. One such programme, the Verified Rights Owner ('VeRO') programme, is a 'notice-and-takedown' system, whereby rights owners can report to eBay any listing offering potentially infringing or counterfeit items, so that eBay can remove the listing. Another programme allows rights

owners to have 'About Me' pages, where the rights owners can educate eBay users about their goods and policies.

Over the years, Tiffany has been an active user of eBay's VeRO programme, and has a detailed About Me page in which it cautions consumers that most Tiffany goods sold on eBay are counterfeit. Nonetheless, Tiffany sought to have eBay take a more active role, in the first instance, to prevent the sale of infringing and counterfeit Tiffany items on its websites. The duty of eBay to take such an active role based on generalized knowledge of illicit activities by third parties, versus specific knowledge, is the fundamental dispute in the case.

Analysis

Tiffany, as plaintiff, asserted six causes of actions against eBay:

1. direct and contributory trade mark infringement in violation of sections 32(1) and 34(d) of the Lanham Act;
2. trade mark infringement and the use of false descriptions and representations in violation of sections 43(a)(1) (A) and (B) of the Lanham Act;
3. direct and contributory trade mark infringement under common law;
4. direct and contributory unfair competition under common law;
5. trade mark dilution in violation of section 43(c) of the Lanham Act; and
6. trade mark dilution in violation of section 360-1 of New York General Business Law.

The court's findings turned on two fundamental principles. First, it rejected the notion that merely providing general notice of illicit activity to a website provider would impose a duty to police illicit activities of third parties. In this regard, 'Tiffany must ultimately bear the burden of protecting its trademark'. Second, much of the Court's analysis turned on the principle that, since there are at least some legitimate second-hand sales of Tiffany items on eBay, eBay was entitled to use the Tiffany marks to describe such goods within the boundaries of the nominative fair use doctrine, since it is the only practical way to describe such goods fairly.

Applying these two principles, the court rejected each of Tiffany's causes of action.

First, the Court found that eBay's use of Tiffany's trade marks in its advertising on its homepage and in sponsored links purchased through Yahoo! and Google is a protected, nominative fair use of the marks. Fundamental to the court's decision was its recognition that, while there were eBay users who sold counterfeit Tiffany items, there were also eBay users who sold authentic secondhand Tiffany items. The court emphasized that Tiffany had no legal grounds for objecting to the sale of authentic second-hand Tiffany items. It thus analysed eBay's use of the Tiffany trade marks under traditional nominative fair use doctrines, and found that eBay's use of the Tiffany trade marks was the minimal amount necessary to describe accurately the legitimate second-hand goods being offered for sale on the eBay website.

Secondly, the court held that eBay is not liable for contributory trade mark infringement. It based this conclusion on the findings that eBay only had a generalized knowledge that some counterfeit Tiffany items were being sold on its website and that, when eBay obtained specific information about counterfeit Tiffany items on its website, eBay promptly terminated the relevant auction. The court rejected the notion that notice of generalized knowledge of counterfeiting activity by third party users is enough to place the website owner on notice to take further action.

Thirdly, the court rejected Tiffany's claim for false advertising. This claim was directed to eBay's promotion of the sale of 'Tiffany' jewelry on its website and sponsored links. To establish this cause of action, Tiffany had to prove that the advertisements at issue were either (i) literally false or (ii) literally true, but nonetheless likely to mislead or confuse

consumers. The court found that the advertisements in question were not literally false, since it was undisputed that at least some authentic Tiffany items were sold on the eBay websites. Further, eBay's general knowledge of some wrongdoing was insufficient basis upon which to argue that the advertising was false or misleading.

Fourthly, the court rejected Tiffany's federal and state unfair competition claims on the grounds that, since Tiffany failed to establish its trade mark claims, by extension it had failed to establish the unfair competition claims too.

Finally, the court rejected Tiffany's dilution claim. The court found Tiffany failed to prove this claim, and in any event, eBay's use was protected under the nominative fair use doctrine as discussed with respect to the trade mark claims.

Practical significance

This decision is one of the first decisions of a US court to address these important issues. Although this decision is merely by a district court, and it is presently the subject of an appeal to the US Court of Appeals for the Second Circuit, it lays out the theoretical framework for imposing the duty to identify the illicit activity in the first instance on the trade mark owner.

This framework is not only likely to be considered by other courts in the US, but by courts throughout the world, and in particular, in Europe. A number of decisions facing similar issues are winding their way through the courts in other jurisdictions. So far, trade mark owners have prevailed in Germany (in a case brought by Rolex) and France (in cases brought by LVMH and Hermès), while eBay has prevailed both in this case and in Belgium (in a case brought by L'Oréal).

Only time will tell whether the effect of litigation in different countries will lead to harmonization of the law on this point, establishing clear guidelines for rights holders. It will also be interesting to see what impact, if any, these cases will have on the 'duty to police' issue in the case of *Viacom v Google*, currently pending in the Southern District of New York, involving the use of copyright works (including well-known television shows and movies) on YouTube without the copyright owner's permission, although clearly the IP rights involved (copyright v trade mark) and related standards for liability are different.

For now, at least one New York District Court has made its message loud and clear that trade mark owners should seriously consider implementing programmes of notifying website services of specific illicit activities that should be taken down in order to police such rights.

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