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## **TIFFANY (NJ) INC. V. EBAY, INC.: GUIDELINES FOR ONLINE RETAILERS TO POLICE THIRD PARTY SALES OF COUNTERFEIT GOODS**

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*In the landmark case Tiffany (NJ) Inc. v. eBay, Inc., No. 04 CIV 4607, slip op. (S.D.N.Y. July 14, 2008) (Sullivan, D.J.), the U.S. District Court for the Southern District of New York issued a 66-page opinion denying the claims of the famous jeweler, Tiffany, against the on-line auctioneer eBay. The prolonged battle between Tiffany and eBay centers on what actions each of the parties are obligated to take to prevent eBay users from selling counterfeit Tiffany items on eBay, and how, if at all, eBay may use the famous Tiffany mark in advertising the resale of Tiffany items on the eBay website.*

July 29, 2008 --- The prolonged battle between Tiffany and eBay centers on what actions each of the parties are obligated to take to prevent eBay users from selling counterfeit Tiffany items on eBay, and how, if at all, eBay may use the famous Tiffany mark in advertising the resale of Tiffany items on the eBay website.

Part I of this article sets forth the Court's findings of the steps taken (and not taken) by eBay and Tiffany to police the sale of Tiffany jewelry on the eBay website.

Part II of this article addresses the Court's findings, in the context of rejecting Tiffany's claims for contributory infringement, that eBay met its obligations with respect to policing its users' sales of counterfeit Tiffany items.

Part III of this article addresses the Court's findings that eBay's use of the Tiffany marks on its website and in competitive advertising was fair use based on the nominative fair use doctrine.

### **Part I: Efforts by Tiffany and eBay to Police Counterfeit Sales of Tiffany Items on eBay's Website**

The underlying policy consideration identified by the Court was who should bear the burden of policing Tiffany counterfeits on the eBay website. The Court summarized this policy issue as follows:

It is clear that Tiffany and eBay alike have an interest in eliminating counterfeit Tiffany merchandise from eBay-Tiffany to protect its famous brand name, and eBay to preserve the reputation of its website as a safe place to do business. Accordingly, 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.***

Slip op. at 2 (emphasis added). In this regard, it is helpful to understand what efforts were taken by eBay and Tiffany respectively to police against the sale of counterfeit Tiffany jewelry on the eBay website.

## **A. eBay's Proactive Measures to Prevent the Sale of Counterfeit Items**

As the Court explained, "eBay is an electronic marketplace, not a retailer. Thus, eBay itself never takes physical possession of the goods sold through its website; instead, it facilitates a transaction between two independent parties." Slip op. at 9.

Nevertheless, eBay has the power to control who trades on its website, and exercised that power in some limited ways, including:

1. "eBay maintains a list of prohibited items, e.g., drugs, firearms, and alcohol, for which it routinely screens in order to prevent such items from being offered for sale on eBay." Slip op. at 9;
2. eBay has made substantial investments in anti-counterfeiting initiatives (as much as \$20 million each year and 4,000 employees) devoted to promote trust and safety on its website. Slip op. at 10;
3. in May 2002, eBay began using the eBay fraud engine (at a cost of over \$5 million per year) to ferret out illegal listings, including counterfeit listings. Slip op. at 10. Suspect listings from the fraud engine would be forwarded to eBay's Customer Service Representatives ("CSRs") for review and possible further action. Slip op. at 11;
4. eBay has maintained a set of procedures known as the Verified Rights Owners ("VeRO") Program, a "notice-and-takedown" system, "whereby rights owners could report to eBay any listings offering potentially infringing items, so that eBay could remove such reported listings." Slip op. at 11. "At all times, eBay's VeRO Program rested on the responsibility of rights owners to police their own trademarks." Id.;
5. in response to a Notice of Claimed Infringement form or NOCI, properly filled out, "eBay promptly removed the challenged listing." Slip op. at 12;
6. eBay set up electronic procedures, including its "My Favorite Searches," to assist rights owners in identifying potential counterfeits and reporting them to VeRO. Slip op. at 12; and
7. eBay encouraged rights owners to create an "About Me" webpage to educate eBay users about their products, intellectual property rights and legal positions.

No one can question, and the Court certainly made clear, that eBay took significant steps to reduce the sale of counterfeit items on its website.

## **B. eBay's Promotion of the Sale of Tiffany Jewelry and Assistance to Sellers**

As discussed above, the Court recognized that eBay took active steps to prevent the sale of counterfeits on its website. Nonetheless eBay also profited from and was dependent on auction listings and completed sales. Thus, eBay took active steps and worked closely with sellers to increase sales of various items, including Tiffany items in particular.

For example, eBay provided "general" assistance initiatives, such as seminars and workshops about growing one's auction business, which were designed to increase sales on eBay in general.

Moreover, with respect to Tiffany items in particular, which were among the most popular items sold on the eBay website, eBay engaged in other activities specifically designed to encourage and increase the sale of Tiffany items on

the eBay website, including the following:

- (1) eBay actively advertised in various publications and on the eBay website the availability of Tiffany merchandise at eBay;
- (2) eBay directly and indirectly purchased sponsored-link advertisements using Tiffany marks as keywords on major search engines, like Google and Yahoo!, such that when a user typed in the word “Tiffany” on the search engine, the results page would include an advertisement for the sale of Tiffany merchandise and a link to the relevant page of eBay’s website; and
- (3) eBay encouraged sellers to auction Tiffany items by, for example, advising them that “Tiffany” was a keyword frequently used by prospective purchasers in searching eBay’s website, and providing sellers with a “Holiday Hot List” of anticipated “big sellers” including Tiffany jewelry.

### ***C. Tiffany’s Efforts to Police the Sale of Tiffany Counterfeit Goods on the eBay Website***

The Court found that, prior to 2003, “Tiffany brought individual lawsuits against counterfeiters, including counterfeiters selling their items on eBay... Nevertheless, by 2003, Tiffany apparently determined that it would forego future legal actions against individual sellers of counterfeit Tiffany merchandise on eBay and, instead, addresses the problem with eBay directly.” Slip op. at 15 (citations omitted).

Tiffany participated in eBay’s “About Me” program to warn consumers that:

- (1) “most of the purported ‘TIFFANY & CO.’ silver jewelry and packaging available on eBay is counterfeit”;
- (2) genuine Tiffany merchandise is available only through stores, catalogs, and Tiffany’s own website, and that the manufacture and sale of counterfeit Tiffany goods on eBay is a crime; and
- (3) “TIFFANY & CO. RIGOROUSLY PROTECTS ITS TRADEMARKS AND COPYRIGHTS.”

Slip op. at 13.

Tiffany also participated in eBay’s VeRo program and “was among the top ten reporters in 21 of the 28 months between June 2003 and September 2005.” Slip op. at 18.

Despite this active participation in eBay’s programs, the Court found that “it is clear that Tiffany invested relatively modest resources to combat the problem”, comparing the \$763,000 budgeted for identifying and noticing eBay of specific counterfeits with the over \$14 million spent on anti-counterfeiting efforts in general and the \$3-5 million spent on litigating the instant action. Slip op. at 18. The Court made specific notice that Tiffany chose not to use technological tools offered by eBay or to develop its own technological tools to expedite the process of monitoring and reporting on eBay. Slip op. at 19.

An important finding that colored the Court's opinion was that "Tiffany could have invested additional resources in monitoring the eBay website and reporting NOCIs through the VeRO Program. Had Tiffany done so, Tiffany could have captured more of the infringing listings on eBay." Slip op. at 19.

Tiffany sought in this action to have eBay take certain additional proactive steps to limit the access of counterfeit Tiffany items on the eBay website. In particular, Tiffany proposed that eBay prospectively ban sellers of multiple Tiffany items as likely counterfeiters, a step that eBay was not willing to take.

## **Part II: The Duties of eBay and Tiffany with Respect to Policing Counterfeit Sales of Tiffany Items on eBay's Website**

As a preliminary matter, it was clear from the record that while there are eBay users who sold counterfeit Tiffany items, there are also eBay users who sold authentic second-hand Tiffany items. The Court emphasized that Tiffany had no legal grounds to object to the sale of authentic second-hand Tiffany items. With respect to the counterfeit Tiffany items, the Court found that when eBay was notified of the offer of a counterfeit item, eBay responded by removing the counterfeit item.

Thus, the real issue is whether eBay (the website owner offering space to third party purveyors of both legitimate and counterfeit Tiffany items) or Tiffany (the rights owner) should bear the cost of determining whether a particular item is legitimate or counterfeit.

With respect to the duties of eBay and Tiffany to police the sale of counterfeit Tiffany items on eBay's website, the Court found as follows:

Here, when Tiffany put eBay on notice of specific items that Tiffany believed to be infringing, eBay immediately removed those listings. eBay refused, however, to monitor its website and preemptively remove listings of Tiffany jewelry before the listings became public. The law does not impose liability for contributory trademark infringement on eBay for its refusal to take such preemptive steps in light of eBay's "reasonable anticipation" or generalized knowledge that counterfeit goods might be sold on its website. Quite simply, the law demands more specific knowledge as to which items are infringing and which seller is listing those items before requiring eBay to take action.

Slip op. at 2.

In the context of its decision rejecting Tiffany's assertion of contributory infringement, the Court applied the Supreme Court's test in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 546 U.S. 844 (1982), and concluded that "generalized assertions of trademark infringement are insufficient to establish that eBay knew or had reason to know of the infringement at issue". Slip op. at 38.

The Court concluded its decision with the following missive:

In sum, the Court concludes that Tiffany has failed to meet its burden in proving its claims. The Court makes no finding as to whether Tiffany might prevail were it to sue individual eBay sellers on any of these legal theories, or as to whether criminal prosecutions might be initiated against individual sellers. ***Nevertheless, given Tiffany's choice to sue eBay, rather than individual sellers, and this Court's conclusion that eBay does not continue to supply its services to those whom it knows or has reason to know are infringing Tiffany's trademarks, Tiffany's claims against eBay must fail.***

Slip op. at 65-66 (emphasis added).

### **Part III: eBay's Use of the Tiffany Mark Was Protected Under the Nominative Fair Use Doctrine**

Tiffany argued that eBay was liable for trademark infringement (and various related causes of action) because eBay advertised the availability of Tiffany items on the eBay website and in other websites and publications, and eBay purchased directly (or through reimbursements of third parties) sponsored linked advertisements on search engines using "Tiffany" as a keyword. Nonetheless, the Court rejected these claims on the ground that eBay's use of the Tiffany mark was not actionable under the nominative fair use doctrine:

[T]he Court finds that eBay's use of Tiffany's trademarks in its advertising, on its homepage, and in sponsored links purchased through Yahoo! and Google, is a protected, nominative fair use of the marks.

Slip op. at 2.

The Court explained the nominative fair use doctrine as follows:

Under trademark law, trademark owners cannot prevent others from making a descriptive use of their trademark. "While a trademark conveys an exclusive right to the use of a mark in commerce in the area reserved, that right generally does not prevent one who trades a branded product from accurately describing it by its brand name, so long as the trader does not create confusion by implying an affiliation with the owner of the product." This type of descriptive use of a trademark is protected under the doctrine of nominative fair use... ***This doctrine is essential because it is undisputed that trademark owners cannot use trademark law to prevent the resale of authentic, trademarked goods.***

Slip op. at 31-32 (citations omitted; emphasis added).

The Court found that eBay's use of the Tiffany marks satisfied the elements of the nominative fair use defense for the following reasons:

(1) "eBay demonstrated that the product in question—here, Tiffany silver jewelry—was not readily identifiable without the use of the Tiffany trademark." Slip op. at 32 (other ways of referring to Tiffany jewelry would not identify the full value of the jewelry being sold or lead to absurd circumlocutions);

(2) "eBay has demonstrated that it used only so much of the mark or marks as was reasonably necessary to identify the product or service." Slip op. at 33 (eBay in its advertisements did not, for example, use Tiffany's distinctive lettering or coloring); and

(3) "eBay has shown that it did not do anything that would suggest sponsorship or endorsement by the trademark holder." Slip op. at 33 (there was scant evidence of actual confusion and the inclusion of a specific disclaimer by Tiffany on the "About Me" page on eBay helped dispel any potential confusion).

Other significant factors implicitly underlying the Court's analysis were its findings that:

1. “While the Court concludes that counterfeit Tiffany jewelry was listed and sold on eBay, it is also clear that genuine Tiffany silver jewelry was also sold on eBay.” Slip op. at 22; see also id. at 59 (“Because authentic Tiffany merchandise is sold on eBay’s website, Tiffany has failed to prove that eBay’s challenged advertising practices are literally false.”); and
2. “Here, when Tiffany put eBay on notice of specific items that Tiffany believed to be infringing, eBay immediately removed those listings.” Slip op. at 2; see also id. at 11-12, 51 (“However, for the reasons described above, the Court finds that eBay responded appropriately to notice of specific infringing items, and that evidence of eBay’s general knowledge of infringement is insufficient to impute knowledge to eBay of specific infringing listings.”).

## Conclusion

The Court concluded its decision with the following policy statement:

The rapid development of the Internet and websites like eBay have created new ways for sellers and buyers to connect to each other and to expand their businesses beyond geographical limits. These new markets have also, however, given counterfeiters new opportunities to expand their reach. The Court is not unsympathetic to Tiffany and other rights owners who have invested enormous resources in developing their brands, only to see them illicitly and efficiently exploited by others on the Internet. ***Nevertheless, the law is clear: it is the trademark owner’s burden to police its mark, and companies like eBay cannot be held liable for trademark infringement based solely on their generalized knowledge that trademark infringement might be occurring on their websites.***

Slip op. at 66 (emphasis added).

The Court also noted that “[p]olicymakers may yet decide that the law as it stands is inadequate to protect rights owners in light of the increasing scope of Internet commerce and the concomitant rise in potential trademark infringement.” Slip op. at 2.

For now, the Tiffany decision provides guidelines (at least in the U.S.) to online clearinghouses/auctioneers and rights owners on what steps each must take to police the sale of counterfeit items by third parties. Whether Congress will take up the Court’s invitation to change the law is yet to be seen. Similarly, whether this decision will withstand further judicial scrutiny (on appeal or as precedent) also remains to be seen.

On June 30, 2008, just prior to the present decision, the Commercial Court of Paris, France, reached a very different result ordering eBay to pay the U.S. equivalent of \$61 million to the luxury goods group LVMH for allowing the sale of fake merchandise. See *Thierry Leveque, LVMH Wins compensation From eBay Over Counterfeits*, Reuters, July 1, 2008, available at <http://www.reuters.com/article/internetNews/idUSPAB00415820080701>. No doubt the potentially contrary obligations imposed under different national laws will impact the ultimate safeguards that companies like eBay will implement on their websites.

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