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Us Trade Mark Owners Must Police Their Own Marks On Ebay

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Tiffany (NJ) Inc. v eBay, Inc., No. 08-3947-cv, 600 F.3d 93, 2010 US App. LEXIS 6735, US Court of Appeals for the Second Circuit, 1 April 2010

Abstract

eBay is found not liable for infringing Tiffany's trade mark through the sale of both authentic and counterfeit items on its website, although eBay may be subject to liability for false advertising.

Legal context

In the summer of 2008, a series of international litigation disputes between eBay and various trade mark owners whose goods are sold on the eBay website began to heat up. The disputes generally centred on what the respective responsibilities of policing counterfeit sales of trade marked goods should be between eBay on the one side (as the host of its eBay websites where third parties conduct private auctions), and the trade mark owners of the goods that are being auctioned on the other side.

A US district court, in *Tiffany (NJ) Inc. v eBay, Inc.*, 576 F. Supp. 2d 463 (SDNY 2008) ('*Tiffany I*'), found the various efforts eBay made to safeguard against counterfeits to be sufficient to avoid claims for trade mark infringement. In essence, *Tiffany I* placed the burden on Tiffany, as the trade mark owner, to take actions beyond those already imposed by eBay to police against counterfeit sales on the eBay website. For a detailed discussion of the district court decision, see Charles R. Macedo, 'Duty on trade mark owner to police its own marks', *JIPLP*, 21 October 2008.

In contrast, the French Commercial Court in *Louis Vuitton Malletier SA v eBay, Inc.*, 30 June 2008 ('LVMH'), came to a very different conclusion, finding that eBay had a duty to prevent counterfeits from being sold on the eBay website, and holding eBay liable for substantial damages (to the order of 20 million Euros) for the sales of such counterfeits.

For a discussion comparing the defences and results in the NY action and the French action, see Charles R. Macedo, 'eBay: A Tale of Two Defenses', *IP Law 360*, 22 August 2008 (available at http://www.arelaw.com/downloads/ARElaw_EbayTaleof2Defenses.pdf). Since then, numerous other courts have weighed in with decisions falling on either side of the dispute.

The US Court of Appeals for the Second Circuit affirmed for the most part the US district court decision in *Tiffany I*, and found that while eBay was not liable to Tiffany for trade mark infringement under the various theories advanced (direct and indirect trade mark infringement and dilution), it might nonetheless be found liable to Tiffany for false advertisement. See *Tiffany (NJ) Inc. v eBay, Inc.*, No. 08-3947-cv, 600 F.3d 93, 2010 US App. LEXIS 6735 (2d Cir. 1 April 2010) ('*Tiffany II*'). The false advertisement claims were remanded to the US district court for further consideration.

This Current Intelligence addresses the Second Circuit's decision in *Tiffany II* to explain both the policing efforts the Appellate Court agreed were sufficient to avoid trade mark infringement by eBay, and the advertisements that risked false advertisement claims.

Facts

eBay and its website

eBay operates an online marketplace website that facilitates the buying and selling by hundreds of millions of people and entities of new and used goods by registered users, to the participants' benefit and eBay's profit. *Tiffany II* relied upon the US district court's factual findings to conclude:

[eBay] 'connect(s) buyers and sellers and () enable(s) transactions, which are carried out directly between eBay members.' *Tiffany I*], 576 F. Supp. 2d at 475. In its auction and listing services, it 'provides the venue for the sale (of goods) and support for the transaction(s), (but) it does not itself sell the items' listed for sale on the site, *id.* at 475, nor does it ever take physical possession of them, *id.* Thus, 'eBay generally does not know whether or when an item is delivered to the buyer.' *Id.*

Tiffany II, 2010 US App. LEXIS 6735, at *4 (footnote omitted and parenthetical in original as brackets).

In addition to listing fees, eBay generates revenues through its PayPal subsidiary, which charges transaction fees. This gives eBay an added incentive to increase both the volume and the price of the goods sold on its website.

Tiffany

Plaintiffs Tiffany (NJ) Inc. and Tiffany and Company (collectively, 'Tiffany') own various registered Tiffany trade marks. Tiffany has 'created and cultivated a brand of jewelry bespeaking high-end quality and style' (*Tiffany II*, 2010 US App. LEXIS 6735 at *3).

With respect to Tiffany, the Second Circuit explained (again relying upon the district court's findings) as follows:

Tiffany is a world-famous purveyor of, among other things, branded jewelry. [*Tiffany I*, 576 F. Supp. 2d] at 471-72. Since 2000, all new Tiffany jewelry sold in the United States has been available exclusively through Tiffany's retail stores, catalogs, and website, and through its Corporate Sales Department. *Id.* at 472-73. It does not use liquidators, sell overstock merchandise, or put its goods on sale at discounted prices. *Id.* at 473. It does not – nor can it, for that matter – control the 'legitimate secondary market in authentic Tiffany silvery jewelry,' i.e., the market for second-hand Tiffany wares. *Id.* at 473. The record developed at trial 'offere(d) little basis from which to discern the actual availability of authentic Tiffany silver jewelry in the secondary market.' *Id.* at 474 (*Tiffany II*, 2010 US App. LEXIS 6735 at *6.).

The counterfeit sales of Tiffany items

As the *Tiffany II* court recognized, the eBay 'marketplace is sometimes employed by users as a means to perpetrate fraud by selling counterfeit goods' including 'counterfeit Tiffany merchandise'. (*Tiffany II*, 2010 US App. LEXIS 6735 at *2-3.)

To show the fact and extent of counterfeit sales of Tiffany goods on the eBay website, Tiffany commissioned two surveys in 2004 and 2005 called the 'Buying Programs'. While the district court concluded that the Buying Program surveys were 'methodologically flawed and of questionable value,' it 'nonetheless decided that during the period in which the Buying Programs were in effect, a "significant portion of the 'Tiffany' sterling silver jewelry listed on the eBay website ... was counterfeit," and that eBay knew "that some portion of the Tiffany goods sold on its website might be counterfeit"... The court found, however, that "a substantial number of authentic Tiffany goods are (also) sold on eBay"' (*Tiffany II*, 2010 US App. LEXIS 6735 at *7).

eBay's anticounterfeiting measures

Tiffany I was premised on a finding that, although eBay profited from the sale of counterfeit Tiffany items in terms of its commissions on such sales, it also had a reputational interest that encouraged eBay to police against such counterfeits. The district court found that eBay's ability to police against counterfeit Tiffany marks was limited:

Because eBay "never saw or inspected the merchandise in the listings," its ability to determine whether a particular listing was for counterfeit goods was limited. [*Tiffany I*, 576 F.Supp. 2d] *Id.* at 477-78. Even had it been able to inspect the goods, moreover, in many instances it likely would not have had the expertise to determine whether they were counterfeit. *Id.* at 472 n.7 ("[I]n many instances, determining whether an item is counterfeit will require a physical inspection of the item, and some degree of expertise on the part of the examiner.") (*Tiffany II*, 2010 US App. LEXIS 6735 at *9.)

Nonetheless, the district court also found that eBay made substantial efforts to police against counterfeits on the eBay website including:

- eBay spent 'as much as \$20 million each year on tools to promote trust and safety on its website';
- eBay and PayPal set up 'buyer protection programs' under which, in certain circumstances, the buyer would be reimbursed for the cost of items purchased on eBay that were discovered not to be genuine;
- eBay also established a 'Trust and Safety' department, with some 4000 employees 'devoted to trust and safety' issues, including over 200 who 'focus exclusively on combating infringement' and 70 who 'work exclusively with law enforcement';
- eBay had implemented a 'fraud engine', 'which is principally dedicated to ferreting out illegal listings, including counterfeit listings'. The fraud engine utilized various manual and automatic searching techniques to identify and block obvious and less obvious forms of infringement, including, for example, seller's listings which include words like 'knock-off', 'counterfeit', 'replica', or 'pirated merchandise';
- eBay also maintained and administered the 'Verified Rights Owner ("VeRO") Program'—a 'notice-and-takedown' system allowing owners of intellectual property rights, including Tiffany, to 'report to eBay any listing offering potentially infringing items, so that eBay could remove such reported listings'. This system placed the burden on the rights owner to identify and notify eBay of potentially infringing items in the first instance, shifting the burden to eBay to take down such items thereafter. During the relevant period, the district court found, eBay 'never refused to remove a reported Tiffany listing, acted in good faith in responding to Tiffany's NOCIs, and always provided Tiffany with the seller's contact information';
- eBay allowed rights owners such as Tiffany to create an 'About Me' webpage on eBay's website 'to inform eBay users about their products, intellectual property rights, and legal positions'. Tiffany, not eBay, maintained the Tiffany 'About Me' page. With the headline 'BUYER BEWARE' the page begins: 'Most of the purported TIFFANY & CO. silver jewelry and packaging available on eBay is counterfeit'. It also says, *inter alia*:

The only way you can be certain that you are purchasing a genuine TIFFANY & CO. product is to purchase it from a Tiffany & Co. retail store, via our website (www.tiffany.com) or through a Tiffany & Co. catalogue. Tiffany & Co. stores do not authenticate merchandise. A good jeweler or appraiser may be able to do this for you.

- eBay also used special warning messages when a seller attempted to list a 'Tiffany item', which instructed the seller to make sure that the item was authentic Tiffany merchandise and informed the seller that eBay 'does not tolerate the listing of replica, counterfeit, or otherwise unauthorized items' and that violation of this policy 'could result in suspension of [the seller's] account', as well as providing a link to Tiffany's 'About Me' page with its 'buyer beware' disclaimer;
- eBay suspended from its website 'hundreds of thousands of sellers every year, tens of thousands of whom were suspected of having engaged in infringing conduct'; and

- eBay also delayed the ability of buyers to view listings of certain brand names, including Tiffany’s, for 6–12 hours so as to give rights-holders such as Tiffany more time to review those listings; developed the ability to assess the number of items listed in a given listing; and restricted 1-day and 3-day auctions and cross-border trading for some brand-name items. (*Tiffany II*, 2010 US App. LEXIS 6735 at *9–16.)

Based on this litany of enforcement efforts, “[t]he district court concluded that “eBay consistently took steps to improve its technology and develop anti-fraud measures as such measures became technologically feasible and reasonably available”.

eBay’s advertisements of Tiffany goods

At the same time that eBay was attempting to reduce the sale of counterfeit items on its website, it actively sought to promote sales of premium and branded jewellery, including Tiffany merchandise, on its site. eBay’s advertisements included:

- advising its sellers to take advantage of the demand for Tiffany merchandise as part of a broader effort to grow the Jewelry & Watches category;
- Prior to 2003, advertising the availability of Tiffany merchandise on its site using advertisements such as ‘Mother’s Day Gifts!’, a ‘Fall FASHION BRAND BLOWOUT’, ‘Jewelry Best Sellers’, ‘GREAT BRANDS, GREAT PRICES’, or ‘Top Valentine’s Deals’, and ‘GET THE FINER THINGS’, each of which provided the reader with hyperlinks, at least one of each of which was related to Tiffany merchandise—‘Tiffany’, ‘Tiffany & Co. under \$150’, ‘Tiffany & Co’, ‘Tiffany Rings’, or ‘Tiffany & Co. under \$50’; and
- purchasing sponsored-link advertisements on various search engines to promote the availability of Tiffany items on its website, including, by way of example:

Tiffany on eBay. Find **tiffany** items at low prices. With over 5 million items for sale every day, you’ll find all kinds of unique [unreadable] Marketplace. www.ebay.com (*Tiffany II*, 2010 US App. LEXIS 6735 at *17–18.).

While eBay told Tiffany that it had ceased this practice after Tiffany complained in 2003, the district court found that eBay continued to do so indirectly through a third party.

Tiffany I

Being concerned that some people used eBay’s website to sell counterfeit Tiffany merchandise, Tiffany instituted proceedings against eBay, asserting various causes of action: (trade mark infringement, trade mark dilution, and false advertising) arising from eBay’s advertising and listing practices. Tiffany initiated the action in 2004 with an Amended Complaint alleging, *inter alia*, that ‘eBay’s conduct – i.e., facilitating and advertising the sale of “Tiffany” goods that turned out to be counterfeit – constituted direct and contributory trade mark infringement, trade mark dilution, and false advertising’. (*Tiffany II*, 2010 US App. LEXIS 6735 at *18.)

In July 2008, following a bench trial, the district court issued its opinion, setting forth detailed findings of fact and conclusions of law, deciding in favour of eBay on all claims. For a detailed discussion of the district court decision, see Charles R. Macedo, ‘Duty on trade mark owner to police its own marks’, *JIPLP*, 21 October 2008.

Tiffany II addresses the issues raised in Tiffany’s appeal from *Tiffany I*.

Analysis

In this latest decision, the Second Circuit affirmed the district court’s dismissal of Tiffany’s trade mark infringement claims (both direct and contributory) as well as Tiffany’s trade mark dilution claim, but remanded Tiffany’s claim for false advertisement for further proceedings before the district court. Significantly, the court also cautioned eBay (and other

similarly situated) not to lessen their enforcement efforts, or the result might be different next time.

Tiffany's direct trade mark infringement claim

Tiffany's trade mark infringement claim was based on eBay's use of the Tiffany marks on its website and by purchasing sponsored advertisements using the Tiffany marks on Google and Yahoo! Tiffany also argued that eBay was liable for the sale of counterfeit items on the eBay website.

The district court rejected Tiffany's claims for direct trade mark infringement based on the doctrine of nominative fair use, ie, allowing a defendant to use a plaintiff's trade mark to identify the plaintiff's goods so long as there is no likelihood of confusion about the source of the defendant's product or the mark-holder's sponsorship or affiliation.' *Tiffany II*, 2010 US App. LEXIS 6735, at *20–21 [citing *Merck & Co. v Mediplan Health Consulting, Inc.*, 425 F. Supp. 2d 402, 413 (SDNY 2006)]. While the Second Circuit declined to accept or reject such a doctrine, it nonetheless affirmed the dismissal of Tiffany's direct infringement claim on the grounds that 'a defendant may lawfully use a plaintiff's trade mark where doing so is necessary to describe the plaintiff's product and does not imply a false affiliation or endorsement by plaintiff of the defendant.' (*Tiffany II*, 2010 US App. LEXIS 6735, at *22.)

Applying this standard to the Tiffany–eBay facts, the Second Circuit relied on the district court's factual findings that eBay used the mark to describe accurately the genuine Tiffany goods offered for sale on its website. None of eBay's uses of the mark suggested that Tiffany affiliated itself with eBay or endorsed the sale of its products through eBay's website.

The Second Circuit also rejected Tiffany's claim that eBay should be liable for direct trade mark infringement based on its general knowledge that counterfeit Tiffany items are sold on the eBay website:

eBay's knowledge *vel non* that counterfeit Tiffany wares were offered through its website is relevant to the issue of whether eBay contributed to the direct infringement of Tiffany's mark by the counterfeiting vendors themselves, or whether eBay bears liability for false advertising. But it is not a basis for a claim of direct trademark infringement against eBay, especially inasmuch as it is undisputed that eBay promptly removed all listings that Tiffany challenged as counterfeit and took affirmative steps to identify and remove illegitimate Tiffany goods. To impose liability because eBay cannot guarantee the genuineness of all of the purported Tiffany products offered on its website would unduly inhibit the lawful resale of genuine Tiffany goods.

We conclude that eBay's use of Tiffany's mark in the described manner did not constitute direct trademark infringement. (*Tiffany II*, 2010 US App. LEXIS 6735 at *24–25.)

Tiffany's contributory trade mark infringement claim

The Second Circuit also affirmed the dismissal of Tiffany's claims for contributory trade mark infringement for allegedly culpably facilitating the infringing conduct of the counterfeiting vendors. With respect to this course of action, the Second Circuit recognized that while the US Supreme Court had provided some guidance on the issue of indirect trade mark infringement in *Inwood Laboratories, Inc. v Ives Laboratories, Inc.*, 456 US 844 (1982), the limited case law left the law of contributory trade mark infringement ill-defined.

There was a vivid debate at the district court level as to whether the *Inwood* test applied to eBay. However, on appeal that dispute dropped out and the Second Circuit applied the *Inwood* test without deciding its applicability. Tiffany's claim under *Inwood* was based on a theory that eBay continued to supply its service to one whom it knows or has reason to know is engaging in trade mark infringement. The district court relied upon eBay's action in taking down known counterfeiters in response to its NOCI program, and did not accept Tiffany's arguments that eBay should be liable based on its 'general knowledge' of counterfeit sales.

The Second Circuit agreed with the district court that ‘general knowledge’ of widespread infringement was insufficient to establish a claim for contributory trade mark infringement and that more specific knowledge concerning the infringing listings is required:

For contributory trade mark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary (*Tiffany II*, 2010 US App. LEXIS 6735, at *37).

In response to concerns that its rulings might cause eBay to invoke ‘willful blindness’ to actual counterfeit sales on its websites, the Second Circuit agreed that such wilful blindness could indeed lead to a finding that the *Inwood* test would be met, and contributory trade mark infringement found:

Moreover, we agree with the district court that if eBay had reason to suspect that counterfeit Tiffany goods were being sold through its website, and intentionally shielded itself from discovering the offending listings or the identity of the sellers behind them, eBay might very well have been charged with knowledge of those sales sufficient to satisfy *Inwood*’s “knows or has reason to know” prong (*Tiffany II*, 2010 US App. LEXIS 6735, at *43).

Tiffany’s trade mark dilution claim

The Second Circuit also rejected Tiffany’s trade mark dilution claim based on a theory of ‘dilution by blurring’ because eBay does not use Tiffany mark with respect to its own products, but instead merely uses the plaintiff’s mark to advertise the availability of authentic Tiffany merchandise on the eBay website. *Tiffany II*, 2010 US App. LEXIS 6735, at *50. The Second Circuit concluded that a claim for trade mark dilution by blurring was not legally actionable without a second mark or product of the defendant’s to blur or tarnish plaintiff’s mark.

Tiffany’s false advertising claim

Finally, the Second Circuit reversed the district court’s dismissal of Tiffany’s false advertising claim. Here, the Second Circuit concluded that the district court’s reasoning in support of its dismissal of this claim was legally flawed. In particular, the Second Circuit recognized that when eBay advertises the goods sold through its site as Tiffany merchandise, the law requires that eBay be held accountable for the words that it chooses to use to the extent that they misled or confused consumers. *Tiffany II*, 2010 US App. LEXIS 6735, at *57. Accordingly, the Second Circuit concluded that neither the fact that eBay did not know which particular listings were not genuine, nor the fact that other third parties—and not eBay—were in control of whether the particular listings were genuine led to the conclusion that the false advertising claim was not actionable. Neither of the above circumstances impacts upon whether eBay’s statement that eBay sold Tiffany items was false or misleading. Recognizing that the district court had a more fulsome understanding of the factual record, the Second Circuit remanded the false advertising issues to the district court to further consider this claim in view of the Second Circuit’s legal holding (*Tiffany II*, 2010 US App. LEXIS 6735, at *57–58).

Practical Significance

While the battle over who has the burden to police counterfeit goods over eBay continues to rage internationally, the Second Circuit has provided more guidance to assist trade mark owners in the US on where it will draw the lines. This latest pronouncement from the Second Circuit further refines the legal guidance regarding the respective duties of eBay and trade mark owners in the USA to police against counterfeits. The message remains clear that US courts want to keep eBay operating, but expect both sides to participate and act responsibly in their efforts to police the sale of counterfeit goods.

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