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SHOULD DESIGNERS PAY THE PRICE?
A LOOK AT CONTRIBUTORY TRADEMARK
INFRINGEMENT AS IT RELATES TO DIFFERENT
OUTCOMES OF INTERNET AUCTION SITE
LITIGATION IN THE UNITED STATES AND
FRANCE

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They fill the streets of New York and Los Angeles; hundreds line the Las Vegas strip—counterfeit goods that is. Not only do counterfeit handbags, sunglasses, and jewelry now line the sidewalks of big cities, but the items are also invading smaller communities. A local headline just before one of the largest shopping days of the year read, “\$650k Worth of Fake Goods Seized at Knoxville Malls.”¹ The local police seized fake handbags, sunglasses, designer cell phone cases, and jewelry when they executed search warrants at the ten retail outlets just before Black Friday.² The counterfeiting problem does not stop with street vendors and malls. The largest shopping mall in the world is the Internet, and it provides customers with thousands of different items daily. Among these hot buys found on the Internet are “knock-offs.” One estimate for 2006 “posits that 14 percent—or \$84 billion—of [the] year’s \$624 billion global counterfeit trade was derived from Internet sales.”³ As more and more counterfeits reach more and more Americans, what are Congress and the judicial system doing to stop it?

The Internet has provided a large marketplace for buyers and sellers of both real and counterfeit items, and as a result, the legal

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1. J.J. Stambaugh, *KPD: \$650k Worth of Fake Goods Seized at Knoxville Malls*, KNOXNEWS.COM, Nov. 26, 2008, <http://www.knoxnews.com/news/2008/nov/26/kpd-650k-worth-fake-goods-seized-knoxville-malls/?partner=RSS>.

2. *Id.*

3. Xenia P. Kobylarz, *Policing the Internet*, INTELL. PROP. L. & BUS., June 2007, at 26, 26.

standards for contributory trademark infringement have been playing catch-up over the past twenty years. The problems associated with the trade and trafficking of these counterfeits are not found simply in the United States; courts around the world are struggling to control the problem. As designers and elite trademark owners fight an uphill battle in the United States, they are finding help in other jurisdictions. The French courts seem ready to come to the rescue of these top name-brand designers after the Commercial Court of Paris handed LMVH Moët Hennessy Louis Vuitton SA (“Louis Vuitton”) a twenty-million euro verdict against eBay after eBay was found liable for selling fake Louis Vuitton merchandise.⁴ Under similar circumstances, Tiffany sued eBay in the Southern District of New York only to be left with a cold verdict.⁵ This begs the question as to why the courts in France are coming to the rescue of trademark owners who file suit in their jurisdiction while courts in the United States will not give the same relief.

This Note discusses the development of contributory trademark infringement law in the United States and compares it to the stand France has taken in stopping contributory trademark infringement. Part I examines the history of contributory trademark infringement law in the United States and where it may be headed in the wake of *Tiffany v. eBay*. Part II briefly discusses France’s history of trademark laws and the holding of *Louis Vuitton v. eBay*. Part III looks at policy concerns that stem from contributory trademark infringement and policing the Internet. Finally, Part IV explores different laws and programs as potential models for a standardized contributory trademark law. This Note proposes a *reasonably anticipated* standard or similar standardized rule to resolve the discrepancies that have arisen in the international context regarding how to prevent infringement activities on internet auction sites.

4. SA Louis Vuitton Malletier v. eBay, Inc., Tribunal de Commerce de Paris [Commercial Court of Paris], 1e ch. B, June 30, 2008, no. 2006077799, slip op. at 17–18, available at <http://www.foruminternet.org/specialistes/veille-juridique/jurisprudence/IMG/pdf/tcom-par20080630.pdf>, translation available at <http://web20.nixonpeabody.com/np20/np20wiki/PDF%20Library/Ebay1.pdf>.

5. Tiffany (NJ) Inc. v. eBay, Inc., 576 F. Supp. 2d 463, 527 (S.D.N.Y. 2008).

I. OVERVIEW OF UNITED STATES TRADEMARK LAW AND THE
OUTCOME OF *TIFFANY V. EBAY*

A. *Background of Trademark Law in the United States*

A trademark is defined as a “word, name, symbol, or device, or any combination thereof . . . used by a person . . . to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods.”⁶ A trademark is beneficial to its owner because it helps him establish goodwill in his product or service.⁷ There are two primary justifications for trademark protection. The first justification is “to ‘protect the public so that it may be confident that, in purchasing a product bearing a particular trademark which it favorably knows, it will get the product which it asks for and which it wants to get.’”⁸ The second is “to ensure that ‘where the owner of a trademark has spent energy, time and money in presenting to the public the product, he is protected in his investment from its appropriation by pirates and cheats.’”⁹

The Lanham Act is the federal trademark statute that provides for claims of trademark infringement, dilution, false designations of origin, and false advertising.¹⁰ It prohibits the use of another person’s trademark without permission “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.”¹¹ Contributory trademark infringement “allows certain parties other than the ones who actually infringed the trademark to be held jointly liable for the infringement.”¹² However, case law gives a clearer picture and a better definition of how contributory trademark infringement is dealt with in the United States.

6. 15 U.S.C. § 1127 (2006).

7. STEPHEN M. MCJOHN, *INTELLECTUAL PROPERTY: EXAMPLES AND EXPLANATIONS* 328 (3d ed. 2009).

8. GRAEME B. DINWOODIE & MARK D. JANIS, *TRADEMARKS AND UNFAIR COMPETITION: LAW AND POLICY* 15 (2d ed. 2007) (quoting S. REP. NO. 79-1333, at 1274 (1946)).

9. *Id.* (quoting S. REP. No. 79-1333, at 1274 (1946)).

10. Lanham Act, 15 U.S.C. §§ 1051–1127 (2006).

11. *Id.* § 1114(1).

12. Jason Kessler, *Correcting the Standard for Contributory Trademark Liability over the Internet*, 39 COLUM. J.L. & SOC. PROBS. 375, 379 (2006).

Under U.S. case law, liability for contributory trademark infringement was first imposed on the manufacturer or distributor. This set the controlling test as the inducement standard. Under this standard, "one who induced another to commit a fraud and provided the means to carry out the fraud could be held liable for it."¹³ The U.S. courts used this inducement standard until 1982, when the Supreme Court added a knowledge component to the test in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*¹⁴ In that case, Inwood Laboratories manufactured the drug cycladelate and intentionally copied the appearance of Ives Laboratories' trademarked cycladelate drug Cyclospasmol.¹⁵ Ives sued Inwood, claiming that Inwood's use of look-alike capsules induced pharmacists to mislabel Inwood's drugs in order to pass them off as Cyclospasmol, thereby infringing Ives's trademark.¹⁶ The Court found that Inwood did not intentionally induce pharmacists to mislabel generic drugs and did not continue to supply drugs to pharmacists who it *knew* were mislabeling its product, and accordingly held in favor of the defendant.¹⁷

Inwood expanded the inducement standard of contributory trademark infringement and presented a two-part test for contributory trademark infringement. The first part recognizes contributory liability when the "manufacturer or distributor intentionally induces another to infringe a trademark."¹⁸ If the first part is not satisfied, contributory liability is still found under the second part when "a manufacturer or distributor . . . continues to supply its product to one whom it *knows* or has *reason to know* is engaging in trademark infringement."¹⁹

The cases that have followed *Inwood* have expanded the concept of contributory trademark infringement from including merely the manufacturer to include also landlords of venues that provide a service. In *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*, the Seventh Circuit stated that the owner of a flea market could

13. *Id.* In *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 530–31 (1924), the Court held that "[o]ne who induces another to commit a fraud and furnished the means of consummating it is equally guilty and liable for the injury."

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

15. *Id.* at 847.

16. *Id.* at 850.

17. *Id.* at 855.

18. *Id.* at 854.

19. *Id.* (emphasis added)

be held liable for contributory trademark infringement in the same manner as a manufacturer or distributor.²⁰ The court

justified this extension by treating a trademark violation as a common law tort and following the Restatement of Torts, which says that one is responsible for the torts of those one permits on one's premises "knowing or having reason to know that the other is acting or will act tortiously."²¹

Similarly, in *Fonovisa, Inc. v. Cherry Auction, Inc.*, the Ninth Circuit said that a swap meet's operator could be found liable because he was supplying the necessary marketplace for the sale of counterfeit goods in substantial quantities.²² This court adopted *Hard Rock Cafe's* application of the *Inwood* test.²³ Therefore, after *Hard Rock Cafe's* landlord test, liability is imposed on the owner of the premises if the owner knows of infringement, because the owner supplies the premises—the means of infringement.

The first case to apply *Hard Rock Cafe's* landlord test in the internet context was *Lockheed Martin Corp. v. Network Solutions, Inc.*²⁴ The Ninth Circuit found that a registrar of internet domain names was not liable for contributory trademark infringement based on a third party's registration of domain names that infringed Lockheed's trademarks.²⁵ The court in *Lockheed* stated that the *Hard Rock* and *Fonovisa* cases show that the court should "consider the extent of control exercised by the defendant over the third party's means of infringement."²⁶ The court went on to summarize the rule: "Direct control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark permits the expansion of *Inwood Lab's* 'supplies a product' requirement for contributory infringement."²⁷ Therefore, the relevant inquiry to determine if someone is liable in

20. *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992).

21. Kessler, *supra* note 12, at 382–83 (footnotes omitted) (quoting RESTATEMENT (SECOND) OF TORTS § 877(c) (1979)).

22. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264–65 (9th Cir. 1996).

23. *Id.* at 265.

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

25. *Id.* at 984.

26. *Id.*

27. *Id.*

today's internet context is "the extent of control exercised by the defendant over the third party's means of infringement."²⁸

B. *Case at Issue: Tiffany v. eBay*

Tiffany v. eBay applied the "extent of control exercised" standard to determine the defendant's liability for supplying a means of infringement in the internet context.²⁹ In *Tiffany*, the court found that the auction website eBay did not engage in contributory trademark infringement and held that the website's refusal to automatically and permanently suspend sellers when it was notified of potential infringing activities did not constitute per se contributory trademark infringement.³⁰

Tiffany & Co. ("Tiffany") is a licensee and user of trademarks for jewelry, watches, and decorative art objects.³¹ Tiffany controls its reputation for high quality jewelry by employing inspectors that physically inspect each item to determine if it is authentic Tiffany silver jewelry.³² Tiffany does not make its quality standards known to the public or other jewelry manufacturers.³³ Furthermore, Tiffany controls the distribution of its branded goods by allowing its new jewelry to be sold in the United States only at Tiffany retail stores, in Tiffany catalogs, on the Tiffany website, and through Tiffany's corporate sales department.³⁴ In addition to this control, Tiffany does not sell or authorize the sale of Tiffany merchandise on eBay or other online marketplaces.³⁵

eBay is an online marketplace that allows users to sell and buy goods directly through its website.³⁶ eBay does not sell the items and is never in control of the items, but is rather a facilitator, connecting users to complete the transactions.³⁷ eBay earns its revenue through fees charged to the seller for listing and selling their items on the site,

28. *Id.*

29. *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 506 (S.D.N.Y. 2008).

30. *Id.* at 527.

31. *Id.* at 472.

32. *Id.*

33. *Id.*

34. *Id.* at 472-73.

35. *Id.* at 473.

36. *Id.* at 474.

37. *Id.* at 475.

as well as from fees charged by PayPal.³⁸ Therefore, even though eBay does not officially sell Tiffany products, they do generate a substantial amount of revenue from the sale of “Tiffany”³⁹ silver on its website.⁴⁰

Tiffany used eBay’s Verified Rights Owner (“VeRO”) Program to report potentially infringing items so that eBay can remove such listings.⁴¹ The VeRO Program puts the responsibility on rights owners, such as Tiffany, to police their own trademarks.⁴² When a rights owner sees a potentially infringing item on eBay, he can report the listing to eBay by submitting a Notice of Claimed Infringement (“NOCI”) form.⁴³ eBay then verifies the information on the NOCI and removes the challenged listing.⁴⁴

Tiffany filed suit against eBay in 2004, alleging multiple causes of action, “including (1) direct trademark infringement . . . ; (2) contributory trademark infringement . . . ; (3) unfair competition . . . ; (4) false advertising under section 43(a)(1)(B) of the Lanham Act; (5) trademark dilution . . . ; and (6) contributory dilution.”⁴⁵ Regarding the contributory trademark infringement claim, the court said that eBay “clearly falls on the ‘service’ side of the product/service distinction” and that the court would “look not only to whether eBay provided the necessary marketplace for the counterfeiting (which it clearly did), but further, to whether eBay had direct control over the means of infringement.”⁴⁶ The court found that eBay had direct control over the means of the infringement because it retained significant control over the transactions conducted, actively promoted the sale of Tiffany jewelry items, gained profits from the listing of items and successful completion of sales, and maintained significant control over the listings on its website.⁴⁷

38. *Id.* PayPal is an eBay company that processes the payments for the auction transactions and charges an additional fee for each sale. *See id.*

39. “Tiffany’s ‘About Me’ Page stated that ‘Most of the purported “TIFFANY & CO.” silver jewelry and packaging available on eBay is counterfeit.’” *Id.* at 479.

40. *Id.* at 479–81.

41. *Id.* at 478.

42. *See id.*

43. *Id.*

44. *Id.*

45. *Id.* at 470, 493.

46. *Id.* at 506 (applying the standard of direct control and monitoring from *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999)).

47. *Id.*

Under the second element of the *Inwood* test, the court analyzed whether eBay's generalized knowledge of trademark infringement on its website was sufficient to meet the "knowledge or reason to know" standard.⁴⁸ The court held that Tiffany's actions to inform eBay through its "demand letters, the Buying Programs, and the volume of NOCI reporting provided only generalized knowledge to eBay."⁴⁹ It concluded that, "while eBay clearly possessed general knowledge as to counterfeiting on its website, such generalized knowledge is insufficient."⁵⁰ Accordingly, the court held that general knowledge does not require eBay to take action to discontinue supplying service to all who might be engaged in counterfeiting.

Thus, in the United States, one must have specific knowledge of the infringing act before the service provider will be found liable. The specific knowledge is measured by how much direct control and monitoring the service provider has over its premises or, in the case of the Internet, its website. The courts have generally examined contributory trademark liability in the internet context this way for the past ten years.⁵¹ Unless the Supreme Court rules differently on contributory trademark infringement in the internet context or Congress passes a law to reform the current one, this will likely remain the test to determine third-party liability.

II. OVERVIEW OF FRENCH TRADEMARK LAW AND THE OUTCOME OF *LOUIS VUITTON V. EBAY*

A. *French Trademark Law*

French intellectual property rights are found in the Intellectual Property Code.⁵² In France, trademarks "includ[e] manufacturing marks, commercial marks, and service marks consisting of signs which are capable of graphical representation and which function to

48. *Id.* at 507-13.

49. *Id.* at 518.

50. *Id.* at 508.

51. See, e.g., *SB Designs v. Reebok Int'l, Ltd.*, 338 F. Supp. 2d 904, 913 (N.D. Ill. 2004); *Gov't Employees Ins. Co. v. Google, Inc.*, 330 F. Supp. 2d 700, 705 (E.D. Va. 2004); *Size, Inc. v. Network Solutions, Inc.*, 255 F. Supp. 2d 568, 572 (E.D. Va. 2003).

52. Terrance J. Keenan, *American and French Perspectives on Trademark Keying: The Courts Leave Businesses Searching for Answers*, 2 SHIDLER J.L. COM. & TECH. 14, ¶ 23 (2005), <http://www.lctjournal.washington.edu/Vol2/a014Keenan.html> (noting that the specific provisions within the French Intellectual Property Code dealing with trademarks are Arts. L. 711-1 through L. 716-16 and Arts. R. 712-1 through R. 718-4).

distinguish the goods or services of [a] physical person or legal entity.”⁵³ Like the United States Code,⁵⁴

Article L. 313-3 provides that a trademark is infringed where there is likelihood of confusion and: (1) defendant reproduces a mark for products or services similar to those listed in the trademark registration, or (2) defendant imitates a trademark or uses an imitated trademark for goods and services that are identical or similar to those listed in the trademark registration.⁵⁵

“A duly registered mark grants the registrant a monopoly on its use and entitles him to prohibit third parties from using, imitating or otherwise benefiting from the mark in good or bad faith.”⁵⁶ “[T]he use of a well-known mark for products or services which are not similar to those enumerated in the registration may lead to the user[] being held liable in tort if such use is detrimental to the owner of the mark or constitutes an unjustified exploitation of the mark.”⁵⁷ However, “[t]rade mark infringement’ in France is a concept quite different from infringement theories in common law countries like the United States.”⁵⁸

One must view the French trademark law against the backdrop of the unfair competition principles of Article 1382 of the Civil Code, which is the section of the French code that outlines intentional and unintentional wrongs (or torts).⁵⁹ Article 1382 reads, “Any act whatever of man, which causes damage to another, obliges the one by whose fault it occurred, to compensate [for] it.”⁶⁰ Therefore, “there is substantial overlap between the trade mark law and the general principles of unfair competition or parasitic activity” of that article of the Civil Code.⁶¹ “[W]henever the circumstances indicate that the defendant is taking unfair advantage, or is being unjustly enriched,

53. SWEET & MAXWELL’S EUROPEAN TRADE MARK LITIGATION HANDBOOK ¶ 6-02, at 226 (Isabel M. Davies ed., 1998) [hereinafter SWEET & MAXWELL].

54. See 15 U.S.C. § 1114 (2006).

55. Keenan, *supra* note 52, ¶ 24 (footnotes omitted).

56. 2 LOVELLS & PAUL, HASTINGS, JANOFSKY & WALKER (EUROPE) LLP, DOING BUSINESS IN FRANCE § 17.05[5][b], at 17-53 (2008).

57. *Id.* § 17.05[6], at 17-57.

58. SWEET & MAXWELL, *supra* note 53, ¶ 6-23, at 235.

59. *Id.* ¶ 6-74, at 259.

60. CODE CIVIL [C. CIV.] art. 1382 (George Rouhette & Anne Rouhette-Berton trans., 2006) (Fr.), available at <http://www.docstoc.com/docs/8386816/Civil-Code>.

61. SWEET & MAXWELL, *supra* note 53, ¶ 6-74, at 259.

there can arise issues under Article 1382”⁶² It is important to note that trademark infringement under French law is also seen as a form of trespass, and thus cases may just as easily fall under the Civil Code of French law as they would under the Intellectual Property Code.⁶³

B. *Case at Issue: Louis Vuitton v. eBay*

In *SA Louis Vuitton Malletier v. eBay, Inc.*, the French court found that eBay was guilty of serious tortious acts consisting in abstention and negligence that infringed the rights of Louis Vuitton, to whom eBay owed compensation.⁶⁴ The court applied a tort standard to find liability with eBay by viewing the trademark rights of Louis Vuitton to be valuable property rights.

Louis Vuitton is a trademarked company that designs, manufactures, and markets luxury leather goods, such as purses, wallets, and ready-to-wear products.⁶⁵ Authentic as well as counterfeit Louis Vuitton items are sold on eBay. Louis Vuitton did not take part in the VeRO Program that eBay uses to combat infringement. Louis Vuitton filed suit against eBay in August of 2006,⁶⁶ charging eBay with “refusing, in spite of its repeated warnings since 1999, to take effective measures aimed at preventing infringement.”⁶⁷

The court found that eBay, as a broker, offers a service which it controls and cannot claim a lack of knowledge as to what information is transmitted on its site.⁶⁸ As such a broker, eBay is not allowed to partake in an illicit transaction in any capacity.⁶⁹ The French court found that eBay

62. *Id.*

63. *See id.* ¶ 6-23, at 235.

64. *SA Louis Vuitton Malletier v. eBay, Inc.*, Tribunal de Commerce de Paris [Commercial Court of Paris], 1e ch. B, June 30, 2008, no. 2006077799, slip op. at 17–18, available at <http://www.foruminternet.org/specialistes/veille-juridique/jurisprudence/IMG/pdf/tcom-par20080630.pdf>, translation available at <http://web20.nixonpeabody.com/np20/np20wiki/PDF%20Library/Ebay1.pdf>.

65. *Id.* at 1.

66. *Id.* at 2.

67. *Id.* at 7. Louis Vuitton specifically asked eBay to force the sellers to state that they “guarantee the genuineness of the products offered for sale” or to terminate the account of any seller at the first offense. *Id.*

68. *Id.* at 11.

69. *Id.*

deliberately refused to set up effective and appropriate measures in order to combat infringement, such as that consisting in requiring the sellers to supply, upon request, the purchase invoice or a certificate of authenticity of the products offered for sale, in sanctioning any guilty vendor by finally terminating his account as soon as the breach is ascertained, [or] in immediately withdrawing any illicit advertisements notified by the departments of [Louis Vuitton] in charge of combating infringement.⁷⁰

According to the court, these were tortious acts in violation of the Civil Code and not the Intellectual Property Code.⁷¹ Thus, because eBay was profiting from the sale of the fake Louis Vuitton items, it owed Louis Vuitton compensation for this “trespass.”⁷² It did not matter to the French court how much control or knowledge eBay had over the infringing activities. Instead, the court focused on the fact that eBay was being unjustly enriched by the illegal activities, and thus it should compensate Louis Vuitton. Furthermore, any action that eBay took to combat the sale of infringement items was seen as insufficient in light of the effect on the trademark owner.

III. POLICY CONCERNS THAT STEM FROM CONTRIBUTORY TRADEMARK INFRINGEMENT LIABILITY IN THE CONTEXT OF THE INTERNET AND THIRD PARTIES

The above examples from United States and France show that there is a discrepancy in the way various countries treat contributory trademark infringement on the Internet. One reason for this difference is the various policy concerns stemming from contributory trademark law in the internet context. The way a country views these concerns will affect how it controls counterfeit items in its jurisdiction. In the United States, trademark rights are generally thought to be personal rights of the holders, and as such, it is the responsibility of the trademark holder to enforce it.⁷³ *Tiffany* provides a perfect example of

70. *Id.* at 12.

71. *See id.* at 17.

72. *Cf.* C. CIV. art. 1382 (George Rouhette & Anne Rouhette-Berton trans., 2006) (Fr.), available at <http://www.docstoc.com/docs/8386816/Civil-Code> (“Any act whatever of man, which causes damage to another, obliges the one by whose fault it occurred, to compensate it.”); *id.* art. 1383 (“Everyone is liable for the damage he causes not only by his intentional act, but also by his negligent conduct or by his imprudence.”).

73. *See* Brian D. Kaiser, Note, *Contributory Trademark Infringement by Internet Service Providers: An Argument for Limitation*, 7 J. TECH. L. & POL’Y 65, 71 (2002).

a trademark holder actively seeking to do so. In France, the trademark rights are frequently viewed as a property right—an absolute right that should not be infringed—and thus the offense is seen as a trespass. The issue of how best to police the Internet for infringing items must be explored because of these differing views on property protection.

A. *Policing the Internet*

The difficulty of policing the Internet for trademark infringement is a policy concern in determining how contributory trademark liability should be applied in the internet context. Trademark owners have an interest in policing the Internet for infringement because doing so may reduce the risk that a court would find that the intellectual property owner abandoned or forfeited his rights.⁷⁴ For example, if one knows that his rights are being infringed online (perhaps by the sale of counterfeit items on eBay) and does not take action against the infringer, a court might find that the trademark owner abandoned or forfeited his rights to the public.⁷⁵ In addition, trademark owners have more reasons than other intellectual property owners to police the Internet for infringing uses. Courts in the United States have held that a trademark owner has an affirmative duty to police their marks on the Internet.⁷⁶ In *Hard Rock Cafe Int'l (USA) Inc. v. Morton*, for instance, the trademark owner had knowledge that the defendant's website used its trademark, and the court interpreted this as acquiescence to the defendant's conduct.⁷⁷ The plaintiff's knowledge of the defendant's infringement for over a year also factored into the court's decision that the consumer confusion was minimized.⁷⁸ The court noted that the trademark owner's method of regulating its trademark was insufficient and did not reflect a devotion to preventing infringement.⁷⁹ Therefore, the court said that

74. Nicole S. Bradley, *Pursuing Brand Infringements Online: Why Policing the Internet for Brand Abuse Is No Longer Optional*, CIPERATI (Cyberspace/I.P. Law Subcomm., Am. Bar Ass., Chicago, Ill.), Mar. 2005, <http://www.abanet.org/buslaw/committees/CL320010pub/newsletter/0006/>.

75. *See id.*

76. *See id.*

77. *Hard Rock Cafe Int'l (USA) Inc. v. Morton*, No. 97-9483, 1999 U.S. Dist. LEXIS 13760, at *34-37 (S.D.N.Y. Sept. 9, 1999).

78. *Id.* at *34-36.

79. *Id.* at *34-35.

the trademark owner had acquiesced to the infringing use.⁸⁰ The failure to take action effectively resulted in the loss of the ability to hold others liable for infringement.⁸¹ Thus, a trademark owner who neglects to regulate use of his mark portrays to competitors that he is not sufficiently concerned about the value of the mark, which could lead to widespread usage of the mark by the public, making it generic.⁸² If the trademark owner fails to police the mark adequately and it becomes generic, the trademark's significance may come to an end.⁸³

Arguably, the most important goal of trademark law is to prevent confusion among consumers as to the source of goods or services. Failure to police a mark may open the door to counterfeits, weakening the mark so that consumers have more difficulty in identifying the quality goods or services on which they rely.⁸⁴ For example, when a buyer purchases a counterfeit item on eBay, he is likely to associate the dissatisfaction not only with the online auction site, but also with the fake "trademarked" product that fails to live up to his desired standard. This could have detrimental effects on the trademark owner, such as losing potential customers forever. Therefore, it is crucial for a trademark owner to police his mark on the Internet not only to prevent consumer confusion, but also to keep his intended audience from undesirable material that reflects poorly on the trademark owner.

If one of the purposes of contributory trademark infringement is to protect the consumer, should those who benefit from the misuse of a trademark be held accountable for the harm that is caused to the consumer? France seems to think so. Following the ruling in *Louis Vuitton*, the philosophy of the French court is to spread the burden of policing the Internet to the ones who stand to benefit directly from the sale of infringing products. In the United States, as the Southern District of New York held in *Tiffany*, the burden is still fully on the

80. *Id.* at *35.

81. *See id.* at *36-37.

82. 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 17:5, at 17-8 to -9 (4th ed. 2009). This is known as "unintentional abandonment" which "occurs when the trademark owner, by any act of commission or omission, causes the mark to lose its significance as an indication of origin." *Id.*

83. *Id.* § 17:8, at 17-10 to -12. "Thus, even though the trademark owner may not intend this result, and may not even be negligent for not trying, the usage of the public may end the trademark significance of what the first user considers to be a symbol of origin in one seller." *Id.* § 17:8, at 17-12; *see also* Bradley, *supra* note 74.

84. MCCARTHY, *supra* note 82, § 17:17, at 17-38 to -42.

trademark owner to police the Internet, no matter the cost to the trademark owner or the benefit to the third party, who profits from the misuse.

Practical issues arise in attempting to identify acts of infringement and the parties responsible. The vastness of the Internet makes the cost of policing it prohibitively expensive to many trademark owners. Furthermore, trying to hold infringing parties responsible makes policing more difficult. Tiffany & Co. spends well over one million dollars annually tracking and removing counterfeit items from different auction sites.⁸⁵ eBay consistently argues that it cannot possibly police the approximately six-million new postings it receives daily for possible infringement activities.⁸⁶ Though eBay streamlined its VeRO Program in 2006 to help prevent auctions of counterfeit items, many brand-owners think that this attempt was no more than a half-measure.⁸⁷

This argument from eBay about the impossibility of policing the new postings leads to the point that there are disincentives to self-monitoring. As the law currently stands, the Internet Service Provider ("ISP") suffers increased liability if it exercises more control over the harmful content instead of simply not regulating it at all.⁸⁸ If the ISP directly controls and monitors its site and learns that infringing items are being sold, then it could be contributorily liable for infringement. The less the ISP monitors, the less control it exercises and the smaller the likelihood of liability for infringement.

Congress has already acted to remedy parallel disincentives with respect to copyright law.⁸⁹

Title II of the Digital Millennium Copyright Act⁹⁰ ("DMCA") . . . was meant to "protect qualifying Service Providers from liability for all monetary relief for direct, vicarious and contributory infringement," and "preserve[] strong incentives for service providers and

85. Kobylarz, *supra* note 3, at 26.

86. *Id.* at 29.

87. *Id.*

88. Kessler, *supra* note 12, at 394.

89. *Id.*

90. Digital Millennium Copyright Act, Pub. L. No. 105-304, §§ 201–203, 112 Stat. 2859, 2877–86 (1998) (codified as amended at 17 U.S.C. §§ 512–513 (2006)).

copyright owners to cooperate to detect and deal with copyright infringements that take place in the digital networked environment."⁹¹

The safe harbor provision in the DMCA provides that an ISP will not be responsible for copyright infringement arising from the content on a website if it:

(A)(i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing; (ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or (iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;

(B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and

(C) upon notification of claimed infringement . . . , responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.⁹²

If the ISP does not comply with these provisions and knows of a particular infringement, then it will be contributorily liable for its customer's infringement.

Some question whether the DMCA adequately addresses ISPs' disincentives to monitoring their websites for infringing items.⁹³ "Whether or not the DMCA has effectively eliminated these disincentives, there is at least a general acknowledgment that such disincentives are bad public policy, and there has been a demonstrated congressional desire to reduce these disincentives."⁹⁴ Regardless of its adequacy, though, the DMCA only addresses copyright infringements, not trademark violations. Congress has not taken action to eliminate the disincentives of ISPs' self-monitoring in the realm of trademark law.

91. Kessler, *supra* note 12, at 396-97 (footnotes altered and omitted) (quoting S. REP. NO. 105-190, at 20, 40 (1998)).

92. Digital Millennium Copyright Act § 202, 112 Stat. at 2880 (codified at 17 U.S.C. § 512(c)) (internal quotation marks omitted).

93. See Kessler, *supra* note 12, at 398.

94. *Id.*

B. *Jurisdictional and International Issues*

The different outcomes of trademark litigation around the world put new responsibilities on internet auction sites. The similar fact patterns of *Tiffany* and *Louis Vuitton* resulted in opposite outcomes because of where the suits were filed. There are many obstacles presented by interstate and international activity. As discussed above, it is difficult to police the Internet for infringement since websites are created and accessed between states and internationally. There are so many users and creators around the globe that identifying what is potentially infringing and who the alleged infringer is becomes quite cumbersome.

Questions and issues always arise in relation to jurisdiction and whose laws will govern in domestic suits. These issues are an even greater obstacle when dealing with potential lawsuits in an international domain. Some commentators believe that the Internet is "a separate jurisdiction that transcends national borders and the control of nation-states."⁹⁵ These people are known as "internet separatists," and they "favor allowing Internet actors to determine their own rules" and reject the regulation of behavior on the Internet by democratic states.⁹⁶ This philosophy comes from "the American value placed on the unfettered flow of information; a value that is embedded in the present architecture of the Internet through the geographic indeterminacy of Internet transmissions."⁹⁷ "The Internet does not, however, displace the well-established principle in international law that allows states to exercise prescriptive jurisdiction for conduct having effects occurring within the national territory."⁹⁸ Notably, the Tribunal de Grande Instance de Paris issued an injunction against Yahoo!, Inc. ("Yahoo") in May 2000 prohibiting Yahoo auction sites from making available in France merchandise containing Nazi symbols.⁹⁹ Displaying such symbols was a violation of the French penal code.¹⁰⁰ Thus, material that reached French citizens through Yahoo's internet servers in the United States was subject to the foreign court's jurisdiction. "[T]o the extent that an

95. Joel R. Reidenberg, *Yahoo and Democracy on the Internet*, 42 JURIMETRICS J. 261, 262 (2002).

96. *Id.*

97. *Id.*

98. *Id.* at 266.

99. JONATHAN L. ZITTRAIN, JURISDICTION 94 (Amy Whitaker ed., 2005).

100. *Id.*

Internet actor strives to target users in a foreign jurisdiction, the foreign forum can assert territorial jurisdiction and apply the forum's law."¹⁰¹

As current law allows each country to deem what internet content will be allowed within its borders, this places another burden on trademark owners. Trademark owners are forced to spend more time and energy protecting their name in some countries than in others. It is difficult to predict which countries will follow the French model and which countries will follow in the United States' footsteps. Until countries adopt a uniform policy on how they will prosecute online auction sites, trademark owners must continue to police the Internet diligently in all jurisdictions to find infringing uses of their mark.

IV. THE FUTURE OF CONTRIBUTORY TRADEMARK INFRINGEMENT AND HOW BEST TO HANDLE IT IN THE CONTEXT OF THE INTERNET

The current state of contributory trademark infringement law in the United States is flawed. Under the standard set forth by the current law, third parties escape liability of infringing activities and profit from them. But what is the best standard to control contributory trademark infringement, especially considering the current state of the law? The aforementioned problems of policing the Internet and jurisdictional issues stand in the way of creating sound contributory trademark laws. By reflecting on the current state of copyright law, the issue of who is responsible for policing the Internet for trademark infringement may be solved. Secondly, the creation of a Community Trade Mark by the European Union provides valuable insight on how to solve the problems associated with jurisdiction.

A. *Copyright Law Versus Trademark Law: Contributory Infringement*

Copyright and trademark infringement both have their roots in the common law of torts, and thus one might think that they would have the same standards of liability, but that would be a mistake.¹⁰² The test for contributory trademark liability is narrower than that for

101. Reidenberg, *supra* note 95, at 271.

102. Kessler, *supra* note 12, at 402.

contributory copyright liability.¹⁰³ The trademark test is narrower because the property rights protected by trademark law are narrower than those protected by copyright law. “[C]opyright law gives owners a generalized right to prohibit all copying, provided that the owner’s rights are valid and the material copied is original.”¹⁰⁴ On the other hand, trademark law “tolerates a broad range of non-infringing uses of words that are identical or similar to trademarks.”¹⁰⁵ When looking directly at counterfeit products, however, the difference between copyright and trademark law is negligible. When purses and wallets are imitated and labeled as a “true” version of the trademarked item, there is little difference between that and what copyright laws are meant to protect against. In cases such as counterfeits, the test for contributory liability should be similar regardless of whether the product is protected by trademark or copyright.

The argument against making trademark law similar to copyright law in respect to contributory infringement “is the level of difficulty involved in spotting direct infringement in each of these areas of the law.”¹⁰⁶ There is more certainty in identifying a copyright infringement than a trademark infringement. To infringe a trademark, the infringing mark must cause a likelihood of confusion, which “depends on numerous variables including the strength of the mark, the proximity of the goods, the similarity of the marks, evidence of actual confusion . . . [and] the defendant’s intent.”¹⁰⁷ Unlike copyright infringement, the outcome of applying this test is not clear upon casual inspection, but instead one must look at the “totality of circumstances under which a mark is used”¹⁰⁸ to determine if the trademark has been infringed.¹⁰⁹ Thus, the “high level of uncertainty involved in spotting direct trademark infringement” has contributed to a narrower contributory liability test in trademark law than that used in copyright law.¹¹⁰

103. The Supreme Court in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984) distinguished the standards of contributory liability in copyright law from those of trademark law.

104. *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 965 (C.D. Cal. 1997).

105. *Id.*

106. Kessler, *supra* note 12, at 402.

107. *Lockheed*, 985 F. Supp. at 963.

108. *Id.*

109. Kessler, *supra* note 12, at 403.

110. *See id.*

Therefore, the issue lies in the direct control and monitoring standard that affects both copyright and trademark contributory infringement.¹¹¹ *Tiffany* has created disincentives for ISPs monitoring for infringing items by placing a “direct control and monitoring” test on their activities. Unless Congress or the courts close the loophole that this creates, ISPs will continue to turn a blind eye to infringing activities on their sites. A system that closes the loopholes, like the DMCA has done for copyright, needs to be implemented to remove the same disincentives for ISPs in the area of trademark law.

B. *Trademark Directive of the European Union*

How a trademark owner is to protect his trademark in various countries will continue to be a concern as long as nations follow their own path concerning contributory trademark liability. A solution to the problem of jurisdictional differences is to create a global trademark system for trademark owners who choose to participate in the global market. The European Union’s establishment of unitary trademark protection is a valuable model in this regard.

In 1964, a group was assembled to draft an agreement providing for a European trademark.¹¹² This resulted in the first draft of a directive calling for the harmonization of European trademark law,¹¹³ and a working group was then formed. The effort culminated in 1988 with the First Council Directive (“Trade Mark Directive”), which approximated the trademark laws of the member states.¹¹⁴ The Trade Mark Directive was intended to harmonize “those national provisions which most directly affect[ed] the functioning of the internal market.”¹¹⁵ According to the directive, only national trademark laws of the member states would be enforceable in the European Union.¹¹⁶

The Community Trade Mark (“CTM”) was the result of “[c]reating a unitary trademark system that governs the procedural and substantive provisions of trademark law throughout the entire

111. *See supra* Part I.A.

112. Timothy W. Blakely, Note, *Beyond the International Harmonization of Trademark Law: The Community Trade Mark as a Model of Unitary Transnational Trademark Protection*, 149 U. PA. L. REV. 309, 324 (2000).

113. *Id.*

114. *Id.* at 324–25.

115. *Id.* at 325 (internal quotation marks omitted) (alteration in original) (quoting Charles Gielen, *Harmonisation of Trade Mark Law in Europe: The First Trade Mark Harmonisation Directive of the European Council*, 14 EUR. INTELL. PROP. REV. 262, 262–63 (1992)).

116. *Id.*

European Union.”¹¹⁷ The CTM is a trademark that can be registered, assigned, or licensed in a single filing and allows the applicant to obtain rights throughout the European Union.¹¹⁸ The CTM does not replace the national trademarks but rather is a separate filing of the mark; therefore, if an applicant is denied a CTM, he could still have a valid trademark in another nation where he filed.¹¹⁹ The Office for Harmonization in the Internal Market is the central office for the trademark system and is responsible for the regulations and the application process.¹²⁰ The system that was established—after much negotiation between the countries¹²¹—is similar to that of the United States. Every member nation has transposed the directives into national law.¹²² If the wording of a national law differs from that of the directive, that nation’s judiciary is supposed to interpret its national law in light of the wording and purpose of the directive.¹²³ However, each nation still has their own court system that will decide what the law as written means, and ultimately there will be disagreement between the nations. This problem is solved by the governing authority—the highest European Union court, the ECJ.¹²⁴ This is similar to the U.S. model in which individual federal courts come to a conclusion on what federal law means with differences resolved by the United States Supreme Court as the final authority on what the federal law truly is. In this way, one can be assured that if he owns a CTM instead of a national trademark, he will be given the same judgment throughout the region.

The CTM looks as though it has been a success with “the number of CTM applications exceed[ing] all projections from the moment registration became possible in early 1996.”¹²⁵ There is still the question of whether the member nations will treat the rights conferred by the CTM in a different manner than those rights acquired by the registration of a national trademark.¹²⁶ Since there is jurisdiction over the CTM by the European Union, though, there

117. *Id.* at 337.

118. *Id.* at 339.

119. *Id.*

120. *Id.* at 337, 339–40.

121. *Id.* at 324.

122. *See id.* at 330.

123. *See id.* at 331–36.

124. *Id.*

125. *Id.* at 344.

126. *Id.* at 346.

should be great harmonization in at least this area. What is most important for purposes of this Note is that the creation of the CTM by the European Union shows that nations who encompass both common law and civil law systems, are multilingual, and have a history of political and economic strife can come together in the name of unitary trade to create a system that allows trademark owners to know their rights and duties among several nations.

As the global market grows, more organizations like the European Union will become necessary. An important aspect of its trademark system is that nations are free to keep their national trademark laws in place and trademark owners can choose to have a national trademark instead of a "common" trademark recognized in all nations. In this way, the trademark owners benefit from the laws of the "common" organization by having to file only once to receive the protection of all the member nations, or they can choose to use national trademarks and continue to abide by jurisdiction-specific laws of each nation. If the trademark owner chooses the common trademark, then he will not have to jump from country to country filing suits or devote as many resources to policing the Internet and the world to protect his mark.

C. *New Idea for Contributory Trademark Infringement Standard*

A compromise between the two ends of the spectrum of contributory trademark infringement liability may be found in the *Restatement (Third) of Unfair Competitions*.¹²⁷ Under the *Restatement*, a party may be found liable for contributory trademark infringement where "the actor fails to take reasonable precautions against the occurrence of the third person's infringing conduct in circumstances in which the infringing conduct can be *reasonably anticipated*."¹²⁸ The *Restatement* sets a lower standard for contributory infringement than what is set under U.S. common law. The U.S. courts have not relied on the *Restatement's* test, but instead use the test set forth in *Inwood*.¹²⁹

127. RESTATEMENT (THIRD) OF UNFAIR COMPETITIONS § 27 (1995).

128. *Id.* (emphasis added).

129. *See, e.g.,* *Medic Alert Found. U.S. v. Corel Corp.*, 43 F. Supp. 2d 933, 940 (N.D. Ill. 1999) ("The standard is not whether a manufacturer 'could reasonably anticipate' possible infringement, but rather whether it knew or had reason to know that a third party is engaging in trademark infringement and continued to sell its products to that third-party.").

With today's global marketplace, however, the *Restatement* may provide a better model. First, the *Restatement* can be used to consider whether the one enabling the infringing actions is profiting from his actions. For example, if someone such as a flea market operator or online auction site is profiting from the sale of infringing items, then that party can reasonably anticipate hosting a vendor who will sell infringing items. Once the operator of such a site is aware that there is even a possibility that infringing products are being sold, he must take reasonable precautions to prevent the selling of the items. Prevention, not remedial measures, is the key to stopping counterfeits from being sold online.

Second, the reasonably anticipated standard is a good compromise between the polar opposite standards of the U.S. and French courts examined in this Note. The U.S. standard examines the vendor's "direct control and monitoring" of the infringing act, which leaves loopholes for vendors who do not wish to become too involved with the selling process. In these cases, a vendor can turn a blind eye toward the sale of the infringing items and be found not liable. However, in France, by simply profiting from someone's good name, a vendor will be found negligent and guilty of infringing on the rights of the trademark owner.

Even if the reasonably anticipated standard is not adopted, some uniform standard should be implemented in the ever-growing global marketplace. It has become more difficult for trademark owners to police their marks across borders when they are not aware of how each country will treat their actions. The trademark owners are not the only ones burdened by the state of the law, but online auction sites also face unexpected responsibilities under the various laws. A standardized rule—such as the reasonably anticipated standard—will give the auction sites a good guide to follow, reducing these burdens and ensuring free trade on these sites.

VI. CONCLUSION

The increase of global commerce promises that contributory trademark infringement on the Internet will increase before an answer for the problem is given. With all the similarities of the *Tiffany* and *Louis Vuitton* cases, why were there different outcomes? Both trademark holders contacted and informed eBay of the infringing actions. Authentic and counterfeit Tiffany and Louis Vuitton items were found to be sold on eBay in both cases. In both cases, eBay was

found to be benefiting from the sale of counterfeit goods. Further, both the United States and France have developed their treatment of contributory trademark infringement in the internet context within the judiciary systems and not from codified law. In the United States the contributory trademark infringements standard has emerged through common law, and similarly in France it is established through the country's trespass laws.¹³⁰

However, it seems to be a difference in what the courts *chose* to consider that determined the outcome in the two cases. Most important to the U.S. court in *Tiffany* was that eBay had a program to inform eBay of infringing sellers and eBay took action to remove the sellers from the site following the notification. Not as important to the U.S. court was the fact that eBay provided the means and profited from the sale. eBay did not need to take preventative measures to stop all infringing activities; the fact that it was taking post-infringement actions to fix the problem was enough. The court in France focused on the fact that eBay was profiting from the sale of the fake items. Since eBay was being unjustly enriched, they owed compensation to Louis Vuitton. It is interesting to note that Louis Vuitton did not partake in the NOCI program that eBay offered, and the French court did not seem to be swayed by that fact. The French court put the entire responsibility on eBay to stop infringing items from being sold in their jurisdiction.

The way in which society has come to use and appreciate the benefits of the Internet could be drastically changed or limited by growing instances of fraud and the efforts to combat its effects. Something must be done to combat the ever-growing instances of fraud on the Internet. A compromise needs to be found between the two ends of the spectrum that *Tiffany* and *Louis Vuitton* represent for contributory trademark infringement on internet auction sites. On one end, free trade and an open market should not be sacrificed; on the other hand, the trademark owner's goodwill and name should be protected. A *reasonably anticipated* standard that puts responsibility on the internet auction site that enables the sale of infringing items may be a solution to the broad spectrum of laws. If the internet auction site is required to take more responsibility for what is sold on its site before it is allowed to make a profit, then the trademark owner

130. It is important to note that, strictly speaking, France does not have what the United States calls "case law" in that the courts are not bound to follow the rules enunciated in prior decisions, even though the common trend and tendency is to look to and follow prior decisions when ruling on a case. See SWEET & MAXWELL, *supra* note 53, ¶ 6-03, at 226.

would be guaranteed assurances of safety for its goodwill. Loopholes that allow the auction site owner to be disinterested in protecting trademark owners' rights must be closed. The auction site owner must be actively participating with the trademark owner to combat all infringing activities.

A global standard should be established to protect both trademark owners and third-party auction sites. Until then, trademark owners will be forum shopping to get their products protected in courts around the world. Some of these owners will find favorable verdicts, as Louis Vuitton did in France, and others will not, such as Tiffany in the United States. Third-party auction sites will be forced to defend in these various jurisdictions along the way. There will continue to be a plethora of expenses ranging from policing the Internet to defending these lawsuits until a common standard can be established. Until a solution is found to combat counterfeit items being sold on the Internet, this will threaten to destroy the progress and improvements tied to the Internet and the endless opportunities it provides to enhance people's lives.