

Piece of Fake

By Dylan Ruga

Protecting intellectual property rights on eBay and similar online auction sites just became much more onerous. In *Tiffany Inc. v. eBay, Inc.*, 04 Civ. 4607 (S.D.N.Y. July 14, 2008), the trial judge ruled that eBay has no affirmative duty to shut down auctions despite its generalized knowledge that individuals are selling counterfeiting Tiffany & Co. merchandise on its Web site.

The lawsuit was filed by Tiffany (NJ) Inc. and Tiffany and Company against eBay, Inc. in June 2004. Tiffany alleged, among other things, that eBay engaged in contributory trademark infringement by continuing to provide its service despite having knowledge, or a reason to know, that individuals were selling counterfeit Tiffany & Co. merchandise on eBay. The court found that eBay profits from auctions of counterfeit goods and has the ability to control the listings on its Web site. Nevertheless, the court concluded that eBay's generalized knowledge of counterfeiting activity on its Web site is insufficient to impose on eBay an affirmative duty to remedy the problem by restricting access to those who *might* be engaged in counterfeiting.

The court's decision was based on several policy considerations. First, the court explained that trademark owners — rather than third-party Web sites such as eBay — have the primary responsibility to police their marks. Although Tiffany spent approximately \$14 million over five years to fight infringement and dedicated the equivalent of roughly one and a half full-time employees to police its mark, the court criticized Tiffany for not doing more. Conversely, the court praised eBay's efforts to prevent infringement on its website. eBay spends approximately \$20 million per year to fight infringement and devotes one quarter of its 16,000 employees to trust and safety issues. eBay also has several programs in place to ferret out infringement, including its fraud engine, which looks for illegal listings by searching for specific terms (e.g., fake, knock-off, replica, etc.), and Verified Rights Owner (VeRO) program, which allows intellectual

property owners to notify eBay of auctions offering counterfeit goods. As between eBay and Tiffany, the court found that Tiffany should have devoted more resources to fight infringement of its mark.

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Second, the court expressed concern that a prophylactic prohibition of Tiffany & Co. auctions, without first verifying that the merchandise was counterfeit, would impair the legitimate secondary market for these goods. Generally, trademark owners cannot prevent people from reselling authentic goods in the secondary market. For this reason, the court rejected Tiffany's proposed "five or more" rule, which sought to prohibit all auctions on eBay that contained lots of five or more Tiffany & Co. goods. Significantly, Tiffany failed to demonstrate to the court's satisfaction that legitimate lots of five or more Tiffany & Co. goods were presumptively counterfeit. Indeed, Tiffany admitted that its five or more rule was a "compromise effort" and "shorthand solution" that was based on scant support.

Finally, the court found that eBay's "three strikes and you're out" rule is reasonable. Under this rule, eBay will not suspend a user's account until the user has been accused of listing counterfeit merchandise on three separate occasions. Although eBay removes every auction flagged by rights owners through the VeRO program, the court noted that VeRO notices only require the rights owner to have a "good faith belief" that the goods are counterfeit. Because the challenged goods may prove to be authentic, the court refused to require eBay to suspend users' accounts based on a single VeRO notice.

In light of the court's ruling, it is important for intellectual property owners to understand how to effectively prevent infringement on eBay and similar auction sites. The suggestions that follow should provide a good start.

Use the VeRO program or similar mechanism to notify auction Web sites that counterfeit goods are being sold. Tiffany sent nearly 135,000 VeRO notices to eBay in 2006, which is an average of approximately 370 notices every day. Each

of these auctions was shut down by eBay within 24 hours; 70 to 80 percent were shut down within 12 hours. Software programs, such as Ranger Online or similar privately created proprietary programs, can locate auctions selling a particular brand or a specific lot of a particular brand and send VeRO-type notices to Web sites automatically, without the need for someone to physically inspect each auction. Use of these programs is the most effective and cost efficient way to remove auctions from Web sites, but these programs have been criticized because the auctions are flagged and removed without any subjective determination that the goods are fake. Accordingly, rights owners who use these programs should exercise caution and refrain from overreaching when setting the criteria that will be used to identify and flag auctions.

Pursue repeat offenders. The court criticized Tiffany because in 2003 it decided to pursue eBay rather than pursue individuals who were selling counterfeit merchandise on eBay. Rights owners should identify repeat offenders (through usernames and/or personal information provided by the Web sites) and pursue these individuals through civil lawsuit or criminal enforcement. This is an effective strategy to prevent future infringements from these individuals, as well as to deter others from similar infringement.

Cooperate with competitors. While counterfeiters sometimes focus on a particular type of good (e.g., handbags, jewelry, jeans, etc.), they rarely target only one brand. Accordingly, rights owners should share information with their competitors to more efficiently identify and target repeat infringers. When the decision is made to pursue an infringer, competitors should continue to cooperate with one another by sharing evidence and spreading the cost of enforcement. It is not unusual for three or more rights owners to join as plaintiffs in a lawsuit against a single infringer; nor is it unusual for multiple rights owners to assist in criminal enforcement against a single infringer.

Use anti-counterfeit technologies. Rights owners should imbed anti-counterfeit technologies in their goods, such as holograms, threads with microscopic lettering, or other mechanisms to quickly verify whether suspect goods are authentic. For apparel, handbags and similar goods, threads with



microscopic lettering have become commonplace because they are relatively inexpensive, can be customized, and have proven extremely difficult for counterfeiters to replicate. New technologies, however, always are being developed. For example, it is now possible to imbed unique botanical "DNA" in goods to assist in counterfeit enforcement. While some may consider the use of DNA to be extreme, there are myriad products available in the market to fight counterfeiting. Intellectual property owners should implement at least one of these anti-counterfeiting technologies as soon as it is practical to do so.

Educate consumers. While almost everyone knows that the \$10 handbag available at Santee Alley in Los Angeles or on Canal Street in New York is fake, not everyone knows that the \$500 handbag on eBay may be fake as well. Tiffany was able to confirm that only 5 percent of the Tiffany & Co. sterling silver goods available on eBay were authentic (it confirmed that 73 percent were fake, and the remainder could not be authenticated). Other rights owners who have tested samples from eBay similarly have confirmed that approximately 90 percent of their goods are fake. Rights owners should test the online auction markets and educate their consumers

through advertisements, point of sale signage, and other means of their findings.

Embrace online auctions. Rather than resisting online auctions, rights owners should embrace them and begin to offer authentic goods to consumers through these Web sites.

By developing a presence on these sites, rights owners will provide a place where consumers can find a deal and participate in auctions but where consumers also will be confident that they are purchasing authentic goods. Just as the film industry learned to embrace the VCR, so too should intellectual property owners learn to embrace online auction Web sites. These Web sites are not going away anytime soon, but they can be a source of significant revenue for rights owners if they are embraced rather than resisted.

Be available to consumers who want to purchase authentic goods. Very few rights owners have a dedicated place where consumers can go if they want to verify the authenticity of a product, either before or after it is purchased. To reduce the amount of counterfeits sold, however, rights owners should consider establishing a public e-mail account to field inquiries, or training specialists at retail locations who are able to verify the authenticity of goods with certainty. Rights owners

should refrain from sharing with the public all of the methods to authenticate their goods because doing so will educate counterfeiters as well as legitimate purchasers. Fielding inquiries from consumers, however, will help ensure that those who are interested in purchasing authentic products are not deceived into purchasing fakes.

The *Tiffany v. eBay* decision sent a clear signal to rights owners that they must take primary responsibility to enforce their rights on eBay and other online auction sites. Doing so requires dedication, organization and the devotion of significant resources. While this is an onerous task, the alternative is not an option for most luxury brands that lose millions of dollars a year to counterfeiters and risk significant damage to their reputation and goodwill when fake goods flood the market.

While the list of strategies described above is not exhaustive, it should be considered by all intellectual property owners who are interested in protecting their brands online in the post *Tiffany v. eBay* era.

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