

Paisley Piasecki
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Tiffany (NJ) Inc. v. eBay, Inc.

Amazon, one of the most successful online marketplace platforms of our time, allows consumers to order groceries, binge movies, and shop without limits in just a few clicks. Amazon has a gross merchandise value of \$186 billion¹ and has sold over five billion items through its Prime subscription in a single year.² Amazon has also developed consumer protection programs and brand partnerships to demonstrate its commitment to corporate responsibility.³ In February 2019, Amazon launched “Project Zero,” an advanced system to partner with brands in anti-counterfeiting efforts.⁴ Building upon its Brand Registry program,⁵ Project Zero implements tools that allow brand owners to remove counterfeit listings without Amazon’s review and create unique merchandise codes to detect counterfeit goods.⁶ These efforts are clearly a response to brands’ open skepticism of Amazon’s practices and its awareness of counterfeiting.⁷ Furthermore, in 2018, it was estimated that Amazon could have over 58,000 counterfeit goods listed on its site alone.⁸

¹ Matthew J. Clark, *Leveeing a Flood of Counterfeits on Amazon*, AM. BAR ASS’N, https://www.americanbar.org/groups/intellectual_property_law/publications/landslide/2018-19/january-february/leveeing-flood-counterfeits-amazon/ (last visited Apr. 25, 2019).

² Alana Semuels, *Amazon May Have a Counterfeit Problem*, THE ATLANTIC (Apr. 20, 2018), <https://www.theatlantic.com/technology/archive/2018/04/amazon-may-have-a-counterfeit-problem/558482/>.

³ Clark, *supra* note 1.

⁴ *Id.*

⁵ *Id.* “Amazon Brand Registry is an online command center where brand owners can search for and report violations of intellectual property rights and address other brand-related issues.” *Id.* Through this program, brand owners can provide their trademark registration information to receive access to a personalized dashboard to search for infringing listings and send notifications to Amazon. *Id.*

⁶ *Amazon Project Zero*, AMAZON, <https://brandservices.amazon.com/projectzero> (last visited Apr. 25, 2019). The program provides continuous monitoring of stores and removal of suspect listings, a “self-service counterfeit removal tool,” and a “product serialization” system to create codes that will help Amazon prevent counterfeit goods from reaching consumers. There is currently waitlist to join the program. *Id.*

⁷ Semuels, *supra*, note 2. For example, due to a Chinese factory stealing a company’s trademark and selling the resulting items on Amazon, a business’ profit dropped from \$5 million per year to \$500,000 per year due to competition with the factory’s counterfeits sold on Amazon. *Id.*

⁸ Edgar Alvarez, *Amazon needs to get a handle on its counterfeit problem*, ENGADGET (May 31, 2018), <https://www.engadget.com/2018/05/31/fulfilled-by-amazon-counterfeit-fake/>.

Although Project Zero may be a step in the right direction, it does not solve the overarching legal dilemma at stake. Nine years ago, the Second Circuit held that online marketplaces are not always accountable for infringement that arises from the sale of counterfeit goods through their services.⁹ The decision set forth in *Tiffany (NJ) Inc v. eBay, Inc.* set the precedent that has allowed websites like Amazon to avoid liability as long as evidence of some anti-counterfeiting efforts exist.¹⁰

The events of *Tiffany (NJ) Inc. v. eBay, Inc.* began when Tiffany, the luxury jewelry brand, investigated eBay's¹¹ anti-counterfeiting practices around 2004¹² and filed a complaint with the Southern District of New York.¹³ As with other luxury brands on the website, eBay had listings containing Tiffany items and actively advertised the availability of those products.¹⁴ While investigating its product listings, Tiffany discovered that only five percent of the merchandise it recovered was authentic: seventy-three percent of the products were counterfeit goods.¹⁵ Tiffany soon sent demand letters to eBay,¹⁶ asking it to remove all listings of counterfeit merchandise, "take appropriate and continuing measures to eliminate the sale of counterfeit merchandise," and stop using any kind of Tiffany brand identifier on the counterfeit goods.¹⁷ Tiffany had never sold items through authorized third-party vendors and thus presumed that any seller with at least five pieces of "Tiffany" jewelry was selling counterfeit goods.¹⁸

⁹ *Tiffany (NJ) Inc., v. eBay, Inc.*, 600 F.3d 93, 109–10 (2d Cir. 2010).

¹⁰ *See id.* at 106–10.

¹¹ eBay is an online marketplace where consumers can become "sellers" and create listings for selling their merchandise. *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 474 (S.D.N.Y. 2008).

¹² *Tiffany (NJ) Inc.*, 600 F.3d at 97.

¹³ *Tiffany (NJ) Inc.*, 576 F. Supp. 2d at 470.

¹⁴ *Id.* at 480.

¹⁵ *Id.* at 481.

¹⁶ *Id.* at 481–82.

¹⁷ *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 481 (S.D.N.Y. 2008).

¹⁸ *Id.* The court later called this the "five-or-more" rule. *Id.* at 482–83.

Despite receiving over 125 consumer complaints regarding counterfeit “Tiffany” purchases,¹⁹ eBay refused to remove any multiple-item listings without receiving prior notice from Tiffany.²⁰ eBay believed that it was invested in assisting brands by implementing anti-counterfeiting and consumer protection measures.²¹ Through its Verified Rights Owner Program (“VeRO”), brands such as Tiffany could report counterfeit listings to eBay through a “notice-and-takedown system” and maintain an “About Me” page to alert consumers of potential infringement.²² Furthermore, eBay’s fraud engine helped its team to identify counterfeit listings, unveil the seller’s Internet protocol address, and determine whether the seller should receive a warning, suspension, or referral to law enforcement.²³

When eBay ignored its requests, Tiffany sued eBay for direct and contributory trademark infringement, trademark dilution, and false advertising.²⁴ Because Tiffany, as the rightsholder, bore the burden of protecting its trademark, “the issue [was] whether eBay continued to provide its website to sellers when eBay knew or had reason to know that those sellers were using the website to traffic...counterfeit jewelry.”²⁵ Finding that Tiffany must demonstrate that eBay had knowledge of specific instances of trademark infringement rather than only generalized findings through investigations, the district court held that eBay was not liable for contributory trademark infringement, or any infringement whatsoever.²⁶

¹⁹ *Id.* at 487.

²⁰ *Id.* at 482.

²¹ *Id.* at 469. For instance, eBay required each user to agree to a User Agreement and invested \$20 million per year in anti-counterfeiting enforcement. *Id.* at 475–76.

²² *Id.* at 478–79. Tiffany was an active reporter in the VeRO program and had notified eBay of over 46,000 counterfeit listings. *Id.* at 483–84.

²³ *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 475–78 (S.D.N.Y. 2008).

²⁴ *Tiffany (NJ) Inc., v. eBay, Inc.*, 600 F.3d 93, 101 (2d Cir. 2010). This case comment will only address the legal standard of contributory trademark infringement and will not discuss Tiffany’s direct infringement, dilution, or false advertising claims.

²⁵ *Tiffany (NJ) Inc.*, 576 F. Supp. 2d at 470.

²⁶ *Id.* at 511, 513, 518.

Tiffany appealed, and the Second Circuit affirmed, further articulating the legal standard for contributory trademark infringement in the context of online marketplaces.²⁷ The court first identified the legal test as outlined in *Inwood Laboratories, Inc v. Ives Laboratories, Inc.*,²⁸ stating that “a manufacturer or distributor [must intentionally induce] another to infringe a trademark or. . .[continue] to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.”²⁹ Following the Ninth Circuit’s reasoning in *Lockheed Martin Corp. v. Network Solutions, Inc.*,³⁰ the court reiterated that the “*Inwood* [test] applies to a service provider who exercises sufficient control over the means of infringing conduct,” and eBay met this description due to its “control...over the transactions and listings facilitated by” it.³¹ The court thus found that the second prong of the *Inwood* test required eBay to “continue to supply its [service] to one whom it knows or has reason to know is engaging in trademark infringement.”³²

However, Tiffany’s demand letters and investigative evidence could not satisfy this prong since *particular* sellers of merchandise were never identified.³³ Relying on Supreme Court remarks regarding the *Inwood* test, the court reasoned that “a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods.”³⁴ The service provider must have knowledge of specific, “identified individuals”

²⁷ *Tiffany (NJ) Inc.*, 600 F.3d at 105, 114. The court recognized that this was a case of first impression: “The limited case law leaves the law of contributory trademark infringement ill-defined. Although we are not the first court to consider the application of *Inwood* to the internet, . . . we are apparently the first to consider its application to an online marketplace.” *Id.* at 105.

²⁸ 456 U.S. 844, 854 (1982).

²⁹ *Tiffany (NJ) Inc.*, 600 F.3d at 103–04, citing *Inwood Laboratories, Inc.*, 456 U.S. at 854.

³⁰ 194 F.3d 980, 984 (9th Cir. 1999).

³¹ *Tiffany (NJ) Inc., v. eBay, Inc.*, 600 F.3d 93, 104–05 (2d Cir. 2010).

³² *Id.* at 106, citing *Inwood Laboratories, Inc.*, 456 U.S. at 854. The court did not address the first prong because Tiffany did not raise the issue of intentional inducement; It only argued that eBay continued to allow sellers to infringe on Tiffany’s mark despite having knowledge of their activities. *Tiffany (NJ) Inc.*, 600 F.3d at 106.

³³ *Tiffany (NJ) Inc.*, 600 F.3d at 107–09.

³⁴ *Id.* at 107. “If *Inwood*’s narrow standard for contributory trademark infringement governed here, [the plaintiff]’s claim of contributory infringement would merit little discussion. *Sony* certainly does not ‘intentionally induce’ its

performing such infringement³⁵ or be willfully blind to the activity to be held liable for their actions.³⁶ Finding that Tiffany's evidence and notifications to eBay only prompted eBay's general knowledge of counterfeit merchandise on its website, the court allowed eBay to avoid liability.³⁷

This case comment contends that *Tiffany (NJ) Inc. v. eBay* was decided incorrectly: The Second Circuit should have held eBay liable for contributory trademark infringement. The court failed to apply *Lockheed*'s interpretation of the *Inwood* test that includes constructive knowledge,³⁸ creating a problematic legal standard. Today, courts should reassess the *Tiffany* court's strict use of *Inwood* and overrule *Tiffany*, since it has only allowed websites like Amazon to sell counterfeit goods with minimal liability and has failed to provide a legal standard for the online marketplace industry.

By ignoring the possibility of constructive knowledge as applied to the second prong of the *Inwood* test in *Lockheed*,³⁹ the Second Circuit found that eBay was not liable for contributory trademark infringement even if it had the means to detect such activity.⁴⁰ According to the *Lockheed* court, the *Inwood* test establishes liability for contributory trademark infringement

customers to make infringing uses of [the plaintiff's] copyrights, nor does it supply its products to identified individuals known by it to be engaging in continuing infringement." *Id.* at 108, citing *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 439, n.19 (1984). The court confirmed that this discussion was "dicta" but was the only comment available from the Supreme Court to consider persuasive authority. *Tiffany (NJ) Inc.*, 600 F.3d at 108.

³⁵ *Tiffany (NJ) Inc.*, 600 F.3d at 108.

³⁶ *Id.* at 109. The court explained that willful blindness would require eBay to "shield itself from learning of the particular infringing transactions" and avoid investigations. *Id.*

³⁷ *Tiffany (NJ) Inc. v. eBay, Inc.*, 600 F.3d 93, 110 (2d Cir. 2010). The Second Circuit addressed trademark dilution and then remanded the case to the district court to resolve Tiffany's false advertising claim. *Id.* at 114. The Southern District later concluded that eBay was not liable for false advertising, and therefore Tiffany lost on every claim it had raised. *Tiffany (NJ) Inc. v. eBay, Inc.*, No. 04 Civ. 4607 (RJS), 2010 U.S. Dist. LEXIS 96596, at *11 (S.D.N.Y. 2010).

³⁸ *Tiffany (NJ) Inc.*, 600 F.3d at 106; *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 981 (9th Cir. 1999).

³⁹ *Tiffany (NJ) Inc.*, 600 F.3d at 106; *Lockheed Martin Corp.*, 194 F.3d at 983.

⁴⁰ *Tiffany (NJ) Inc.*, 600 F.3d 93 at 110; Ellie Mercado, *As Long as "It" Is Not Counterfeit: Holding eBay Liable for Secondary Trademark Infringement in the Wake of LVMH and Tiffany, Inc.*, 28 CARDOZO ARTS AND ENTMT'L J. 115, 139-40 (2010), <http://www.cardozoaelj.com/wp-content/uploads/2011/02/Mercado.pdf>.

“when the defendant either intentionally induces a third party to infringe the plaintiff’s mark or supplies a [service] to a third party with *actual* or *constructive* knowledge that the product is being used to infringe the . . . mark.”⁴¹ In *Lockheed*, a domain name registration service was sued for contributory trademark infringement after Lockheed sent the service two demand letters regarding domain names that potentially infringed on its mark.⁴² The service permitted rightsholders to show proof of trademark registration when they believed that that another domain was infringing on its rights.⁴³ Although the service did not have sufficient control over the registration process to meet the initial “supplies a product” requirement,⁴⁴ the court extended the test to the Internet space and showed that constructive knowledge is relevant.⁴⁵

Unlike the standard in *Tiffany* that emphasized actual knowledge of specific infringing activity,⁴⁶ constructive knowledge provides a wider scope of liability.⁴⁷ Constructive knowledge is defined as having “information [that] a person is presumed to have acquired from circumstance,” such as knowledge that is obtained “because the person learns of some other information and has a duty to investigate the significance of the other information.”⁴⁸ It recognizes that “the law treats the person as having the knowledge that a reasonable person would have had, even if the person in question lacks the information as actual knowledge.”⁴⁹ Using this definition, the entity in question would thus be liable for not just knowing about infringing activity, but for having any inference that a particular product or service is actively

⁴¹ *Lockheed Martin Corp.*, 194 F.3d at 981 (emphasis added).

⁴² *Id.* at 981, 983.

⁴³ *Id.* at 982.

⁴⁴ *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984–85, 987 (9th Cir. 1999).

⁴⁵ *Id.*

⁴⁶ *Tiffany (NJ) Inc., v. eBay, Inc.*, 600 F.3d 93, 107–08 (2d Cir. 2010).

⁴⁷ See Jillian de Chavez, *Building a Trademark Safe Harbor for Contributory Counterfeiting Liability After Tiffany v. eBay*, 86 ST. JOHN’S L. REV. 249, 259–60 (2012).

⁴⁸ *Constructive Knowledge (Presumed Knowledge, Presumptive Knowledge)*, THE WOLTERS KLUWER BOUVIER LAW DICTIONARY DESK EDITION (2012).

⁴⁹ *Supra* note 48.

being used to perform infringement.⁵⁰ Actual knowledge is not a requirement under this definition.⁵¹ As long as a service provider has reason to investigate potentially infringing activity or has some knowledge that it could be occurring, this standard appears to be met.

Furthermore, this definition is consistent with caselaw that recognizes constructive knowledge as part of the *Inwood* test, either implicitly or explicitly.⁵² Previous commentary regarding *Tiffany* has looked to two cases, *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*⁵³ and *Fonovisa, Inc v. Cherry Auction, Inc.*⁵⁴ as support.⁵⁵ These cases are considered informative because they applied the *Inwood* test to flea markets,⁵⁶ arguably the “offline” version of eBay,⁵⁷ and acknowledged that the second prong of the *Inwood* test requires a defendant to have the knowledge of a “reasonably prudent person.”⁵⁸ This is certainly reflective of the reasonable person standard seen in the definition of constructive knowledge.⁵⁹ Even more, in *Louis Malletier, S.A. v. Akanoc Solutions, Inc.*, decided after *Tiffany*, the Ninth Circuit explicitly affirmed the application of constructive knowledge as part of the *Inwood* test when defendant websites claimed that this prong required “an express finding of intent.”⁶⁰

⁵⁰ See *supra* note 48.

⁵¹ See *supra* note 48.

⁵² *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, 658 F.3d 936, 943 (9th Cir. 2011). See *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996); *Hard Rock Cafe Licensing Corp. v. Concessions Serv., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992); Chavez, *supra* note 47, at 259–60.

⁵³ 955 F.2d 1143.

⁵⁴ 76 F.3d 259.

⁵⁵ Chavez, *supra* note 47, at 259–60; Mercado, *supra* note 40, at 140–42.

⁵⁶ *Fonovisa, Inc.*, 76 F.3d at 261; *Hard Rock Cafe Licensing Corp.*, 955 F.2d at 1145.

⁵⁷ Mercado, *supra* note 40, at 144.

⁵⁸ *Hard Rock Cafe Licensing Corp. v. Concessions Serv., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992); See *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996).

⁵⁹ *Supra* note 48.

⁶⁰ *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, 658 F.3d 936, 943 (9th Cir. 2011).

Finding no such requirement, this case further demonstrates that constructive knowledge is still relevant in finding liability for contributory trademark infringement today.⁶¹

Had the *Tiffany* court given more deference to the possibility of applying constructive knowledge, eBay would have likely been liable for contributory trademark infringement since it was clearly aware that its website was being used to market and sell counterfeit goods.⁶² Instead of searching for specific instances of infringement and particular identifying information,⁶³ the court would have simply looked for sufficient information that would put a reasonable person on notice to perform an investigation.⁶⁴ Here, the court claimed that Tiffany’s investigative work and knowledge of counterfeit goods only gave eBay a generalized awareness of counterfeiting, not exactly who or which account was actively participating in such activity.⁶⁵ If the court then considered whether eBay had the knowledge of a reasonable entity to know that its service was being used for infringement, it would have easily found its answer: 73.1% of the merchandise that Tiffany found through its examination was counterfeit,⁶⁶ eBay’s fraud engine detecting the activity could locate the seller’s IP address,⁶⁷ and the VeRO system notified eBay of illegal activity that would be subject to investigation.⁶⁸ eBay arguably had enough control over its service and processes to gain knowledge of infringement.⁶⁹ Tiffany sued eBay for its refusal to remove the infringing listings that it specifically identified;⁷⁰ At the very least, this would have

⁶¹*Id.* Louis Vuitton discovered multiple websites that listed email addresses as resources to purchase counterfeit merchandise, and even if they did not sell the products directly, the court held that they were still liable because they had “direct control over the ‘master switch’ that kept the websites on and available. *Id.* at 940, 942–43.

⁶² *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 478–79 (S.D.N.Y. 2008); Mercado, *supra* note 40, at 139–40.

⁶³ *Tiffany (NJ) Inc., v. eBay, Inc.*, 600 F.3d 93, 108–09 (2d Cir. 2010).

⁶⁴ *Supra* note 48.

⁶⁵ *Tiffany (NJ) Inc.*, 600 F.3d at 108–10.

⁶⁶ *Tiffany (NJ) Inc.*, 576 F. Supp. 2d at 475–78.

⁶⁷ *Id.* at 477.

⁶⁸ *Tiffany (NJ) Inc.*, 600 F.3d at 100.

⁶⁹ *Id.* at 100, 105.

⁷⁰ *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 482 (S.D.N.Y. 2008).

been sufficient to hold eBay liable,⁷¹ *Lockheed* was unfortunately overlooked,⁷² and therefore the *Tiffany* court's decision was incorrect.

As a result, by failing to include constructive knowledge as a basis for liability,⁷³ the Second Circuit has now shown that if eBay's practices were enough, online marketplaces are not expected to completely eradicate counterfeit goods from their sites. This is a dangerous conclusion and shows that the current legal standard promotes inconsistency. Even more, since *Tiffany* was decided, the amount of government seizures of counterfeit goods has nearly tripled,⁷⁴ demonstrating that the legal standard may be ineffective. Applying this logic to Amazon's Project Zero initiative, online marketplaces may still leave the primary burden on the brand owner to bear the risks and costs of trademark protection.⁷⁵ For instance, because the *Tiffany* court upheld eBay's practices,⁷⁶ if a brand owner does not join Project Zero, Amazon could simply argue that the owner chose not to participate. Amazon can generally avoid legal repercussions as long as it does not have any "specific" knowledge of infringement on its website.⁷⁷ Considering the amount of data now available, this standard must be reevaluated.

⁷¹ See Mercado, *supra* note 40, at 140. "[A]fter of being alerted of previous instances of infringing activity involving certain sellers and items, the site had reason to know that these sellers were using its services to traffic in certain counterfeit items. Furthermore, this knowledge is sufficient to alert eBay of particular sellers engaged in the sale of counterfeit goods (prompting close scrutiny of those sellers' other listings, if any) and puts eBay on notice that these sellers are likely to infringe in the future." *Id.*

⁷² The Second Circuit addressed constructive knowledge in a footnote, stating that the Supreme Court's failure to consider constructive knowledge in *Sony* when articulating the *Inwood* test does not actually alter the original *Inwood* test. *Tiffany (NJ) Inc., v. eBay, Inc.*, 600 F.3d 93, 109, n.11 (2d Cir. 2010). This case comment contends that this was an error, as the Second Circuit acknowledged that this language was only dicta. *Id.*

⁷³ *Id.* at 106; *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 983 (9th Cir. 1999).

⁷⁴ Semuels, *supra* note 2.

⁷⁵ Jeff Bercovici, *Amazon's Counterfeit Crackdown: What It Really Means*, INC. (Feb. 29, 2019), <https://www.inc.com/jeff-bercovici/amazon-project-zero.html>. Amazon's Project Zero program charges brands a small fee for each code used in its product serialization program and currently has a waitlist to even join Project Zero, meaning that it is still not readily available to every brand owner in need of these protections. *Id.*

⁷⁶ *Tiffany (NJ) Inc., v. eBay, Inc.*, 600 F.3d 93, 110 (2d Cir. 2010).

⁷⁷ *Id.*

In conclusion, the *Tiffany* court should have applied *Lockheed*'s standard of constructive knowledge⁷⁸ to find eBay liable and set important precedent for determining online marketplace infringement pertaining to counterfeit goods. If the court had considered constructive knowledge under the *Inwood* test,⁷⁹ eBay would have certainly had enough knowledge to be found responsible.⁸⁰ Although it has been argued that we should simply create a standard of heightened liability⁸¹ or a safe harbor provision⁸² moving forward, *Tiffany* should be overruled. Courts must reconsider the effects of *Tiffany*'s strict use of *Inwood* and how demanding specific knowledge has possibly allowed counterfeiting to persist. Project Zero is evidence that the marketplaces are listening, but truly seeing a change in anti-counterfeiting and consumer protection will require action on behalf of the courts to ensure that we are still holding these websites accountable for their both their progress and shortcomings.

⁷⁸ *Lockheed Martin Corp.*, 194 F.3d at 983.

⁷⁹ *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 983 (9th Cir. 1999).

⁸⁰ Mercado, *supra* note 40, at 140.

⁸¹ Mercado, *supra* note 40, at 144.

⁸² Chavez, *supra* note 47, at 269–70. “The current American contributory trademark infringement standards must adapt accordingly to the special challenges posed by online marketplaces. One way to do this is by creating a safe-harbor provision similar to § 512(c) of the Digital Millennium Copyright Act.” *Id.*