

INFRINGEMENT THEORIES IN THE ONLINE MARKETPLACE

Robert Kenney
Birch, Stewart, Kolasch & Birch



The April 1, 2010 decision in *Tiffany, Inc. v. eBay, Inc.* from the US Court of Appeals for the Second Circuit, addresses several trademark infringement theories in the context of online sales of counterfeit goods. Significantly, while European courts have previously addressed the issue, the *Tiffany* decision is the first US appeals ruling to consider the application of the law of contributory infringement to an online marketplace.

Tiffany, Inc. filed suit against eBay, Inc. in the Southern District of New York, asserting claims of direct and contributory trademark infringement, dilution and false advertising stemming from the sale of counterfeit Tiffany merchandise by users of eBay's online auction services and eBay's own advertising and listing practices. The district court found for eBay on all claims. Tiffany appealed.

The Second Circuit affirmed the district court's judgment as to trademark infringement and dilution, but remanded the claim of false advertising for further proceedings.

Direct infringement

Tiffany argued that eBay directly infringed its trademark through joint and several liability with the sellers of counterfeit goods on its website, by use of the mark on the eBay website and by purchasing sponsored links containing the mark on Google and Yahoo!. The district court found for eBay under the doctrine of 'nominative fair use', which allows a defendant to use a plaintiff's mark to identify the plaintiff's goods, provided it is used in a manner that does not create a likelihood of confusion as to the source of the goods.

The Second Circuit declined to adopt the 'nominative fair use' doctrine endorsed by other circuits, but nonetheless found eBay's use of Tiffany's mark lawful as eBay used the mark to describe genuine Tiffany merchandise and its uses of the mark did not create a false affiliation with Tiffany.

Contributory infringement

The court did not finally resolve whether the *Inwood* test for contributory trademark infringement, which applies to distributors and manufacturers, extends to the service provider of an online marketplace. Rather, it assumed without deciding that the test governed, as eBay did not maintain its objection to the test on appeal. Therefore, the issue under *Inwood* was whether eBay continued to supply its services to sellers that it knew or had reason to know were infringing the Tiffany mark.

The court emphasised the importance of eBay's anti-counterfeit measures, finding that eBay's takedown procedures for particular

listings where eBay was given reason to know that they were for counterfeit goods eliminated liability with respect to those listings. Further, Tiffany's evidence of a substantial problem of sales of counterfeit Tiffany products provided only generalised notice with respect to non-terminated listings. The court affirmed that such general knowledge was insufficient under *Inwood* to impose a duty to remedy the infringement.

In affirming the judgment for eBay, the court stated 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. Some contemporary knowledge of which *particular* listings are infringing or will infringe in the future is necessary." (emphasis added)

Dilution

Tiffany's trademark dilution claim failed for lack of a second mark with which the Tiffany mark could be blurred or use of the Tiffany mark on a product of eBay by which it could be tarnished. Because eBay did not sell the counterfeit goods and it used the mark to identify authentic Tiffany merchandise, the court affirmed the finding of no dilution.

False advertising

A claim of false advertising requires a showing that the advertisement is either literally false or likely to mislead or confuse consumers. Tiffany argued that eBay's inclusion of the Tiffany mark in advertisements on its website and in sponsored advertising purchased on Google and Yahoo!, which led consumers to sales of counterfeit goods in some instances, constituted false advertising.

While the court agreed with the district court that the advertisements were not literally false, it remanded the issue of whether the advertisements are misleading or confusing to consumers based on extrinsic evidence. The district court's rationale for rejecting these claims focused on eBay's use and knowledge, but failed to address whether consumers would be confused or misled.

In sum, a trademark owner's ability to curtail infringement in the online marketplace remains limited.

Robert Kenney is a partner at Birch, Stewart, Kolasch & Birch, LLP. He can be contacted at: rjk@bskb.com