

## United States

# Counterfeiting in an online world

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The statistics are staggering. Sales of counterfeit goods continue to hit new highs each year. According to various media reports, trademark holders are losing hundreds of billions of dollars due to counterfeiting. Not only do brand owners lose sales revenue, but governments lose tax revenue and employees lose jobs. Some compare the ‘war on counterfeits’ to the ‘war on drugs’, but it is not the same. Far fewer law enforcement resources are allocated to stopping the sale of counterfeit goods and far less significant penalties, if any, are slapped on those who ensure that pirated goods find their way into the stream of commerce.

It is not difficult to ascertain one of the main causes for the explosive growth in the sale of counterfeit goods over the past decade. As online purchases of goods via the Internet have increased, so have the number of fake items available for sale on this worldwide network. As the Internet is so vast and largely anonymous, counterfeiters can remain nameless and faceless. In fact, many websites help to conceal identities – at least until the companies operating the sites are pushed into disclosure by rights holders. Unfortunately, it takes little effort for an infringer to close down one site and reappear on another, or under a new name.

Commentators have likened it to a game of Whac-a-Mole – close one down, and two, three or four more pop up. The expense of piecemeal enforcement, coupled with marginal results, has caused many trademark owners to turn to the courts, bringing actions against the websites that they claim facilitate counterfeiting. Thus far, the successes have largely, but not entirely, favoured the websites.

### Taking it to the courts – online auction sites

In a leading case involving trademarks and online service providers, both the appellate and district courts largely sided with the service provider. In *Tiffany Inc v eBay Inc* (600 F 3d 93 (2nd Cir 2010)) the Second Circuit affirmed the district court’s ruling in favour of eBay on Tiffany’s claims of trademark infringement,

contributory trademark infringement and trademark dilution. The appellate court remanded Tiffany’s false advertising claim for a determination regarding eBay’s liability for posting advertisements on its own site, as well as search engines which stated that Tiffany jewellery could be purchased on eBay at low prices.

Tiffany is a unique retailer in that it sells its world-famous jewellery exclusively through its own retail stores, its catalogues, its website and its corporate sales departments. After becoming aware that counterfeit Tiffany merchandise was being sold on eBay’s auction site, Tiffany filed suit against eBay, asserting various trademark claims. While the district court concluded that “a significant portion” of the Tiffany jewellery listed on eBay was counterfeit, it also found that a substantial number of items were authentic.

Affirming first the district court’s ruling on direct trademark infringement, the Second Circuit agreed with eBay that it had lawfully used the TIFFANY mark to describe accurately the many genuine Tiffany items listed on the eBay site. The court explained that eBay could not be held liable for infringement simply because it was unable to “guarantee the genuineness of all of the purported Tiffany products offered on its website”.

Next, the court considered Tiffany’s claim that eBay was contributorily liable for trademark infringement because it facilitated the counterfeiter’s infringing actions through its online auction site. Applying the contributory infringement analysis of *Inwood Laboratories, Inc v Ives Laboratories, Inc* (102 S Ct 2182 (1982)) to the online context, the Second Circuit considered whether eBay continued to supply its auction services to sellers of counterfeit Tiffany items while knowing or having reason to know that these sellers were infringing the TIFFANY mark. Ruling against Tiffany, the court concluded 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”.

Here, when Tiffany provided eBay with information about a specific offender, eBay removed the listings of that seller and suspended its use of the eBay service. Therefore, eBay was not supplying its service to anyone that it knew or had reason to know was infringing the Tiffany brand by selling counterfeit merchandise.

The court cautioned eBay that “willful blindness” was not permitted and that if a service provider “has reason to suspect that users of its service are infringing a protected mark, it may not shield itself from learning of the particular infringing transactions by looking the other way”. While the district court found that there was “no dispute that eBay was generally aware that counterfeit Tiffany jewelry was being listed and sold on eBay”, the law does not require eBay to take steps in response to such generalised knowledge of infringement. Despite this fact, the court nevertheless found that eBay “consistently took steps to improve its technology and develop anti-fraud measures as such measures became technologically feasible and reasonably available”. Over the course of the litigation, these included:

- the implementation of search programs whereby eBay searched for specific words in sellers’ listings to identify counterfeit goods and remove the listings;
- initiating a six to 12-hour delay to the time that buyers can view listings of Tiffany items so that eBay can manually review the listings; and
- prohibiting one-day and three-day auctions of certain brand name items.

Finding that eBay had not ignored information that it was given about counterfeit sales, the appellate court agreed with the district court that eBay was not wilfully blind to the sales of counterfeit goods. (Compare this to *Louis Vuitton Malletier, SA v Akonac Solutions* (ND Cal 2010), which upheld an award of \$31.5 million against two webhosting companies found to be wilfully blind to the sale of counterfeit goods on the sites that they hosted.)

Next, the court quickly dispensed with Tiffany’s trademark dilution claim, concluding that there could be no dilution by blurring, before turning to, and remanding, Tiffany’s false advertising claim. The Second Circuit sent this claim back to the lower court for a determination of whether eBay’s advertisements, which included statements like “Tiffany & Co under \$50” and “Find Tiffany items at low prices”, are likely to mislead or confuse consumers. The Second Circuit explained that a court is required to hold eBay accountable for the words that it chooses in its advertisements insofar as those words mislead or confuse consumers. Moreover, “the law prohibits an advertisement that implies that all of the goods offered on a defendant’s website are genuine

when in fact, as here, a sizable proportion of them are not”. On remand, the district court dismissed the false advertising claim, concluding that Tiffany did not provide evidence that eBay’s advertisements about Tiffany goods misled or confused consumers.

Outside the United States, eBay has not fared quite as well. In France, on September 3 2010 the Paris Court of Appeal affirmed eBay’s liability for the sale of Louis Vuitton counterfeits through the online auction site, but reduced the previous damages award to \$7.3 million – leaving both parties declaring victory.

### **Internet search engines**

A further source of online controversy has arisen where search engines sell a third party’s trademarks to others as advertising keywords. Often these keywords are purchased for advertisements that link to sites where counterfeits are sold. To consider liability for trademark infringement, the courts first had to determine whether the sale of keywords results in the search engine’s ‘use’ of another’s mark in commerce. In *Rescuecom Corp v Google Inc* (562 F 3d 123 (2nd Cir 2009)) the Second Circuit answered in the affirmative, finding that Google’s practice of recommending and selling Rescuecom’s mark to others was a use in commerce for the purposes of trademark infringement. The court stated that the ultimate question was whether Google’s use of Rescuecom’s trademark in its AdWords program caused a likelihood of confusion or mistake.

Recently, the Eastern District of Virginia considered likelihood of confusion in a Google Adwords case. In *Rosetta Stone Ltd v Google, Inc* (Case No 1:09cv736 (Aug 3 2010)) the court concluded that because Google does not sell a product, it could not have intended to pass off its goods as those of Rosetta Stone, and thus there was no likelihood of confusion. In addition, the court found that keywords have “an essential indexing function” that allows the search engine to identify relevant sponsored links in response to user searches. According to the court, this triggers the functionality doctrine and precludes infringement against Google.

In Europe, Louis Vuitton and others have initiated similar actions against Google. Unlike in the United States, French trademark owners successfully convinced the courts to require Google to refuse the sale of keywords at the request of the trademark owner. However, at the EU level, in March 2010 the European Court of Justice ruled that an Internet search engine is not liable for keywords purchased by its users unless it has knowledge of the unlawful nature of the advertisements and fails to take appropriate action.

## “ Although some governments have stepped up enforcement to combat the sale of fake products, other countries do not see counterfeiting as a significant problem ”

While many issues remain unresolved, it is clear that the majority of decisions favour online service providers. Although these providers make millions (and even billions) of dollars by providing a medium for third parties to use others' marks, the courts have routinely permitted them to escape liability for the infringing activities of their users, except in certain limited circumstances. For now, the primary burden of combating the online counterfeit problem remains with brand owners.

### Now what?

Although some governments have stepped up enforcement to combat the sale of fake products, other countries do not see counterfeiting as a significant problem. The vast majority of counterfeit goods emanate from China and, despite pressure from the United States and other countries to address the issue more effectively, the Chinese government continues to impose relaxed laws and minimal penalties in regard to counterfeiters. Even among countries that agree on the necessity and desirability of uniform standards on enforcement and penalties, finalising such standards is proving difficult. In 2007 several countries, including the United States, began negotiating the Anti-counterfeiting Trade Agreement in the hope that it would yield uniform standards. However, nearly three years later, they are still talking, having recently completed the 10th round of negotiations.

While governments try to determine how to address the counterfeiting problem, rights holders must take action to protect their brands. Trademark owners should develop rigorous enforcement programmes to identify the fake products offered online and to ensure that they are removed before they enter the stream of commerce.

Significant resources must be allotted to such programmes. In *Tiffany v eBay* the district court noted that that “notwithstanding the significance of the online counterfeiting problem, it is clear that Tiffany invested relatively modest resources to combat the problem”. As an initial matter, a rights holder must register its marks (with the trademark office and customs office) in every country where it expects to conduct business and to sell its products or services. Next, companies must work with their counsel to develop enforcement programmes and to develop relationships with investigators and customs enforcement personnel to identify counterfeiters and seize and analyse suspected fakes. Further, increased staff, or third-party resources, should be hired to ferret out online counterfeits and expedite the notice process in order to ensure that listings for infringing items are removed before sale. For more egregious counterfeiting, brand owners should consider litigation against the infringers.

In addition to pursuing unscrupulous suppliers and sellers of counterfeit merchandise, trademark holders should consider educating the unwitting purchasers of these fake items. While consumers know they are buying products at discounted prices, many do not understand that they are purchasing counterfeits and certainly do not realise that they are contributing to a criminal industry that takes money and jobs from legitimate companies and pours both into the pockets of thieves. These consumers are dismayed and often angry when they later discover that they bought fake merchandise online. In some industries, the consequences of purchasing a counterfeit item can have dire consequences. For example, an unintended purchase of a counterfeit pharmaceutical product or counterfeit brakes for a vehicle can result in death.

When considering whether education should be a part of an enforcement programme, rights holders should bear in mind that a few print advertisements targeted at a limited audience for a short period of time are likely to have little impact. Conversely, good spokespeople, catchy slogans and a long-running, widespread national advertising campaign disseminated through traditional media and Internet resources, may help to get the word out about the counterfeiting problem and can encourage consumers to “buy authentic”.

Educating consumers as to why they should purchase genuine goods is much easier than educating consumers as to how they can ensure that the goods they are purchasing are genuine. For some brands, this means letting consumers know which stores, retailers or websites are authorised sellers of the products at issue. This information, coupled with education about counterfeit merchandise, may be enough to influence

some consumers’ buying habits.

For others, a full-priced, high-end item may not be an option. Rather, a gently used, discounted item is good enough. In order to control the authenticity of such second-hand items, perhaps retailers should consider becoming their own online marketplaces for used products. They can then satisfy both sets of consumers while ensuring that the items delivered are genuine goods.

Each brand owner must assess the type of enforcement programme that is likely to be most effective for its business. However, if rights holders aggressively pursue and initiate actions against online counterfeiters, continue to work with both online auction sites and internet search engines to remove counterfeit merchandise or links to counterfeit merchandise, and educate consumers about the counterfeit problem, significant progress should be made towards winning the war on counterfeits.



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