

# ONLINE AUCTION SITES AND TRADEMARK INFRINGEMENT LIABILITY

## *Trademarks and Unfair Competition Committee*

### INTRODUCTION

Is the operator of an online auction site liable for selling counterfeit goods on its system? The law does not provide an easy answer to this issue that has plagued trademark owners since the boom of the Internet as an online marketplace and, on the other hand, as a symbol of a sort of free expression and economic "state of nature." The courts have grappled with similar issues very few times, and have yet to clearly signal the extent to which an auction site may be held liable for its users' trademark infringement. Because of the intense interest in the way the law will respond to emerging technology such as online auction sites, and because this new venue so easily facilitates trademark infringement, the issue of online auction site liability fosters much debate and speculation. Existing law offers some guidance, but the courts could end up going any way on the issue as they attempt to balance perhaps the greatest threat to trademark law with a deeply rooted reluctance to hold third parties, in this case website operators, responsible for the bad acts of others.

Part I of this Report discusses the extent of counterfeiting activity on online auction sites, and provides a brief synopsis of such sites and their policies. Part II explains the doctrine of vicarious and contributory trademark infringement and sets out the relevant federal, state and foreign case law. Part III draws a comparison to secondary liability for copyright infringement with respect to online auction sites, including a brief discussion of statutory safe harbors. Finally, Part IV weighs policy arguments in favor of and against holding online auction sites secondarily liable for trademark infringement occurring on their sites.

#### I. OVERVIEW OF COUNTERFEITING AND ONLINE AUCTION SITES

##### A. Extent of counterfeit listings and trademark owners' monetary losses attributed thereto.

Trademark infringement and counterfeiting<sup>1</sup> rob the United States of \$200 billion annually and represent a significant loss in tax revenue in countries around the world.<sup>2</sup> Fortune 500 companies reported that they spend an average of \$2 to \$4 million per year to combat

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<sup>1</sup> The Lanham Act defines a counterfeit mark as "a spurious mark which is identical with, or substantially indistinguishable from, a registered mark." Lanham Act, 15 U.S.C. § 1127 (1994). Similarly, the Trademark Counterfeiting Act of 1984 defines it as "a spurious mark that is used in connection with trafficking in goods or services that is identical with, or substantially indistinguishable from a mark in use and registered on the principal register for those goods or services and the use of which is likely to cause confusion, mistake or deceive ...." Trademark Counterfeiting Act of 1984, 18 U.S.C. § 2320 (1994). The Lanham Act provides civil remedies for trademark holders against trademark infringement, while the Trademark Counterfeiting Act of 1984 criminalizes trademark counterfeiting. These statistics represent not only actual counterfeiting but also other trademark infringements that may fall short of the more stringent requirements of counterfeiting (e.g., copying of unregistered trade dress features).

<sup>2</sup> Layne Latham, *Intellectual property rights: It's not just about Beanie Babies anymore*, U.S. CUSTOMS TODAY (Nov. 1999), available at <<http://www.customs.gov/custoday/nov1999.ipr.htm>>.

counterfeiting and some reported spending up to \$10 million.<sup>3</sup> The sale of counterfeit goods over the Internet amounts to more than \$30 billion worldwide and is certain to increase. This accounts for roughly 10 percent of the total counterfeit market, which is estimated to be around 5 to 7 percent of world trade.<sup>4</sup>

In recent years, Internet auctions have become perhaps the hottest phenomenon on the Web, facilitating a “virtual flea-market” featuring an endless array of merchandise from around the world. They have also become a new distribution channel for counterfeit goods,<sup>5</sup> and the most popular one at that.<sup>6</sup> Indeed, scams perpetrated on online auctions, a large percentage of which involve counterfeit merchandise, remain the top Internet fraud for 2001 and 2002, consisting of over three-quarters of all Internet-related fraud. Losses to consumers due to such Internet fraud in the year 2001 alone are estimated at \$6,152,070.<sup>7</sup>

B. Discussion of the stated policies of auction sites and the extent of control exercised over listings that are posted thereon.

Virtually all auction sites prohibit the sale of counterfeit and infringing merchandise in their “Terms & Conditions” or “User Agreement” legal pages.<sup>8</sup> Many will investigate complaints brought by intellectual property owners and may even remove listings and cancel sellers’ accounts. Some also have feedback bulletin boards where buyers can post complaints about purchases. Nevertheless, some of the smaller auction sites often fail to enforce their own terms of use or policies and attempt to shift responsibility for listings solely to the seller. Additionally, auction sites generally do not monitor listings to ensure that counterfeit or infringing merchandise is not being offered for sale on their systems.

eBay Inc. (“eBay”), operator of eBay the Internet’s largest auction site,<sup>9</sup> has a Verified Rights Owner (“VeRO”) program,<sup>10</sup> which is, arguably, the most comprehensive and structured program offered by online auction sites to deal with intellectual property owners’ complaints of infringement. The VeRO program has various features, including dedicated priority email

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<sup>3</sup> These statistics are from a survey conducted by the International AntiCounterfeiting Coalition, available at <[http://publish.iacc.org/teampublish/109\\_476\\_1677.CFM](http://publish.iacc.org/teampublish/109_476_1677.CFM)>.

<sup>4</sup> As these figures are averaged across all industry sectors and countries, for some, the percentage will undoubtedly be much higher. These statistics are from the Counterfeiting Intelligence Bureau of the International Chamber of Commerce, available at <[http://www.iccwbo.org/ccs/cib\\_bureau/overview.asp](http://www.iccwbo.org/ccs/cib_bureau/overview.asp)>.

<sup>5</sup> The International Chamber of Commerce also warns that modern technologies, “not only make it easier to produce counterfeit goods, but also facilitate mass production and open up potential new distribution channels for pirated products.” ICC, *Counterfeiting in the New Millennium* (January 2000), posted at <[http://www.iccwbo.org/ccs/news\\_archives/2000/counterfeiting\\_in\\_the\\_new\\_millennium.asp](http://www.iccwbo.org/ccs/news_archives/2000/counterfeiting_in_the_new_millennium.asp)>.

<sup>6</sup> Statement of the International Trademark Association on the Green Paper on Consumer Protection (January 15, 2002) <[http://www.inta.org/policy/cmnt\\_grpaper.shtml](http://www.inta.org/policy/cmnt_grpaper.shtml)>. The most popular way of selling counterfeits over the Web is through auction sites, as millions of consumers flock to them daily hoping to find the best bargain. What makes the Internet such a haven for counterfeit goods and in turn a danger for consumers, is that consumers are deprived of the opportunity to physically examine the merchandise prior to sale. The Internet also provides cyber criminals with a feeling of anonymity that street corner pirating operations cannot provide as well as being a desirable business venture for syndicates of organized crime by promising high profits and very low risks. *Id.*

<sup>7</sup> Statistics are from the National Fraud Information Center, located at <<http://www.fraud.org/internet/intstat.htm>>.

<sup>8</sup> For a comparison of auction site policies, see Appendix A.

<sup>9</sup> eBay promotes itself as the world’s largest online marketplace for the sale of goods and services among its registered users. It operates an Internet-based service in which it enables member sellers to offer items for sale to member buyers in what eBay characterizes as either auction-style or fixed price formats. *See* <<http://www.ebay.com/community/aboutebay/overview/index.html>>.

<sup>10</sup> More information about the VeRO program is available at <<http://pages.ebay.com/help/community/vero-program.html>>.

queues for reporting alleged infringing activities and the ability to use a “personal shopper” feature that allows users to conduct automatic searches for potentially infringing items. Additionally, Amazon.com, Inc., operator of Amazon.com Auctions (“Amazon.com Auctions”) has instituted a similar policy of regularly reviewing all auctions that are posted on its system, removing those that appear to be infringing and possibly even canceling the seller’s account.<sup>11</sup> Despite the fact that eBay and Amazon have set up these structured programs to prevent counterfeit and infringing items from being listed, such listings have not stopped nor have they even been considerably reduced.<sup>12</sup>

In an effort to avoid the posting of counterfeit and infringing items on its site, the second largest online auction site,<sup>13</sup> Yahoo! Inc., operator of Yahoo! Auctions (“Yahoo! Auctions”), created its Neighborhood Watch Program, which allows users to “review” and report questionable auctions. Unlike eBay and Amazon Auctions, Yahoo! Auctions apparently relies primarily on direct feedback from users.<sup>14</sup> It has also been reported that Yahoo! Auctions uses “bots” to search its site for infringements and will cancel any auctions that appear to violate intellectual property rights.<sup>15</sup>

Despite the current policies adopted by online auction sites and their disparate efforts at policing their systems for infringements, intellectual property owners might argue that more can be done to prevent violations of their rights. Conversely, auction sites might be reluctant to do more, if not from an effort to protect the rights of their users, then possibly because a strictly enforced policy may reduce the level of user activity or impose a financial cost on the operators of the auction sites. Additionally, anticipating the threat of legal action by trademark owners for secondary infringement, virtually all auction sites have crafted their legal terms in efforts to avoid such liability.<sup>16</sup> As will be evident from the legal discussion, it also stands to reason that auction site owners are wary of crossing a line they believe they have not yet approached -- that of content provider, with the concomitant exposure to all sorts of liability this may imply. It remains to be seen whether such language will be sufficient to insulate auction sites from secondary trademark infringement liability.

## II. OVERVIEW OF SECONDARY TRADEMARK INFRINGEMENT LAW

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<sup>11</sup> Indeed, the Business Software Alliance commended Amazon Auctions for its singular and proactive efforts in the area of self-monitoring and self-policing its auction listing for infringing software programs. *See Software Group Recognizes Amazon.Com Auctions For Protecting Buyers From Software Piracy* (December 15, 2000), posted at <<http://www.caast.org/release/default.asp?aID=46>>.

<sup>12</sup> Indeed, some have further claimed that “eBay knowingly tolerates fraudulent material being sold on their site and they facilitate copyright infringement as well.” D. Mark Katz, *eBay Violates Trade Rules* (August 10, 2002), available at <<http://www.auctionguild.com/generic96.html>>.

<sup>13</sup> For a statistical analysis of online auction sites, see <[http://onlineauctionbiz.com/auction\\_statistics.htm](http://onlineauctionbiz.com/auction_statistics.htm)>.

<sup>14</sup> A description of the Neighborhood Watch program can be found at <<http://help.yahoo.com/help/auctions/abid/abid-19.html>>. Indeed, this considerably weaker policy requires that three different users complain about one specific auction before it is cancelled.

<sup>15</sup> Nancy L. Hix, *Dealing with Closed Auctions*, located at <<http://www.auctionwatch.com/awdaily/tipsandtactics/sel-closed.html>>. *See also* White Paper from The Software & Information Industry Association entitled “Piracy on Internet Auction Sites: What Consumers Need to Know,” posted at <<http://www.sii.net/sharedcontent/piracy/news/auction2001.pdf>> (stating that Yahoo! Auctions has “launched a new program to help enforce refined policies and identify items that do not comply with Yahoo!’s Terms of Service. The program will incorporate both a new, internally developed technology, as well as trained representatives who will regularly review the auction site”).

<sup>16</sup> *See* third column of comparison chart in Appendix A. Arguably, a site’s policy only serves to bind users, *i.e.*, buyers and seller, and may not be an impediment to claims posed by third party trademark owners.

A. Doctrine of contributory trademark infringement set out in *Inwood Labs*.

The Lanham Act contains no explicit language allowing for a cause of action of contributory infringement or vicarious liability.<sup>17</sup> In the seminal case of *Inwood Labs., Inc. v. Ives Labs., Inc.*, however, the Supreme Court interpreted that statute to imply such a cause of action and enunciated what remains the standard for contributory trademark infringement.<sup>18</sup> The Court stated that a party which “intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement ... is contributorily responsible for any harm done as a result of the deceit.”<sup>19</sup> Stated differently, the determination of contributory infringement depends upon a defendant’s intent and knowledge of the wrongful activities.<sup>20</sup>

B. Discussion of cases holding brick and mortar flea markets liable for contributory trademark infringement (*Hard Rock Cafe, Fonovisa* and *Polo Ralph Lauren*).

The concept of "knowledge" of infringement, however, was soon expanded, in a critical series of cases. In *Hard Rock Cafe Licensing Corp. v. Concession Svcs., Inc.*,<sup>21</sup> the Seventh Circuit extended the *Inwood* test for contributory trademark liability to the operator of a flea market. The court stated that a flea market owner and operator can be held contributorily liable for sales of counterfeit products by a market vendor if the owner knew, had reason to know or was "willfully blind" to the infringing sales.<sup>22</sup> While the court found it to be axiomatic that a company “is responsible for the torts of those it permits on its premises ‘knowing or having reason to know that the other is acting or will act tortiously,’”<sup>23</sup> it also stated that there is no affirmative duty to take precautions against the sale of counterfeits. The court refused to hold the flea market vicariously liable for the infringement because, in that case, the defendant and the infringer had no apparent or actual partnership, had no authority to bind one another in transactions with third parties and did not exercise joint ownership or control over the infringing product. Nevertheless, the implication in this case was that, had some or perhaps all of these factors been present, *Hard Rock Cafe*’s broader vicarious liability argument may have been successful. While demonstrating the presence of these factors to prove vicarious infringement may be a difficult burden for trademark holders to meet under the circumstances surrounding online auction sites, the likelihood of successfully proving contributory infringement is far greater.

The next significant decision in this area was *Fonovisa, Inc. v. Cherry Auction, Inc.*,<sup>24</sup> in which a record company brought suit for trademark infringement against the operators of a swap

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<sup>17</sup> 15 U.S.C. § 1051 (1994).

<sup>18</sup> 456 U.S. 844, 855 (1982). While *Inwood Labs* involved a manufacturer that was held secondarily liable for its distributor’s trademark infringement, this agency relationship has been extended to landlords and tenants. See *infra*. Additionally, even an independent contractor relationship may be sufficient to impose vicarious trademark liability. See *AT&T Co. v. Winback and Conserve Program, Inc.*, 42 F.3d 1421, 1435-36 (3d Cir. 1994).

<sup>19</sup> *Inwood Labs.*, 456 U.S. at 854.

<sup>20</sup> *David Berg & Co. v. Gatto Int'l Trading Co.*, 884 F.2d 306, 311 (7th Cir. 1989). See also Restatement (Third) of Unfair Competition § 26 (1985) (imposing liability when the actor intentionally induces a third person to engage in the infringing conduct, or the actor fails to take reasonable precautions against the occurrence of a third person's infringing conduct in circumstances in which the infringing conduct can be reasonably anticipated).

<sup>21</sup> 955 F.2d 1143 (7<sup>th</sup> Cir. 1992). In this case, the owner of trademarks for HARD ROCK CAFÉ on apparel brought suit against a vendor at an Illinois flea market for selling counterfeit goods, as well as the flea market owner for its vendor’s infringement.

<sup>22</sup> *Id.* at 1149.

<sup>23</sup> *Id.* quoting Restatement (Second) of Torts § 877(c) & cmt.d (1979).

<sup>24</sup> 76 F.3d 259 (9<sup>th</sup> Cir. 1996).

meet at which vendors sold counterfeit music cassettes. The Ninth Circuit, citing the decision in *Hard Rock Cafe*, held that the swap meet could be held liable for contributory trademark infringement.<sup>25</sup> The court, reaffirming the notion that “willful blindness”<sup>26</sup> satisfies the knowledge prong of the contributory infringement test, stated that a swap meet that is supplying the necessary marketplace cannot disregard its vendors’ blatant trademark infringements with impunity. By analogy to *Fonovisa*, it would appear that trademark holders could attempt to meet the willful blindness test and build a case for proving “willful blindness” by routinely providing notice letters to online auction sites informing them of counterfeit merchandise being auctioned on their sites. Thus, contributory trademark infringement could at least theoretically be established if sufficiently specific notices are ignored and an online auction site continues to allow its site to be used to conduct known infringing activities.

In *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*,<sup>27</sup> Polo Ralph Lauren Corp., Rolex Watch U.S.A., Inc., and Louis Vuitton brought suit against three retailers and their landlords for the sale of counterfeit goods bearing the three companies’ trademarks. To support their claim of contributory trademark infringement against the landlords, the plaintiffs contended that the landlords were providing their tenants with a safe haven and marketplace to engage in the sale of counterfeit goods; that the tenants had been openly selling the counterfeit goods with impunity; and that the landlords had knowledge of their tenants’ illegal acts and that their premises were being used for such unlawful trade.<sup>28</sup> The court denied a motion to dismiss brought by one of the defendants, holding that under *Inwood* and *Hard Rock Cafe*, the plaintiffs stated a cause of action for contributory trademark infringement against the landlord.<sup>29</sup> In addressing liability under the Lanham Act, the *Polo Ralph Lauren* court observed that “a landlord is neither automatically liable for the counterfeiting of a tenant, nor is the landlord automatically shielded from liability. The question of liability depends on the circumstances.”<sup>30</sup> The court held that the landlord had a responsibility under both federal and state law, commencing at the time it received notice from the plaintiffs regarding the counterfeiting, to take “reasonable steps to rid the premises of the illegal activity.”<sup>31</sup> Thus, this decision seems to indicate that a court may require that a trademark holder prove that the landlord’s failure to act is the proximate cause of the trademark holder’s damages.

### C. Discussion of cases finding contributory trademark infringement resulting from online activity (*Lockheed, Gucci, Great Domains*).

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<sup>25</sup> The bulk of the *Fonovisa* decision discussed secondary copyright liability. This analysis has been significantly affected by the enactment of the DMCA (*see infra*). For a detailed discussion of how *Fonovisa* would have affected ISPs had the DMCA not been enacted, see Kenneth A. Walton, *Is A Website Like A Flea Market Stall? How Fonovisa v. Cherry Auction Increases The Risk Of Third-Party Copyright Infringement Liability For Online Service Providers*, 19 HASTINGS COMM. & ENT. L.J. 921 (Summer 1997). Also, for an in-depth analysis of *Fonovisa* with respect to anti-counterfeiting efforts in general, see Barbara Kolsun and Jonathan Bayer, *Indirect Infringement And Counterfeiting: Remedies Available Against Those Who Knowingly Rent To Counterfeiters*, 16 CARDOZO ARTS & ENT. L.J. 383 (1998).

<sup>26</sup> As explained in *Hard Rock Cafe*, in order to constitute willful blindness, a person must “suspect wrongdoing and deliberately fail to investigate.” *Hard Rock Cafe*, 955 F.2d at 1149 (*citing Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 590 (7th Cir. 1989)). Additionally, such willful blindness constitutes knowledge under the Trademark Counterfeiting Act of 1984. H.R. Rep. No. 98-997, at 10.

<sup>27</sup> 855 F. Supp. 648 (S.D.N.Y. 1994).

<sup>28</sup> The plaintiffs based their case upon several civil seizures of counterfeit goods at each of the retail locations, followed by notice letters to the landlords regarding the tenants’ illegal sale of counterfeit goods. After receiving no response from the landlords to these letters, the plaintiffs commenced litigation. The retailer defendants defaulted and the plaintiffs secured a substantial default judgment against them. *Id.* at 650.

<sup>29</sup> *Id.* at 648.

<sup>30</sup> *Id.*

<sup>31</sup> *Id.*

Various trademark plaintiffs have asked the courts to apply these principles to the Internet, with varying degrees of success. To date, there have been no decisions that have addressed, head-on, the application of secondary trademark liability to online auction sites.<sup>32</sup> Nevertheless, the following cases will likely serve as precedent for such a determination, were the issue to come before a court.

In *Lockheed Martin Corp. v. Network Solutions, Inc.*,<sup>33</sup> the court rejected the plaintiff's contributory trademark infringement claim against the defendant, the domain name registrar with which the infringing domain name was registered. The court explained that the defendant's role was limited to registering a domain name and connecting it with an IP address, not its use in commerce and, therefore, its conduct was too far removed from the actual infringing conduct. *Lockheed*, of course, was not an action brought against a website owner or operator. In *Gucci America, Inc. v. Mindspring Entrs., Inc. et al.*,<sup>34</sup> the owner of the GUCCI trademark sued the owner of a website that sold counterfeit Gucci products on the site, as well as the site's Internet Service Provider ("ISP"), Mindspring. Mindspring brought a motion to dismiss based on the *Lockheed* court's refusal to extend secondary liability for domain name squatting to the name registrar. The Court denied the motion, reasoning that a domain name registrar's "role in the Internet is distinguishable from that of a Internet service provider whose computer provides the actual storage and communications for infringing material, and who therefore might be more accurately compared to the flea market vendors in *Fonovisa* and *Hard Rock*."

Thus, under the rule enunciated in *Gucci*, the key factor for determining whether a party will be held secondarily liable as a contributing infringer is the degree to which it can control and monitor the activities of the infringing party. In *Gucci*, the court found that Mindspring, an ISP, was (unlike a domain name registrar) akin to a flea market operator because it provided, "the actual storage and communications for infringing material," just as the flea market operator provides the physical location and the selling environment to the vendor trading in counterfeit goods. A flea market operator can prevent the sale of counterfeits by prohibiting them from being sold at its site or denying access to a vendor altogether. So too, ruled the *Gucci* court, can the ISP prevent the infringing conduct by monitoring sites using its services or terminating service to wrongful parties accused of selling counterfeits.

In *Ford Motor Co. v. Greatdomains.Com, Inc.*,<sup>35</sup> the plaintiff, owner of various marks such as FORD, brought an action under the Anticybersquatting Consumer Protection Act ("ACPA")<sup>36</sup> against registrants of domains names incorporating its trademarks, as well as against the defendant, an online auctioneer of domain names, for contributory trademark infringement. In the first sentence of this opinion, the Court analogized the defendant to eBay and stated that the defendant, "[r]ather than offering a forum for whatever objects cyber-merchants might wish to sell ... [it] specializes in auctioning Internet domain names ... [by] providing a marketplace for buyers and sellers of domain names...[for which it] receives a fixed percentage of the price

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<sup>32</sup> A lawsuit seeking contributory copyright and trademark liability was brought in March 2000 by Sega of America, Inc., Electronic Arts Inc., and Nintendo of America, Inc. in the US District Court for the Northern District of California against Yahoo!, alleging that Yahoo! knowingly aided the sale of counterfeit video games on its website. No decision has issued. See Kevin Murphy, *Yahoo Sued for Millions Over Pirated Games*, CyberCover News (March 30, 2000) posted at <[http://www.shockmag.com/pages/computergram\\_mar\\_30.htm](http://www.shockmag.com/pages/computergram_mar_30.htm)>.

<sup>33</sup> 985 F. Supp. 949 (C.D. Cal. 1997), *aff'd*, 194 F.3d 980 (9<sup>th</sup> Cir. 1999).

<sup>34</sup> 135 F.Supp.2d 409 (S.D.N.Y. 2001).

<sup>35</sup> 177 F.Supp.2d 635 (E. D. Mich. 2001).

<sup>36</sup> 15 U.S.C. § 1125(d).

of any domains sold over its Website.”<sup>37</sup> In support of its contributory trademark infringement claim against the defendant, the plaintiff argued that the “flea market” analysis used in *Fonovisa* and *Hard Rock Cafe* should also apply in this case because the defendant provided “the necessary marketplace” for the alleged cybersquatting.<sup>38</sup> Nevertheless, the Eastern District of Michigan declined to extend this “flea market” analysis to cybersquatting cases because of the heightened standard of “bad faith intent” required by the ACPA. The Court explained that “[b]ecause an entity such as Great Domains generally could not be expected to ascertain the good or bad faith intent of its vendors, contributory liability would apply, if at all, in only exceptional circumstances.”<sup>39</sup> Nevertheless, *Great Domains* may be used to support the argument that in a “regular,” non-ACPA, contributory trademark infringement action, awareness by the operator of a website that infringing materials are being sold or auctioned thereon would be sufficient for a finding of contributory infringement.

A review of Internet-related case law dealing with contributory trademark liability suggests that an online auction site may be more comparable to the ISP in the *Gucci* case than to the domain name registrar in *Lockheed*. In fact, if the *Lockheed* and *Gucci* cases are viewed as points along a continuum, with domain name registration services (no contributory liability) on one extreme and ISP services (conditional contributory liability) on the other, online auction sites likely fall somewhere near or possibly further to the right of even the ISP depending on the specific facts of in a given case. And, arguably, online auction sites are more like flea market operators than the defendants in *Fonovisa* and *Hard Rock Cafe*.

D. Unfair competition and similar trademark infringement-like liability under state statutes (*Gentry v. eBay*, *Stoner v. eBay*, NY statute and *Dayana*).

A number of other approaches to auction site liability have been attempted, without great success. In *Gentry v. eBay*,<sup>40</sup> a class of eBay users who purchased allegedly forged autographed sports memorabilia on eBay brought suit in Superior Court in San Diego, California. The plaintiffs claimed that eBay violated California unfair competition law; was negligent in permitting the sale of allegedly forged sports memorabilia by misrepresenting the safety of purchasing such items; and that eBay knew or should have known the individual defendants were conducting unlawful practices but failed to ensure that they complied with the law.<sup>41</sup> The court, whose decision was upheld on appeal, concluded that none of these allegations placed eBay outside the immunity for service providers established by the safe harbor provisions of the Communications Decency Act (“CDA”),<sup>42</sup> reasoning that, otherwise, eBay would be liable for simply failing to stop the individual defendants’ illegal acts of compiling false or misleading content merely if eBay knew or should have known of the fraudulent conduct of these third parties. As no secondary trademark infringement claim was made by the plaintiffs, and, thus, the court made no mention of liability in such a circumstance, the court’s decision presumably

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<sup>37</sup> *Id.* at 639-40.

<sup>38</sup> *Id.* at 646.

<sup>39</sup> *Id.* at 647.

<sup>40</sup> 99 Cal.App.4th 816, 121 Cal.Rptr.2d 703 (June 26, 2002).

<sup>41</sup> The plaintiffs also claimed that eBay violated a section of the California Civil Code which prohibits “dealers” from selling sports memorabilia without a “Certificate of Authenticity.” The court noted that eBay was not a “dealer” under California law and thus not required to provide certificates of authenticity with autographs sold over its site by third parties.

<sup>42</sup> 47 U.S.C. § 230. The CDA immunizes interactive computer service providers from liability for posting harmful information provided by another information content provider. The *Gentry* court felt that imposing liability on eBay by holding eBay responsible for content originating from other parties, it would be treating it as the publisher (*i.e.*, the original communicator), contrary to Congress’s expressed intent under section 230(c)(1) and (e)(3).

would not affect a claim of secondary trademark infringement.<sup>43</sup> Additionally, the CDA is unlikely to be used as a defense to contributory trademark infringement because of the limitation set forth in § 230(e)(2), that “[n]othing in this section shall be construed to limit or expand any law pertaining to intellectual property.”<sup>44</sup>

The unreported decision of *Stoner v. eBay, Inc.*<sup>45</sup> was cited in fn. 13 of the *Gucci v. Hall Assoc.* case, as follows:

By letter dated Nov. 16, 2000, Mindspring cites *Stoner v. eBay Inc.*, No. 305666, 2000 WL 1705637 (Cal.Super.Ct. Nov. 1, 2000), in which, the California Superior Court held that eBay was immune (under Section 230) from liability pursuant to Cal.Bus. & Prof.Code § 17200. Plaintiff responds that *Stoner* "has no relevance to this case" because, "[a]lthough the plaintiff there apparently complained about sales of 'bootleg sound recordings ... [he did not] bring typical intellectual property causes of actions, such as claims for copyright, trademark or patent infringement,' " but rather sued under Cal.Bus. & Prof.Code § 17200 whose " 'sweeping language' has been construed to reach 'anything which can properly be called a business practice and that at the same time is forbidden by law.' " (Pl.'s Letter dated Nov. 21, 2000 (quoting *Stop Youth Addiction, Inc. v. Lucky Stores, Inc.*, 17 Cal.4th 553, 71 Cal.Rptr.2d 731, 950 P.2d 1086, 1090 (1998)).)

Indeed, in *Stoner*, a California State Superior Court decision, the Court stated that, “[i]n order for liability to arise [under this state cause of action] and the immunity to be lost, it would be necessary to show actual, rather than constructive, knowledge of illegal sales, and some affirmative action by the computer service, beyond making its facilities available in the normal manner, designed to accomplish the illegal sales.” While the language appears to be quite broad, the *Gucci* decision suggests that *Stoner* should not be applied in federal trademark or copyright cases.

Most states have enacted anti-counterfeiting statutes as well.<sup>46</sup> In New York, trademark holders facing a landlord who knowingly permits the counterfeiting activities of his tenant have a weapon at their disposal that is unavailable in any other state. Pursuant to N.Y. Real Property

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<sup>43</sup> Though an unfair competition claim is similar to a trademark infringement claim, the *Gentry* court’s basis for dismissing this state cause of action was based on its preemption by the federal CDA, a reasoning that is inapplicable to a federal trademark infringement or counterfeiting claim.

<sup>44</sup> Indeed, the *Gucci* court rejected the ISP’s argument that the absence of any decisional law prior to passage of the CDA acknowledging ISP liability for contributory trademark infringement meant any such finding of contributory liability after enactment of the CDA would be an impermissible expansion of intellectual property law. *Gucci*, 135 F. Supp.2d at 412.

<sup>45</sup> 56 U.S.P.Q.2d 1852 (Cal. Super. 2000)

<sup>46</sup> See, e.g., Ariz. Rev. Stat. § 44-1455 (West 1994); Cal. Penal Code § 350 (West 1988 & Supp. 1998); Fla. Stat. Ann. §§ 831.03, 831.05 (West 1994 & Supp. 1998); Ga. Code Ann. § 10-1-454 (Supp. 1997); Haw. Rev. Stat. Ann. §§ 708-875 (Michie, WESTLAW through 1997); Idaho Code §§ 18-3614 (1997); 765 Ill. Comp. Stat. 1040 (West 1993 & Supp. 1997); La. Rev. Stat. Ann. § 14:229 (West Supp. 1997); Md. Code Ann. art. 27, § 48A (1996); Mich. Comp. Laws Ann. § 750.263 (West 1991); N.J. Stat. Ann. § 2C:21-32 (West, WESTLAW through 1997); N.Y. Penal Law §§ 165.70 to 165.74 (McKinney 1998); N.C. Gen. Stat. § 80-11.1 (1997); N.D. Cent. Code § 51-07-04 (1997); Ohio Rev. Code Ann. § 2913.34 (Anderson 1996); 18 Pa. Cons. Stat. Ann. § 4119 (West Supp. 1997); R.I. Gen. Laws § 11-17-13 (Supp. 1997); S.C. Code Ann. § 39-15-1190 (Law Co-op. Supp. 1997); Va. Code Ann. § 59.1-89 (Michie Supp. 1997); Wis. Stat. Ann. § 132.20 (West 1989). See also D.C. Code Ann. §§ 22-751, 22-752 (Supp. 1997).

Law § 231, a landlord may be held liable as a contributory infringer for tenants' illegal conduct and is jointly and severally liable with the tenant for any resulting damage.<sup>47</sup>

Under New York law, trademark plaintiff have an additional arrow in their quiver that has not yet been tested in the online auction context. In *1165 Broadway Corp. v. Dayana of N.Y. Sportswear, Inc.*,<sup>48</sup> the Civil Court of the State of New York addressed the issue of whether the holding and selling of counterfeit goods constitute an illegal use under RPL § 231, and in turn, whether landlords can be secondarily liable thereunder. Though RPL § 231 had not previously served as the basis of evictions for counterfeiting activity,<sup>49</sup> the court held that RPL § 231 “certainly includes any enterprise operated in violation of the Penal Law,” including use of “commercial premises in violation of Penal Law 165.72, known as trademark counterfeiting in the second degree, a class E felony.”<sup>50</sup> Thus, under RPL § 231(2), if the landlord has knowledge that his premises are used for illegal trade, business or manufacture, *i.e.*, counterfeiting activity, the landlord is jointly and severally liable with the tenant for damages resulting from the infringement.

Thus, trademark owners may have an additional claim against online auction sites under New York law and may only need to overcome the more stringent standards of a claim of secondary trademark infringement when they cannot prove counterfeiting. Nevertheless, to date, there have been no cases applying RPL § 231 to online activity and it remains to be seen whether auction sites will be considered “landlords” under RPL § 231(2).

E. Analogous foreign cases (*Rolex v. eBay* and *Ricardo* in Germany).

Montres Rolex, S.A. (“Rolex”), the owner of the luxury brand ROLEX for watches, has been especially diligent in its efforts to protect its mark from counterfeiting activity online. Indeed, it has brought lawsuits in German courts against online auction sites for contributory trademark infringement. One such suit is currently pending against eBay’s European subsidiary.

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<sup>47</sup> New York Real Property Law § 231 provides, in part:

§ 231. Lease, when void; liability of landlord where premises are occupied for unlawful purpose

1. Whenever the lessee or occupant other than the owner of any building or premises, shall use or occupy the same, or any part thereof, for any illegal trade, manufacture or other business, the lease or agreement for the letting or occupancy of such building or premises, or any part thereof shall thereupon become void, and the landlord of such lessee or occupant may enter upon the premises so let or occupied.

2. The owner of real property, knowingly leasing or giving possession of the same to be used or occupied, wholly or partly, for any unlawful trade, manufacture or business, or knowingly permitting the same to be so used, is liable severally, and also jointly with one or more of the tenants or occupants thereof, for any damage resulting from such unlawful use, occupancy, trade, manufacture or business.

N.Y. Real Prop. Law § 231 (McKinney 1989).

<sup>48</sup> 663 N.Y.S.2d 724 (N.Y.C. Civ. Ct. Oct. 4, 1995).

<sup>49</sup> This penal law had been habitually used by landlords to evict tenants for illegal uses of premises that negatively affected the health, morals, welfare, or safety of the public, such as where the premises in question were used: (1) for the storage and distribution of drugs, illegal fireworks, and obscene materials; (2) for illegal operation of a rooming house; (3) for the operation of a house of prostitution; (4) as a gambling hall; and (5) for the illegal sale of liquor during prohibition.

<sup>50</sup> 633 N.Y.S.2d at 726. Section 165.72 provides:

165.72 Trademark counterfeiting in the second degree

A person is guilty of trademark counterfeiting in the second degree when, with the intent to deceive or defraud some other person or with the intent to evade a lawful restriction on the sale, resale, offering for sale, or distribution of goods, he or she manufactures, distributes, sells, or offers for sale goods which bear a counterfeit trademark, or possesses a trademark knowing it to be counterfeit for the purpose of affixing it to any goods, and the retail value of all such goods bearing counterfeit trademarks exceeds one thousand dollars.

N.Y. Penal Law § 165.72 (McKinney 1997).

Rolex alleged that eBay infringed Rolex's trademarks and unfairly competed with Rolex as result of users' selling counterfeit watches through eBay's German website. Rolex is seeking an order forbidding the sale of Rolex watches on the website as well as damages.<sup>51</sup>

Another such lawsuit was brought by Rolex against Ricardo.de, a popular German auction site. The trial court (Cologne Regional Court), held in favor of Rolex and prohibited Ricardo.de from either selling or allowing replica Rolex watches to appear on its website. On appeal, the Regional High Court of Cologne dismissed Rolex's claim and held that providers of online auction platforms cannot be held liable for trademark infringement caused by an auctioneer's offer.<sup>52</sup> The court reasoned that the defendant did not willfully participate in the infringement of rights caused by an offer because the automated registration process used for auctioneers and their offers did not allow the defendant to review an offer's contents. This case, decided under legal doctrines not entirely analogous to the Lanham Act, can also arguably be distinguished from most other auction sites, such as eBay, that do some degree of monitoring of the contents of listings placed on their sites.<sup>53</sup>

### III. COMPARISON WITH SECONDARY COPYRIGHT INFRINGEMENT LAW

#### A. Overview of DMCA safe harbor provisions for ISPs.

Section 512 of the Digital Millennium Copyright Act ("DMCA"), in an effort to protect Internet Service Providers ("ISPs") from liability for the copyright-infringing activities of its users, requires that proper notice be given to an ISP before it has a duty to act.<sup>54</sup> In other words, the DMCA exempts ISPs that meet the criteria set forth in its safe harbor provisions from claims of copyright infringement made against them that result from the conduct of their customers. The DMCA defines an ISP as "an entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user's choosing, without modification to the content of the material as sent or received" or "a provider of online services or network access, or the operator of facilities therefor."<sup>55</sup> This broad definition has been held to include auction sites, thus apparently insulating them from secondary liability for copyright infringement.<sup>56</sup>

#### B. Discussion of cases involving contributory copyright infringement claims related to online activity (*Napster*, *Remarq* and *Ellison*).

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<sup>51</sup> In its most recent Quarterly Report filed with the Securities & Exchange Commission, eBay claimed that it had meritorious defenses and intended to appeal if it does not prevail at the trial court. This QR can be accessed at <<http://edgar.sec.gov/Archives/edgar/data/1065088/000089161802005206/f85887e10vq.htm>>.

<sup>52</sup> Rolex is currently appealing this decision to the German Federal Civil Court in Karlsruhe.

<sup>53</sup> Recent litigation and public attention has focused on auction sites deletion, or foreign courts' insistence on their deletion, of certain controversial auction topics, most recently debris from the Columbia Space Shuttle found on eBay, Nazi paraphernalia on the European Yahoo! Auction sites and hate-related merchandise on both services. See, generally, "eBay asked to pull KKK items from site", <http://news.com.com/2100-1017-236426.html?legacy=cnet>>, "Yahoo Nazi case tests bounds of online speech," <http://www.nwfusion.com/news/2002/0509yahoonaazi.html>, and "eBay Thwarts Shuttle Debris Sales,"

<<http://itmanagement.earthweb.com/ecom/article.php/1578201>>, all most recently visited on Feb. 10, 2003.

<sup>54</sup> 17 U.S.C. § 512. The full text of this section can be viewed at <<http://www4.law.cornell.edu/uscode/17/512.html>>.

<sup>55</sup> 17 U.S.C. § 512(k)(1)(A-B).

<sup>56</sup> See *infra*.

In *A&M Records, Inc. v. Napster Inc.*,<sup>57</sup> the Ninth Circuit found that Napster<sup>58</sup> could be held liable for contributory copyright infringement if it had (1) actual knowledge of specific infringing works available using its system, (2) encouraged and assisted its third-party users to engage in copyright infringement, and (3) materially contributed to such infringing activity. The court held that Napster could also be held liable for vicarious copyright infringement if it (1) had a direct financial interest in its users' infringing activity, and (2) retained the ability to police its system for infringing activity, to block access to knowing infringers and to remove the infringing material from its system. The court would not, however, find Napster responsible for preventing infringing material from being posted in the first place. While recognizing that Napster may obtain shelter thereunder, the court declined to apply the safe harbor provisions of the DMCA before full resolution at trial, due to factual issues with respect to the parties' compliance with specific procedures outlined in § 512.<sup>59</sup>

In a recent case involving news groups, *ALS Scan, Inc. v. Remarq Communications, Inc.*,<sup>60</sup> it was held that DMCA protection of an innocent ISP disappears at the moment it is informed that a third party is using its system to infringe. The court also held that copyright holders need only comply substantially with the notice requirements set forth in § 512 of the DMCA and that only a representative list of infringements must be provided so as to reasonably identify where the infringements may be found on the provider's system. This decision would appear to strengthen the hand of the owners of copyrighted properties.

Similarly, in a recent decision involving usenets,<sup>61</sup> *Ellison v. Robertson*,<sup>62</sup> it was held that the provision of a service that allows for the automatic distribution of usenet postings can constitute a material contribution when the ISP knows or should know of infringing activity on its system and yet continues to aid in the distribution of the infringing material. The court declined to apply the DMCA's safe harbor provisions to immunize AOL from contributory copyright liability,<sup>63</sup> reasoning that an ISP must first satisfy the DMCA's requirement to have adopted and reasonably implemented, and informed its subscribers, of a policy for the termination in appropriate circumstances of subscribers who are repeat infringers. Finally, the court rejected the ISP's argument that the mere provision of usenet access was too attenuated

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<sup>57</sup> 239 F.3d 1004 (9th Cir. 2001).

<sup>58</sup> Napster designed and operated a system that permitted PC users to transmit and retain copyrighted sound recordings employing digital technology. Through a process known as "peer-to-peer" file sharing, Napster allowed its users to make music files stored on individual computer hard drives available for copying by other Napster users, to search for music files stored on other users' computers, and to transfer exact copies of other users' music files from one computer to another via the Internet.

<sup>59</sup> *Napster*, 239 F.3d at 1025. This issue was not resolved due to Napster's bankruptcy filing.

<sup>60</sup> 239 F.3d 619 (4<sup>th</sup> Cir. 2001). In this case, the plaintiff, owner of copyrights in photographs, brought suit against an online news group service that, as a result of its failure to monitor or censor the articles posted on its site by third parties, featured hundreds of infringing postings. The plaintiff sent notice specifying two news groups, which were allegedly created for the sole purpose of violating its copyrights, and demanded that the defendant remove these groups from its site. The defendant refused, advising the plaintiff that it would eliminate individual infringing items if they were identified with sufficient specificity. Since there were over 10,000 copyrighted images that appeared in the news groups over a period of several months, the plaintiff found it more expeditious to bring suit.

<sup>61</sup> A "usenet" is a worldwide bulletin board system accessible through the Internet and ISPs, which contains over 14,000 newsgroups. NetLingo Dictionary of Internet Words, available at <<http://www.netlingo.com/right.cfm?term=Usenet>>.

<sup>62</sup> 189 F. Supp. 2d 1051 (C.D. Cal. 2002). In this case, the plaintiff, owner of copyrights in various fictional works, brought suit against both the individual who posted several of these works onto a usenet group that was used primarily to exchange pirated and unauthorized digital copies of text material, as well as America Online ("AOL"), which acted as a usenet peer and hosted the infringing materials on its server.

<sup>63</sup> Conversely, the court did grant AOL's motion for summary judgment on plaintiff's vicarious copyright liability claim, which was found to be barred by § 512.

from the infringing activity to constitute a material contribution sufficient to sustain a holding of contributory infringement.

Thus, the DMCA does not provide ISPs with absolute immunity from secondary copyright infringement claims. While the case law in this area considers the extent and sophistication of an ISP's ability to police its site as evidence that it can and should do all that it can to prevent infringement on its site, courts will also focus on the specific safe harbor factors in determining whether to impose secondary liability.

C. Discussion of case involving copyright liability of auction sites (*Hendrickson*).

Recently, in *Hendrickson v. eBay*,<sup>64</sup> the plaintiff sued eBay for copyright infringement, claiming that pirated copies of his documentary film "Manson" were being auctioned on eBay's site. Specifically, in late 2000, Hendrickson sent a cease and desist letter to eBay, claiming that his company owned the copyright to the "Manson" documentary. Significantly, Hendrickson did not make his copyright interest clear and he failed to specify which copies of the documentary were infringing. eBay sent Hendrickson several email messages requesting that Hendrickson submit eBay's Notice of Infringement form and asking him to join eBay's VeRO program. Hendrickson refused eBay's request to join the VeRO program and never provided eBay with specific item numbers that eBay sought with respect to the alleged infringing copies of his documentary. Instead, Hendrickson filed suit.

The court held that the "safe harbor" provisions in § 512(c) of the DMCA protected eBay from secondary liability for copyright infringement by its sellers. The court did not address eBay's claim to protection under § 512(d). According to the court, eBay did not have a duty to act upon receipt of insufficient notice of alleged infringement, which was deemed inadequate because the plaintiff did not state that he was authorized to act on behalf of the owner of the copyright at issue, did not assert that the use of the copyrighted work was unauthorized, did not provide sufficient information identifying the alleged pirated copies, and did not state under oath in his communications that the information he submitted was accurate. In fact, the judge surmised that eBay should not be "penalized" for engaging in voluntary efforts to "combat piracy over the Internet" and found that the infringing activities were the sale and distribution of pirated copies of "Manson" by eBay's sellers offline, something over which eBay had no control. According to the court, the reference to the offline sale of infringing materials on eBay's website did not constitute infringing activity.

Clearly, the facts of *Hendrickson* were extremely favorable to eBay and are also easily distinguishable from many trademark owners' prospective cases against online auction sites. Nevertheless, if a court were to follow *Hendrickson* in a trademark case, online auction sites may prevail. This is likely to be the case due to the court's determination that eBay's limited voluntary monitoring of its site for infringement under the VeRO program did not constitute a right and ability to control the infringing activities under the DMCA. It remains to be seen whether a court will apply this analysis in a trademark infringement case where DMCA protections, and the First Amendment considerations that gave rise to them, are not applicable.<sup>65</sup>

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<sup>64</sup> 165 F. Supp. 2d 1082 (C.D. Cal. 2001).

<sup>65</sup> In a case brought in the Southern District of New York, *Earth Flag Ltd. v. Alamo Flag Co.*, 153 F.Supp.2d 349 (S.D.N.Y. 2001), eBay was included as a defendant for its posting of an allegedly infringing auction listing, wherein it again argued that (1) the copyright infringement claim against eBay is barred by the safe harbor provisions of the DMCA; and (2) the CDA grants eBay immunity from plaintiff's state law claims. Holding that the plaintiff could not prove it owned a valid copyright, the court granted the defendants' motions for summary judgment and refrained from analyzing the questions of statutory interpretation raised by eBay. Thus, it has yet to be seen whether the

#### D. Similarities/differences between secondary trademark and copyright infringement.

From the analysis above, it is clear that there are different standards for imposition of liability for trademark, as opposed to copyright, infringement. Indeed, in *Hard Rock Cafe*, the Seventh Circuit essentially dismissed the argument that a flea market operator can be vicariously liable for copyright infringement. The court, citing a footnote in *Sony Corp. of America v. Universal City Studios, Inc.*,<sup>66</sup> (the famous Betamax case), stated that “the Supreme Court tells us that secondary liability for trademark infringement should, in any event, be more narrowly drawn than secondary liability for copyright infringement.”<sup>67</sup> The court noted “CSI neither hired Parvez [the vendor] to entertain its customers, nor did it take a percentage of his sales. Further, CSI exercises no more control over its tenants than any landlord concerned with the safety and convenience of visitors and of its tenants as a group.”<sup>68</sup> While this is still an open question, this case suggests that there may be some parallels to be drawn between *Hard Rock Cafe* and the online auction site context.

#### IV. PROS AND CONS OF HOLDING ONLINE AUCTION SITES SECONDARILY LIABLE FOR TRADEMARK INFRINGEMENT

There are a number of factors that tend to work in auction sites’ favor. The strongest points in favor of not holding an auction site secondarily liable for the trademark infringing activities of its users are that: (1) if auction sites immediately remove any challenged material, they may be in a stronger position to argue that any claim for potential contributory liability should be dismissed under the *de minimis* doctrine; (2) there are difficulties associated with evaluating competing ownership claims in the short time period within which to determine whether to remove material posted online, and thus the protection of online auction sites’ users may prompt auction sites to demand proof of a registered trademark before action is taken; (3) special training may be required to identify counterfeit from authentic products, and thus, the trademark owners themselves are in the best position to determine if a given listing infringes their rights; (4) because it is quite time-consuming, expensive and impractical for an online auction site to monitor every single listing for possible infringing content, the operators of the online auction sites may not have actual knowledge, or the courts may not impose constructive knowledge, of such infringing content; (5) holding online auction sites liable for user infringement will raise the cost of using such sites, as the cost will have to be spread among all users, and smaller online auction sites, unable to afford the risks of infringement liability, may be forced out of business; and (6) strict standards of liability may limit the benefits of new information technology – the convenience and ease of the online marketplace.<sup>69</sup>

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Second Circuit will follow the Ninth Circuit’s determination that eBay, and presumably all other auction sites, are ISPs shielded by the DMCA against claims of secondary copyright infringement liability.

<sup>66</sup> 464 U.S. 417, 439 n.19 (1984).

<sup>67</sup> 955 F.2d at 1150.

<sup>68</sup> *Id.*, n.4 (citations omitted).

<sup>69</sup> Nevertheless, one commentator notes that “perceptions of the Internet as a frontier society without rules and without legal responsibilities [are already outdated]. If not already closed, the frontier is surely closing fast.” Jonathan E. Moskin, *Navigating Choppy Waters in Safe Harbors: Contributory Liability of Internet Service Providers* (July 2001), posted at <<http://www.pennie.com/news.ihml?newsType=4&itemID=40&ID=33&content=articleDetail>>.

On the other hand, a number of factors support the position that auction sites ought to bear some degree of secondary liability for their vendors' conduct. The strongest points in favor of holding an auction site secondarily liable for the trademark infringing activities of its users are that: (1) auction sites derive direct financial gain from the sale of infringing goods through the charging of a listing fee (which means it profits even from the mere offer to sell) as well as, in some cases, a percentage of the final sale price; (2) some auction sites, notably eBay through its VeRO program, have demonstrated some ability to control their sites; (3) while auction sites, except in the most extreme circumstances, are not likely to be held liable for secondary copyright infringement, recent case law has found ISPs liable for contributory trademark infringement, which may be used as precedent for similar action with respect to online auction sites; (4) the imposition of secondary liability may act as a deterrent for future infringing activities by transforming online auction sites into trademark owners' policing partners; and (5) trademark owners are clearly damaged by counterfeits offered through auction sites because not only do they divert sales, cause confusion and frustrate consumers, but they also fail to meet the quality standards of the genuine articles and are not covered by the warranties offered by the manufacturer.

## CONCLUSION

Depending on the specific facts, the law of trademarks may impose liability on operators of online auction sites who knowingly contribute to the sale of goods bearing counterfeit marks. The law may impute "knowledge" of infringement to an online auction site operator in various circumstances. The imposition of secondary trademark infringement liability on online auction sites would certainly be a welcome and powerful tool in the eyes of intellectual property owners seeking to enforce their rights. Indeed, combating the sale of counterfeits on auction sites has become a top priority for intellectual property owners and federal and state law enforcement officials, many of whom have grown impatient by the perceived lax attitude of some auction site owners.

On the other hand, the courts do seem sensitive to the practical consideration that such liability may impose too great of a duty for these sites to meaningfully and profitably operate. It is an open question whether they can be persuaded by the traditional rejoinder of trademark holders -- that auction sites, which profit (in some cases phenomenally) from their operations, are as a matter of fairness the most obvious party to bear the costs of controlling the "monster" they have created. Also, most trademark owners agree that expensive and risky court action is not the ideal way to shape policy, and that, overall, most auction sites have been receptive to concerns of infringement by developing reporting procedures and terminating auctions found to contain infringing material. While it is unlikely that the sale of counterfeit goods will be stopped entirely, with the courts and the online auction sites protecting trademark owners, online sales of infringing goods can, to some extent, be managed.

As a practical matter, counsel representing a victim of large-scale counterfeiting can take several steps to be ready to pursue an online auction site, if necessary, in addition to the usual good prelitigation hygiene for Internet-related actions (e.g., meticulous recordkeeping, including hard and soft downloads of offending URL's, etc.). Such steps include the following:

1. Being prepared swiftly to meet all the standards of the DMCA for overcoming the safe harbor of notice-and-takedown. Though the argument that the DMCA applies straightforwardly to trademark is a weak one, even the most sympathetic courts are likely to look to the DMCA as a standard of good practice for intellectual property enforcement;

2. Tracking websites' compliance with requests to remove infringing items, as well as with their own internal standards for dealing with infringement, both of the client's marks and those of others;
3. Tracking auctions sites' stated policies on policing (e.g., editing and deleting) their website content;
4. Tracking auction sites' actual practices regarding its policies;
5. Demonstrating how the operator of the specific auction site at issue obtains direct financial benefit from sales of counterfeit items infringing their clients' marks, in order to stress the similarity to flea markets and the contrast with "utilities" or common carriers;
6. Understanding, and preparing for argument beyond the bounds set forth in this brief treatment, the fundamental difference between copyright and trademark and how the courts and the Congress have been especially jealous of restrictions of free speech that may affect the former -- and never affect counterfeiting; and, finally,
7. Once all this is done and a powerful litigation armory prepared, establishing sincere lines of communication with mainstream auction site owners who -- at the end of the day -- well understand both the legal and the commercial issues involved, and will more than likely seek to work with trademark enforcement counsel to an extent that is likely to make the up side of litigation little more than incremental, when weighed with the unknown course of this area of law.

Similarly, counsel representing an auction site operator may want his or her client to take certain steps to support its defense against an action for infringement:

1. Complying with its own stated standards on how it will handle infringements, even if more than required by law, in order to avoid a court's finding that the website did not meet its own policies;
2. Following up on specific complaints of alleged infringement and implementing a policy similar to eBay's VeRO program;
3. Providing courts with information to help them determine that the large percentage of sales on the website are non-infringing, as well as information on the high cost and effort that would be required to find every infringing sale on the website.
4. Revising user terms and policies to maximize the operator's ability to rely on users' duties to comply with applicable laws; and
5. Establishing clear means by which potential claimants can, and cannot, identify and substantiate claims of trademark infringement.

If there are solid grounds on which to base auction site liability for counterfeit sales, such potential liability could have a practical effect. If a consensus were to emerge in support of such a view, the result would be the placement of negotiation and litigation leverage in the hands of trademark owners, many of whom feel that the burden of a burgeoning infringement problem has shifted unfairly onto their shoulders while the only ones profiting are counterfeiters and the auction sites themselves.

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## APPENDIX A

### AUCTION SITES' POLICIES RE COUNTERFEITS – COMPARISON CHART

AUCTION SITE <sup>70</sup>	ACTIONS EXPRESSLY PROHIBITED	ACTIONS TAKEN UPON NOTIFICATION	EFFORTS TO AVOID LIABILITY
eBay <sup>71</sup>	<p>Its Replica and Counterfeit Items Policy states "[d]o not list counterfeits, unauthorized replicas, or otherwise unauthorized items (such as counterfeit watches, handbags, or other accessories) on eBay."</p> <p>Its Authenticity Disclaimer policy states "[s]ellers may not disclaim knowledge of, or responsibility for, the authenticity or legality of the items offered in their listings."</p> <p>Its Brand Name Misuse Policy states "[d]o not include any brand names or company logos in your listings other than the specific brand name used by the company that manufactured or produced the item you are listing."</p> <p>The User Agreement states that "[y]our Information (or any items listed) and your activities on the site shall not: (a) be false, inaccurate or misleading; (b) be fraudulent or involve the sale of counterfeit or stolen items; (c) infringe any third party's copyright, patent, trademark, trade secret or other proprietary rights or rights of publicity or privacy; (d) violate any law, statute, ordinance or regulation (including... unfair competition... or false advertising)..."</p>	<p>In the Seller Guide's Listing Policies, eBay states that "[l]istings violating eBay's policies may result in disciplinary action. This action may include a formal warning, the ending of all violating listings, or even temporary or indefinite suspension of a user's account."</p> <p>The Replica and Counterfeit Items Policy states that "[l]istings offering replica, counterfeit, or otherwise unauthorized items may be ended early by eBay. Multiple violations of eBay's Replica and Counterfeit Item policy could result in the suspension of your account."</p> <p>Users as well as Verified intellectual property Rights Owners (through eBay's VeRO program) can report violations to eBay and eBay is "committed to removing infringing or unlicensed items once an authorized representative of the rights owner properly reports them to [eBay]."</p> <p>The email address for notices of infringement is &lt;infringement@ebay.com&gt;.</p>	<p>Its User Agreement states that "We are not involved in the actual transaction between buyers and sellers. As a result, we have no control over the quality, safety or legality of the items advertised, the truth or accuracy of the listings, the ability of sellers to sell items or the ability of buyers to buy items... Because we are a venue, in the event that you have a dispute with one or more users, you release eBay (and our officers, directors, agents, subsidiaries, joint ventures and employees) from claims, demands and damages (actual and consequential) of every kind and nature, known and unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way connected with such disputes."</p> <p>The User Agreement disclaims any warranties of non-infringement and states that "in no event shall we, our subsidiaries, employees or our suppliers be liable for lost profits or any special, incidental or consequential damages arising out of or in connection with our site, our services or this agreement (however arising, including negligence)."</p>

<sup>70</sup> uBid.com, affiliated with MSN and Excite, is not included in this list of auction sites because it only offers goods the company has bought and approved, and has recently discontinued its "Consumer Exchange" program that allowed third party sellers to use uBid's services. DealSpin, a hybrid auction/lottery service, is likewise not included in this list for the same reason.

<p><b>Yahoo! Auctions</b></p>	<p>In its Auction Guidelines, Yahoo! includes in its Prohibited Items "[a]ny item that infringes the rights of a third party, including items that violate copyrights, trademarks, publicity, or privacy rights of third parties... [and] any item that is counterfeit or stolen." In its Terms of Service, Yahoo! requires users to agree not to "upload, post, email, transmit or otherwise make available any Content that infringes any patent, trademark, trade secret, copyright or other proprietary rights ("Rights") of any party."</p>	<p>In its Auction Guidelines, "Yahoo! expressly reserves the right to, but has no duty to, refuse, reject or remove any listing in Yahoo!'s sole discretion ... [and] may terminate any auction or your Yahoo! ID immediately and without notice if (a) Yahoo! believes that you have acted inconsistently with the spirit or the letter of the Yahoo! Terms of Service, Yahoo! Auctions Additional Terms or the Yahoo! Auctions Guidelines, or (b) Yahoo! believes you have violated or tried to violate the rights of others."</p>	<p>Its Additional Terms state that "Yahoo does not screen or control users who may sell or bid on auction items, nor does Yahoo review or authenticate all auction listings or items offered for sale. Because Yahoo is not involved in the actual transaction between buyers and sellers, in the event that you have a dispute with one or more users, you release Yahoo and its affiliates (and their respective officers, directors, agents and employees) from claims, demands and damages (actual and consequential) of every kind and nature, known and unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way connected with such disputes."</p>
<p><b>Amazon Auctions</b></p>	<p>In the Help section for Sellers, Amazon states that "[p]articipants are expected to conduct proper research to ensure that the items posted to our Auctions/zShops sites are in compliance with all local, state, national, and international laws." In the list of Prohibited Content is included "the sale of unauthorized replicas, or pirated, counterfeit, and knockoff merchandise." In the Sellers' Participation Agreement, it states that "you may not list any item or link or post any related material that (a) infringes any third-party intellectual property rights</p>	<p>In the Help section for Sellers, Amazon states that "[I]f we determine that the content of a listing is prohibited, we may summarily remove or alter it without returning any fees the listing has incurred. Amazon.com reserves the right to make judgments about whether or not content is appropriate." In the Sellers' Participation Agreement, it states that "Amazon.com retains the right to immediately halt any auction or fixed price sale, prevent or restrict access to the Site or the Services, or take any other action to restrict access to or availability of objectionable material, any inaccurate listing, any</p>	<p>In the Sellers' Participation Agreement, it states that "Amazon.com provides a venue for third-party sellers ("Sellers") and buyers ("Buyers") to negotiate and complete transactions. Amazon.com is not involved in the actual transaction between Sellers and Buyers and is not the agent of and has no authority for either for any purpose." In this Participation Agreement, it also states that "Amazon.com is not the agent, fiduciary, trustee, or other representative of you [the seller]. Nothing expressed or mentioned in or implied from this Participation Agreement is intended or shall be construed to give to any person other than the parties hereto any legal or</p>

<sup>71</sup> eBay is the industry leader with more than 4 million listings. Yahoo Auctions and Amazon.com Auctions rank second and third (approximately 2 million listings and 400,000 listings, respectively). See <<http://www.auctionwatch.com/awdaily/features/holiday/2.html>>. The auction sites included in this chart (listed alphabetically after the top three) were listed by numerous online sources as the most popular. See, e.g., <<http://auctions.nettop20.com>>; <[http://www.ranks.com/home/shop/top\\_auction\\_sites](http://www.ranks.com/home/shop/top_auction_sites)>; <<http://onlineshopping.about.com/cs/generalauctions>>; <<http://freecallstousa.com/greatauction>>; <[http://onlineauctionbiz.com/auction\\_sites.htm](http://onlineauctionbiz.com/auction_sites.htm)>; <<http://weblinks.searchwho.com/search/greatwebsites/gwscat4.html>>; <<http://www.marketplacesnapshot.com/snapshotapril.html>>.

	<p>(including copyright, trademark, patent, and trade secrets) or other proprietary rights (including rights of publicity or privacy); ... or (c) is counterfeited, illegal, stolen, or fraudulent."</p>	<p>inappropriately categorized items, any unlawful items, or any items otherwise prohibited by the procedures and guidelines contained in the Help section ... [and that] Amazon.com has the right, but not the obligation, to monitor any activity and content associated with this Site. Amazon.com may investigate any reported violation of its policies or complaints and take any action that it deems appropriate. Such action may include, but is not limited to, issuing warnings, suspension or termination of service, denying access, and/or removal of any materials on the Site, including listings and bids. Amazon.com reserves the right and has absolute discretion to remove, screen, or edit any content that violates these provisions or is otherwise objectionable."</p>	<p>equitable right, remedy, or claim under or in respect to this Participation Agreement." Amazon also disclaims any warranties of non-infringement and "any obligation, liability, right, claim, or remedy in tort, whether or not arising from the negligence of Amazon.com." Amazon.com also states in its Terms that it "will not be liable for any damages of any kind, including without limitation direct, indirect, incidental, punitive, and consequential damages, arising out of or in connection with the participation agreement, the site, the services, the inability to use the services, or those resulting from any goods or services purchased or obtained or messages received or transactions entered into through the services."</p>
<p><b>AuctionAddict</b></p>	<p>The Terms &amp; Conditions state that "[t]he auction of illegal items, including all counterfeit goods, are expressly prohibited."</p>	<p>In its Terms &amp; Conditions, AuctionAddict.com states that it "will not remove or edit listings once they are entered into the service, except to comply or to end auctions with other terms in this agreement." While AuctionAddict.com states in its Terms that they "cannot guarantee that we will notice or prevent any inappropriate use of the system," they also claim that they "will terminate the auction of any [illegal or counterfeit] items upon notification by the legitimate trademark or copyright holder, and the Seller of such items may be subject to suspension."</p>	<p>Its Terms state that "AuctionAddict.com serves solely as the listing agent and is not involved in the actual transaction of goods between buyers and sellers. We would like to remind you that AuctionAddict.com is merely a venue for online person-to-person auctions and classified advertisements and does not act as a guarantor regarding the price or completion of such transactions on its site. The transaction of goods is the sole responsibility of the individual buyers and sellers." The Terms also state that "AuctionAddict.com is run as a service for the internet community and cannot take responsibility for the condition or quality of the items presented within its pages." The Terms state that "[u]nder no circumstances, including, but not limited to negligence, shall AuctionAddict.com be liable for any special or consequential damages that result from the use of, or the inability to use, the materials in this site, even if AuctionAddict.com or an AuctionAddict.com authorized representative has been advised of the possibility of such damages..."</p>

			AuctionAddict.com does not assume responsibility for the content or the context of the listings."
<b>Auctionweiser / InterShopZone</b>	<p>The Terms state that the "sale of your item(s) on InterShopZone.com: (a) shall not be fraudulent or involve the sale of counterfeit or stolen items; (b) shall not infringe any third party's copyright, patent, trademark, trade secret or other proprietary rights or rights of publicity or privacy; (c) shall not violate any law, statute, ordinance or regulation (including ... unfair competition... or false advertising)..."</p> <p>The Terms require users to "agree that all transactions do not violate any applicable state, federal and/or international laws."</p>	<p>The Terms state that "InterShopZone.com may terminate your account if you are found (by conviction, settlement, insurance or escrow investigation, or otherwise) to have engaged in fraudulent activity in connection with our site... and we may take any action with respect to such information we deem necessary or appropriate in our sole discretion if we believe [your activities] may create liability for us or may cause us to lose (in whole or in part) the services of our ISPs or other suppliers... and InterShopZone.com may, at its sole discretion, terminate a members account if the member's conduct fails to conform to this User Agreement or other rules of the network."</p> <p>The Terms also state that "InterShopZone.com reserves the right to terminate service if a Member's conduct is found to be inconsistent with these Terms of Service and User Agreement."</p>	<p>The Terms state that "InterShopZone.com does not assume responsibility for the content or the context of the listings. For legal reasons, we cannot nor do we try to control the information provided by other users which is made available through our system." Its Terms &amp; Conditions disclaim any implied warranties of non-infringement.</p> <p>InterShopZone.com states in its Terms that it "shall not be liable for any direct, indirect, incidental, special or consequential damages, resulting from the use [of its auction service] ... , including but not limited to, damages for loss of profits, use, data or other intangible, even if InterShopZone.com has been advised of the possibility of such damages."</p>
<b>BidVille</b>	<p>The BidVille User Agreement states that "[y]our Information (or any items listed therein): (a) shall not be false, inaccurate or misleading; (b) shall not be fraudulent or involve the sale of counterfeit or stolen items; (c) shall not infringe any third party's copyright, patent, trademark, trade secret or other proprietary rights or rights of publicity or privacy; (d) shall not violate any law, statute, ordinance or regulation (including ... unfair competition ... or false advertising) ... (h) shall not create liability for us..."</p>	<p>In its User Agreement BidVille states that it "may suspend or terminate your account if you are found (by conviction, settlement, insurance or escrow investigation, or otherwise) to have engaged in fraudulent activity in connection with our site."</p> <p>It also states that BidVille "may immediately issue a warning, temporarily suspend, indefinitely suspend or terminate your membership and refuse to provide our services to you: (a) if you breach this Agreement or the documents it incorporates by reference; (b) if we are unable to verify or authenticate any information you provide to us; or (c) if we believe that your actions may cause legal liability for you, our users or us."</p> <p>Any concerns regarding infringement should be sent to <a href="mailto:service@bidville.com">service@bidville.com</a>.</p>	<p>In its User Agreement, BidVille states that it has "no control over the quality, safety or legality of the items advertised [or] the truth or accuracy of the listings..." and that "in the event that you have a dispute with one or more users, you release BidVille (and our officers, directors, agents, subsidiaries and employees) from claims, demands and damages (actual and consequential) of every kind and nature, known and unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way connected with such disputes."</p> <p>In its User Agreement, BidVille also disclaims any implied warranties of non-infringement and states that "in no event shall we or our suppliers be liable for lost profits or any special, incidental or consequential damages arising out of or in connection with our site, our services or this agreement (however arising, including negligence)."</p>
<b>Bidz</b>	Bidz' Terms &	In its Terms, Bidz "reserves	In its Terms, Bidz require that

	<p>Conditions state that "[a]ll registered Bidz.com members shall comply with all applicable laws, statutes, ordinances and regulations regarding their use of our service while listing items for sale, selling items, placing bids, purchasing items and leaving feedback or using any public forum contained on this site."</p> <p>"Selling Violations" include the listing of illegal items for sale and the misrepresentation of items for sale.</p> <p>Its Terms require that users agree not to use the site for illegal purposes.</p>	<p>the right to issue warnings, temporary or indefinite suspensions, or terminations of Bidz.com membership to any user who violates any of the provisions set forth in the rules, guidelines, terms and conditions as listed, or for any other reason at our sole discretion."</p> <p>Bidz also Bidz.com "reserves the right to terminate, without notice, auctions that ... display evidence of fraudulent listing information or bidding activity or violate any of the rules, guidelines, Terms and Conditions of this service."</p>	<p>a user (member) "agrees that Member shall not join Bidz.com in any auction [sic] of any nature or kind to assert any claim relating to or arising out of a purchase of any product or service from these, or any other, sellers on this site."</p> <p>In its Terms &amp; Conditions, Bidz disclaims any implied warranties of non-infringement.</p> <p>Its Terms further sets forth that Bidz "shall [not] in any way be liable for any direct, indirect, incidental, special or consequential damages, resulting from the use or the inability to use the service ... even if Bidz.com ... has been advised of the possibility of such damages."</p>
<p><b>ePier</b></p>	<p>ePier's Terms &amp; Conditions state that users "will not (i) list for sale or solicit offers to buy any items that are not legal to sell or possess in [their] jurisdiction of residence... and (iv) sell to any buyer any items that are not legal to buy or possess in the buyer's jurisdiction of residence or in the jurisdiction in which such buyer's shipping address is found."</p> <p>These Terms also requires users to affirm that their "use of the ePier Site and/or the ePier Services ... will not in any manner involve or include conduct or content that is (i) fraudulent or that involves the sale of counterfeit or stolen items; (ii) an infringement upon the copyright, patent, trademark, trade secret, or other proprietary rights, or rights of publicity or privacy of any third party; (iii) in violation of any law, statute, ordinance or regulation (including without limitation those governing export control, consumer protection, unfair competition,</p>	<p>In its Terms and Conditions "ePier reserves the right to cancel any ePier Account at any time in ePier's sole discretion, for any reason or no reason."</p> <p>Its Terms also provide that "ePier may immediately issue a warning, temporarily suspend, indefinitely suspend, or terminate Your ePier Account and refuse to provide the ePier Services to You: (i) if You breach this Agreement or the Additional Terms; (ii) if ePier is unable to verify or authenticate any information You provide to ePier; or (iii) if ePier believes, in its sole discretion, that Your actions may cause legal liability for You, other ePier Users, and/or ePier."</p>	<p>ePier's User Agreement states that "[y]ou acknowledge and agree that ePier is neither involved in nor a party to any actual transaction between or among ePier users, and therefore you hereby waive and release the owners of this site from all claims arising out of or in any way related to your transactions or attempts to enter into transactions with other ePier users."</p> <p>ePier's Terms &amp; Conditions similarly state that users "waive and agree to release ePier, and ePier's officers, directors, agents, subsidiaries and employees, from all claims, demands and damages of every kind and nature, known and unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way related to [their] transactions or attempts to enter into transactions with other ePier Users."</p> <p>ePier's Terms further state that, "to the maximum extent permitted by applicable law, in no event will ePier be liable to you or to any third party for any direct, special, incidental, indirect, punitive, consequential or other damages whatsoever ... and even if ePier has been advised of the possibility of such damages.</p>

	antidiscrimination, or false advertising)..."		
<b>Xuppa</b> <sup>72</sup>	<p>In its Terms &amp; Conditions, Xuppa states that "[y]ou shall not violate or infringe on any third party's copyright, patent, trademark, trade secret, or other proprietary rights."</p> <p>In its Help pages, Xuppa states that a seller cannot sell "[a]ny item that infringes or violates anyone's rights."</p>	<p>In its Terms &amp; Conditions, Xuppa reserves the rights to terminate any auction at any time, currently in progress or not, to remove or reject any listings, and to terminate or suspend any users membership, at its sole discretion.</p> <p>Its "Buyer Safety Tips" state that "Xuppa does not mediate between transacting parties in disputes regarding potential incidents of fraud of any type. Buyers and sellers are responsible for all aspects of the transactions in which they participate. However, concerned buyers are encouraged to report any questionable seller activity directly to Xuppa. In order to do so, send an email to <a href="mailto:auctions@xuppa.com">auctions@xuppa.com</a>. In this email, please provide a detailed description of the incident, the seller's username, and the auction number of the item. Xuppa will review the seller's activity in our auction community and may decide to suspend the seller."</p>	<p>In its Terms &amp; Conditions, Xuppa disclaims any implied warranties of non-infringement.</p>

<sup>72</sup> Xuppa was formerly named Bay9.