

# THE SEARCH FOR LUXURY PRUDENCE: APPLYING ALTERNATIVE DISPUTE RESOLUTION TO CONTRIBUTORY TRADEMARK LIABILITY IN THE ONLINE MARKETPLACE

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*Online counterfeit luxury goods are a problem for luxury trademark owners, online marketplaces, and the consuming public. The doctrine of contributory trademark liability developed as a response to this problem, but litigation under the doctrine has failed to adequately define the rights and obligations of the involved parties. This Note proposes a uniform anti-counterfeiting system that more effectively resolves trademark disputes in the online marketplace. The proposed system would (1) monitor online marketplaces for counterfeit listings and (2) provide alternative dispute resolution for parties with protracted issues.*

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## INTRODUCTION

The desirability of luxury fashion has always hinged on its exclusivity.<sup>1</sup> Fashion has the power to transform a “bag into a cult object”<sup>2</sup> or a dress into a woman’s entire “underpinning.”<sup>3</sup> Fashion magazines perpetually describe new pieces as “must-haves,” despite being aware that fashion is an unattainable fantasy for most.<sup>4</sup> This demand for exclusivity has allowed the counterfeit fashion industry to thrive. Knock-off purses, jewelry, and perfume provide a cheaper, but similar, entry into the fashion world for those consumers who cannot afford to pay the luxury premium.

But in Western countries where intellectual property rights are respected and enforced, counterfeiters, and even

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1. In the opening monologue of *THE SEPTEMBER ISSUE*, a documentary about the fashion magazine *Vogue*, editor-in-chief Anna Wintour muses:

I think what I often see is that people are frightened of fashion, and that because it scares them or it makes them feel insecure, they put it down. On the whole, people that say demeaning things about our world, I think that’s usually because they feel in some ways excluded or not part of the cool group—so as a result, they just mock it.

*THE SEPTEMBER ISSUE* (Lionsgate Home Entertainment 2009).

2. *The History of Fendi*, FENDI, <http://www.fendi.com/#/en/foreverfendi/historyoffendi> (last visited Mar. 27, 2012).

3. See *Donna Karan Quotes*, QUOTELUCY, <http://www.quotelucy.com/quotes/donna-karan-quotes.html> (last visited Mar. 27, 2012) (“I feel very strongly about dresses on every level—a dress feels like underpinning.”).

4. In the classic book *The Theory of the Leisure Class*, sociologist Thorstein Veblen discusses how social elites use dress to demarcate themselves from lower classes. See THORSTEIN VEBLÉN, *THE THEORY OF THE LEISURE CLASS* 118–24 (1973). Therefore, fashion is conspicuously expensive, nonfunctional, and mercurial. See *id.* Fashion magazines sometimes juxtapose images of unaffordable, high-fashion items with similar, low-priced items so that the ordinary consumer can emulate the fashion trends. C. Scott Hemphill & Jeannie Suk, *The Law, Culture, and Economics of Fashion*, 61 *STAN. L. REV.* 1147, 1157 (2009).

some buyers,<sup>5</sup> must be held accountable to the law. The body of federal and international law rendering counterfeiting illegal is well established and frequently enforced.<sup>6</sup> But some players in the counterfeit game have hidden deeper in the shadows. These counterfeit sellers have moved to the Internet, where there is less likelihood of detection and cheaper rent.<sup>7</sup> With a substantially larger potential consumer base, business is better too.<sup>8</sup>

Luxury trademark owners have instinctively reacted to online counterfeiters in the most obvious way—by filing lawsuits.<sup>9</sup> As the largest online marketplace,<sup>10</sup> eBay has been the chief target for legal claims alleging that it knowingly facilitated its sellers' counterfeiting activities.<sup>11</sup> European courts have punished eBay for opening the floodgates to online counterfeiting, while U.S. courts have been slightly more forgiving.<sup>12</sup> Although some trademark and Internet laws have been applied to this counterfeit phenomenon, none of these laws have completely solved the problem.<sup>13</sup>

Furthermore, litigation efforts have been shortsighted.<sup>14</sup> Due to the continued profitability of eBay, new online competitors have emerged,<sup>15</sup> and counterfeit listings have

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5. In France, criminal penalties for intellectual property infringement apply to consumers of counterfeit or pirated products. ORG. FOR ECON. CO-OPERATION & DEV., *THE ECONOMIC IMPACT OF COUNTERFEITING AND PIRACY* 230 (2008), available at <http://www.iccwbo.org/uploadedFiles/BASCAP/Pages/OECD-FullReport.pdf>.

6. See *id.* at 185–259.

7. See David S. Wall & Joanna Large, *Jailhouse Frocks: Locating the Public Interest in Policing Counterfeit Luxury Fashion Goods* 1 (BRIT. J. OF CRIMINOLOGY, Working Paper, Vol. 50 No. 6, 2010).

8. See PEGGY CHAUDHRY & ALAN ZIMMERMAN, *THE ECONOMICS OF COUNTERFEIT TRADE: GOVERNMENTS, CONSUMERS, PIRATES, AND INTELLECTUAL PROPERTY RIGHTS* 137–39 (2009).

9. See *infra* discussion in Part II.C–D.

10. *Who We Are: Overview*, EBAY, <http://www.ebayinc.com/who> (last visited Mar. 27, 2012).

11. See, e.g., *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010); *S.A. Louis Vuitton Malletier v. eBay, Inc.*, Tribunal de Commerce [Commercial Court], Paris, 1B ch., Case No. 2006077799, June 30, 2008; *Rolex, S.A. v. eBay GmbH*, 1 ZR 35/04 (German Fed. S. Ct., Apr. 19, 2007).

12. Compare *S.A. Louis Vuitton Malletier*, Case No. 2006077799 (finding eBay liable for €38.6 million for contributory trademark infringement) with *Tiffany*, 600 F.3d at 109 (holding eBay not liable for contributory trademark infringement).

13. See *infra* Part II.

14. See *infra* Part II.

15. See ALLAN AFUAH & CHRISTOPHER L. TUCCI, *INTERNET BUSINESS MODELS AND STRATEGIES: TEXT AND CASES* 291 (2001); see also KIERAN LEVIS, *WINNERS & LOSERS: CREATORS AND CASUALTIES OF THE AGE OF THE INTERNET* 183 (2009).

spread throughout these various marketplaces.<sup>16</sup> The absence of uniform legal authority has made the rights, obligations, and liabilities of all parties unclear. Buyers *seeking* luxury goods cannot judge whether the items are genuine, while sellers *owning* legitimate luxury goods are faced with various roadblocks when looking to sell on the secondary market.<sup>17</sup> Furthermore, online marketplaces and luxury trademark owners, who theoretically share the same goal of curbing counterfeit sales, have been thrust into the adversarial court system where they merely point fingers at each other regarding who carries the burden of monitoring the Internet.<sup>18</sup> Although some anti-counterfeiting safeguards have been put in place on eBay and other sites,<sup>19</sup> the more fundamental questions have yet to be answered: What are the true costs of the luxury counterfeit market? What is in the consuming public's best interest? Who is in the best position to protect luxury trademarks? And can these problems be resolved more cheaply and effectively outside of the courts?

This Note argues that the varying interests of luxury trademark owners, online marketplaces, and the consuming public can be balanced more effectively through an alternative dispute resolution system. It then proposes a process that deals with the evolving complexities of online contributory trademark infringement outside of litigation and the court system. Part I explores the elements and development of the contributory trademark infringement doctrine. Part II discusses the parties in the fashion industry and the secondary market that are affected by online counterfeiting, as well as relevant legal developments in the United States and Europe.

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16. See Press Release, MarkMonitor, Report Sheds Light on Scale and Complexity of Online Piracy and Counterfeiting Problem (Jan. 11, 2011), available at <https://www.markmonitor.com/pressreleases/2011/pr110111.php>.

17. For example, an eBay France user cannot sell perfumes from Dior, Guerlain, Kenzo, and Givenchy or products by Hermès or Louis Vuitton. See *SA Louis Vuitton Malletier v. eBay*, Tribunal de Commerce [Commercial Court] Paris, B ch., Case No. 2006077799, June 30, 2008.

18. See, e.g., *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 469 (S.D.N.Y. 2008), *aff'd in part, rev'd in part*, 600 F.3d 93 (2d Cir. 2010) ("Accordingly, the heart of this dispute is not whether counterfeit Tiffany jewelry should flourish on eBay, but rather, who should bear the burden of policing Tiffany's valuable trademarks in Internet commerce.")

19. See, e.g., *eBay Against Counterfeits*, EBAY, <http://pages.ebay.com/against-counterfeits/> (last visited Mar. 27, 2012); *Copyright and Intellectual Property Policy*, ETSY, <http://www.etsy.com/help/article/482> (last visited Mar. 27, 2012); *Silkgfair's Terms of Use Agreement*, SILKFAIR, [http://www.silkgfair.com/account/tos\\_site#](http://www.silkgfair.com/account/tos_site#) (last visited Mar. 27, 2012).

Part III discusses how alternative dispute resolution systems have already been integrated into intellectual property law for online settings. Finally, Part IV proposes an international anti-counterfeiting treaty that creates a two-part system that would (1) monitor for counterfeit listings on online marketplaces and (2) provide alternative dispute resolution for parties with protracted issues.

#### I. DEVELOPMENT OF CONTRIBUTORY TRADEMARK LIABILITY

The Lanham Act, which established the statutory foundation of U.S. trademark law in 1946,<sup>20</sup> does not address contributory trademark liability.<sup>21</sup> Therefore, U.S. courts have relied on common law principles to create a body of law governing contributory liability for trademark infringement.<sup>22</sup> This Part first discusses the overarching goals of trademark law. Next, it describes the trademark infringement category of counterfeiting. Lastly, this Part addresses how the doctrine of contributory trademark law has evolved in response to the growing problem of counterfeit goods.

Trademark law protects the exclusive right to use a mark to distinguish one's goods and services from another's.<sup>23</sup> Trademark law serves the parallel goals of protecting both consumers and trademark owners.<sup>24</sup> First, the law prohibits "conduct that is likely to confuse or deceive consumers as to the source of goods or services."<sup>25</sup> Thus, consumers are able to minimize search costs and obtain the desired products they expect.<sup>26</sup> Second, the law allows trademark owners to protect their investment of "energy, time, and money in presenting to

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20. See Lanham Act, 15 U.S.C. §§ 1051–1127 (2006).

21. Sofia H. Ahmed, Note, *Life, Liberty, and the Pursuit of Luxury: eBay's Liability for Contributory Trademark Infringement in the United States, Germany, and France*, 5 *BYU INT'L L. & MGMT. REV.* 247, 256 (citing Brian D. Kaiser, *Contributory Trademark Infringement by Internet Service Providers: An Argument for Limitation*, 7 *J. TECH. L. & POL'Y* 65, 86 (2002)).

22. See *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982).

23. 15 U.S.C. § 1115.

24. Michael Grynberg, *Trademark Litigation as Consumer Conflict*, 83 *N.Y.U. L. REV.* 60, 64 (2008).

25. DAVID C. HILLIARD ET AL., *TRADEMARKS AND UNFAIR COMPETITION* 5 (7th ed. 2008).

26. Grynberg, *supra* note 24, at 64.

the public the product.”<sup>27</sup> A trademark owner’s trademark rights are often characterized as property rights.<sup>28</sup>

Although the goals of trademark owners and consumers are typically compatible, trademark owners have a tendency to exploit the value of their trademark rights, even when it is detrimental to consumer interests.<sup>29</sup> For example, when sports teams exert trademark rights over their logos, their fans are forced to accept higher prices and lower quality for team merchandise because market competitors are prevented from offering comparable products.<sup>30</sup> Similarly, luxury trademark owners often charge premiums on their goods in excess of quality or cost.<sup>31</sup>

Trademark infringement generally occurs when an unauthorized use of a trademark is likely to cause confusion, to cause mistake, or to deceive.<sup>32</sup> Counterfeiting is “hard core” or “first degree” trademark infringement.<sup>33</sup> Counterfeiting is the act of producing, selling, or distributing products with “a spurious mark which is identical with, or substantially indistinguishable from, a registered mark.”<sup>34</sup> Often, counterfeit goods are made to imitate well-known products in construction and appearance so as to deceive customers into thinking that they are receiving genuine merchandise.<sup>35</sup> U.S. federal law imposes both civil and criminal penalties for counterfeiting,<sup>36</sup> with a legislative trend towards stiffer penalties and new causes of action to protect trademark owners and punish

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27. *Id.* (quoting S. Rep. No. 79-1333, at 3 (1946)).

28. *See id.* at 67; HILLIARD ET AL., *supra* note 25, at 6.

29. Grynberg, *supra* note 24, at 65.

30. Stacey L. Dogan & Mark A. Lemley, *The Merchandising Right: Fragile Theory or Fait Accompli?*, 54 EMORY L.J. 461, 482 (2005).

31. Jonathan M. Barnett, *Shopping for Gucci on Canal Street: Reflections on Status Consumption, Intellectual Property, and the Incentive Thesis*, 91 VA. L. REV. 1381, 1392 n.22 (2005). However, consumers may not be “duped”; rather, they may appreciate the host of social and psychological benefits that transcend functionality. *See* Jerre B. Swann, Sr., David A. Aaker & Matt Reback, *Trademarks and Marketing*, 91 TRADEMARK REP. 787, 797–803 (2001).

32. Lanham Act, 15 U.S.C. § 1114 (1946).

33. J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 25:10 (4th ed. 2011).

34. 15 U.S.C. § 1145 (1946).

35. MCCARTHY, *supra* note 33, at § 25:10.

36. *See* 15 U.S.C.A § 1114(1) (West 2010) (imposing civil liability for counterfeiting); 18 U.S.C.A § 2320 (West 2010) (imposing criminal liability for counterfeiting), *amended by* National Defense Authorization Act for Fiscal Year 2012, Pub. L. No. 112-81, § 818(h), 125 Stat. 1298 (2011).

counterfeiters.<sup>37</sup> The workings of the counterfeit market are discussed further in Part II.A.

In various ways, the law has trended towards expanding trademark protections—primarily for the benefit of trademark owners.<sup>38</sup> A recent example of a non-statutory expansion of trademark protection is contributory trademark liability.<sup>39</sup> The doctrine extends trademark infringement liability to those who merely contribute to the counterfeit process.<sup>40</sup> Specifically, third parties who knowingly assist or somehow provide the counterfeiter with the tools or means for trademark infringement, but do not control the direct infringer, may be liable for contributory infringement.<sup>41</sup> To prove a contributory trademark infringement claim, the underlying direct infringement claim must be first established.<sup>42</sup> In recent cases, trademark owners have alleged that online marketplaces, such as eBay, have knowingly assisted online sellers' counterfeiting activity.<sup>43</sup>

The Supreme Court first recognized the doctrine of contributory trademark liability in 1982 in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*<sup>44</sup> In this case, Ives Laboratories, the manufacturer of the brand-name drug Cyclospasmol, sued generic pill manufacturers because pharmacists were buying the generic pills, substituting them for Cyclospasmol prescriptions, and mislabeling them as Cyclospasmol.<sup>45</sup> The Supreme Court held that generic pill manufacturers could be liable for contributory trademark infringement because liability extends not only to the pharmacists who actually mislabel goods, but also to the manufacturers who continue to provide the generic drugs with

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37. See generally Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, 120 Stat. 285 (2006); Anticounterfeiting Protection Act of 1996, Pub. L. No. 104-153, 110 Stat. 1386 (1996).

38. This includes trademark doctrines of initial interest confusion, post-sale confusion, ornamental use, and dilution. Grynberg, *supra* note 24, at 66. For consumers, expanded trademark protection provides unclear and perhaps doubtful benefits. See *id.* at 67–77.

39. The Supreme Court first acknowledged that liability for trademark infringement can extend beyond those who directly infringe on a trademark in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 853–54 (1982).

40. *Id.*

41. *Id.* at 854.

42. See *id.* at 853–54.

43. See *infra* Part II.

44. See *Inwood Labs.*, 456 U.S. at 853–54.

45. *Id.* at 850.

knowledge of such mislabeling.<sup>46</sup> The Court set the standard for analyzing contributory trademark claims: a party is contributorily liable when it either (1) “intentionally induces another to infringe a trademark” or (2) “continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.”<sup>47</sup>

*Inwood* cleared the path for other contributory trademark cases in physical, non-Internet settings.<sup>48</sup> Many of the cases were brought against landlords for allowing tenants and vendors to sell trademark-infringing goods on their premises.<sup>49</sup>

Contributory trademark liability was first litigated in the Internet context in response to the rise of cybersquatting.<sup>50</sup> Cybersquatting is when an individual or company registers a domain name that incorporates another’s trademark in order to exploit profit from that trademark’s goodwill.<sup>51</sup> In *Lockheed Martin Corp. v. Network Solutions, Inc.*, the Ninth Circuit held that a domain name registrar, an organization that issues and registers domain names, is not contributorily liable for the trademark infringement of a domain name.<sup>52</sup> Due to the great volume of information on the Internet, a domain-name registrar could not “reasonably be expected to monitor the Internet” for potential infringement.<sup>53</sup> However, the *Lockheed*

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46. *Id.* at 853–54. In the particular facts of the *Inwood* case, the Supreme Court showed deference to the trial court’s finding that there was insufficient evidence to show that the general pill manufacturers intentionally induced the pharmacists to mislabel generic drugs, or knowingly continued to supply the drugs to pharmacists who were mislabeling generic drugs. *Id.* at 855.

47. *Id.* at 854.

48. See *Hard Rock Cafe Licensing Corp. v. Concession Servs. Inc.*, 955 F.2d 1143 (7th Cir. 1992); see also *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996); *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, 855 F. Supp. 648 (S.D.N.Y. 1994).

49. See *Fonovisa*, 76 F.3d at 260–61; *Hard Rock Cafe*, 955 F.2d at 1145–46; *Polo Ralph Lauren*, 855 F. Supp. at 649.

50. See *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 983–85 (9th Cir. 1999) (summarizing prior non-Internet applications of contributory trademark doctrine and applying it to the online context as a matter of first impression).

51. See 15 U.S.C. § 1125(d) (2006) (cyberprivacy prevention); see generally Anticybersquatting Consumer Protection Act, Pub. L. No. 106-113, 113 Stat. 1501 (1999). For example, in *Brookfield Communications Inc. v. West Coast Entertainment Corp.*, a video rental store was enjoined from using moviebuff.com because it attracted viewers who were initially searching for MovieBuff, a database of entertainment-related news. 174 F.3d 1036, 1066–67 (9th Cir. 1999).

52. *Lockheed Martin*, 194 F.3d at 987.

53. *Id.* at 985 (quoting *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 962 (C.D. Cal. 1997)).



*Martin* court did not foreclose the possibility of “the application of contributory infringement in the Internet context.”<sup>54</sup>

But the common law doctrine of contributory trademark liability was entirely ineffective in dealing with cybersquatting.<sup>55</sup> As cybersquatting continued to be a pervasive problem, the Internet Corporation for Assigned Names and Numbers (ICANN) ultimately established an alternative dispute resolution process called the Uniform Domain-Name Dispute-Resolution Policy (UDRP) to resolve cybersquatting matters.<sup>56</sup> This is discussed further in Part II.D–E.

Even though contributory trademark liability failed to solve the problem of cybersquatting, trademark owners have inexplicably turned to contributory trademark liability doctrine once again to tackle the latest online trademark problem—online counterfeiting. The next Part describes this problem.

## II. THE PROBLEM OF ONLINE COUNTERFEITING

This Part provides a broad overview of the market drivers, online business models, and case history relevant to the conflict between luxury trademark owners and online marketplaces. Section A discusses the interests and implications of luxury counterfeiting. Section B describes eBay’s business model and treatment of legal matters. Section C analyzes the landmark contributory trademark case *Tiffany (NJ) Inc. v. eBay, Inc.*, and Section D examines the case within the international legal framework. Finally, Section E discusses the emerging industry of e-commerce and the responsive technology that is growing with it.

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54. *Gucci Am., Inc. v. Hall & Assocs.*, 135 F. Supp. 2d 409, 416 (S.D.N.Y. 2001) (citation omitted). In *Gucci*, the court found that the trademark owner had a triable contributory trademark infringement claim against an Internet service provider that provided web page hosting services to a direct trademark infringer. *Id.* at 412.

55. See *Lockheed Martin*, 194 F.3d at 985; *Acad. of Motion Picture Arts & Sciences v. Network Solutions, Inc.*, 989 F. Supp. 1276, 1280 (C.D. Cal. 1997); see also G. PETER ALBERT, JR. & LAFF, WHITESEL & SARET, LTD., *INTELLECTUAL PROPERTY LAW IN CYBERSPACE* 172–73 (1999).

56. *Uniform Domain Name Dispute Resolution Policy* (UDRP) (Oct. 24, 1999), available at <http://www.icann.org/en/udrp/udrp-policy-24oct99.htm> (last visited Mar. 27, 2012); see *infra* Part III.

A. *The Growing Counterfeit Market and its Social Costs*

Although counterfeiting activity has been occurring for centuries,<sup>57</sup> the current amount of counterfeited goods has grown to unprecedented heights.<sup>58</sup> Incentivized by large profits and low perceived risk of criminal sanctions,<sup>59</sup> counterfeiters intentionally deceive purchasers into believing that imitative products are genuine.<sup>60</sup> Moreover, consumers are willing to purchase counterfeit goods, even when they know their purchases are fake.<sup>61</sup>

The actual cost of counterfeiting is disputed.<sup>62</sup> Several studies present eye-popping figures about the costs of counterfeiting.<sup>63</sup> The International AntiCounterfeiting Coalition (IACC) places the estimated annual loss at \$600 billion a year, with a burden of \$200–250 billion on U.S. businesses.<sup>64</sup> Rick Cotton, chairman of the U.S. Chamber of Commerce-led Coalition Against Counterfeiting and Piracy said, “[i]f the counterfeiting trend continues, it is going to ravage our economy and undermine our future.”<sup>65</sup>

However, more recent studies reveal that these figures, typically sponsored by fashion interest groups, are often under-researched or blatantly exaggerated.<sup>66</sup> Calculations of lost revenue equate each sale of a counterfeit good to the lost sale of the full-priced genuine good, even though most counterfeit

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57. CHAUDHRY & ZIMMERMAN, *supra* note 8, at 7.

58. *See id.* at 11–13.

59. Wall & Large, *supra* note 7, at 1.

60. DAVID C. HILLIARD, JOSEPH NYE WELCH, II & ULI WIDMAIER, TRADEMARK AND UNFAIR COMPETITION DESKBOOK § 6.12 (2011).

61. *See* Wall & Large, *supra* note 7, at 8–9.

62. *See* CHAUDHRY & ZIMMERMAN, *supra* note 8, at 11–15. Counterfeiting costs trademark owners more than lost revenue. Counterfeiting requires trademark owners to bear the added costs of monitoring and enforcing their trademark rights as well.

63. *See The Truth about Counterfeiting*, INTERNATIONAL ANTICOUNTERFEITING COALITION, <http://www.iacc.org/about-counterfeiting/the-truth-about-counterfeiting.php> (last visited Mar. 27, 2012).

64. *Id.*

65. Larissa MacFarquhar, *Bag Man: Cracking Down on Fashion Fakes*, THE NEW YORKER, Mar. 19, 2007, at 133–34 (internal quotation marks omitted). The Coalition Against Counterfeiting and Piracy is led by the U.S. Chamber of Commerce. GLOBAL INTELLECTUAL PROPERTY CENTER, U.S. CHAMBER OF COMMERCE, *Coalition Against Counterfeiting and Piracy*, <http://www.theglobalipcenter.com/pages/coalition-against-counterfeiting-and-piracy> (last visited Mar. 27, 2012).

66. *See generally* Wall & Large, *supra* note 7, at 4.

buyers cannot afford authentic goods.<sup>67</sup> Most of the evidence is anecdotal, “perhaps a reflection of the shadowy nature of the business itself.”<sup>68</sup>

Some even suggest that counterfeiting may benefit the trademark owner, promoting the product’s desirability and increasing the market demand for the genuine goods.<sup>69</sup> Nevertheless, counterfeiting does pose some public concerns about the actual loss of tax revenues, loss of employment, and environmental and safety concerns.<sup>70</sup>

In addition, the growing counterfeiting problem has been exacerbated by the online marketplace. On the Internet, the likelihood of consumer confusion over the authenticity of goods is even greater because consumers do not have an opportunity to inspect the goods before purchase.<sup>71</sup> Furthermore, online counterfeiters are less likely to be identified and prosecuted.<sup>72</sup> Consequently, anti-counterfeiting organizations have supported efforts to hold eBay and other online marketplaces contributorily liable for counterfeiting activities.<sup>73</sup>

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67. *See id.*

68. *See* Aubrey Fox, *The High Price of Counterfeit Goods*, GOTHAM GAZETTE (Mar. 2008), [www.gothamgazette.com/article/20080331/4/2476](http://www.gothamgazette.com/article/20080331/4/2476) (last visited Mar. 27, 2012).

69. *Louis Vuitton Malletier v. Dooney & Bourke, Inc.*, 340 F. Supp. 2d 415, 448 (S.D.N.Y. 2004) (“Louis Vuitton’s own expert report revealed that, for at least some consumers, awareness of Dooney & Bourke’s It-Bags makes Louis Vuitton’s bag *more desirable*.”); Barnett, *supra* note 31, at 1401 (“[T]he spectacle of non-elite consumers herding around street vendors to purchase obvious imitations of a difficult-to-obtain original luxury item may provide significantly more concrete evidence of the original’s exclusivity than the limited number of owners of the original.”).

70. *See* Wall & Large, *supra* note 7, at 17–18. For example, counterfeit manufacturers, not bound by the same environmental and safety regulations, may use toxic or abrasive chemicals to treat the materials. *See id.* at 18.

71. *See* Fara S. Sunderji, *Protecting Online Auction Sites from the Contributory Trademark Liability Storm: A Legislative Solution to the Tiffany Inc. v. eBay Inc. Problem*, 74 FORDHAM L. REV. 909, 909 (2005). Although consumers can discern that some luxury goods are counterfeit based on their low prices, other counterfeit luxury goods are sold at higher price points, deliberately designed to deceive consumers into thinking that the items are genuine. Wall & Large, *supra* note 7, at 14–16.

72. *See* Steve Abreu, *Going Once, Going Twice: Tiffany Makes Another Bid to Restrict Auctions of Counterfeit Jewelry on eBay*, 2010 EMERGING ISSUES 5143, 5143.

73. The International Anticounterfeiting Coalition, Coty, Inc., and the Council of Fashion Designers of America, Inc. filed amicus briefs in support of Tiffany in the case, *Tiffany (NJ) Inc. v. eBay Inc.*, the first U.S. case on contributory trademark liability for online marketplaces. *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 95–96 (2d Cir. 2010).

Although there are several categories of counterfeit products,<sup>74</sup> this Note focuses on the counterfeiting of luxury goods. A luxury good is defined as a good for which consumer preference for a product increases as the price increases.<sup>75</sup> The most frequently purchased counterfeit luxury goods include clothing, shoes, leather goods, jewelry, and watches.<sup>76</sup>

### B. *EBay*

EBay is an online auction website that boasts more than 97 million active users globally.<sup>77</sup> Founded in 1995, eBay sought to create a level playing field, or “‘perfect marketplace,’ where buyers and sellers could meet on equal terms and arrive at a fair price.”<sup>78</sup> It revolutionized the online sale of goods, especially collectible goods, and has facilitated millions of transactions, while making a profit by retaining a percentage of each transaction.<sup>79</sup>

Although it was initially unclear whether people would be comfortable doing business online with complete strangers, eBay’s founder “believed that people are basically good, and that any issues would work themselves out by the community.”<sup>80</sup> EBay created the “eBay Café,” an online message board that acts as a quasi-neighborhood watch system to stop users from committing fraud or unfairly abusing their eBay privileges.<sup>81</sup> This laissez-faire attitude has also been the underlying rationale of eBay’s defense in contributory infringement cases.<sup>82</sup> Under the European Union’s Directive on Electronic Commerce, a service provider may not be held liable for storing illegal content unless the provider has actual

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74. See Wall & Large, *supra* note 7, at 6. Other categories include “safety-critical goods,” such as aircraft parts and pharmaceuticals, and “copyright piracy,” such as bootlegged versions of music and movies. *Id.* (emphasis omitted).

75. See *id.* at 7.

76. See *id.* at 9.

77. *Who We Are: Overview*, EBAY, <http://www.ebayinc.com/who> (last visited Mar. 27, 2012).

78. LEVIS, *supra* note 15, at 170–71.

79. See *id.* at 171–74.

80. *Who We Are: History*, EBAY, <http://www.ebayinc.com/history> (last visited Mar. 27, 2012).

81. Sunderji, *supra* note 71, at 915 (quoting ADAM COHEN, *THE PERFECT STORE* 52 (2002)).

82. See discussion *infra* Part II.C–D.

knowledge of it.<sup>83</sup> eBay has asserted repeatedly that it is a “mere host” and therefore cannot be held liable for the activities of its users.<sup>84</sup>

Despite eBay’s assertions of a laissez-faire business model, its actual business practices have shown otherwise. eBay has fifty-five categories of items that are either prohibited completely or placed under special conditions for sale.<sup>85</sup> eBay contends that these limitations are often “based on country and state laws, although in some cases, they may also be based on input from our members and our own discretion.”<sup>86</sup> Additionally, eBay maintains the Verified Rights Owner (VeRO) Program that allows intellectual property rights owners to ask eBay to remove certain listings that infringe on their intellectual property rights.<sup>87</sup> Before the item is removed, the rights owner must provide information that verifies its right to report and correctly identifies the suspected listing.<sup>88</sup> After the item is reported, eBay sends an e-mail that notifies the alleged infringer about the request for removal.<sup>89</sup> The alleged infringer can then respond to eBay or the VeRO participant directly.<sup>90</sup> The VeRO system only allows the intellectual property rights owner or an authorized agent to

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83. Directive 2000/31, of the European Parliament and of the Council of 8 June 2000 on the Certain Legal Aspects of Information Society Services, in Particular Electronic Commerce, in the Internal Market, art. 14, 2000 O.J. (L 178)

1. The “mere host” privilege is:

Where an information society service is provided that consists of the storage of information provided by a recipient of the service, Member States shall ensure that the service provider is not liable for the information stored at the request of a recipient of the service, on condition that: (a) the provider does not have actual knowledge of illegal activity or information and, as regards claims for damages, is not aware of facts or circumstances from which the illegal activity or information is apparent; or (b) the provider, upon obtaining such knowledge or awareness, acts expeditiously to remove or to disable access the information.

*Id.*

84. See generally Ahmed, *supra* note 21, at 266.

85. *Prohibited and Restricted Items—Overview*, EBAY, <http://www.pages.ebay.com/help/policies/items-ov.html> (last visited Mar. 27, 2012).

86. *Id.*

87. *Reporting Intellectual Property Infringements (VeRO)*, EBAY, <http://pages.ebay.com/help/tp/vero-rights-owner.html> (last visited Mar. 27, 2012).

88. *What is VeRO and why was my listing removed because of it?*, EBAY, <http://pages.ebay.com/help/policies/questions/vero-ended-item.html> (last visited Mar. 27, 2012).

89. *Id.*

90. *Id.*

report potentially infringing listings.<sup>91</sup> Other users cannot file complaints on behalf of rights owners; they can only get in touch with rights owners and encourage them to file a VeRO complaint.<sup>92</sup>

In addition to the VeRO program, eBay implements the following enforcement measures:

- \$20 million a year on tools to promote trust and safety on its website.
- Buyer-protection program which reimburses the buyer if it discovered the items were not genuine.
- 200 employees who focus exclusively on combating infringement.
- “Fraud engine” implementation, which applies complex rules and models to uncover auction listings that are likely to include counterfeit goods, factoring in the IP address of the seller, issues with the seller’s eBay account, and previous feedback the seller has received.
- Notice-and-takedown system where a trademark owner could request the de-listing of an auction if one of its trademarks was being used improperly.
- Rights owners are granted an “About Me” page to inform eBay users about their products, intellectual property rights and legal positions.
- Special warnings when listing certain luxury items.
- Suspension of hundreds of sellers every year on suspicion of engaging in trademark infringement.<sup>93</sup>

It appears that eBay has made every feasible attempt to protect the rights of trademark owners.<sup>94</sup> However, the nature of eBay’s business model makes it nearly impossible to eliminate the existence of counterfeit listings completely.<sup>95</sup> eBay continues to disclaim liability for the “quality, safety or legality of the items advertised” and the “truth or accuracy of users’ content or listings.”<sup>96</sup> Nevertheless, the disclaimer has

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91. *Id.*

92. *See id.*

93. *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 98–100 (2d Cir. 2010).

94. *See id.* at 100 (quoting *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 493 (S.D.N.Y. 2008)) (“[E]bay consistently took steps to improve its technology and develop anti-fraud measures as such measures became technologically feasible and reasonably available.”).

95. eBay asserts that vetting its millions of auctions in advance would be an undertaking “so labor-intensive it could . . . put eBay out of business.” Sunderji, *supra* note 71, at 916 (quoting ADAM COHEN, *THE PERFECT STORE* 91 (2002)).

96. *Your User Agreement*, EBAY, <http://pages.ebay.com/help/policies/user-agreement.html> (last visited Mar. 27, 2012).

not prevented trademark owners from suing eBay.<sup>97</sup> Despite eBay's legitimate efforts to curb online counterfeiting, eBay has had to defend several lawsuits at considerable expense.<sup>98</sup> Litigation has created an economic burden on eBay and its customers.<sup>99</sup> Furthermore, eBay has been forced to move away from its desired laissez-faire business model to substantial regulation, without the benefit of providing practical guidance to other online marketplaces moving forward.<sup>100</sup> The substantial legal hurdles that eBay is facing are likely to become increasingly problematic for the online marketplace industry as a whole.

### C. Tiffany (NJ) Inc. v. eBay Inc.

*Tiffany (NJ) Inc. v. eBay Inc.* was the first U.S. case to consider whether an online auction site can be held contributorily liable for trademark infringement of third-party sellers.<sup>101</sup> Tiffany & Co. (Tiffany) is a famous jeweler that has established itself as a high-end quality and style brand.<sup>102</sup> Similar to most luxury goods, Tiffany's premier status is based on its exclusivity.<sup>103</sup> "It does not use liquidators, sell overstock merchandise, or put its goods on sale at discounted prices."<sup>104</sup> Tiffany is one of the international luxury brands that has

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97. See *infra* Part II.C–D.

98. See generally Brian W. Brokate, *What's New in Anticounterfeiting*, in 14TH ANNUAL INSTITUTE ON INTELLECTUAL PROPERTY LAW PRACTISING LAW INSTITUTE 615 (2008).

99. Increased litigation costs likely will force eBay to pass the financial burden on to its users. Brandon Peene, Comment, *Lux for Less: eBay's Liability to Luxury Brands for the Sale of Counterfeit Goods*, 40 SETON HALL L. REV. 1077, 1099–1106 (2010); see also Ronald J. Mann & Seth R. Belzley, *The Promise of Internet Intermediary Liability*, 47 WM. & MARY L. REV. 239, 273 (2005) ("It is well recognized that imposing liability on intermediaries will affect the services and prices they present to their customers.").

100. The *Tiffany* court did not address whether *all* of eBay's anti-counterfeiting measures must be implemented for other online marketplaces to avoid similar litigation or whether fewer measures would be sufficient for smaller online marketplaces with fewer potential counterfeit listings. See *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 105–09 (2d Cir. 2010).

101. *Id.* at 105.

102. *Id.* at 96.

103. Tiffany's website states, "[t]he world has been infatuated with Tiffany style since the early twentieth century. From Hollywood premieres to elite sporting events, celebrities choose Tiffany for its sophistication and glamour." *People & Parties: Celebrities, Events, and News about Tiffany*, TIFFANY & CO., <http://www.tiffany.com/About/news/> (last visited Mar. 27, 2012).

104. *Tiffany*, 600 F.3d at 97.

waged a comprehensive anti-counterfeiting legal battle against eBay.<sup>105</sup>

When Tiffany became aware that counterfeit Tiffany items were being sold on eBay's site,<sup>106</sup> it conducted its own surveys, called "Buying Programs," which concluded that approximately seventy-three percent of the sterling silver Tiffany merchandise available on eBay was counterfeit.<sup>107</sup> Even though Tiffany considered eBay's counterfeit-detecting tools to be inadequate, it did not attempt to develop its own technology to detect counterfeit Tiffany goods.<sup>108</sup>

After fruitless negotiations with eBay, Tiffany eventually sued for, among other claims, contributory trademark infringement.<sup>109</sup> Tiffany contended that eBay was liable for contributory trademark infringement "by virtue of the assistance that it provides to, and the profits it derives from, individuals who sell counterfeit Tiffany goods on eBay."<sup>110</sup> Applying the *Inwood* test, the Second Circuit examined whether eBay was liable for contributory trademark infringement by (1) intentionally inducing another to infringe a trademark or (2) continuing to supply its service to one whom it knows or has reason to know is engaging in trademark infringement.<sup>111</sup>

Tiffany argued that eBay was contributorily liable because eBay continued to supply its services to Tiffany counterfeit sellers while knowing or having reason to know that such sellers were infringing on Tiffany's trademark.<sup>112</sup> Tiffany contended that eBay's generalized notice that some portion of the Tiffany items might be counterfeit was sufficient to meet the second part of the *Inwood* test.<sup>113</sup>

eBay argued that such generalized knowledge is insufficient to meet the knowledge requirement of the *Inwood* test.<sup>114</sup> eBay pointed to the numerous measures it took to prohibit specifically known and particular instances of

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105. See Ahmed, *supra* note 21, at 255.

106. *Tiffany*, 600 F.3d at 97.

107. *Id.*

108. *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 484 (S.D.N.Y. 2008), *aff'd in part, rev'd in part*, 600 F.3d 93 (2d Cir. 2010).

109. *Id.* at 481–82.

110. *Id.* at 470.

111. *Tiffany*, 600 F.3d at 106–07.

112. *Id.* at 106.

113. *Id.*

114. *Id.* at 107 (quoting *Tiffany*, 576 F. Supp. 2d at 508).



counterfeiting.<sup>115</sup> Furthermore, eBay contended that it was Tiffany's burden, not eBay's, to monitor the eBay website for counterfeits and to bring them to eBay's attention.<sup>116</sup>

The court noted that there was at least some evidence that one of Tiffany's goals was to shut down the legitimate secondary market in authentic Tiffany goods.<sup>117</sup> Reducing or eliminating the sale of all second-hand Tiffany pieces on eBay would unfairly diminish the market competition for genuine Tiffany merchandise.<sup>118</sup> On the other hand, shutting down the counterfeit market would have the "immediate effect" of revenue loss to eBay, but a "countervailing gain" of increased consumer confidence about the authenticity of luxury goods sold through eBay's site.<sup>119</sup>

The *Tiffany* court held that eBay was not contributorily liable for trademark infringement.<sup>120</sup> The court affirmed the district court's holding that generalized knowledge of counterfeiting was insufficient to meet the *Inwood* test for contributory trademark liability.<sup>121</sup>

Although Tiffany appealed the case, the U.S. Supreme Court denied certiorari.<sup>122</sup> Other circuit courts have yet to address contributory trademark claims for online counterfeiting, so whether future cases will lead to conflicting decisions is uncertain. Furthermore, the *Tiffany* court did not address broadly the legal obligations of other online marketplaces to implement anti-counterfeiting measures.<sup>123</sup>

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115. *Id.* at 100.

116. *See id.* at 107.

117. *Id.* at 98 (quoting *Tiffany*, 576 F. Supp. 2d at 510 n.36).

118. *Id.*

119. *Id.*

120. *Id.* at 109 ("[W]e affirm the judgment of the district court insofar as it holds that eBay is not contributorily liable for trademark infringement.").

121. *Id.* at 107.

122. *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010), *cert. denied*, 131 S. Ct. 647 (2010).

123. The *Tiffany* court did not address whether *all* of eBay's anti-counterfeiting measures must be implemented for other online marketplaces to avoid similar litigation or whether fewer measures would be sufficient for smaller online marketplaces with fewer potential counterfeit listings. *See Tiffany*, 600 F.3d at 105–09.

D. Tiffany (NJ) Inc. v. eBay Inc. *in the Global Context*

The *Tiffany* case has been subjected to criticism due to its inconsistency with prior decisions in foreign courts.<sup>124</sup> Earlier in 2008, Tribunal de Commerce de Paris, the Commercial Court of Paris, held in *Louis Vuitton v. eBay* that eBay France had failed to take sufficient measures to prevent counterfeit sales on eBay France's site under a negligence theory.<sup>125</sup> The tribunal awarded an astounding €38.6 million (almost \$54 million) for financial and reputational damage.<sup>126</sup>

Some commentators have suggested that European courts are handing down harsher legal penalties for contributory infringement because of the overwhelming, nation-defining clout of fashion and luxury goods in Europe.<sup>127</sup> As home to many prominent luxury companies, France in particular has been at the forefront in the battle against counterfeit luxury goods.<sup>128</sup> French law grants courts the authority to impose fines and jail time on distributors, sellers, and even consumers of counterfeit goods, with a mandatory forfeiture of the counterfeit goods.<sup>129</sup> In 2007, the Council of Sales, a French government consumer watchdog, filed a lawsuit to shut down eBay in France because it did not comply with strict auction laws that regulate French auction houses.<sup>130</sup> In 2008, French luxury companies Christian Dior, Louis Vuitton, Moët Hennessy, and L'Oréal first brought lawsuits against eBay, albeit unsuccessfully.<sup>131</sup> Later in 2008, Hermès, another French luxury company, brought the first successful case against eBay in France, obtaining a judgment of €20,000 (over \$31,000).<sup>132</sup> Accordingly, the *Hermès* ruling established

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124. See, e.g., Ahmed, *supra* note 21, at 249–72; Ellie Mercado, Note, *As Long as "It" is Not Counterfeit: Holding eBay Liable for Secondary Trademark Infringement in the Wake of LVMH and Tiffany Inc.*, 28 CARDOZO ARTS & ENT. L.J. 115, 133–47 (2010); Peene, *supra* note 99, at 1099–1106.

125. SA Louis Vuitton Malletier v. eBay, Tribunal de Commerce [Commercial Court] Paris, 1B ch., Case No. 2006077799, June 30, 2008, 12A.

126. Ahmed, *supra* note 21, at 267 (quoting SA Louis Vuitton Malletier at 17-A to 18-A).

127. See MacFarquhar, *supra* note 65, at 133.

128. Doreen Carvajal, *Court Sides with LVMH over eBay*, N.Y. TIMES (June 30, 2008), <http://www.nytimes.com/2008/06/30/technology/30ihtlvmh.4.14109529.html?scp=1&sq=Court%20sides%20with%20LVMH%20over%20ebay&st=cse>.

129. ORG. FOR ECON. CO-OPERATION & DEV., *supra* note 5, at 230–31.

130. See Brokate, *supra* note 98, at 627.

131. See *id.*

132. *Id.*

precedent that would allow other luxury companies to bring similar claims against eBay.<sup>133</sup>

In other European countries, similar contributory trademark liability cases have been filed against eBay. In 2007, the German Federal Court of Justice ruled in *Rolex v. eBay* that, although eBay was not financially responsible for Rolex's damages resulting from the sale of counterfeit Rolex watches on eBay, eBay was required to implement a monitoring system to prevent the listing of counterfeit goods.<sup>134</sup> On remand two years later, a German court in Dusseldorf relieved eBay of all liability after assessing eBay's anti-counterfeiting measures.<sup>135</sup> L'Oréal, a French cosmetics and beauty company, launched several lawsuits against eBay in 2007—with mixed results.<sup>136</sup>

The numerous European and U.S.<sup>137</sup> lawsuits against eBay by luxury trademark owners have provided contradicting legal precedents for eBay and other online marketplaces. Online marketplaces that wish to do business internationally must attempt to enact various policies that comply with the frequently changing case law of each nation. Compliance with the law becomes even more convoluted when disputes arise from cross-border transactions. The rights, obligations, and liabilities of all parties remain unclear from country to country,<sup>138</sup> and it is unlikely that similar litigation will cease anytime soon.

### *E. Online Marketplaces and Responsive Technology*

Despite the uncertainty in the law, online commerce is continuing to grow at exponential rates. According to IBISWorld, a market research company, revenue from e-

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133. *See id.*

134. *Id.* at 632.

135. *Rolex v. eBay*, Oberlandesgericht Dusseldorf [OLG Dusseldorf] [Dusseldorf Higher Regional Court] Feb. 26, 2004, I-20 U 204/02 (Ger).

136. Compare Stephanie Bodoni & Heather Smith, *EBay May Be Liable in L'Oréal Trademark Suit, EU Court Says*, BLOOMBERG (July 12, 2011), <http://www.bloomberg.com/news/2011-07-12/ebay-may-be-liable-in-l-oreal-trademark-suit-eu-court-says-1.html> (last visited Mar. 27, 2012), with Eric Pfanner, *French Court Clears eBay in Selling Fake Goods*, N.Y. TIMES (May 13, 2009), <http://www.nytimes.com/2009/05/14/technology/companies/14loreal.html> (last visited Mar. 27, 2012).

137. Because the U.S. Supreme Court denied certiorari in *Tiffany (NJ) Inc. v. eBay Inc.*, 131 S. Ct. 647 (2010), other U.S. circuits may diverge from the Second Circuit's decision in the future.

138. *See supra* Part II.D.

commerce and online auctions grew at a cumulative rate of 468.9% from 2000 to 2009.<sup>139</sup> Amazon.com has emerged as one of eBay's biggest competitors, creating an online marketplace with better customer service for buyers and specialized services for sellers.<sup>140</sup> A number of alternative online marketplaces with lower service fees have sprung up as well.<sup>141</sup> Instead of offering a broad selection of goods, these smaller marketplaces provide a narrower category of items.<sup>142</sup>

With the growth of these new e-commerce websites, monitoring only eBay is not enough to detect counterfeit goods. Many luxury trademark owners have responded by turning to private online brand-protection services to take over monitoring.<sup>143</sup> New technology, such as holograms, micro printing, chemically sensitized particles, specialty inks, watermarks, tamper-evident labels, encrypted bar codes, and chemical tracers have become the new anti-counterfeit detection tools.<sup>144</sup> Some larger luxury companies are spending from \$2 million to \$4 million a year to combat online counterfeiting.<sup>145</sup>

But even when luxury trademark owners take proactive steps to protect their trademarks, it is difficult for smaller online marketplaces to keep up. According to Etsy, an online marketplace for handmade and vintage items, it "may, without notice, and without refunding any fees, delay or immediately remove Content."<sup>146</sup> Several complaint websites<sup>147</sup> cite

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139. Press Release, IBISWorld, Top Ten Industries of the Decade: IBISWorld Identifies Best and Worst Performing Sectors by Revenue Growth (Dec. 22, 2009).

140. See LEVIS, *supra* note 15, at 101, 104–05. Amazon has "Amazon Marketplace" for part-timers and "Amazon Merchants" for other retailers. *Id.* at 104.

141. *Id.*

142. For example, Etsy.com is a marketplace for handmade and vintage items, Textbooks.com provides a platform for students to buy and sell used textbooks, and Bidz.com is an online auction for jewelry (although Bidz.com directly sells and ships to buyers).

143. *Knock-offs catch on*, THE ECONOMIST (Mar. 4, 2010), available at [http://www.economist.com/node/15610089?story\\_id=15610089](http://www.economist.com/node/15610089?story_id=15610089).

144. Phillip A. Rosenberg, Note, *A Legislative Response to Tiffany v. EBay: In Search of an Online Commerce Certification Act (OCCA)*, 36 RUTGERS COMPUTER & TECH. L.J. 99, 122 (2009).

145. THE ECONOMIST, *supra* note 143.

146. Etsy's Terms of Use, § 12–Breach, ETSY'S, <http://www.etsy.com/policy/terms> (last visited Mar. 27, 2012).

147. Complaint websites allow consumers to post and research consumer complaints about companies and individuals. See Jennyfer Grant, *Consumer and Customer Complaint Websites*, YAHOO! VOICES (May 15, 2009),

instances of these smaller online marketplaces shutting down a seller's store or deleting items without notice or explanation.<sup>148</sup> It appears that these marketplaces sometimes remove product listings arbitrarily and solely upon the word of a single (often anonymous) report because they do not have the vast resources to implement efficient and accurate notice and take-down systems.<sup>149</sup> It is important to note, however, that these observations are largely anecdotal.<sup>150</sup> Although a lack of empirical evidence makes it difficult to gauge the extent of this problem, there is certainly a legitimate concern for sellers who are subject to haphazard trademark enforcement.

In sum, the expansive growth of online markets and the development of new anti-counterfeiting technology further complicate contributory trademark matters. Without a legal framework to define the roles of the involved parties, counterfeiting continues to pose a threat to online marketplaces.

### III. TRADEMARK LAW AND ALTERNATIVE DISPUTE RESOLUTION

Although trademark owners, online marketplaces, buyers, and sellers all seek a definitive solution to the online counterfeiting problem, litigation has done very little to resolve their rights and obligations under the contributory trademark doctrine.<sup>151</sup> Non-litigation options provide an alternative to managing and resolving emerging legal issues in numerous areas of intellectual property disputes. Alternative dispute resolution (ADR) is a "structured process with a third party intervention and an escape from court litigation."<sup>152</sup> Because ADR uses a range of techniques to reach a mutually beneficial

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[http://www.associatedcontent.com/article/1732060/consumer\\_and\\_customer\\_complaint\\_websites.html?cat=7](http://www.associatedcontent.com/article/1732060/consumer_and_customer_complaint_websites.html?cat=7).

148. See, e.g., Meg Marco, *Sellers Growing Increasingly Unhappy with Lack of Professionalism at Etsy*, THE CONSUMERIST (Feb. 26, 2008), <http://consumerist.com/2008/02/sellers-growing-increasingly-unhappy-with-lack-of-professionalism-at-etsy.html>; Mekunove, *Etsy Complaints – Deleted Without an Explanation and Harassing Emails Without Provocation*, COMPLAINTSBOARD.COM (Apr. 2, 2010), <http://www.complaintsboard.com/complaints/etsy-c327605.html>.

149. See Marco, *supra* note 148; Mekunove, *supra* note 148.

150. See Marco, *supra* note 148; Mekunove, *supra* note 148.

151. See *supra* Part II.

152. FAYE FANGFEI WANG, INTERNET JURISDICTION AND CHOICE OF LAW: LEGAL PRACTICES IN THE EU, US AND CHINA 143 (2010).

resolution, the process is focused on “helping the parties help themselves.”<sup>153</sup>

ADR was virtually nonexistent for intellectual property cases prior to 1982.<sup>154</sup> The courts were reluctant to approve private resolutions because of the underlying nature of intellectual property as a “public interest.”<sup>155</sup> However, the judicial attitude towards ADR shifted after Congress declared that the overall policy benefits of arbitration are more important than the public interest arguments.<sup>156</sup> The benefits of ADR include: cost savings, control of outcomes, less expenditure of time, confidentiality, flexibility, preservation of relationships, satisfaction with outcome, universality of application, ease of enforcement in foreign jurisdictions, and minimization of risk.<sup>157</sup> ADR has been particularly successful in intellectual property cases because such cases often involve new technological developments, complex issues of fact that are difficult for a jury to understand, and disputes arising out of an innovative approach to something previously unseen or not yet dealt with by the law.<sup>158</sup>

There are two main forms of ADR: mediation and arbitration. Mediation is a private, voluntary process where a neutral intermediary helps parties in conflict reach a mutually satisfactory settlement of their dispute, which is then recorded in an enforceable contract.<sup>159</sup> Outcomes are specifically tailored to the needs and interests of the parties, and the parties are permitted to walk away at any point in the mediation process.<sup>160</sup> Arbitration is similar to mediation, but the neutral third party renders a final, binding resolution that is enforceable as a court judgment.<sup>161</sup> Arbitration decisions can be

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153. Julia A. Martin, Note, *Arbitrating in the Alps Rather Than Litigating in Los Angeles: The Advantages of International Intellectual Property-Specific Alternative Dispute Resolution*, 49 STAN. L. REV. 917, 919 (1997).

154. Charles P. Lickson, *The Use of Alternative Dispute Resolution in Intellectual Property, Technology-Related or Innovation-Based Disputes*, in 55 AM. JUR. TRIALS 483, 503 (1995).

155. *See id.* at 503–04.

156. *See id.* at 504.

157. *See id.* at 575–80.

158. *Id.* at 504.

159. ELLEN P. WINNER & AARON W. DENBERG, INTERNATIONAL TRADEMARK TREATIES WITH COMMENTARY 17–18 (2004).

160. Lela P. Love & Joseph B. Stulberg, *Understanding Dispute Resolution Process*, in MICHIGAN MEDIATOR-SKILL BUILDING MANUAL (1997), reprinted in MEDIATION: PRACTICE, POLICY, AND ETHICS 14-15 (2006).

161. *Id.*

appealed only on extremely limited grounds, such as corruption, fraud, or undue means.<sup>162</sup>

With the growth of online commerce in the mid-1990s, online dispute resolution (ODR) was created to resolve disputes between businesses and consumers engaging in e-commerce.<sup>163</sup> ODR uses online technology to facilitate both mediation and arbitration.<sup>164</sup> Rather than arranging ADR sessions in a physical setting, ODR uses the Internet as the primary platform for submitting evidence, negotiating with one another, and reaching a settlement.<sup>165</sup> ODR effectively circumvents conflicts of jurisdiction that complicate most international disputes.<sup>166</sup> Because ODR systems are mostly automated, a larger volume of disputes can be resolved at a lower cost.<sup>167</sup>

Although ODR has not been widely used in trademark disputes,<sup>168</sup> it has been effectively implemented in similar areas of law. Section A provides examples of ODR in consumer law and Section B describes the success of the Uniform Dispute-Resolution Policy (UDRP), which is the ODR system for domain name disputes.

#### A. Existing ODR Systems

In areas of consumer law, ODR technologies are being developed to help resolve online disputes. SquareTrade is a private ODR provider for online companies such as eBay that

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162. See 9 U.S.C.A § 10(a) (West 2011).

163. See PABLO CORTÉS, ONLINE DISPUTE RESOLUTION FOR CONSUMERS IN THE EUROPEAN UNION 51 (2011).

164. See 1 JAY E. GRENIG, ALTERNATIVE DISPUTE RESOLUTION § 2:75 (3d. ed. 2005).

165. See *id.* However, the entire ODR process does not have to be conducted online; parties may choose to file a case through an online filing system and submit electronic evidence but arrange a face-to-face negotiation, mediation, or arbitration. WANG, *supra* note 152, at 145.

166. Colin Rule, Vikki Rogers & Louis F. Del Duca, *Designing a Global Consumer Online Dispute Resolution (ODR) System for Cross-Border Small-Value High-Volume Claims—OAS Developments*, 42 UCC L.J. 221, 228 (2010). Because the ODR process takes place in an online environment, the parties do not have to establish jurisdiction and resolution in a national court. *Id.*

167. See Colin Rule, *Making Peace on eBay: Resolving Disputes in the World's Largest Marketplace*, ACRESOLUTION, Fall 2008, at 10–11.

168. Trademark disputes only make up fourteen percent of the international ADR disputes dealt with by the World Intellectual Property Organization (WIPO). *WIPO Caseload Summary*, WORLD INTELLECTUAL PROP. ORG., <http://www.wipo.int/amc/en/center/caseload.html> (last visited Mar. 27, 2012).

helps resolve consumer disputes between buyers and sellers.<sup>169</sup> SquareTrade provides two stages of dispute resolution: first, a free web-based forum that allows users to attempt to resolve their differences on their own, and second, an online professional mediator for a nominal fee (partially subsidized by the online company) if settlement cannot be reached at the first stage.<sup>170</sup> SquareTrade's extremely high success rate in resolving disputes (over eighty percent) is credited to its advanced technology.<sup>171</sup> By dealing with a large number of disputes,<sup>172</sup> SquareTrade is able to categorize disputes by issue and tailor the dispute resolution process accordingly.<sup>173</sup> The online platform has encouraged "constructive and polite negotiation" by limiting free text space, encouraging the proposition of agreements, establishing deadlines, and setting the tone of exchanges.<sup>174</sup> As a result, eBay and SquareTrade have cooperated strategically to share each other's resources and promote each other's businesses.<sup>175</sup>

The joint alliance between the American Arbitration Association (AAA) and Cybersettle is another successful model for ODR.<sup>176</sup> The AAA, a non-profit, public service organization, and Cybersettle, a private company, jointly offer ODR for settling insurance claims.<sup>177</sup> This strategic alliance ensures that private ODR services comply with the high standards of AAA's professional regulations, thereby enhancing the standardization of the ODR systems and increasing the legitimacy of Cybersettle's services.<sup>178</sup>

Privacy disputes have frequently been resolved through ODR. TRUSTe, a privately run company, monitors websites' privacy practices, particularly for the misuse of personally identifiable information and violations of a website's privacy

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169. See *Dispute Resolution Overview*, EBAY, <http://pages.ebay.com/services/buyandsell/disputeres.html> (last visited Mar. 27, 2012).

170. *Id.*

171. See CORTÉS, *supra* note 163, at 67.

172. eBay has 40 million disputes a year. See Rule, *supra* note 167, at 8.

173. See CORTÉS, *supra* note 163, at 67.

174. *Id.* at 67.

175. See WANG, *supra* note 152, at 149.

176. "The cooperation between AAA, an experienced public organisation, and Cybersettle, a young enthusiastic private organisation, can be a model with good strategic plans for the development of ODR industry." *Id.* at 150.

177. *Id.* at 149-50.

178. *Id.*



statement.<sup>179</sup> TRUSTe clients include eBay, Yahoo, Facebook, Microsoft, and Apple.<sup>180</sup> Companies pay a fee to TRUSTe, which then certifies the website and continues to monitor the website for privacy violations.<sup>181</sup> As an additional measure, TRUSTe's "Watchdog Dispute Resolution" program provides free ODR to anyone who files a complaint against a TRUSTe-certified website.<sup>182</sup> If a consumer complaint is filed, TRUSTe provides mediation between individuals and the company.<sup>183</sup> TRUSTe's final determinations are binding on the TRUSTe client but non-binding on the consumer.<sup>184</sup> The system builds online trust between Web sites and consumers without clogging the courts with nominal claims.<sup>185</sup>

At the international level, Global Trustmark Alliance (GTA) is an organization that was created to foster consumer trust in transnational online commerce.<sup>186</sup> Rather than relying on multi-governmental regulation, members of the GTA<sup>187</sup> are creating a self-regulated code of standards for cross-border

179. *Holding TRUSTe Clients to Higher Online Privacy Standards*, TRUSTe, [http://www.truste.com/why\\_TRUSTe\\_privacy\\_services/online-privacy-watchdog.html](http://www.truste.com/why_TRUSTe_privacy_services/online-privacy-watchdog.html) (last visited Mar. 27, 2012).

180. *See Trusted Directory*, TRUSTe, [http://www.truste.com/trusted\\_sites/index.html](http://www.truste.com/trusted_sites/index.html) (last visited Mar. 27, 2012).

181. *See Small Business*, TRUSTe, [http://www.truste.com/privacy\\_seals\\_and\\_services/small\\_medium\\_business\\_privacy/index.html](http://www.truste.com/privacy_seals_and_services/small_medium_business_privacy/index.html) (last visited Mar. 27, 2012).

182. *Resolving Privacy Disputes*, TRUSTe, [http://www.truste.com/privacy\\_seals\\_and\\_services/consumer\\_privacy/about\\_online\\_privacy\\_watchdog](http://www.truste.com/privacy_seals_and_services/consumer_privacy/about_online_privacy_watchdog) (last visited Feb. 12, 2012).

183. *Id.*

184. *Holding TRUSTe Clients to Higher Online Privacy Standards*, TRUSTe, [http://www.truste.com/why\\_TRUSTe\\_privacy\\_services/online-privacy-watchdog](http://www.truste.com/why_TRUSTe_privacy_services/online-privacy-watchdog) (last visited Mar. 27, 2012). This asymmetric treatment is due to concerns about procedural fairness and consumer protection. *See* ETHAN KATSH & JANET RIFKIN, *ONLINE DISPUTE RESOLUTION: RESOLVING CONFLICTS IN CYBERSPACE* 108 (2001). Although binding decisions promote finality and efficiency, consumers are often unaware that agreeing to arbitration means giving up their rights to sue in court. *Id.* Furthermore, binding arbitration clauses in consumer contracts are prohibited in Europe, which ultimately affects any cross-border online transactions involving European parties. *Id.* However, even if consumers are permitted to sue in court, the financial burden and time consumption remains a challenge. Chi-Chung Kao, *Online Consumer Dispute Resolution and the ODR Practice in Taiwan—A Comparative Analysis*, 5 *ASIAN SOC. SCI.* 113, 119 (2009), available at <http://ccsenet.org/journal/index.php/ass/article/view/2977/2744> (last visited Mar. 27, 2012).

185. *See* Kao, *supra* note 184, at 119.

186. *GLOBAL TRUSTMARK ALLIANCE*, <http://www.globaltrustmarkalliance.org> (last visited Mar. 27, 2012).

187. Members include Better Business Bureau (BBB), Federation of European Direct Marketing, Eurochambers, as well as other organizations. *See* CORTÉS, *supra* note 163, at 63.

transactions.<sup>188</sup> By partnering with other national ODR organizations, GTA's "trustmark" will incorporate existing national schemes into a single transnational system for consumer disputes.<sup>189</sup>

Recent efforts to promote trust and legitimacy in online commerce have centered on incorporating third-party ODR services. Rather than litigating small commercial disputes and privacy infractions, consumers are turning to ODR services to seek redress for their grievances. These ODR systems provide a cheap, effective, and flexible method to deal with online consumer disputes without relying on new legislation or the courts.

### *B. Uniform Domain-Name Dispute-Resolution Policy (UDRP)*

The Uniform Domain-Name Dispute-Resolution Policy (UDRP) is one of the most successful ADR mechanisms for resolving trademark infringement issues,<sup>190</sup> and therefore serves as a model for this Note's proposed ADR system.

The UDRP was created to address the problem of cybersquatting.<sup>191</sup> Cybersquatting is registering, trafficking in, or using a domain name with bad faith intent to profit from the registered trademark of someone else.<sup>192</sup> Cybersquatters often register hundreds of domain names that incorporate others' well-known trademarks and try to sell or license them to the actual trademark owners.<sup>193</sup> For example, Dennis Toeppen registered approximately 240 domain names containing famous trademarks with the intent of selling the domain names back to the trademark owners.<sup>194</sup> In one case, Toeppen offered to sell the domain name panavision.com for \$13,000 to Panavision, a motion picture equipment company.<sup>195</sup>

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188. GLOBAL TRUSTMARK ALLIANCE, *supra* note 186.

189. *See* CORTÉS, *supra* note 163, at 63.

190. *See* KATSH & RIFKIN, *supra* note 184, at 65.

191. ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 771 (4th ed. 2007).

192. *See* 15 U.S.C. § 1125(d) (2006).

193. *See* David Nelmark, *Virtual Property: The Challenges of Regulating Intangible, Exclusionary Property Interests Such as Domain Names*, 3 *NW. J. TECH. & INTELL. PROP.* 1, 13 (2004).

194. *Intermatic, Inc. v. Toeppen*, 947 F. Supp. 1227, 1230 (N.D. Ill. 1996).

195. *Panavision Int'l v. Toeppen*, 141 F.3d 1316, 1318 (9th Cir. 1998).

Cybersquatting, like online counterfeiting, was a trademark-related issue that did not fall neatly into earlier trademark doctrines because lawmakers did not anticipate its development before the Internet.<sup>196</sup> When cybersquatting first became a problem, trademark owners attempted to stop cybersquatting through traditional litigation. A large number of trademark owners brought trademark dilution claims<sup>197</sup> under the Federal Trademark Dilution Act of 1995,<sup>198</sup> even though the statute did not apply to domain names.<sup>199</sup> Subsequently, Congress enacted the Anticybersquatting Consumer Protection Act (ACPA) to create a separate cause of action against cybersquatters.<sup>200</sup> Congress enacted the ACPA in 1999 to “protect consumers and American business, to promote the growth of online commerce, and to provide clarity in the law for trademark owners.”<sup>201</sup>

Although the ACPA granted trademark owners the right to sue in federal court, the Internet Corporation for Assigned Names and Numbers (ICANN) established UDRP to implement an administrative proceeding that provided a faster, cheaper ADR process.<sup>202</sup> UDRP, which is international in scope, sets forth procedures and applicable substantive law for domain name disputes without expressly relying on any nation’s trademark law.<sup>203</sup>

Under UDRP, any party that wants to register a domain name must agree to participate in mandatory administrative proceedings if a dispute arises.<sup>204</sup> The registrant must also attest that the domain name does not “infringe upon or otherwise violate the rights of any third party.”<sup>205</sup> The scope of

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196. See KATSH & RIFKIN, *supra* note 184, at 64–65.

197. See, e.g., *Sporty’s Farm L.L.C. v. Sportman’s Market, Inc.*, 202 F.3d 489 (2d Cir. 2000). Dilution is the lessening of the capacity of famous trademarks to identify and distinguish goods and services. 2-7A GILSON ON TRADEMARKS § 7A.06 (2011).

198. Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, 109 Stat. 985 (1996) (codified, in part, at 15 U.S.C. § 1125(c) (2006)).

199. HILLIARD ET AL., *supra* note 25, at 418.

200. S. REP. NO. 106-140, at 7 (1999).

201. *Id.*

202. See ICANN, *Uniform Domain-Name Dispute-Resolution Policy*, <http://www.icann.org/en/help/dndr/udrp> (last visited Mar. 27, 2012); see also *InterNIC FAQs on the Uniform Domain Name Dispute Resolution Policy (UDRP)*, INTERNIC, <http://www.internic.net/faqs/udrp.html> (last visited Mar. 27, 2012).

203. MERGES ET AL., *supra* note 191, at 771.

204. ICANN, *Uniform Domain Name Dispute Resolution Policy* § 4 (1999), <http://www.icann.org/en/udrp/udrp-policy-24oct99.htm> (last visited Mar. 27, 2012).

205. *Id.* § 2.

UDRP is limited to straightforward cases of cybersquatting, leaving the ambiguous cases to the jurisdiction of the courts.<sup>206</sup> In addition, UDRP's powers are limited to cancelling, transferring, or otherwise making changes to domain name registrations.<sup>207</sup> UDRP's panel decisions are non-binding and therefore can be appealed to federal courts.<sup>208</sup> If parties choose not to appeal, UDRP commences a self-enforcing process.<sup>209</sup> Currently, the Arbitration and Mediation Center of the World Intellectual Property Organization, the National Arbitration Forum, and the Asian Domain Name Dispute Resolution Centre decide cases under the UDRP.<sup>210</sup>

As a privatized domain-name system, UDRP has been successful because of its credibility, transparency, self-enforcement, and accountability.<sup>211</sup> Because ICANN, the organization that established UDRP, has public authority, participants are assured of the credibility of the process due to its professional expertise and resources.<sup>212</sup> All decisions are immediately available online in full text, which increases both transparency and public accountability.<sup>213</sup> The fast, efficient process allows most cases to close within two months after filing and to be enforced within ten days.<sup>214</sup> Because of its proven successes, the UDRP system provides a model for this Note's proposed system.

#### IV. PROPOSED ANTI-COUNTERFEITING SYSTEM (PACS)

In both the United States and Europe, online contributory trademark infringement cases have focused on which party should carry the burden of patrolling the Internet for

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206. MERGES ET AL., *supra* note 191, at 771.

207. ICANN, *supra* note 204, § 3.

208. *Id.* § 4(k).

209. *Id.* § 4(k).

210. Julia Hörnle, *The Uniform Domain Name Dispute Resolution Procedure: Is Too Much of a Good Thing a Bad Thing?*, 11 SMU SCI. TECH. L. REV. 253, 256 (2008).

211. *See* WANG, *supra* note 152, at 151.

212. *Id.*

213. *Id.*

214. *Id.* at 152. One of the main critiques of UDRP is the lack of procedural due process. *See* Hörnle, *supra* note 210, at 257–89. Others have proposed solutions to this problem. *See, e.g.*, A. Michael Froomkin, *ICANN's "Uniform Dispute Resolution Policy": Causes and (Partial) Cures*, 67 BROOK. L. REV. 605, 688–711 (2002). These solutions could be considered for this Note's proposed anti-counterfeiting system as well.

counterfeit goods.<sup>215</sup> Putting all of the responsibility on online marketplaces hinders their reasonable business activities and the public's access to a legitimate secondary market.<sup>216</sup> Smaller online marketplaces cannot compete effectively because they do not have the resources to implement their own complex anti-counterfeiting monitoring systems.<sup>217</sup> On the other hand, accepting eBay's "mere host" theory allows online marketplaces to profit from the black market of counterfeit goods bought and sold on their forums while avoiding liability with luxury trademark owners.<sup>218</sup> To effectively combat the proliferation of counterfeiting, all sides must engage in a collaborative, uniform solution that reasonably allocates the burden among them.

This Part proposes an anti-counterfeiting system modeled after the UDRP. Section A calls for a new international treaty and outlines the elements of the proposed anti-counterfeiting system (PACS). Section B discusses the potential benefits of PACS, and Section C briefly mentions further considerations for PACS' implementation.

#### A. *Proposed International Treaty*

Because of the conflicting laws on contributory trademark liability,<sup>219</sup> an international treaty would be the best solution to bring uniformity to the law. As the online marketplace industry continues to grow globally,<sup>220</sup> the treaty would clearly define the rights, obligations, and liabilities of all the parties for cross-border transactions.

Another international treaty has recently been signed.<sup>221</sup> The Anti-Counterfeiting Trade Agreement (ACTA) aims to

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215. See, e.g., *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 469 (S.D.N.Y. 2008), *aff'd in part, rev'd in part*, 600 F.3d 93 (2d. Cir. 2010) ("Accordingly, the heart of this dispute is not whether counterfeit Tiffany jewelry should flourish on eBay, but rather, who should bear the burden of policing Tiffany's valuable trademarks in Internet commerce."); *S.A. Louis Vuitton Malletier v. eBay, Inc.*, Tribunal de Commerce de Paris [Paris Commercial Court], Case No. 200677799 (June 30, 2008).

216. Ahmed, *supra* note 21, at 265.

217. See *supra* Part II.E.

218. See Ahmed, *supra* note 21, at 266.

219. See *supra* Part II.D.

220. See *supra* Part II.E.

221. *Anti-Counterfeiting Trade Agreement*, MINISTRY OF FOREIGN AFFAIRS OF JAPAN [hereinafter ACTA], [http://www.mofa.go.jp/policy/economy/i\\_property/pdfs/acta1105\\_en.pdf](http://www.mofa.go.jp/policy/economy/i_property/pdfs/acta1105_en.pdf) (last visited Mar. 27, 2012).

provide an international framework that creates a model for “effectively combating global proliferation of commercial-scale counterfeiting and piracy.”<sup>222</sup> However, the treaty is essentially toothless when it comes to creating uniformity in the law: It is implemented “without prejudice to provisions in a Party’s law governing the availability, acquisition, scope, and maintenance of intellectual property rights,” and it “does not create any obligation on a Party to apply measures where a right in intellectual property is not protected under its laws and regulations.”<sup>223</sup> ACTA does not contribute solutions that are different from what most developed countries have already implemented on their own.<sup>224</sup> And while the treaty promotes international cooperation for enforcement procedures,<sup>225</sup> it does not address the problem of too much litigation.<sup>226</sup>

One interesting feature of ACTA is its provision dealing with “capacity building and technical assistance.”<sup>227</sup> In Article 35, the treaty provides that a party may undertake capacity building and technical assistance “in conjunction with the relevant private sector or international organizations” and “shall strive to avoid unnecessary duplication between the activities described in this Article and other international cooperation activities.”<sup>228</sup> Although this provision captures the need for collaboration, it provides very little practical guidance.

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222. *Anti-Counterfeiting Trade Agreement (ACTA)*, OFFICE OF THE U.S. TRADE REPRESENTATIVE, [www.ustr.gov/acta](http://www.ustr.gov/acta) (last visited Mar. 27, 2012). Australia, Canada, Japan, Korea, Morocco, New Zealand, Singapore, and the United States signed the treaty on October 1, 2011. *Id.* The European Union, Mexico, and Switzerland, which also participated in ACTA negotiations, have shown their “strong support for and preparations to sign the Agreement as soon as practicable.” *Id.*

223. ACTA, *supra* note 221, at ch. I, § 1, art. 3.

224. Rather, ACTA focuses mainly on enforcement measures of pre-existing intellectual property rights under the participating countries’ varying laws. *See id.* Another possible impediment to ACTA is the lack of cooperation from certain countries. China, for example, accounts for about 77% of the aggregate value of counterfeit goods that were imported to the United States from 2004 to 2009. U.S. GOV’T ACCOUNTABILITY OFFICE, GAO-10-423, OBSERVATIONS ON EFFORTS TO QUANTIFY THE ECONOMIC EFFECTS OF COUNTERFEIT AND PIRATED GOODS 8 (2010), *available at* [www.gao.gov/new.items/d10423.pdf](http://www.gao.gov/new.items/d10423.pdf) (last visited Mar. 27, 2012).

225. ACTA, *supra* note 221, at ch. IV.

226. ACTA simply makes civil judicial procedures available for the enforcement of any intellectual property right as specified in Section 2. *Id.* at ch. II, § 2, art. 7.

227. *Id.* at ch. IV, art. 35.

228. *Id.*

Unlike ACTA, any future anti-counterfeiting treaty should incorporate concrete solutions for implementing anti-counterfeiting measures. Recent developments, such as counterfeit-detection technology and alternative dispute resolution processes, should be incorporated into shaping an international anti-counterfeiting treaty.

This Note's proposed anti-counterfeiting system would consist of two parts. First, a streamlined counterfeit monitoring process would detect a greater number of counterfeit listings and therefore act as a prophylactic defense against litigation. Second, any complaints that arise from the monitoring process would be sent to a mandatory ADR process similar to UDRP's ADR process.

### 1. Monitoring Process

Currently, detection and enforcement against counterfeit listings is costly and often inefficient.<sup>229</sup> By streamlining the process into a single, centralized system, both trademark owners and online marketplaces could share their resources and spread the costs of monitoring for counterfeit listings.<sup>230</sup> Just as SquareTrade is able to analyze the characteristics of a large number of disputes and tailor the process accordingly,<sup>231</sup> PACS could gather data from verified counterfeit listings and create more efficient monitoring processes for future listings. As counterfeiters found new ways to avoid detection, PACS could better track these developments through its large-scale coordination of online marketplaces.

PACS would execute a fraud engine and a notice-and-takedown system similar to eBay's VeRO program on a larger, global scale.<sup>232</sup> PACS would have the authority to monitor new listings, contact potential counterfeiters and trademark owners, and remove listings. Although the monitoring process

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229. See *supra* Part II.B for a discussion on how eBay's costly anti-counterfeiting efforts have failed to reduce trademark-related litigation.

230. Trademark owners and online marketplaces would prefer not to implement PACS' monitoring process if they found more cost-effective alternatives, including in-house monitoring. The international, all-encompassing scope of the system may seem extraneous for certain trademark owners and online marketplaces. In order to address this concern, PACS would establish different participatory levels for online marketplaces based on their size, market, and other various traits.

231. See *supra* notes 169–75 and accompanying text.

232. See *supra* notes 87–90 and accompanying text.

would largely benefit emerging online marketplaces that do not already have their own monitoring processes, all online marketplaces would have the opportunity to tailor PACS processes according to the marketplace's specific needs. Established marketplaces like eBay would be able to outsource their monitoring efforts to a less costly, more efficient anti-counterfeiting process.<sup>233</sup>

Furthermore, buyers and sellers also could inquire directly to PACS about individual listings. Currently, eBay only permits trademark owners to file complaints of trademark infringement.<sup>234</sup> By granting non-trademark owners the power to report directly as well, PACS would create another resource for detecting counterfeiting. This would cause a larger influx of complaints, but PACS would have more resources than individual online marketplaces to weed out frivolous complaints and detect counterfeit activity.

The makers of luxury items, which have a higher likelihood of being counterfeited than other secondary goods, will have the option to elect a more rigorous screening process. Private companies that are currently offering anti-counterfeiting monitoring to luxury trademark owners<sup>235</sup> could bid for contracts and provide large-scale services for PACS. The luxury trademark owners who want heightened scrutiny could pay higher fees for greater protection from counterfeit sales of their trademarked goods. The fees would still be much lower than self-monitoring because the aggregation of the luxury trademarks into a single system would streamline the screening process.

## 2. Alternative Dispute Resolution Process

PACS would incorporate an ADR process to resolve disputes that are uncovered by the monitoring process. Under the international treaty, trademark owners would be required by law to present their counterfeiting concerns to the online

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233. In an analogous situation, eBay outsourced its back-end Internet technology to Abovenet Communications and Exodus Communications for the maintenance and performance responsibilities of Web servers, database servers, and Internet routers after several in-house outages in 1999. AFUAH & TUCCI, *supra* note 15, at 291.

234. *Rules About Intellectual Property—Overview*, EBAY, <http://pages.ebay.com/help/policies/intellectual-property-ov.html> (last visited Mar. 27, 2012).

235. MarkMonitor, IP Cybercrime, and OpSec Security are examples of private companies offering anti-counterfeiting monitoring to luxury trademark owners.



marketplace through the ADR process rather than filing suit in court.<sup>236</sup> Likewise, online marketplaces would have to address the trademark owners' concerns in good faith during the ADR process.<sup>237</sup> A neutral PACS arbitrator with special expertise in intellectual property and Internet issues would guide the parties to a reasonable resolution. Unlike the UDRP,<sup>238</sup> PACS would grant arbitration decisions an extremely deferential standard of judicial review, similar to the standard of review provided in the Federal Arbitration Act.<sup>239</sup>

Sellers and buyers would also be required to participate once they registered with a particular marketplace and sold or bought a trademarked good. PACS' ADR process would be compulsory for all trademark infringement issues, but a wider range of trademark issues, such as dilution and false advertising, would also be permitted with the consent of both parties.

Similar to ICANN, PACS would be a bipartisan, not-for-profit system with both private and public elements of governance.<sup>240</sup> The public functions would provide legitimacy and global participation, while the private functions would promote competition and bottom-up coordination.<sup>241</sup> Because

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236. Trademark owners may argue that mandatory ADR severely undercuts their rights to procedural due process. However, the overall policy benefits of ADR have already been affirmed. See *supra* Part III for a discussion.

237. Like a monitoring process, some online marketplaces may prefer not to participate in an ADR process if the costs exceed the potential risks of litigation. However, the overall long-term benefits to the online marketplace industry would ultimately outweigh the short-term cost savings to individual online marketplaces.

238. UDRP does not fall under the Federal Arbitration Act. See *Dluhos v. Strasberg*, 321 F.3d 365 (3d Cir. 2008); *Sallen v. Corinthians Licenciamentos LTDA*, 273 F.3d 14 (1st Cir. 2001); *Parisi v. Netlearning, Inc.*, 139 F. Supp. 2d 745 (E.D. Va. 2001).

239. See 9 U.S.C. § 16 (2006).

240. Although ICANN is incorporated in the United States as a private, not-for-profit corporation with board members from all over the world, it was formed through a contract agreement with the U.S. government and carries out public functions. See THE NGO AND ACADEMIC ICANN STUDY, ICANN, LEGITIMACY, AND THE PUBLIC VOICE: MAKING GLOBAL PARTICIPATION AND REPRESENTATION WORK 19 (2001) [hereinafter NAIS Study] ("Thus, its legal structure is consistent . . . with a *private* set of activities, but those activities are in many ways *public*.").

241. See *id.* at 15, 18–19. It is important to acknowledge that an international treaty spanning both the public and private sectors is a massive undertaking that may be difficult to accomplish politically. However, if PACS provides an attractive enough solution for the parties that are most concerned with online counterfeiting, there will likely be sufficient economic incentive and political influence guiding the implementation of the international anti-counterfeiting treaty.

the ADR process would partially limit parties' access to courts, precautionary measures ensuring due process must exist. In order to make sure arbitration is impartial and independent, conflicts of interest, such as a personal financial interest, a prior representation of a party, representation of a third party in a dispute against one of the other parties, or any personal bias would be screened out.<sup>242</sup>

### *B. Benefits of PACS*

PACS would share the same policy goals as ICANN: intellectual property protection, promotion of competition, and allocation of Internet resources.<sup>243</sup> Just as ICANN's primary purpose was to globalize Internet coordination in a new way,<sup>244</sup> PACS would further that purpose by extending Internet coordination to stop online counterfeiting.

Like the fast, accessible, and efficient nature of the UDRP,<sup>245</sup> contributory trademark liability disputes could be quickly and efficiently resolved through PACS. PACS would first establish cooperative agreements with online marketplaces (and a default agreement for newly created marketplaces) and establish uniform standards for contributory trademark liability disputes. Choice of jurisdiction and choice of law would be predetermined by the international treaty, eliminating the uncertainties of geographically-oriented conflict-of-laws.<sup>246</sup> Unlike general jurisdiction courts, the parties would also benefit from specialized expertise to resolve trademark disputes.<sup>247</sup>

More efficient online consumer transactions would serve the overarching goals of trademark law.<sup>248</sup> Buyers would have lower search costs and increased confidence in the authenticity of the luxury goods purchased online, while individual sellers would not face as many restrictive barriers when selling legitimate goods on the secondary market. Online marketplaces would also benefit from eliminating counterfeit listings because they will garner trust from buyers, who will be

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242. The UDRP also states an express obligation of independence and impartiality. *See Hörnle, supra* note 210, at 259.

243. *See NAIS Study, supra* note 240, at 4.

244. *Id.*

245. Hörnle, *supra* note 210, at 253.

246. *See id.* at 284.

247. WANG, *supra* note 152, at 155.

248. *See supra* Part I.

more willing to conduct business through the online marketplace. Finally, luxury trademark owners whose merchandise is sold on the secondary market would be able to effectively protect their trademark rights and maintain control over the quality of their products.

Due to the slow process of legislation, the speed of the Internet, and the sophistication of counterfeiters, enacted legal rules quickly become outdated and ineffective. PACS, on the other hand, would have the capability of evolving with changing online standards. As counterfeiters found increasingly sophisticated ways of avoiding detection, PACS would keep up with these developments and impart the benefits to all participating online marketplaces and luxury trademark owners. The continued development of new technology and the aggregated nature of the system would lead to cheaper and more streamlined measures to curb counterfeiting activities in online marketplaces.

### *C. Further Considerations for PACS*

To attain legitimacy, PACS, like the UDRP, must be a “fair, open, participatory, and inclusive process of decision-making that takes account of the public interest in how the Internet functions.”<sup>249</sup> Online marketplaces, trademark owners, sellers, and buyers must be entitled to a voice in the development of PACS. This is a particular challenge because of the various and, at times, incompatible views and interests involved. In negotiating the terms of an international treaty, the conflicting laws of the participating countries might delay, if not entirely block, the possibility of a resolution. Therefore, negotiating parties must be receptive to changing existing laws in their respective countries. The treaty would also need the support of powerful industry organizations such as the International Anti-Counterfeiting Coalition (IACC). The fashion industry is unlikely to support any measures that limit their rights and legal incentives. Ultimately, public participation and transparency would be needed as a “key element and a safeguard against domination by governmental or commercial interests.”<sup>250</sup>

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249. NAIS Study, *supra* note 240, at 102.

250. *Id.* at 4.

PACS would likely face problems similar to the UDRP system. The UDRP has been criticized for being a biased procedure because trademark owners financially support it.<sup>251</sup> Luxury trademark owners may overstep their legal boundaries by bringing actions against sellers who are engaging in legal, but directly competitive activity. While eBay has the same legal heft as the luxury trademark owners, smaller, less experienced online marketplaces may be coerced into making concessions.

Lastly, PACS would need sufficient infrastructure to deal with the enormity of the anti-counterfeiting problem. The monitoring process would need the capability of screening a great number of listings, handling the counterfeit listings, and weeding out frivolous or groundless complaints. In addition, the ADR process must be inexpensive and efficient, while treating all parties fairly. An international treaty would have to address how the entire system would be adequately funded and maintained.

#### CONCLUSION

International Anti-Counterfeiting Coalition (IACC) President Robert Barchiesi was correct when he asserted that new online anti-counterfeiting policies and procedures will result in “less piracy and counterfeiting, thus improving the overall climate for legitimate businesses and consumers of genuine products.”<sup>252</sup> However, he was wrong to assume that holding eBay contributorily liable within the adversarial court system is the only way for this to occur.<sup>253</sup> The unproductive burden-shifting role of the courts has left both online marketplaces and luxury trademark owners with little

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251. See CORTÉS, *supra* note 163, at 124–26. About 54% of all UDRP cases were default cases, and 94% of those cases were in favor of the claimants. *Id.* at 126.

252. Press Release, IACC President Robert Barchiesi, IACC Urges U.S. Appeals Court to Hold eBay Contributorily Liable for Continuing Rampant Internet Sales of Counterfeit Goods (Oct. 22, 2008), *available at* <http://www.iacc.org/news-media-resources/press-releases/iacc-urges-us-court-to-hold-ebay-liable.php>.

253. See *id.* (“[U]ntil the U.S. judicial system takes appropriate action with respect to eBay in forcing it to more aggressively fight the proliferation of counterfeit sales through its site, the IACC warns consumers that they should not feel confident in the legitimacy of certain of the [sic] products they acquire on eBay.”).

guidance, and has simply opened the floodgates to more litigation.

New detection technology and ADR processes provide a different, more effective way to curb online counterfeit sales. Rather than pushing abstract burdens on one side or another, the collective needs of the online marketplace can be served through a uniform, mutually agreed-upon system. An anti-counterfeiting program can be externalized to a third-party provider to balance the needs of all parties. There will be a monitoring process, which will screen for the authenticity of goods listed online. If any contributory liability disputes occur, the parties will be required to submit to an arbitration-like proceeding. Just as the UDRP system has become streamlined in solving cybersquatting disputes such that the urgency of the problem has faded, there is an opportunity for a system dealing with contributory trademark infringement problems to achieve the same result.

Further examination will be required to outline the specific substantive and procedural rules of PACS. This Note simply offers an approach that reduces the transaction costs of contributory trademark liability and uniformly serves the interests of online marketplaces, trademark owners, buyers, and sellers. By pooling resources and working towards a unified goal, rather than working within an adversarial court system, contributory trademark liability, like cybersquatting, will lose its controversial muster and become effectively diminished through a streamlined, two-tiered system. Fake Louis Vuitton handbags and Gucci sunglasses will soon be evicted from the Internet and sent back to the dark, musty corners of the physical world.