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District Court Holds That eBay is Not Liable for the Sale of Counterfeit Tiffany Jewelry on its Auction Website

In an important decision applying trademark law to auction websites, the United States District Court for the Southern District of New York recently ruled in *Tiffany (NJ) Inc. v. eBay, Inc.*, No. 04 Civ. 4607 (RJS) (S.D.N.Y. July 14, 2008), that eBay is not liable for trademark infringement based solely on its generalized knowledge that sellers might be hawking counterfeit Tiffany goods on its website. The district court also held that eBay's use of Tiffany's trademark on its advertising, on its homepage, and in sponsored links purchased through online search engines, is a protected, nominative fair use of the mark.

Tiffany filed suit against eBay in 2004, alleging that hundreds of thousands of counterfeit silver jewelry items were offered for sale on eBay's website. In particular, Tiffany sought to hold eBay liable for direct and contributory trademark infringement, unfair competition, false advertising, and direct and contributory trademark dilution, on the grounds that eBay facilitated and allowed these counterfeit items to be sold on its website. As the district court noted, the heart of the dispute was not whether counterfeit Tiffany jewelry should flourish on eBay, but rather, who should bear the burden of policing Tiffany's valuable brand name in Internet commerce. After a bench trial, the district court concluded that Tiffany must ultimately bear the burden of protecting its trademark.

With respect to its claim for direct trademark infringement, Tiffany argued that eBay directly infringed its trademark by advertising the availability of Tiffany jewelry on eBay and using the Tiffany name on the eBay home page, and by purchasing sponsored links on Google and Yahoo! advertising eBay listings that offer Tiffany jewelry for sale. In response, eBay submitted that such uses do not constitute direct infringement because they are protected by the doctrine of nominative fair use, which allows someone who sells a branded product to describe it by its brand name, so long as the seller does not create confusion by implying an affiliation with the owner of the trademark. The district court agreed with eBay, and concluded that eBay's use of the Tiffany mark was protected under the nominative fair use doctrine because: (i) Tiffany jewelry was not readily identifiable without the use of the Tiffany trademark; (ii) eBay's use of the Tiffany mark on its website and in its sponsored links was limited to the Tiffany name; and (iii) eBay did not do anything that would suggest sponsorship or endorsement by Tiffany. The district court observed that "while customers may have been confused about whether the product they purchased was an authentic Tiffany silver jewelry item or a counterfeit, they were certainly not confused about the immediate source of the silver jewelry — namely, individual eBay sellers."

1285 Avenue of the Americas
New York, New York 10019-6064
(212) 373-3000

Fukoku Seimei Building 2nd Floor
2-2, Uchisawaicho 2-chome
Chiyoda-ku, Tokyo 100-001, Japan
(81-3) 3597-8101

1615 L Street, NW
Washington, DC 20036-5694
(202) 223-7300

Unit 3601, Fortune Plaza Office Tower A
No. 7 Dong Sanhuan Zhonglu
Chao Yang District, Beijing 100020
People's Republic of China
(86-10) 5828-6300

Alder Castle, 10 Noble Street
London EC2V 7JU England
(44-20) 7367 1600

12th Fl., Hong Kong Club Building
3A Chater Road, Central
Hong Kong
(852) 2536-9933

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As for Tiffany's claim that eBay was liable for contributory trademark infringement, the district court held that the correct standard, as articulated by the Supreme Court in *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982), was not whether eBay could reasonably anticipate possible infringement, but rather whether eBay continued to supply its services when it knew or had reason to know of infringement by those sellers. The evidence produced at trial demonstrated that eBay had "generalized" notice that some portion of the Tiffany goods sold on its website might be counterfeit. Tiffany argued that this generalized knowledge required eBay to remedy the problem preemptively at the very moment it knew or had reason to know that the infringing conduct was generally occurring, even without specific knowledge as to individual instances of infringing listings or sellers. The district court concluded, however, that such generalized knowledge as to counterfeiting on its website was insufficient under the *Inwood* test to impose upon eBay an affirmative duty to remedy the problem, especially given the presence of numerous authentic Tiffany goods on eBay. Tiffany asserted that it should have been apparent that any eBay seller offering five or more Tiffany items was almost certainly offering counterfeit merchandise. But the district court found that there was little support for the notion that the five-or-more rule presumptively demonstrated the presence of infringing items. The district court also rejected Tiffany's argument that eBay was willfully blind to evidence of infringement on its website, noting that the evidence established that when eBay had general knowledge of counterfeiting on its website, it took reasonable steps to investigate and stop that wrongdoing through general anti-fraud measures, and that when it had knowledge of specific infringing listings, it promptly terminated those listings.

"The result of the application of this standard is that Tiffany must ultimately bear the burden of protecting its trademark," the district court said. "Policymakers may yet decide that the law as it stands is inadequate to protect rights of owners in light of the increasing scope of Internet commerce and the concomitant rise in potential trademark infringement." But until then, the district court said, "it does not matter whether eBay or Tiffany could more efficiently bear the burden of policing the eBay website for Tiffany counterfeits — an open question left unresolved by this trial."

The district court further held that Tiffany's claim for unfair competition was governed by the same legal analysis as its infringement claims, and thus must fail for the same reasons. The district court also reasoned that Tiffany's false advertising claim focused on the same practices that Tiffany's direct trademark infringement claims relied on — namely, the use of the Tiffany mark on the eBay website and in sponsored links — and thus was unsuccessful for the same reasons, including that eBay's use of the Tiffany trademark in advertising was a protected, nominative fair use of the mark.

Finally, the district court concluded that eBay's use of the Tiffany mark was unlikely to cause dilution because eBay never used the Tiffany mark to refer to eBay's own product. Moreover, even assuming that Tiffany could be said to have made out a claim for trademark dilution, the district court found that eBay's use of the mark was protected by the statutory defense of nominative fair use.

The district court's decision stands in stark contrast to that reached just two weeks earlier by the Commercial Court of Paris in a similar dispute between eBay and LVMH Moët Hennessy Louis Vuitton ("LVMH"). In that case, the court granted a sweeping injunction that not only

requires eBay to block all sales of certain counterfeit LVMH products on its site, but also to block all sales of genuine LVMH perfumes being sold there by unauthorized distributors. In addition, that decision requires eBay to pay various LVMH units \$60.8 million in damages for past counterfeit or unauthorized sales.

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Lynn B. Bayard	(212) 373-3054	Leslie Gordon Fagen	(212) 373-3231
Lewis R. Clayton	(212) 373-3215	Carey R. Ramos	(212) 373-3240
Jay Cohen	(212) 373-3163		