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Michael Pantalony

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CONTRIBUTING TO INFRINGEMENT: INTERMEDIARY LIABILITY AFTER TIFFANY v. eBAY AND LOUIS VUITTON v. AKANOC

By Michael Pantalony*

I. INTRODUCTION

To combat the proliferation of counterfeit goods in both the online and brick-and-mortar worlds, certain brand owners have relied upon contributory trademark infringement claims against intermediaries in the supply chain. This reliance on contributory liability is premised on the theory that it is more efficient to pursue the facilitators who provide the forum and are in the best position to investigate and implement steps to prevent counterfeiting than to pursue myriad counterfeiters.

Over the last five years, two cases in particular have provided guidelines for the application of contributory trademark liability to intermediaries: the Second Circuit’s decision in Tiffany v. eBay1 (“Tiffany”) and the Ninth Circuit’s decision in Louis Vuitton v. Akanoc Solutions2 (“Akanoc”). In Tiffany, the online marketplace escaped liability for contributory trademark infringement. In Akanoc, the court found a web host company liable. These two cases, however, did not render a clear road map for a successful claim of contributory trademark infringement. Subsequent courts have applied Tiffany, for example, but with inconsistent interpretations. Decisions unevenly lean toward liability where the intermediary defendant has substantial “generalized knowledge” of the counterfeiting, fails to take meaningful steps to decrease counterfeiting, and knowingly allows it to continue. No brand has undertaken a major challenge to the holding in Tiffany, nor has Akanoc unleashed a wave of lawsuits against web hosts for contributory liability. Instead, possibly

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* Of Counsel, Donovan & Yee LLP, New York, Associate Member, International Trademark Association; formerly in-house counsel, Louis Vuitton and other brands of the LVMH Fashion Group, and Gucci. This article is based on the author’s presentation at INTA’s Internet, Innovation and ICANN conference in San Francisco in September, 2014. The author thanks Timothy J. Buckley, a legal intern at Donovan & Yee LLP, for his assistance in the preparation of this article.

1. Tiffany (NJ) Inc. v. eBay Inc., 600 F.3d 93 (2d Cir. 2010).
because of the holdings in *Tiffany* and *Akanoc* as well as other cases in Europe, brand owners and intermediaries are cooperating in unprecedented ways to combat counterfeiting, protect intellectual property, and make the Internet safer for online shoppers. This article will examine how trademark owners have fared against supply chain intermediaries in the aftermath of these two cases and in what ways brand owners and intermediaries are now increasingly working together to resolve issues of counterfeiting.

**II. TIFFANY v. EBAY—THE SPECIFIC KNOWLEDGE REQUIREMENT**

The United States Supreme Court set forth the applicable test for contributory trademark infringement most recently in *Inwood Laboratories v. Ives Laboratories* ("Inwood Labs"). This decision forms the basis of the “specific knowledge” requirement that emerged in *Tiffany* almost thirty years later. To understand how the Second Circuit in *Tiffany* may have strayed from *Inwood Labs*, a brief explanation of the procedural history of *Inwood Labs* is helpful. After Ives’ patent expired, Inwood replicated the appearance of a drug that Ives sold. Ives sued Inwood for, inter alia, contributory trademark infringement after pharmacists substituted Inwood’s drug for a similar generic drug. The Second Circuit affirmed the district court’s denial of a preliminary injunction. It noted that contributory liability could attach if the generic manufacturer “continued to sell capsules” to those it “knew or had reason to know” were engaging in the infringing practice. On remand, the district court again rejected the contributory trademark infringement claim and did not refer to the “knew or had reason to know” standard of the Second Circuit. On appeal, the Second Circuit reversed. The court concluded that the district court erred by failing to give any weight to the additional evidence of mislabeling introduced by Ives.

In reversing the Second Circuit, the Supreme Court articulated the following two-prong test: “if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the

4. *Id.* at 846.
5. *Id.* at 849-50.
7. *Id.* at 636.
manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.” 10 The Supreme Court did not find any basis for overturning the district court’s factual finding of insufficient substitution and mislabeling evidence to justify an inference of knowledge, as the findings were not clearly erroneous. 11 Because of the finding of the district court, the Supreme Court did not address the “knows or has reason to know” prong. The majority addressed Justice White’s criticism (relied upon in *Tiffany*) that liability could be imposed based on the defendant’s ability to “reasonably anticipate” the infringement and noted that the defendant’s ability to “reasonably anticipate” supports the argument for contributory infringement but is not the controlling standard. 12 Contrary to the holding in *Tiffany*, *Inwood Labs* does not require that the alleged contributory infringer have knowledge of specific instances of infringement before the imposition of liability. Rather, the collective opinions in the procedural history of *Inwood Labs* indicate that courts can consider generalized knowledge of infringing conduct in assessing liability for contributory trademark infringement.

*Tiffany* is the first case in the United States to consider whether an online auction site can be contributorily liable for trademark infringement of third-party sellers. Tiffany alleged contributory trademark infringement, inter alia, against eBay based on the sale of counterfeit Tiffany merchandise on eBay’s website. When Tiffany became aware of items purported to be made by Tiffany on eBay’s site, it conducted its own surveys (“buying programs”), which concluded that approximately seventy-three percent of the sterling silver “Tiffany” pieces available on eBay were counterfeit. 13 For its part, eBay maintained the Verified Rights Owner (“VeRO”) Program, which is a “notice-and-takedown’ system” that allows owners of intellectual property rights, including Tiffany, to “report to eBay any listing offering potentially infringing items, so that eBay could remove such reported listings.” 14 Any such rights holder with a “good-faith belief that [a particular listed] item infringed on a copyright or a trademark” could report the item to eBay, using a “Notice Of Claimed Infringement form or NOCI form.” 15 The reported listings were removed by eBay within twenty-four hours of receiving a NOCI, if not earlier. 16

10. *Id.* at 854.
11. *Id.* at 857.
12. *Id.* at 854 n.13.
13. Tiffany (NJ) Inc. v. eBay Inc., 600 F.3d 93, 97 (2d Cir. 2010).
14. *Id.* at 99.
15. *Id.*
16. *Id.*
Other enforcement measures employed by eBay included a buyer-protection program, fraud engine implementation, “About Me” pages for rights owners, employees devoted to combating counterfeiting, and suspension of hundreds of sellers on suspicion of counterfeiting.\textsuperscript{17} The district court agreed with eBay’s refusal to comply with Tiffany’s principal unmet demand—that eBay prospectively ban sellers of multiple Tiffany items by instituting a “five-or-more” rule.\textsuperscript{18} Despite eBay’s cooperation in removing postings or blocking sellers when it received specific notice of individual instances of infringement and infringing sellers, including through its VeRO Program, Tiffany sought to hold eBay contributorily liable on the basis that it knew, or had reason to know, that counterfeit Tiffany goods were being sold ubiquitously on its website.\textsuperscript{19}

The Second Circuit found that Tiffany’s general allegations of counterfeiting failed to provide eBay with the level of knowledge required by \textit{Inwood Labs} to impose liability.\textsuperscript{20} The court held that “[f]or contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary.”\textsuperscript{21} The imposition of this “specific knowledge” requirement placed the burden of policing online marketplaces largely on trademark owners. Other than dealing with the specific infringements brought to eBay’s attention by brand owners, the Second Circuit imposed no duty on eBay to investigate the authenticity of the products sold through its website or to take further steps to combat the sale of counterfeit products through its forum.

\textit{Tiffany} put brand owners in the difficult situation of needing to identify each listing of counterfeit products, each listing that will infringe in the future, and the identities of the sellers. The seller’s identity is important if the brand owner, for example, wants or needs to enforce its rights against a seller of large quantities of counterfeit products. In the anonymity of the eBay marketplace, sellers are required to reveal their identity only to eBay. \textit{Tiffany} undermines the efficiency premise of contributory trademark infringement for brands by allowing marketplaces, which are in the best position to address counterfeiting on their websites, to avoid liability. Online marketplaces such as eBay control access to their marketplaces and have all of the

\begin{footnotesize}
\begin{itemize}
\item[17.] \textit{Id.} at 98-100.
\item[19.] Tiffany (NJ) Inc. v. eBay Inc., 600 F.3d 93, 106 (2d Cir. 2010).
\item[20.] \textit{Id.} at 109.
\item[21.] \textit{Id.} at 107.
\end{itemize}
\end{footnotesize}
information to review listings. They can also bar counterfeiters, set up filters, review the identity of sellers, and otherwise impose conditions for entry.

III. LOUIS VUITTON v. AKANOC—CONTROL AND MONITORING

Akanoc is the first case in the United States to consider whether a third party is contributorily liable for hosting a website that is selling infringing products. In Akanoc, the defendants Managed Solutions Group, Inc. (“MSG”) and Akanoc Solutions, Inc. (“Akanoc”) were in the “web hosting” business. MSG leased servers, bandwidth, and some IP addresses to Akanoc. Akanoc, in turn, operated the servers and otherwise ran the business. Akanoc leased packages of server space, bandwidth, and IP addresses to its customers. Louis Vuitton discovered websites selling goods that infringed its trademarks and copyrights. The websites did not sell merchandise directly; instead, they listed an email address that interested parties could use to initiate a transaction. Upon further investigation, Louis Vuitton discovered that the websites were using IP addresses assigned to MSG and Akanoc.22

Louis Vuitton sent at least eighteen Notices of Infringement (“NOIs”) documenting trademark and copyright infringement occurring on numerous websites hosted by MSG and Akanoc.23 The NOIs demanded that the defendants either remove the infringing content from their servers or require their customers, the website operators, to do so. Louis Vuitton received no response to its NOIs. The websites continued to operate and sell counterfeits using the defendants’ servers and IP addresses.24

To prevail, the plaintiffs asserting contributory trademark infringement claims needed to prove that the defendants had actual or constructive knowledge of the infringement.25 The Ninth Circuit held that an express finding of intent is not required for contributory trademark infringement to arise.26 The district court concluded that a reasonable jury could find that the defendant web hosts had actual knowledge that infringing websites were using their services and that they should have known that infringing

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23. Id.
24. Id.
25. Id. at 943.
26. Id.
websites were using their services based on Louis Vuitton’s numerous NOIs.\footnote{27}

In addition, as the defendants provided services rather than a product, Louis Vuitton needed to establish that the defendants had “[d]irect control and monitoring of the instrumentality used by a third party to infringe” Louis Vuitton’s marks.\footnote{28} The court of appeals held that the web host defendants had “direct control and monitoring of the instrumentality used by the third party to infringe” because the defendants had direct control over the “master switch” that kept the websites online and available.\footnote{29} Notably, the Ninth Circuit accepted the district court’s analogy that a web host’s service is the Internet equivalent of leasing real estate, explaining that “websites are not ethereal; while they exist, virtually, in cyberspace, they would not exist at all without physical roots in servers and internet services.”\footnote{30}

\section*{IV. SUBSEQUENT APPLICATION OF TIFFANY AND AKANOC}

The holdings of Tiffany and Akanoc, and particularly the “specific knowledge” requirement in Tiffany, have been widely adopted by the courts. However, the ways in which courts have applied these cases, and the arguably inconsistent outcomes, depend largely on case-specific facts related to control, knowledge, and willful blindness.

The application of Tiffany and Akanoc has not been limited to online marketplaces, web hosts, and search engines selling advertising through sponsored links. Courts have also relied on these precedents to determine the liability of landlords of brick-and-mortar retail spaces, owners and operators of flea markets, and delivery companies. The following discussion highlights some of the factors that courts have found dispositive and the mixed results for trademark owners in both online and brick-and-mortar cases.

\subsection*{A. Control and Knowledge}

In Akanoc, the Ninth Circuit applied a modified Inwood Labs standard based on its Lockheed decision.\footnote{31} To succeed, Louis Vuitton had to establish that the defendant “continued to supply

\begin{thebibliography}{99}
\bibitem{28} Akanoc, 658 F.3d at 942 (quoting Lockheed Martin Corp. v. Network Solutions, Inc., 194 F.3d 980, 984 (9th Cir. 1999)).
\bibitem{29} Id. at 943.
\bibitem{30} Id. at 942.
\bibitem{31} Id.
\end{thebibliography}
its services to one who it knew or had reason to know was engaging in trademark infringement.” 32 Because the web host defendants provided services rather a product, Louis Vuitton also needed to show that the defendant had “direct control and monitoring of the instrumentality used by a third party to infringe.” 33 In Tiffany, the Second Circuit also cited Lockheed for the same prerequisite to permit the expansion of the “supplies a product” requirement in Inwood Labs. 34 Examples of defendants found to have exercised control over the instrumentalities of infringement in cases that reference either Akanoc or Tiffany or both include:

(i) a provider of credit card processing and electronic payment services for online merchants; 35

(ii) a web design consultant who assisted with the registration and design of websites that sold replica golf clubs; 36

(iii) an operator of one of the world’s largest business-to-business websites that controlled every aspect of its websites and all of its members’ listings, prevented members from making any changes to listings, and chose and added keywords to premium members’ products, which drove the search engine optimization of those listings; 37

(iv) a landlord who could screen the retailers that it allowed to occupy its premises and physically examine the premises; 38

(v) operators of flea markets that had the right and ability to evict any lessees who sold counterfeit products; 39 and

(vi) an express delivery company that could have refused to ship counterfeit products. 40

The results of these cases indicate that the extent and quality of control exercised by a service provider over the means of

32. Id.
33. Id.
34. Tiffany (NJ) Inc. v. eBay Inc., 600 F.3d 93, 104-5 (2d Cir. 2010).
infringement affect whether a defendant possesses actual or constructive knowledge of infringement.

In some cases, the relationship between a service provider and a direct infringer has enabled courts to impute knowledge of infringement to the defendant service provider. Notification from a brand owner may not always be necessary to satisfy the “specific knowledge” requirement of *Tiffany*, for example. In *Roger Cleveland Golf Co. v. Prince*, the plaintiff sued a website operator selling counterfeit golf clubs for trademark infringement and the website operator’s website design consultant for contributory trademark infringement. The defendant website consultant reviewed the direct infringer’s website, provided advice as to what content to add, knew that its customer sold “copied clubs,” and knew that it had registered the domain name “copycatclubs.com.”

In construing the “specific knowledge” requirement in *Tiffany*, the court held that a jury could conclude that the website consultant knew or had reason to know that the website owner and operator, and its particular client, was infringing.

A high level of control or functional dependency can suffice to subject an intermediary to liability for contributory trademark infringement. In *Gucci v. Frontline Processing*, for example, a district court in New York found that, even though the defendant credit card processors could not shut down the underlying websites selling counterfeits, they exercised sufficient control because the websites could not sell and ship goods without the defendant’s credit card processing services. A higher level of control and involvement can provide the requisite knowledge. The defendant credit card processors solicited business from replica merchants, conducted internal reviews of the merchants’ websites, had knowledge of the relatively low prices of the replica handbags, and received complaints from customers who had been deceived into buying counterfeits. The court in *Gucci* held that this knowledge was sufficient to support an inference that the defendants knew or shielded themselves from the knowledge that the merchant sold counterfeits using the defendants’ processing systems.

In contrast to defendant intermediaries who actively induce infringement or deal closely with direct infringers, knowledge is generally not imputed to more passive defendant intermediaries absent specific notification from an injured party. A prime example

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42. *Id.* at *7.
44. *Id.* at 249-50.
45. *Id.* at 250-53.
of a passive online marketplace is eBay in Tiffany.\textsuperscript{46} Because it does not itself sell the items listed for sale on the site or ever take physical possession of these items, eBay is a passive marketplace.

A district court in Texas applied the holding in Tiffany and found Coach, Inc.’s generalized notice of counterfeiting to a large indoor market insufficient for contributory trademark infringement because the market “did not have specific knowledge of specific tenants’ infringement.”\textsuperscript{47} In this case, Coach had sent only one notice letter to the defendant indoor market alleging counterfeiting at the market generally but the letter did not specify which specific tenants were doing so.\textsuperscript{48}

In a case against a Canal Street New York City retail landlord, the court found that in marketplaces that exercise control and have few, if any, authentic products and far fewer sellers than eBay, generalized knowledge could be sufficient for a finding of contributory liability.\textsuperscript{49} Thus, a “generalized knowledge” of sales of counterfeit products may be sufficient to establish contributory liability if there are no authentic products being sold bearing the same marks and there are fewer sellers. If there are many sellers, knowing their identities is essential to identifying the counterfeit goods. In this case, the district court found that notice of the sale of a particular good by an unnamed individual at a specific location is comparable to the “listings” requirement in Tiffany.\textsuperscript{50} In contrast, the court in Coach v. International Bazaar found Coach’s generalized notice of counterfeiting to a large indoor market in Texas insufficient to support a claim for contributory trademark infringement. In that case, the court relied upon Tiffany in determining that the indoor market “did not have specific knowledge of specific tenants’ infringement and thus [is] not liable for contributory trademark infringement.”\textsuperscript{51} “Coach’s [one] letter was too vague to put [the defendant indoor market] on notice to warrant imposition of contributory [trademark] infringement.”\textsuperscript{52}

In 1-800 Contacts v. Lens.com, the Tenth Circuit examined whether a defendant had the technological means to stop an

\textsuperscript{46} In Tiffany, at any given time, eBay had over 100 million listings with a high turnover rate of more than six million new listings daily. Tiffany (NJ) Inc. v. eBay Inc., 576 F. Supp. 2d 463, 475 (S.D.N.Y. 2008).


\textsuperscript{48} Id. ¶ 23.

\textsuperscript{49} Omega SA v. 375 Canal, LLC, No. 12 CIV. 6979 PAC, 2013 WL 2156043, at *3-4 (S.D.N.Y. May 20, 2013).

\textsuperscript{50} Id. at *4.


\textsuperscript{52} Id. ¶ 26.
unidentified infringer without also interfering with legitimate business.53 One of Lens.com’s advertising affiliates (third-party marketers) had purchased keywords resembling the plaintiff’s mark and used the plaintiff’s mark in the text of its online ads. The plaintiff claimed that the defendant failed to take corrective action for three months. The defendant argued that it could not identify the problem affiliate, and absent such identification, it did not have either actual or constructive knowledge as Inwood Labs demands.

In distinguishing Tiffany, the Tenth Circuit rejected the defendant’s contention that it had no duty to act until it knew the identity of the specific offender.54 The defendant did not need knowledge of the specific offender’s identity for it to take effective action that did not affect legitimate conduct.55 According to the court, Lens.com could communicate with all of its affiliates at one time through an email blast from the manager of its network of affiliates, or a monthly newsletter sent by the manager to every Lens.com affiliate, that they cannot use 1-800 Contacts’ mark in the language of sponsored links.56 In placing emphasis on the remedial measures available, the court held that “[w]hen modern technology enables one to communicate easily and effectively with an infringer without knowing the infringer’s specific identity, there is no reason for a rigid line requiring knowledge of that identity, so long as the remedy does not interfere with lawful conduct.”57

The court’s reasoning in 1-800 Contacts may have been motivated by the agency relationship that existed between Lens.com and its affiliates. In light of that relationship, emails or newsletter messages would be effective. Sellers on eBay, by contrast, might be less inclined to heed system-wide messages and requirements of the service provider, and may be more apt to follow individual and specific notices, which would require knowledge of the identity of the specific offender.

In Coach v. Gata, a case involving the owner and operator of an outdoor flea market where counterfeit Coach handbags were offered for sale by third-party vendors, the court examined the relationship between proximity, control, and knowledge and held: “[t]he issue of proximity . . . is related to the issue of control, which is a key component of the analysis.”58 The defendant flea market owner and operator argued that, based on Tiffany, it had nothing

53. 1-800 Contacts, Inc. v. Lens.com, Inc., 722 F.3d 1229, 1254 (10th Cir. 2013).
54. Id. at 1252.
55. Id. at 1254.
56. Id.
57. Id.
more than generalized knowledge of infringing activities. The court distinguished *Tiffany* and *Inwood Labs* on the ground that flea market operators exercise substantially more control over potential infringers than did the defendants in *Tiffany* and *Inwood Labs*. In *Gata*, the direct infringers, as vendors, brought their merchandise to a venue operated and patrolled by the defendants on a daily basis. Because of the physical proximity of the flea market operator to the direct infringers and their products, the court found that the defendant flea market owner and operator could better control users of its service, detect counterfeiting, and remedy the situation than the defendants in *Tiffany* or *Inwood Labs*. The defendant flea market owner and operator exercised control by collecting rent from vendors (higher for purse vendors). Moreover, it admitted that it had an eviction policy to deal with vendors selling counterfeits, even though it had the knowledge of vendors selling Coach counterfeits but never asked a vendor to leave for selling them.

By contrast, the defendant indoor market in *Coach v. International Bazaar* exercised the same level of control as the defendant flea market in *Gata* but escaped contributory liability by implementing various remedial measures to address the sale of counterfeit products. These remedial measures included having lease agreements with tenants indicating that the sale of counterfeits constituted a breach of the lease, monitoring lease compliance, delivering memos to specific tenants of complaints from trademark owners, and commencing eviction proceedings based on specific complaints from trademark owners.

In *Chloe v. Sawabeh Information Services*, six Richemont brands claimed contributory counterfeiting against a large online business-to-business marketplace, TradeKey.com. The court held that the TradeKey defendants knowingly allowed their members to engage in “wholesale counterfeiting” by their maintenance of “replica products” and “replica retention” sales divisions; by their active provision of services to TradeKey members offering counterfeit goods in bulk; and by representations of a TradeKey employee to the plaintiffs’ investigator that counterfeiting was one of the two biggest industries featured on TradeKey.com.

The court concluded that the plaintiffs satisfied the “control” inquiry under *Akanoc* because the TradeKey defendants monitored

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59. Id.
60. Id.
61. Id. at *8.
62. Id. at *7-8.
and controlled every aspect of their websites and members’ listings, prevented members from making any changes to listings, and chose and added keywords to certain members’ products that drove search engine optimization of the listings. The TradeKey defendants’ conduct in actively facilitating infringement contrasts with eBay’s policy of removing listings and suspending repeat offenders from its site.

The court found generalized knowledge of counterfeiting sufficient for liability, in effect, because the TradeKey defendants operated a “virtual ‘swap meet’ where they knowingly allow[ed] their members to engage in wholesale counterfeiting.” The court did not mention the “contemporary knowledge of which particular listings are infringing” requirement in Tiffany.

B. Willful Blindness

Liability for contributory trademark infringement often depends on what measures a service provider takes to prevent infringement in the first instance, and how it responds to notices of a rights violation from a trademark owner. On this point, the inquiry is whether the intermediary had the requisite knowledge or was “willfully blind,” defined as suspecting wrongdoing and failing to investigate.

In Hard Rock Café Licensing Corp. v. Concession Services, Inc., the Seventh Circuit held that willful blindness is equivalent to actual knowledge under the Lanham Act. In Hard Rock, although the plaintiff could not prove that the flea market operator had actual knowledge of its vendors’ sale of counterfeit merchandise, the Seventh Circuit found that the swap meet is contributorily liable if it is willfully blind to the ongoing violations.

Consistent with Hard Rock, the district court in Akanoc noted that “[t]he guiding principle of holding a flea market operator liable for contributory infringement is that a host who permits others to use his premises cannot remain ‘willfully blind’ to their directly infringing acts.” The district court relied on the same legal principles applicable to flea markets in holding Akanoc, as an

65. Id. at 9.
66. Id. Swap meets have become synonymous with flea markets and are open air marketplaces where cheap or secondhand goods are sold or bartered.
68. Id.
69. Id.
Internet service provider ("ISP"), liable.\textsuperscript{71} In stating that "[Akanoc’s] activity as Internet service providers is more like the flea market proprietors in Fonovisa, the district court deemed Akanoc’s services the "Internet equivalent of leasing real estate."\textsuperscript{72} In Fonovisa, the Ninth Circuit found that swap meet operators could be contributorily liable because of their willful blindness to widespread infringement by third parties.\textsuperscript{73}

In Tiffany, the Second Circuit cited both Hard Rock and Fonovisa but distinguished them in a footnote.\textsuperscript{74} While acknowledging that a "significant portion" of the "Tiffany" sterling silver jewelry on eBay was counterfeit and that "eBay had generalized notice that some portion of the Tiffany goods sold on its website might be counterfeit," the Second Circuit found such generalized knowledge insufficient under Inwood Labs.\textsuperscript{75} If eBay had reason to suspect that counterfeit Tiffany goods were being sold through its website, and intentionally shielded itself from discovering the offending listings or the identity of the sellers behind them, the appeals court agreed that eBay might very well have been charged with knowledge of those sales sufficient to satisfy the "knows or has reason to know" prong of Inwood Labs.\textsuperscript{76} The Second Circuit found, however, that eBay did not ignore the information given to it about counterfeit sales on its website.\textsuperscript{77}

Notwithstanding the holding in Akanoc that a plaintiff asserting a contributory trademark infringement claim must prove actual or constructive knowledge, trademark owners have found it much more difficult to establish the willful blindness of online marketplaces.\textsuperscript{78} Even the Second Circuit acknowledged that by not finding eBay willfully blind based on its generalized knowledge of counterfeits, the burden to police online marketplaces fell completely to trademark owners.\textsuperscript{79}

In Tre Milano v. Amazon.com,\textsuperscript{80} the California Court of Appeal, in an unpublished opinion denying plaintiff's motion for a preliminary injunction, affirmed the trial court's finding that plaintiff Tre Milano was unlikely to succeed on its claim for

\textsuperscript{71} Id. at 1108.
\textsuperscript{72} Id. at 1112 (citing Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259 (9th Cir. 1996)).
\textsuperscript{73} Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 265 (9th Cir. 1996).
\textsuperscript{74} Tiffany (NJ) Inc. v. eBay Inc., 600 F.3d 93, 109-10 n.17 (2d Cir. 2010).
\textsuperscript{75} Id. at 97, 98, 106, 110 (internal quotations omitted).
\textsuperscript{76} Id. at 109.
\textsuperscript{77} Id. at 110.
\textsuperscript{78} Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc., 658 F.3d 936, 943 (9th Cir. 2011).
\textsuperscript{79} Tiffany, 600 F.3d at 109.
contributory trademark infringement. Tre Milano alleged that Amazon allowed third parties to sell counterfeits of its trademarked INSTYLER hair straightening irons. The plaintiff sent Amazon numerous NOCIs stating that the products were counterfeit but allegedly included no supporting evidence. Before it took any action, Amazon demanded proof of the violation, including an order identification of a test buy confirming the violation. In addition, Amazon typically took one to two weeks, and sometimes even months, to respond to Tre Milano’s NOCIs. The California state appeals court engaged in an extensive discussion of Tiffany and relied upon that case in finding that generalized notice of counterfeits is insufficient to impose an affirmative duty to act.

The appeals court outlined the differences between eBay’s and Amazon’s policies and procedures. The court found that eBay just provides space on its site with no product description, whereas Amazon creates a product page and provides a description. On eBay, buyers can use any payment method, whereas on Amazon, buyers must use Amazon’s payment method. While eBay does not ever take possession of goods, Amazon sometimes warehouses and ships goods. Amazon does not have any application programming interface similar to VeRO. While eBay removes listings of counterfeit goods within twenty-four hours, Amazon takes weeks and months. In acknowledging these differences, the appeals court reasoned that “[n]either Tiffany II, Tiffany I, nor any of the other cases cited by Tre Milano support a conclusion that a listing must be removed—rather than investigated—upon notice that it likely is for a counterfeit product.” The court found that Tre Milano had failed to show that Amazon had been willfully blind.

Tre Milano is a promising victory for online marketplaces and a retrenchment for brand owners. But the case may have limited precedential value because it is an unpublished decision rendered by a state court. Under Tre Milano, ISPs would not have to do as much as eBay does to protect trademark owners, and trademark owners would need to produce more evidence of infringement than Tre Milano provided to force the online marketplace to take action. Although less diligent in removing infringing content than eBay in the Tiffany case, the court deemed Amazon’s anticounterfeiting measures reasonable and sufficient to avoid a finding of “willful blindness.” These measures included employees devoted to risk investigation, blocking a listing or seller when a NOCI is received.

81. Id. at *1.
82. Id. at *13.
83. Id. at *5, 12.
84. Id. at *14.
85. Id.
that is supported by evidence, and employing software programs designed to prevent the sale of counterfeit items.86

In the brick-and-mortar world since Tiffany, courts have used willful blindness to implicate bad actors. Landlords of shopping centers and owners and operators of flea markets act with willful blindness where they neglect to respond to notices of infringement, fail to undertake reasonable investigations, re-lease premises and allow access to known counterfeiters and repeat offenders, do not train their employees tasked with detecting counterfeit merchandise, fail to inspect vendors’ vehicles, and actively instruct vendors on how to sell counterfeit merchandise while avoiding detection.87 In Hand & Nail Harmony v. Lenguyen, the plaintiff alleged that the defendant, an express delivery company, repeatedly ignored multiple emails that it used its shipping services to transport counterfeit nail polish from China. The court disagreed with the defendant that the plaintiff’s allegations provided it only with “general knowledge” under Tiffany.88 The express delivery company knew or should have known that two specific manufacturers were using its shipping services to distribute counterfeits.89 The result suggests the sort of willful blindness sufficient for the plaintiff to plead the knowledge element of contributory trademark infringement.90

Generally, diligent anticounterfeiting measures such as the various methods employed by eBay in Tiffany and by Amazon in Tre Milano appear to garner judicial sympathy, and expeditious removal of infringing material has shielded service providers from liability.91 Similarly, in Coach v. Sapatis, the defendant flea market operator escaped liability by taking a number of reasonable steps following the first inspection that even Coach’s own investigators felt were in good faith and genuinely designed to prevent the sale of counterfeit goods.92

86. Id. at *2-3.


89. Id. at *3.

90. Id. at *4.


As discussed above, the court in *Chloe SAS et al v. Sawabeh Information Services Co.* found the defendants liable for contributory trademark infringement. In that case, the plaintiffs did not send any formal takedown notices. In its decision, the court made no mention of the *Tiffany* “specific knowledge” requirement when it held that the TradeKey defendants acted “knowingly” based on their significant control over the means of infringement and their active facilitation of such conduct. 93 Indeed, the much higher level of wrongdoing (set out above) exhibited by the TradeKey defendants may explain the different results in *Chloe* and *Tiffany*. *Chloe* represents a breakthrough for brands on how to overcome *Tiffany* and use contributory trademark infringement claims against business-to-business platforms that turn a blind eye to wide-scale counterfeiting while making substantial profit from counterfeit sales.

**C. Shifting of the Burden**

*Louis Vuitton v. Eisenhauer* raises the question whether the distinction between online and brick-and-mortar marketplaces is still relevant. *Eisenhauer* is the first brick-and-mortar contributory trademark infringement case to go to a jury in the United States and the first contributory trademark infringement jury trial since the trial in *Akanoc* in 2008. At the *Eisenhauer* trial in January 2012, the jury awarded Louis Vuitton $3.6 million in statutory damages for contributory trademark infringement against the landlord of an indoor flea market for being willfully blind to the counterfeiting occurring on its premises. 94

The permanent injunction obtained after the jury award, and vigorously contested by the defendants, could serve as a model on how to share the burden of policing counterfeits in online marketplaces. When online marketplaces have an overwhelming number of offerings of counterfeit products and are willfully blind to counterfeiting, the burden of enforcing the brand owner's marks should shift to the online marketplace. Training and education by brand owners should accompany the burden shift. Brand owners possess unique expertise on how to detect counterfeits of their marks; this expertise must be imparted to online marketplace staff. Allocation of the burden should depend on the scope of the problem. Online marketplaces with widespread counterfeiting enforcement to seek assistance in preventing the sale of counterfeit goods; distributing bilingual anticounterfeiting literature to vendors and informing them that counterfeit sales would not be tolerated; working to develop vendor policies prohibiting the sale of counterfeit products; and evicting sellers of counterfeit products.


could accept more of the burden of policing counterfeits from trademark owners by implementing a notice-and-takedown system such as eBay's VeRO, by employing more filters, by proactive monitoring (including verifying sellers), by blocking repeat offenders, and by employing the latest technologies and fraud engines to detect counterfeits.

In 

Eisenhauer

, the far-reaching injunction that Louis Vuitton obtained completely shifted to the landlord the burden of eradicating counterfeits from the marketplace. Specifically, the permanent injunction enjoined the defendants from: (i) leasing space to tenants whom the defendants knew, or had reason to know, were selling products bearing counterfeits of Louis Vuitton's marks; (ii) selling products bearing counterfeits of Louis Vuitton's marks; and (iii) engaging in any conduct that contributed, directly or indirectly, to the counterfeiting of Louis Vuitton's marks by any tenant or lessee of the market. In addition, the injunction required the defendants to conduct periodic inspections of their tenants' booths. If the defendants detected counterfeit Louis Vuitton products or if credible evidence of counterfeit products existed, the defendants had to terminate the lease. All future lease agreements had to prohibit the sale of items bearing counterfeit Louis Vuitton trademarks. The injunction also required the defendants to post signs—at the marketplace entrances and outside the leasing office—warning lessees and the public that tenants were not authorized to sell Louis Vuitton merchandise and notifying tenants about unannounced random inspections by Louis Vuitton.

In the online space, the permanent injunction reached in the Chloe case with the active defendants has similarities to the injunction obtained in Eisenhauer. On the eve of the jury trial on damages, the plaintiffs in Chloe settled with the active defendants (the TradeKey defendants) and agreed to minimum statutory damages. The stipulated judgment further directs that the active defendants must “monitor their websites on an ongoing basis for compliance and must, upon written notice, remove or disable access to any listing that plaintiffs identify as infringing, or that otherwise comes to their attention as infringing plaintiffs' marks.” It remains unknown how the tension between brands and online intermediaries regarding who bears the burden inherent in the Tiffany holding will be resolved.

95. Id. ¶¶ 1-3.
96. Id. at 4.
98. Id. ¶ 28.
V. COOPERATION BETWEEN BRAND OWNERS AND ONLINE INTERMEDIARIES

In the aftermath of *Tiffany* and *Akanoc*, many trademark owners and online intermediaries have collectively recognized that cooperation in combating online counterfeiting is preferable to litigation. A number of voluntary agreements have been reached, streamlining the process of notifying service providers of infringement, removing counterfeit listings and offers, disabling access to repeat offenders, and terminating the payment processing services of websites that sell counterfeit goods. Many trademark owners now see increased cooperation as the preferred, although imperfect, method to discourage the online theft of their intellectual property.

Perhaps the most significant example of cooperation between brands and online marketplaces is in Europe. On May 4, 2011, brands and Internet platforms (including Adidas AG, Amazon, Burberry, LVMH, eBay, Lacoste, Mattel, Microsoft, Nike, Richemont, Procter & Gamble, and Unilever) entered into a Memorandum of Understanding (“MoU”) in Brussels. The European Commission facilitated this MoU to “establish a code of practice in the fight against the sale of counterfeits over the internet.” The MoU applies to each signatory to the extent that it provides services in the Member States of the European Union, and is not legally binding.

Under the MoU, Internet platforms committed to establishing notice-and-takedown procedures. These notice-and-takedown procedures contain a *Tiffany*-like requirement that rights owners identify specific offers of alleged counterfeit goods “in a responsible and accurate way and with necessary precision.” Commercial reasonableness standards govern, taking into consideration the respective business models of the signatories.

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Google for contributory trademark infringement, claiming Google had allowed the continued sale of infringing “spy” smartphone apps on Google Play. In its pending motion to dismiss, Google urges reliance on *Tiffany* as the “[p]laintiff alleges at most that Google may have had general knowledge of allegedly infringing activity on Google Play and not the type of specific knowledge required [under *Tiffany*] to impose contributory infringement liability upon an online service provider.” In opposition, Spy Phone relies upon *Inwood Labs*, *Akanoc*, and *Tiffany* in stating that it has sufficiently pled a contributory trademark infringement claim to survive a motion to dismiss, and that it would be premature to dismiss before discovery on Google’s defense that it lacked knowledge of actual infringement.

101. *Id.* at 1.
102. *Id.*
103. *Id.* at 3, ¶ 11-14.
104. *Id.* at 3, ¶ 16.
105. *Id.* at 2, ¶ 9.
agreed not to initiate any new litigation against each other concerning matters covered by the MoU, and the platforms committed to disclose, upon request, relevant information, including the identity and contact details of alleged infringers and their user names insofar as is permitted by applicable data protection laws.106 Only those stakeholders who sign the MoU can take advantage of the procedures set out therein.

The MoU appears to be successful. The signatories have extended the MoU each year, and it remains in effect.107 Various stakeholders continue their dialogue and meet regularly to oversee the MoU under the auspices of the EU.108 Additional stakeholders have signed the MoU as the EU welcomes new companies to join the fight against the online sale of counterfeit goods.109 In a 2013 report, the Commission noted that, despite the expense to rights owners of maintaining a monitoring program, rights owners have reported that the notice-and-takedown procedures have been working well on the websites of the Internet platforms covered by the MoU.110 The stakeholders are working on appropriate key performance indicators to measure its impact.111

In the United States, the 2011 Annual Report to Congress of the White House Office of the U.S. Intellectual Property Enforcement Coordinator (“IPEC”) outlined the Obama Administration’s approach of encouraging the private sector, including ISPs and credit card companies, to reach voluntary agreements to secure the supply chain and dramatically reduce online infringement.112

In June 2011, major credit card companies and payment processors, including American Express, Discover, MasterCard, PayPal, and Visa, reached an agreement on voluntary best practices designed to withdraw payment processing services from websites that sold counterfeit and pirated goods.113 In January 2012, the International AntiCounterfeiting Coalition (“IACC”)

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106. Id. at 3, 5, ¶¶ 10, 29.
108. Id.
111. See Memoranda, supra note 107.
113. Id. at 6.
launched the Payment Processor Initiative, called RogueBlock, designed to cut off the ability of rogue sites to transact with U.S. consumers. Major credit card companies and IACC members work together through RogueBlock’s streamlined process to allow “rights-holders to report online sellers of counterfeit goods directly to credit card and payment processing networks,” resulting in the termination of merchant accounts.

The RogueBlock initiative may have developed out of concern by payment processors that they could be liable for contributory trademark infringement. As a cross-industry initiative, RogueBlock is a cost-efficient and increasingly successful process to terminate merchant accounts and reduce online counterfeiting. Since the launch, forty-five brands and nine payment processors have joined the program, and together they terminated 4,679 individual merchant accounts.

Other noteworthy examples of voluntary agreements aimed at stemming online counterfeiting are: (i) a September 2010 MoU between LVMH and Rakuten (Japan’s biggest online retailer); (ii) a December 2011 MoU between Coach and Taobao (China’s largest consumer-to-consumer online marketplace), which was subsequently renewed in December 2013; (iii) an October 2013 MoU between Louis Vuitton and Taobao; and (iv) an August 2013 MoU between the IACC and Taobao. Each of these MoUs is confidential and their terms remain undisclosed to non-signatories.

In the most telling sign yet of a truce between trademark owners and online marketplaces, in 2014, both L’Oreal and LVMH announced settlements of their respective lawsuits filed in Europe


against eBay for contributory liability. In January 2014, L’Oreal and eBay announced the settlement of their long-running dispute over the sale of counterfeit goods on the online marketplace that spanned five European countries and resulted in a decision of the Court of Justice of the European Union.\textsuperscript{122} In July 2014, LVMH and eBay announced the global settlement of their large litigation over the sale of counterfeits on eBay.\textsuperscript{123} A joint statement stressed that the parties have engaged in “a cooperative effort to protect intellectual property rights and combat counterfeits in online commerce,” and that “thanks to the cooperation measures put in place, the companies have settled ongoing litigation.”\textsuperscript{124}

In what might first appear to be a divergence from this era of cooperation, in July 2014, the fashion brands of the Kering Luxury Division (which includes Gucci), filed a complaint in New York against the Alibaba group of companies and the merchants selling the alleged counterfeits on Alibaba-owned online marketplaces, including Taobao.\textsuperscript{125} The third of eleven causes of action claimed contributory trademark infringement against just the Alibaba defendants.\textsuperscript{126} Just two weeks later, the plaintiffs filed a voluntary dismissal against the Alibaba defendants, with the action continuing against the online merchant defendants.\textsuperscript{127} In August 2014, Kering and Alibaba announced a willingness to “work together in good faith through the normal business process on ways to enhance intellectual property protection . . . and ensure[ ] a healthy and vibrant e-commerce ecosystem for consumers, merchants, and brand owners alike.”\textsuperscript{128} The spirit of cooperation online continues for now.

The sheer size and scope of Alibaba’s Taobao marketplace will be the enforcement challenge for brands for the near future. Taobao is one of the 10 most-visited sites globally, claims over 500 million registered user accounts, and has 800 million product


\textsuperscript{123} SA Louis Vuitton Malletier v. eBay Inc., & eBay Int’l AG, Docket No. 08/12820 (Court of Appeal of Paris, Pole 5 – Div. 2, Sept. 3, 2010); Rosemary Feitelberg & Paulina Szmydke, LVMH, eBay Settle Dispute, Women’s Wear Daily (July 18, 2014).

\textsuperscript{124} Feitelberg & Szmydke, supra note 123.


\textsuperscript{126} Id. ¶ 283.


\textsuperscript{128} Rosemary Feitelberg, Samantha Conti & Joelle Diderich, Kering–Alibaba Latest Fakes Case, Women’s Wear Daily (Aug. 12, 2014).
listings at any given time. Recently, the Chinese government has been critical of Alibaba’s failure to deal with counterfeit and low-quality products on Taobao. In January 2015, China’s main corporate regulator, the State Administration of Industry and Commerce (“SAIC”), released a white paper criticizing Alibaba for not doing enough to crack down on the sale of counterfeit products. Another Chinese regulator, the General Administration of Quality Supervision, Inspection and Quarantine (“AQSIQ”), released a report in the same month showing that Taobao had the “worst record among China’s e-tailers for selling counterfeit products.”

United States trade officials, meanwhile, have taken a different approach to counterfeiting on Taobao. Despite expressing increasing concern about the alleged counterfeit products for sale on Taobao, in March 2015, the United States Trade Representative (“USTR”) declined to re-list Taobao on its annual “Notorious Markets” report and list. Alibaba submitted public comments to the USTR and advised that it would introduce a new “three-strike” penalty system on Taobao and a new tiered complaint system for expedited takedowns, and would implement new anticounterfeiting measures, including data mining.

In April 2015, the American Apparel & Footwear Association (“AAFA”) filed complaints against Taobao with the USTR and the U.S. Securities and Exchange Commission claiming that counterfeiting is worsening on Taobao. Responding to the AAFA complaints, a senior representative of the USTR expressed disappointment that Taobao had reversed course on improving its takedown procedures. Despite the cooperation between certain brands and Taobao and pressure from the Chinese and U.S. governments, the sheer scale of counterfeiting on Taobao will test the limits of the post-Tiffany and Akanoc jurisprudence that prevents brands from fully and effectively enforcing their marks against online marketplaces.

133. Id.
134. Id.
135. Id.
VI. CONCLUSION

The decisions in *Tiffany* and *Akanoc* failed to produce any bright-line rules for determining the liability of online intermediaries for the acts of third-party direct infringers. In contributory trademark infringement cases, courts consider a variety of factors, including the extent of control exercised over the instrumentalities of infringement, the proximity between service providers and direct infringers, and whether the defendant has undertaken reasonable remedial measures or, alternatively, acted with willful blindness.

In the absence of clarity from the courts, trademark owners and intermediaries are cooperating to reduce online counterfeiting. Nevertheless, while brands continue to expend tremendous resources monitoring and notifying service providers of rogue merchants and listings, counterfeit merchandise continues to proliferate online. In its current state, contributory trademark infringement is an inadequate cause of action for brand owners to enforce their marks against an intermediary like Taobao. Whether it happens in the courts, in Congress, or through more voluntary agreements, more sharing of the burden between brands and online intermediaries is necessary to combat counterfeiting effectively.