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## **Breakfast at Ebay's** **(Or How Ebay Ate Tiffany's Lunch)**

**By: Jim Astrachan**

I'm taking myself to the woodshed for a good licking. I don't like it, but someone's got to do it. Why? I missed a prediction. Last spring I wrote about Perfect 10's suit against Visa and Mastercard for contributory trademark and copyright infringement. Perfect 10 sued because its photos were stolen and sold by off-shore internet vendors; the infringers accepted Visa and Mastercard to pay for the infringing photos. The Ninth Circuit held that the credit card companies were not liable, and Judge Alex Kozinski blasted the majority in his dissent, writing, "By straining to absolve defendants of liability, the majority leaves our law in disarray." Kozinski obviously felt that Visa and Mastercard had a heavy involvement in the infringement although they did not steal or sell the photos – by allowing use of their cards, they enabled the sellers to profit.

In that column I referred to the *Tiffany v. Ebay* case that had been argued and was awaiting decision in the Southern District of New York, a case where Tiffany sued ebay because counterfeit Tiffany jewelry was sold on that auction site. I wrote, "I'm betting that Judge Kozinski got it very right and his brethren" not so right. The U.S. District Court in Manhattan will very likely refer to the opinion in the Cards case... . I believe it will see it Kozinski's way and slam ebay."

Well, I was half right. *Perfect 10* was cited, but recently the District Court ruled against Tiffany and held that ebay was not a contributory infringer. Oye. The Tiffany case was far more egregious than Perfect 10.

The Court cast the question as who has the burden to police Tiffany's valuable trademarks, and answered that it must be Tiffany and Tiffany only. The Court reasoned that companies like ebay can not be held liable for trademark infringement based solely on their *generalized* knowledge that trademark infringement might be occurring on their web sites.

*Sole* burden; *generalized* knowledge? I think the Court was wrong on both calls. So does Tiffany which appealed the Court's ruling. This gives me one more opportunity to be wrong, and I'll take it by betting (again) that the Second Circuit will see it Kozinski's way or will find that there was sufficient evidence to rule that ebay had more than *generalized* knowledge.

The basis of Tiffany's claim is that ebay, by publishing the ads of persons selling counterfeit Tiffany goods, contributed to the sellers' infringing activities. Generally, the basis for holding an indirect actor liable for trademark or copyright infringement is establishing that the person knew or had reason to know it was engaging in infringing conduct. This result can follow even when someone does nothing to assist the actual infringer in taking the protected work or selling counterfeit goods under someone's mark.

Clearly, ebay had knowledge that people were listing counterfeit goods for sale on its site. Time and time again Tiffany notified ebay of a seller of counterfeit goods and ebay removed those sellers and notified bidders of the removal and why. But the Court held this was merely *generalized* knowledge and was insufficient to establish a duty for ebay to act in any other way. The Court also concluded that ebay had not made itself willfully blind to the infringing activities of site users. Even though ebay may be best situated to stop trademark infringement on its site, the Court in essence held that Tiffany has the sole burden to police the improper use of its marks.

The decision was the easy and risk-free path for the Court to take, but trademark owners alone do not bear the duty to police and stop infringing activity. When the infringing activity becomes known, the burden should and does shift to the facilitator, and ebay should be found to have more than generalized knowledge of how its site is used. Once it becomes aware that its site was a wild, wild, west of infringing activity ebay should be required to become proactive, and not reactive, in its policing efforts. The burden to police must be shared when a site such as ebay facilitates infringement on a grand scale. Costly? Perhaps, but the decision should not be decided on cost. And ebay can absorb the cost or build it into its cost structure.

There are other court decisions that go the other way. Recently, a French Court ordered Ebay to pay \$61 Million in damages to LVMH, Moet, Hennessy, and Louis Vuitton due to counterfeit goods being sold on the site. And that's not all. A German Court, at the behest of Montres Rolex ordered ebay to proactively, and not reactively, prevent its site from being used for the sale of counterfeit goods.

I have to agree with Judge Kozinski, as did the German and French courts, that when an auction site or facilitator knowingly provides a financial bridge between buyers and sellers of pirated works, enabling the transaction to occur and making a handsome

profit on each sale, the facilitator must be held responsible. There is no other way to get ebay and the like to become a good citizen.

Ebay may have summed it up best in its self congratulatory press release which read, "Today's decision is a victory for consumers." Sounds like ebay is saying consumers can still buy all the counterfeit goods they want. On ebay. Wow.

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*James B. Astrachan is the author of The Law of Advertising, published by Matthew Bender-Lexis/Nexis.*