

Assessing Online Auction sites Liability in Trademark Infringement: Principle and Exception

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I. INTRODUCTION

Online auctions have grown to become one of the popular segments of E-commerce.¹ The explosion and popularity of auction markets sites such as eBay or Trade Me² is a clear proof. With low prices and no reserve price especially for high priced items online auction is a privilege choice for customers. All kind of items are proposed allowing sellers to reach myriad of people.³ According to a report of eBay statistics the total amount of sellers on auction sites was 25 million in 2015, in addition the amount of gross merchandise volume sold in 2015 was 82 billion.⁴ Though, this contemporary business medium faces an important drawback- auction fraud.

Unlike what most people visualize, both sellers and buyers can participate in auction fraud for their own benefit.⁵ According to IC3, there are several ways online auction fraud may occur: misrepresentation of a product for sale, non-delivery of merchandise or services sold, triangulation⁶, fee stacking⁷, multiple bidding⁸, and finally skill bidding⁹.

¹ Akeem Aleem, Albert Antui-Boasiako, *Internet auction fraud: The evolving nature of online auctions criminality and the mitigating framework to address the threat, International Journal Of Law, Crime and Justice* 39,(2011)P.140-160

² is the largest Internet-auction website operating in New Zealand. Managed by Trade Me Ltd., the site was founded in 1999 by New Zealand entrepreneur Sam Morgan, who sold it to Fairfax in 2006 for NZ\$700 million. Trade Me price fair, says Morgan, TVNZ News archives, March 6, 2006

³ Byungtae Lee, Hyungjun Cho, Myungsin Chae, Seonyoung Shim, *Empirical Analysis of Online Auction Fraud: Credit Card Phantom Transactions, Elsevier,2009*

⁴ Graig Smith, *By the Numbers:45 Amazing eBay Statistics, August 13,2016, Available at <http://expandedramblings.com/index.php/ebay-stats/>; Accessed September 2016*

⁵ Fei Dong, Sol M. Shatz and Haiping Xu, *Combating Online In-Auction Fraud: Clues, Techniques and Challenges, Computer Science Review, Department of Computer Science, University of Illinois at Chicago. November 2009. P.4*

⁶ Fraudsters purchase items using a stolen credit card, selling the items to uninitiated buyers thereby retaining the cash and transferring the risk of seizure to the end recipient.

⁷charging extra money after an auction is over

⁸ Buyers inflate prices use aliases, which frustrates competitors, then at the last moment the high bids are withdrawn to secure a low bid.

⁹ Sellers or their associates place bids on their own auctions for fraudulent purpose.

These elements put online participants at big risks just as the Internet Complaint Center reported: online auction in one of the top two most dangerous internet crimes.¹⁰ Responding to the threat, The U.S. Federal Trade Commission and 29 states Attorney Generals¹¹ had launched a law enforcement crackdown targeting online auction fraud that led into scammers' assets freezing and the endorsement of consumer education campaign. Also, according to data from law enforcement and consumer protection organizations, fraudulent schemes appearing on online auction websites are among the most frequently reported form of mass-marketing fraud.¹²

In 2005, a study conducted by the OECD revealed the extent of counterfeit products sold on auction sites.¹³ US\$ 200 billion of cross-border trade products are believed to be the result of that practice¹⁴. Online auction websites too often serve as platform to sell or distribute forgeries globally and the reason is that generally speaking, warranties of authenticity and quality are merely existent. The explosion of online marketplace has allowed everything to happen. Trademark owners identify auctions sites as prime responsible for the infringement of their trademarks. Consequently, they have brought lawsuits against number of online business operators in auction such as eBay¹⁵. European companies first opened the door of suits with Montres Rolex SA, L'Oreal, Christian Dior Couture and its subsidiary LVMH Moët Hennessy Louis Vuitton SA to raise the voice about counterfeit fashion goods on eBay¹⁶.

The law on the other side does not provide an easy gateway to the issue. Should an online operator be held liable for selling false items on its site? The practice has proved two things; first that judges prefer to decide case-by-case, second that online operators have won a kind of immunity.

Existing laws offer some guidance, but the courts could end up going any way on the issue¹⁷ as they attempt to balance perhaps the greatest threat to trademark law with a deeply rooted reluctance to hold website operators responsible for the wrongdoings of fraudsters. If courts were to hold that auction sites must seek out infringement on its site, this would increase the strength of trademark holders' rights. Yet, if auction sites had no responsibility for infringement on its site, trademark infringement on the Internet would likely increase, causing more consumer confusion and a decrease in the goodwill of trademarks. A safe harbor will provide balanced protection for online marketplaces, while also guarding trademark owners' rights. Recognizing that society wants to support businesses that contribute valuable services, an answer to the issue would be for online auction sites to work with intellectual property rights holders in regulating infringement.

To understand fraud in online auction, it is convenient to classify the various types of online auction fraud according to the three time periods in which the fraudulent behavior can take place: before, during and after the auction bids. Then, to the infringement of trademark in OAS is given a special focus. On this regard there is a principle and an exception worth discussing. At the end, the article concludes that the issue related to trademark infringement in online auctions shows that the liability or non-liability of auction sites operators lay on the circumstances, if not on the decision of the court ruling case-by-case.

¹⁰ Aicha Abdallah, Mohad Alzaini, Anazida Zainal, "Fraud Detection System: A Survey", *Journal of Network and Computer Applications* 68(2016)90-113, P.17.

¹¹ FTC: "Internet Auction Fraud Targeted by Law Enforcers, Thousands of Consumers Fleeced by Auction Scams", *ftc.gov*; April 30, 2003.

¹² is a scheme that uses mass-communication media – including telephones, the Internet, mass mailings, television, radio, and personal contact – to contact, solicit, and obtain money, funds, or other items of value from multiple victims in one or more jurisdictions

¹³ Eric Schreiner, *the Liability of Online Auction Sites In Trademark Infringement Cases*; May 11, 2008 *ETH ZURICH MAS IP Summer Semester 2008*; P.3.

¹⁴ *Ibid*

¹⁵ Elizabeth K. Levin, *A Safe Harbor for Trademark: Reevaluating Secondary Trademark Liability after Tiffany v. eBay*, *Berkeley Technology Law Journal* 24:1 (2009)."

¹⁶ *Ibid*

¹⁷ *Online Auction Sites and Trademark Infringement Liability*; *Trademarks and Unfair Competition Committee*, 2011,P1-22.

A. Fraud and online auction sites

Aleem and Antui-Bosiako name and describe a number of auction fraud types.¹⁸ Both seller and buyer have their fair share of fraud. The fraudulent behavior can take place before, during and post- auction. It is reported that misrepresentation of items, selling of black market goods and triangulation usually occur before the auctions start. Non-delivery of goods and fee stacking occur after auctions close. Because both pre-auction and post-auction frauds involve offline behaviors that can often easily be noticed by buyers and sellers, investigation of such frauds relies more on real-world evidence than on online prevention and detection mechanisms. However, in-auction fraud happens while transactions are in progress, thus it may occur without leaving direct physical evidence, and worst of all may not even be noticed by the victims¹⁹. Among the forms of online auction fraud, non-delivery of merchandise runs first.

In nutshell and based on the thousands of consumer fraud complaints the Federal Trade Commission receives yearly, those dealing with online auction fraud consistently rank at or near the top of the list. The complaints generally deal with late shipments, no shipments, or shipments of products that aren't the same quality as advertised; bogus online payment or escrow services; and fraudulent dealers who lure bidders from legitimate auction sites with seemingly better deals.

Most complaints involve sellers, but in some cases, the buyers receive more attention. Buyers experience other problems, including: bid siphoning, when con artists lure bidders off legitimate auction sites by offering to sell the same item at a lower price. Their intent is to trick consumers into sending money without proffering the item. That happens when fraudulent buyers submit very high bids to discourage other bidders from competing for the same item and then retract those bids so that people they know can get the item at a lower price. In some cases, a fraudster poses as a buyer and, after placing the winning bid on an item, insists that the seller use a particular escrow service. The escrow service tricks the seller into sending the merchandise and does not send the payment or return the goods to the seller.

In Korean Auction sites online credit card phantom transaction (OCCPT) is particularly predominant²⁰ and damaged the reputation of auction sites. The largest Korean online auction site (www.ebay.co.kr) was once registered for total of transactions 25 percent of credit card phantom transactions.²¹ This situation reflects directly on the evaluation of stock market and undermines consumer trust. The importance of laws not only to regulate this area by bringing fraudsters to justice is paramount.

The case of Nilton Rossoni²² relating to auction fraud on eBay shows the extend of online auction fraud in order to generate awareness. Nilton Rossoni, a Brazilian export businessman living in Florida, ran one of the largest Internet scams in the history of eBay. According to the prosecutors, Rossoni registered and established hundreds of eBay accounts under false credentials. Rossoni used dozens of e-mail accounts from Yahoo, Google and AOL, together with about 60 private postal boxes. Aware that the anti-fraud protection services through eBay are only available to buyers who use PayPal. When buyers complained about non-delivery of merchandises he blamed the post office. According to the Assistant U.S. Attorney Rossoni defrauded a large number of victims to "unjustly enrich himself". He then gathered money for more than 5,500 items but never shipped them. Rossoni averaged about \$130 per fraudulent sale. "When the auction ended, the winning bidders were notified to send payment to the defendant at a private mail box Customers of eBay sent payment to the defendant at 59 different private

¹⁸ *Supra note 149,P.143;types of auction fraud are:(1)non-delivery of merchandise,(2)failure to pay,(3)counterfeit/reproduction,(4)bid shilling;(5)bid shielding;(6)misrepresentation;(7)fee stacking;(8)shell auction/phishing;(9)triangulations/fencing;(10)buy and switch;(11)loss/damage claims*

¹⁹ *Supra note 359*

²⁰ *Byungtae Lee, Hyungjun Cho, Myugsin Chae, Seonyoung Shim,' 'Empirical analysis of online auction fraud: Credit card phantom transactions, Expert Systems with Applications Volume 37,Issue 4,April 2010,P.2991-2999.*

²¹ *Ibid. P.2993.*

²² *Case facts reported by McClatchy-tribune news service: Florida man sentenced in eBay scam; February 3,2010.See also PatrickPretty.com: Nilton Rossini Sentenced To 68 Months In Federal Prison For Colossal EBay Fraud; Elaborate Scheme Featured 59 Mail Drops,260 Bogus Auction Accounts, February 5,2010.*

mailboxes opened in names of multiple aliases during the course of the scheme,” the funds were transferred and deposited in bank accounts under spoof names to be used later for personal expenditure.

From the case examined above, it can be underlined that there are two important points. First, Rossoni carried on the fraudulent transactions and involved in fraudulent auctions on eBay by utilizing 260 bogus accounts. The scammer by doing so exposes once again the threat related to E-transactions fraud Rossoni acted along with his son but he is the actor who initiated the utilization of 260 different auction accounts in order to divert the victims’ assets. Second he was found guilty of mail fraud conspiracy. From 2003 to 2008 stolen identities were used to create e-mail accounts to post goods for auction. He then used prepaid credit cards which required no identification to buy 15 to 20 inexpensive items and posted positive returns on the transactions to lure potential buyers, so he enjoyed using the money to feed accounts open with phony names and never deliver a single order; the perfect prototype of e-transactions fraud.

B. Online Auction sites and Trademark Infringement Liability

Online auction sites are more and more harboring infringements to trademark. It is both a concern for trademark owners and auction sites operators that are often sued by owners of trademarks for court to assess their degree of liability. A study of the OECD²³ in 2005 reported that US\$ 200 billion of international trade products could have been counterfeit or pirated. Online auction websites serve as a platform to sell or distribute forgeries globally where warranties of authenticity and quality are merely existent. It goes without saying that the explosion of online marketplace has allowed everything to happen. Trademark owners identify auctions sites as prime responsible of the infringement of their marks. On this token, the law does not provide an easy getaway.

The main inquiry is whether an auction site operator should be held responsible for what’s going on his platform. Consequently, trademark owners across the globe have brought numerous lawsuits against eBay, the biggest online auction site for trademark infringement on its website²⁴.

European companies first opened the ball with Montres Rolex SA, L’Oreal, Christian Dior Couture and its subsidiary LVMH Moet Hennessy Louis Vuitton SA to raise the voice about counterfeit fashion goods on eBay²⁵. The debate surrounding trademark infringement is fuelled by the way online auction sites facilitates the infringement because of the increment of the online marketplace. Existing law offers some guidance, but the courts could end up going any way on the issue²⁶ as they attempt to balance perhaps the greatest threat to trademark law with a deeply rooted reluctance to hold website operators, responsible for the bad acts of fraudsters.

If courts were to hold that auction sites must seek out infringement on its site, this would increase the strength of trademark holders’ rights without a policy justification for doing so. Yet, if auction sites had no responsibility for infringement on its site, trademark infringement on the Internet would likely increase, causing more consumer confusion and a decrease in the goodwill of trademarks. A safe harbor will provide balanced protection for online marketplaces, while also guarding trademark owners’ rights.

Recognizing that society wants to support companies that contribute valuable services, a statute would require online auction sites to work with intellectual property rights holders in regulating infringement.

²³ *Eric Schreiner, the Liability of Online Auction Sites In Trademark Infringement Cases; May 11, 2008 ETH ZURICH MAS IP Summer Semester 2008; P.3.*

²⁴ *Elizabeth K. Levin, A Safe Harbor for Trademark: Reevaluating Secondary Trademark Liability after Tiffany v. eBay, Berkeley Technology Law Journal 24:1 (2009).”*

²⁵ *Ibid.*

²⁶ *Online Auction Sites and Trademark Infringement Liability; Trademarks and Unfair Competition Committee, 2011, P.1-22.*

C. Magnitude of counterfeiting on online auction sites

Trademark infringement and counterfeiting represent a massive loss in worldwide tax revenue. The sale of counterfeit products over the Internet amounts to more than \$30 billion worldwide and is certain to increase²⁷. This accounts for roughly 10 percent of the total counterfeit market, which is estimated to be around 5 to 7 percent of world trade²⁸. In recent years, Internet auctions have become perhaps the hottest phenomenon on the Web, facilitating a “virtual flea-market” featuring an endless array of merchandise from around the world. They have also become a new distribution channel for counterfeit goods, and the most popular one at that. In 2008 a study by the International Chamber of Commerce (ICC) estimated the global value of all counterfeit goods reached \$650 billion every year²⁹. The same study projected then, that in 2015 the global value of counterfeit and pirated goods would be \$1.77 trillion.³⁰

Virtually all auction sites prohibit the sale of counterfeit and infringing merchandise in their “Terms & Conditions” or “User Agreement” legal pages.³¹ Auction sites generally do not monitor listings to ensure that counterfeit or infringing merchandise is not being offered for sale on their systems operator. This circumstance allows the entry of potential products that infringe trademark all over auction sites. The fact that they are aware of selling infringing trademark products only when a complaint is filed, leaves them with no other choice than facing the consequence. The truth is checklist if adopted would save time and money for numerous auction sites.

Many auction sites investigate complaints brought by trademark owners and as an alternative solution remove addresses from their client lists and cancel sellers’ accounts. Also feedback bulletin boards exist for buyers to post complaints about purchases³². Nevertheless, while biggest auction sites are willing to go through these processes, some of the smaller auction sites often fail to do so and shift responsibility solely to the seller.

Further, ICC 2016 report found that counterfeiting and piracy continue to grow at an astounding rater in spite of increased efforts by the stakeholders, meaning private and public sectors, governments, international government organizations and NGOs.³³ Total international trade in counterfeit goods is estimated to reach \$99 billion by 2022.³⁴ Business Action to Stop Counterfeiting and Piracy (BASCAP) and the International Trademark Association (INTA), hope that better information on how counterfeiting and piracy undermine intellectual property (IP), innovation, economic growth and employment will better enable policymakers to make the fight against IP theft, a higher public policy priority and take the actions needed to prevent the damage inflicted by counterfeiting.

D. OAS short-success responses to counterfeit products

In response to growing concern over counterfeit products on the site, eBay has increased its capacity of response along with regulation to cover complaints of fraud. Specifically, eBay performs a number of anti-fraud activities³⁵ in terms of cooperation with law enforcement during investigations in order to remove illegal items as well as

²⁷*Id.*

²⁸ *Online Auction Sites and Trademark Infringement Liability; Trademarks and Unfair Competition Committee, 2011, P.2.*

²⁹ *ICC, Global Impact Study, available at <http://www.iccwbo.org/Advocacy-Codes-and-Rules/BASCAP/BASCAP-Research/Economic-impact/Global-Impacts-Study/>; accessed February 23,2017*

³⁰ *Ibid*

³¹ *Eric Schreiner, The Liability of Online Auction Sites In Trademark Infringement Cases ; May 11,2008 ETH ZURICH MAS IP Summer Semester 2008;P.3*

³² *Ibid.371*

³³ *ICC, Global Impact Study, available at <http://www.iccwbo.org/Advocacy-Codes-and-Rules/BASCAP/BASCAP-Research/Economic-impact/Global-Impacts-Study/>,accessed February 23,2017.*

³⁴ *Ibid*

³⁵ *Ibid.*

working with intellectual property rights owners to clear allegedly infringing items from the lists of products and more importantly provide users some limited forms of compensation for fraud loss.”³⁶ Accordingly, eBay Inc. the largest auction site has a mechanism termed Verified Rights Owner (“VeRO”), which mainly deals with the complaints raised by intellectual property owners. The VeRO program comes as endorsement to allegedly infringing activities reports and conduct automatic searches for potentially infringing items. It has been argued that the rapid increment of counterfeit sales on eBay hurts legitimate vendors and turns away both buyers and sellers from online marketplaces.

Such initiatives are also observed on Amazon.com, Inc. Indeed, the operator of Amazon.com Auctions³⁷ has instituted the policy that targets infringing products to be removed from the system list and even cancel the seller’s account. However, these initiatives have had a short success for counterfeit and infringing merchandise listings have not stopped.

In an effort to avoid the posting of counterfeit and infringing items on its site Yahoo! Inc., operator of Yahoo! Auctions³⁸ created its Neighborhood Watch Program, which allows users to “review” and report questionable auctions. Unlike eBay and Amazon Auctions, Yahoo! Auctions apparently relies primarily on direct feedback from users. It has also been reported that Yahoo! Auctions uses “bots” to search its site for infringements and will cancel any auctions that appear to violate intellectual property rights³⁹.

European law has tended to protect makers of status and luxury goods. Following this intention a French court ordered in July 2008 eBay to pay \$60.8 million in damages to the French luxury goods company LVMH.⁴⁰ According to LVMH 90 percent of the Louis Vuitton bags and Dior perfumes sold on eBay were fakes. A month earlier, in June 2008, a French court ordered eBay to pay 20,000 euros to Hermes for eBay’s role in the sale of three counterfeit handbags.⁴¹ Additionally and prior to above mentioned cases, in 2007, the Federal Supreme Court of Germany ordered eBay to take preventative measures against the sale of counterfeit goods when Rolex sought damages and an injunction preventing the sale of fake Rolex watches on the online auctioneer.⁴² In all those cases an online auction site was held liable for the sale of infringement products on its site. These decisions change however from many others where liability is denied to online auction site. This circumstance for much, leads trademark owners to seek contributory liability for online auction sites.⁴³ It appears that the question of liability before for the court depends on the circumstances. Despite the current policies adopted by online auction sites and their disparate efforts at policing their systems for infringements, intellectual property owners might argue that more can be done to prevent violations of their rights. On the other hand, auction sites might be reluctant to do more for technically, they are not the items sellers and may not even know if the good infringes trademark owners

³⁶ *Mary M. Calkins, Alexei Nikitov & Vernon Richardson, Mineshafts on Treasure Island: A Relief Map of the eBay Fraud Landscape*, 8 *U. Pitt. J. Tech. L. & Pol’y* 1,

4 (Fall 2008).

³⁷ *Online Auction Sites and Trademark Infringement Liability; Trademarks and Unfair Competition Committee*, 2011, P.3.

³⁸ *Ibid*

³⁹ *Ibid*

⁴⁰ *Elizabeth K. Levin, A Safe Harbor for Trademark: Reevaluating Secondary Trademark Liability after Tiffany v. eBay*, *Berkeley Technology Law Journal* 24:1 (2009).P.3-4.

⁴¹ *Dan Goodin, French court fines eBay for sale of counterfeit handbags*, available at http://www.theregister.co.uk/2008/06/05/eBay_counterfeit_ruling/, June 5, 2008

⁴² *Eric Auchard, EBay dealt blow on fake Rolexes by German court*, *REUTERS*

July 27, 2007

⁴³ See the following section, 2.5.3.3: *Assess Online Auction Sites Liability*. The section highlights cases where an online auction site, Ebay in the eyes of the court should not bear any liability and case that could serve as precedent for trademark owners seeking for contributory liability of an online auction site.

'rights and anticipate the threat of legal action for contributory infringement. Still, a strictly enforced policy may reduce the level of user activity or impose a financial cost on the operators of the auction sites. Virtually all auction sites have crafted their legal terms in efforts to avoid such liability.⁴⁴

II. ASSESS ONLINE AUCTION SITES LIABILITY

Should auction sites be held responsible? Courts have held that online auction sites would only be held responsible of any trademark infringement on the sole condition that the auction site was aware of the violations against the trademark and does nothing to remedy the situation therefore an auction site cannot be directly liable for trademark infringement because the operator of the site does not directly use the trademark, on the contrary to the seller. On the other hands, cases show unsuccessful attempt of trademark owners to apply to OAS the contributory infringement.

A. *Tiffany vs. eBay*

In 2004, Tiffany sued eBay⁴⁵ and alleged that hundreds of thousands of counterfeit jewelry items were offered for sale on eBay's website from 2003 to 2006.⁴⁶ Tiffany attempted to hold eBay liable for "direct and contributory trademark infringement, under the charges of false advertising, trademark dilution and unfair competition. The court decided in favor of eBay on all claims.

Tiffany argued that eBay Tiffany alleges that eBay infringed its trademark in violation of section 32 of the Lanham Act⁴⁷ facilitated and allowed the sale of imitation goods through its website. Tiffany claimed that eBay was on notice that its sellers offered counterfeit Tiffany products on eBay and that eBay thus had the obligation to investigate and control these illegal activities eBay, however, responded that it was Tiffany's burden, as the intellectual property holder, to monitor eBay's website for counterfeits and to bring such counterfeits to eBay's attention. The court applied a knowledge standard that considered not whether eBay could reasonably anticipate

⁴⁴ Trademarks and Unfair Competition Committee Report on "Online Auction Sites and Trademark Infringement Liability", 2009, P.4. See also Elizabeth K. Levin, A Safe Harbor For Trademark: Reevaluating Secondary Trademark Liability After *Tiffany v. eBay*, *Berkeley Technology Law Journal* 24:1 (2009)."

⁴⁵ *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F.Supp.2d 463 (S.D.N.Y.2008) ("Tiffany"). For the Appeal *Tiffany (NJ) Inc. v. eBay Inc.* Docket No. 08-3947-cv.

⁴⁶ *Tiffany filed an Amended Complaint in the Southern District of New York on July 15, 2004:*

Specifically, Tiffany's Amended Complaint asserts the following six causes of action: (1) direct and contributory trademark infringement of Tiffany's trademarks in violation of Section 32(1), 15 U.S.C. § 1114(1), and 34(d), 15 U.S.C. § 1116(d), of the Lanham Act; (2) trademark infringement and the use of false descriptions and representations in violation of Sections 43(a)(1)(A) and (B) of the Lanham Act, 15 U.S.C. § 1125(a)(1)(A) and (B); (3) direct and contributory trademark infringement under common law; (4) direct and contributory unfair

competition under common law; (5) trademark dilution in violation of Section 43(c) of the Lanham Act, 15 U.S.C. § 1125(c); and (6) trademark dilution in violation of New York General Business Law §

⁴⁷ *That section states in pertinent part: Any person who shall, without the consent of the registrant—(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; TTT shall be liable in a civil action by the registrant for the remedies Under subsection (b) the registrant shall not be entitled to recover profits or damages...* 15 U.S.C. § 1114(1)(a)(b). (2) "...the remedies given to the owner of a right infringed ...or to a person bringing an action under section 1125(a) or (d)...shall be limited as follows... injunction against future printing... Where the infringement or violation complained of is contained in or is part of paid advertising matter in a newspaper, magazine, or other similar periodical or in an electronic communication (B) Where the infringement or violation complained of is contained in or is part of paid advertising matter in a newspaper, magazine, or other similar periodical or in an electronic communication... the remedies are limited to an injunction against the presentation of such advertising matter in future issues of such newspapers, magazines, or other similar periodicals or in future transmissions of such electronic communications ...

possible infringement but rather whether eBay continued to supply its services to sellers when it knew or had reason to know of infringement by them.

The game of arguments led the court to apply to the case the test developed by the U.S. Supreme Court in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*⁴⁸ As eBay provided a marketplace for infringement and maintained direct control over that venue, the Inwood test states that liability can be imposed not only if a distributor induces a retailer to infringe a trademark, but also if a company “continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.” The court found, under Inwood although eBay possessed generalized knowledge of counterfeiting on its website, this general knowledge was neither sufficient to impute knowledge to eBay of specific acts of actual infringement nor to impose on eBay an affirmative duty to remedy the situation.

Further, the court found that eBay was not willfully blind to the evidence of counterfeiting on its website, and when eBay had the requisite knowledge of infringement “knows or has reason to know” it took appropriate steps to cut off the supply of its service to the infringer. Tiffany argued that because eBay was able to screen out potentially counterfeit Tiffany listings more cheaply, quickly, and effectively than Tiffany, the burden to police the Tiffany trademark should have shifted to eBay.

The court, however, held that even if it were true that eBay were best situated to prevent trademark infringement, the burden of policing the Tiffany marks rests with Tiffany. “The owner of a trade name must do its own police work” according to the court.

Judge Sullivan rejected eBay’s argument that it was just an online classified advertising venue. Because of the value-added services eBay provides to its sellers and the significant control that eBay retains over transactions on its website, the court found eBay more like an online swap meet than a classified ad service.

On August 11, 2008, Tiffany appealed the district court’s decision to the U.S. Court of Appeals for the Second Circuit that confirms the verdict⁴⁹.

Besides the case, in order to allow an effective enforcement of intellectual property rights, pressure should be put on the auction sites, where infringements occur and extend remedies available.

III. CONTRIBUTORY TRADEMARK INFRINGEMENT BASED ONLINE ACTIVITY

Courts were asked by trademark plaintiffs to apply contributory trademark infringement to the Internet. To date, there have been no decisions that have addressed, head-on, the application of secondary trademark liability to online auction sites⁵⁰. Nevertheless, the following cases will likely serve as precedent for such a determination.

A. Case of Gucci America, Inc. vs. Mindspring Entrs., Inc. et al.

In this case,⁵¹ the owner of the GUCCI trademark sued the owner of a website that sold counterfeit Gucci products on the site, as well as the site’s Internet Service Provider (“ISP”), Mindspring. Mindspring brought a motion to dismiss based on the Lockheed⁵² court’s refusal to extend secondary liability for domain name squatting to the

⁴⁸ *INWOOD LABORATORIES, INC., ET AL. Vs. IVES LABORATORIES, INC.* 456 U.S. 844 (1982) *The court found, under Inwood, that although eBay possessed generalized knowledge of counterfeiting on its website, this general knowledge was neither sufficient to impute knowledge to eBay of specific acts of actual infringement nor to impose on eBay an affirmative duty to remedy the situation*

⁴⁹ *Ibid* 388; *The appeal court after further observations affirms the judgment of the district court with respect to the claims of trademark infringement and dilution and returns the case to the district court for further proceedings with respect to Tiffany’s false advertising claim.* P.93&114.

⁵⁰ *Online Auction Sites and Trademark Infringement Liability; Trademarks and Unfair Competition Committee, 2011, P.5*

⁵¹ *135 F.Supp.2d 409 (S.D.N.Y. 2001).*

⁵² *Lockheed Martin Corp. v. Network Solutions, Inc., the court rejected the plaintiff’s contributory trademark infringement claim against the defendant, the domain name registrar with which the infringing domain name was*

name registrar. The Court denied the motion, reasoning that a domain name registrar's "role in the Internet is distinguishable from that of an Internet service provider whose computer provides the actual storage and communications for infringing material, and who therefore might be more accurately compared to 'the flea market vendors'. In this case, the key factor for determining whether a party will be held secondarily liable as a contributing infringer is the degree to which it can control and monitor the activities of the infringing party. In *Gucci*, the court found that Mindspring, an ISP, was akin to a flea market operator because it provided, "the actual storage and communications for infringing material," just as the flea market operator provides the physical location and the selling environment to the vendor trading in counterfeit goods. A flea market operator can prevent the sale of counterfeits by prohibiting them from being sold at its site or denying access to a vendor altogether. At final the court held the decision that the Internet Service Provider can prevent the infringing conduct by monitoring sites using its services or terminating service to wrongful parties accused of selling counterfeits.

B. Case of Ford Motor Co. v. Greatdomains.Com, Inc.

In this case,⁵³ the plaintiff, owner of various marks such as FORD, brought an action under the Anticybersquatting Consumer Protection Act ("ACPA")⁵⁴ against registrants of domain names incorporating its trademarks, as well as against the defendant, an online auctioneer of domain names, for contributory trademark infringement. In the first sentence of this opinion, the Court analogized the defendant to eBay and stated that the defendant, "rather than offering a forum for whatever objects cyber-merchants might wish to sell it specializes in auctioning Internet domain names by providing a marketplace for buyers and sellers of domain name for which it receives a fixed percentage of the price. of any domains sold over its Website."

In support of its contributory trademark infringement claim against the defendant, the plaintiff argued that the "flea market" analysis should also apply in this case because the defendant provided "the necessary marketplace" for the alleged cybersquatting. Nevertheless, the Eastern District of Michigan declined to extend this "flea market" analysis to cybersquatting cases because of the heightened standard of "bad faith intent" required by the ACPA. The Court then explained that because an entity such as Great Domains generally could not be expected to ascertain the good or bad faith intent of its vendors, contributory liability would apply, if at all, in only exceptional circumstances.⁵⁵

Nevertheless, *Great Domains* may be used to support the argument that in a "regular," non-ACPA, contributory trademark infringement action, awareness by the operator of a website that infringing materials are being sold or auctioned via the site would be sufficient for a finding of contributory infringement.

A review of Internet-related case law dealing with contributory trademark liability suggests that an online auction site may be more comparable to the ISP in the *Gucci* case. online auction sites likely fall somewhere near or possibly further to the right of even the ISP depending on the specific facts of in a given case. And, arguably, online auction sites are more like flea market operators.

In the trademark context, the question today is one of enforcement in combating e-transactions fraud but underneath lays the fundamental question of exclusive or open use of trademarks on the internet. So far, extending trademark rights to all users of a protected trademark on the internet has been squarely rejected.⁵⁶ The court case-by-case decisions based on the circumstances is not always in favor of the trademark owners who in most of infringement case hold online auction operators liable. The guess is both online auctions sites and trademarks owners should find the way to regulate the market through policy and regulation and fight in the process the

registered. The court explained that the defendant's role was limited to registering a domain name and connecting it with an IP address, not its use in commerce and, therefore, its conduct was too far removed from the actual infringing conduct. Lockheed, of course, was not an action brought against a website owner or operator. 985 F. Supp. 949 (C.D. Cal. 1997), aff'd, 194 F.3d 980 (9th Cir. 1999).

⁵³ 177 F.Supp.2d 635 (E. D. Mich. 2001).

⁵⁴ 15 U.S.C. § 1125(d).

⁵⁵ *Ibid.* 396

⁵⁶ *Katja Weckstrom "Liability for Trademark Infringement for Internet Service Providers" Volume 16/Issue1, Article 3, University of Turku, Finland P.50.*

common threat rather than throw the stone to one another and make government contribute to the implementation. As to tie to the study, violators should be entitled by the law to more stringent remedies.⁵⁷

IV. CONCLUSION

Fraud and counterfeit on online auction sites are threats to contemporary online commercial and financial interactions. The issue related to trademark infringement in online auctions shows that the liability or non-liability of auction sites operators lay on the circumstances. The least we can say is until today, besides the applicable laws, no court has definitely and directly established the responsibility of auctions sites operators. We hope more stringent rules will rise within States regulations in order to considerably compensate victims of such practices.

⁵⁷ *See the objective of the present study*