Following up on the last column, which reviewed legal conflicts over trademarks as keywords for targeted ads and dealt with a trademark infringement case between Louis Vuitton and Google, today I want to introduce an interesting question about the responsibility of online auctioneers – eBay in particular – for stopping unauthorized sales of trademarked materials or of their knockoffs.

Readers may recall that the issue of responsibility of an online purveyor of information was the subject of two key rulings from the early days of networked computing:

- In Cubby v. CompuServe< http://www.loundy.com/CASES/Cubby_v_CompuServe.html >, the plaintiff argued that the value-added network (VAN) CompuServe (a privately-owned precursor of what we take for granted on the Internet today) was liable for libelous information posted in a “forum” (equivalent to today’s blogs). The court ruled in essence that because CompuServe never asserted any authority over the contents of the privately-run forums, it could not be held liable for the libel. In this sense, the VAN was treated as legally equivalent to a common carrier such as a phone company, or to distributors such as newsstand operators.< http://www.cyberlibel.com/liabilit.html >

- In Stratton Oakmont v. Prodigy< http://www.internetlibrary.com/cases/lib_case80.cfm >, the plaintiffs sued a similar VAN, Prodigy Services Company. However, in this case, Prodigy made a specific claim of responsibility for the content of its “family-friendly” service. Failure to abide by its own standards made it liable for allowing defamatory postings to have persisted on its service.

EBay has always cooperated with any trademark holder which tells it to stop an auction that violates its rights. The issue in the eBay cases reviewed below revolves around whether the company is responsible for finding all those violations itself.

In a reversal of the usual Latin admonition, CAVEAT EMPTOR warning buyers to beware, U.S. District Judge Richard Sullivan of the US District Court for the Southern District of New York ruled against Tiffany & Co and in favor of eBay in July 2008. Tiffany had argued that eBay should be responsible for policing all of the auctions hosted on its site for any possible infringements of its trademarks.< http://www.eff.org/files/filenode/tiffany_v_ebay/tiffany-v-ebay-dct.pdf >

Hailed by the Electronic Frontier Foundation as a triumph for consumer protection< http://www.eff.org/deeplinks/2008/07/tiffany-v-ebay-court-rejects-tiffanys-expansive-tr >, the ruling asserted that there was nothing wrong with advertising legitimate Tiffany goods using their own trademark. Senior Intellectual Property Law attorney Michael Kwun, commenting for the EFF, wrote, “So long as you don’t confuse consumers about the source of goods and/or suggest a mark owner endorses your activity, you’re free to use a trademark accurately to describe products made by the trademark owner….”
As for the sale of fake Tiffany materials on eBay, the judge rejected the notion that it was entirely the auctioneer’s responsibility to identify such frauds. When notified of specific frauds, eBay quickly stopped the auctions; in addition, according to a report by Linda Rosencrance of Computerworld<http://www.networkworld.com/news/2008/081808-minding-online-store-a-case.html>, eBay offers “its Verified Rights Owner Program, or VeRO, which provides software tools to help companies look for fake goods on its site. More than 18,000 businesses take part in VeRO, eBay said; if a company determines that a seller is peddling counterfeit merchandise, it notifies eBay, which immediately takes down the auction.”

A complicating factor for eBay is that European courts have ruled exactly the opposite way:

- In April 2007, the German Federal Supreme Court in Karlsruhe ruled on a dispute that started in 2001 between Montres Rolex SA and eBay. The plaintiffs accused eBay of failing to prevent auctions of fake Rolex watches online. The court finally returned the case to the Higher Regional Court of Düsseldorf.<http://uk.reuters.com/article/internetNews/idUKN2736988920070727> Attorneys Simon Chapman, Philipp Plog and Cynthia Walden commented, “The Court concluded that if the sellers of fake products act as professional dealers, the platform provider must not only block illegal offerings it is notified of, but generally take all possible measures in order to avoid any future infringements of that kind. The Federal Supreme Court explicitly pointed out that in doing so no undue burden must be put on the defendant that could jeopardise its entire business model. In referring the decision back to the Appellate court in Düsseldorf the Federal Supreme Court nevertheless pointed out that obliging eBay to apply specific software in order to filter out obvious infringements by using key words and, as a second step, to manually check the results of this filtering process would not present an undue burden for the platform. Also, according to the judges, an extremely low reserve price of the seller of less than 800 Euros for an alleged ROLEX watch may trigger an obligation for eBay to act. The Appellate court will now have to decide if the ascertained infringements were ‘obvious and clear’ and what kind of preventive measures may be considered as ‘technically possible and reasonable.’”

- In June 2008, Hermes won a court case in France brought by Hermes, which objected to sales of two counterfeits of its bags; the fine against eBay was €20K.<http://www.forbes.com/2008/06/09/ebay-counterfeit-hermes-tech-enter-ex_vr_0609ebay.html>

- Later in June 2008, the Tribunal de Commerce in Paris ruled that eBay owed several plaintiffs the equivalent of U$61M for “gross misconduct and detrimental breach” in failing to prevent the auctions of perfumes by Christian Dior, Guerlain, Givenchy and Kenzo (limited by contract to sale through licensed outlets) and the sale of counterfeits of products bearing trademarks by Louis Vuitton and Christian Dior.<http://www.computerworld.com/action/article.do?command=viewArticleBasic&amp;articleId=9105158>

Computerworld’s Rosencrance summarized the situation by citing experts who worried that the contradictory rulings from the US and European courts puts eBay and other online sellers in a difficult position; they will likely have to come to a uniform policy that applies worldwide. “Meanwhile,” she wrote, “eBay, which is appealing the European court decisions, said it spends $20 million annually to identify counterfeit goods on its site. That figure would likely increase substantially if eBay were forced to take on more responsibility for rooting out sales of fake
products. And the company probably would have to change the way it handles counterfeiting across the board, not just in those two countries.”

But in any case, as the Latin in today’s title indicates, it is necessary for both merchants and sellers to beware.

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M. E. Kabay, PhD, CISSP-ISSMP <mailto:mekabay@gmail.com> specializes in security and operations management consulting services. CV online.<http://www.mekabay.com/cv/>

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