1-1-2011

The eBay Trademark Exception: Restructuring the Trademark Safe Harbor for Online Marketplaces

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I. INTRODUCTION

The use of the Internet as a global mega-mall/auction house with infringing and counterfeit goods sold routinely raises many concerns with trademark owners and Internet auction sites alike. As a result of the growth of the sale of counterfeit goods online, Internet auction sites, such as eBay, have developed policies which attempt to curtail the sale of infringing merchandise. Despite these efforts, Internet auction sites remain a preferred distribution channel for infringing and counterfeit goods online. Predictably, these sites have been subject to trademark infringement suits for counterfeit articles sold by users of their services. While a few cases cite direct trademark infringement, the primary theory of liability advanced by trademark holders against these Internet auction sites is secondary trademark infringement. However, the rules for determining liability for secondary trademark infringement against these Internet auction sites are ambiguous at best. To date, no Internet auction site has been held liable in the United States under secondary liability theories of trademark infringement. Notwithstanding the analysis by courts reviewing these cases has been inconsistent, providing little guidance on the application of the standards for secondary liability under the Lanham Act.

This Article argues for revisions to the Lanham Act that will establish a principled scheme for liability. First, the Article discusses the development of the counterfeit trademark market online and provides a brief synopsis of the major Internet auction sites’ response to the developing counterfeit market. Second, the Article provides an overview of the current legal framework for establishing secondary liability for trademark infringement. Next, the Article discusses
II. COUNTERFEIT SALES STATISTICS AND INTERNET AUCTION RESPONSES

Trademark infringement and counterfeiting online accounts for roughly $30 billion of lost revenues annually. Roughly ten percent of the total counterfeit market, which is estimated to be around five to seven percent of world trade, occurs online. Based on these statistics, Internet auctions have undoubtedly become the most popular distribution channel for counterfeit goods. Indeed, a report from the National Fraud Information Center indicates that Internet auctions are amongst top reported fraud online in 2007. In 2008, one in four

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1. A “counterfeit mark” is defined by the Lanham Act as “a spurious mark which is identical with, or substantially indistinguishable from, a registered mark.” 15 U.S.C. § 1127 (2006). Similarly, the Trademark Counterfeiting Act of 1984 defines a counterfeit mark as:

   [A] spurious mark – (i) that is used in connection with trafficking in goods, services . . . (ii) that is identical with, or substantially indistinguishable from a mark registered on the principal register . . . (iii) that is applied to or used in connection with [those] goods or services . . . (iv) the use of which is likely to cause confusion, . . . mistake, or to deceive . . . .


2. See Comm. on Trademarks and Unfair Competition, Online Auction Sites and Trademark Infringement Liability, 58 THE REC. 236, 238 (2003), available at http://www2.nycbar.org/Publications/record/spring%202003.pdf [hereinafter Online Auction Sites].

3. Id.


complaints received by the Internet Crimes Complaint Center involved Internet auction fraud.6

In recognition of these statistics, major online auctioneers adopted policies that prohibit the sale of counterfeit merchandise on their sites.7 In addition to these policies, many online marketplaces8


7. **See Online Auction Sites, supra note 2** (“[A]nticipating the threat of legal action by trademark owners for secondary infringement, virtually all auction sites have crafted their legal terms in efforts to avoid such liability”). Table 1 below summarizes the major auction sites’ policies regarding the sale of counterfeit goods and intellectual property rights.

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### Table 1. Auction site policies on counterfeit goods and intellectual property rights

<table>
<thead>
<tr>
<th>Site</th>
<th>Sale of Counterfeit Goods Policy</th>
<th>Intellectual Property Rights Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>eBay</td>
<td>Counterfeit item listings may be ended only by eBay, and the seller may be subject to a range of other actions including restrictions of the buyer's buying and selling privileges and suspension of his account. See User Agreement, EBAY (Sept. 5, 2010), <a href="http://pages.ebay.com/help/policies/user-agreement.html">http://pages.ebay.com/help/policies/user-agreement.html</a> (Abusing eBay).</td>
<td>Verified Rights Owner (VeRO) Program allows rights owners to report infringing goods. Reported infringing goods are removed from the site. See Your User Agreement, EBAY (Sept. 7, 2010), <a href="http://pages.ebay.com/help/policies/user-agreement.html">http://pages.ebay.com/help/policies/user-agreement.html</a> (Abusing eBay).</td>
</tr>
<tr>
<td>Bids</td>
<td>Bids.com may immediately issue a warning, temporarily suspend, indefinitely suspend or terminate your access to the Site and refuse to provide services to you. (a) If you breach this User Agreement or the documentation it incorporates by reference; (b) if Bids.com is unable to verify or authenticate any information you provide to Bids.com; or (c) if Bids.com believes that your actions may cause legal liability for you, other Bids.com users, or Bids.com. See Accept and Purchase Agreement, Bids.com, § 5.2, <a href="https://checkout.bids.com/site/100/content/terms">https://checkout.bids.com/site/100/content/terms</a> (last visited Sept. 23, 2011).</td>
<td>You shall not upload, post or otherwise make available on the Site any material protected by copyright, trademark or other proprietary right without the express permission of the owner of the copyright, trademark or other proprietary right and the burden of determining that any material is not protected by copyright rests with you. You shall be solely liable for any damage resulting from any infringement of copyrights, proprietary rights, or any other harm resulting from such a submission. By submitting material to any public area of the Site, you automatically grant Bids.com the royalty-free, perpetual, irrevocable, non-exclusive right and license to use, reproduce, modify, adapt, publish, translate and distribute such material (in whole or in part) worldwide and/or to incorporate it in other works in any form, media or technology now known or hereafter developed for the full term of any copyright that may exist in such material. Site accept and Purchase Agreement, Bids.com, § 3.1, <a href="https://checkout.bids.com/site/100/content/terms">https://checkout.bids.com/site/100/content/terms</a> (last visited Sept. 23, 2011).</td>
</tr>
<tr>
<td>Overstock</td>
<td>The site reserves the right to terminate any listing or transaction involving any item that is counterfeit or stolen. See Terms and Conditions, OVERSTOCK.COM (Aug. 11, 2011), <a href="https://bids.overstock.com/termsandconditions/final/4502">https://bids.overstock.com/termsandconditions/final/4502</a> (b) For infringing goods.</td>
<td>The site reserves the right to terminate any listing or transaction involving any item that is counterfeit or stolen. See Terms and Conditions, OVERSTOCK.COM (Aug. 11, 2011), <a href="https://bids.overstock.com/termsandconditions/final/4503">https://bids.overstock.com/termsandconditions/final/4503</a> (Intellectual Property Infringement, Online Conduct).</td>
</tr>
<tr>
<td>Online-Auction</td>
<td>The information a seller provides shall not violate any law, statute, ordinance, regulation (including without limiting these governing expert control, consumer protection, anti-trust, competition, anti-disparagement or false advertising). Auction Policies, ONLINE-AUCTION.COM.</td>
<td>The information a seller provides (&quot;shall not infringe on any third party’s copyright, trademarks, patent, trade secrets, proprietary rights, rights of publicity or privacy&quot;). Auction Policies, ONLINE-AUCTION.COM.</td>
</tr>
<tr>
<td>WebBiz</td>
<td>This website may terminate any auction or use of the service immediately and without notice if (a) We believe that you are not abiding by the general rules of this website; (b) You have repeatedly broken a certain item; (c) You have listed a suspicious item; (d) We believe you to be a non-paying bidder. In most cases when we suspect that play we will suspend your account while we investigate further. If our investigation conclusive then your account will be terminated. See Terms and Conditions, WEBBIZ.COM.</td>
<td>To file a notice of infringement with the web-site, written notice of the infringement activity must be sent to WebBiz. See Infringement Policy, WebBiz.</td>
</tr>
</tbody>
</table>

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8. As used herein, “online marketplaces” is used interchangeably with “Internet
have implemented monitoring programs, fraud filtering technology, and hired staff to periodically search their sites for suspected listings containing counterfeit goods.\(^9\) Despite the adoption of policies that prohibit the sale of infringing and counterfeit merchandise and the efforts at policing their systems for infringements, Internet auctions are still plagued with trademark infringements and the sale of counterfeit goods by end-users.\(^10\)

The continued use of these websites for the sale of counterfeit goods can be attributed to the anonymity of the buyers and sellers,\(^11\) the vast amount of transactions online\(^12\), the short timeframe\(^13\) in which auctions/sales are conducted, and the ability of the end-users to delete one account and immediately post under a different username and email address.\(^14\) These factors provide challenges to both the online marketplaces and the trademark holders’ efforts to hold the end-users liable for direct infringements. Indeed, the anonymity of the end-users and the perceived ineffectiveness of the Internet auction sites’ policies have spurred trademark holders to seek legal actions against the Internet auction site itself under secondary liability theories of trademark infringement.\(^15\)

### III. The Secondary Liability Problem

The application of the standards for secondary liability for trademarks is complicated as it relates to the Internet. United States courts have taken a stance that secondary liability for trademark infringement is only available under the most rigorous standards.\(^16\)

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11. Id. Generally, limited information is collected in order to participate in online marketplaces. See Hi! Ready to Register with eBay?, eBay, http://www.ebay.com/ (click “Register”) (last visited Sept. 27, 2011) (requiring seller to provide first and last name, street address, primary telephone number, email address, user ID and password, and date of birth); see also New User Registration, WEBIDZ, https://www.webidz.com/register.php (last visited Sept. 27, 2011) (requiring seller to provide full name, address, phone number, date of birth, email address, username and password).

12. See Online Auction Sites, supra note 2, at 238-39.


14. See Hi! Ready to Register with eBay?, supra note 11.

15. See infra Part III.A-IV.

16. See infra Part IV.
However, each of the courts that have opined on secondary liability has taken a different approach to reach this conclusion. Neither the Internet auctions nor the trademark holders have any true guidance to determine when liability will attach. As a result, the stakeholders are left to defend against and/or institute actions for trademark infringement.

A. Secondary Liability for Trademark Infringement

While direct infringement and dilution are prescribed in the

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17. See infra Part III.A-IV.

18. The Lanham Act defines infringement as "use in commerce . . . 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." 15 U.S.C. § 1114(1)(a) (2006). To prevail on a trademark infringement claim, a plaintiff must establish that (1) it has a valid mark that is entitled to protection under the Lanham Act; and that (2) the defendant used the mark, (3) in commerce, (4) ‘in connection with the sale . . . or advertising of goods or services,’ (5) without the plaintiff’s consent.

E.g., 1-800 Contacts, Inc. v. WhenU.com, Inc., 414 F.3d 400, 406-07 (2d Cir. 2005) (citation omitted). In addition to the aforementioned, to establish a prima facie case, a plaintiff must show that a defendant’s use of that mark is likely to cause confusion. See 15 U.S.C. § 1114(1)(a). The standard for determining trademark infringement is "likelihood of confusion." See AMF, Inc. v. Sleekcraft Boats, 599 F.2d 341, 348-49 (9th Cir. 1979). A defendant’s use of a trademark in connection with the sale or advertising of a good constitutes infringement if such use is likely to cause consumer confusion as to the source of those goods or as to the sponsorship or approval of such goods. See 15 U.S.C. §§ 1114(1)(a), 1125(a)(1)(A) (2006). In determining whether a particular use is likely to cause consumer confusion, courts look to a number of factors, including: (1) the strength of the mark; (2) the proximity of the goods; (3) the similarity of the marks; (4) evidence of actual confusion; (5) the similarity of marketing channels used; (6) the degree of caution exercised by the typical purchaser; (7) the defendant’s intent; and (8) likelihood of expansion. See Sleekcraft, 599 F.2d at 348-49.

19. The Trademark Dilution Revision Act provides relief to owners of “famous” trademarks who may bring an action for dilution under the Lanham Act. See generally Trademark Dilution Revision Act of 2006, Pub. L. No. 109-312 (2006). Dilution differs significantly from an infringement action in that the owner of the famous mark does not need to prove a likelihood of confusion, but must establish that the mark is indeed famous. See 15 U.S.C. § 1125(c)(1) (2006). Under the Trademark Dilution Revision Act, “a mark is famous if it is widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark’s owner.” 15 U.S.C. § 1125(c)(2)(A) (2006). In determining whether a mark possesses the requisite degree of recognition, the court may consider all relevant factors, including the following: (i) the duration, extent, and geographic reach of advertising and publicity of the mark, whether advertised or publicized by the owner or third parties; (ii) the amount, volume, and geographic extent of sales of goods or services offered under the mark; (iii) the extent of actual recognition of the mark; and (iv) whether the mark was registered. See id. In section 1125 of the Trademark Dilution Revision Act, there are three possible dilution scenarios. First, there is the injury to the value of the mark that is caused by consumer confusion. See § 1125(a). Second, there is the injury that results from the defendant’s use of the mark in a way that detracts from the reputation of the mark, see §
Lanham Act, the Lanham Act does not contain explicit language establishing secondary liability for trademark infringement or dilution.\textsuperscript{20} Despite the absence of explicit language in the Lanham Act, the Supreme Court in \textit{Inwood Laboratories, Inc. v. Ives Laboratories, Inc.}\textsuperscript{21} found that “liability for trademark infringement can extend beyond those who actually mislabel goods with the mark of another.”\textsuperscript{22} Accordingly, when:

[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 manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.\textsuperscript{23}

The Seventh Circuit, in \textit{Hard Rock Cafe Licensing Corp. v. Concessions Services, Inc.},\textsuperscript{24} extended the \textit{Inwood} test and held that the operator of a flea market could be held liable for trademark infringement under secondary liability theories if he knows, has reason to know, or is willfully blind to the infringement occurring on his/her premises.\textsuperscript{25} In \textit{Polo Ralph Lauren Corp. v. Chinatown Gift Shop}, the court attempted to place limits on when a landlord could be held liable for infringing acts of its tenants.\textsuperscript{26} The court opined that, “A landlord is neither automatically liable for the counterfeiting of a tenant, nor is the landlord automatically shielded from liability. The question of liability depends on the circumstances.”\textsuperscript{27}

Specifically, the limit as artfully crafted by the court in \textit{Polo Ralph Lauren} is: once a landlord has actual notice and knowledge of the trademark infringement, the landlord has an obligation to take

\textsuperscript{21}Inwood Labs., Inc. v. Ives Labs., Inc., 456 U.S. 844 (1982).
\textsuperscript{22}Id. at 853.
\textsuperscript{23}Id. at 854.
\textsuperscript{24}Hard Rock Cafe Licensing Corp. v. Concessions Servs., Inc., 955 F.2d 1143 (7th Cir. 1992).
\textsuperscript{25}See generally id. This concept of liability under willful blindness was further expanded in Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 265 (9th Cir. 1996) and Polo Ralph Lauren Corp. v. Chinatown Gift Shop, 855 F. Supp. 648, 650 (S.D.N.Y. 1994).
\textsuperscript{27}See id. at *2.
"reasonable steps to rid the premises of the illegal activity." While the limit of secondary liability after the Polo Ralph Lauren case seemingly suggests that actual notice and knowledge of the infringing activity is necessary to establish liability, in Fonovisa, Inc. v. Cherry Auction, Inc., the Ninth Circuit, citing Hard Rock Cafe, found "willful blindness" sufficient to establish the "knowing" requirement for contributory trademark infringement. Notwithstanding the extension of Inwood, courts have repeatedly and cautiously explained that while the concept of secondary liability is available for trademark infringement, the standards are difficult to satisfy.

When applying contributory trademark infringement to Internet services, the determining factors for liability are the types of services provided. In Lockheed Martin Corp. v. Network Solutions, Inc., the court found the domain name registrar was not liable under a contributory trademark claim for simply registering a domain name that was used to offer infringing products. The court concluded this was too far removed from the actual infringing activity. Similarly, in Ford Motor Co. v. GreatDomains.com, Inc., an action under the Anticybersquatting Consumer Protection Act ("ACPA") against registrants of domain names incorporating its trademarks, as well as against the online auctioneer of domain names, for contributory trademark infringement, the court made a distinction between an auctioneer of domain names and that of an online marketplace:

Rather than offering a forum for whatever objects cyber-merchants might wish to sell, however [Defendant] specializes in auctioning Internet domain names . . . [by] providing a marketplace for buyers and sellers of domain names . . . [for which it] receives a fixed
percentage of the price of any domains sold over its website.\textsuperscript{37}

The plaintiff argued application of the “flea market” analysis used in \textit{Fonovisa} and \textit{Hard Rock Cafe} because the defendant provided “the necessary marketplace” for the alleged cyber squatting.\textsuperscript{38} The Eastern District of Michigan declined to extend this “flea market” analysis to cyber squatting cases because of the heightened standard of “bad faith intent” required by the ACPA.\textsuperscript{39} The court stated, “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.”\textsuperscript{40} While the court in this case did not find the defendant liable for secondary infringement under the ACPA, \textit{Ford Motor} may support the argument in a pure contributory trademark infringement action, that awareness by the operator of a website that infringing materials are being sold or auctioned thereon is sufficient for a finding of contributory infringement.

To the contrary, in \textit{Gucci America, Inc. v. Hall & Associates},\textsuperscript{41} the court found that an Internet Service Provider (“ISP”) role was distinguishable from that of a domain name registrar.\textsuperscript{42} Indeed, the court concluded that an ISP “might be more accurately compared to the flea market vendors in \textit{Fonovisa} and \textit{Hard Rock Cafe}” where liability may attach.\textsuperscript{43} The court found that because the ISP provided “the actual storage and communications for infringing material,” it had the ability to control and monitor the activities of the infringing party, similar to the landlord of a flea market.\textsuperscript{44} And, like the brick and mortar flea market, the ISP can be held liable for contributory trademark infringement.\textsuperscript{45}

The discussion of the major secondary liability cases above illustrates that, the initial focal point of the analysis for secondary liability for Internet services is how closely the service provided resembles a “flea market”. Once the court makes its threshold evaluation, it then commences with the application of the factors

\textsuperscript{38} \textit{See id.} at 646.
\textsuperscript{39} \textit{See id.} at 647.
\textsuperscript{40} \textit{Id.}
\textsuperscript{42} \textit{Id.} at 416.
\textsuperscript{43} \textit{Id.} at 416 (citation omitted).
\textsuperscript{44} \textit{See id.}
\textsuperscript{45} \textit{See id.} at 421-22.
outlined in *Inwood*. It is the application of these factors that continue to provide a somewhat fractured analysis. When is an Internet service so similar to a “flea market” that it warrants treatment like one? And, what requisite level of knowledge or behavior must a service provider have under *Inwood* to be liable? As discussed below, online marketplaces have eliminated the need for the court’s initial discussion of the similarities between the online service and a flea market. Indeed, online marketplaces are in fact virtual flea markets with an infinite abundance of goods, both legitimate and illegitimate for purchase. Thus, rendering the focal point of whether the services can be likened to a “flea market” obsolete. Indeed, an analysis based upon the type of services is equally obsolete in an environment where many types of services are offered by a particular service provider. Many online marketplaces offer auctions, “buy now,” and “direct buy” shopping opportunities. As discussed in section I, these marketplaces have become distribution havens for counterfeit merchandise, despite the efforts of marketplaces.

IV. THE EBAY CASES

eBay, the leading Internet auction site, has proved to be at the heart of claims by trademark holders for infringement. Indeed, two cases involving eBay, *Tiffany Inc. v. eBay, Inc.* and *Hendrickson v. eBay, Inc.*, highlight secondary liability as applied to an online marketplace.

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46. See infra pp. 11-12.

47. “Buy now” is an option available on many auction sites which allows the seller to set a price that any purchaser wishing to bypass the auction can secure the item for the “buy now” price. *E.g.*, *Help*, EBAY, http://pages.ebay.com/help/sell/fixed-price.html (last visited Oct. 2, 2011) (Selling Using a Fixed Price).

48. “Direct buy” is also available where the marketplace itself is the seller and provides the purchaser the ability to purchase directly from the marketplace or from individuals who are using the services. *E.g.*, *Selling at Amazon.com*, AMAZON, http://www.amazon.com/gp/help/customer/display.html/ref=hp nav_dyn?ie=UTF8&nodeId=200306550 (last visited Oct. 2, 2011) (Individual and Pro Merchant Selling Plans).


50. It is important to note that in addition to trademark infringement actions against eBay, unfair competition actions seeking to hold the online marketplace liable for the acts of its users have been lodged. See Gentry v. eBay Inc., 99 Cal. App. 4th 816, 828, 121 Cal. Rptr. 2d 727 (Cal. Ct. App. 2002) (finding eBay not liable for forged autographed sports memorabilia sold on its site under the Communications Decency Act).


As discussed supra in section III.A, Gucci seemingly expanded secondary liability for trademark infringement to ISP and presumably others by requiring the ISP to monitor its sites for potential infringement.53 However, the court in Tiffany, pared back this holding substantially.54 Unlike the Internet cases of the past involving domain name registrars and ISP providing services, Tiffany represented a true parallel between the brick and mortar world and cyberspace—it involved the sale of counterfeit goods at a virtual flea market.55

Indeed, Tiffany represents the first case to apply secondary liability principles to an online marketplace.56 The facts of the case were simple. Tiffany Inc. sought to hold eBay liable for the infringing acts of sellers that used the eBay marketplace to auction and sell counterfeit goods bearing the TIFFANY marks.57 Tiffany alleged that from the period of 2003 to 2006 hundreds of thousands of counterfeit silver jewelry items were offered for sale on eBay’s website.58 Tiffany acknowledged that the individuals responsible for listing and selling the items were the infringers but argued nevertheless that eBay had an obligation to investigate and control the counterfeit sales of Tiffany’s precious jewelry in the coveted blue boxes.59 Tiffany specifically outlined eBay’s duty as one that required eBay to: (1) preemptively refuse to post any listing offering five or more items; and (2) immediately suspend a seller upon learning of Tiffany’s belief that the seller had engaged in potentially infringing activity.60

Contrary to Tiffany’s assertions, eBay contended that it had no obligation to monitor its site for counterfeits, but rather Tiffany had

54. See infra pp.11-12. See also Tiffany, 576 F. Supp. 2d 463.
55. See Tiffany, 576 F. Supp. 2d at 507.
56. While Tiffany is the first U.S. case to consider the question of secondary liability’s application to an online marketplace, several European courts have ruled on this issue. See, e.g., Tribunal de Commerce [Comm.] [Commerce Tribunal] Brussels, July 31, 2008, A/07/06032, Lancome Parfums Et Beaute v. eBay Int’l AG. (declining to hold eBay liable for counterfeit cosmetic products sold through its website); see e.g., Tribunal de Commerce de Paris [Commercial Court of Paris], Premiere Chambre B, June 30, 2008, 200677799, SA Louis Vuitton Malletier v. eBay, Inc.. See generally Valerie Walsh Johnson & Laura P. Merritt, Tiffany v. eBay: A Case of Genuine Disparity in International Court Rulings on Counterfeit Products, 1 LANDSLIDE 22, (2008), available at http://www.americanbar.org/publications/landslide_home/intelprop_landslide_VOL1n2.html (surveying European court decisions in trademark infringement cases brought against eBay).
57. See Tiffany, 576 F. Supp. 2d at 469.
58. See id.
59. See id.
60. See id. at 488.
Moreover, eBay pointed to its Verified Rights Owner ("VeRO") program, which provided a mechanism for Tiffany to report sellers who have listed counterfeit items. eBay alleged that it complied with the program and immediately removed listings that were reported.

The court's analysis of the contributory infringement claims of Tiffany was based on the tests articulated by the Supreme Court in *Inwood* and subsequent cases such as *Lockheed Martin* that expanded contributory liability not only to products but services as well. Tiffany, however, proffered another theory upon which liability should be assigned to eBay under the standard of the Restatement (Third) of Unfair Competition § 27. Under the Restatement, a party is liable for contributory trademark infringement when that party "fails to take reasonable precautions against the occurrence of the third person's infringing conduct in circumstances in which the infringing conduct can be reasonably anticipated." The court found that Tiffany's argument was foreclosed by the decision in *Inwood*. The court commented that:

The *Inwood* majority, in response to Justice White’s concurring opinion, explicitly rejected the notion that it was endorsing the "reasonable anticipation" standard, holding that "[i]f the Court of Appeals had relied upon [the reasonable anticipation standard] to define the controlling legal standard, the court indeed would have applied a ‘watered down’ and incorrect standard.

Accordingly, the court stated that its analysis would look first to whether eBay provided the necessary marketplace for counterfeiting and had direct control over the means of infringement. The court looked at whether under the *Inwood* test eBay continued to supply its
services to one whom it knew or had reason to know was engaging in trademark infringement.\footnote{12}

The court found that while eBay definitively provided the marketplace for the counterfeit Tiffany goods and eBay exercised sufficient control and monitoring of its service, eBay was not liable for contributory trademark infringement.\footnote{13} The court reasoned that the standard for contributory trademark infringement was not whether eBay could anticipate possible infringement as indicated by the auctioning of five or more Tiffany items, but rather whether eBay continued to supply its services to sellers when it knew or had reason to know of the infringement by the sellers.\footnote{14} The court further commented that: "[t]he law does not impose liability for contributory trademark infringement on eBay for its refusal to take such preemptive steps."\footnote{15} The court concluded that the result of the application of the legal standards articulated in \textit{Inwood} and \textit{Lockheed Martin} leads to a result where Tiffany must ultimately bear the burden of protecting its trademarks.\footnote{16}

The Second Circuit affirmed the lower court's holding.\footnote{17} In affirming, the Second Circuit made clear that generalized knowledge of infringing activity was insufficient to provide a basis for liability under \textit{Inwood}.\footnote{18} The court looked to the language of the Supreme Court's decision in \textit{Sony Corp. of America v. Universal City Studios, Inc.},\footnote{19} a copyright case, in which the Court compared secondary copyright liability to secondary trademark liability, citing \textit{Inwood}. Indeed, the Court's dicta in \textit{Sony} stated that if the narrow standard for contributory trademark infringement found in \textit{Inwood} governed, there would be little merit in a contributory copyright claim because \textit{Inwood} required either intentional inducement or continued supply of its products to "identified individuals known by it to be engaging in continuing infringement."\footnote{20} The Second Circuit found the dicta to be persuasive in establishing that specific knowledge of the counterfeited goods was necessary to establish liability for contributory trademark

\begin{footnotes}
\footnote{12}{See \textit{id.} at 507.}
\footnote{13}{See \textit{id.} at 463.}
\footnote{14}{\textit{Id.} at 469 (citing \textit{Inwood}, 456 U.S. at 854).}
\footnote{15}{\textit{Tiffany}, 576 F. Supp. 2d. at 470.}
\footnote{16}{See \textit{id.}}
\footnote{17}{\textit{Tiffany, Inc. v. eBay, Inc.}, 600 F.3d 93 (2d Cir. 2010).}
\footnote{18}{\textit{Id.} at 107.}
\footnote{19}{\textit{Id.} at 108-09 (citing \textit{Sony Corp. of America v. Universal City Studios, Inc.}, 464 U.S. 417 (1984)).}
\footnote{20}{\textit{Sony}, 464 U.S. at 439 n.19 (quoting \textit{Inwood}, 456 U.S. at 855) (emphasis added).}
\end{footnotes}
infringement.80

Both the lower court and the Second Circuit’s application of the secondary trademark liability standards, while producing the optimal result for eBay with respect to the secondary liability claims, sidestepped the most important question raised by the case: what is the secondary liability standard? The Second Circuit’s opinion in the case did not provide a clear roadmap that can be followed generally. The discussion was eBay specific, leaving other online marketplaces to ponder whether their practices are sufficient to withstand challenges by other trademark holders. Finally, the Second Circuit articulated a new and troubling standard for willful blindness.81 Specifically, the Second Circuit stated “when [a service provider] has reason to suspect that users of its services are infringing a protected mark, it may not shield itself from learning of the particular transaction by looking the other way.”82

This standard adds even more questions to the analysis of secondary liability. What information leads a service provider to have “reason to suspect” a user of infringing? Is a cease-and-desist notice enough to establish a “reason to suspect”? There is no doubt that this new standard obfuscates the court’s position on general knowledge.

_Hendrickson v. eBay_83 represents yet another eBay case that rejects liability for online marketplaces. Rather than addressing secondary liability, the court looked to an obscure section of the Lanham Act, section 32(2)(B).84 Section 32(2)(B) of the Lanham Act creates a limited safe harbor from trademark infringement for publishers and online providers of content written by another.85 Section 32(2)(B) provides in relevant part:

(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 as defined in section 2510(12) of title 18, the remedies of the owner of the right infringed or person bringing the action under section 1125(a) of this title as against the publisher or distributor of such newspaper, magazine, or other similar periodical or electronic communication shall be limited to an

80. _Tiffany_, 600 F.3d at 109.
81. _Id._ at 109-10.
82. _Id._ at 109.
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. The limitations of this subparagraph shall apply only to innocent infringers and innocent violators.°

In Hendrickson, the owner of the rights to the documentary Manson alleged that eBay and over a dozen other third-party sellers violated its trademark rights under section 43 of the Lanham Act by providing the site and facilities for the distribution of counterfeit copies of Manson. The claim by Hendrickson was premised on a "printer-publisher" liability for trademark/trade dress infringement.° The court in this case held that eBay was an "innocent infringer" within the meaning of section 32(2) of the Lanham Act.°° The court reasoned since the undisputed facts showed that eBay had no knowledge of a potential trade dress violation before Plaintiff filed suit, eBay was an "innocent infringer."°° As such, the Plaintiff was limited to injunctive relief against the future publication or transmission of the infringing advertisements on eBay’s website.°°°

eBay argued further that the plaintiff’s need for an injunction was unnecessary because it had stopped running all the advertisements claimed to be infringing and had no intention of running those advertisements in the future.°°° Notwithstanding the evidence presented by eBay establishing its removal, the plaintiff argued that he was entitled to an injunction that restrained eBay “from any further displaying and or transmitting of any false and or misleading advertisements in connection with the sale/distribution of ‘counterfeit’ MANSON DVD’s via its websites.”°°°° Essentially, the plaintiff asked the court to issue an injunction that would enjoin any and all false and/or misleading advertisements that may be posted on eBay’s website by users in the future, regardless of whether they were

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86. Id. (the “Trademark Safe Harbor”).
87. See Hendrickson, 165 F. Supp. 2d at 1095.
88. See id.
89. See id.
90. See id.
91. See id.
92. See id. See also, e.g., Brown v. Armstrong, 957 F. Supp. 1293, 1302-03 n.8 (D. Mass. 1997) (Lanham Act false advertisement claim for injunctive relief based on false statements in an infomercial was moot where the infomercial had stopped running and there were no plans to air it in the future); Stephen W. Boney, Inc. v. Boney Servs., Inc., 127 F.3d 821, 827 (9th Cir. 1997) (grocery store operator’s claim for declaratory judgment that it had priority in use of trade name was moot where the competitor had announced that it would rename its stores).
the basis of the lawsuit or have been identified by the plaintiff.\textsuperscript{94}

The court held that "no authority support[ed] Plaintiff's position."\textsuperscript{95} "Indeed, such an injunction would effectively require eBay to monitor the millions of new advertisements posted on its website each day and determine, on its own, which of those advertisements infringe Plaintiff's Lanham Act rights."\textsuperscript{96} As the court previously noted, "no law currently imposes an affirmative duty on companies such as eBay to engage in such monitoring."\textsuperscript{97}

The courts in both Tiffany and Hendrickson answered two essential questions that were fundamental in a secondary liability context: (1) were the actions/inactions of eBay sufficient to hold it liable for the direct infringement and (2) was it just and prudent to hold eBay liable based upon their actions/inactions.\textsuperscript{98} While both of these questions were answered in the negative\textsuperscript{99}, the underpinnings for the courts' answers to the two basic questions are economics—who is in the best position to determine infringement and will innovators cease to create new media if they are potentially liable for the actions of the end-users? It is important to highlight the economic undertones of the eBay cases for two reasons. First, the modern view of trademark protection is to promote economic efficiency\textsuperscript{100} and to provide an incentive to business to continue to develop the goodwill in their products and services.\textsuperscript{101} Second, in order to continue to justify the secondary liability doctrine, the courts in these cases appear to reach for economics. In doing such, as poignant as the

\textsuperscript{94} Id.
\textsuperscript{95} Id.
\textsuperscript{96} Id.
\textsuperscript{97} Id.
\textsuperscript{98} The application of secondary liability in the trademark context is markedly different from its application in the copyright context. It is my position that the differences are not insomuch as the origin of the two bodies of laws which have been used as justifications—copyright founded in the United States Constitution while Trademark has pure common law origins—but rather is more logically different because of the courts willingness to look at economics in the trademark context and the ending result of a ruling of secondary liability without compelling circumstances. Indeed the questions asked by the courts in the trademark context are precisely the same as those in the copyright context. See Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 435 (1984) ("[T]he concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.").
\textsuperscript{99} See, e.g., Hendrickson, 165 F. Supp. 2d at 1093-96; Tiffany, 576 F. Supp. 2d 463, 505-08.
\textsuperscript{101} Id. at 269-70.
opinions are, they do not provide clear and decisive guidance on standards such that any precedential weight can be given. The effect of these cases is to provide some persuasive value. Indeed, in the lower court’s holding in *Tiffany* the court punts the responsibility of establishing a standard to the legislature. The Second Circuit in *Tiffany* closed the door on the secondary liability claim in its opinion but opened the door for willful blindness claims without any guidance on application of the “new standard.”

**V. COMBATING ONLINE INFRINGEMENT AND COUNTERFEITS ACTS**

Taking its cue from the cases and general statistics on online infringements and counterfeits and the interested stakeholders, Senator Patrick Leahy on September 20, 2010 and subsequently approved by the Senate Judiciary Committee on November 18, 2010. The current version of the COICA authorizes the Attorney General to obtain, upon application to a federal court, injunctions *in rem* against “the domain name” of any Internet site “dedicated to infringing activities.” Under the COICA, an Internet site is “dedicated to infringing activities” if: (a) it is “primarily designed,” has “no demonstrable commercially significant purpose or use other than,” or is “marketed by its operator,” to offer goods and services in violation of the Copyright Act and/or the Lanham Act, and (b) the site is “engaged in” such infringing activities, and those activities, “taken together,” are the “central activities” of the site.

The COICA is a step too far in one direction. The COICA effectively creates a standard for trademarks infringement online that has been embraced by the courts in a copyright context as it relates to new technology. It allows the Attorney General to determine

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103. *Tiffany*, 600 F.3d at 103-10.
104. The overwhelming support for this Bill has come from members of the entertainment industry. *See* Sam Gustin, *Web Censorship Bill Sails through Senate Committee*, WIRED (Nov. 18, 2010), http://www.wired.com/epicenter/2010/11/coica-web-censorship-bill/all/1 (stating the Combating Online Infringement and Counterfeits Act is the latest effort by Hollywood, the recording industry and the big media companies to stem the tidal wave of Internet file sharing).
106. *ld. at 18.
whether infringing activity on a particular website is sufficient to fall within the "dedicated to infringement" requirement of the COICA.\(^\text{109}\) This concept flies in the face of the principles established in *Inwood* and the other leading trademark decisions on secondary liability, which require intent or knowledge and continued supply after knowledge has been received.\(^\text{110}\) The COICA not only parts from the basic principles of secondary liability in the Lanham Act context, but also presents significant First Amendment concerns.\(^\text{111}\) As such, it is highly unlikely that the COICA will be enacted, and thusly never address the problem for which it seeks to remedy.

**VI. RECOMMENDATION AND FUTURE DIRECTION**

The cases involving eBay, while they are less than optimal in providing guidance, when coupled with existing provisions of the Lanham Act, establish a roadmap for secondary trademark-liability reform. This reform has the advantage of the "lessons learned" from the implementation of the Digital Millennium Copyright Act ("DMCA") and has the ability to be structured in a manner that avoids the pitfalls of the DMCA. It is important to note that while this paper focuses on Internet auctions and online marketplaces, the revisions define "Internet Intermediaries" which encompasses Internet Auctions as well as additional third-parties in an effort to provide all covered entities a safe harbor.

**A. The Recommendations for Safe Harbor Expansion**

In reviewing the case law, the Lanham Act and the COICA, it is clear that the revisions to the Lanham Act are necessary to provide certainty to online marketplaces and other third-party intermediaries as to their liability for infringing activity contained on their sites. This certainty is necessary to ensure the continued development of new technologies and their uses to serve the ever-growing cyber-savvy consumer. While the decisions in the eBay cases establish persuasive authority that online marketplaces should not be held liable,\(^\text{112}\) clear standards for a safe harbor for Internet intermediaries that expands the

\(^{109}\) See S. 3804, 111th Cong. § 2, 18 (2010).


\(^{111}\) See generally Zoe Argento et al., *The COICA Internet Censorship and Copyright Bill, ELECTRONIC FRONTIER FOUNDATION* (Nov. 16, 2010), https://www.eff.org/coica (follow Law Professors' Letter Opposing COICA hyperlink) (discussing First Amendment implications).

innocent infringer concept to encompass those intermediaries that have a viable notice and takedown system will provide the guidance that is required.

Section 32(2)(B) of the Lanham Act reads as follows:

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 as defined in section 2510(12) of title 18, the remedies of the owner of the right infringed or person bringing the action under section 1125(a) of this title as against the publisher or distributor of such newspaper, magazine, or other similar periodical or electronic communication shall be 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. The limitations of this subparagraph shall apply only to innocent infringers and innocent violators. 113

i. Proposed Revisions

(4) An Internet intermediary shall not be liable for monetary relief, or, except as provided in subsection 2(B), for injunctive or other equitable relief, for infringement of trademark if the Internet intermediary:

(A) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;

(ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or

(iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material; and

(B) upon notification of claimed infringement as described in paragraph (5), responds expeditiously to remove, or disable

access to, the material that is claimed to be infringing or to be the subject of infringing activity and provide verifiable information on the user conducting the infringing activity, including but not limited to verifiable contact information, Internet Protocol address and any other such information collected by Intermediary.

(5) Elements of Notification

To be effective under this subsection, a notification of claimed infringement must be a written communication provided to the designated agent of the Internet intermediary that includes substantially the following:

(A)

(i) A physical or electronic signature of a person authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

(ii) Identification of the trademark claimed to have been infringed, or, if multiple trademarks at a single online site are covered by a single notification, a representative list of such infringements at that site.

(iii) Identification of the material that is claimed to be infringing or to be the subject of infringing activity and that is to be removed or access to which is to be disabled, and information reasonably sufficient to permit the Internet intermediary to locate the material.

(iv) Information reasonably sufficient to permit the Internet intermediary to contact the complaining party, such as an address, telephone number, and, if available, an electronic mail address at which the complaining party may be contacted.

(v) A statement that the complaining party has a good faith belief that use of the trademark is not authorized by the trademark owner, its agent, or the law.

(vi) A statement that the complaining party has reviewed Section 1115(b)(4)-(5) and has a good faith belief that the use of the
trademark does not constitute a fair use and

(vii) A statement that the information in the notification is accurate, and under penalty of perjury, that the complaining party is authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

(B)

(i) Subject to clause (ii), a notification from a trademark owner or from a person authorized to act on behalf of the trademark owner that fails to comply substantially with the provisions of subparagraph (A) shall not be considered under paragraph (A) in determining whether an Internet intermediary has actual knowledge or is aware of facts or circumstances from which infringing activity is apparent.

(ii) In a case in which the notification that is provided to the Internet intermediary's designated agent fails to comply substantially with all the provisions of subparagraph (A) but substantially complies with clauses (ii), (iii), and (iv) of subparagraph (A), clause (i) of this subparagraph applies only if the service provider promptly attempts to contact the person making the notification or takes other reasonable steps to assist in the receipt of notification that substantially complies with all the provisions of subparagraph (A).

(C) as used in this subsection and subsection 4, the term Internet intermediary means:

(i) Internet access and service providers (ISPs);

(ii) Data processing and web hosting providers, including domain name registrars;

(iii) Internet search engines and portals;

(iv) E-commerce intermediaries, where these platforms do not take title to the goods being sold;

(v) Internet payment systems; or

(vi) Participative networking platforms, which include Internet publishing and broadcasting platforms that do not
themselves create or own the content being published or broadcast.

The proposed revision outlined above adds two additional subsections to section 32. The new sections provide a definitive safe harbor for Internet intermediaries and establish a notice and takedown regime. This notice and takedown process mirrors the provisions in the Digital Millennium Copyright Act with several major distinctions. First, the proposed revision specifically requires that the trademark holder affirm that alleged infringing use does not constitute a fair use under the Lanham Act. The proposed revisions also define notice sufficient to constitute “knowledge” on behalf of the Internet intermediary. Additionally, “Internet intermediaries” is defined.

It is important at this juncture to discuss trademark fair use. The revisions propose to place a requirement that trademark holders affirm that the use as reported in the notice does not constitute a fair use under the Lanham Act. The right to restrict use of a trademark by its owner is limited by a statutory affirmative defense to trademark infringement—fair use. Section 33(b)(4) of the Lanham Act provides a defense for “a use, otherwise than as a mark . . . of a term or device which is descriptive of and used fairly and in good faith only to describe the goods or services.” While a trademark conveys an exclusive right to the use of a mark in commerce, the fair use doctrine permits use of a trademark to describe certain aspects of the user’s own goods. “Where a trademark incorporates a term that is the only reasonably available means of describing a characteristic of another’s goods, the other’s use of that term in a descriptive sense is protected by the fair use doctrine.”

Fair use can be divided into two categories—classic and nominative. Classic fair use generally occurs when a defendant uses a plaintiff’s trademark in order to describe his or her own product.
The use of the trademark “Sweet Tarts” by Ocean Spray to describe the taste of its cranberry juice is a typical example of classic fair use. The language in section 33(b)(4) has been characterized by at least one circuit to require: (1) non-trademark use; (2) descriptiveness; and (3) good faith use.

Nominative fair use occurs when a defendant uses a plaintiff’s trademark to refer to the plaintiff’s product. Developed by the Ninth Circuit in New Kids On The Block v. News America Publishing, Inc., the court generalized a group of cases in which the use of a trademark “[did] not attempt to capitalize on consumer confusion or to appropriate the cachet of one product for a different one.” According to the Ninth Circuit, nominative fair use is available when: (1) the product is not readily identifiable without the use of the trademark; (2) identifying the product, only so much of the mark as reasonably necessary is used; and (3) no sponsorship or endorsement by the trademark holder is suggested by the use. The court also reasoned that a great deal of worthwhile social and commercial discourse would be rendered obsolete if “speakers were under threat of an infringement lawsuit every time they made reference to a person, company or product by using its trademark.” Nominative fair use, coined and developed by the Ninth Circuit, is not a pervasive concept. The Second, Fifth and Sixth Circuits have referenced nominative fair use, but have not treated the classification with as much deference as the Ninth Circuit.

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fair use defense provided he meets the following three requirements.

Id. at 308.

121. See Sunmark, Inc. v. Ocean Spray Cranberries, Inc., 64 F.3d 1055 (7th Cir. 1995) (finding that Ocean Spray’s use of the trademark Sweet Tart to describe its own product’s taste was appropriate under classic fair use principles).


123. New Kids, 971 F.2d at 308.


125. Id. at 308.

126. See id.

127. Id. at 307.


129. See Chambers v. Time Warner, Inc., 282 F.3d 147, 156 (2d Cir. 2002) (noting that the district court had incorrectly applied the Ninth Circuit standard). See also, e.g., Pebble Beach Co. v. Tour 18 I Ltd., 155 F.3d 526, 546 n.13 (5th Cir. 1998) (adopting the Ninth Circuit’s test only in part); Interactive Prods. Corp. v. A2Z Mobile Office Solutions, Inc., 326 F.3d 687, 698 n.6 (6th Cir. 2003) (describing in a footnote why a district court case involving the nominative fair use defense was distinguishable from the case before it); PACCAR Inc., v. TeleScan Techs., L.L.C., 319 F.3d 243, 255 (6th Cir. 2003) (declining to follow the Ninth Circuit’s analysis),
While other circuits have not developed nominative fair use as thoroughly as the Ninth Circuit, the Third Circuit, in *Century 21 Real Estate Corp. v. LendingTree, Inc.*, adopted the nominative fair use classification and modified the Ninth Circuit’s three-factor test. The Third Circuit’s test requires the defendant to show:

1. That the use of plaintiff’s mark is necessary to describe both the plaintiff’s product or service and the defendant’s product or service;
2. That the defendant uses only so much of the plaintiff’s mark as is necessary to describe plaintiff’s product; and
3. That the defendant’s conduct or language reflect the true and accurate relationship between plaintiff and defendant’s products or services.

Procedurally, it is important to note that the defendant is generally responsible for raising and proving an affirmative defense. However, in trademark infringement cases, the circuits are in disagreement as to how the fair use affirmative defense should work in conjunction with the element of likelihood of confusion.

The Ninth Circuit held in *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.* that in nominative fair use cases, the

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130. See *New Kids*, 971 F.2d at 308.

131. *Century 21*, 425 F.3d at 216.

132. Id. at 222.

133. Id.

134. See Roy E. Bowden v. United States, 106 F.3d 433, 437 (D.C. Cir. 1997). The burden of pleading and proving an affirmative defense is on the party asserting it. Id. Accordingly, the plaintiff is under no obligation to anticipate such a defense by stating in the complaint that the defendant’s activities do not satisfy the test for the affirmative defense. Id.

135. Compare *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 328 F.3d 1061 (9th Cir. 2003) (holding that likelihood of confusion bars the fair use defense), overruled by *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111 (2004), and *PACCAR Inc. v. TeleScan Techs., L.L.C.*, 319 F.3d 243, 256 (6th Cir. 2003) (“[A] finding of a likelihood of confusion forecloses a fair use defense”), *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 796 (5th Cir. 1983) (alleged infringers were free to use words contained in a trademark “in their ordinary, descriptive sense, so long as such use [did] not tend to confuse customers as to the source of the goods”), *with Cosmetically Sealed Indus., Inc. v. Chesbrough-Pond’s USA Co.*, 125 F.3d 28, 30-31 (2d Cir. 1997) (the fair use defense may succeed even if there is likelihood of confusion), *and Shakespeare Co. v. Silstar Corp. of America, Inc.*, 110 F.3d 234, 243 (4th Cir. 1997) (“[A] determination of likely confusion [does not] preclude[e] considering the fairness of use.”), *and Sunmark, Inc. v. Ocean Spray Cranberries, Inc.*, 64 F.3d 1055, 1059 (7th Cir. 1995) (finding that likelihood of confusion did not preclude the fair use defense).

136. *KP Permanent*, 328 F.3d at 1072.
likelihood of confusion element was replaced by the nominative fair use three-factor test. The Supreme Court subsequently reversed the Ninth Circuit's opinion, finding that based on the plain reading of the Lanham Act, Congress placed the burden on the plaintiff to prove likelihood of confusion as one of the main elements of a trademark infringement claim. Moreover, the Court opined that because Congress was silent about confusion when discussing the fair use defense, they did not intend to make it a requirement for fair use. The Court also highlighted the conceptual difficulties of requiring a defendant to negate elements of the cause of action in an affirmative defense.

In so holding, the Court conceded that due to this rule, "it follows . . . that some possibility of consumer confusion must be compatible with fair use, and so it is." Thus, confusion and fair use are not mutually exclusive concepts. In certain situations, the plaintiff will be able to successfully prove the confusion element for infringement, but the fair use defense can still be raised successfully. In such cases, some confusion does not negate the application of the fair use defense.

137. Id. (citing Cairns v. Franklin Mint Co., 292 F.3d 1139, 1151 (9th Cir. 2002)) ("The distinction between the two types of fair use is important because each type calls for a different analysis. When analyzing nominative fair use, it is not necessary to address likelihood of confusion because the nominative fair use analysis replaced the likelihood of confusion analysis.").


139. Id. at 118.

140. Id. at 120.

141. Id. at 121-22.

142. See id. at 120.

143. See id. at 122, 123.

The common law's tolerance of a certain degree of confusion on the part of the consumers followed from the very fact that in cases like this one an originally descriptive term was selected to be used as a mark, not to mention the undesirability of allowing anyone to obtain a complete monopoly on use of a
One very notable aspect of the Supreme Court's opinion in *KP Permanent* is that the opinion successfully sidestepped clarifying whether the role of likelihood of confusion was different depending on whether a classic or nominative fair use defense was raised.\(^4\) Did the Supreme Court's opinion in *KP Permanent* apply to both classic and nominative fair use defenses? The Third Circuit arguably resolved this question in *Century 21 Real Estate Corp. v. LendingTree, Inc.*\(^1\) In light of this, the court extended the Supreme Court's ruling in *KP Permanent* to nominative fair use defenses.\(^2\) The court focused on the conceptual difficulties of relieving a plaintiff of the burden of proving the key element of a trademark infringement case.\(^3\)

Based on *Century 21* and *KP Permanent*, the courts have moved in the direction of requiring a more traditional cause of action and affirmative defense relationship for trademark infringement and fair use.\(^4\) Most recently, the Second Circuit in *Tiffany*\(^5\) articulated a simplified test for nominative fair use, a "defendant may lawfully use a plaintiff's trademark where doing so is necessary to describe the plaintiff's product and does not imply a false affiliation or endorsement by the plaintiff of the defendant."\(^6\) However, the Second Circuit, in its opinion successfully sidestepped a clear articulation of the "rule" with respect to the likelihood of confusion and nominative fair use. Regardless of the kind of fair use at issue, taking these cases together, the likelihood of confusion is an element relegated to the plaintiff.

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\(^1\) *Century 21 Real Estate Corp. v. LendingTree, Inc.*, 425 F.3d 211, 214 (3d Cir. 2005).

\(^2\) *Id.* at 220.

\(^3\) *Id.* at 221.

\(^4\) Id. at 115 n.3 ("Nor do we address the Court of Appeals' discussion of 'nominative fair use.'").

\(^5\) *Tiffany, Inc. v. eBay, Inc.*, 600 F.3d 93 (2d Cir. 2010).

\(^6\) *Id.* at 220-22.

Today we adopt a two-step approach in nominative fair use cases. The plaintiff must first prove that confusion is likely due to the defendant's use of the plaintiff's mark. . . . Once plaintiff has met its burden of proving that confusion is likely, the burden then shifts to defendant to show that its nominative use of plaintiff's mark is nonetheless fair.

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\(^144\) *Id.* at 122.

\(^145\) *Century 21 Real Estate Corp. v. LendingTree, Inc.*, 425 F.3d 211, 214 (3d Cir. 2005).

\(^146\) *Id.* at 220-22.

\(^147\) *Id.* at 221.

\(^148\) *Id.*

\(^149\) *Tiffany, Inc. v. eBay, Inc.*, 600 F.3d 93 (2d Cir. 2010).

\(^150\) *Id.* at 102-03.
B. Recommendation for Revisions to Fair Use

This section provides recommended revisions to sections 33(b)(4) and 32(2)(B) of the Lanham Act.

Section 33(b)(4) currently reads as follows:

"That the use of the name, term, or device charged to be an infringement is a use, otherwise than as a mark, of the party’s individual name in his own business, or of the individual name of anyone in privity with such party, or of a term or device which is descriptive of and used fairly and in good faith only to describe the goods or services of such party, or their geographic origin."\(^{151}\)

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i. Proposed Revision

(4) That the use of the name, term or device charged to be an infringement is a use, otherwise than as a mark, of the party's individual name in his own business or of the individual name of anyone in privity with such a party; or

(5) That the use of the name, term or device charged to be an infringement is a classic or nominative fair use.

(a) Classic fair use occurs if:

1. defendant's use of the name, term or device is not as a trademark or service mark; and

2. is used fairly in good faith; and

3. is only used to describe the goods or services of such party; and

4. does not render substantial harm to the trademarks viability in the marketplace.

(b) Nominative fair use occurs if:

1. use is necessary to describe both the plaintiff's product or service and the defendant's product or service; and

2. is used in a limited manner only to describe the plaintiff's product; and

3. the defendant's conduct or language reflects the true and accurate relationship between plaintiff and defendant's products or services.

The proposed revision separates section 33(b)(4) into two parts: one focusing on the same name use and the other focusing on classic and nominative fair use. The classic fair use test includes three factors that the courts have repeatedly identified in addition to a fourth factor that addresses the growing concern that the classic fair use defense will get out of hand now that defendants do not have to prove there is no likelihood of confusion. This fourth element serves as a safety

152. See generally Michael Fuller, "Fair Use" Trumps Likelihood of Confusion in
valve to ensure that the classic fair use defense is not being used to disproportionately harm the plaintiff. The nominative fair use revision is directly from the Third Circuit case Century 21.\textsuperscript{153} This test further develops the original Ninth Circuit test substantially and makes clear that the likelihood of confusion is not an element of the nominative fair use defense.\textsuperscript{154}

The revisions to the Lanham Act proposed in this section are consistent with the most current precedent. In addition to being consistent with current precedent, the proposed revisions address several issues left open by precedent. Specifically, (1) the revisions clearly define the role of likelihood of confusion in a fair use defense, (2) provide the notice sufficient to establish "knowledge," and (3) establish procedures that Internet intermediaries must follow in order to avoid liability once such notice is received.

While these recommendations provide a structured and principled scheme for determining when liability will attach to an online marketplace or other intermediary, there is no doubt potential criticism for the recommendations. First, with respect to the online marketplaces, while these recommendations provide a safe harbor, they also require that the marketplaces and intermediaries develop a viable notice of infringement and take down system. In addition, the revisions require that the online marketplace or intermediary obtain "verifiable" information from all users. As one might imagine, there will be some resistance, mainly based upon the cost associated with the implementation of the requirements. However, looking to the DMCA requirements, it appears that notice and takedown systems are effective. Moreover, requiring verifiable information for use will enable the online marketplaces to effectuate their policies more efficiently as well. However, when using the DMCA as a guide, one must take into consideration the criticism of the DMCA. Much criticism has revolved around the DMCA’s potential for abuse because fair use exceptions are not factored into the system.\textsuperscript{155} The revision as proposed in this paper takes into consideration these objections with the revisions to the fair use section of the Lanham Act and the requirement that a trademark holder must first determine if

\textsuperscript{153} Century 21 Real Estate Corp. v. LendingTree, Inc., 425 F.3d 211, 222 (3d Cir. 2005).

\textsuperscript{154} Id.

fair use prior to submitting a notice under the revisions. These revisions will cause some consternation amongst trademark holders. First, trademark holders will contend that the revisions to the definition of fair use will be costly and difficult to implement. Next, the contention is that determining both marketplace viability and whether a true and accurate depiction of the mark is present will be onerous. The revisions as proposed do not deviate substantially from the traditional requirement of fair use. The requirement under the proposed revisions is a good faith determination that fair use is not implicated. Thus, requiring the trademark holder prior to submitting a notice to review the standards and make a determination should be no different that the initial evaluation undertaken when a trademark holder sends a cease and desist. The proposal as submitted in this Article does not require the trademark holder to be correct in its review, but merely that they have considered the standards and the standards are not applicable.

VII. CONCLUSION

Trademark law is at a juncture where technology may be stifled if the laws are not adjusted to balance the interests of the innovators and the trademark owners. Trademark owners are filing direct infringement actions against Internet intermediaries secondary infringement actions for the sale of counterfeit merchandise by users of the technology. While many legal scholars have discussed one of the dilemmas of trademark infringement, regarding what constitute trademark use,\textsuperscript{156} in order to fashion liability, it is time to shift the focus from infringement to creating a safe harbor for Internet intermediaries. As can be discerned from the discussion above, the current trademark regime is fractured. Indeed, to reach any conclusion on a claim of infringement by an Internet intermediary, a court has to do a dance more intricate than the tango. Notwithstanding, the Lanham Act and the case law provide a roadmap for reform. Similarly, the legislature must perform an intricate dance to ensure that the parties’ interests are balanced. This dance will require revisions as recommended above to the Lanham Act that does not two-step the issue of the role of the “likelihood of confusion” in fair use defense and expands the current safe harbor to include immunity from liability when there is a notice and takedown system in place.
