A Look At *TradeKey*: Shifting Policing Burdens From Trademark Owners to Online Marketplaces

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I. INTRODUCTION

A woman reaches into her Chloé handbag and takes out a Montblanc pen to sign the check as she talks animatedly with her friend about whether to buy her father a Cartier or an A. Lange & Söhne watch for his birthday. This is a very different scene from a woman who grabs a pen from her purse while she talks about plans to buy her dad a watch. The mere addition of these luxury brand names morphs this scene from one portraying the ordinary to the extraordinary. These names carry with them sophistication, quality, affluence, and extravagance. Luxury brands, like these, are the fastest growing targets for counterfeits on the web.¹

The luxury brands noted above, along with Alfred Dunhill Limited and Officine Panerai (collectively, “Plaintiffs”), were the central parties in Chloe SAS v. Sawabeh Information Services Co.² Plaintiffs filed suit against Sawabeh Information Services Co. and TradeKey (collectively, “TradeKey”) for facilitating the sale of counterfeit versions of their products.³ This is the first case that has

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³ Id. at *2.

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hold an online marketplace liable for contributory counterfeiting—a huge victory for the brand owners. This is a notable departure from Tiffany v. eBay, in which the Second Circuit held that eBay’s anti-counterfeiting policy and responsiveness to specific complaints released them from contributory counterfeiting liability. TradeKey was still held liable despite its intellectual property rights policy and notice-and-takedown procedures. Furthermore, the injunction shifted some of the trademark policing burdens from trademark owner to the third party website.

This note addresses contributory counterfeiting within online marketplaces. Contributory counterfeiting arises when a party materially contributes to, facilitates, induces, or is otherwise responsible for the direct counterfeiting carried out by a third party. This note argues that online marketplaces should be required to take a more active role in combating counterfeiting through their platforms. This note proceeds in five parts. Part I serves as an introduction to the issue. Part II provides background information regarding trademark counterfeiting and gives an overview of the case law regarding contributory counterfeiting in online marketplaces. Part III looks at the implications of the TradeKey case for brands, online marketplaces, sellers, and consumers. Part IV proposes mechanisms that an online marketplace could enact to police trademark infringement effectively. Part V concludes that TradeKey decision has taken a step in the right direction as online marketplaces should take a more proactive role in policing their own websites.


6. Tiffany, Inc. v. eBay, 600 F.3d 93, 109 (2d Cir. 2010).


II. BACKGROUND

The use of identifying marks on goods is a longstanding practice. Originally used to indicate ownership, the marks later came to serve as the identifier for the source of the goods with the development of commercial trade. Similarly, trademark counterfeiting is not a new phenomenon. In fact, the oldest counterfeit products—stoppers used to seal amphorae filled with wine—date from around 200 B.C. and are currently on display at the Museum of Counterfeiting. The counterfeiting of goods may seem like a victimless crime, where no one is harmed by the sale of imitation goods sold at significantly lower prices than brand name products. However, counterfeiting costs U.S. businesses more than two hundred billion dollars each year and accounts for the loss of more than 750,000 jobs.

A. OVERVIEW OF CONTRIBUTORY TRADEMARK COUNTERFEITING

The Lanham Act is the source of federal trademark law in the United States. Under the Lanham Act, direct trademark infringement occurs when someone uses another firm’s mark commercially without permission and causes a likelihood of confusion as to the source of the goods or services. Injunctive relief is the

10. Id.
12. Id.
15. See id. § 1125(a)(1)(A). To prove infringement in cases where the mark used by the defendant is not identical, the court will consider an array of factors, including: similarity of the marks, proximity of the goods or services, evidence of actual confusion, defendant’s intent, strength of the plaintiff’s mark, likelihood of bridging the gap, consumer sophistication, and marketing channels used by the parties. See AMF, Inc. v. Sleekcraft Boats, 599 F.2d 341, 348-49 (9th Cir. 1979); Polaroid Corp. v. Polarad Elecs. Corp., 287 F.2d 492, 495 (2d Cir. 1963).
primary remedy for infringement,\textsuperscript{16} though actual damages, lost profits, and costs are also recoverable.\textsuperscript{17}

Trademark counterfeiting is direct infringement that results when one party uses a counterfeit mark identical to the mark owned by a second party on the same type of goods and sells those goods in direct competition with that second party.\textsuperscript{18} The Lanham Act defines a counterfeit mark as an imitation mark that is identical to, or substantially indistinguishable from, a mark that is in use and registered.\textsuperscript{19} Counterfeit goods defraud consumers who believe that they have purchased genuine goods.\textsuperscript{20}

The conditions for imposing liability on those who are not direct infringers are not defined in the Lanham Act. Rather, indirect or secondary liability for trademark infringement is a judicially created doctrine that has been imported from the common law of torts.\textsuperscript{21} According to principles of indirect tort liability, "one is subject to liability if he permits [a third person] to act with his instrumentalities, knowing or having reason to know that the other is acting or will act tortiously . . . ."\textsuperscript{22}

There are two ways to prove secondary trademark liability: vicarious infringement and contributory infringement. Vicarious infringement arises when there is an agency or similar type of relationship between the defendant and the direct infringer, or when the defendant and direct infringer jointly own or control the means of infringement.\textsuperscript{23} The second type of liability, contributory infringement, has been at the heart of the TradeKey dispute, as well

\begin{itemize}
\item \textsuperscript{16} 15 U.S.C. § 1116(a).
\item \textsuperscript{17} Id. § 1117(a).
\item \textsuperscript{18} Id. § 1114(1)(b). The Lanham Act authorizes seizure of any counterfeit goods or marks. Id. § 1116(d)(4)(B).
\item \textsuperscript{19} Id. § 1116(d)(1)(B).
\item \textsuperscript{20} See TCP/IP Holding Co. v. Haar Commc’ns, Inc., 244 F.3d 88, 94–95 (2d Cir. 2001).
\item \textsuperscript{21} See Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc., 955 F.2d 1143, 1148 (7th Cir. 1992). Citing the Restatement of Torts, the Seventh Circuit reasoned that a third party "is responsible for the torts of those it permits on its premises ‘knowing or having reason to know that the other is acting or will act tortiously . . . .’" Id. at 1149.
\item \textsuperscript{22} Restatement (Second) of Torts § 877(c) cmt. d (1979).
\item \textsuperscript{23} See David Berg & Co. v. Gatto Int’l Trading Co., 884 F.2d 306, 311 (7th Cir. 1989) (explaining that vicarious infringement occurs when a party is in privity with the direct infringer); Philip Morris USA, Inc. v. Lee, 547 F. Supp. 2d 667 (W.D. Tex. 2008) (holding that vicarious liability requires a finding of a partnership or agency relationship); see also MARY LAFRANCE, UNDERSTANDING TRADEMARK LAW 257–60 (2d ed. 2009).
\end{itemize}
as a separate dispute between Tiffany Inc. ("Tiffany") and eBay Inc. ("eBay"). Liability for contributory infringement arises when the defendant either actively induces another to directly infringe the plaintiff’s trademark, or continues to supply a product to another who is directly infringing the plaintiff’s trademark.\(^\text{25}\)

**B. THE INWOOD TEST FOR CONTRIBUTORY COUNTERFEITING**

The U.S. Supreme Court enumerated the test for secondary trademark infringement in *Inwood Labs, Inc. v. Ives Labs, Inc.*\(^\text{25}\) In *Inwood*, the Court held drug manufacturers contributorily liable when pharmacists intentionally mislabeled generic drugs as brand-name drugs in order to deceive customers.\(^\text{26}\) The opinion created the Inwood test, which provides that a manufacturer or distributor is responsible for any harm done as a result of direct trademark infringement if he: (1) “intentionally induces another to infringe a trademark,” or (2) “continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.”\(^\text{27}\)

The courts developed the Inwood test over the following years. In *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*, the Seventh Circuit held that the Inwood standard applies to those that provide services to direct infringers rather than just applying to manufacturers and distributors.\(^\text{28}\) The court concluded that a flea market operator could be liable for secondary trademark infringement because the operator promoted, advertised, and supervised the market, as well as profited from ticket sales.\(^\text{29}\)

The Ninth Circuit, in *Fonovisa Inc. v. Cherry Auction Inc.*, reached a similar conclusion under similar circumstances, holding that “a swap meet [operator] cannot disregard its vendors’ blatant

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\(^{25}\) *Id.* at 854.

\(^{26}\) *Id.*

\(^{27}\) *Id.*

\(^{28}\) *Hard Rock Cafe Licensing*, 955 F.2d at 1149.

\(^{29}\) *Id.* at 1148-49. The court ultimately decided that, in this instance, the flea market operator was not liable for secondary trademark infringement in this case, but made clear that liability was possible depending on the facts of the particular case.
trademark infringements with impunity."\textsuperscript{30} The court in \textit{Fonovisa} agreed with the \textit{Hard Rock Cafe} decision, holding that \textit{Inwood} "laid down no limiting principle that would require [a] defendant to be a manufacturer or distributor" in order to impose secondary trademark infringement liability.\textsuperscript{31}

The Ninth Circuit extended this rationale to the Internet context in \textit{Lockheed Martin Corp. v. Network Solutions, Inc.}, holding that online service providers can be held liable for secondary trademark infringement under \textit{Inwood} depending on "the extent of control exercised by the defendant over the third party’s means of infringement."\textsuperscript{32} If the online venue has "direct control and monitoring" over a third party’s use of the site to infringe trademarks, then this satisfies the \textit{Inwood} "supplies a product" requirement for contributory infringement.\textsuperscript{33}

This line of cases leads directly to the application of the \textit{Inwood} test to online marketplaces. Online marketplaces are the Internet equivalent of flea markets or swap meets. They serve the same purpose: a platform for third parties to sell their goods, some of which may potentially be counterfeit goods. Thus, the same rule regarding counterfeit goods applies.

C. COUNTERFEIT GOODS AND THE ONLINE MARKETPLACE

Tiffany, a luxury brand jewelry retailer and the owner of multiple trademarks for high quality luxury goods, brought one of the first cases that looked specifically at contributory counterfeiting in online marketplaces when it took action against the online auction site, eBay.\textsuperscript{34} eBay served as an online platform through which third parties sold counterfeit Tiffany-branded merchandise.\textsuperscript{35} The U.S. District Court for the Southern District of New York entered

\textsuperscript{30} Fonovisa Inc. v. Cherry Auction Inc., 76 F.3d 259, 265 (9th Cir. 1996).
\textsuperscript{31} Id.
\textsuperscript{32} Lockheed Martin Corp. v. Network Solutions, Inc., 194 F.3d 980, 984 (9th Cir. 1999).
\textsuperscript{33} Id.
\textsuperscript{34} Tiffany, Inc. v. eBay, Inc., 576 F. Supp. 2d 463, 469 (S.D.N.Y. 2008).
\textsuperscript{35} Id.
judgment in favor of eBay with respect to the claims of trademark infringement,\textsuperscript{36} which was later affirmed by the Second Circuit.\textsuperscript{37}

Tiffany claimed that eBay was infringing on its trademarks because “thousands of counterfeit [Tiffany] jewelry items were offered for sale on eBay’s [website].”\textsuperscript{38} eBay did not contest Tiffany’s right to the mark or that counterfeit items were being sold via its online auction site.\textsuperscript{39} The question at issue in this case was whether eBay had the burden of policing Tiffany’s trademarks, and if so, whether eBay met that burden.\textsuperscript{40} The district court concluded that Tiffany failed to carry its burden with respect to its claims and held that “Tiffany must ultimately bear the burden of protecting its trademark.”\textsuperscript{41}

The district court held that eBay was not liable for contributory infringement because eBay’s use of Tiffany’s trademarks on its website, advertising, and sponsored links on search engines was a “protected, nominative fair use” of the marks.\textsuperscript{42} The court noted that “when Tiffany put eBay on notice of specific [infringing] items . . . eBay immediately removed those listings.”\textsuperscript{43} Because in cases where “eBay possessed the requisite knowledge [of the counterfeiting], it took appropriate steps to remove listings and suspend service,” the district court found no liability for eBay.\textsuperscript{44}

The Second Circuit Court of Appeals affirmed judgment in favor of eBay with respect to the claims of trademark infringement.\textsuperscript{45} This case is significant because it is one of the first appellate courts in the U.S. to address the issue of contributory trademark infringement in an online marketplace.\textsuperscript{46} The Second Circuit acknowledged the

\begin{itemize}
  \item \textsuperscript{36} Tiffany, 576 F. Supp. 2d at 526.
  \item \textsuperscript{37} Tiffany, 600 F.3d at 114.
  \item \textsuperscript{38} Id. at 102.
  \item \textsuperscript{39} Tiffany, 576 F. Supp. 2d at 469.
  \item \textsuperscript{40} Id. at 469-70.
  \item \textsuperscript{41} Id. at 470.
  \item \textsuperscript{42} Tiffany, 600 F.3d at 113 (quoting Tiffany, 576 F. Supp. 2d at 520).
  \item \textsuperscript{43} Tiffany, 576 F. Supp. 2d at 469.
  \item \textsuperscript{44} Id. at 470.
  \item \textsuperscript{45} Tiffany, 600 F.3d at 114.
  \item \textsuperscript{46} The Second Circuit notes that they have “addressed contributory trademark infringement in only two related decisions, and even then in little detail.” Id. at 105 (citing Polymer Tech. Corp. v. Mimran, 975 F.2d 58, 64 (2d Cir. 1992); Polymer Tech. Corp. v. Mimran, 37 F.3d 74, 81 (2d Cir. 1994)).
\end{itemize}
precedent for contributory liability where a distributor induces another to infringe or knowingly supplies an infringing property but noted, “the limited case law leaves the law of contributory trademark infringement ill-defined . . . . We are apparently the first [court] to consider its application to an online marketplace.” European courts had previously addressed the issue in a similar context, but with varied results. The Belgian court found no liability on the part of eBay for “counterfeit products sold through its website.” French courts went the other way, finding eBay liable for trademark infringement in circumstances factually similar to both the Belgian case and the Tiffany case. The Second Circuit Court of Appeals noted:

We agree with the district court. For contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary.

Applying the U.S. Supreme Court’s interpretation of the Inwood test and agreeing with the district court, the Second Circuit observed that “Tiffany’s general allegations of counterfeiting failed to provide eBay with the knowledge required under Inwood.” In order to find eBay liable, Tiffany’s demand letters would have had to be more specific as to which sellers in particular were passing counterfeit goods. The buyers’ complaints that eBay received were also insufficient to establish the requisite knowledge because they complained that “listings were removed and [sellers that were] repeat offenders were suspended from the eBay site.”

47. Tiffany, 600 F.3d at 105 (quoting Polymer, 975 F.2d at 64) (citing Lockheed Martin Corp., 194 F.3d at 984–85).
48. Tiffany, 600 F.3d at 105 n.9.
50. See id. (referencing two French cases).
51. Tiffany, 600 F.3d at 107.
52. Id. at 109 (quoting Tiffany; 576 F. Supp. 2d at 511); see also Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 439, 489 (1984) (interpreting the knowledge standard set forth in Inwood Labs., 486 U.S. 844).
53. Id. at 109 (citing Tiffany, 576 F. Supp. 2d at 511–13).
54. Id.
The Second Circuit also addressed whether there was any liability for contributory infringement.\textsuperscript{55} As noted above, the principle of contributory infringement places liability on a manufacturer or distributor that knows or has reason to know that another is participating in trademark infringement and continues to supply the infringer despite knowledge of its infringement.\textsuperscript{56} Courts have expanded and applied this doctrine to suppliers of services, but prior to this case, have not applied it to a provider of an online marketplace.\textsuperscript{57}

A service provider, such as eBay, can engage in contributory trademark infringement in two ways.\textsuperscript{58} The service provider may either (1) “intentionally induce another to infringe a trademark” or (2) “continue to supply [the] service” even though it is aware of the third party’s infringement.\textsuperscript{59} The facts of this case indicated the need to examine only the second portion of this test.\textsuperscript{60} Both the district court and the Second Circuit agreed that there could be no liability for the infringing listings on the eBay site that Tiffany identified and eBay took down.\textsuperscript{61}

Tiffany was aware of evidence of other sales of counterfeit goods on the eBay website and sent demand letters to eBay regarding that evidence. However, the demand letters were not sufficiently specific to provide eBay with more than general knowledge that there had been some illicit sales through their online marketplace.\textsuperscript{62} Thus, Tiffany did not establish that eBay necessarily continued to provide services to individuals who were using the site to make illegal sales.\textsuperscript{63} Tiffany’s claim could not stand because they failed to put eBay on notice of specific sales by specific individuals.\textsuperscript{64} Accordingly, the rule going forward is that a service provider of online services must be aware of particular listings that were infringing or would infringe in

\textsuperscript{55} Tiffany, 600 F.3d at 103.
\textsuperscript{56} Id. at 104.
\textsuperscript{57} Id.
\textsuperscript{58} Id. at 106.
\textsuperscript{59} Id.
\textsuperscript{60} Id. at 107–08.
\textsuperscript{61} Tiffany, 600 F.3d at 114–15; Tiffany, 576 F. Supp. 2d at 526–27.
\textsuperscript{62} Tiffany, 600 F.3d at 106.
\textsuperscript{63} See id. at 113.
\textsuperscript{64} See id. at 107.
order to be liable for contributory infringement. Thus, rather than a general prohibition on the continued sale of goods bearing a trademark, the contributory infringement test applies to specific sales or individuals who infringe the mark.

Tiffany also argued that eBay had been willfully blind to the fact that there were several counterfeit listings on its website. However, the record reflected that eBay had taken several measures of its own volition and expense to stop potential counterfeiters. In addition, eBay had incentives to stop the counterfeit goods, including maintaining its reputation among consumers. Had eBay been willfully blind, it could have been charged with knowledge under the Inwood test for contributory infringement. Thus, the Second Circuit made clear that a service provider, including an online marketplace, is not allowed to turn a blind eye and ignore potentially infringing websites once those websites are brought to its attention.

The Second Circuit has reinforced that it is the responsibility of the trademark owner to police and maintain its marks. The trademark owner cannot rely on the efforts of a service provider to protect its goodwill. However, service providers must work with trademark owners to ensure that counterfeit goods are not being sold on their sites. When service providers become aware of potentially infringing activity, they must do everything they can to stop the activity. If service providers are made aware of specific activity and fail to act, they may be liable for contributory trademark infringement.

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65. Tiffany, 600 F.3d at 108.
66. See id.
67. Id. at 109-10.
68. Id. at 98, 109.
69. eBay has an interest in being a safe place to do business. For example, if fraud becomes a rampant problem, eBay may have difficulty maintaining their customer base. They may drive consumers to seek out other retailers who are offering verified products without the risk of purchasing counterfeit goods. Id. at 98 (citing Tiffany, 576 F. Supp. 2d at 469).
70. Tiffany, 600 F.3d at 110 (citing Inwood Labs., 456 U.S. 844).
71. See Tiffany, 600 F.3d at 109-10.
72. See id. at 106-10.
73. See id. at 106-07.
74. See id. at 109.
75. Id.
D. NEW DEVELOPMENTS WITH THE TRADEKEY CASE

1. Overview of the Case

Several luxury brand owners and associated trademarks sued TradeKey, a group of offshore internet companies that promoted and facilitated the sale of counterfeit versions of trademarked goods through their websites. The District Court for the Central District of California granted partial summary judgment against TradeKey on claims of contributory counterfeiting. Similar to eBay, TradeKey does not directly sell goods itself. Instead, TradeKey provides an online marketplace through which vendors can market their goods. The sale of counterfeit goods is a large component of TradeKey's business. In fact, TradeKey had both a "Replica Products" and a "Replica Retention" division in their sales department. TradeKey did not make money by taking a percentage of the transactions processed through the site. Instead, TradeKey made revenue from charging for premium memberships. Furthermore, TradeKey directly solicited wholesale counterfeit buyers and distributors to become paying premium members.

Plaintiffs hired private investigator Rob Holmes ("Holmes") to investigate possible counterfeiting through use of the TradeKey platform. Holmes opened a free account and began making purchases to build up his reputation on the site. Holmes then purchased a premium membership after which he was contacted by a TradeKey employee, Farooq Khalil ("Khalil"). Khalil gave Holmes tips on how to market products on the site and how to sell counterfeit goods. Additionally, TradeKey removed the word "replica" from

77. Id.
78. Id. at *8.
79. Id. at *3.
80. Id.
81. Takahashi, supra note 4.
82. Id.
83. Id.
84. Id.
86. Id.
Holmes’ advertisements in a clear attempt to hide its counterfeit nature.87 Holmes found over six thousand sellers offering branded products on TradeKey. This included over 2,400 sellers for Chloe-branded goods, two hundred sellers of Dunhill-branded goods, 850 sellers of Panerai branded goods, 500 sellers of Mont Blanc-branded goods, and 1,900 sellers of Cartier branded goods.88 These sellers were not authorized by the Plaintiffs to sell genuine goods.89 Holmes also purchased products that were confirmed as counterfeits.90

In order to prevail on a contributory counterfeiting claim, a plaintiff must establish the underlying direct counterfeiting.91 Direct counterfeiting is established by demonstrating (1) ownership of a valid trademark, and (2) a defendant’s unauthorized use of that trademark in connection with the sale of goods that is likely to confuse consumers.92 There is no dispute over whether the Plaintiffs owned a valid and protectable trademark registration for their respective marks.93 TradeKey challenged the sufficiency and credibility of the evidence that TradeKey members were selling counterfeit versions of the Plaintiffs’ products.94 However, the District Court for the Central District of California concluded that TradeKey failed to present any persuasive arguments that showed doubt in the evidence.95 Accordingly, the court concluded that the Plaintiffs established direct counterfeiting by TradeKey members.96 Since the underlying direct counterfeiting was established, the Plaintiffs had to demonstrate that TradeKey continued to allow the use of their services to those they knew or had reason to know were engaging in trademark infringement.97 Additionally, because TradeKey provided a service, the Plaintiffs also had to establish that

88. Id.
89. Id.
90. Id. at *4.
91. Id. at *5 (citing Louis Vuitton Malletier v. Akanoc Solutions, 658 F.3d 936, 943 (9th Cir. 2011)).
93. Id. at *5.
94. Id.
95. Id. at *7.
96. Id. at *8.
97. Id. at *9.
TradeKey had “direct control and monitoring of the instrumentality used by the third party to infringe” the marks. The court found that the Plaintiffs conclusively demonstrated these elements. TradeKey clearly had knowledge of the use of TradeKey as a platform to sell counterfeit goods as they actively maintained “Replica Products” and “Replica Retention” sales divisions. Furthermore, during Holmes’ investigation, a TradeKey employee told him that there was no issue with selling counterfeit luxury goods as the sale of such goods was actually a lot of revenue for TradeKey. In terms of control, TradeKey “monitors and controls every aspect of its website and all member listings.” TradeKey does not allow members to change listings; additionally, TradeKey will choose and add keywords for premium members to optimize the search of these listings. The court once again concluded that TradeKey failed to offer any persuasive response to the Plaintiffs’ arguments. Accordingly, the court granted the motion for summary judgment with respect to their claim for contributory counterfeiting.

2. A Landmark Injunction

The court granted the Plaintiffs’ request for an incredibly broad permanent injunction. TradeKey was enjoined from (1) permitting, allowing or facilitating customers to buy, sell, manufacture, or distribute trademarked products; (2) displaying listings that use any of the Plaintiffs’ marks or as a response to the use of a search term; (3) using the Plaintiffs’ marks as keywords, ad-words, or any other type of metadata; and (4) allowing or advising any person how to create or post listings for infringing products. The injunction also required that TradeKey institute mechanisms to ensure compliance with the injunction and provide the court written confirmation of their

99. Id. at *9.
100. Id.
101. Id. at *9-10.
102. Id. at *10.
103. Id.
104. Id.
105. Id. at *12.
compliance. TradeKey must take down or disable any listing upon receiving written notice that is it infringing or if it otherwise comes to the attention of TradeKey that it is infringing. Finally, and perhaps most importantly, TradeKey is required to monitor their websites on an on-going basis “to confirm each website is in compliance with this Order.”

III. IMPLICATIONS OF TRADEKEY

A. IMPACT ON BRANDS

The TradeKey decision required the online marketplace to take on a more proactive role in the policing of trademarks. This relieved the trademark holders from some of those policing burdens. The previous standard set by the Tiffany case was insufficient for protecting trademark holders. While it did provide that websites needed to take some measures with regard to trademarks, it focused on the reactive measures, such as prompt responses to report and takedown notices. This required trademark holders to actively police the site in search of counterfeits to report before anything would be done about the listings. Report and takedown systems are not sufficient to protect trademark holders and do not function well in online marketplaces because the counterfeit goods are often sold before such notices could even be processed. TradeKey moves from a reactive to proactive measure. This lightens some of the burdens of policing and engenders a team effort between online marketplaces and trademark holders.

B. IMPACT ON ONLINE MARKETPLACES

Online marketplaces will now have to take on a greater burden when it comes to policing trademarks. They can no longer remain in the safe harbor of only passively responding to takedown requests when they know that their website is being used by third parties for

107. Id.
108. Id.
counterfeiting. Additionally, since most online marketplaces already have takedown systems in place, it is evident that they presently have the ability to police and will not have to undergo complete restructuring and development. Resources within the business will simply have to be shifted. If the online marketplace is curbing counterfeiting itself, it will be dealing with less takedown notices. Online marketplaces can shift the resources previously used to deal with the takedown notices to take a more proactive approach regarding trademark infringement. There will still be a takedown notice system as the online marketplace may miss some, but this will drastically decrease the quantity with which they are dealing. Additionally, if online marketplaces have such policies in place, they will likely gain more trust from consumers to provide genuine goods.

C. IMPACT ON SELLERS

The injunction in *TradeKey* may have a negative effect on legitimate sellers of goods as it prevents them from using the trademark in their listing, in their advertising, or as a search term. This is extremely negative as it prevents them from accurately advertising a legitimate good. However, in *TradeKey*, there were not many, if any, legitimate sellers to take into consideration. The injunction set out in *TradeKey* places a significant barrier against counterfeit sellers. The new policies would make it more difficult to sell counterfeit goods. For instance, if counterfeiters lose the major platform through which they engage in selling counterfeit goods, this will have a curbing effect on illegal activity.

D. IMPACT ON CONSUMERS

The *TradeKey* decision will have a positive impact on consumers that are looking for genuine goods since it will make it more difficult to list counterfeit products on online marketplaces. While it may restrict consumer access to the cheaper counterfeit goods, consumers should not be able to benefit from an illegal activity. If consumers want to buy cheaper non-brand products, they can buy non-branded products rather than counterfeit goods.
IV. PROPOSAL

A. SUMMARY OF THE PROBLEM

Online marketplaces have become the choice platform for counterfeiters to sell their goods. Through use of the Internet, the counterfeiter now has access to a worldwide marketplace without the costs of keeping up a brick-and-mortar storefront. Furthermore, the Internet allows anonymity to the benefit of the counterfeiter. After the Tiffany case, the online marketplace has been able to remove itself from liability in third party contributory counterfeiting by keeping minimum reactive policies to counter trademark infringement. However, with the speed at which these transactions of counterfeit goods occur, the current standards remain insufficient to address the issue before the goods are sold and pass through the system. TradeKey takes a step towards more stringent treatment with regard to online marketplaces and their responsibilities to actively police counterfeits within their websites.

B. ONLINE MARKETPLACES SHOULD TAKE A MORE PROACTIVE ROLE AGAINST COUNTERFEITING

Given the rise in technology and the pervasiveness of the Internet, the online marketplace has become a staple in today's world. It has essentially become the equivalent of the mortar-and-brick storefronts of the past. Similar to the Fonovisa and Hard Rock Café cases, those managing the storefront have a responsibility over those that use them as the platform to sell their goods. They cannot turn a blind eye to the activity that they are facilitating and should not be able to disregard their vendors' blatant trademark infringements.

The Tiffany case has allowed online marketplaces to take unfair advantage of the safe harbor and facilitate third party counterfeiting. It allowed the marketplace to avoid liability if it had reactive measures in place, specifically the notice and takedown system. The online marketplaces should be required to do more so that they cannot benefit from the illegal activity of their users.

The TradeKey injunction leaves open a broad category of institutional mechanisms to ensure compliance with the injunction
beyond the current report and takedown notice system. The court does not give clear instructions on the kinds of mechanisms that would be sufficient to comply with this portion of the injunction. The following are some ways in which an online marketplace could comply.

The online marketplace can shift resources to retain the services of private investigators to study and follow suspicious sales practices by users. These private investigators, much like Holmes, could monitor listings for items that are likely to be counterfeit by looking at factors such as a suspicious item’s brand name (i.e., a commonly counterfeited famous mark), the quantity sold, the pricing of the item, and the description and/or visual representation of the item. The key is to assign knowledgeable individuals to the task of uncovering possible counterfeits instead of continuing the current practices of assigning to the issue a large group of employees who are inexperienced in detecting the signs of counterfeit activity. This simple change in the composition of the trademark protection team would diminish cases of legitimate sales being suspended due to the erroneous belief that they may be illicit, result in more counterfeit items being pulled from the site in shorter periods of time, and provide a direct, informed point of contact for trademark owners. This would facilitate communication between trademark holders and online marketplaces in a more efficient and cooperative. Likewise, trademark holders likely would invest in keeping the online marketplaces’ investigators up to date on their latest products and designs by issuing informational documents or even making presentations to the team from time to time.

With respect to repeat offenders, a business can monitor suspicious users and users who have previously either completed illicit transactions or offered fake goods for sale. Accordingly, the online marketplace would be able to develop its list of “high risk” users and monitor them effectively. If a user is found to be a repeat offender, the user could be temporarily suspended from selling any products or permanently banned from selling that brand of goods again. At that point, the seller would also be deemed “high risk,” and his activities on the site would warrant closer monitoring. If the seller is again caught selling counterfeit items of any nature or brand, he would be banned from having an account on the site. In this system, a
user would still have the opportunity to challenge each action taken against him, but in the event that he is found to have knowingly offered or sold counterfeit items, he would have only one remaining opportunity to use his account lawfully.

Users who are initially investigated but later cleared should be able to continue using the services, and their publicly viewable records should not mention such investigations. Likewise, users who have already been suspended for selling counterfeit goods and are in the “high risk” group should have details of their temporary suspension and permanent ban (from selling certain items) on their publicly viewable records so that potential buyers are aware of their illicit activity. This would not only aid buyers when they are deciding between sellers for a particular item, but also help decrease the amount of customer complaints regarding fake items received in lieu of authentic items and ensuing money refund claims.

To ensure that banned users do not come back to the site under another username, the online marketplace should keep an updated list of every banned member and their IP addresses. While a user may choose to remain anonymous to other members on the site, the online marketplace should ensure that sellers cannot remain anonymous after registration. In addition to keeping a database with banned IP addresses, the site should revise its registration procedure by requiring that every user also sign up for a PayPal account or other similar service. This way, users would have to provide a valid Social Security number and valid bank account or credit card, which would make it more difficult to create a new fake account once an account has been banned.

V. CONCLUSION

The *TradeKey* decision is a clear step in the right direction in terms of regulating contributory counterfeiting within the online marketplace as it lays out a stricter standard for online marketplaces and their role of preventing contributory counterfeiting. Online marketplaces should not be able to escape liability when it comes to facilitating third party counterfeiting. In fact, they should be taking a proactive role in the fight against it. Online marketplaces have the ability to exercise control over their users and should not be able to
profit from users' illicit activity. With trademark holders working together with the online marketplaces to curtail the counterfeit industry, there will likely be a decrease in the ability of counterfeits to thrive as they have been able to under the current system.