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Lawsuits Hit Online Marketplaces That Offer Fake Luxury Brands Consumers pay when brand names spend money to fight counterfeiters



Tiffany & Co. and eBay Inc. met in U.S. District Court over the matter of fake Tiffany goods being sold on eBay's auction site.

By Judi Hasson
Staff Writer

Washington -- Everyone loves a bargain, and sometimes there is no better place to get a brand-name item at a reduced price than online.

But some goods sold online are fakes. And manufacturers of luxury-brand goods are in a continuing struggle to stop fake versions of their products from being sold on the Internet, and in particular, on the popular auction site provided by eBay Inc.

Two recent court cases, one in the United States and another in Europe, have brought new attention to this issue, creating challenges for eBay and raising the possibility of changes in how the illegal market in top-end counterfeit goods is policed.

In France, a court fined eBay \$61 million in June, agreeing with LVMH Moët Hennessy Louis Vuitton that the site did not do enough to keep fake Louis Vuitton bags and Dior perfumes from being offered for sale. eBay said it would appeal the decision.

In New York, a U.S. District Court ruled July 14 in favor of eBay and against Tiffany & Co. in the jewelry retailer's lawsuit that tried to hold eBay responsible for not stopping counterfeit silver jewelry from being sold in its online marketplace. Tiffany is likely to appeal that ruling, according to legal experts.

While reaching different results, both cases center on these questions: Who is responsible for policing the online retail sites to control the illegal sale of high-end counterfeit products? Does the job belong to the makers of trademarked goods or to the Web site retailer or auction site that allows fakes to slip into its offerings? Can anyone effectively control the global digital space without any national or traditional boundaries?

The makers of luxury goods have trademarks on their brands, and it is illegal to imitate their designs in France and in the United States.

"There will be plenty of difficulties encountered by these online bazaars," said Peter Vogl, a New York trademark attorney with the Jones Day law firm.

Vogl said the two contradictory rulings on two continents present a dilemma for eBay and others in the same business.

The result may require online auction retailers to run two different Web sites -- one with goods available in the United States and another one, with different rules, for selling online goods in Europe, according to Vogl.

While eBay has been at the center of these lawsuits, the rulings could affect other Web sites -- Google, Yahoo and Amazon.com -- where fake items might turn up. While these legitimate online markets have various ways to halt the illegal sale of fake goods by those who use their sites, few have foolproof methods.

"Counterfeiters will continue to do this kind of thing. They are going to continue to find ways around whatever new rules are set up," said Leigh Ann Lindquist, a trademark attorney in Washington.

Companies have to be very vigilant. That is what Tiffany was trying to do, she said.

University of Virginia law professor Christopher



Sprigman said auction sites may have to find a few quick options to confront the fallout from the ruling in France.

"There are a number of ways [online retailers] can deal with this: Zone French consumers out of these auctions, or disallow French [Internet Protocol] addresses. That's not perfect, but it's likely to work pretty well," he said.

Ebay argues that it has done no wrong. "If counterfeits appear on our site, we take them down swiftly," the company said in a statement released June 30 after the French ruling.

Nichola Sharpe, an eBay spokeswoman in the company's San Jose, California, corporate offices, said the company continues to police its sites with the Verified Rights Owner (VeRO) program so that intellectual property owners can report listings that infringe their rights. More than 2,000 employees are at work to spot counterfeit goods on the site, and 18,000 manufacturers are scouring the sites for fakes.

"We will continue to aggressively protect our marketplace and the innovation and competition it inspires," said Rob Chestnut, eBay's senior vice president and legal counsel.

Legal experts say the issue is not settled, and manufacturers will have to decide how much policing is needed to protect their brands and ferret out counterfeits.

"I think eBay is a model Internet company in terms of policing," said Mark Lemley, a professor at Stanford University law school. "Like any copyright infringement, it's impossible to catch them all. But you can set up systems to catch the most egregious players."

But no matter what online retail sites do, makers of luxury items still will engage in their own surveillance and spend money to stop the sale of counterfeit goods.

"From a cost perspective, the consumer will pay for this," said Tim Trainer, president of Global IP Strategy Center, a legal-issues consulting firm in Washington.

While the Tiffany ruling gives eBay some breathing space in the United States, it is unclear if the French ruling will spur court challenges in other parts of the world.

Travis Johnson, vice president for legislative affairs and policy at the International Anti-Counterfeiting Coalition in Washington, said he expects sites like eBay will continue to feel the legal heat.

"This was not the first case that a brand owner has brought against eBay, and I wouldn't imagine it would be the last," Johnson said.

Meanwhile, James Swire, Tiffany's legal counsel, believes the U.S. Congress eventually will get involved in establishing the boundaries for legal action on online counterfeit goods for sale.

"This problem is not just a problem for Tiffany," Swire said. "It's a problem for a lot of major brand owners, and if the courts acting under existing laws cannot remedy the problem, it would be logical to expect Congress to be approached for the required change."



This fake Tiffany necklace was advertised on eBay as "authentic" and "complete with the famous Tiffany pouch." (Tiffany & Co.)

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