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# Online Auction Sites and Inconsistencies: A Case Study of France, China, and the United States

## **Keywords**

Online auction, internet, Counterfeit goods, Auction sites, eBay

# Online Auction Sites and Inconsistencies: A Case Study of France, China, and the United States

By Won Hee Elaine Lee<sup>1</sup>

Globalization and the proliferation of Internet use have diluted the concept of national boundaries. Consequently, it is increasingly difficult for brand owners to enforce and protect their trademarks on the Internet, and online auction sites in particular. For instance, the leading online auction site eBay had over 90.1 million active users worldwide at the end of 2009, and generated over \$770.6 million of operating cash flow during the fourth quarter of 2010.<sup>2</sup> However, while online auction sites give consumers a wide range of choices, they have increasingly become a battleground for trademark disputes because of their sales of counterfeits.

In an attempt to protect their brands from counterfeit goods sold on online auction sites, brand owners increasingly seek relief from third-party sites such as eBay, rather than directly from sellers of counterfeits.<sup>3</sup> Despite the global nature of Internet websites, brand owners generally need to acquire trademark rights on a country-by-country basis.<sup>4</sup> Thus, in the absence of binding multilateral treaties or international law that regulates the sale of counterfeits on online auction sites, ownership of a trademark in one country does

not guarantee ownership in another unless the national prerequisites for acquiring such rights are satisfied.<sup>5</sup> Such differences have recently yielded inconsistent court decisions in France, China, and the United States regarding counterfeit claims against eBay and Taobao. These inconsistent holdings suggest the need for a coherent international enforcement agenda to address counterfeit concerns in the context of e-commerce.

This article will discuss the French, Chinese, and the United States courts' inconsistent judicial interpretation over eBay and Taobao for the same conduct, namely allowing counterfeit goods to be sold on their auction sites. The article will also delineate current international protective mechanisms for brand owners to protect against counterfeits, and it will suggest possible enforcement mechanisms to resolve inconsistency in the courts' decisions regarding online auction sites.

## I. The French Approach

France is home to a number of the world's most famous luxury brands, including Louis Vuitton, Chanel, and Christian Dior. Accordingly, "French regulations established a broad system to protect luxury brands from counterfeiting."<sup>6</sup> The National Anti-Counterfeiting Committee was created in 1994 to "apprise the public of the 'dangers' of counterfeiting, and to ensure public compliance with anti-counterfeiting laws."<sup>7</sup> Moreover, current French law not only "requires mandatory forfeiture of counterfeit goods," but also imposes fines and jail time.<sup>8</sup> Consequently, trademark owners in France work closely with the French government to

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5. *Id.*

6. Sofia H. Ahmed, *Life, Liberty, and the Pursuit of Luxury: eBay's Liability for Contributory Trademark Infringement in the United States, Germany, and France*, 5 *BYU Int'l L. & Mgmt. Rev.* 247, 250 (2009).

7. *Id.*

8. *Id.* In France, buying or carrying a counterfeit product is a criminal offense that can result in up to three years in prison or fines up to 300,000 euros. *Id.*

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2. Press Release, eBay, eBay Inc. Reports Fourth Quarter and Full Year 2009 Result 1, 11 (Jan. 20, 2010), [http://files.shareholder.com/downloads/eBay/896102080x0x345224/b455630d-4bb9-4ba5-adb1-40dcf29e82ce/eBay\\_Q409EarningsRelease.pdf](http://files.shareholder.com/downloads/eBay/896102080x0x345224/b455630d-4bb9-4ba5-adb1-40dcf29e82ce/eBay_Q409EarningsRelease.pdf).

3. Eric P. Schroeder, *Trademarks, the Internet, and the New Social Media: A Fresh Battleground for Old Principles*, in *Recent Trends in Trademark Protection: Leading Lawyers on Analyzing Recent Decisions and Adapting to Evolutions in Trademark Law*, 1 (2009). Such claims are known as secondary liability in which the complainants sue "secondary" infringers, such as distributors, in addition to or instead of the direct infringer. See Mark Bartholomew & John Tehranian, *The Secret Life of Legal Doctrine: The Divergent Evolution of Secondary Liability in Trademark and Copyright Law*, 21 *Berkeley Tech. L.J.* 1363, 1364 (2006).

4. Robert W. Sacoff, *Trademark Law in the Technology-Driven Global Marketplace*, 4 *Yale Symp. on L. & Tech.* 8, 8 (2001).

fight counterfeits at every level of the distribution chain, including the consumer level.<sup>9</sup> Overall, the French courts provide strong trademark protection for the many high-end designers that are based in France.<sup>10</sup>

In 2006, Louis Vuitton Moet Hennessy (LVMH) filed a lawsuit against eBay in the Paris Commercial Court (PCC).<sup>11</sup> Although France has statutory protections for online auction sites that merely act as a host for the sale of counterfeit goods,<sup>12</sup> the PCC found against eBay in this matter on June 30, 2008, reasoning that eBay had not taken sufficient measures to prevent transactions involving counterfeiting goods on its site.<sup>13</sup> The PCC held that eBay was acting not just as a host, but also as a broker, because eBay received commissions from transactions between sellers and buyers. The PCC also stated that eBay facilitated the selling and marketing of counterfeit products on a large scale through electronic means, and such conduct made eBay responsible for the infringement that occurred on its website. The PCC particularly faulted eBay for its failure to prevent illegal sales, stating, “eBay defaulted its obligation of insuring that its business does not generate any illicit actions like] infringement.”<sup>14</sup> In addition to equitable remedies against eBay, LVMH was awarded about eight million euros in compensatory damages for eBay’s tortious use of the rights of the owner, ten million euros for damage to the image of LVMH, and one million euros in moral damages, totaling almost twenty million euros.<sup>15</sup>

The PCC recognized the problems resulting from the imbalance between the rapid expansion of e-commerce due to globalization and the relatively slow development of enforcement in both national and international e-commerce contexts. The PCC stated that “the globalization of trade and the appearance of new means of communication connected with free trade have fostered the marketing of fraudulent products, among them those that are the result of infringement, that

scourge of the legal economy . . . .”<sup>16</sup> The PCC’s decision could be interpreted as a judicial initiative to prevent the proliferation of counterfeit goods in the online context and to protect brand names and their accompanying values in creative industries like fashion, which are a crucial part of France’s economy and national heritage.

## II. *The Chinese Approach*

The counterfeiting of trademarks and brands in the People’s Republic of China is one of the most serious counterfeiting problems in the world. Trademark and brand owners suffer estimated losses of billions—or even tens of billions—of dollars per year as a result of the counterfeit trade in China.<sup>17</sup> Moreover, China is one of the fastest-growing markets for online auctions. For instance, in March 2007, there were no less than 601,145 auctions for seven leading brands at Taobao, and most of them were presumably counterfeit goods.<sup>18</sup> Taobao has implemented a system in which brand owners can ask the auction site to take down auctions under certain conditions.<sup>19</sup> However, due to the large number of auctions at any given time, the system is not sufficient to protect brand owners.

Despite a large number of counterfeits sold on China’s online auction sites, Chinese courts have been unwilling to hold auction sites, such as Taobao and eBay, liable for trademark infringement.<sup>20</sup> For instance, in *Puma AG Rudolf Dassler Sport v. Taobao.com*,<sup>21</sup> the Guangzhou Intermediate People’s Court dismissed the brand owners’ claim and held for online auction sites.<sup>22</sup> Puma registered its Puma word mark, a figurative mark, and its Puma word and device mark in China in 1978.<sup>23</sup> Before filing a lawsuit in 2006, Puma sent a warning letter to Taobao requesting that Taobao terminate the accounts of infringing online stores.<sup>24</sup> However, Taobao did not reply to the letter and continued to provide its

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9. *Id.*

10. David P. Miranda, *Protecting Trademarks in the Global Marketplace*, 81 N.Y. St. B.J. 50, 51 (2009).

11. See SA Louis Vuitton Malletier v. eBay, Tribunal de Commerce de Paris T.C.] Commercial Court] Paris, June 30, 2008.. Also note that, in *Christian Dior Couture SA v. eBay, Inc. et al.*, the Paris Commercial Court (PCC) made a decision identical to the holding of *Louis Vuitton*.

12. See Miranda, *supra* note 9, at 51.

13. See SA *Louis Vuitton Malletier* at 10.

14. *Id.*

15. *Id.* at 13, 15.

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16. *Id.* at 9.

17. Daniel C.K. Chow, *Counterfeiting in the People’s Republic of China*, 78 Wash. U. L.Q. 1, 3 (2000).

18. *Asia and the Internet Top Challenges for Brand Owners*, News (Marques/The Association of European Trade Mark Owners, Leicester, U.K.), Mar. 2007, at 1.

19. *Id.*

20. Xenia P. Kobylarz, *Looking For Deep Pockets: Brand Owners Look to Shift Enforcement Burdens to Third Parties*, 5 Internet L. & Strategy 4, 4 (2007).

21. See Kangxin Partners PC, *China*, World Trademark Review, Feb./Mar. 2009, at 60.

22. Kobylarz, *supra* note 21.

23. Kangxin Partners PC, *supra* note 22.

24. *Id.*

services to the online stores.<sup>25</sup>

In June 2006, Puma took action against Taobao's refusal to comply with its request and sued a store owner listed on Taobao. Puma also named Taobao as a defendant because the website provided online services to the store owner, thereby enabling the store owner to sell counterfeit goods via Taobao's website.<sup>26</sup> Puma alleged that Taobao provided network services for 43,932 online stores to sell counterfeit Puma products.<sup>27</sup> Although the court found the store owner liable for trademark infringement, the court did not hold Taobao liable for any infringement, reasoning that Taobao does not have direct involvement in the sale of counterfeit goods. Puma alleged that Taobao has a duty to check whether the users of Taobao's services have the legitimate right to sell a trademarked product. The court, however, found that there is no legal basis for Puma's claim because the duty sought by Puma would extend far past Taobao's capabilities. The judges further held that online auction sites have a legal duty to remove auctions after proper notice by the trademark holder, but they have no duty to proactively monitor and investigate all the auctions or users.

In recent years, China has made significant progress toward enhancing trademark protection for brand owners in the offline context.<sup>28</sup> However, the *Puma v. Taobao.com* decision demonstrates the relatively weak and undeveloped Chinese trademark enforcement law for preventing infringement resulting from Internet sales. Currently, China has 253 million Internet users, constituting only 19 percent of the total Chinese population.<sup>29</sup> Thus, there is a reasonable expectation that the number of Internet users and activities on online auction sites will continue to rise. Consequently,

developing stronger protective mechanisms will become increasingly important in the context of e-commerce to protect brand owners from trademark infringement.

### III. The American Approach

In the United States, the protection for trademark owners is largely based on the provisions of the Lanham Act,<sup>30</sup> which imposes civil penalties for trademark infringement but does not account for trafficking in counterfeit goods. However, in 2006, Congress enacted the Stop Counterfeiting in Manufactured Goods Act, which incorporates criminal laws in the Lanham Act to prevent the proliferation of counterfeit goods, especially those from Asia.<sup>31</sup>

Despite the heightened enforcement mechanism for trademark infringement, there are no laws that govern the selling of counterfeit goods on online auction sites. Online auction sites often do not have permission from the trademark holders to sell the products advertised on their sites. These products are frequently counterfeit, but are sold under the pretense of being the real thing, thereby confusing consumers and damaging the manufacturer's brand.

The most recent case deciding third-party hosting websites' liability for trademark infringement in the United States was the Southern District of New York's 2008 decision in *Tiffany, Inc. v. eBay, Inc.*<sup>32</sup> Tiffany & Co., a luxury jewelry brand, sued eBay, alleging that thousands of pieces of counterfeit jewelry were offered for sale on eBay's website. Tiffany sought to hold eBay liable for trademark infringement, false advertising, and trademark dilution, on the grounds that eBay allowed and facilitated the sale of counterfeit goods on its website. The main issue in the case was not whether counterfeit Tiffany jewelry can appear on eBay, but rather, who has the burden of policing Tiffany's trademark in an e-commerce context.<sup>33</sup> The court held for eBay, concluding that Tiffany failed to bear its burden of protecting its trademark.<sup>34</sup> The court held

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25. *Id.*

26. *Id.*

27. *Id.*

28. For instance, in 2001, China joined the World Trade Organization (WTO), which obligates China to adhere to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). In order to meet the TRIPS requirements, the Chinese legislature amended the existing trademark laws. For example, the amended Article 13 of the 2001 Chinese Trademark Law closely resembles Article 16 of the TRIPS' provision regarding the recognition and protection of well-known marks. Moreover, China signed bilateral treaties with many foreign countries, such as Canada, France, and the United States, to facilitate and protect trademark registration and protection in each other's territory. See Robert H. Hu, *International Legal Protection of Trademarks in China*, 13 Marq. Intell. Prop. L. Rev. 69, 91-93 (2009).

29. Kangxin Partners PC, *supra* note 22.

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30. 15 U.S.C. § 1114 *et seq.* (2005).

31. 18 U.S.C. § 2320 (2008); see also Ahmed, *supra* note 5, at 252-53.

32. 576 F. Supp. 2d 463 (S.D.N.Y. 2008).

33. *Id.* at 469. Tiffany also claimed that eBay was directly liable for trademark infringement. Tiffany alleged that the use of registered Tiffany's trademark on eBay's website constitute illegal use of its mark. However, the court held that such use of eBay constituted nominative fair use and thus, eBay is not directly liable for the trademark infringement.

34. *Id.* at 470.

that Tiffany must show that eBay had direct control and monitoring over the sale of counterfeit items.<sup>35</sup> Thus, the court rejected Tiffany's notion that liability could be premised on the generalized knowledge that eBay's site might be used as a venue for trademark infringement.<sup>36</sup>

Regarding Tiffany's claim of trademark infringement, the court found that eBay was not liable for selling counterfeit goods on its website.<sup>37</sup> The court determined that the correct test was not whether eBay could reasonably anticipate possible infringement, but whether eBay continued to supply its services to sellers once it knew or had reason to know of infringement by such sellers.<sup>38</sup> Thus, following the Ninth Circuit's persuasive authority established in *Lockheed Martin Corp. v. NSI*,<sup>39</sup> the Southern District of New York held that if liability is premised on the conduct of a user of a venue, as opposed to that of a manufacturer or seller of a product, the plaintiff must make a threshold showing of direct control and monitoring over the means of infringement.<sup>40</sup> The court in *Tiffany* decided that eBay did not infringe Tiffany's trademark because it did not have sufficient knowledge of specific acts of infringement on its site and it acted appropriately to discontinue an infringing listing when it discovered a counterfeit product on its site.<sup>41</sup>

The Second Circuit recently affirmed the district court's decision that denied Tiffany's third party liability claim against eBay.<sup>42</sup> Like the district court, the Second

Circuit delineated that 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. The Second Circuit noted that some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary. The Second Circuit took into consideration that eBay does not have such contemporary or specific knowledge, and held that eBay is not contributorily liable for trademark infringement.

The decision in *Tiffany, Inc. v. eBay, Inc.* demonstrates the difficulty of holding online auction sites liable for trademark infringement because operators of these websites often do not have specific knowledge of counterfeiting activity on their sites. The decision also shows the lack of adequate protective measures available to brand owners to protect their trademarks in an online context under U.S. law.

#### *IV. What Resulted in the Different Holdings on Rights for Trademark Owners*

Recent court decisions in suits against online auction sites in France, China, and the United States have resulted in differing decisions, creating uncertainty and confusion about trademark infringement cases in an online context. These three countries each reached different conclusions based on the application and analysis of their respective national trademark laws.<sup>43</sup>

The *Puma* court in China and the *Tiffany* court in the U.S. both found for the online auction sites; however, their reasons for reaching the decisions were relatively different from one another. The Chinese court did not find Taobao liable for infringement mainly because the court was unwilling to impose a burden on the online auction sites to proactively monitor online infringement. On the other hand, the U.S. court held

claim against eBay. However, unlike the district court, the Second Circuit did not dismiss Tiffany's direct infringement claim based on normative fair use doctrine. Instead, the Second Circuit "recognized that 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 or the defendant" and agreed with the district court that eBay's use of Tiffany's mark on its website and in sponsored links was lawful. The Second Circuit noted that eBay used the mark "to describe accurately the genuine Tiffany goods offered for sale on its website. And none of eBay's uses of the mark suggested that Tiffany affiliated itself with eBay or endorsed the sale of its products through eBay's website."

43. See Ahmed, *supra* note 5.

35. *Id.* at 506.

36. *Id.* at 513.

37. *Id.* at 469.

38. *Id.*

39. 194 F.3d 980, 986-87 (9th Cir. 1999) (holding that contributory trademark infringement does not occur when the defendant neither intentionally induces a third party to infringe the plaintiff's mark nor supplies a product to a third party with actual or constructive knowledge that the product is being used to infringe the service mark).

40. *Tiffany*, 576 F. Supp. 2d at 509.

41. eBay was also relieved of liability partly because of its protective measures against counterfeiting goods, such as a Verified Rights Owner (VeRO) Program. See eBay, Summary of Our Privacy Policy – Our Disclosure of Your Information (eBay's Verified Rights Owner (VeRO) Program), <http://pages.ebay.com/help/policies/privacy-policy.html>. The Program allows brand owners, such as Tiffany, to report and have unauthorized items be removed from the site. However, unlike eBay, many other online auction and e-commerce sites do not actively deter the sale of counterfeit goods. It is unclear whether the VeRO Program effectively deters and prevents the sales of all the counterfeits on eBay.

42. *Tiffany, Inc. v. eBay, Inc.*, \_\_\_ F.3d \_\_\_, 2010 WL 1236315 (2d Cir. Apr. 1, 2010). The Second Circuit affirmed the district court's decision and dismissed Tiffany's direct trademark infringement

for eBay in *Tiffany* because the court believed that Tiffany failed to show that eBay had direct control and monitoring of the selling of counterfeit goods in its auctions.<sup>44</sup> Thus, the *Tiffany* holding demonstrates that the Second Circuit will not hold online auction sites liable based on a mere showing of general knowledge of counterfeit goods sales or on a showing of simple negligence on the part of the online auction sites. Further, the Second Circuit's decision demonstrates that although the court requires eBay to engage in self-monitoring, it recognizes that trademark rights are private rights most effectively enforced by trademark owners.<sup>45</sup>

Contrary to the Guangzhou Intermediate People's Court and the Second Circuit, the PCC court enforced stricter rules against eBay and found in favor of the brand owners. In *Louis Vuitton*, the court considered eBay a broker rather than mere host of the sale of counterfeits. The PCC believed that eBay's interactive features such as marketing tools for sellers that provides information on brands, user-created virtual stores, and PowerSeller program for users<sup>46</sup> were sufficient to consider eBay a broker.<sup>47</sup> The PCC stated that the interactive features eBay offers its users demonstrate that eBay has sufficient control over the sellers on its site and was not acting merely as a host. The PCC also noted that eBay received commission from the sellers, thereby acting as an intermediary rather than just a

host. The PCC concluded that eBay's knowledge of improper activity was sufficient to establish that eBay was negligent in taking adequate measures to prevent the sales of counterfeits on its website.

These contrasting opinions recently decided in French, Chinese, and American courts indicate their different approaches to trademark infringement in the online context. While the PCC believes that the online auction site should bear the responsibility of monitoring its own site, the Chinese and the U.S. courts believe that trademark owners should be responsible for monitoring and protecting their own marks. These inconsistent holdings suggest a need for coherent international measures to govern trademark infringement cases in an online context because online auction sites are not confined by national boundaries.

#### *V. Possible Methods to Resolve Inconsistent Holdings in the E-Commerce Context*

The international trademark community has continuously made efforts to facilitate the registration and protection of trademarks. As of December 2009, more than 84 countries have signed the Madrid Protocol, which aims to reduce obstacles and costs associated with registering trademarks in multiple countries.<sup>48</sup> In addition, the World Intellectual Property Organization (WIPO) provides remedies for trademark owners who were injured by bad-faith registrations and the illegal use of their marks in domain names.<sup>49</sup> Despite the aforementioned protections for trademark owners, effective enforcement of trademark rights in the context of e-commerce still remains difficult.<sup>50</sup>

Moreover, the inconsistencies in national trademark law regarding trademark infringement and counterfeiting on online auction sites have yielded inconsistent holdings among different countries. Currently, in the United States and China, trademark owners bear a larger burden of protecting the reputation and use of their marks than the online auction sites on which their goods are sold. On the other hand, in France, the burden of protection falls on Internet auction sites who act as brokers. These inconsistencies not only disadvantage trademark owners but also confuse online auction sites because the sites have difficulty reconciling their conduct with the trademark

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44. Although both the *Puma* and *Tiffany* courts held for Taobao.com and eBay, respectively, the approaches of the two courts seem different. The *Puma* court seems more lenient toward the online auction site because even though Taobao.com did not respond to Puma's letter requiring Taobao.com to terminate services to the virtual stores selling counterfeits, the court held in favor of Taobao.com. On the other hand, in *Tiffany*, when Tiffany sent a complaint letter to eBay, eBay promptly removed the auctions involving trademark infringement and counterfeits. However, eBay rejected Tiffany's request to remove "apparently infringing" auction listings, such as a multiple listings of Tiffany items by a seller. Thus, the *Tiffany* court seems to view that eBay does not have intent to create a forum for selling counterfeits because eBay acted promptly upon the Tiffany's complaint to remove counterfeit auctions. See Kangxin Partners PC, *supra* note 22; *Tiffany*, 576 F. Supp. 2d at 506.

45. See Ahmed, *supra* note 5, at 248.

46. A PowerSeller is an eBay seller who achieves a sustained total trading volume above a set cut-off for several months in a row. PowerSellers can be identified by a "PowerSeller" logo shown after their eBay User ID in their auction listings in eBay.

47. See Ahmed, *supra* note 5, at 266. Like the U.S., France also has statutory protections for Internet websites that merely act as hosts for counterfeit sales. However, the PCC saw eBay not merely acting as a host but rather as a broker. Consequently, the PCC did not apply the statutory protections for eBay and held it liable. See Miranda, *supra* note 9, at 51.

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48. See Miranda, *supra* note 9, at 50.

49. See *id.*

50. See *id.*

laws of every country in which they have a presence. In order to alleviate and reduce inconsistencies regarding trademark infringement and counterfeiting on online auction sites, the development of binding international mechanisms with both flexible and tailored standards should be implemented.

#### *VI. The International Trademark Association (INTA)'s Alternative Dispute Resolution System*

Applying a national standard to an online auction site, which is a borderless medium for commercial activities, is difficult and inadequate. Instead of litigating under domestic laws, brand owners and online auction sites may settle trademark disputes and arrive at a solution more efficiently and effectively through a mediation process supported by the International Trademark Association (INTA).<sup>51</sup> Although INTA's mediation program currently only settles disputes regarding trademark registrations and domain names, the program could be expanded to address disputes between trademark owners and online auction sites.

While litigation is often bound by specific domestic laws, a mediation process is flexible in terms of the choice of law. Mediation allows the involved parties to reach a more satisfactory solution in a relatively short period of time. A mediation process may also cover a broad range of trademark disputes, ranging from trademark infringement claims to misappropriation. Neutral panels comprised of broad geographical diversity facilitate the mediation process, which is not limited by any court or statutory restraints. Consequently, when a dispute between brand owners and an online auction site arises, mediation could function as an effective alternative to litigation because the involved parties are

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51. Mediation is one form of Alternative Dispute Resolution (ADR) for avoiding or settling litigation. It is "a non-binding negotiation between adversaries that is conducted with the assistance of, and often through, an experienced neutral third party." See Thomas M. Onda, *Navigating Trademark Trial & Appeal Board Practice 2002*, 689 PLI/Pat 61, 63, 67 (2002); one of the roles of the International Trade Association (INTA) is to protect trademark globally by curtailing counterfeiting problems in various regions and countries. INTA has developed various Alternative Dispute Resolution (ADR) Programs, such as mediation and arbitration, to provide customized options and more flexibility for parties with conflicts involving trademark and related issues. See David C. Stimson, *INTA and ASEAN or Around the World in a State-Free Haze*, 93 Trademark Rep. 105, 109 (2003); see also International Trademark Association, *Alternative Dispute Resolution (ADR)*, available at [http://www.inta.org/index.php?option=com\\_content&task=view&id=71&Itemid=219&getcontent=4](http://www.inta.org/index.php?option=com_content&task=view&id=71&Itemid=219&getcontent=4) (last visited on November 13, 2009).

not bound by a specific jurisdiction and its domestic laws. Thus, the parties would have more choices in terms of applicable laws, possible solutions, and enforcement agendas, eliminating some of the confusion about who bears the burden of policing the sales of counterfeits in an e-commerce context.

#### *VII. Anti-Counterfeiting Trade Agreement (ACTA): A Possible Solution?*

In addition to the mediation process, implementation of binding international law to protect brand owners against the mass sale of counterfeit goods in online auction sites could alleviate the effect of inconsistent international enforcement of trademark infringement disputes between brand owners and online auction sites. The international law would only apply to infringement in the online context, creating an international standard for countries to follow when applying trademark law to online auction sites selling counterfeit goods. The standard would provide a consistent standard for courts and online auctions sites to follow in cases involving online sales of counterfeit products.

The proposed multilateral Anti-Counterfeiting Trade Agreement (ACTA) would implement stronger enforcement in response to the increase in global trade of counterfeit goods and pirated copyright protected works.<sup>52</sup> The scope of ACTA is broad, addressing not only counterfeit physical goods but also Internet distribution and information technology. Although the secrecy and no-open-negotiation process of ACTA generate criticism about the document, its broad scope could create a uniform and coherent enforcement mechanism regarding trademark infringement on online auction sites.

ACTA seeks to impose a stronger international enforcement agenda than that of the existing bilateral agreements. For instance, ACTA aims to create an agreement not between several countries, but rather, a global standard on copyright infringement without going through a multilateral process.<sup>53</sup> ACTA attempts to apply enforcement mechanisms from the top down rather than allowing individual countries to select their

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52. Anti-Counterfeiting Trade Agreement, European Commission Trade, [http://trade.ec.europa.eu/doclib/docs/2009/january/tradoc\\_142039.pdf](http://trade.ec.europa.eu/doclib/docs/2009/january/tradoc_142039.pdf).

53. See Margot Kaminski, *The Origins and Potential Impact of the Anti-Counterfeiting Trade Agreement (ACTA)*, 34 Yale J. Int'l L. 247, 250 (2009).



own adequate levels of prevention and protection.<sup>54</sup>

Although the main focus of ACTA is copyright protection, ACTA could also be used as a tool for heightened enforcement mechanisms in the trademark realm. ACTA's goal is to establish global standards that effectively enforce intellectual property rights in order to fight the growing problem of counterfeiting and piracy more efficiently. Further, ACTA's focus is on counterfeiting and piracy activities that significantly affect commercial interests, rather than on the activities of ordinary citizens. Online auction sites are a growing hub for counterfeiting activities in the commercial context and a new battleground for trademark infringement. Thus, ACTA could set up a standard for stricter enforcement measures for trademark protection, especially on the Internet. For instance, according to the Office of the United States Trade Representative, ACTA would impose strict enforcement of intellectual property rights related to Internet activity. If ACTA proposes or implements global enforcement mechanisms for trademark infringement similar to those for copyright, then ACTA could facilitate the development of coherent or uniform standards for trademark infringement in online auction sites. Further, because ACTA is based on the rationale of heightened enforcement of intellectual property rights, creating a trademark infringement protection mechanism in the online context would encourage courts in member countries to consider the worldwide effect of their decisions and strive for globally consistent decisions. Consequently, if ACTA implemented a binding global standard to prevent trademark infringement in the online context, future decisions in online auction site cases would likely be more similar to the decision of the PCC than Guangzhou Intermediate People's Court or the Second Circuit.<sup>55</sup> However, one should note that stronger enforcement mechanisms that favor brand owners may place unreasonable burdens on online auction sites and on consumers who wish to sell or purchase legal products.

### VIII. Responsibilities of Online Auction Sites and

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54. *Feds Release Info on Plans to Stop Theft of Intellectual Property*, 26 *Andrews Computer & Internet Litig. Rep.* 5 (2009).

55. Currently, the French court imposes stricter enforcement in such context than the Chinese or the U.S. courts. One of the rationales for stricter holding in France is to dissuade online auction sites from selling counterfeits on their websites by imposing strict liabilities and burdens upon them. Such rationale seems similar to ACTA's objective, which is to pursue globally binding, stronger intellectual property protection for online counterfeiting and piracy.

### Trademark Owners

In addition to implementing a uniform enforcement mechanism in the global context, online auction sites should take more vigorous measures to prevent the sale of counterfeit goods on their websites. After eBay's loss in France, John Pluhowski, eBay's Vice President of Corporate Communication, stated that eBay "devotes] more resources to fighting] counterfeits than most brands."<sup>56</sup> He further contended that eBay "invests] more than \$20 million a year and has] some 20,000 employees worldwide involved in monitoring eBay] . . . to fight fraud."<sup>57</sup> Mr. Pluhowski also pointed out that eBay shut down nearly 2.1 million listings and suspended 30,000 sellers who sold "suspicious" goods in 2008.<sup>58</sup> In order to prevent selling counterfeits on online auction sites, it is important to provide their users with incentives to not engage in the selling of counterfeit goods. Thus, stronger and stricter mechanisms, such as imposing fines or holding credits, could deter people from engaging in illegal activities.

Furthermore, trademark owners should acknowledge that online auction sites are the world's largest and fastest growing channels of commerce. Trademark owners must use these websites to promote brands rather than trying to suppress the proliferation of online auction sites simply to prevent the sale of counterfeit goods. Open communication between trademark owners and online auction sites is essential because online auction sites often act as "online ambassadors of the brand."<sup>59</sup> Trademark owners must also leverage the reporting systems implemented by the online auction sites and offer additional solutions, if necessary. Preventative steps taken by the trademark owners would at least minimize, if not prevent, the sale of counterfeit goods on online auction sites.

### IX. Conclusion

Over the past two years, eBay has been involved in numerous lawsuits in multiple countries. Three courts in France, China, and the U.S. each reached conflicting conclusions on trademark infringement in the online context, and they fundamentally disagreed on the whether eBay's anti-counterfeiting efforts were

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56. Robert Klara, *The Fight Against Fakes*, *Brandweek*, Jun. 27, 2009.

57. *Id.*

58. *Id.*

59. *Id.*

sufficient. Protecting trademark owners and reducing the sales of counterfeit goods on online auction sites are important goals. These goals, however, should not be achieved by destroying the business model of online auction sites. If a consistent international legal standard were created to protect trademark owners from counterfeits sold on online auction sites and to strengthen the interdependency between online auction sites and trademark owners, the sale of counterfeits could be prevented without sacrificing a burgeoning channels of commerce. Thus, brand owners and online auction sites must work together to propose a concrete way to effectively prevent the sale of counterfeit goods on online auction sites. Although litigation based on domestic laws may sometimes provide adequate remedies for trademark and brand owners, domestic laws often do not keep up with the pace of globalization. Means of commerce are constantly changing in the integrated economic world. Consequently, in order to effectively prevent trademark infringement on online auction sites, brand owners and online auction sites should try to resolve disputes through a mediation process designed for an international context rather than litigation based on domestic laws. Further, to prevent counterfeiting activities in e-commerce, the development of binding international laws is also necessary to protect brand owners, online auction sites, and consumers.