



The view online

Internet service provider liability: the devil's in the detail

At first glance, two recent landmark US decisions suggest a divergence in approach to online contributory trademark infringement. Scratch under the surface, though, and consistency in the application of previous rulings becomes apparent

In August 2009 a jury in California condemned internet service provider Akanoc Solutions Inc to pay \$31 million in damages to Louis Vuitton for third-party sales of counterfeit goods. On July 14 2008 a federal court in New York held eBay was not liable for third-party sales of counterfeit Tiffany jewellery. Some suggest these trial courts diverged in their application of traditional contributory infringement law, but I disagree.

In *Tiffany (NJ) Inc v eBay Inc* (576 F Supp 2d 463 (SDNY 2008)) the court explained that eBay uses several techniques to identify counterfeit postings and punishes offenders. eBay also employs a Verified Rights Owner (VeRO) system through which rights holders can report infringements. eBay removes infringing items and warns the seller, suspending repeat offenders. When Tiffany complained that a large percentage of Tiffany items sold on eBay were counterfeit, eBay instructed it to use the VeRO system and removed every infringing posting Tiffany reported. When counterfeiting continued, Tiffany asked eBay to limit the number of Tiffany items a seller could list and preclude them from offering particular jewellery. eBay refused and Tiffany sued, alleging contributory trademark infringement.

The court applied the *Inwood* rule for contributory infringement: "If a manufacturer or distributor intentionally induces another to infringe a trademark, or continues to supply its product to one it knows, or has reason to know, is engaging in trademark infringement, the manufacturer or distributor is contributorily liable" (*Inwood Laboratories Inc v Ives Laboratories Inc* (456 US 844, 854 (1982))).

In analyzing whether eBay supplied a product for services, the relevant inquiry is "the extent of control exercised over the third party's means of infringement". If there is "direct control and monitoring" of a service, it qualifies as a product for purposes of the *Inwood* test. eBay provided "the necessary

marketplace for the counterfeiting" and "had direct control over the means of infringement" by providing the software and marketplace, promoting the sale of Tiffany items.

The court next evaluated whether eBay knew, or had reason to know, it was supplying services to an infringer. Tiffany argued for liability if eBay could anticipate sellers might offer counterfeit goods. The court rejected this "reasonable anticipation" standard, stating generalized knowledge of infringement is not enough. For contributory infringement, a plaintiff "bear[s] a high burden in establishing 'knowledge'". Since some of the Tiffany items sold on eBay were authentic, eBay needed specific knowledge to qualify for the 'knowing' requirement.

Tiffany next argued for wilful blindness, where a party suspects wrongdoing and refuses to investigate. The court found that because eBay had only general knowledge, it could not be wilfully blind. Absent specific knowledge, eBay did not have an affirmative duty to identify infringement – it merely had generalized knowledge of infringement, removed listings and punished the sellers. Such actions did not meet the standards for contributory trademark infringement.

In *Louis Vuitton Malletier v Akanoc Solutions Inc* (591 F Supp 2d 1098 (ND Cal 2008)), the court noted at summary judgment that Akanoc supplied server storage space for website-related content and routers that allowed users to access those websites. Louis Vuitton notified Akanoc that websites it hosted sold counterfeit Louis Vuitton products. After Louis Vuitton asked that the offending websites be taken down, it "noticed that the websites either remained operable or were moved to different IP addresses also owned by defendants". All of the Louis Vuitton products the fashion house purchased through Akanoc websites were counterfeit and Louis Vuitton introduced evidence showing that Akanoc had a "reputation for hosting websites that specialize in counterfeiting and spam activities".

The court held that contributory infringement requires that the defendant "(i) intentionally induced the infringement, or (ii) continued to supply an infringing product to an infringer with knowledge that the

infringer is mislabelling the particular product supplied". Since Akanoc hosted and routed internet traffic to and from the websites, it had the ability to remove infringing websites. Accordingly, it had the ability to control the accused activity.

Akanoc either needed to know, or should have known, about the infringing acts. Such knowledge arises when "a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system". Communications to and within Akanoc showed it knew of the infringements. Akanoc asked each infringing party to remove the accused listings but did not check the site or follow up to see if they were removed. The court found that a reasonable jury could decide that Akanoc knew third parties were infringing Louis Vuitton's trademarks and that Akanoc permitted the infringing activity to persist, and remained wilfully blind to the infringing actions. It appears that is precisely what the jury in the case ultimately found.

So both courts correctly held that direct control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark satisfies the *Inwood* 'supplies a product' requirement for contributory infringement. The courts also correctly applied the *Inwood* requirement that the defendants must have either known, or had reason to know, that the person to whom they were providing services was engaging in trademark infringement.

Both courts also allowed general evidence of infringement and were decided at trial, where a central issue was whether the respective defendants engaged in "wilful blindness". This is where the cases differed.

eBay employed mechanisms for monitoring counterfeit activities, removed accused listings and banned repeat offenders. Many of the Tiffany sales on eBay were legitimate. In contrast, the accused postings in Akanoc were either not removed or simply reappeared on other Akanoc websites. Akanoc did not investigate whether identified infringements stopped, and all the Louis Vuitton products received from Akanoc websites were counterfeit. Finally, evidence was introduced that Akanoc had a reputation for hosting websites that specialize in counterfeiting. Based on this, a reasonable finder of fact could conclude that eBay did not engage in wilful blindness, while it was clear Akanoc did.

I believe the courts applied the correct legal standards and reached appropriate results. 

Anthony J Biller is a partner at Coats & Bennett PLLC in Cary, North Carolina
abiller@coatsandbennett.com