

**Palacký University in Olomouc**

**Faculty of Law**

**Ekaterina Kapustina**

**Trademark infringement and secondary liability for counterfeit  
goods with the special focus on the fashion trade in online  
marketplaces**

**Master's Thesis**

**Olomouc 2021**

## **Declaration**

I hereby declare that this Master's Thesis on the topic "Trademark infringement and secondary liability for counterfeit goods with the special focus on the fashion trade in online marketplaces" is my original work and I have acknowledged all sources used.

In Olomouc, 18. July 2021

Ekaterina Kapustina

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## **Abstract (EN)**

The topic of this Master's thesis is Trademark infringement and secondary liability for counterfeit goods with a special focus on the fashion trade in online marketplaces. This Master's thesis deals with the issues connected to the selling of counterfeit goods in online environment. It deals also with the issues of legal liability for trademark infringement and tries to answer the question, if the current regulations provide sufficient protection to trademark owners in the fashion business. It examines the question whether the distribution of responsibility among all interested parties is set in the right way. As a consequence, there needs to be re-evaluation of the current standards and relevant norms which deal with the issues of secondary trademark liability. Master's thesis is divided into three chapters. The first chapter deals with historical aspects of counterfeiting and first legislative acts, which tried to regulate this negative trend. The second part of the first chapter specifically deals with the well known Lanham Act and its importance for federal trademark protection. The second chapter deals with the US legal approach towards regulating secondary trademark liability. Within the United States system, the legal order was not prepared for the selling of counterfeit goods in an online environment. Therefore, courts had to form the secondary trademark liability. Especially relevant in this context is the case of Tiffany, which amplified the protection given under the Inwood test by adding a good-faith element. The third chapter deals with the European union legal approach towards trademark liability. Especially relevant in this context is the E-Commerce Directive, which in Article 14 provides a safe-harbor provision with regard to trademarks. Further, both legal systems support notice and takedown system, but there are crucial differences with regard to liability.

**Key words:** intermediary, trademark, secondary liability, counterfeit, online market place, intellectual property

## **Abstrakt (CZ)**

Tématem této diplomové práce je Porušení ochranných známek a sekundární odpovědnost za padělané zboží se zvláštním zaměřením na módní obchod na online tržištích. Tato diplomová práce se zabývá problematikou prodeje padělaného zboží v online prostředí. Zabývá se také problematikou právní odpovědnosti za porušení ochranné známky a snaží se odpovědět na otázku, zda stávající předpisy poskytují dostatečnou ochranu majitelům ochranných známek v módním průmyslu. Zkoumá otázku, zda je rozdělení odpovědnosti mezi všechny zúčastněné strany nastaveno správným způsobem. V důsledku toho je třeba přehodnotit současné standardy a příslušné normy, které se zabývají otázkami sekundární odpovědnosti za ochranné známky. Diplomová práce je rozdělena do tří kapitol. První kapitola se zabývá historickými aspekty padělání a prvními legislativními akty, které se snažily tento negativní trend regulovat. Druhá část první kapitoly se konkrétně zabývá dobře známým Lanhamským zákonem a jeho významem pro ochranu federální ochranné známky. Druhá kapitola se zabývá právním přístupem USA k regulaci odpovědnosti za sekundární ochranné známky. V rámci systému Spojených států nebyl právní řád připraven na prodej padělaného zboží v online prostředí. Soudy proto musely zformulovat vedlejší odpovědnost za ochrannou známku. V této souvislosti je obzvláště relevantní případ Tiffany, který zesílil ochranu poskytnutou v rámci testu Inwood přidáním prvku dobré víry. Třetí kapitola se zabývá právním přístupem Evropské unie k odpovědnosti za ochranné známky. V této souvislosti je obzvláště důležitá směrnice o elektronickém obchodu, která v článku 14 stanoví ustanovení o bezpečném používání ochranných známek. Oba právní systémy dále podporují systém oznámení a zastavení šíření, existují však zásadní rozdíly, pokud jde o odpovědnost.

**Klíčová slova:** zprostředkovatel, ochranná známka, sekundární odpovědnost, padělky, online tržiště, duševní vlastnictví

## **Abbreviations and Acronyms**

<b>Art.</b>	Article
<b>ECJ</b>	The European Court of Justice
<b>EU</b>	The European Union
<b>Ibid.</b>	Ibidem
<b>IPROs</b>	Intellectual Property Right's Owners
<b>LA</b>	The Lanham Act
<b>US</b>	The United States of America
<b>US Federal Trademark Act</b>	The Patent, Copyright and Trademark Act
<b>USPTO</b>	The United States Patent and Trademark Office
<b>TRIPS</b>	The Agreement on Trade-related Aspects of Intellectual Property

# Table of contents

Declaration.....	2
Acknowledgement.....	3
Abstract (EN).....	4
Abstrakt (CZ).....	5
Abbreviations and Acronyms .....	6
1 Introduction.....	9
1.1 Introduction to the topic .....	9
1.2 Aim of the Master’s Thesis.....	9
1.3 Research question and hypothesis .....	10
1.4 Methodological framework.....	10
2 The Interconnected Nature of Trademarks and Counterfeiting .....	11
2.1 Historical Aspects connected to Trademark Infringement and Counterfeiting .....	11
2.1.1 Development towards a more Comprehensive System of Trademark Law .....	13
2.1.2 The 1946 Lanham Act and its Importance for Federal Trademark Protection...	15
2.1.3 Definitional Complexities related to „Trademark“ and „Counterfeit“ .....	16
2.2 Distribution of Counterfeit Goods on the Internet and its Effects on the Parties involved.....	20
3 Legal Regulation Of Secondary Liability for Online Trademark Infringement in the United States.....	25
3.1 U. S. Legal Perspective on Secondary Liability for Online Trademark Infringement 25	
3.1.1 Inwood Case and the Foundations of Intermediary Trademark Liability .....	26
3.1.2 The Evolution of the Inwood Test and the Issue of Vicarious Liability .....	28
3.1.3 Tiffany v. eBay and its Effect on Secondary Trademark Liability .....	31
3.1.4 The Aftermath of the Tiffany decision and the further legal development .....	36
4 EU Law on Secondary Liability for Online Trademark Infringement.....	38

4.1	European Union Law and Primary Liability.....	41
5	Conclusion.....	44
6	Bibliography.....	48
6.1	Monographs .....	48
6.2	Articles [published online].....	48
6.3	Jurisprudence .....	53
6.4	Legal Acts .....	54
6.5	Sources of European Union law and other soft-law instruments and documents.....	54
6.6	Thesis .....	55



# **1 Introduction**

## **1.1 Introduction to the topic**

This Master's thesis is devoted to the topic "Trademark infringement and secondary liability for counterfeit goods with the special focus on the fashion trade in online marketplaces". The reason for choosing this topic is connected to the author's life. Buying of counterfeits, especially through online sites, is a pressing problem. Persons all over the world, women included, like to buy fashionable and luxurious marks. However, many times they spent huge amount of money and end up with "knockoff" products. These customers, but also other parties involved in the process of selling through online marketplaces, end up deceived and with a loss. These economical and sociological consequences have further legal implications. The complex legal issues connected with trademark infringement are not an easy question to solve. Moreover, the regulation of trademark liability is neither unified nor harmonized. As a result, enforcement of liability is left to judiciary, which many times does not interpret the law in favor of the harmed parties. These issues connected to the trademark infringement were another reason for choosing this topic. As will be elaborated in the work, the current system of intermediary trademark liability does not respond to the current challenges. Therefore, a need for changing approach towards issues connected to the liability for infringing unlawful activities is required.

## **1.2 Aim of the Master's Thesis**

These issues correlate with goals of this work. The aim of this work is to analyze the current trademark liability regimes related to trademark infringement, especially in connection with the selling of counterfeits in the online marketplaces. Two legal systems will be analyzed. These are the United States (hereinafter only "the US") legal order and the European Union (hereinafter only "the EU") law. In order to fully understand the concept of these legal regimes, both legal norms as well as judicial decisions will be analyzed. As will be demonstrated in the work, judicial decisions often play much more important function than legislature. How courts interpret the law, at least passively, influences the whole concept of liability related to trademarks. Following that, after determining the weak points of both liability regimes, some further proposals will be elaborated. These must be taken in account in order to change the current status-quo.

### **1.3 Research question and hypothesis**

This Master's thesis has five main research questions, which will be further discussed. First, do the current laws on secondary trademark law in the US provide adequate protection? Second, how did the judicial decisions influence the legal regime of secondary trademark liability in the US? Third, how are the legal norms concerning trademark liability in the EU different from the laws in the US? Fourth, why is there not a unified approach towards intermediary trademark liability? Fifth, how should these regimes of liability be construed in the future, if we want to prevent the current problems?

Finally, the hypothesis is as follows: The distribution of responsibility among all interested parties fewer the amount of counterfeit goods.

### **1.4 Methodological framework**

This Master's thesis was mainly built on the analysis of relevant legal and partially socioeconomical conditions related to the complex issue of counterfeiting. Within the first chapter, there were also definitions analyzed, such as the definition of "counterfeit" and "trademark". After analyzing these legal norms, the thesis has built its conclusions on logical method. Nevertheless, after analyzing and comparing both legal systems, namely the US and the EU, main conclusions of the thesis were built on inductive method (induction). Comparative method was also partially used.

In this Master's thesis, major source were online legal articles. Further, legal norms were used, such as directives and regulations as sources of European union law. Finally, judicial decisions played a pivotal role.

## 2 The Interconnected Nature of Trademarks and Counterfeiting

### 2.1 Historical Aspects connected to Trademark Infringement and Counterfeiting

Trademarks have important functions within marketplace competition. The reason is that trademarks can be beneficial for sellers and buyers. Nevertheless, the phenomenon of trademarks has also a lot of positive consequences on the quality of products, because it helps to reduce consumer search costs and it stimulates producers to maintain a higher standard of quality.<sup>1</sup> Hence, trademark law could be based on the assumption that “*law is trying to promote economic efficiency.*”<sup>2</sup> The roots of this phenomena, however, do not relate only to the present day.

Trademarks should be a sign of modern society. However, we should not neglect historical connotations related to it. The reason is that trademarks are not solely a matter of modern history. From a historical point of view, first signs of trademarks were older. As Edward S. Rogers writes “*the use of trademarks dates from the very earliest times of which we have any knowledge.*”<sup>3</sup> In this manner, reasons and motivations for "marking identifications of objects" are not sure. Even when we stretch back to ancient times, these people wanted to inform others that marked objects belong to them. Therefore, these actions could be regarded as first signs of property ownerships, and their intention was to exclude other members of society from their use.<sup>4</sup> However, their intended effect did not have at that time legal value.

The other important factor was the lack of laws governing the use of these early forms of “trademarks”. This however did change during medieval times. Medieval times actually laid the ground for the development of trademarks.<sup>5</sup> And despite this, resurgence of trade in the

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<sup>1</sup> VERSTEEG, Russ. Ancient Egyptian Roots of Trademarks. *The Antitrust Bulletin*. 2018. Vol 63 (3). p. 284. [online] journals.sagepub.com 16<sup>th</sup> August 2018 [cit. on 30th March 2021] Accessible at: <https://journals.sagepub.com/doi/pdf/10.1177/0003603X18780556>

<sup>2</sup> M. LANDES, William, POSNER, Richard A. Trademark Law: An Economic Perspective. *The Journal of Law & Economics*, 1987, Vol. 30, No. 2, p. 266 [online] jstor.org [cit. on 01st April 2021] Accessible at: <https://www.jstor.org/stable/725498?seq=1>

<sup>3</sup> ROGERS, Edward S. Some Historical Matter concerning Trade-Marks. *Michigan Law Review*. 1910. Vol. 9. No. 1. p. 29. [online] jstor.org [cit. 02nd April 2021] Accessible at: [Some Historical Matter concerning Trade-Marks \(jstor.org\)](https://www.jstor.org/stable/725498?seq=1)

<sup>4</sup> DIAMOND, Sidney A. The Historical Development of Trademarks. *The Trademark Reporter*. 73 (3). 1983 p. 234 [online] heinonline.org [cit. on 02nd April 2021] Accessible at: [https://heinonline.org/HOL/Page?public=true&handle=hein.journals/thetmr73&div=29&start\\_page=222&collection=journals&set\\_as\\_cursor=0&men\\_tab=srchresults](https://heinonline.org/HOL/Page?public=true&handle=hein.journals/thetmr73&div=29&start_page=222&collection=journals&set_as_cursor=0&men_tab=srchresults)

<sup>5</sup> O'NEILL, Tim. Why Are the Middle Ages Often Characterized as Dark or Less Civilized? Quora Contributor. Answer by Tim O'Neill. [online] slate.com 15th January 2015 [cit. 02nd April 2021] Accessible at: [Medieval history: Why are the Middle Ages often characterized as dark or less civilized? \(slate.com\)](https://www.slate.com/articles/feature/medieval-history/2015/01/15/why-are-the-middle-ages-often-characterized-as-dark-or-less-civilized/)

twelfth century started to happen. Simultaneously, guilds, as organizations of merchants and craftsmen, which regulated industry, were formed.<sup>6</sup> With the formation of these various guilds of traders, “*trademarks began to take on greater importance.*”<sup>7</sup> One could argue that the rise of guilds helped significantly to the “spread” of trademarks.<sup>8</sup> Nevertheless, not just “the use” of trademarks had developed, but their protection as well.

In 1266, thanks to Henry III of England, the first trademark law was passed. This law responded to numerous frauds connected to the production of bread. Under this new law, bakers were obliged to add a distinctive mark to all sold bread. Furthermore, this law established also “heavy” fines in case of a wrongful act.<sup>9</sup> This is a clear example of some sort of reciprocity. The law did not just give rights, but also imposed obligations, and set legal consequences in case of wrongful action. The recipients of the legal norm were therefore obliged to comply with the norm by way of sanctions. After all, this “Bakers Marking Law” was the first trademark law passed during medieval times.<sup>10</sup> Almost a century later, the Silversmiths were required by law to mark their products.<sup>11</sup> Gradually, a comprehensive trademark system had developed.<sup>12</sup>

This development was not just associated with the protection, but also with early trademark infringement. During 13<sup>th</sup> century trademark infringement was becoming so common that European courts had to accommodate to the current trend. Subsequently, trademark protection started to be so important that the use of trademarks started to become compulsory. This was relative to many European countries, such as Germany and Italy. Indeed, the influence of trademarks on trading can be regarded positively, but on the other hand, various

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<sup>6</sup> DRESHCER, Thomas D., *The Transformation and Evolution of Trademarks – From Signals to Symbols to Myth*. *The Trademark Reporter*. 82 (3). 1992. [online] heinonline.org [cit. on 02nd April 2021] Accessible at:

[https://heinonline.org/HOL/Page?public=true&handle=hein.journals/thetmr82&div=32&start\\_page=301&collection=journals&set\\_as\\_cursor=0&men\\_tab=srchresults](https://heinonline.org/HOL/Page?public=true&handle=hein.journals/thetmr82&div=32&start_page=301&collection=journals&set_as_cursor=0&men_tab=srchresults)

<sup>7</sup> BATES, Kath. *History of Trademark*. Oxford Open Learning. [online] ool.co.uk. 3rd June 2016 [cit. on 02nd April 2021] Accessible at:

[History of the Trademark I Oxford Open Learning \(ool.co.uk\)](https://www.oxfordopenlearning.com/history-of-the-trademark-i)

<sup>8</sup> BASMA, Dima. *The Nature, Scope, and Limits of Modern Trademark Protection: A Luxury Fashion Industry Perspective*. A thesis submitted to the University of Manchester for the Degree of Doctor of Philosophy in the Faculty of Humanities. 2016. School of Law. The University of Manchester. Manchester, p. 95. [online] [research.manchester.ac.uk](https://www.research.manchester.ac.uk) [cit. on 03rd April 2021] Accessible at:

[https://www.research.manchester.ac.uk/portal/files/54583181/FULL\\_TEXT.PDF](https://www.research.manchester.ac.uk/portal/files/54583181/FULL_TEXT.PDF)

<sup>9</sup> DENNEMEYER. *Luxembourg. The Evolution of Trademarks. From Ancient Egypt to Modern Times*. [online] mondaq.com 10th December 2019. [cit. on 1st April 2021] Accessible at:

[The evolution of trademarks - from ancient Egypt to modern times \(dennemeyer.com\)](https://www.dennemeyer.com/the-evolution-of-trademarks-from-ancient-egypt-to-modern-times)

<sup>10</sup> Ibid.

<sup>11</sup> BATES: *The History of Trademark*.

<sup>12</sup> BASMA: *The Nature, Scope, and Limits of Modern Trademark Protection*. p. 95

disputes resulting from the marking of goods began. These had to be settled by court. This was relevant for the common law culture.<sup>13</sup>

Within common law culture, the oldest known judicial trademark case, known as Sandforth's Case, "*strengthens the conclusion that trademark infringement and unfair competition were recognized as a violation of English law as early as the mid-sixteenth century.*"<sup>14</sup> The existence of this case confirms the idea that trademark infringement and unfair competition were recognized as violation of English law even in the middle of the 16th century.<sup>15</sup> However, history has honoured as the first case *Southern v. How*, decided in 1618.

*Southern v. How* concerned dispute between the manufacturer of high-quality cloth and a competitor, who produced lower-quality cloth, but used the marking reserved for top quality cloth. As a result, the manufacturer of this high-quality cloth sued this competitor.<sup>16</sup> Although *Southern v. How* is regarded as the first trademark case, some prominent scholars, such as Frank Schechter argue that this case is worthless with regard to the development of the common law of trademarks.<sup>17</sup> Schechter has for these reasons declared *Sykes v. Sykes* as the first case concerning trademark infringement.<sup>18</sup> These disputes represent the importance of the knowledge of the first "trademark case" because from this point of view it seems that further legal development concerning trademark protection depends strongly on judicial decisions.

### **2.1.1 Development towards a more Comprehensive System of Trademark Law**

Trademarks and their protection against infringement started to be more in the centre of society. The industrial revolution, the rise of modernity as well as the progressive development of legal order had also affected trademark protection. Therefore, the system from a single act regulating trademarks evolved into comprehensive modern trademark law.

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<sup>13</sup> MANLEY, Catherine. The Trademark Paradox. Trademarks and Their Conflicting Legal and Commercial Boundaries. Schriften zum Medien-, Urheber und Wirtschaftsrecht. p. 507 [online] peterlang.com [cit. on 03rd April 2021] Accessible at:

[3. EU Trademark Protection: Tension Between Competing Interests : The Trademark Paradox \(peterlang.com\)](#)

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> JOHNSON, David. Trademarks: A History. [online] infoplease.com 24th August 2020 [cit. on 03rd April 2021] Accessible at:

[Trademarks: A History \(infoplease.com\)](#)

<sup>17</sup> Check famous article by Frank Schechter *The Rational Basis of Trademark Protection*. STOLTE, Keith M. *How Early Did Anglo-American Trademark Law Begin? An Answer to Schechter's Conundrum*. Fordham Intellectual Property, Media and Entertainment Law Journal. Volume VIII, Book 2. 1997. Article 6. [online] ir.lawnet.fordham.edu [cit. on 03rd April 2021] Accessible at:

[How Early Did Anglo-American Trademark Law Begin? An Answer to Schechter's Conundrum \(fordham.edu\)](#)

<sup>18</sup> Ibid.

The world's first comprehensive trademark law is dated to 1857 when the French Manufacture and Goods Mark Act was established.<sup>19</sup> This law was important because it asserted property right in marks.<sup>20</sup> Subsequently, it reinforced the system of registration.<sup>21</sup>

These developments did not have regional character and thus trademark protection started to gain significance in more countries. In 1862, England passed the "Merchandise Marks Act",<sup>22</sup> which dealt with consequences for companies that sold "products with forgery nature".<sup>23</sup>

In England, one could argue that the above mentioned "Merchandise Marks Act" started the development of modern trademark protection. This argument is based on the following development, because another important legal act, namely the Trade Marks Registration Act, was adopted.<sup>24</sup> This Act was at that time of big importance because it created a formal system of registration for trademarks at the UK Patent Office. This registration represented some form of proof of ownership of a trademark. Subsequently, on January 1, 1876, the first trademark that was to be registered<sup>25</sup> was the Bass Brewery "red triangle".<sup>26</sup>

Furthermore, with the adoption of the 1875 Registration Act, a trademark was for the first time defined. But why took it so long to define trademark? The reason was the need for avoiding legal misunderstandings of the term. Under the 1875 Registration Act, the trademark was defined as *"a device, or mark, or a name of an individual or a firm printed in some particular and distinctive manner, or a written signature or copy of a written signature of an*

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<sup>19</sup> DENNEMEYER, The Evolution of Trademarks.

<sup>20</sup> DUGUID, Paul. French Connections: The International Propagation of Trademarks in the Nineteenth Century. *Enterprise & Society*. March 2009, Vol. 10, No. 1. Cambridge University Press. p. 27 [online] jstor.org 21th November 2008 [cit. on 03rd April 2021] Accessible at: [French Connections: The International Propagation of Trademarks in the Nineteenth Century \(jstor.org\)](https://www.jstor.org/stable/2346222)

<sup>21</sup> Ibid.

<sup>22</sup> ELMORE, Dawn. The history of the UK trademark. [online] dawn-ellmore.medium.com 22nd September 2017 [cit. on 03rd April 2021] Accessible at:

[The history of the UK trade mark. Today the term 'trade mark' is commonly... | by Dawn Ellmore | Medium.](https://medium.com/@dawnellmore/the-history-of-the-uk-trade-mark-today-the-term-trade-mark-is-commonly...-by-dawn-ellmore-1234567890)

Check also WOOD, John Bigland. The law of trade marks: including the Merchandise Marks Act, 1862 and the Trade Marks Registration Act, 1875, with the rules thereunder, and practical directions for obtaining registration, with notes, full table of cases, and index. 1846. London. Stevens and Sons. [online] archive.org [cit. on 03rd April 2021] Accessible at:

[The law of trade marks: including the Merchandise Marks Act, 1862, and the Trade Marks Registration Act, 1875, with the rules thereunder, and practical directions for obtaining registration; with notes, full table of cases, and index: Wood, J. Bigland \(John Bigland\), b. 1846 : Free Download, Borrow, and Streaming : Internet Archive](https://www.archive.org/details/lawoftrademarks1846wood/page/n5/mode/2-up)

<sup>23</sup> DENNEMEYER, The Evolution of Trademarks.

<sup>24</sup> This Act was adopted in 1875.

<sup>25</sup> ELMORE. The history of the UK trademark.

<sup>26</sup> BAKER, Clare. Behind the Red Triangle: The Bass Pale Ale Brand and Logo. Design, Informative, Logos, Small Business Resources. [online] logoworks.com [cit. on 03rd April 2021] Accessible at: [Behind the Red Triangle: The Bass Pale Ale Brand and Logo - Logoworks Blog](https://www.logoworks.com/behind-the-red-triangle-the-bass-pale-ale-brand-and-logo/)

*individual or firm, or a distinctive label or ticket.*”<sup>27</sup> However, later this definition was refined in another two important trademark acts in 1888 and 1905.<sup>28</sup>

In the United States, the first signs of trademark protection were at similar time as in the UK. In 1870, the US Federal Trademark Act (officially as the Patent, Copyright and Trademark Act) was passed. Under this Act,<sup>29</sup> the Averil Chemical Paint Company was the first brand registered. Despite that, “*the trademarks provisions of 1870 Act underwent a number of revisions in their first decade.*”<sup>30</sup> These included the addition of criminal penalties for certain trademark infringement, which unfortunately faced strong opposition. Under this opposition to the 1870 Trademark Act can the so-called *Trade-Mark Cases*<sup>31</sup> be understood. The Supreme Court of the United States then issued its decision in the *Trade-Mark Cases* in 1879, claiming that the entire 1870 Trademark Act and its amendments were unconstitutional. Consequently, until 1881 “*the United States had no federal trademark law again.*”<sup>32</sup>

### **2.1.2 The 1946 Lanham Act and its Importance for Federal Trademark Protection**

Far more important was in 1946 the Lanham Act,<sup>33</sup> (hereinafter also as “LA”) which spelt out federal trademark protection and registration rules.<sup>34</sup>

The intent and the national policy about counterfeiting was to be found in the operative paragraphs. This intent was of protective nature, so to avoid fraud and deception and protect registered marks.<sup>35</sup> So what exactly is the role of this Act in the U.S. legal order? LA is supposed to provide the legal framework for the fight against counterfeiting. This Act, although it was drafted more than a half-century ago, still enjoys a wide level of recognition. It is sometimes

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<sup>27</sup> ELMORE, The history of the UK trademark.

<sup>28</sup> Ibid.

<sup>29</sup> ROSEN, Zvi S. Federal Trademark Law: From Its Beginnings. *Landslide*. Vol. II. No. 4. 2019. American Bar Association. [online] americanbar.org. [cit. on 03rd April 2021] Accessible at: [Federal Trademark Law: From Its Beginnings \(americanbar.org\)](https://www.americanbar.org/publications/landslide/volume-ii-no-4-2019/federal-trademark-law-from-its-beginnings/)

<sup>30</sup> Ibid.

<sup>31</sup> Under *Trade-Mark Cases* are more cases to be understood, where the courts questioned whether the 1870's Act trademark's provision was constitutional. Ibid.

<sup>32</sup> Ibid.

<sup>33</sup> The Lanham Act, officially known as 15 U.S.C.A § 1051 (West 1946), or as the Trademark Act of 1946, regulates the use of trademark activity and imposes civil and criminal liability for infringement, dilution, and false advertising. TRIPOLI, Casey L. Fashion Forward: The Need for a Proactive Approach to the Counterfeit Epidemic. *Brooklyn Journal of International Law*, 41 (2), p. 880 [online] heinonline.org [cit. on 03rd April 2021] Accessible at: [https://heinonline.org/HOL/Page?public=true&handle=hein.journals/bjil41&div=23&start\\_page=875&collection=journals&set\\_as\\_cursor=0&men\\_tab=srchresults](https://heinonline.org/HOL/Page?public=true&handle=hein.journals/bjil41&div=23&start_page=875&collection=journals&set_as_cursor=0&men_tab=srchresults)

<sup>34</sup> DENNEMEYER, The Evolution of Trademarks.

<sup>35</sup> 15. U. S. Code § 1127 (Section 1127). Constructions and Definitions., intent of chapter. Legal Information Institute. Cornell Law School. [online] law.cornell.edu [cit. on 03rd April 2021] Accessible at: <https://www.law.cornell.edu/uscode/text/15/1127>

even compared to the U.S. constitution, because like the Constitution, it can "fit the times".<sup>36</sup> That means that it is legally constructed in such a way that it has the possibility to react to the current market changes. Lanham Act has therefore evolved. This evolution can be seen in expanded section 43 of the Lanham Act, which now covers a wide range of unfair competition.<sup>37</sup> The main reason why is this Act so well known is that it provides the definition of a trademark. Under this Act, *"trademark" includes any word, name, symbol, or device, or any combination thereof used by a person, or which a person has a bona fide intention to use in commerce and applies to register on the principal register established by this chapter, to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.*"<sup>38</sup> It is therefore used to distinguish one's products from another's in the marketplace.<sup>38</sup> Subsequently, registering a trademark with the U.S. Patent and Trademark Office (USPTO) is considered to be the evidence *„of the registrant's exclusive right to use registered mark.*"<sup>39</sup>

### 2.1.3 Definitional Complexities related to „Trademark“ and „Counterfeit“

The importance of this definition lies in its connection to trademark use. Following that, *"trademark use is a basic element of all provisions relating to trademark rights and infringement"*. Within the Act itself, this definition has to be read in conjunction with the Section 1127's<sup>40</sup> own terms, by which these definitions are *„controlling the construction of this chapter, unless the contrary is plainly apparent from the context."*<sup>41</sup> Besides, the LA represents generally the trademark law and trademark protection within the common law system. LA is also generally known to be the codification of common law regarding trademark protection.<sup>42</sup>

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<sup>36</sup> GARON, Joseph. D. The Lanham Act: A Living Thing. Fordham Intellectual Property, Media and Entertainment Law Journal Volume VII. Book I. 1996. [online] law.cornell.edu [cit. on 03rd April 2021] Accessible at:

<https://core.ac.uk/download/pdf/144227282.pdf>, Check also LIPSITZ, Randy. *Judging by Appearance: How the Lanham Act Protects Product Shapes: Issue Continues to Confound Lawyers*, N.Y.L.J., 2nd December 1996

<sup>37</sup> MARX, Gary S. Section 43 (A) of the Lanham Act: A Statutory Cause of Action for False Advertising. Washington and Lee Law Review. Volume 40. Issue 2. Article 2. [online] scholarlycommons.law.wlu.edu [cit. on 6th April 2021] Accessible at:

<https://scholarlycommons.law.wlu.edu/cgi/viewcontent.cgi?article=2639&context=wlulr>

<sup>38</sup> TRIPOLI. Fashion Forward, p. 880

<sup>39</sup> What are the Requirements for a Trademark Claim Under the Lanham Act? Bona Law PC. Antitrust & Competition. [online] bussinessjustice.com [cit. on 6th April 2021] Accessible at:

<https://www.businessjustice.com/what-are-the-requirements-for-a-trademark-claim-under-the-lanham.html>

<sup>40</sup> This is a definition section of the Act.

<sup>41</sup> WIDMEIER, Uli. Use, Liability, and the Structure of Trademark law. Hofstra Law Review. Volume 33. Issue 2. Article 7. 2004. p. 17 [online] scholarlycommons.law.hofstra.edu [cit. on 6th April 2021]

Accessible at: <https://scholarlycommons.law.hofstra.edu/cgi/viewcontent.cgi?article=2433&context=hlr>

<sup>42</sup> Check Barton Beebe's argument that the Lanham Act is indeed widely noted to have generally codified common law. BEEBE, Barton. Trademark law. An Open-Source Casebook" [online] tmcasbook.org [cit. 6th April 2021] Accessible at: [http://tmcasbook.org/wp-content/uploads/2020/08/BeebeTMLaw-v7-digital\\_edition.pdf](http://tmcasbook.org/wp-content/uploads/2020/08/BeebeTMLaw-v7-digital_edition.pdf)



Although some authors argue that this codification is incomplete, it is generally acknowledged that it accommodates common law history of trademark protection.

LA is also important because it creates a mechanism for federal registration of marks and civil causes of action for infringement of both registered and unregistered marks.<sup>43</sup> It has to be read in conjunction with trademark law in general. If we think of trademark law's role within a legal system, „*trademark law protects market integrity by guarding against unfair competition and rewarding fair and continuous use*“.<sup>44</sup> Therefore, the use of trademarks within commerce is a central component of trademark protection. This fact is also reflected in LA. Trademark use is reflected in the Lanham Act's terminology as „use in commerce“. Thus, use is the decisive element for establishing trademark rights. As a consequence, the entire federal trademark registration scheme set up by the Lanham Act depends on trademark use.

Apart from that, other aspects have to be taken into consideration. These relate especially to counterfeits by way of unfair competition. LA is very important because it provides a definition of a counterfeit item as a „*spurious mark, which is identical with, or substantially indistinguishable from a registered trademark*“.<sup>45</sup> Subsequently, imitation goods are therefore „*legally barred from marketplace*.“ On the other hand, this does not mean that they are not to be found in the marketplace. Once in the marketplace, it negatively affects the market and the customers as well. As a result, fake goods compete unfairly with genuine products.<sup>46</sup> Therefore, the production of counterfeits is one of the very problematic aspects of trademark protection.

The definition of counterfeit is also to be found in the Lanham Act. According to LA, a „*counterfeit*“ is a *spurious mark which is identical with, or substantially indistinguishable from a registered mark*.“ Under mark, the trademark has to be also understood. Here it is also important to stress that the Act's language speaks about registered marks.<sup>47</sup> Therefore, due to

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<sup>43</sup> McKENNA, Mark. P. Criminal Trademark Enforcement and the Problem of Inevitable Creep. [online] law.berkeley.edu [cit. on 6th April 2021] Accessible at:

[https://www.law.berkeley.edu/files/McKenna - Criminal TM Enforcement \(IPSC Draft\).pdf](https://www.law.berkeley.edu/files/McKenna_-_Criminal_TM_Enforcement_(IPSC_Draft).pdf)

<sup>44</sup> TRIPOLI., Fashion Forward., p. 881

<sup>45</sup> 15 U.S.C. § 1127 (1946).

<sup>46</sup> European Commission. *Too Good to be True: the Real Price of Fake Products*. Internal Market., Industry, Entrepreneurship and SMEs. [online] ec.europa.eu. 19th April 2014 [cit. 6th April 2021] Accessible at: [https://ec.europa.eu/growth/content/too-good-be-true-real-price-fake-products\\_en](https://ec.europa.eu/growth/content/too-good-be-true-real-price-fake-products_en)

<sup>47</sup> PEARSON, Lisa, NAHITCHEVANSKY, Georges, BUSSERT, Christopher P., SULLIVAN Jr., James H. An Overview of Legal Remedies Against the Trafficking in Goods Bearing Counterfeit Trademarks and Gray Market Goods Under United States Law. INTELLECTUAL PROPERTY DESK REFERENCE. PATENTS, TRADEMARKS, COPYRIGHTS AND RELATED TOPICS. [online] killpatricktownsend.com [cit. on 6th April 2021] Accessible at: <https://www.kilpatricktownsend.com/~media/Files/articles/LPearsonOverviewofLegalRemedies>

the wording „registered mark“, <sup>48</sup> „*there is imperative for brand owner to register its trademark or service mark in the United States to take advantage of federal anticounterfeiting laws.*“ <sup>49</sup> Following that, by defining a „counterfeit“ directly in the statute, „counterfeit“ became a legal term. As a consequence, imitation goods, which can be regarded as counterfeits are legally barred from market place.<sup>50</sup> LA therefore provides civil remedies for trademark infringement, and by defining counterfeits, also for counterfeiting.<sup>51</sup>

This definition of „counterfeit“ can be further analyzed. According to the definition, a counterfeit is a „spurious mark“. According to Joint Statement on Trademark Counterfeiting Legislation, a „mark“ is spurious if it is „not genuine or authentic“.<sup>52</sup>

The next part of the definition lies in the fact that the mark is „*identical with, or substantially indistinguishable from*“ the genuine trademark. So, in order to „*qualify as „counterfeit“, the mark must be „identical or substantially indistinguishable“ from the registered mark.*“<sup>53</sup> It is therefore important to note that not every case of trademark infringement amounts to trademark counterfeiting.

The word counterfeit has also a more general meaning. According to most dictionaries, the word counterfeit means an unauthorized copy of a genuine article. It is therefore a copy that is represented as original. It is something „*not genuine, imitating something superior.*“<sup>54</sup> Besides, definition of counterfeit, or more precisely „*counterfeit trademark goods*“ is also contained in *the Agreement on Trade-related Aspects of Intellectual Property Rights* (hereinafter referred as „TRIPS“), which sets out general principles for the enforcement of IP rights.<sup>55</sup>

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<sup>48</sup> 1715. TRADEMARK COUNTERFEITING -- REQUIREMENTS FOR A "COUNTERFEIT MARK". The United States Department and Justice Initiatives. [online] justice.gov [cit. on 6th April 2021] Accessible at:

<https://www.justice.gov/archives/jm/criminal-resource-manual-1715-trademark-counterfeiting-requirements-counterfeit-mark>

<sup>49</sup> Ibid.

<sup>50</sup> TRIPOLI. Fashion Forward, p. 883

<sup>51</sup> Actually, anti-counterfeiting enforcement in the United States stems largely from two federal statutes: the Lanham Act (codified at 15 USC § 1051) and the Trademark Counterfeiting Act 1984 (codified at 18 USC § 2320). Procedures and strategies for anti-counterfeiting: United States. [online] worldtrademarkreview.com [cit. on 03rd April 2021] Accessible at:

<https://www.worldtrademarkreview.com/anti-counterfeiting/procedures-and-strategies-anti-counterfeiting-united-states-1>

<sup>52</sup> 1715. TRADEMARK COUNTERFEITING

<sup>53</sup> PEARSON, NAHITCHEVANSKY, BUSSERT, SULLIVAN. An Overview of Legal Remedies. p. 130

<sup>54</sup> Definitions. Definitions for counterfeit. The Web's Largest Resource for Definitions & Translations. A Member of the Stands4 Network. [online] definitions.net [cit. on 08th April 2021] Accessible at:

<https://www.definitions.net/definition/counterfeit>

<sup>55</sup> Enforcement of intellectual property rights. Intellectual property. World Trade Organisation. [online] wto.org [cit. on 27th March 2021] Accessible at:

[https://www.wto.org/english/tratop\\_e/trips\\_e/ipenforcement\\_e.htm](https://www.wto.org/english/tratop_e/trips_e/ipenforcement_e.htm)

TRIPS provides in a reference within Article 51 that „for the purposes of this Agreement: „counterfeit trademark goods" shall mean any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation.“<sup>56</sup> This is a more precise definition than the one contained in LA. The most important aspects stemming from the definition are that these goods do not have authorization, they are identical to the trademark validly registered in respect of such goods, and that by this way it infringes the rights of the owner of the trademark. Further, this definition puts „trademark" and „counterfeit" together and therefore one could say that they are bound together. This could be interpreted as a statement that there is no counterfeit without connection to trademark. This presumption seems logical. To prove that, we have to ask and elaborate more on „typical cases of counterfeiting". For instance, in the typical case of counterfeiting, „a product is made to imitate all facets of the genuine product, including its trademark, so that purchasers are deceived into buying what they believe is a genuinely branded good.“<sup>57</sup>

The substance of counterfeiting<sup>58</sup> lies therefore in deceiving customers, who bona fide suppose that they will get the original product for appropriate price. This is parallelly but indirectly reflected in one of the main functions of the trademark. Their primary function should be the indicator of the specific origin and quality of good. So, trademarks seem to be very much connected to counterfeiting. They are therefore „inseparable containers".

Subsequently, trademarks and counterfeits are connected also to the market. It is because, consumers who have an honest belief that they buy a trademarked good can in the end

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<sup>56</sup> Agreement on Trade-related Aspects of Intellectual Property Rights. Section 4: Special Requirements Related to Border Measures. Annex 1C. Article 51. Suspension of Release by Customs Authorities. [online] wto.org [cit. on 08th April 2021] Accessible at:

[https://www.wto.org/english/docs\\_e/legal\\_e/27-trips.pdf](https://www.wto.org/english/docs_e/legal_e/27-trips.pdf)

<sup>57</sup> SOMMERS, Mark. Taking an Aggressive Stance Against Counterfeiters: An Overview of Trademark Counterfeiting Litigation under the Lanham Act. September/October 1999. IP Litigator. [online] finnegan.com October 1999 [cit. on 08th April 2021] Accessible at:

<https://www.finnegan.com/en/insights/articles/taking-an-aggressive-stance-against-counterfeiters-an-overview.html>

<sup>58</sup> In order to have a better background about practical cases, abstract definitions can also be helpful. See for instance BLACK'S LAW DICTIONARY definition of "counterfeiting". BLACK'S LAW DICTIONARY 376 (8th edition 2004) In: FAVRE, Emily. Online Auction Houses: How Trademark Owners Protect Brand Integrity Against Counterfeiting. Journal of Law and Policy. Volume 15. Issue 1. Science for Judges VII.: Evaluating Evidence of Causation & Forensic Laboratories: Current Issues and Standards. Article 7. 2007.[online] brooklynworks.brooklaw.edu [cit. on 02nd April 2021] Accessible at:

<https://brooklynworks.brooklaw.edu/cgi/viewcontent.cgi?article=1188&context=jlp>

lose confidence in the market.<sup>59</sup> Trademarks therefore play an important role in preventing market failure.<sup>60</sup> Nevertheless, in the last two decades, the overall activity of the counterfeit market has risen 10 000 percent. This is especially caused by the rise of the Internet, and due to counterfeit activities on the Internet.

As market turned global, new questions have arisen. These concern especially the question of how to determine responsibility for the distribution of these fake products, and who should be charged to limit them in the marketplace. Due to the global character of internet use, counterfeiting has become a substantial problem.<sup>61</sup> This is especially reflected in issues involving the distribution of goods on the Internet. This affects multiple parties, which include the IPROs, the general public, the government and from an important point of view, intermediaries also.<sup>62</sup> As a result of counterfeiting, even when the burden for sharing „injuries“ caused by forgeries is placed among all the parties,<sup>63</sup> counterfeiting, abstractly said, never ends in a win/win solution. Therefore, the issues concerning policing must be reevaluated and shifted to avoid drastic increases in the injuries sustained by all parties.<sup>64</sup>

## **2.2 Distribution of Counterfeit Goods on the Internet and its Effects on the Parties involved**

Intellectual property rights owners (hereinafter called "IPROs") are probably the most affected party with regard to counterfeiting. This is even though IPROs try to protect websites that intermediaries control. However, due to the competitive nature of the market and its reciprocal relationship to counterfeiting, IPROs generally do not have the capacity to control the selling of counterfeited products.<sup>65</sup> This is even though IPROs have numerous strategies to combat the trafficking of counterfeit goods both on and offline. Thus, to combat the online

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<sup>59</sup> TRIPOLI. Fashion Forward., p. 88

<sup>60</sup> World Intellectual Property Report. Brands – Reputation and Image in the Global Marketplace.2013. WIPO Economics and Statistics Series. [online] wipo.int. [cit. 02nd April 2021] Accessible at [https://www.wipo.int/edocs/pubdocs/en/intproperty/944/wipo\\_pub\\_944\\_2013.pdf](https://www.wipo.int/edocs/pubdocs/en/intproperty/944/wipo_pub_944_2013.pdf)

<sup>61</sup> LERNER, Todd Evan. Playing the Blame Game, Online: Who is Liable when Counterfeit Goods are Sold Through Online Auction Houses? January 2010. Pace International Law Review. Volume 22. Issue 1. January 2010. Accessible at:

<https://digitalcommons.pace.edu/cgi/viewcontent.cgi?article=1030&context=pilr>

<sup>62</sup> TRIPOLI, Fashion Forward, p. 883

<sup>63</sup> TRIPOLI, Fashion Forward., p. 883

<sup>64</sup> Drastic increases can be represented in numbers. For instance, according to *Brussels Memo*, the global volume of trade in fake goods stands at over 200 billion per year. European Commission. Memorandum of Understanding. 21. June 2016.

<sup>65</sup> FAVRE. Online Auction Houses, p. 168

trafficking of counterfeits, IPROs have to take action against parties that facilitate the counterfeit trade.<sup>66</sup>

IPROs fight against counterfeiting is complicated by the wide use of the internet and the selling of products there. This is especially relevant in the context of selling counterfeits at online auctions. Online auctions, even despite their attempts to prohibit the sale of counterfeit on their sites, rarely scrutinize if they do not sell counterfeits, or if counterfeit products are not posted on their sites.<sup>67</sup> The problem is that these attempts by online auctions many times do not reflect the problem. Even if they take various preventive measures, including prohibiting the sale of counterfeit and infringing merchandise in their terms and conditions, in most cases counterfeits are to be found on their websites.<sup>68</sup> These agreements are furthermore special in a very important, but negative way. They try to evade secondary liability. It is because of their anticipated feeling of the threat of legal action by IPROs for secondary infringement. As a result, “*virtually all auction sites have crafted their legal terms in efforts to avoid such liability.*”<sup>69</sup> On top of that, smaller auctions sites many times fail to enforce even terms of use of their agreements. This results in shifting the responsibility for listings to the seller.

User Agreements are not the only tool, by which online auction sites try to prevent the selling of counterfeits<sup>70</sup> For instance, the second-largest online auction site, Yahoo! Inc., operator of Yahoo! Auctions created for this purpose a special program called *Neighborhood Watch Program*, which allows users to review and report "questionable auctions". The rationale behind Yahoo! Auctions is that to avoid posting counterfeit and infringing items on its site, it primarily relies on direct feedback from users.<sup>71</sup>

Other online auction sites, such as eBay Inc, which is eBay's largest online auction site, has a special program, which is called Verified Rights Owner program. This is widely regarded as the most comprehensive program offered by online auction sites to deal with IPROs complaints. This program consists of reviewing and reporting alleged infringing activities.<sup>72</sup>

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<sup>66</sup> ROSENBERG: Legislative Response to Tiffany v eBay. p.100

<sup>67</sup> FAVRE. Online Auction Houses. p. 169.

<sup>68</sup> Many times „online auctions“ companies such as eBay or Amazon have special „user agreements“, such as eBay User Agreement or Amazon Participation Agreement. Check eBay User Agreement. eBay. Customer Service. pages.ebay.com [cit. on 02nd April 2021] Accessible at: <http://pages.ebay.com/help/policies/user-agreement.html> or Yahoo Terms of Service. yahoo.com [cit. on 02nd April 2021] Accessible at: <http://docs.yahoo.com/info/terms>, FAVRE, Online Auction Houses., p. 168

<sup>69</sup> Online Auction Sites and Trademark Infringement Liability. *Trademark and Unfair Competition Committee*. [online] nycbar.org [cit. 02th April 2021] Accessible at: <https://www.nycbar.org/pdf/report/Online%20Auction%20Sites%20Final%20Report.pdf>

<sup>70</sup> Ibid.

<sup>71</sup> Ibid.

<sup>72</sup> Ibid.

Companies such as Yahoo, Amazon or eBay have set up specific programs to prevent the selling of counterfeits. More precisely, these specific programs prevent counterfeit items to be listed on their sites. Nevertheless, even these specific programs did not stop fraudulent products to be listed on online auction sites.<sup>73</sup> With this negative trend, IPROs cannot be satisfied. It is because both large multinational companies and small IPROs are subject to injuries sustained by forgeries of their trademarks.<sup>74</sup> IPROs can therefore argue that more can be done to prevent violations of their rights. On the other hand, online auction sites can also be reluctant to do more. Even if they would have the incentive to do more to protect the rights of their users, a more enforced user policy may reduce the level of user activity or even impose a financial burden on the operators of the auction sites.

Moreover, online auction sites often craft the terms of contracts in order to avoid liability for secondary infringement. To have an example, the company eBay has put in its User Agreement following provisions: *“We are not involved in the actual transaction between buyers and sellers. As a result, we have no control over the quality, safety or legality of the items advertised... Because we are a venue, if you have a dispute with one or more users, you release eBay ... from claims, demands and damages ... of every kind and nature....arising out of or in any way connected with such disputes.”.....,the User Agreement disclaims any warranties of non-infringement and states that „in no event shall we .... be liable for lost profits or any special, incidental or consequential damages arising out of or in connection with our site, our services or this agreement (... including negligence).“<sup>75</sup>*

These provisions demonstrate that online auction sites, such as eBay, try to make every effort to avoid liability for trademark infringement. This is clear even from the first sentence, which can be understood that eBay plays a very specific role between buyers and sellers. They are not involved in the actual transaction, they are just intermediaries. Subsequently, they expressly mention that they have *„no control over the legality of the items advertised.“* This is a clear example of an effort on how to avoid liability. On top of that, they indirectly confess that fraudulent products can be sold on their sites. This is not unimportant, because they often face litigations, which are bound with financial burdens when fighting IPROs.<sup>76</sup> Trying to avoid liability even in terms of use seems a necessary step towards more „relieved" selling of products in online stores.

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<sup>73</sup> Ibid.

<sup>74</sup> TRIPOLI., Fashion Forward., p. 883

<sup>75</sup> Ibid.

<sup>76</sup> TRIPOLI, Fashion Forward. p. 890

Conversely, the constant increase in the spread and selling of counterfeits affects the market price of IPROs, which take aggressive steps to protect against the devaluation of their brands.<sup>77</sup> They often sue online auction sites for secondary liability and hiring outside consultants to help police the sites in search of counterfeit goods. The reason is that „*trademark owners themselves are in the best position to identify counterfeit products...*“<sup>78</sup> Actually, IPROs are the best stakeholders to evaluate counterfeit products. This is even despite the fact that often counterfeit products possess high quality, but they often rather choose the possibility to steal someone else's name.<sup>79</sup>

Moreover, IPROs usually must have strong „brand management plans" that are in conformity with their corporate entity. The reason is that with a „strong brand" they can secure that customer loyalty can be guaranteed.<sup>80</sup> They must also rely on intermediaries, such as online auction sites, and be in close connection with them.<sup>81</sup> These online auction sites are also their partners. However, by relying on partners IPROs lose control over „the customer experience" and „use of brand". Consequently, with the rise of online trading, customer's exposure to a brand is entirely outside the brand owner's direct control.<sup>82</sup>

IPROs position seems therefore to be quite complicated. However, intermediaries also experience the effects of counterfeiting. Many times they face litigation costs while having disputes with IPROs. They also face complaints by users regarding counterfeit products on their website.

Nevertheless, IPROs and intermediaries are not the only stakeholders negatively affected by counterfeits. Consumers and governments are affected also by counterfeiting.

The effects of counterfeits on consumers as stakeholders must be viewed from a wider perspective. The problem is that nowadays buying a counterfeit is not seen as hazardous but rather as a normal purchase. Counterfeit products pose not just an imminent, but also a long-lasting danger for the health. Despite that, „*many consumers are actually unaware of the dangerous nature of deceptive counterfeit products.*“<sup>83</sup> Moreover, consumers expect that it is

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<sup>77</sup> HOPKINS, David M., ET. AL., COUNTERFEITING EXPOSED: HOW TO PROTECT YOUR BRAND AND MARKET SHARE 26 (2003). In: FAVRE, Online Auction Houses, p. 168

<sup>78</sup> Ibid.

<sup>79</sup> COLVIN, Geoffrey. *From knockoff bags to knockout brands*. CNN Money. [online] moneycnn.com. June 27, 2005. [cit. on 11th April 2021] Accessible at: [https://money.cnn.com/magazines/fortune/fortune\\_archive/2005/06/27/8263409/index.htm](https://money.cnn.com/magazines/fortune/fortune_archive/2005/06/27/8263409/index.htm)

<sup>80</sup> MURRAY, Brain H. DEFENDING THE BRAND: Aggressive Strategies for Protecting Your Brand in the Online Arena. American Management Association. New York. 2004. p. 75.

<sup>81</sup> FAVRE, Online Auction Houses., p. 890

<sup>82</sup> MURRAY. DEFENDING THE BRAND. p. 76

<sup>83</sup> AMINE, Lyn S., MAGNUSSON, Peter. Targeting Buyers of Counterfeit Goods. WIPO Magazine. September 2008. [online] wipo.int [cit. 02th April 2021] Accessible at:

up to their governments to protect them against dangers from counterfeit goods. On top of that, they even defend their right to choose between „*expensive, genuine brand-name products and much cheaper but inferior counterfeits*.“<sup>84</sup> This is even despite the fact that buying counterfeits is a criminal offence in some countries.<sup>85</sup> Consumers also falsely believe that they can recognize counterfeit products. This concerns fashion items, which can be bought at a lower price regardless of lower quality. Such attitudes stand at odds with legal standards and moral values.

The last stakeholders affected by counterfeit markets are the governmental regimes. This is relevant even in the United States of America as well as the EU. What is more interesting is the fact that various national crises, such as terrorist attacks or financial crisis, are linked to the counterfeit trade. For instance, sales from counterfeit shop helped to fund the 1993 truck bomb attack on the World Trade Center.<sup>86</sup>

Additionally, the production and selling of counterfeits negatively affect the number of funds that normally would be available to overall public welfare.<sup>87</sup> Governments try to allocate a huge amount of time and resources to control the market. Furthermore, there are many international efforts, such as the Anti - Counterfeiting Trade Agreement, which try to suppress the counterfeit epidemic. The sad fact is that even despite these international efforts, the problem of counterfeiting is still growing. This concerns not just the factual problems but also legal. The next chapter will therefore focus on the issues connected to legal aspects of liability connected to trademark infringement and selling of counterfeits, especially the intermediary liability, also known as secondary liability for trademark infringement.

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[https://www.wipo.int/wipo\\_magazine/en/2008/05/article\\_0008.html](https://www.wipo.int/wipo_magazine/en/2008/05/article_0008.html)

<sup>84</sup> AMINE, MAGNUSSON. Targeting Buyers of Counterfeit Goods

<sup>85</sup> TRIPOLI. Fashion Forward. p. 890

<sup>86</sup> For more detailed information about links between counterfeiting and terrorism, check: FELICE, Katherine B. Fashioning A Solution for Design Piracy: Considering Intellectual Property Law in the Global Context of Fast Fashion, or LOWE, Peter. Counterfeiting: links to organised crime and terrorist funding. ICC Counterfeiting Intelligence Bureau., Barking, UK. Journal of Financial Crime. Vol. 13., No. 2, 2006, p. 255-257

<sup>87</sup> According to the Economist, „*as counterfeiters rarely pay duties or taxes, governments lose further revenue.*“ The Economist. Special Report: Imitating property is theft. London. Vol. 367. Iss. 8324. May 17, 2003, p. 52-54. [online] economist.com [cit. on 11th April 2021] Accessible at: <https://www.economist.com/special-report/2003/05/15/imitating-property-is-theft>



### 3 Legal Regulation Of Secondary Liability for Online Trademark Infringement in the United States

#### 3.1 U. S. Legal Perspective on Secondary Liability for Online Trademark Infringement

As mentioned previously in the first chapter, the Lanham Act is the legal act which in general regulates trademarks in the United States. However, the Lanham Act, especially due to the date of his entry into force,<sup>88</sup> was not in reality prepared for „the age of the internet“. With the rise of the internet, questions of legal liability arise. Namely, who should be responsible, if an intermediary, such as eBay or Google, is selling a counterfeit on its site and therefore infringing the rights of IPROs and deceiving customers also? Furthermore, how should this problem be solved, when LA is silent on the subject of intermediary liability?<sup>89</sup> Actually, such situations can be compared or referred to „*hard cases*“ or *lacunae* in a legal system, in the sense that legal standards fail to say anything at all about whether challenged conduct is permitted or prohibited.<sup>90</sup> Therefore with regard to common law, case law has to answer these difficult questions. Following that, two main cases have to be highlighted, namely *Inwood*<sup>91</sup> and *Tiffany*,<sup>92</sup> which „*laid the foundation for what constitutes secondary liability in the United States.*“<sup>93</sup> Both of these cases responded to the legislature’s silence on the subject, which has resulted in framing a standard for secondary liability by federal courts.<sup>94</sup>

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<sup>88</sup> The Lanham Act is also know as the 1946 Trademark Act. HORWITZ, ETHAN. LEVI, BENJAMIN. Fifty Years of the Lanham Act: A Retrospective of Section 43(a). Fordham Intellectual Property, Media and Entertainment Law Journal Volume 7. Issue 1. 1996. Volume VII Book I. Article 6. [online]. www.carltonfields.com [cit. on 22th April 2021] Accessible at:

<https://www.carltonfields.com/Libraries/CarltonFields/Documents/2018/horwitz-50-years-lanham-act.pdf>

<sup>89</sup> TRIPOLI, Fashion Forward., p. 891

<sup>90</sup> SOPER, Philip E. *Legal Theory and the Obligation of a Judge: The Hart/Dworkin Dispute*. Michigan Law Review. Volume 75. Issue 3. 1977. [online] repository.law.umich.edu [cit. on 19th April 2021] Accessible at:

<https://repository.law.umich.edu/cgi/viewcontent.cgi?article=4012&context=mlr>

<sup>91</sup> Inwood Laboratories, Inc. v. Ives Laboratories, Inc., No. 80-2182, United States Court, June 1, 1982, 456 U.S. 844 (1982), 102 S.Ct. 2182, 72 L.Ed.2d 606. [online] case-law.vlex.com [cit. on 20th April 2021] Accessible at:

<https://case-law.vlex.com/vid/456-u-s-844-604861958>

<sup>92</sup> Tiffany (NJ) Inc. v. eBay Inc., 600 F.3d 93 (2d Cir. 2010). [online] casetext.com [cit. on 20th April 2021] Accessible at: <https://casetext.com/case/tiffany-nj-inc-v-ebay-inc>

<sup>93</sup> TRIPOLI, Fashion Forward. 48, p. 891

<sup>94</sup> Ibid., p. 892

### 3.1.1 Inwood Case and the Foundations of Intermediary Trademark Liability

In the US the first case which has to be analyzed is *Inwood Labs., Inc. v. Ives Labs., Inc.*, decided by the U.S. Supreme Court, where it provided the foundation for secondary liability of intermediaries.<sup>95</sup> Inwood involved a pharmaceutical manufacturer, i.a. Ives Laboratories, Inc. (hereinafter referred only as „Ives“), which received a patent on the drug cyclandelate, a vasodilator used in long-term therapy for peripheral and cerebral vascular diseases.<sup>96</sup> However, until the expiration of its patent in 1972, Ives retained the exclusive right to make and sell the drug. This was subsequently sold under the registered trademark CYCLOSPASMOL.<sup>97</sup> Ives marketed this drug, a white powder, to wholesalers, retail pharmacist and hospitals in colored gelatin capsules.<sup>98</sup>

The problem arose, when Ives's patent expired, and various companies, including petitioners Premo Pharmaceutical Laboratories, Inc., Inwood Laboratories, Inc., MD Pharmaceutical Co., Inc. (collectively called as the generic manufacturers), began marketing this drug, namely cyclandelate.<sup>99</sup> Possible trademark infringement could emerge when these „generic manufacturers“ intentionally copied the appearance of the capsules registered under the trademark CYCLOSPASMOL. This drug was then sold in similar shape and color to those selected by Ives.<sup>100</sup> Subsequently, could such behaviour, namely of imitating the appearance of the „brand name drug“, be considered as a trademark infringement?<sup>101</sup>

Ives, as the pharmaceutical manufacturer, brought suit against these generic drug manufacturers, because it claimed that pharmacists had dispensed generic drugs mislabeled as CYCLOSPASMOL. „*Although Ives did not allege that the petitioners themselves applied the Ives trademark to the drug products they produced and distributed, it did allege that the petitioners contributed to the infringing activities of pharmacists who mislabeled generic cyclandelate.*“<sup>102</sup> On top of that, Ives brought this suit against the generic drug petitioners even

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<sup>95</sup> Ibid., p. 892

<sup>96</sup> INWOOD LABORATORIES, INC., et al., v. IVES LABORATORIES, INC. DARBY DRUG CO., INC., et al. v. IVES LABORATORIES, INC. [online] law.cornell.edu [cit. on 22th April 2021] Accessible at: <https://www.law.cornell.edu/supremecourt/text/456/844>

<sup>97</sup> Ibid.

<sup>98</sup> Ibid.

<sup>99</sup> Cyclandelate is the generic equivalent of Cyclospasmol, which is a prescription drug used to increase blood flow in „constricted blood vessels“. Check *Generic drugs win court case*. New York Times. Special to the New York Times. [online] nytimes.com 2th. June 1982. [cit. on 20th April 2021] Accessible at: <https://www.nytimes.com/1982/06/02/business/generic-drugs-win-court-case.html>

<sup>100</sup> Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 7

<sup>101</sup> Ibid.

<sup>102</sup> Ibid.

despite the fact that the petitioners never actually committed trademark infringement.<sup>103</sup> Here the important thing to take away is that even without committing a trademark infringement, one can be held liable. At first sight, this could look as a fundamental violation of legal principles, however, as the court stated, even „contribution“ to the „infringing activities“ is enough to be held liable. This case is actually interesting especially because the Court<sup>104</sup> introduced the theory of „contributory liability“ for intermediaries in relation to direct infringement of a trademark.<sup>105</sup> As stated in the judgment *„contributory liability exists when an intermediary intentionally induces another to infringe a trademark or continues to supply a service to another when the intermediary knows or should know that the other party is engaging in trademark infringement.“*<sup>106</sup> This is known as *„the Inwood standard“*.<sup>107</sup> The Court correctly referred to the previous „trademark infringement cases“, such as *William R. Warner & Co. v. Eli Lilly & Co.*, or *Coca-Cola Co. v. Snow Crest Beverages, Inc.* The Court stated *„even if a manufacturer does not directly control others in the chain of distribution, it can be held responsible for their infringing activities under certain circumstances.“*<sup>108</sup>

Furthermore, Inwood standard comes directly from the sentence *„if 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.“*<sup>109</sup> The importance of the knowledge of „trademark infringement activities“ is the decisive criterion.<sup>110</sup> As a result, intermediaries who respond to notifications of infringing activities receive a broader scale of protection under the Inwood standard.<sup>111</sup> Actually, this may be quite frustrating for intermediaries, who for some reasons were not able to respond to notifications of infringing activities. Even though both of these types of intermediaries had the knowledge of infringing activities, only those who have reacted are allowed to have a broader scale of protection. From some point of view, this could be a motivating factor for intermediaries to react and to do what is required, however, it also stimulates intermediaries to

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<sup>103</sup> TRIPOLI, Fashion Forward, p. 892

<sup>104</sup> Under the abbreviation „the Court“ the Supreme Court of the United States of America has to be understood.

<sup>105</sup> TRIPOLI, Fashion Forward, p. 892

<sup>106</sup> Ibid.

<sup>107</sup> Ibid.

<sup>108</sup> *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*,

<sup>109</sup> *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*,

<sup>110</sup> Check also *Online Auction Sites and Trademark Infringement Liability*, according to which *„the determination of contributory infringement depends upon a defendant’s intent and knowledge of the wrongful activities.“*. *Online Auction Sites and Trademark Infringement Liability*, p. 4

<sup>111</sup> TRIPOLI, Fashion Forward., p. 893

allow them having an infringing material on their sites. It is because until they do not have the knowledge of these activities, they can escape liability.

Another point concerns the fact that „a manufacturer or distributor intentionally induces another to infringe a trademark.“ As can be seen, this takes into account situation of an intention, when the manufacturer knowingly does infringe a trademark. But what about the negligent conduct? Even if the manufacturer would negligently induce another to infringe a trademark, the harm would be done. For the IPROs, it does not matter if there was an intention do it. They only care about the harm caused to them. Therefore it seems that these questions were somewhat avoided by the court, which should not have happened. Subsequently, this decision can be regarded as the first case, which expressly highlighted the importance of the knowledge of the infringing activities. Although it is considered as a „landmark case“ and as a „precedent“, it is regarded by some as a negative precedent, namely because the decision avoided the merits of the case and enunciated very vague standards. As a consequence, Inwood „allowed the common law to evolve“ and therefore also „adapt to new bussiness models“, <sup>112</sup> namely in connection with online auction sites.<sup>113</sup>

### 3.1.2 The Evolution of the Inwood Test and the Issue of Vicarious Liability

Inwood case therefore started a process, after which the concept of „knowledge“ of infringement was further applied, and expanded in a critical series of cases. For instance, in *Hard Rock Cafe Licensing Corp. v. Concession Svcs., Inc.*, the Court <sup>114</sup> applied and even extended the Inwood test for contributory trademark liability to the operator of a flea market.<sup>115</sup> In this case, the Seventh Circuit stated that the flea market owner can be „contributorily“ liable for the selling of counterfeit goods by a market vendor if the owner of the market „knew, had reason to know or was willfully blind“ to the selling which was infringing in nature. And even though the Court found that knowing or having reason to know that the other is acting or will act tortiously, it nevertheless stated also that „*there is no affirmative duty to take precautions against the sale of counterfeits.*“ <sup>116</sup> The Court therefore refused to hold the flea market

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<sup>112</sup> DAWSON, Rian C. Wiggle Room: Problems and Virtues of the Inwood Standard. *Indiana Law Journal*. Volume 91. Issue 2.2016. p. 563. [online] repository.law.indiana.edu [cit. on 20th April 2021] Accessible at: <https://www.repository.law.indiana.edu/cgi/viewcontent.cgi?article=11200&context=ilj>

<sup>113</sup> Rian C. Dawson writes, that the „flexibility of Inwood’s vague standard has revealed its value in online service provider cases.“ *Ibid.*, p. 56

<sup>114</sup> Here as the „Court“ is the Seventh Circuit to be understood. *Online Auction Sites and Trademark Infringement Liability*, p. 4

<sup>115</sup> *Ibid.*,

<sup>116</sup> *Ibid.*

vicariously liable for the trademark infringement.<sup>117</sup> The reason was that the defendant and the infringer had „*no apparent or actual partnership, had no authority to bind one another in transactions with third parties and did not exercise joint ownership or control over the infringing product.*“<sup>118</sup>

The Court examined the merits of the case from within the boundaries of „vicarious liability“. In fact, vicarious liability is a totally different concept of legal responsibility, which lies in „*another's tortious conduct because of pre-existing legal relationship between the relevant parties.*“<sup>119</sup> Therefore, for one to be „vicariously“ liable, the defendant is liable only because of his relations with the direct tortfeasor. The knowledge of the tortious act, which resulted in the harm of one of the parties, is therefore not important.<sup>120</sup> This has important implications in the legal practice. Intermediaries, such as online auction sites selling products originating in the fashion industry, may still be found liable under vicarious liability. As result, intermediaries cannot avoid the secondary liability, when the rights of IPROs are harmed. And courts usually do not avoid the application of secondary liability, because they often rationalize it from an economic perspective. In fact, they try to shift injury costs to those who could possibly prevent future injuries.<sup>121</sup> Therefore, it seems that economical grounds are very much affecting legal perspectives on liability for trademark infringement, and in addition, through court's practice, they are even forming it.

The next case worth mentioning is the case of *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, where the plaintiffs Polo Ralph Lauren Corp., Rolex Watch U.S.A., Inc. and Louis Vuitton opened lawsuit against three retailers and their landlords for the sale of counterfeit goods which bore the trademarks of the three companies. The plaintiffs based their claim on the basis of „contributory trademark infringement“. The reason was that, at least according to

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<sup>117</sup> Ibid.,

<sup>118</sup> Check the original reasoning of the Court, where it stated that „*We have recognized that a joint tortfeasor may bear vicarious liability for trademark infringement by another.. This theory of liability requires a finding that the defendant and the infringer have an apparent or actual partnership, have authority to bind one another in transactions with third parties or exercise joint ownership or control over the infringing product.*“ *Hard Rock Cafe Licensing Corporation, a New York corporation, v. Concession Services, Incorporated*, 955 F.2d 1143 (7th Cir. 1992). [online] law.justitia.com [cit. on 20th April 2021] Accessible at: <https://law.justia.com/cases/federal/appellate-courts/F2/955/1143/448068/>

<sup>119</sup> GERMAIN, Kenneth B. *The Supreme Court's Opinion in the Inwood Case: Declination of Duty*. *Kentucky Law Journal*. Volume 70. Issue 3. Article 6. 1982. [online] core.ac.uk [cit. on 20th April 2021] p. 734. Accessible at: <https://core.ac.uk/download/pdf/232591708.pdf>

<sup>120</sup> BARTHOLOMEW, Mark, TEHRANIAN, John. *The Secret Life of Legal Doctrine: The Divergent Evolution of Secondary Liability in Trademark and Copyright Law* *Berkeley Technology Law Journal*. Vol. 21. No. 4. Fall 2006. p.1366. [online] jstor.org [cit. on 20th April 2021] Accessible at: <https://www.jstor.org/stable/pdf/24118691.pdf?refreqid=excelsior%3Ae4bc5e4ebd8e06456f1ec025796ef012e>

<sup>121</sup> Tripoli writes, that „*for those intermediaries, who lack knowledge of the direct infringement, they may still be found liable under vicarious liability.*“ *TRIPOLI, Fashion Forward*, p. 892

plaintiffs, landlords provided their tenants with a safe haven. This „safe haven“ was illegally used as a marketplace and opened the possibility for tenants to sell counterfeited goods.<sup>122</sup> Plaintiffs also claimed that landlords had the knowledge of the actions of their tenants, and therefore contributed to the trademark infringement.<sup>123</sup> This concept of safe haven seems quite interesting. If we would think about it simply, landlords gave the retailers the possibility to sell the counterfeited goods. Without them, tenants probably could not have the possibility to sell counterfeits. Does it therefore mean that landlords should be equally liable? Even if they for instance had no advantage from the infringing activities? From the logic of the case it should follow that definitely not. The Court decided also in a similar way, when it tried to place limits on the liability of the landlords for the infringing acts of the tenants.<sup>124</sup> The Court stated 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.*“ This statement seems quite ambiguous. Usually, solving a legal issue many times depends on the circumstances of the case. Nevertheless, the Court in this case had the opportunity to set a more precise criteria when determining liability. However, it stated only a vague phrase, which did not help to solve the issue in the current case. The Court also denied the motion to dismiss brought by the defendants, while referring to Inwood and Hard Rock Cafe cases, because plaintiffs „*stated a cause of action for contributory trademark infringement against the landlord.*“<sup>125</sup> Further, the Court based its conclusion on the assumption that once the landlord has actual „notice“ and knowledge of the trademark infringement, the landlord is obliged to take „*reasonable steps to rid the premises of the illegal activity.*“<sup>126</sup> Following that, it seems that a court may require that a trademark holder has to prove that the landlord’s failure to act is very much connected to the trademark holder’s damages.<sup>127</sup>

Subsequently, the next case which has to be analyzed is the well known Tiffany (NJ) Inc. v. eBay Inc. 600 F.3d 93 (2nd Cir. 2010) case (hereinafter called as „Tiffany“), where the

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<sup>122</sup> Online Auction Sites and Trademark Infringement Liability, p. 4

<sup>123</sup> The plaintiffs claim was based upon „several civil seizures of counterfeit goods at each of retail locations“. Furthermore, this was followed by notice letters addressed to the landlords. These letters contained information about illegal sale of counterfeit goods. The assumption that defendants had no knowledge of the counterfeiting therefore seems wrong. Ibid., p. 5

<sup>124</sup> POWELL, Connie D. The eBay Trademark Exception: Restructuring the Trademark Safe Harbor for Online Marketplaces. Santa Clara High Technology Law Journal. Volume 28. Issue 1. Article 1. 2011. p. 6., [online] core.ac.uk [cit. on 22th April 2021] Accessible at: <https://core.ac.uk/download/pdf/149256602.pdf>

<sup>125</sup> Online Auction Sites and Trademark Infringement Liability, p. 4

<sup>126</sup> POWELL. The eBay Trademark Exception. p. 6

<sup>127</sup> Online Auction Sites and Trademark Infringement Liability, p. 4

court (the Second Circuit) amplified the broad protection given under the Inwood standard by adding a good-faith element to secondary trademark liability.<sup>128</sup>

### 3.1.3 Tiffany v. eBay and its Effect on Secondary Trademark Liability

The case of Tiffany v. eBay belongs to the most important cases which influenced the way modern society looks at the secondary trademark liability. In order to fully understand its legal impact, short overview of the background of the case has to be mentioned.

The company eBay, founded in 1995 is one of the most popular online marketplaces that facilitates transactions between buyers and sellers around the world.<sup>129</sup> It is also an „online forum“, where „*practically anyone can trade practically anything, enabling economic opportunity around the world.*“<sup>130</sup> Wide impact this company has on the online auction market is represented also by numbers. Actually, more than 95 percent of auction listings found on the Internet are on eBay.<sup>131</sup> Furthermore, over 100 million items are listed on eBay at any given time, with more than 7 million new auctions and listings posted daily.<sup>132</sup> Despite these enormous numbers, eBay does not directly participate in the transactions and physically does not possess any goods listed on its site.<sup>133</sup> Within its auction and listing services, it only „*provides the venue for the sale of goods and support for the transaction, but it does not itself sell the items.*“<sup>134</sup> eBay’s role is only to connect buyers and sellers and to enable transactions, which are carried out directly between eBay members.<sup>135</sup> Only buyers and sellers contact each other in order to arrange payment and shipment of the goods. However, this does not mean that eBay as an intermediary does not possess control over transactions and items listed on the sites of the sellers. eBay users are required to register and sign a User Agreement that requires users to

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<sup>128</sup> TRIPOLI, Fashion Forward., p. 893

<sup>129</sup> LEHRER, Andrew. TIFFANY V. EBAY: ITS IMPACT AND IMPLICATIONS ON THE DOCTRINES OF SECONDARY TRADEMARK AND COPYRIGHT INFRINGEMENT. [online] bu.edu. 2012 [cit. on 9th May 2021] p. 4. Accessible at:

[https://www.bu.edu/jostl/files/2015/02/Lehrer\\_web.pdf](https://www.bu.edu/jostl/files/2015/02/Lehrer_web.pdf)

<sup>130</sup> Ibid., Check also: VeRO: Helping to Protect Intellectual Property. [online] ebay.co.uk [cit. on 9th May 2021] Accessible at:

<https://www.ebay.co.uk/help/policies/listing-policies/selling-policies/intellectual-property-vero-program?id=4349>

<sup>131</sup> Ibid. Check also: TEDESCHI, Bob. eBay Moves to Recharge Its Auctions. N.Y. Times. [online] nytimes.com 18th June 2007 [cit. on 9th May 2021] Accessible at:

<https://www.nytimes.com/2007/06/18/technology/18ecom.html?ex=1339819200&en=3eb26>

<sup>132</sup> Ibid. Check also: STEINER, Ina. eBay Reveals Seller Restrictions after SIIA Threatens Lawsuit. [online] ecommercebytes.com 29th July 2008 [cit. on 9th May 2021]

Accessible at: <http://www.ecommercebytes.com/cab/cab/abn/y08/m07/i29/s01>

<sup>133</sup> Ibid., p. 4.

<sup>134</sup> Tiffany (NJ) Inc. v. eBay Inc. [online] casetext.com 1th April 2010. [cit. on 9th May 2021] Accessible at:

<https://casetext.com/case/tiffany-nj-inc-v-ebay-inc>

<sup>135</sup> Ibid.

refrain from violating any laws and intellectual property rights.<sup>136</sup> Despite that, many counterfeiters use eBay as a forum to sell their products.<sup>137</sup> Nevertheless, eBay is well aware of such counterfeiting activity and positively can be evaluated that especially in the last two decades it had taken active steps in order to remove active listings from its site.<sup>138</sup> Despite these measures, however, transactions involving counterfeit goods occur on a daily basis. On top of that, the buyer of the product, who can also be regarded as an end user, is the one who „ends up“ with a counterfeit. These „end users“ can even contact legitimate rights owner to report sellers who are suspicious of selling infringing items.<sup>139</sup> Even in spite of all these mentioned facts, the court, namely the Second Circuit (hereinafter referred as „the Court“) had to decide the case between the high-end jewelery brand Tiffany & Co and eBay, because Tiffany claimed that eBay was responsible for trademark infringement, false advertising, and trademark dilution.<sup>140</sup> The reason was simple. Tiffany discovered that between 2004 and 2005, three quarters of Tiffany goods sold on eBay’s website were counterfeits.<sup>141</sup>

In the context of the doctrine of secondary liability, this case is widely regarded as a landmark case, because the Court found that eBay as an intermediary was not liable for direct trademark infringement or even contributory infringement.<sup>142</sup> Concerning the direct trademark infringement, the Court applied the so-called direct trademark infringement test.<sup>143</sup> This test is based on the principle of „likelihood of confusion“,<sup>144</sup> upon which also the Court referred,<sup>145</sup> and its aim is to prohibit the use of the mark in a way that will probably cause confusion about the nature or the origin of the specific product.<sup>146</sup> Based on this test, the Court therefore excluded the liability for direct trademark infringement and followed the sad fact that intermediaries, such as Google, Amazon, or eBay are not to be found liable because they are

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<sup>136</sup> LEHRER. TIFFANY V. EBAY., p. 6

<sup>137</sup> Ibid.

<sup>138</sup> eBay even personally developed „fraud engine“ and the Verifid Rights Owner Program Ibid., p. 8

<sup>139</sup> VeRO: *If you are not a rights owner.* [online] pages.ebay.com [cit. on 10th May 2021] Accessible at: <http://pages.ebay.com/vero/others.html>

<sup>140</sup> TRIPOLI, Fashion Forward., p. 893

<sup>141</sup> Tiffany (NJ) Inc. v. eBay, Inc.,

<sup>142</sup> TRIPOLI, Fashion Forward., p. 893

<sup>143</sup> TRIPOLI, Fashion Forward., p. 893. Check also the direct standpoint of the Court regarding this matter. Tiffany (NJ) Inc. v. eBay Inc.,

<sup>144</sup> BOYLE, James, JENKINS, Jennifer. Open Intellectual Property Casebook. Intellectual Property: Law & the Information Society – Cases: 4th Edition 2018. Chapter Seven. Trademark Infringement. p. 179., [online] web.law.duke.edu [cit. on 9th May 2021] Accessible at:

[https://web.law.duke.edu/cspd/pdf/IPCcasebook2016\\_Ch07.pdf](https://web.law.duke.edu/cspd/pdf/IPCcasebook2016_Ch07.pdf)

<sup>145</sup> This was especially mentioned in the sentence: „so long as the trader does not create confusion by implying an affiliation with the owner of the product.“ Ibid..

<sup>146</sup> BonaLaw. Antitrust & Competition. PC. What are the Requirements for a Trademark Claim Under the Lanham Act? [online] businessjustice.com [cit. 15th May 2021] Accessible at:

<https://www.businessjustice.com/what-are-the-requirements-for-a-trademark-claim-under-the-lanham.html>



not the physical seller of the goods.<sup>147</sup>

The Court also examined the possible trademark infringement on the side of eBay from a point of view of secondary liability. However, rather than being consistent with previous similar cases, such as *Inwood*, the Court „*went beyond what was required by that standard.*“<sup>148</sup> The Court added the so-called „good-faith“ element, because eBay as an intermediary „*never refused to remove a reported Tiffany listing, acted in good faith in responding to Tiffany’s Notice of Claimed Infringement forms, and always provided Tiffany with the seller’s contact information.*“<sup>149</sup> Due to the reason that eBay complied with Tiffany’s notice and takedown requests, used their „fraud engine“ or VeRo programme by which policed their own website in order to find counterfeit products and even allowed Tiffany to host an „About Me“ programme.<sup>150</sup> The purpose of „AboutMe“ was simply to declare that most of the Tiffany silver jeweleries sold on eBay were simply counterfeits.<sup>151</sup> It acted in a good faith and tried to do everything what was required in order to change the status quo. For an intermediary, such as eBay, to provide a „good faith“ element should be enough to be excused of liability.<sup>152</sup> eBay, as a „good guy“ was therefore in the opinion of the Court „worthy“ of protection.<sup>153</sup>

This decision has more legal implications. First, the Court added a so called „good faith element“. This could mean that intermediaries should be excused of liability when they for instance remove listings of counterfeited goods. However, from the Tiffany decision follows that they should be first contacted or warned by the IPROs. As a consequence, the burden to police the trademark lies entirely with the IPROs, and so long as the intermediary is a good faith user, it is given a broad protection.<sup>154</sup> The real problem with such an approach within the U.S. legal system is that until IPROs take action, counterfeits can still be available on the online auction site. Besides that, for instance eBay also shares in the sale proceeds, regardless of whether the item is genuine or not.<sup>155</sup> And even following the Court’s decision, eBay was not

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<sup>147</sup> TRIPOLI, *Fashion Forward.*, p. 877. Check also *Tiffany (NJ) Inc. v. eBay Inc.*, where the Court explicitly stated that „*determining whether an item is counterfeit will require a physical inspection of the item, and some degree of expertise on the part of the examiner.*“ *Tiffany (NJ) Inc. v. eBay Inc.*,

<sup>148</sup> TRIPOLI, *Fashion Forward*, p. 893

<sup>149</sup> BOYLE, JENKINS. *Open Intellectual Property Casebook.*, p. 179

<sup>150</sup> TRIPOLI, *Fashion Forward*, p. 894

<sup>151</sup> DOGAN, Stacey L. *We Know It When We See It: Intermediary Trademark Liability and the Internet.* *Stanford Technology Law Review* 7..2011, p. 8., [online] [stlr.stanford.edu](http://stlr.stanford.edu) [cit. 15th May 2021]  
Accessible at:

<http://stlr.stanford.edu/pdf/dogan-intermediary-trademark-liability.pdf>

<sup>152</sup> *Ibid.*

<sup>153</sup> DOGAN. *We know It When We See It.*, p. 8

<sup>154</sup> TRIPOLI, *Fashion Forward.*, p. 894.

<sup>155</sup> This follows specifically from the decision of the Court, where, despite the fact that eBay never physically possessed the goods sold on its site, its revenue arose from the successful completion of sales between sellers and buyers on the side. This is because revenue depends on the completion of a sale, and eBay actively participates in

liable despite its „general knowledge“ of counterfeit items, and therefore there must be a „more specific knowledge“ of the counterfeit items sold on its site.<sup>156</sup> The Court therefore definitely supported the position of intermediary and placed the burden on IPROs. But why did this happen? One possible assumption could be that the Court wanted to prompt policymakers to recognize that the current law is inadequate when protecting IPROs.<sup>157</sup> The reason for this is that it is generally believed that the U.S. legislation is quite „silent“ on this subject,<sup>158</sup> and does not address the specifics of these issues in connection with modern times, such as online auction sites and online selling in general. Further, such approach departs from copyright law, where intermediaries have a statutory duty to block infringing material.<sup>159</sup> On the other hand, with regard to trademark infringement, courts have imposed „burdensome“ obligations on IPROs to monitor and protect the marks. This is even despite damaging impact counterfeiting has on all the parties involved.<sup>160</sup>

Where intermediaries have counterfeited items on their sites, a more „traditional“ approach would be just simply to block them and remove these listings from their site. Instead, courts in the United States of America put obligations on IPROs to investigate these activities.<sup>161</sup> On top of that, if the intermediary removes such content or product, this will add to the good faith element the courts require and they will be excused from liability. Surprisingly, such removal of counterfeited items is not required by the U.S. legislation.<sup>162</sup> Following that, if the intermediary fails to remove the counterfeit items, it does not automatically lead to liability.<sup>163</sup> As can be seen from the above mentioned, by adding a good-faith element the Court

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forstoring the increase of sales by providing workshops and special programs to aid its sellers expand their business. MERCADO, Ellie. *As Long As „It“ Is Not Counterfeit: Holding EBay Liable For Secondary Trademark Infringement In The Wake LVMH AND TIFFANY INC.* [online] [cardozoelj.com](http://www.cardozoelj.com) p. 131 [cit. 15th May 2021] Accessible at:

<http://www.cardozoelj.com/wp-content/uploads/2011/02/Mercado.pdf>

<sup>156</sup> Ibid., p. 132

<sup>157</sup> Ibid., p. 132

<sup>158</sup> TRIPOLI, Fashion Forward, p. 896

<sup>159</sup> This comes from the Digital Millennium Copyright Act's (also called as „DMCA“), which is used especially by the copyright holders in order to handle notice and takedown procedures. These procedures address copyright infringement of its activities. HAIGHT, Geri L., WELLER, Susan Neuberger. *Copyright Owners Using DMCA To Take Down URLs.* [online] [mintz.com](http://www.mintz.com) [cit. 15th May 2021] Accessible at:

<https://www.mintz.com/insights-center/viewpoints/2012-06-20-copyright-owners-using-dmca-take-down-urls>

<sup>160</sup> TRIPOLI, Fashion Forward., p. 896

<sup>161</sup> Check for instance article by Serena NG and Greg Bensinger, who write: „*Amazon, eBay Inc. and other e-commerce companies also are protected by a 2010 federal appeals-court ruling that put the onus on trademark holders to police the Web for counterfeit or other problematic merchandise.*“ NG, Serena, BENSINGER, Greg. *Lucrative Role as Middleman Puts Amazon In Tough Spot. While Business Is Key To Growth, Conflicts Arise Over Counterfeit, Unsafe Products.* 22th January 2014 [online] [wsj.com](http://www.wsj.com) [cit. 15th May 2021] Accessible at:

<https://www.wsj.com/articles/SB10001424052702304419104579322282141674084>

<sup>162</sup> TRIPOLI, Fashion Forward., p. 896

<sup>163</sup> Ibid.

developed the law. However, it is doubtful if, as a consequence of “good behaviour” of intermediary and subsequent removal of such problematic content, the Court did not went beyond what was really necessary. It is because the removal of infringing content is not required by the US law, and therefore it can possibly detour from the original intent of the legislator.

Tiffany v. eBay is an interesting case also from another perspective, because the Court indirectly connected the case with the provisions of the Digital Milenium Copyright Act (hereinafter reffered also as „DMCA“), which was enacted in 1998 by the U.S. Congress in an effort to mitigate the problems presented by copyright enforcement in the digital age.<sup>164</sup> „*The DMCA provides a series of safe harbors to shield service providers from liability, provided that the service providers remove infringing materials upon proper notification from copyright owners.*“<sup>165</sup> In this place a short but important note comes into consideration. Why could not be such act enacted also with regard to trademark liability, when there is a definitely lack of legislation responding to the current online market selling? On top of that, from Tiffany v. eBay also follows that courts have done little to define a consistently applicable standard for Internet Service Providers (hereinafter also as „ISP“) liability.<sup>166</sup> As result, serious changes are required.

First, counterfeit activities have to be more strictly regulated by internet marketplaces, such as eBay,<sup>167</sup> because as the decision in Tiffany v. eBay shows, current regulation does not fit the challenges of the modern, especially online times.

Second, there is a strong need to develop more exactly the current judicial criteria for determining secondary trademark infringement. Should courts develop in further cases a more stringent approach? Probably yes. Are they going to do it? With regard to previous decisions, such as Inwood and Tiffany, probably not. Possible solution to all these problems that have arisen would be a more balancing framework that would promote the integrity of the online marketplace while allowing room for the public to engage in legitimate secondary market activity.<sup>168</sup> This is even more important with regard to infringing activities that affect luxury

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<sup>164</sup> LEU, Michelle. Authenticate This: Revamping Secondary Trademark Liability Standards To Address A Worldwide Web Of Counterfeits. Berkeley Technology Law Journal, Vol. 26, 2011 p. 10., [online] papers.ssrn.com 14th April 2011 [cit. 15th May 2021]  
Accessible at:

[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1808240](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1808240)

<sup>165</sup> Ibid., p. 10

<sup>166</sup> Ibid., p. 133

<sup>167</sup> Ibid, p. 10

<sup>168</sup> LEU, Michelle. Authenticate This., p. 1

brands, such as Tiffany, Luis Vuitton or Gucci. It is specifically because they are among the fastest-growing targets for counterfeits on the Internet.<sup>169</sup>

### 3.1.4 The Aftermath of the Tiffany decision and the further legal development

There is no doubt that Tiffany was a turning point within the sphere of intermediary trademark liability. Naturally, courts had to take into consideration this important decision and therefore this decision influenced also the development of the concept of secondary trademark infringement in the future. Courts have therefore reinforced the standard set out in Tiffany by applying the idea of good-faith user and the notion of intent to different circumstances.<sup>170</sup> This standard, based on a „good guy, bad guy“ dichotomy, where the good guy are the ones that respond to „specific instances of infringement that they know about and can stop“ and bad guys who are usually liable without regard to actual knowledge, was reinforced in next few cases, from which worth mentioning is for instance *Rosetta Stone v. Google*<sup>171</sup>

The case of Rosetta Stone, similarly as Tiffany, involved the selling of counterfeit goods. Rosetta Stone based its claim on the assumption that Google's keyword ad scheme<sup>172</sup> was being used to direct traffic to websites selling counterfeit goods. The Court, in accordance with its previous decisions, rejected the claims of direct and indirect infringement against Google, and used all its discretion and concluded that Google has neither the economic incentive nor the subjective intent to promote confusion among users of its search engine.<sup>173</sup> Google therefore escaped liability, even though its services were undeniably enabling infringement.<sup>174</sup> Following that, there are multiple consequences for the further practice as well as for the legal doctrine of secondary trademark infringement. Google will likely continue to face similar lawsuits from other companies until it changes its trademark policy.<sup>175</sup> It is because

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<sup>169</sup> Ibid, p. 2, Check also KUTNER, Maria. The Fight Against Fakes Online. Harper's Bazaar. [online] harpersbazaar.com 14th December 2010. [cit. 15th May 2021] Accessible at:

<http://www.harpersbazaar.com/fashion/fashion-articles/fight-against-fakes-online-0111>

<sup>170</sup> TRIPOLI, Fashion Forward., p. 894

<sup>171</sup> Rosetta Stone Ltd. v. Google Incorporated. [online] web.law.columbia.edu [cit. 1th June 2021] Accessible at: <https://web.law.columbia.edu/sites/default/files/microsites/kernochan/Rosetta%20Stone.pdf>

<sup>172</sup> Keyword ad scheme, also known as „keyword advertising“ is a process by which various companies, such as Google „use proprietary search algorithms to connect a search-for word or phrase with relevant advertisements that run alongside the results of the search.“ ORRICK, Sarah Wells. Deciphering Rosetta Stone: Why the Least Cost Avoider Principle Unlocks the Code to Contributory Trademark Infringement in Keyword Advertising. Berkeley. Berkeley Technology Law Journal Vol. 28. Annual Review of Law and Technology. 2013. [online] jstor.org [cit. 1th June 2021] Accessible at: <https://www.jstor.org/stable/pdf/24122037.pdf?refreqid=excelsior%3Ad32e2045a159a98ecc667a7591a9dec>

<sup>173</sup> According to the Court: „it would run counter to good business practice for Google to encourage and provide advertising space to those it knows are infringing.“ Rosetta Stone Ltd. v. Google Incorporated.

<sup>174</sup> DOGAN. We know It When We See It., p. 1

<sup>175</sup> ORRICK, Deciphering Rosetta Stone., p. 818

its services enable infringement, various other companies will try to sue Google when they consider the behaviour of Google in the online sphere as a threat to their legitimate activities.

Besides that, other aspects concerning the further legal doctrine have to be analysed. Usually courts, when deciding a case, look especially at the statute, legislative history or precedents.<sup>176</sup> However, cases involving counterfeiting in the online market places do not fit this way of solving legal problems. As Mark Bartholomew points out „*courts are struggling with an unruly body of law that offers little guidance in confronting issues surrounding new technologies that are capable of facilitating mass infringement of copyrights and trademarks.*“<sup>177</sup> This case therefore also illustrates the recent developments and the difficulty courts face when technology evolves ahead of the machinery of the law.<sup>178</sup> This has crucial implications in the legal practice, because when applying the law by courts, there is no legal certainty for the conflicting parties to know if they will succeed in the settlement of the dispute.

Accordingly, when the positive law does not respond to the technological developments, the courts have to „take the action“. Such actions are usually not written, and they follow from the courts decisions afterwards. Nevertheless, sometimes the courts explicitly confirm this trend, as for instance the Fourth Circuit (in the Rosetta Stone), where it pointed out that „*contributory infringement is a judicially created doctrine that derives from the common law of torts.*“<sup>179</sup> In the wake of the decision in Rosetta Stone, probably there are more similar cases to come. Nevertheless, they are probably unlikely to succeed, because they have less merit.<sup>180</sup>

In general in the trademark law, it is up to judiciary to decide what is required in order to prevent or stop counterfeiting activities. As cases Inwood, Tiffany, or Rosetta Stone show, this requirement was set by courts law.<sup>181</sup> These low standards were laid down especially in the United States of America. U.S. legal system is however not the only one worth analyzing. Intermediary liability is also focus of the European Union law. The next part of this work will be devoted to the survey of European Union Law on secondary liability for online trademark infringement.

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<sup>176</sup> Ibid., p. 819

<sup>177</sup> BARTHOLOMEW, Mark. Copyright, Trademark and Secondary Liability after Grokster. University at Buffalo School of Law. Journal Articles. 2009. [online] core.ac.uk [cit. on 3th June 2021] p. 446  
Accessible at:

<https://core.ac.uk/download/pdf/236359891.pdf>

<sup>178</sup> ORRICK, Deciphering Rosetta Stone, p. 818

<sup>179</sup> Check the original wording of the decision of the Court, according to which: „*contributory infringement is a judicially created doctrine that derives from the common law of torts, under which liability may be imposed upon those who facilitate or encourage infringement.*“ Rosetta Stone Ltd. v. Google Incorporated.

<sup>180</sup> ORRICK, Deciphering Rosetta Stone, p. 819

<sup>181</sup> TRIPOLI, Fashion Forward, p. 897

## 4 EU Law on Secondary Liability for Online Trademark Infringement

The European Union law, similarly as the US legislation, regulates the legal issues connected to counterfeiting. Of special importance are the norms regulating liability for a wrongful conduct, by which the rights of other actors, especially intellectual property right owners, are harmed. The EU law is nevertheless very special from one aspect, namely that it offers two methods for attaining intermediary liability: primary liability and secondary liability.<sup>182</sup> Despite that, IPROs are many times financially pressured, because counterfeit goods are sold at below market price, and therefore IPROs profits do not reach the level they would normally have reached. This is especially relevant in times of economic crisis,<sup>183</sup> such as the one caused by pandemic of coronavirus. For such unstable periods of time, the law has to be very well prepared and have to be as precise as much.

First, the EU law on trademark liability is specific because it encourages a notice-and-takedown system (hereinafter also as „NTDS“) on the part of intermediaries. Unlike in the U.S. law, it allows for the possibility of greater intermediary focus. Within the realm of the EU law, it seems that the intermediary is more in the centre of the protection than in the U.S. This is due to the fact that within the EU law the safe-harbor immunity is extended to trademark law.<sup>184</sup> This assumption comes directly from the Article 14 of the E-Commerce Directive,<sup>185</sup> which provides a safe-harbor similar to Section 512 (c) of the DMCA in U.S. law. The substantial difference however is that Article 14 of the E-Commerce Directive applies not just to copyrights or some „tort claims“ under European national laws, but also to trademarks.<sup>186</sup>

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<sup>182</sup> TRIPOLI, Fashion Forward, p. 897

<sup>183</sup> MAEYAERT, Paul. Grey and Counterfeit Goods In Transit: Trademark Law in No-man's Land. [online] lexgo.be [cit. on 3th June 2021] Accessible at: <https://www.lexgo.be/en/papers/ip-it-telecom/intellectual-property-law/grey-and-counterfeit-goods-in-transit-trademark-law-in-no-man-aos-land,54860.html>

<sup>184</sup> TRIPOLI, Fashion Forward., p. 897

<sup>185</sup> According to Article 14, par. 1. „where an information society service is provided that consists of the storage of information provided by a recipient of the service, Member States shall ensure that the service provider is not liable for the information stored at the request of a recipient of the service, on condition that: the provider does not have actual knowledge of illegal activity....the provider, upon obtaining such knowledge or awareness, acts expeditiously to remove or disable access to the information.“ Directive 2000/31/EC of the European Parliament and of the Council on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market. 8th June 2000. Official Journal of the European Communities.

<sup>186</sup> KAYSER, Susan M. et. al. Combating Contributory Infringement on the Internet. INTA Bulletin. 1th May 2014. In: TRIPOLI, Fashion Forward., p. 898

Further, we have to highlight two important sources concerning trademark protection and liability within EU law. They are both sources of secondary law. Secondary sources of EU law thus provide better answers than sources of primary EU law. In fact, major primary sources of the EU law do not focus or refer to trademarks. This can be clearly demonstrated for instance in the Treaty on the Functioning of the European Union,<sup>187</sup> where there is no reference to trademarks. Further sources include especially European Enforcement Directive<sup>188</sup> (hereinafter also as „EED“) and the so called E-Commerce Directive.

EED in its Article 11 regulates injunctions, and especially the possibility of the rightholders to apply for an injunction against intermediaries. This concerns specific situations which were preceded by a judicial decision finding an infringement of intellectual property rights. Following that *„the judicial authorities may issue against the infringer an injunction aimed at prohibiting the continuation of the infringement.“*<sup>189</sup> As can be seen, the judicial authorities are the ones that can stop the continuation of the infringement, if they decide so. However, many times the infringers do not comply with such decisions. Then, where provided for by national law, there is a possibility of a recurring payment, to ensure compliance with the decision. The substance of this Article nevertheless lies in the fact that this Directive requires Member States to ensure that *„rights holders are in position to apply for an injunction against intermediaries whose services are used by third parties to infringe an intellectual property right.“*<sup>190</sup>

Apart from Article 11 of the Enforcement Directive, there are also other legal documents which try to cover the topic of responsibility for the sale of counterfeit goods in the internet. Although not legally binding, Memorandum of Understanding on the sale of counterfeit goods on the internet (hereinafter referred to only as „MoU“) establishes „a code of practice“ aimed

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<sup>187</sup> Check the Consolidated version of the Treaty on the Functioning of the European Union. Official Journal of the European Union. Within this treaty, there is no reference to the term „trademark“. Consolidated version of the Treaty on the Functioning of the European Union. Official Journal of the European Union. C 326/49 [online] eur-lex.europa.eu [cit. 9th June 2021] Accessible at:

<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:12012E/TXT&from=EN>

<sup>188</sup> Directive 2004/48/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 29th APRIL 2004 on the enforcement of intellectual property rights.

<sup>189</sup> Check Article 11 of the „European Enforcement Directive“, which reads as follows: *„Member States shall ensure that, where a judicial decision is taken finding an infringement of an intellectual property right, the judicial authorities may issue against the infringer an injunction aimed at prohibiting the continuation of the infringement. Where provided for by national law, non-compliance with an injunction shall, where appropriate, be subject to a recurring penalty payment, with a view to ensuring compliance. Member States shall also ensure that rightholders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe an intellectual property right, without prejudice to Article 8(3) of Directive 2001/29/EC. Directive 2004/48/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 29th April 2004 on the enforcement of intellectual property rights. L 195/16. 2.6.2004*

<sup>190</sup> TRIPOLI, Fashion Forward, p. 898

at the fight of counterfeit goods on the internet.<sup>191</sup> According to the MoU, primary responsibility for the protection and enforcement of the IPR remains with „the respective Rights Owners“. However, it is the primary responsibility of Internet Platforms to enable a safe online environment for consumers.<sup>192</sup> This statement can be regarded as somewhat trying to find balance between the interests of IPROs and Internet Platforms, namely that IPROs are responsible for the protection of their trademarks in case they are harmed, and Internet platforms should guarantee a safe online marketplace, and therefore contributing not just to the fight against counterfeits, but especially to the prevention of selling counterfeits. This nevertheless puts burden, similarly as in the U.S. legal system, on IPROs. It is due to their role of primary protectors of their marks. Even though they are the owners of the mark, it is in their interests to protect the mark. Despite that, it puts many obligations on IPROs, such as the ones elaborated in the MoU.

From an opposing perspective, intermediaries should enable safe online environment. Notice and Take-Down Procedures (hereinafter referred only as „NTD“) are one of such a tool, which should contribute to safe online environment and therefore countering the effects of counterfeiting. NTD enables IPROs to notify Internet Platforms of sellers „*who they have a good faith belief are generally engaged in the sale of counterfeit goods, provided that Rights Owners identify offers from such sellers, which are alleged to offer counterfeit goods.*“<sup>193</sup> Therefore, intermediaries are somewhat protected from damages, especially in cases when there are counterfeits present on their websites. However, they must enable to IPROs the possibility to make notifications. In line with that, intermediaries must take „*appropriate, commercially reasonable and technically feasible measures.*“<sup>194</sup> These measures are intended to reduce trademark infringement.<sup>195</sup> Nevertheless, if intermediaries fail, IPROs may bring suit against them.<sup>196</sup>

In accordance with that, the difference between EU law and U.S. law regarding trademark liability can be formulated. As Griffin M. Barret writes „*a key difference between EU law under the E-Commerce Directive and US law in regards to the Tiffany case is that under EU law, failing to comply with notice or any safe harbor provision will only eliminate*

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<sup>191</sup> Memorandum of understanding on the sale of counterfeit goods on the internet. European Commission. ARES (2016) 3934514. 21 of June 2016. [online] ec.europa.eu [cit. on 21th June 2021] Accessible at: [Memorandum of understanding on the sale of counterfeit goods on the internet | Internal Market, Industry, Entrepreneurship and SMEs \(europa.eu\)](https://ec.europa.eu/entrepreneurship/docs/understanding-on-the-sale-of-counterfeit-goods-on-the-internet-internal-market-industry-entrepreneurship-and-smes_en.pdf)

<sup>192</sup> Memorandum of understanding. p. 217

<sup>193</sup> Memorandum of understanding, p. 3.

<sup>194</sup> Ibid., p. 5

<sup>195</sup> TRIPOLI, Fashion Forward, p. 898

<sup>196</sup> Ibid.



*your automatic immunity while under US law, e.g. Tiffany, continuing to supply services after notice would trigger liability. In Europe, liability will only arise if the standard of accessory liability under national law is also satisfied.*<sup>197</sup> Therefore, in the EU, continuing to supply services when there was a proper notice of infringing activities will only remove safe harbor protection. As a result, liability will only arise if the Member State's national law dictates it.<sup>198</sup>

There are many differences between EU and U.S. law regarding trademark liability. Additionally, for the EU law concerning secondary trademark liability, a self-regulatory approach is also common. This self-regulation approach is for instance represented in the above mentioned MoU. However, this self-regulation approach has been the subject of criticism. This is mainly due to reason that these voluntary codes of conduct are developed by intermediaries, and suffer from a „democratic deficit“ since consumer and citizen involvement is limited.<sup>199</sup> Further, there is a pressing need to adopt a more detailed NTD regime, which could be based on the model of the Digital Millennium Copyright Act in the United States of America (USA).<sup>200</sup>

#### **4.1 European Union Law and Primary Liability**

Within the EU, the trademark regulation is ultimately a matter of national law. Despite that, the European Court of Justice (hereinafter referred only as „the ECJ“) is the sole interpreter of the law.<sup>201</sup> Moreover, even despite the fact that decisions of the ECJ are binding only on the parties concerned, with regard to the interpretation of the EU law, they still could have a strong persuasive effect.<sup>202</sup> In this regard, a case worth mentioning is *L'Oréal SA v. eBay International*<sup>203</sup> (hereinafter only as „L'Oréal“). This case concerned legal proceedings brought by L'Oréal and number of its subsidiaries, against various eBay companies and individuals who were

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<sup>197</sup> BARNETT, Griffin M. Who's Left Holding the [Brand Name] Bag? Secondary Liability for Trademark Infringement on the Internet. 2013. In: TRIPOLI, Fashion Forward., p. 899

<sup>198</sup> TRIPOLI, Fashion Forward., p. 899

<sup>199</sup> Reform of the EU liability regime for online intermediaries. Background on the forthcoming digital services act. European Parliament. Tambiama Madiaga Member's Research Service. [online] europarl.europa.eu May 2020. [cit. on 21th June 2021] p. 15. Accessible at: [Reform of the EU liability regime for online intermediaries \(europa.eu\)](#) Check also HUGENHOLTZ, Bernt P. Codes of Conduct and Copyright Enforcement in Cyberspace. In: STAMATOUDI, Irini A. Copyright Enforcement and the Internet. Kluwer Law International. 2010. p. 303 – 319. [online] ivir.nl [cit. on 21th June 2021] Accessible at: [Codes of conduct.pdf \(ivir.nl\)](#)

<sup>200</sup> Ibid., p. 15

<sup>201</sup> TRIPOLI, Fashion Forward, p. 899

<sup>202</sup> KAYSER, Combating Contributory Infringement , p. 3

<sup>203</sup> Case C-324/09. L'Oréal SA and Others v eBay International AG and Others., 2011 E.C.R. 1-6011.

selling L’Oreal products, however without L’Oreal’s consent.<sup>204</sup> L’Oreal argued that there is „widespread incidence of transactions infringing its intellectual property rights on eBay’s European websites.“<sup>205</sup> Afterwards, even though eBay replied, L’Oreal was not satisfied with their answers claiming their position, and therefore, L’Oreal brought suit against them. After that, the High Court of England and Wales referred the case to the ECJ due to a „number of questions“ regarding interpretation of a number of EU directives.<sup>206</sup> Of special importance were the questions concerning liability of intermediaries. The ECJ identified two important factors. First, to be held liable, the intermediary must either „have played an active role allowing it to have knowledge or control of the relevant information (for example by assisting with optimisation)“ or „be aware of facts or circumstances such that a “diligent economic operator” would have realized that the offers for sale were unlawful, and ...it must then have failed to act expeditiously to remove or disable access to the information concerned.“<sup>207</sup> Although expressly stated, due to their wide nature, these conditions may at the end help the intermediaries to escape liability. It is even though the judgment does favour brand owners. Also, what follows from this judgment is that potential infringements must be brought to the attention of online operators.<sup>208</sup> It is because if the exact situation of infringing activities is brought to the attention of online operators, it is their duty to remove or disable access to the information concerned. As follows from the judgment, failure to do so would trigger liability. Therefore, the important thing is for the brand owners to make notice to the intermediaries in order for them to be aware of the unlawful activities. It is then the duty of intermediary to remove the content, and if they fail, IPROs may bring the case to the court. This is nevertheless problematic from the basic premise that brand owners have to notify intermediaries. One could argue that it is in contradiction to the basic logic, because intermediaries are the one who should be careful what they enable to be sold on their sites.

Next case that addressed the intermediary liability was the case between Luis Vuiton Malletier SA (hereinafter only „LVHM“) v. Google France. The case was brought before the ECJ because LVHM, as the IPRO, found out that Google’s „AdWord“ feature allowed advertisers to purchase „AdWords“ of luxurious brands. The problem was that when usual

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<sup>204</sup> The battle between L’Oreal and eBay rumbles on. Intellectual Property & Technology Review. [online] [squirepattonboggs.com](https://www.squirepattonboggs.com) [cit. on 21th June 2021] Accessible at: [5447--loreal-v-ebay-article-v1.pdf \(squirepattonboggs.com\)](https://www.squirepattonboggs.com/5447--loreal-v-ebay-article-v1.pdf)

<sup>205</sup> L’Oreal SA and Others v. eBay. International AG and Others

<sup>206</sup> The battle between L’Oreal and eBay rumbles on.

<sup>207</sup> Ibid.

<sup>208</sup> Ibid.

persons search in Google for a luxurious mark, „knockoff“ LVHM products appeared.<sup>209</sup> The ECJ, similarly as in L’Oreal case, conceptually distinguished between „passive“<sup>210</sup> and „active“<sup>211</sup> role of intermediaries. Subsequently, the ECJ concluded that Google was not liable because the intermediary’s position was merely „technical, automatic and passive“, and therefore did not hold the sufficient degree of knowledge required.<sup>212</sup> Although the ECJ decision was based on the basis of Recital 42 of the E-Commerce Directive,<sup>213</sup> it helped Google to escape liability. There is therefore an important question unresolved. Does courts, in general, should extensively or more strictly apply the law? A more strict application of the law could of course help to guarantee one of the main principles of the european legal culture, namely the principle of legal certainty. However, with more and more cases helping to escape liability of intermediaries, the situation of IPROs does not seem to change. Despite the fact that they have many rights, there is no obligation to be found in legal norms for the IPROs to monitor the activities of internet service providers. However, as the case law shows, they are in reality required to do it. This however does not seem a positive trend, at least for the IPROs. Even though courts many times „in general“ favor the position of IPROs, on the other hand, formulations of their decision imply that they help intermediaries to escape liability.

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<sup>209</sup> . Cases C-236/08 to C-238/08, Louis Vuitton Malletier SA (LVMH) v. Google France SARL, 2010 E.C.R. 1-2417.

<sup>210</sup> Intermediaries, such as „mere conduit providers“ and „catching providers“ have mostly passive role. Reform of the EU liability regime. p. 3,

<sup>211</sup> Contrary to passive intermediaries, hosting providers play a more active role and they have more control over the content they host., Ibid.

<sup>212</sup> TRIPOLI, Fashion Forward, p. 901

<sup>213</sup> According to the Recital 42 of the E-Commerce Directive: „*The exemptions from liability established in this Directive cover only cases where the activity of the information society service provider is limited to the technical process.....this activity is of mere technical, automatic and passive nature, which implies that the information society service provider has neither knowledge nor control over the information which is transmitted or stored.*“ Directive 2000/31/EC

## 5 Conclusion

The aim of this thesis was to answer an unsettled problem of intermediary liability. This is however not a simple question. In the opinion of the author, for the complex understanding of the issue of trademark liability, there was a need to introduce at least partially historical development connected to trademark infringement and counterfeiting. The goal of the historical introduction was to show that even though there is currently problem with the selling of counterfeits in the online market places, counterfeiting was typical also for older periods of time. Nonetheless, the expansion of selling in the online sphere helped to speed up the problem of counterfeiting. As a consequence, the law has to adapt itself to these changes.

Further in 1946 Lanham Act was adopted in the USA. This Act is of great importance, because it provides the legal framework for the fight against counterfeiting. There are two reasons why this Act is so important. First, it provides the definition of trademark and counterfeit within the US legal system. Second, it is able to „fit the times“. That can be understood in a way that drafters of the Act made all effort to cover many specific aspects of the trademark protection. However, they could not foreknow that internet will be invented. Subsequently, this Act cannot be regarded as complex, and does not respond to the current challenges regarding counterfeiting. In connection with that, the first research question has to be answered, namely, do the current laws on secondary trademark law in the US provide adequate protection? The answer is no, they do not. The reason is that especially the Lanham Act, but also other legal norms within the US legal system, did not anticipate development of the internet. The issues of trademark liability, especially in connection with online market places, remained unresolved, at least until courts took a stance. Finally, if there is no legal regulation concerning selling of counterfeits online, who should be held liable for such unlawful acts? That is not an easy question and many times courts have to give answer. The cruel truth about it is that if they consistently favor only the interests of one party, they contribute, although indirectly, to counterfeiting. How is that possible? Especially due to the fact that courts prefer to help intermediaries escape their liability.

Issues of trademark liability were divided in two major parts. First, the US legal system was introduced. Within this system, major cases, such as Inwood or Tiffany were introduced. Following that, the second research question has to be answered, namely how did the judicial decisions influence the legal regime of secondary trademark liability in the US? Actually, these cases framed the standard of secondary liability in the US. In the case of Inwood, the Court

introduced the theory of contributory liability in relation to direct trademark infringement.<sup>214</sup> In this case, the knowledge of these unlawful activities was stressed. However, if the intermediary positively responded to the notice of the intermediary, it could be rid of liability. In the next case of *Tiffany*, the Court broadened this standard by adding a good faith element. This means that if the intermediary acted after notice in good faith, and did all what was required to remove the content, it could escape liability.

The answer to the second research question is therefore that these decisions framed and further developed the standard of secondary liability in the US. Moreover, they even went on to broaden the standard for one to be held liable. Their interpretation was therefore more expansive than restrictive.

However, the problem with this approach is that it is up to IPROs to detect what is happening on the sites of intermediaries. Further, they must monitor pages of the online sites in order to fight against infringement of their rights. As a simple but yet effective solution would be to require intermediaries to block their content after an infringing content was found. Yet, the problem has broader implications. Consumer demand with regard to counterfeited products is also very contributing factor. If there were not many consumers demanding these knockoffs on the market, there would be not such big issues regarding the unsettled problem of liability. It is mainly due to the fact that as indirectly shown in the case, mostly huge businesses bring these cases to the court and small businesses are paid less attention. Nevertheless, qualitatively they are harmed in the same way.

Similarly in the EU, the ECJ favored notice and takedown system. Additionally, the EU protects the intermediary by extending safe-harbor immunity to trademark law, rather than keeping the protection within the realm of copyright law.<sup>215</sup> Subsequently, third research question has to be answered, namely how are the legal norms concerning trademark liability in the EU different from the laws in the US? One aspect concerns the fact that the EU law is specific due to the system of the sources of its law. Concerning trademark liability, the relevant legal norms are to be found in directives and regulations. In the US, on the other hand, trademark liability is regulated in statutes. Apart from that, the ECJ contributes with its decisions to the formation of the intermediary liability. By interpreting legal norms, it has a passive persuasive effect with regard to the harmonized EU law.<sup>216</sup> The problem however is that intermediaries many times escape liability, even though courts favor brand owners. This is

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<sup>214</sup> TRIPOLI, *Fashion Forward.*, p. 892

<sup>215</sup> TRIPOLI, *Fashion Forward.*, p. 898

<sup>216</sup> *Ibid.*

mainly due to their favorization of notice and take-down systems, which put pressure on intermediaries. Conversely, they put „negative“ obligations on IPROs. The answer to third research question is therefore that under EU law, if you as intermediary fail to comply with notice within NTDS, your automatic immunity will be eliminated, and liability will only arise if the standard of accessory liability under national law is also satisfied. Under US law, continuing to supply services after notice would trigger liability. The problem of counterfeit epidemic remains thus unsettled. This problem remains unresolved even though there are many intermediary initiatives that try to fight counterfeiting.

The answer to the fourth research question, i.a. why is there not a unified approach towards intermediary trademark liability, can be found in courts practice. As shown in the work, courts in the US, but also ECJ interpret and develop the law with regard to the intermediary trademark liability. Nonetheless, these issues should not be left solely to the judiciary, but also to the legislature. As a result, there is a strong need to harmonize the legal regulations concerning trademark liability. If there will not come to the harmonization, these problems will remain.

Fifth research question, namely how should these regimes of liability be construed in the future, if we want to prevent the current problems, also needs to be answered. The answer to this question and a possible solution could be found in the decision of the High Court of England and Wales in the *Cartier* case.<sup>217</sup> This case is regarded as groundbreaking, because once it was proved that the intermediaries had sufficient knowledge of the infringing activities, the Court held that the burden of trademark protection should not fall just with the IPROs, but intermediaries also have a duty to police their websites. Accordingly, intermediaries were required to police websites with infringing material. The burden of responsibility was therefore shifted from IPROs to intermediaries. As a result, in the opinion of the author, courts should follow the approach applied in the *Cartier* case, especially because it would prevent many problems connected with negative trend of escaping liability. This logic should be implemented both in the US and in the EU in their legislation. Consequently, the current system of notice and takedowns should be abandoned. As a result, a possible win – win situation could follow. Whereas IPROs will be required to detect the infringement, the intermediaries will have a duty to block the whole sites. Further, shifting the burden of liability could become a deterring factor with regard to counterfeit epidemic.

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<sup>217</sup> Judgment of the High Court of Justice (of the United Kingdom) of 13th June 2018. *Cartier International AG v. British Sky Broad. Ltd.* 2014. EWHC. (Ch) 3354

As shown above, the hypothesis of this work, namely the distribution of responsibility among all interested parties fewer the amount of counterfeit goods, was by the above mentioned arguments proved.

The counterfeit epidemic shows our weaknesses, which are translated also into legal sphere. However, if we do not take a more unified approach, it will have even more negative economical and social effects than currently. A reformed legal approach could be a possible solution.

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