

## **eBay or the impossible parallelism of forms... of responsibility (Study of the French and American cases)**

For many years now, eBay unleashes passions in view of the many law suits the company is facing around the world. These past few months, the auction website's liability has been called into question in comparable cases in France and the United States, against LVMH on one side of the Atlantic and Tiffany on the other.

The difference of position between our two countries does not need to be demonstrated any more, but, in this case, it is quite significant. While Tiffany's claims were all dismissed by the American judges, LVMH's claims were supported by the French judges who admitted to eBay's responsibility.

These decisions, studied side by side, may surprise and underline the strangeness of the idea that, on similar issues related to sales of counterfeiting luxury products, an online market service can be granted such different levels of responsibility from one country to the other. The facts, in the LVMH and Tiffany cases, are somewhat similar, but the issues raised are based on totally different legal grounds which explain, partly, the different levels of responsibility applied to the auctioneer.

### **eBay vs. Tiffany**

In 2004, the American jeweller, aware of the presence of many items counterfeiting its products and its trademark on eBay, required that any fake Tiffany goods be removed from eBay's website. In addition, Tiffany initiated a legal action in order to raise eBay's liability for direct and contributory trademark infringement, false advertisement and trademark dilution.

After loosing first its battle in front of the District Court of New York, Tiffany's claims were again dismissed by the Court of Appeal of New York the 1<sup>st</sup> of April 2010. The American judges confirmed the previous decision. The main question addressed by the Court was who, between eBay and Tiffany, was suppose to "bear the burden" of monitoring the use of registered trademarks on the auction website and also of preventing infringements?

The Court started by rejecting the claim of direct trademark infringement considering that the use of the trademark "Tiffany" by eBay was not illegal since it was used to describe authentic Tiffany goods and since eBay was not producing a "competing product".

Then, in application of the Inwood test<sup>1</sup>, Tiffany's claim of contributory trademark infringement was also dismissed. For the first time, the US judges applied the Inwood test to service providers: it is normally applicable to manufacturers and distributors, but it has been considered applicable to service providers since they "monitor and control the instrumentality of the trademark infringement". One could see here an analogy with the reasoning of the French judges in their eBay

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<sup>1</sup> The Inwood test comes from the decision *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982). The Supreme Court had stated that "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".

qualification as a broker and not merely as a hosting provider<sup>2</sup>.

Applying the said test, the Court refused to hold eBay's liable as Tiffany failed to prove that the auctioneer "was supplying its service to individuals who it knew or had reason to know were selling counterfeit Tiffany goods". The judges considered therefore that eBay was not "wilfully blind" since the company never stayed inactive once informed of reported trademark infringements and took the necessary measures to stop such infringements.

In general, the judges' position was also justified by the acknowledgement of eBay's important efforts in the latest years to fight more efficiently against trademark infringement. The judges mentioned more particularly eBay's Vero program (Verified Rights Owner) used to increase the users' awareness, to allow them to report the sale of counterfeiting products and to help the rights owners notifying eBay of the presence of such products to remove the auction website. This appreciation of eBay's efforts is common on both side of the ocean, as the French judges also underlined such efforts and the good will of the company in the fight against fraud.

Lastly, the Court of Appeal sent the case back to the District Court to review the claims on false advertising, Tiffany claiming that eBay was offering publicity on the sale of Tiffany goods, knowing that, among others, many counterfeiting products were sold on its website. Once again, Tiffany's claims were dismissed, the 10<sup>th</sup> of September 2010. The Court considered Tiffany was unable to prove how eBay's publicity were deceiving the consumers or creating confusion.

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<sup>2</sup> See the chart underneath.

This decision is a slap in the face for Tiffany which, since 2004, fights to get an efficient protection of its rights on the online market. Tiffany's management is considering taking the case to the Supreme Court.

A totally different tune is sung in France, much more satisfying for the LVMH and luxury industry. However, the legal basis for the French decisions being quite different than the one which lead to the US decision, let us see if eBay's judicial situation in France can be compared to its situation in the United States.

### **eBay vs. LVMH**

LVMH, for many years (like Tiffany), has accused eBay of not taking "the appropriate measures to stop the display on its website of advertisements breaching LVMH's rights" causing an image prejudice as well as a moral prejudice. eBay was also accused of violating the selective distribution network of the companies member of the LVMH group. eBay tried to hide behind the status hosting provider to beneficiate from the liability exemption granted by French regulation.

As a result, the French judges had to render a decision on a totally different legal basis than the American judges who dismissed Tiffany's claims on trademark infringement. eBay is obliged by the French judges to make sure that its activities are not generating illegal acts.

With three decisions dated September 3<sup>rd</sup>, the Paris Court of Appeal confirmed the decision of the Paris Commerce Court by declaring eBay a broker<sup>3</sup> and therefore a real actor in the sale process on its website. The judges justified themselves by underlining eBay's "active intervention in

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<sup>3</sup> See the chart underneath.

the assistance, the follow-up and the promotion of the sales evidenced by spontaneous messages sent to the buyers to encourage them to buy”.

Consequently, eBay has been sentenced, on the ground of tort based on a fault, to pay damages to LVMH, although the amount of damages has been significantly lowered by the Court of Appeal. Indeed, eBay, was sentenced to pay more than 38 million euros in the first decision and is now sentenced to pay 5.7 million Euros in damages.

The company is also forbidden to participate directly or indirectly to the violation of LVMH’s selective distribution network, with an additional penalty of 10.000 Euros for each day’s delay in curing such violation. eBay is therefore forced to make sure that no sale of products, even legitimate ones, infringing the selective distribution network of LVMH companies, is possible on its websites.

The outcome of the dispute is highly satisfactory for LVMH, considering that the decision protects efficiently the consumers and the rights owners. eBay, however, could consider taking the case to the French Supreme Court. The auctioneer welcomed, nonetheless, the Court of Appeal decision insofar as it reduced the amount of damages to be paid to LVMH by about 33 million euros.

The difference of position between the French and US judges appears clearly, and their respective decisions could seem contradictory. But they are not rendered on

the same legal grounds: the former base their reasoning on eBay’s violation of selective distribution network or its faulty behaviour in handling the illegal activities on its websites, and the latter base their reasoning on the trademark infringement. Consequently, the comparison between the two decisions is not entirely relevant.

One similarity however, the French and the US judges clearly appreciated the eBay’s efforts and demonstrations of good will to fight efficiently against fraud on its websites. One might assume that it is not unrelated to the damages to be paid by eBay in France. Therefore, it could become equally harder, in France and in the US, to sue eBay successfully if the company carries on its cooperative and pro-active fight against fraud. To be continued....

Difference between hosting provider and broker:

A hosting provider ensures the storage of online content for third part users. Having a passive role, it is subject to a derogatory liability scheme pursuant to article 6 of the June 21, 2004 law on the trust in the digital economy.

A broker is submitted to a standard liability scheme because of its active intervention during the sales operations (in particular the preparatory phases).

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