

COUNTERFEIT AND GRAY MARKET GOODS SOLD ON eBAY IN AMERICAN AND EUROPEAN JURISPRUDENCE

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Le marché gris et les produits contrefaits, vendus sur eBay, dans la jurisprudence américaine et européenne

Résumé. *L'étude analyse la perspective juridique des cours européennes et de l'Amérique, en ce qui concerne le commerce sur eBay. Il s'agit d'une plate-forme Internet utilisée par les commerçants pour lister les produits en but de vente.*

On trouve, parmi les biens listés, des produits de luxe, telles bijoux Tiffany, sacs à main Louis Vuitton ou parfums Lancôme. Certaines imitations sont vendus à un prix inférieur à celui des produits authentiques, d'autres sont des produits originaux vendus à l'extérieur du cercle de la distribution des fournisseurs approuvés. Les fabricants des produits de luxe exercent un contrôle strict sur la chaîne d'approvisionnement et, par conséquent, sur le prix de vente des produits.

Tiffany Inc. en Amérique, Luis Vuitton en France, Lancôme en Belgique – tous, ils ont actionné en justice eBay, pour violation des droits de marque en ligne par la plate-forme. En Amérique, l'acte normatif qui règlemente l'activité des intermédiaires de services Internet est Digital Millennium Copyright Act. Il prévoit que les courtiers de services Internet ne sont généralement pas responsable du contenu publié par des tiers en ligne.

L'Union Européenne a adopté la même position dans la directive 2000/31/CE du Conseil Européen, en offrant la même protection aux intermédiaires de services Internet,. D'ailleurs, les législateurs français et belges ont partagé cette position.

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Les instances judiciaires de ces pays ont abouti à des conclusions différentes quand ils ont analysé si eBay peut être qualifié comme intermédiaires de l'Internet, et s'il peut bénéficier de la protection de la loi.

Dans le procès démarré par les commerçants des bijoux Tiffany, l'instance américaine a donné la priorité à la plate-forme électronique. La Cour française a statué en faveur de la société Luis Vuitton et, en Belgique, le gagnant était eBay contre Lancôme. L'étude analyse en détail les faits et les arguments juridiques de toutes les solutions. Même si, initialement, les conclusions des instances étaient différentes, elles évoluent vers une convergence, dans le sens que les plates-formes en ligne ne sont pas responsables pour les inscriptions en ligne par des tiers.

Mots clés: *marché gris, produits contrefaits, plate-forme Internet, intermédiaires de services Internet, responsabilité*

The legal systems in America and the European countries differ significantly. In this paper we will take a look and analyze the approach of different legal jurisdictions when the courts consider the issue of goods sold on electronic platforms. We will focus on eBay, Inc. because it is a multinational company subject to legal actions in multiple jurisdictions.

The courts in the United States and the European Union countries had to decide whether eBay is liable for the counterfeit goods and “gray-market” goods sold on its website. Some courts ruled for eBay, and some against the Internet Company. The courts’ rationale was different even in the case when they reached the same conclusion about eBay’s liability.

The Digital Millennium Copyright Act offers shelter against liability for the Internet service providers, when independent third party users post information. European Union adopted very similar rules with those found in DMCA. The courts have interpreted differently the set of conditions found in the safe harbors.

Creating a new task force to stop the copyright infringement under the form of counterfeit or gray market goods sold online may prove to be a viable solution. When the majority of the transactions take place online, to ask the copyright owners to police their trademarks will be too burdensome. When the number of marketplaces, similar with eBay, will increase and expand, it will take too many resources to survey the websites for counterfeit products. In the cases analyzed, the plaintiffs are recognized brands with financial power that has enabled them to engage paid staff to police their trademarks and to pursue legal action to persuade the marketplace to act against the website to stop the copyright infringement. A smaller business with a smaller number of employees can not afford as easily to engage the same resources for policing their trademarks and fight for the survival of the brand.

eBAY - THE MECHANICS AND MODEL OF BUSINESS

MODEL OF BUSINESS

eBay is the one of the biggest players on online retailing, offering a medium that enables the buyer and the seller to connect. The sellers can use the *auction system*, the *Buy It Now* system, or the *eBay stores* for their transactions.

In the *auction* model of business the seller is posting the products online for a defined period of time. The buyer can place bids for the item. At the end of the time period, the buyer who offered the highest bid is the winner and, after payment he becomes the owner of the item.

Another option for the seller is to list their products through the *Buy It Now* system. The item is listed at a fix price on eBay, and the buyer can acquire it immediately if he pays the price. There are no competing bids involve.

The sellers can choose to open an eBay *Store* where they can list their products and the potential buyers can browse available inventory and buy at the offered price.

eBay collects a *fee* when an item is posted, and when the item is sold. The more items are posted and sold, the more revenues for eBay.

When somebody opens a seller's account, all he needs is a credit card and he can choose the username under which will be visible online.

eBay uses a feedback rating system for the account holders. After a purchase, the buyer rates the transaction. His satisfaction is important because the ratings are visible to other potential buyers. More transactions on sellers account, combined with more positive feedback, attract more purchases from the potential buyers.

When a seller's account reaches a high volume of transaction he becomes a Power Seller, which comes with privileges from eBay, one of them being sells coaching and support.

eBay uses software on its platform to help the sellers. Selling Manager is one, offered in a free or paid version. It is described as being a "tool designed for medium-volume sellers to help manage and track listings on eBay".¹

eBay's Ways to Protect the Intellectual Property

1. Fraud Removing Software

The online marketplaces use a software program to remove the illegal items found on their websites. The monitoring system is based on an algorithm that is updated continuously. The possibly infringing items are

¹ Selling Manger http://pages.ebay.com/selling_manager/index.html (last visited May 14, 2009).

then brought to attention of a Customer Sales Representative, which will further decide over what action will be taken². The options consist from warning the seller, removing the item, suspending the account, or bringing the case into the attention of the authorities.

2. VeRO

Vero is the program institute by eBay to protect the rights of the copyright owners. VeRO stands for Verified Rights Owner.

The copyright owner who finds an infringing item on eBay sends a notice to the marketplace. Ebay is then removing the infringing product with a notice sent to the seller who posted the item.

The options of the seller are to file a Counter Notice. This contains a statement of how the product is not infringing and it was removed by mistake, together with a forum selection clause.³ If in 10 days the copyright owner does not respond with an action against the infringer or a restrain order, than the item can be reposted.

If the seller recidivates in posting infringing items, its account can be suspended or terminated.

3.“ABOUT ME” PAGE

The “**About me**” page hosted by eBay allows the copyright owners to reach the buyers and seller on eBay and educate them about the protection of the copyrights. Tiffany About me page contents a warning for the buyers alleging that the items found on the website are likely to be counterfeited and are not offered by authorized sellers.⁴ It can infer from its “About Me” page that Tiffany is targeting with its take down notices a big number of online sellers that sell Tiffany jewelries on eBay⁵. The owners

² *Tiffany Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 477 (S.D.N.Y. 2008).

³ The eBay VeRo page and the conditions can be found at . <http://pages.ebay.com/help/tp/programs-vero-ov.html> (Last time visited May 10,2009).

⁴ Tiffany & Co. “About Me” page. <http://cgi3.ebay.com/ws/eBayISAPI.dll?ViewUserPage&userid=tiffanytrademark2> (Last visited May-10, 2009).

⁵ In FAQ section of the Tiffany’s “About Me” is :

“Q: Why was my auction suspended/cancelled?”

A: Tiffany & Co. has a good faith belief that the merchandise that you posted for auction or sale is counterfeit or otherwise infringes Tiffany & Co. trademarks or copyrights.

Q: Why did eBay allow me to post my auction?”

A: eBay does not authenticate merchandise before sale. Therefore, bogus merchandise can easily be offered on its site.

can make any disposition acts, being free to contract over their property. If Tiffany would abuse and indiscriminately, and remove all the Tiffany jewelries that are sold on eBay, they would probably be infringing the rights of the sellers to dispose of their property, and would expose the luxury trademark to liability. The owners can claim that notice and take down practiced in an indiscriminately way can interfere with the ownership rights. Some of the seller acquired legally, authentic goods and they resell them on eBay. If an auction is won, and consequently take down notice is filled, and the item is removed, than the seller may claim that the copyright owner or the online platform interfered with the contract.

COUNTERFEIT AND “GRAY-MARKET” GOODS ARE TRADED ON EBAY

In the court analysis within the Old and New World, the courts looked at two aspects of the goods traded on the online platform.

First they looked at the counterfeit goods, known as “knock-off”, and which are imitations of the name brands products. They are made and sold without the approval of the copyright owner.

A second class of goods on which especially the French court focused is “gray-market” goods. Those are original goods sold outside of the authorized distribution chain.⁶

Tiffany V EBay – American Perspective On *Counterfeited Goods Sold On Online Platforms And Status Of eBay*

Internet service providers can find themselves sheltered in the Digital Millennium Copyright Act safe harbors:

(c) Information residing on systems or networks at direction of users.

(1) In general.

Q: How can I tell if the item I offered or purchased is real?

A: The only way you can be certain that you are purchasing a genuine TIFFANY & CO. product is to purchase it from a Tiffany & Co. retail store, via our website (www.tiffany.com) or through a Tiffany & Co. catalogue. Tiffany & Co. stores do not authenticate merchandise. A good jeweler or appraiser may be able to do this for you”.

⁶ Tribunal de Commerce de Paris, in *SA Perfumes Christian Dior, SA Kenzo Perfumes, SA Perfumes Givenchy, and Guerlain SA* (which we will refer as “Dior, Kenzo, Givenchy”) *against eBay* uses “*distribution selective*” which we translated as “*authorized distribution*” or “*selective distribution*”.

A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider, if the service provider--

(A) (i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;

(ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or

(iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;

(B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and

(C) upon notification of claimed infringement as described in paragraph (3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.

In *Tiffany Inc. v. eBay*, the US Court held that the trademark owner is responsible for policing its brand. The marketplace is not liable for the counterfeited items sold on the website, when it has only a general knowledge about a possibility of counterfeited products being traded on the marketplace.⁷

The jewelries producers claimed that eBay is infringing on their rights on more than one way.⁸ The claims present interest because they can affect the status of eBay as a service provider.

eBay is charging a fee for every item listed and for every item sold. The more items the more profit. Among other products eBay advertised the sale of Tiffany products on its website. Tiffany is one the terms used by the buyers in their searches and eBay disclosed it to the buyers. The US court considered that those actions are nominative fair use because the online provider was using the only way to present the products, by their trademark, which constitutes a descriptive use.⁹

⁷ *Tiffany Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 527 (S.D.N.Y. 2008).

⁸ *Id.* at 495.

⁹ *Id.*

EBay provides *coaching to the seller* regarding the terms most used by the buyers in their searches, but because it did nothing to endorse the trademark, the court held that it does not support the copyright infringement claim.¹⁰ The confusion of the customers who bought the jewelries regards the authentic nature of the product. The buyers were aware that eBay is not an approved dealer of Tiffany products and their motivation was the perspective of a lower price than in the Tiffany approved stores therefore there was no confusion over the endorsement of Tiffany over the goods sold on the website.¹¹

Tiffany claims that eBay infringed over its trademark when *purchased advertising links on Google and Yahoo* bearing the trademarks' name.¹² The ads contained a short text expressing the availability of Tiffany items and a link directing the user on the website. The court found this practice is nominative fair use because the purpose of using the ads is similar with the use Tiffany's trademark on the website.¹³

One argument against pleads that eBay should be liable "for direct trademark infringement" just as an officer or employee of a store selling infringing merchandise is jointly and severally liable with the store for the infringing sale¹⁴. The court disagreed. The marketplace only provides the medium where the purchase takes place, without taking possession of the goods.

The court concluded for eBay that the generalized knowledge of any acts of trademark infringement on its platform is not enough to hold the marketplace liable, because the copyright owner is responsible for policing its trademarks.¹⁵

The European Union Perspective Over the Safe Harbors for Service Providers

On June 8th, 2000, The European Parliament enacted Directive 2000/31/EC "on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (Directive on electronic commerce)".¹⁶

¹⁰ Id. at 497.

¹¹ 576 F. Supp. 2d at 497.

¹² *Tiffany Inc. v. eBay, Inc.*, 576 F. Supp. 2d 498 (S.D.N.Y. 2008).

¹³ Id. at 495.

¹⁴ Id. at 501.

¹⁵ *Tiffany Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 526 (S.D.N.Y. 2008).

¹⁶ European Parliament Directive 2000/31/EC.

The law wants to be a guidance for the member states of the European Union in regulating the electronic commerce. Belgium and France adopted the directive in a slightly modified form.

In our analysis of the European Directive we will focus on Section 4, Liability of the intermediary service providers. It states that:

“Member states shall ensure that the service provider is not liable for the information transmitted, on condition that the provider:

- a) does not initiate the transmission;
- b) does not select the receiver of the transmission; and
- c) does not select or modify the information contained in the transmission”

Directive 2000/31/EC

The safe harbor is similar with DMCA.

The service providers who offer the service of hosting information can be free of liability if “it does not have actual knowledge of illegal activity or information and, as regards claims and damages, is not aware of facts or circumstances from which the illegal activity or information is apparent or b) the provider upon obtaining knowledge and awareness, acts expeditiously to remove or to disable access to information”¹⁷ (section 4, Article 14, 1). The host will not be able to find shelter in the safe harbor if the provider can control the recipient.¹⁸

There is no general obligation for the provider to monitor the activity transmitted or store it. He does not have any obligation to make a search for signs of illegal activity.¹⁹

Belgium and French are two of the countries who adopted the European Directive approach.

Luis Vuitton v. EBay – French Court’s Perspective Over The Counterfeited Goods And Status Of EBay

The court in *Luis Vuitton Malletier v. eBay, Inc.* ruled in favor of LVM. The court looked at the statute of eBay and found that eBay does not qualify as a service provider.²⁰

¹⁷ European Parliament Directive 2000/31/EC, section 4, Article 14-1.

¹⁸ Id.

¹⁹ European Parliament Directive 2000/31/EC, section 4, Article 15-1.

²⁰ Tribunal de Commerce de Paris (Commercial Court of Paris), June 30, 2008, at 10.

Under the French law a host or service provider can not be found liable for the content posted by the user, under certain conditions: The ISP does not have effective knowledge of the illicit character of the information stocked at the request of the user, or if he knows he acts promptly to restrict access to the information²¹.

In order for eBay to found itself under the safe harbor provision he had to prove that it is a service provider.

The French Court decided that the safe harbor does not apply to eBay because the website is engaged in brokerage activity. Its website “is a brokerage website and therefore it cannot benefit of the quality of service provider, in the manner presented in Article 6, from the Law of Jun 21 2004 for 2004 for Confidence in the Digital Economy”²². EBay is “engaged in a paid commercial activity, acting beyond the limit provided for the host services providers”²³. The court held that eBay acts as an intermediary between the sellers and the buyers.

eBay promotes the sales of products, and for this it has different ways to help the vendors. By increasing the sales, the Marketplace increases its revenues made from commissions.

The safe harbor “does not apply if the recipient of the service (our note, the seller), acts under the control and the authority of the service provider”²⁴. “eBay acts as a broker and this, by its nature, does not mean that he has no knowledge or control over the information transmitted on its website”²⁵. Therefore the French Court held that eBay is not a service provider, relieving of its liability.

Another point the court held is that eBay failed in assuring that its activity will not produce any illegal acts. On the courts view, eBay failed on its obligation to assure that the sellers on the sites, are registered within the Register of Commerce and Companies and they met all the legal requirements under the French law.²⁶

²¹ Law No: 2004-575 of June 21, 2004 for confidence in the digital economy, Article 6 .1.2.

²² Tribunal de Commerce de Paris (Commercial Court of Paris), June 30, 2008, p. 17.

²³ Id. p. 11.

²⁴ Ibidem.

²⁵ Tribunal de Commerce de Paris (Commercial Court of Paris), June 30, 2008, RG 2006077799, p. 11.

²⁶ Tribunal de Commerce de Paris (Commercial Court of Paris), June 30, 2008, RG 2006077799, p. 12.

The court suggested that the “service provider can ask the sellers to provide a receipt from when they acquired the products or a certificate of authenticity “to close the account of the sellers who are at fault, and redraw the counterfeited items. (Tribunal De Commerce de Paris, Judgment of June 30th, 2008, First Room B, RG 2006077799)

eBay should not ask or expect from the copyright owners to engage any financial resources, in fighting the illegal acts committed on the eBay website.²⁷

LVM claimed that its image had suffered. The presence of counterfeited products on the online Marketplace resulted in negative publicity for the copyright owners. The courts agreed²⁸.

The French Court found eBay responsible for the moral prejudice because “the massive sale of counterfeited products on the eBay sites, affected progressively the creation and quality of Louis Vuitton Malletier products, for which it was known”.

From the court rationale, one can conclude that in developing the court is not satisfied only with an *a posteriori* protection programs implemented by eBay, VeRO and the software to remove products. The court would want the technical intermediaries to make an *a priori* check up over the products sold on the website. One of the forms suggested would be the mandatory submission of a receipt or certificate of authenticity.

Lancôme V. eBay – Belgium Court’s Perspective Over The Counterfeited Goods Sold Online And The Status Of eBay

Lancôme Perfumes et Beaute & Cie filled a lawsuit against eBay Germany, England, France, Spain and Belgium.

In July 2008 in Belgium the court held eBay harmless for the counterfeited items sold on its website.²⁹

The court’s analysis was centered around the status of eBay, whether eBay is or not a host (service provider). The court applied the

²⁷ Id. p. 12.

²⁸ Tribunal de Commerce de Paris (Commercial Court of Paris), June 30, 2008, RG 2006077799 , p. 14.

²⁹ Tribunal de Commerce de Bruxelles, 7eme chamber, salle B (Bruxelles Tribunal Commercial), July 31, 2008 R.G. no A/07/06032.

Belgium law³⁰, which is a reflection of the European Parliament Directive.

Lancôme challenged eBay's status as a host arguing that the website offered services that are beyond the ones offered by a service provider.

In granting eBay this status the court rationale made reference to the theory of *composite nature of the services* offered by service providers.³¹ A website has a composite nature when it hosts both information placed by the service provider and information provided by third party users.³² Under this theory the service providers' services have a complex nature. They act as intermediaries and edit materials found on the websites; they provide the medium for commercial exchange, and host the information from the website.³³ On the same page the viewer can see information placed by other users, and information posted and edited by the service provider.

According to Belgium law – The service provider is not responsible for the content, if he does not have any knowledge of the illegal content, or if it does, he acts promptly to remove them.³⁴ The court found that eBay acted diligently, it cooperated and removed the illegal content as soon as Lancôme notified it and therefore is not liable.³⁵

GRAY MARKET AND PARALLEL IMPORTS IN ONLINE MARKETPLACE

Commonly known as “gray-market goods”, are the goods sold outside of the authorized distribution system.

A short exposure to the commercial process will lead to a better understanding of the gray-market goods and the underlying legal doctrines.

³⁰ Loi du 11 Mars 2003 sur certain aspects juridiques des services de la société de l'information, Law of March 11 2003, Regarding Some Juridic aspect.

³¹ Serge Proust “Propos critiques à l'encontre de l'orientation actuelle de la jurisprudence face au développement du web 2.0, “Revue Lamy Droit de L'Immateriel”, No.30, août-septembre 2007, p.29.

³² Idem.

³³ Ibidem.

³⁴ Loi du 11 Mars 2003 sur certain aspects juridiques des services de la société de l'information, Article 20, section 3.

³⁵ Tribunal de Commerce de Bruxelles, 7eme chamber, salle B (Bruxelles Tribunal Commercial), July 31, 2008 R.G. no A/07/06032.

A product reaches the consumer at a price. On its way to the consumer the manufacturer sells the product to the distributors at a discount. The retail sellers (the last step before the consumer-buyer) buy the product from the wholesalers at a discount that can vary; that is usually around 40%-60% from the price paid by consumer.

The stores can resale the product at the suggested retail price, the price paid by the consumer. Sometimes for marketing reason the retailer can choose to resale the product at the price they acquired to attract costumers.

A common practice used by manufacturers when they enter on a market is to lower their price *for that market*.

The same goods are offered at significant different prices in different economic zones to reflect the buying power of the consumers in that area.

Some manufactures are selling the overstock to specialized retailers. The product will reach the consumer at significant discount again.

All this illustrates that the price of one product can be different at a particular moment in different geographical areas.

The luxury brands have a kin interest in controlling the price that reaches the consumer.

EBay allows physical and geographical barriers to disappear. Buyers and sellers from different areas can connect. Because it translates into loss profits, some manufactures are interested in finding ways to control the end price of the product when it gets to the consumer.

1. Grey-Market Goods And The First Sale Doctrine In USA

A common practice among the luxury manufactures is to use only selective chains of distributors. This helps them to preserve their reputation and the quality of the product. The owner's intellectual property rights over the product are restricted by the "first sale doctrine" or "sale exhaustion" doctrine: the copyright owner can exercise its distribution rights until the first sale.³⁶ The copyright owner cannot claim any distribution right for any subsequent sales (like limiting the sale price or number of items), its rights being exhausted at the first transaction.

Luxury manufactures choose the chain of distribution very

³⁶ 18 Am Jur 2d *Copyright and Literary Property* § 100.

carefully. It is well known that the high price paid by the customer depends and includes the channel of distributors. If the consumer can buy Louis Vuitton, or Rolex at Wal-Mart, it is likely that the price may be slightly lower than at Sack's Fifth Avenue. The perceived value of the brand will be different. The brand value will be diluted, and lose its status as a luxury product. The rationale behind the copyright owner's motivation is understandable.

The first sale doctrine limits the intellectual property owners' rights to the first sale, so they cannot control the terms of the subsequent sales.

The parallel commerce, or "gray market goods" appears when the goods are sold outside the authorized chain of distribution. Online marketplace is one of the unauthorized chains and EBay is one of the mediums where those products are sold.

International exhaustion or first sale doctrine on international level is more restrictive.

Under US law, there is copyright infringement, when a work is acquired outside US and subsequently is imported in US without the copyright's owner consent.³⁷ The "first sale" doctrine is limited in relation with the importation rights.

In *Perfumes Givenchy v. Drug Emporium*, 38 F.3d 477 Givenchy France was the owner of the copyright of the perfume Amarige³⁸ and later sold them to Givenchy USA. Third parties purchased the perfume abroad and imported it in USA³⁹. Drug Emporium bought the perfume from the third parties and looked to distribute it in USA. Givenchy obtained an injunction against Drug Emporium. The court decided that the "first sale" rule would apply if the purchase had first taken place in USA.⁴⁰

In *Givenchy v. C & C Beauty* the court held that when the goods are acquired abroad, and resold in USA, this deprives the copyright owner of the full benefit of the value of each copy.⁴¹

³⁷ 7 USCS § 602.

³⁸ *Parfums Givenchy v. Drug Emporium*, 38 F.3d 477 (9th Cir. Cal. 1994).

³⁹ *Id.* at 479.

⁴⁰ *Id.* at 477.

⁴¹ *Parfums Givenchy v. C & C Beauty Sales*, 832 F. Supp. 1390, 1391 (C.D. Cal. 1993).

2. Christian Dior , Kenzo, Givenchy, Guerlain v. Ebay – The French court perspective on the “Gray-Market” goods

In June 30th, 2008 the French court reached a decision in the lawsuit against eBay filed by a group of perfumes producers: SA Parfums Christian Dior, Kenzo Parfums, Parfums Givenchy and the company Guerlain SA. The companies are part of the LVMH, a conglomerate commercializing luxury products.⁴² The court held eBay liable for the products sold on the website. According to the court, the website provides an activity of brokerage and cannot qualify as a service provider.⁴³ The rationale of the court on this aspect was similar with the one in Luis Vuitton Malletier v. eBay.

An important holding of the French court was *to enjoined eBay from selling any of the plaintiff's perfumes on the website.* (Decision RG N 2006062217, at 16).

The legal basis for the decision is resting on the issue of “gray market”, and parallel imports.

The plaintiffs claimed to the court that they have a system of selective distribution for their luxury products and that eBay is interfering with it.⁴⁴ Their products have a note, which stated that the goods are to be sold only by the authorized dealers. The court agreed and held that eBay refused to put in place any measures that would protect against the illegal sales on its website.⁴⁵

In the vision of the Court, eBay failed in its obligation to assure that its activity will produce no illegal acts, resulting in interference with the authorized distribution chain.⁴⁶ It can be noticed that the plaintiffs in this case are a group of French companies representing a large part of the perfumes market in France.

Ebay and like sellers are changing the way business is done.

We are all familiar with how file sharing and pirating is shaking the movie and music business. The producers notice that and they started to

⁴² Tribunal de Commerce de Paris (Commercial Court of Paris), June 30, 2008, RG 200665217, *Dior, Kenzo, Givenchy, Guerlain v. eBay*. p. 13.

⁴³ Id.

⁴⁴ Id. at 12.

⁴⁵ Tribunal de Commerce de Paris (Commercial Court of Paris), June 30, 2008, RG 200665217, *Dior, Kenzo, Givenchy, Guerlain v. eBay*. p. 15.

⁴⁶ Id. at 4.

offer to the consumer the option to download the movies and songs legally. The regular record stores are closing their doors and the online sells of downloads skyrocket as a result of digital revolution.

Ebay is part of a similar phenomenon; is treating a business model, well established, that produced large revenues. France is home of one of the biggest and most famous brands in fashion and luxury goods. It would be understandable if the protection of this model would be one of the underlying reasons in the French court's decision.

The luxury goods producers claim that their higher price of the goods is a reflection of their quality. They control where the prices are sold through a well developed distribution system. Their revenues depend of the perceived value of the goods, and the retailers play a significant role in shaping the image of the brand. For the luxury goods the point of sale, where the products reach the consumer, is crucial for the survival of the brand and of the company.

The French court, it seems, acted in the direction of protecting the traditional way of doing business with luxury goods.

Rolex was one of the first luxury producers who filled a lawsuit against eBay, in April 2001.⁴⁷ Initially the German Federal Supreme Court found eBay liable in certain situations for the counterfeit products found on its websites, and compelled him to redraw all a Rolex products from the online marketplace.⁴⁸ In February 2009, the German court returned with a verdict in favor of eBay one of the reasons mentioned by the court's spokesman, was that eBay is now filtering the listings that violate the trademark rights and to review each item would present to much of a burden for the service provider.⁴⁹

3. L'Oreal v. Ebay - The New Direction In the French Court's Perspective Over The Status Of Ebay

On *May 13th, 2009* the 3rd Chamber of the 3rd Section of the Superior Court came with a decision in the lawsuit filled by eBay in France.

⁴⁷ *Ebay Form 10 k Annual Report 2007* <http://investor.ebay.com/secfiling.cfm?filingID=950134-07-4291>, (Last visited May 16, 2009).

⁴⁸ *Rolex v. eBay*, Bundesgerichtshof (Federal Court of Justice) (April 30th, 2008).

⁴⁹ Karin Matussek and Heather Smith *EBay Wins Lawsuit in Germany Over Fake Rolex Sales (Update1)*, <http://www.bloomberg.com/apps/news?pid=20601100&sid=aR4owxmsgE6l&refer=germany> (Last visited, May 16, 2009).

The court held the online marketplace not liable for the counterfeit items traded on its website.⁵⁰

The court *granted the status of a service provider* to eBay and the shelter of the safe harbor.⁵¹ The rationale was that the commercial transactions on the internet are complex and the service providers are offering more than one service on the websites.⁵² Those activities are mingled and to separate them is not practical⁵³. For the users of the website it is clear that the marketplace is not shaping the content of the listings and plays only a role of intermediary between buyers and sellers, through its technical interface.⁵⁴ About the ads on the website, and the links, the court admits that they are not essential for the service provider's activity.⁵⁵ But because of the complexity of the financial transactions the court's interpretation of the law⁵⁶ cannot be narrow, so eBay is qualified as a service provider.⁵⁷ Regarding the Power Seller program and the other tools employed by eBay to help the seller, the French court held that they do not have any effect over the content of the add, the price or warranties, therefore it does not affect the status of eBay.⁵⁸

The court suggested that the parties should use the mediation process and should cooperate to settle the differences and fight against counterfeit items sold online.⁵⁹

The court pointed in regard to the *selective distribution* that there is no uniform law within the European Union, therefore the listing that do not

⁵⁰ Tribunal de Grand Instance (T.G.I) (ordinary court of original jurisdiction), Paris, May 13, 2009, p. 24.

⁵¹ Tribunal de Grand Instance (T.G.I) (ordinary court of original jurisdiction), Paris, May 13, 2009, p. 20.

⁵² Tribunal de Grand Instance (T.G.I) (ordinary court of original jurisdiction), Paris, May 13, 2009, p. 18.

⁵³ Id.

⁵⁴ Id.

⁵⁵ Id.

⁵⁶ La Loi pour la confiance dans l'économie numérique (LCEN), Law for the Confidence in the Digital Economy 21 June 2004.

⁵⁷ Tribunal de Grand Instance (T.G.I) (ordinary court of original jurisdiction), Paris, May 13, 2009, p. 20.

⁵⁸ Tribunal de Grand Instance (T.G.I) (ordinary court of original jurisdiction), Paris, May 13, 2009, p. 19.

⁵⁹ Tribunal de Grand Instance (T.G.I) (ordinary court of original jurisdiction), Paris, May 13, 2009, p. 22.

provide a source of origin for the product has the benefit of the exhaustion doctrine.⁶⁰

CONCLUSION

The commerce on the internet is changing continuously. The human factor and technological factor are interacting in a symbiotic relationship. They influence each other and together shape the way internet and online commerce develops. The researches focused on the buyers want, and then, they focus their researches on that. The consumer “wants” can change when they find a new technology “trendy”. iPod and social networking was a small player on the Cyber world scene a decade ago, and now everything revolves around them. How does the business react to the changes? Some of them take advantage of the opportunities like eBay. Some others want to preserve the status quo, like Luis Vuitton.

Each of the five court decisions is valuable. E-commerce tends to become a big player in the commerce world. Until it reaches a mature phase, when the pace of change is slower, the players have to adapt very fast, in an environment where the law cannot keep with the change.

eBay and like website, and their model of business proved to be popular among consumers.

The e-commerce goes to a growing phase now, and the tendency is to encourage that by providing a lot of flexibility for development. Like to a child, we forgive his mistakes and give freedom to nurture his growth. eBay is a pioneer that has to self-regulate and find solutions to meet its customer's needs, when the law comes to regulate and sanction only later its activities.

US and Belgium, and most recently the French courts, recognized and reflected this growing phase through their decisions. They are soft in their findings and send positive signals to online retailers. Who would open another website knowing that they can be liable for products posted by a third party? Because the court held that the online marketplace has no general obligation to monitor its website for illegal activities and the trademark owner has to police its trademark, it can be seen as incentives to the present way eBay does business.

⁶⁰ or “first sale doctrine”.

The French court in Luis Vuitton and Dior cases adopted a more precautious attitude that would be more suitable for when e-commerce is in a mature faze. When online retailing will be well established in the commerce world and people are more accustomed and when people will trust using it, it may be the moment for more harsh regulations; like an *a priori* verification of the products posted online, how the French court suggested.

As a reaction to the lawsuits, eBay considers that they may have to modify their business practices, and this will result in an increase in expenses and lower income⁶¹. The website declared that they are treated with lawsuits from other luxury goods producers.⁶² The claims are mainly the same as those discussed in this paper, and concern the counterfeit goods listed on website, parallel imports, and interference with the selective distribution channels law.⁶³

If a significant number of lawsuits are filled against eBay, this will be reflected in its fees and business, and can even bankrupt the business. The regulations are too vague to offer a consistent guidance for how to do business, therefore eBay walks on a mine field, not knowing what to expect and how to calibrate its actions. To keep the online retailer accountable, like the French court did in the first Dior and Luis Vuitton cases, would place an undesirable burden on the website.

The trademarks owner vantage point is understandable. Online commerce makes easier copyright infringement. The copyright owners have to employ more resources for stopping the illegal acts. The financial resources allocated to fighting against infringement will in the best case lower their profits. In the worst case it will force the companies to go out of business.

At the extent that policing their trademarks it becomes too burdensome, the lawmakers have to take their burden off and find new solutions to protect them.

Some parts of the population see copyright infringement more and more as a tolerable act. The solution would be to make them more responsible and more accountable.

⁶¹ eBay *Form 10-K Annual Report 2009*, <http://investor.ebay.com/secfiling.cfm?filingID=950134-09-3306> , Last visited May 16, 2009.

⁶² *Idem.*

⁶³ *Id.*

To achieve this, the lawmakers can enact laws which make it much easier for the copyright owners to protect their rights; like a faster and easier procedure to stop the infringement.

The copyright owners can partner with small law practices for protecting their trademarks. Lawyers will act as agents of the copyright owners. The trademarks owner will not pay them. Their revenues will come from the fees assessed by the courts when a person is found liable for the copyright infringement.

The users of the services have to be educated to become aware that copyright infringement is an unlawful act. A tendency to continue to let copyright infringement to be perceived as a tolerable behavior is in the detriment of the copyright owners. To educate the consumers about copyright infringement will benefit trademarks owners and the society as a whole.

