

THE NEW (ELECTRONIC) STREET FOR COUNTERFEITING¹

By Joseph J. Berghammer²

From Canal Street in New York, to the corners of M Street in Georgetown, to the backstreet near Chicago's Union Station, sales of ersatz TIFFANY rings, KATE SPADE purses, and ROLEX watches abound. With sources estimating more than \$100 million sales each year in the United States alone, counterfeiting is indeed a plague on manufacturers and retailers.

Recently, counterfeiters have moved their phony wares to the streets of the new millennium, the Internet, and have caused serious problems for retailers and honest manufacturers. Tiffany, Inc. has stated that sales of counterfeit goods over the Internet are believed to exceed over \$30 billion each year. To stem this tide of mounting counterfeiting, Tiffany recently initiated a lawsuit in what has become a trend against counterfeiting – sue the Internet Service Provider (ISP). Tiffany sued eBay, claiming that eBay should be held accountable for the sales of fake TIFFANY products over its Web site and demanded eBay be forced to prevent sales of counterfeit goods in the future. eBay has not yet responded to the suit, but it is a safe bet, based on previous litigation against eBay, the eBay disagrees.

The *Tiffany v. eBay* lawsuit, like other lawsuits filed against ISPs, raises important questions about the policing of our cyberstreets. Who is best situated to patrol the Internet streets? Who should bear the costs of such policing? What are the long-term ramifications of our decisions regarding appropriate policing authority?

¹ This article originally appeared in the September 2004 issues of *Intellectual Property Counselor*. Copyright is retained by the author.

² Mr. Berghammer is an attorney with the intellectual property law firm of Banner & Witcoff, Ltd. in Chicago, IL. The views expressed in this article are solely those of the author, and should not be attributed to Banner & Witcoff, Ltd. or any of its clients. Mr. Berghammer may be reached via e-mail at jberghammer@bannerwitcoff.com. (9/2004)

Tiffany claims that eBay is best situated to police its Web site. Tiffany claims that “eBay is able automatically to screen out and remove from its database all listings of five or more pieces of TIFFANY jewelry” that Tiffany claims almost certainly involve counterfeit goods. Such screening by eBay is much less expensive and more effective, according to Tiffany, than any monitoring that Tiffany could undertake. eBay undoubtedly agrees.

One question that must be asked, however, is whether anyone can fully police and stop electronic sales of counterfeit goods. Counterfeit goods on the streets in the bricks and mortar world never appear to cease. The day after raids by federal marshals on Canal Street, new vendors have set their stalls in the place of the old. The Internet streets do not appear to be any different.

If counterfeit sales can never be fully stopped in an open, electronic economy, our decision regarding the party we appoint to bear the burden of counterfeit sales may have a tremendous impact on the electronic economy itself. If liability is placed on the ISPs, such as eBay, they may be unable to police and prevent all sales of counterfeit goods. Accordingly, the ISPs’ only option may be to cease all sales of particular goods. If eBay is ordered to cease all auctions of counterfeit TIFFANY goods, it may be forced to shut down all auctions of any TIFFANY items (legitimate or counterfeit). While this may please Tiffany in the short run, counterfeiting is not a plague on Tiffany alone. If eBay is forced to shut down all auctions of TIFFANY items, auctions for KATE SPADE bags, BIG BERTHA golf clubs, and HILFIGER clothing may be next. The ultimate outcome in such a scenario may be a general, broad constriction of the overall commerce that occurs over the Internet. The free flow of the Internet economy will be partially blocked.

If the policing duty is placed on retailers and manufacturers such as Tiffany, on the other hand, it forces them to shoulder a tremendous burden. Tiffany claims that during 2003 and 2004, it had several employees devote substantial time policing eBay’s auction sites. Through Tiffany’s tireless efforts, eBay removed over 19,000 auctions selling counterfeit TIFFANY goods. However, despite this Herculean effort, the counterfeiting continues.

The *Tiffany v. eBay* lawsuit and other recent lawsuits against ISPs are raising significant questions about the policing of our Internet streets. The answers to these questions, which our courts or twelve members of the public on a jury will be forced to provide, will have a profound impact of electronic commerce for all of us.