

**GUCCI V. ALIBABA: A BALANCED APPROACH TO SECONDARY  
LIABILITY FOR E-COMMERCE PLATFORMS**

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*This Recent Development discusses the future of secondary liability for e-commerce platforms whose users sell counterfeit goods in the wake of the ongoing Gucci v. Alibaba litigation. Should the plaintiffs prevail, e-commerce platforms will be held accountable to cooperate with brand owners by removing infringing listings in a timely fashion and sanctioning users who sell counterfeits in an effective manner, resulting in a more brand-protective environment than that under the current Tiffany v. eBay standard. Such a result will compel e-commerce platforms to share the burden of policing counterfeiters with trademark owners, working together to combat trademark infringement. Not only will this be a more effective means of discouraging appropriation, but it will also reinforce public policy goals and ultimately benefit trademark owners, e-commerce platforms, and consumers.*

**I. INTRODUCTION**

What qualifies an item as “luxury”? The concept of luxury “can be as subjective and elusive as it is obvious.”<sup>1</sup> High price, non-essential nature, indulgence, provenance, craftsmanship, exclusivity, and experience can all be indicators of luxury.<sup>2</sup> This allure attracts consumers to pay top dollar for extravagant and often unnecessary items.<sup>3</sup> Indeed, reputation is a critical component of luxury; one that is not easily created.<sup>4</sup>

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<sup>1</sup> Tom Teicholz, *Cult of Luxury: Who Makes High-End Goods and How We Recognize It*, FORBES (Feb. 5, 2015, 7:56 PM), <http://www.forbes.com/sites/tomteicholz/2015/02/05/cult-of-luxury-what-it-is-who-makes-it-and-how-we-recognize-it/>.

<sup>2</sup> *Id.*

<sup>3</sup> Tom Teicholz, *Cult of Luxury: Craftsmanship, Scarcity, and the Hermès Brand*, FORBES (Mar. 12, 2015, 5:31 PM), <http://www.forbes.com/sites/>

Trademarks are powerful tools for luxury brands, as they denote the “status, quality, and price of the brand’s goods.”<sup>5</sup> Accordingly, trademarks convey a notion of the brand’s reputation, undoubtedly a product of the goodwill and quality of the brand’s goods or services.<sup>6</sup> To protect such reputation, luxury brands spend hundreds of millions of dollars to combat counterfeiting.<sup>7</sup> At first glance, counterfeits or knockoffs may resemble luxury goods; however they are often made of poor quality materials, lacking the attention to detail and high standard of craftsmanship for which luxury brands are known.<sup>8</sup> Counterfeiting threatens a brand’s very livelihood in that consumers may confuse knockoff products with the genuine articles and conclude that the brand’s luxury items are of inferior quality and not worth the high price.<sup>9</sup>

The scope of global counterfeiting efforts is vast and often considered the “single greatest threat to brand owners.”<sup>10</sup> In 2014, the U.S. Border Patrol confiscated knockoff goods at the border that would have been valued at \$1.2 billion dollars, had they been genuine pieces.<sup>11</sup> Throughout the world, it is estimated that \$1.8

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tomteicholz/2015/03/12/cult-of-luxury-craftmanship-scarcity-and-the-hermes-brand/.

<sup>4</sup> Tom Teicholz, *Cult of Luxury: Dolce, Gabbana And The Importance Of A Good Reputation*, FORBES (Mar. 20, 2015, 2:34 AM), <http://www.forbes.com/sites/tomteicholz/2015/03/20/cult-of-luxury-dolce-gabbana-and-the-importance-of-a-good-reputation/>.

<sup>5</sup> See Kurt M. Saunders & Gerlinde Berger-Walliser, *The Liability of Online Markets for Counterfeit Goods: A Comparative Analysis of Secondary Trademark Infringement in the United States and Europe*, 32 NW. J. INT’L L. & BUS. 37, 38 (2011).

<sup>6</sup> See *id.*

<sup>7</sup> *French Conglomerate LVMH Has Built its Name on Luxury*, THE FASHION LAW (September 1, 2015), <http://www.thefashionlaw.com/home/french-conglomerate-lvmh-has-built-its-name-on-luxury>.

<sup>8</sup> Saunders & Berger-Walliser, *supra* note 5, at 38.

<sup>9</sup> *Id.*

<sup>10</sup> See First Amended Complaint at 42, *Gucci Am. Inc. v. Alibaba Grp. Holding Ltd.*, No. 15-cv-03784 (S.D.N.Y. 2015).

<sup>11</sup> *Counterfeit.com*, THE ECONOMIST (Aug. 1, 2015), <http://www.economist.com/news/business/21660111-makers-expensive-bags-clothes-and-watches-are-fighting-fakery-courts-battle>.

trillion dollars in knockoffs are sold every year.<sup>12</sup> Counterfeited items include watches, jewelry, handbags, wallets, clothing, pharmaceuticals, personal care items, footwear, and consumer electronics.<sup>13</sup> With the advance of new technology, counterfeiting has become an even larger, more complex threat to brands. In recent years, with the rise of e-commerce platforms and online stores, the Internet has redefined the shopping experience. What was once an activity requiring customers to dress in their finery and travel downtown has now been reduced to a few clicks of a mouse. The sheer breadth of items available for purchase online has grown exponentially as well.<sup>14</sup> Online auction websites such as eBay allow anyone to relatively anonymously sell items on such platforms.<sup>15</sup> With the creation of e-commerce platforms and online boutiques, online shoppers can buy anything from a two dollar toothbrush to a two thousand dollar handbag. However, such convenience comes at a price: instances of trademark infringement and counterfeiting have become more prevalent with the popularity of e-commerce websites.<sup>16</sup> Online shopping permits consumers to buy and sell counterfeits from the comfort of their living rooms, eliminating “dark alleys and basements from the buying equation.”<sup>17</sup> E-commerce marketplaces can provide a successful setting for counterfeiters: low operating costs to sell on websites,

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<sup>12</sup> *Id.*

<sup>13</sup> *Id.*

<sup>14</sup> *What is Taobao?*, WALL STREET JOURNAL (May 28, 2014), <http://www.wsj.com/video/what-is-taobao/69BD4B54-0417-4075-A54D-5FC895B5B3F3.html>; Paul Grey, *How Many (More) Products Does Amazon Sell?*, EXPORT X (August 14, 2014), <http://export-x.com/2014/08/14/many-products-amazon-sell-2/>. For instance, over 800 million products are available on Alibaba’s Chinese e-commerce platform Taobao at any time. It is estimated that Amazon sells over 250 million products in America alone. *Id.*

<sup>15</sup> EBAY, *What We Do*, <https://www.ebayinc.com/our-company/who-we-are/> (last visited October 29, 2015) (“Whether you are buying new or used, plain or luxurious, commonplace or rare, trendy or one-of-a-kind – if it exists in the world, it probably is for sale on eBay.”).

<sup>16</sup> See Saunders & Berger-Walliser, *supra* note 5, at 38.

<sup>17</sup> Maura Kutner, *The Fight Against Fakes Online*, HARPER’S BAZAAR (Dec. 14, 2010), <http://www.harpersbazaar.com/fashion/trends/a622/fight-against-fakes-online-0111/>.

less risk of legal action, and the ability to easily open another store, should one be shut down.<sup>18</sup>

Accordingly, e-commerce platforms and Internet operators have been sued by luxury brands over counterfeits sold by users, both in the United States and in Europe.<sup>19</sup> Trademark owners have asserted that online marketplaces should be held liable for their users' illegal activity because they allow the sale of counterfeits through their websites.<sup>20</sup> Courts have determined the outcome of such cases based on the requisite level of knowledge e-commerce platforms possess of their users' illicit acts.<sup>21</sup> The current landscape of contributory liability law in the United States under the *Tiffany* standard<sup>22</sup> protects the e-commerce platform, not the trademark owner, to the detriment of public policy concerns.<sup>23</sup> However, an ongoing lawsuit, *Gucci v. Alibaba*,<sup>24</sup> carries the potential to shift the standard to one, which, should the plaintiffs prevail, is more

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<sup>18</sup> Second Amended Complaint at 47, *Gucci Am. Inc. v. Alibaba Grp. Holding Ltd.*, No. 15-cv-03784 (S.D.N.Y. 2015).

<sup>19</sup> See *Tiffany (NJ) v. eBay Inc.*, 600 F.3d 93 (2d. Cir. 2010); *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, 658 F.3d 936 (9th Cir. 2011); *Perfect 10, Inc. v. Visa Intern. Service Ass'n*, 494 F.3d 788 (9th Cir. 2007); *L'Oreal SA v. eBay Int'l AG* [2009] EWHC 1094 (Eng.).

<sup>20</sup> See *Tiffany*, 600 F.3d at 106 (“*Tiffany* urged that eBay be held contributorily liable on the basis that despite that knowledge, it continued to make its services available to infringing sellers.”)

<sup>21</sup> See *id.* at 107. (“[T]he district court concluded that for *Tiffany* to establish eBay’s contributory liability, *Tiffany* would have to show that eBay ‘knew or had reason to know of specific instances of actual infringement’ beyond those that it addressed upon learning of them.”)

<sup>22</sup> *Id.*

<sup>23</sup> *Id.* at 109 (internal citations omitted). The court held:

*Tiffany* and its amici express their concern that if eBay is not held liable except when specific counterfeit listings are brought to its attention, eBay will have no incentive to root out such listings from its website. They argue that this will effectively require *Tiffany* and similarly situated retailers to police eBay’s website – and many others like it ‘24 hours a day, and 365 days a year.’ They urge that this is a burden that most mark holders cannot afford to bear.

*Id.*

<sup>24</sup> *Gucci Am. Inc. v. Alibaba Grp. Holding Ltd.*, No. 15-cv-03784 (S.D.N.Y. 2015).

brand protective.<sup>25</sup> A verdict for the plaintiffs would safeguard brands against counterfeiters imposing upon the brands' good will and esteemed reputation, and restore confidence in consumers that what they purchase online is legitimate.

This Recent Development will proceed in five parts: Part II will introduce the Alibaba marketplace's history of counterfeiting issues and the *Gucci* complaint; Part III will provide an overview of secondary liability for trademark infringement in the United States under the *Tiffany* standard; Part IV will apply the *Tiffany* standard to the *Gucci* complaint and argue why the Plaintiff's secondary liability argument should prevail; and Part V will conclude.

## II. INTRODUCING ALIBABA'S HISTORY OF COUNTERFEITING ISSUES AND THE *GUCCI* COMPLAINT

### A. *The Alibaba Group*

Founded sixteen years ago, Alibaba is China's largest e-commerce company, utilized in eighty percent of online Chinese commerce.<sup>26</sup> Alibaba is a network of interconnected products and services,<sup>27</sup> constituting an all-in-one e-commerce marketplace,

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<sup>25</sup> Currently, in the interest of pursuing mediation, the Plaintiffs have entered a Notice of Voluntary Dismissal without Prejudice against four of the eleven Alibaba Defendants: Alibaba.com Investment Holding Limited; Alibaba.com Investment Limited; Alibaba.com, Inc.; and Taobao Holding, Ltd. The Plaintiffs are not pursuing mediation with respect to the thirty-one merchant defendants. In the event that mediation fails, this prospectus will still be valid. *See* Stipulation and Notice of Voluntary Dismissal Without Prejudice Against Certain Defendants, *Gucci Am. Inc. v. Alibaba Grp. Holding Ltd.*, No. 15-cv-03784 (S.D.N.Y. 2015).

<sup>26</sup> Sarah Gray, *Why a company you've never heard of is about to take over the world*, SALON (Sept. 18, 2014 11:05 AM), [http://www.salon.com/2014/09/18/why\\_a\\_company\\_youve\\_never\\_heard\\_of\\_is\\_about\\_to\\_take\\_over\\_the\\_world/](http://www.salon.com/2014/09/18/why_a_company_youve_never_heard_of_is_about_to_take_over_the_world/). For an introduction to the Alibaba Group, *see* Alibaba Grp. Holding Ltd. Registration Statement (Form F-1) 1-6 (May 6, 2014) [hereinafter Registration Statement].

<sup>27</sup> *What is Alibaba?*, WALL STREET JOURNAL, <http://projects.wsj.com/alibaba/?mod=e2tw>.

bank, and search engine.<sup>28</sup> Alibaba offers services on its platforms conceptualized as a mix of eBay's user-generated listings<sup>29</sup> and Amazon's wide product availability,<sup>30</sup> with additional features such as product search functions and online payment systems, similar to those of Google<sup>31</sup> and PayPal.<sup>32</sup> The Alibaba company offers three main e-commerce websites: Taobao, Tmall, and Alibaba.com.<sup>33</sup> Taobao is Alibaba's largest business, on which vendors may list items free of charge, but pay for services such as advertising so that their products stand out.<sup>34</sup> Similar to Google, Alibaba makes money by selling advertising and search placement to Taobao vendors.<sup>35</sup> Tmall is a more upscale e-commerce website on which large brands such as Nike or Proctor and Gamble pay a hefty fee to list their products.<sup>36</sup> Alibaba also obtains commission from the

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<sup>28</sup> *Id.*

<sup>29</sup> eBay is an online auction website that provides a platform for users to buy and sell goods. EBAY, *What is Ebay?*, <http://pages.ebay.co.uk/help/account/questions/about-ebay.html> (last visited November 19, 2015). *See also* eBay, *supra* note 15.

<sup>30</sup> Amazon is an e-commerce platform where customers "can find and discover virtually anything they want to buy online," offering "low prices, vast selection, and convenience." AMAZON, *Overview*, <http://phx.corporate-ir.net/phoenix.zhtml?c=176060&p=irol-mediaKit> (last visited November 19, 2015).

<sup>31</sup> Google offers various technologies such as a search engine, email service, Internet browser, advertising programs, and cloud computing tools. *See* GOOGLE, *Our products and services*, <https://www.google.com/intl/en/about/company/products/> (last visited November 19, 2015).

<sup>32</sup> "Paypal is a service that enables you to pay, send money, and accept payments without revealing your financial details." PAYPAL, *Checkout with PayPal – Faster. Safer. Easier.*, <https://www.paypal.com/webapps/mpp/paypal-popup> (last visited November 19, 2015). *See also* Gray, *supra* note 26.

<sup>33</sup> Wall Street Journal, *supra* note 27. "The Alibaba Defendants have created an online global marketplace on their websites Alibaba.com, AliExpress.com and Taobao.com (collectively, the 'Alibaba Marketplaces') for the sale of wholesale and retail products originating from China." Second Amended Complaint at 3, *Gucci Am. V. Alibaba Grp. Holding Ltd.*, No. 15-cv-03784 (S.D.N.Y. 2015).

<sup>34</sup> Wall Street Journal, *supra* note 27.

<sup>35</sup> *Alibaba is not the Amazon of China*, CNN MONEY (HONG KONG) (Sept. 16, 2014), <http://money.cnn.com/2014/09/15/investing/alibaba-amazon-china/index.html?iid=EL>.

<sup>36</sup> Wall Street Journal, *supra* note 27.

retail brands who sell their goods on Tmall.<sup>37</sup> Alibaba.com connects Chinese companies with exporters throughout the world.<sup>38</sup> Alibaba's latest venture involved offering over \$3.5 billion dollars for ownership of Youku Tudou, the Chinese equivalent of Youtube, investing in China's rapidly growing digital media market.<sup>39</sup>

Alibaba is arguably the world's largest e-commerce company, as it hosts millions of merchants and businesses and boasts hundreds of millions of users throughout its three principal websites: Taobao, Tmall, and Alibaba.com.<sup>40</sup> According to lead founder and executive chairman Jack Ma,<sup>41</sup> the company also employs a so-called Internet "ecosystem," which permits consumers to shift between Alibaba's e-commerce platforms and mobile apps.<sup>42</sup> These apps allow users to perform a myriad of activities beyond the realm of online shopping, from hailing a taxi to investing in a money market fund.<sup>43</sup>

Although the average American consumer has likely never heard of the company,<sup>44</sup> Alibaba handles more business than any other e-commerce company in the world.<sup>45</sup> Alibaba is not only home of the largest online clothing marketplace,<sup>46</sup> it is the most frequented e-commerce destination in the world.<sup>47</sup> In 2013, it

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<sup>37</sup> CNN Money, *supra* note 35.

<sup>38</sup> Chris Wright, *So What Exactly Is Alibaba?*, FORBES (Sept. 16, 2014), <http://www.forbes.com/sites/chriswright/2014/09/16/so-what-exactly-is-alibaba/>.

<sup>39</sup> *Alibaba offers \$3.6 billion to buy China's 'Youtube'*, CNN MONEY (LONDON) (Oct. 16, 2015), <http://money.cnn.com/2015/10/16/technology/alibaba-youku-tudou-video/index.html>.

<sup>40</sup> Wright, *supra* note 38.

<sup>41</sup> ALIBABA GROUP, *Leadership*, <http://www.alibabagroup.com/en/about/leadership> (last visited November 19, 2015).

<sup>42</sup> CNN Money, *supra* note 35.

<sup>43</sup> *Id.*

<sup>44</sup> *See* Gray, *supra* note 26.

<sup>45</sup> Wall Street Journal, *supra* note 27.

<sup>46</sup> Gregory Babcock, *Alibaba Is the Biggest Online Clothing Marketplace in the World, and Is Full of Fake Yeezys, Givency, and Everything Else*, COMPLEX (Sept. 23, 2014), <http://www.complex.com/style/2014/09/a-sample-of-fake-products-on-alibaba/>.

<sup>47</sup> Wall Street Journal, *supra* note 27; *See* Paul Mozur and Juro Osawa, *Alibaba 11.11 Shopping Festival Breaks Record*, WALL STREET JOURNAL (Nov. 11, 2013), <http://www.wsj.com/news/articles/SB1000142405270230464410457>

boasted \$248 billion dollars in total transactions, a figure greater than eBay and Amazon's sales combined.<sup>48</sup> In 2015, Alibaba.com alone boasted 350 million active buyers and more than \$12 billion dollars in earnings.<sup>49</sup> On the Chinese equivalent of Black Friday in 2013, Alibaba's sales totaled \$5.75 billion dollars, a figure three times larger than that Americans spent on all United States online shopping websites during both Thanksgiving and Black Friday.<sup>50</sup> Such large sales are attributable in part to the sheer volume of Chinese Internet users and the popularity of online shopping in China.<sup>51</sup> There are an estimated 500 million Internet users in China, compared to the United States population of about 330 million people.<sup>52</sup> Moreover, unlike in the United States, many large cities in China do not offer shopping malls or large retail centers, resulting in Chinese residents turning to shopping online for their retail needs.<sup>53</sup> Alibaba's business thrives on the lack of brick and mortar stores in China, a hallmark of American shopping.<sup>54</sup> Jack Ma explained, "E-Commerce in the U.S. is like a dessert... It's just supplementary to your own business. In China, because the infrastructure of commerce is [so] bad, e-commerce becomes the main course."<sup>55</sup>

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9191590951567808. China is considered the world's fastest growing e-commerce market; it is estimated that China's e-commerce market will reach \$713 billion by the year 2017.

<sup>48</sup> Wall Street Journal, *supra* note 27.

<sup>49</sup> See Second Amended Complaint, *supra* note 18, at 47–48.

<sup>50</sup> See Nicholas Carlson, *A Single Chinese Company Dwarfed All Of America's Black Friday And Thanksgiving Online Sales In One Day*, BUSINESS INSIDER (Dec. 3, 2013), <http://www.businessinsider.com/alibaba-dwarfs-americas-black-friday-2013-12#!KcRrH>. Singles Day is the Chinese equivalent of Black Friday, celebrated every year on November 11, in celebration of single individuals. Alibaba specifically chose 11/11 as Singles Day because the date is entirely comprised of ones.

<sup>51</sup> See Carlson, *supra* note 50.

<sup>52</sup> *Id.*

<sup>53</sup> *Id.*

<sup>54</sup> Registration Statement, *supra* note 26, at Table of Contents. As of 2013, China's retail space per capita totaled 0.6 square meters, compared with 2.6 square meters in the United States, 1.3 square meters in the United Kingdom, 1.3 square meters in Japan, and 1.5 square meters in Germany.

<sup>55</sup> CNN Money, *supra* note 35.



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However Alibaba is not merely the Chinese equivalent of American e-commerce platforms such as eBay or Amazon.<sup>56</sup> More precisely, it is a combination of Amazon, eBay, and Google, offering platforms in “e-commerce, logistics, cloud computing, digital marketing[,] and mobile Internet services.”<sup>57</sup> Ma even rejects the notion that it is an e-commerce company,<sup>58</sup> insisting that Alibaba assists others to execute e-commerce, and does not sell goods.<sup>59</sup> Essentially, Ma emphasized that Alibaba works to connect buyers and sellers, but Alibaba itself is not a seller.<sup>60</sup>

Alibaba boasted the largest initial public offering (“IPO”) to date, with a closing value of \$25 billion dollars and company value of \$231 billion dollars.<sup>61</sup> According to its IPO filing, Alibaba’s international strategy focuses on connecting Chinese merchants and manufacturers with worldwide businesses and consumers.<sup>62</sup> In creating Alibaba, Ma, a former English teacher, aimed from the very start to compete against Silicon Valley instead of other Chinese companies, and has been compared to the Steve Jobs or Bill Gates of China.<sup>63</sup> After Alibaba’s IPO, Ma became the

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<sup>56</sup> *See id.*

<sup>57</sup> *China’s Alibaba files for landmark IPO*, CNN MONEY (NEW YORK) (MAY 7, 2014), <http://money.cnn.com/2014/05/06/investing/alibaba-ipo/index.html>; ALIBABA GROUP, *Dear Fellow Shareholder*, <http://ar.alibabagroup.com/2015/letter2.html> (last visited November 19, 2015).

<sup>58</sup> Interestingly, in its F-1 SEC Filing, Alibaba introduces its company and websites by purporting, “Alibaba is synonymous with e-commerce in China.” Registration Statement, *supra* note 26, at Table of Contents.

<sup>59</sup> CNN Money, *supra* note 35.

<sup>60</sup> *Id.*

<sup>61</sup> Telis Demos & Juro Osawa, *Alibaba Debut Makes a Splash*, WALL STREET JOURNAL (Updated Sept. 19, 2014, 8:28PM), <http://www.wsj.com/articles/alibaba-shares-trade-higher-in-ipo-1411142120>.

<sup>62</sup> Lulu Yilun Chen, *Alibaba Taps Chinese Diaspora as Global Amazon Battle*, BLOOMBERG (Sept. 10, 2014), <http://www.bloomberg.com/news/articles/2014-09-11/alibaba-taps-chinese-diaspora-as-global-amazon-battle>. Jack Ma chose the name ‘Alibaba’ because it could be readily pronounced in nearly any language, indicative of his global aspirations. *See* Kevin Chan, *Alibaba’s IPO Caps a Success Tale for Jack Ma*, INC (Sept. 19, 2014), <http://www.inc.com/associated-press/alibaba-founder-success-tale.html>.

<sup>63</sup> *E.g.*, Kelvin Chan, *Alibaba’s IPO Caps a Success Tale for Jack Ma*, INC (Sept. 19, 2014), <http://www.inc.com/associated-press/alibaba-founder-success->

wealthiest man in China, possessing a net worth of \$25 billion dollars.<sup>64</sup>

Alibaba, which has been called “the Internet’s Mecca for Counterfeit Clothing,”<sup>65</sup> has a history of counterfeiting and knock-off items for sale.<sup>66</sup> The Office of the United States Trade Representative (“USTR”)<sup>67</sup> compiles a Notorious Markets List every year, identifying certain marketplaces, both on and offline, “that reportedly engage in and facilitate substantial copyright piracy and trademark counterfeiting.”<sup>68</sup> Alibaba’s websites are no stranger to the notorious market lists. Alibaba.com was listed in 2008, 2009, and 2010, and Taobao was listed in 2008, 2009, 2010, and 2011, but were subsequently removed.<sup>69</sup> In previous years, the USTR deemed Taobao, an Alibaba-owned website, a “notorious marketplace” offering “widespread availability of counterfeit and pirated goods.”<sup>70</sup> In 2012, the USTR removed Taobao from the list due to its attempts to address counterfeiting and trademark

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tale.html; Mark Hanrahan, *What Is Alibaba? China’s E-Commerce Giant Explained*, INTERNATIONAL BUSINESS TIMES (Sept. 18, 2014), <http://www.ibtimes.com/what-alibaba-chinas-e-commerce-giant-explained-1690996>.

<sup>64</sup> Wall Street Journal, *supra* note 27.

<sup>65</sup> Cameron Wolf, *Alibaba, The Internet’s Mecca for Counterfeit Clothing, Is Being Sued by a Group of High-Fashion Brands*, COMPLEX (May 18, 2015), <http://www.complex.com/style/2015/05/alibaba-being-sued-by-kering-group-again>.

<sup>66</sup> Babcock, *supra* note 46.

<sup>67</sup> The Office of the United States Trade Representative is an executive agency “responsible for developing and coordinating U.S. international trade, commodity, and direct investment policy, and overseeing negotiations with other countries.” *Mission of the USTR*, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, <https://ustr.gov/about-us/about-ustr> (last visited October 30, 2015).

<sup>68</sup> OFFICE OF THE U.S. TRADE REPRESENTATIVE, *2014 Out-of-Cycle Review of Notorious Markets 2* (2015), available at [https://ustr.gov/sites/default/files/2014%20Notorious%20Markets%20List%20-%20Published\\_0.pdf](https://ustr.gov/sites/default/files/2014%20Notorious%20Markets%20List%20-%20Published_0.pdf) (last visited October 30, 2015).

<sup>69</sup> Registration Statement, *supra* note 26, at 30–31.

<sup>70</sup> Office of the U.S. Trade Representative, *supra* note 68, at 8; see also Sophia Yan, *Alibaba has a major counterfeit problem*, CNN MONEY (Hong Kong) (September 12, 2014, 7:35 AM), <http://money.cnn.com/2014/09/11/technology/alibaba-counterfeit-ipo/index.html?iid=EL>.

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infringement claims from both brand owners and consumers.<sup>71</sup> Alibaba acknowledged these and other counterfeiting issues, identifying them as potential risks for investors in its Registration Statement to the Securities and Exchange Commission:

Although we have adopted measures to verify the authenticity of products sold on our marketplaces and minimize potential infringement of third-party intellectual property rights through our intellectual property infringement complaint and take-down procedures, these measures may not always be successful. We may be subject to allegations of civil or criminal liability for unlawful activities carried out by third parties through our online marketplaces. When we receive complaints or allegations regarding infringement or counterfeit goods, we follow certain procedures to verify the nature of the complaint and the relevant facts. We believe these procedures are important to ensure confidence in our marketplace among buyers and sellers; however, these procedures could result in delays in delistings of allegedly infringing product listings. In the event that alleged counterfeit or infringing products are listed or sold on our marketplaces or our other services, we could face claims for such listings, sales, or alleged infringement or for our failure to act in a timely or effective manner to restrict or limit such sales or infringement. We may implement further measures in an effort to protect against these potential liabilities that could require us to spend substantial additional resources and/or experience reduced revenues by discontinuing certain service offerings. In addition, these changes may reduce the attractiveness of our marketplaces and other services to buyers, sellers, or other users.<sup>72</sup>

Alibaba's business model allows the company to profit from the number of merchants, advertising, and sales occurring on its platforms.<sup>73</sup> To earn profits, Alibaba relies heavily on charging its merchants for advertising services and transaction fees.<sup>74</sup> Due to its large customer base and multiple marketplaces, the amount of business transactions on Alibaba trumps those of other e-commerce platforms.<sup>75</sup> In the third quarter of 2015, Alibaba

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<sup>71</sup> Office of the U.S. Trade Representative, *supra* note 68, at 8.

<sup>72</sup> See Registration Statement, *supra* note 26, at 30.

<sup>73</sup> Yan, *supra* note 70.

<sup>74</sup> See Wall Street Journal, *supra* note 27.

<sup>75</sup> *Id.* Because of this business model, Alibaba earns less revenue than other online marketplaces, for instance, falling behind Amazon, Google, and eBay, respectively, in the third quarter of 2014. For a summary graph, see *id.* Nevertheless, Alibaba still enjoys large profits on its revenue, as the millions of

reported a gross merchandise volume<sup>76</sup> of 112 billion dollars, compared to eBay's 19.6 billion and Amazon's 25.4 billion.<sup>77</sup>

Taobao, Alibaba's largest online marketplace, is one of the world's largest shopping websites, with 7 million vendors listing 800 million products.<sup>78</sup> The website offers a variety of items for sale, from outerwear to folding bicycles.<sup>79</sup> In January 2015, China's State Administration for Industry and Commerce ("SAIC") estimated that two thirds of products offered on Taobao were counterfeit.<sup>80</sup> Of the 58,000 Dahon folding bikes for sale on Taobao, Dahon estimates up to half are counterfeit or infringe upon its intellectual property.<sup>81</sup> According to David Hon, chief

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merchants who use its shopping platforms heavily rely on purchasing ads to market and differentiate their products. *Id.*

<sup>76</sup> Gross Merchandise Volume is "the total value of successfully closed transactions" in a certain quarter. EBAY, *Ebay Fast Facts At-A-Glance (Q3 2015)*, available at <https://static.ebayinc.com/static/assets/Uploads/PressRoom/eBay-Factsheet-Q3-2015.pdf?2> (last visited November 20, 2015).

<sup>77</sup> See *id.*; ALIBABA, *Alibaba Group Announces September Quarter 2015 Results* (2015), available at [http://www.alibabagroup.com/en/news/press\\_pdf/p151027.pdf](http://www.alibabagroup.com/en/news/press_pdf/p151027.pdf) (last visited November 20, 2015); AMAZON, *Amazon.com Announces Third Quarter Sales Up 23% to \$25.4 Billion* (2015), available at <http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9Nk4NzcwfnENoaWxkSUQ9MzA5MjM4fFR5cGU9MQ==&t=1> (last visited November 20, 2015).

<sup>78</sup> Kathy Chu & Laurie Burkett, *Knockoffs Thrive on Alibaba's Taobao*, WALL STREET JOURNAL (April 28, 2014), <http://www.wsj.com/articles/SB10001424052702304049904579517642158573008>.

<sup>79</sup> *Id.*

<sup>80</sup> Office of the U.S. Trade Representative, *supra* note 68, at 8; OFFICE OF THE U.S. TRADE REPRESENTATIVE, *2015 Special 301 Report*, 40 (2015), available at <https://ustr.gov/sites/default/files/2015-Special-301-Report-FINAL.pdf> (last visited October 30, 2015); *5 risks for investors buying Alibaba shares*, CNN MONEY (HONG KONG), (Sept. 17, 2014), <http://money.cnn.com/2014/09/16/investing/alibaba-ipo-risks/>. Office of the U.S. Trade Representative, *supra* note 68, at 8 ("The SAIC report is no longer available on the SAIC website. According to unofficial translations of the report (see, e.g., <http://money.163.com/15/0129/13/AH4N7AAK00254TFQ.html>), SAIC faulted Alibaba Group for failing to take effective measures to address a range of problems, including against trademark infringement, for requiring parties to waive claims to operator liability, and for imposing unreasonable burdens on consumers who wish to file complaints.").

<sup>81</sup> Chu & Burkett, *supra* note 78.

executive of Dahon, the number of counterfeit Dahon bicycles have multiplied by ten or twenty times as much, from 2012 to 2014.<sup>82</sup> Dahon spends about \$200,000 dollars per year and employs four full-time staff members to combat counterfeiting.<sup>83</sup> Hon purports that despite Dahon's persistent complaints to Taobao, "[t]he [counterfeiters] stop doing this for a while, and then a few months later, they resurface and open another store."<sup>84</sup>

Columbia Sportswear has a similar story. Jack Motley, the director of intellectual property at Columbia Sportswear, asserts that the brand asks Alibaba to remove up to 3,000 counterfeit listings per month.<sup>85</sup> However, given that there are about 100,000 listings for purportedly "authentic" Columbia products on Taobao, the fight against knock-offs is seemingly endless.<sup>86</sup> In 2013, Columbia Sportswear purchased hundreds of listings claiming to be genuine Columbia products on Taobao, and determined that 82% of products purchased were counterfeit.<sup>87</sup>

#### B. *The Gucci Complaint*

Due to counterfeiting issues like the ones noted above, in May 2015, Kering SA,<sup>88</sup> the owner of a group of luxury fashion brands filed a complaint against Alibaba in the Southern District of New York alleging that the e-commerce retailer knowingly facilitated its users' sales of counterfeit Gucci, Yves Saint Laurent, Balenciaga,

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<sup>82</sup> *Id.*

<sup>83</sup> *Id.*

<sup>84</sup> *Id.*

<sup>85</sup> Yan, *supra* note 70.

<sup>86</sup> *Id.*

<sup>87</sup> *Id.*

<sup>88</sup> Kering is a "growing Group of high-profile, profitable brands that create apparel and accessories for the luxury and sport & lifestyle markets," representing such brands as Gucci, Bottega Veneta, Saint Laurent, Alexander McQueen, Balenciaga, Brioni, Christopher Kane, McQ, Stella McCartney, Tomas Maier, Sergio Rossi, Boucheron, Dodo, Girard-Perregaux, JEANRICHARD, Pomellato, Qeelin, Ulysse Nardin, Puma, Volcom, Cobra, and Electric. KERING, *Who we are*, <http://www.kering.com/en/group/about-kering> (last visited October 29, 2015).

and Bottega Veneta goods.<sup>89</sup> Specifically, the complaint alleges that:

[t]he Alibaba defendants facilitate and encourage the sale of an enormous number of counterfeit products through their self-described ‘ecosystem,’ which provides manufacturers, sellers, and buyers of counterfeit goods with a marketplace for such goods, and provides online marketing, credit card processing, financing, and shipping services that effectuate the sale of the Counterfeit Products.<sup>90</sup>

In 2014, Kering pursued a “nearly identical” lawsuit against Alibaba,<sup>91</sup> referred to as the “Initial Action,”<sup>92</sup> and was even awarded a preliminary injunction against Alibaba;<sup>93</sup> however, the complaint was withdrawn after the parties reached a settlement agreement in August 2014.<sup>94</sup> Kering re-filed the lawsuit against Alibaba because it failed to comply with the terms of the settlement, namely, its agreement to assist Kering in reducing counterfeit sales on Alibaba.<sup>95</sup> Through a spokesperson, Alibaba has publicly denied that the complaint has any merit and emphasized its “strong track record” of working with brands to

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<sup>89</sup> See First Amended Complaint, *supra* note 10, at 3; see also *Luxury Brands are Suing Alibaba over the Sale of Counterfeit Goods*, THE FASHION LAW (May 18, 2015), <http://www.thefashionlaw.com/luxury-brands-are-suing-alibaba-over-the-sale-of-counterfeit-goods/> (discussing the history of the Gucci and Alibaba litigation).

<sup>90</sup> Second Amended Complaint, *supra* note 18, at 3–4; see also *The Fashion Law*, *supra* note 89 (discussing the history of the Gucci and Alibaba litigation).

<sup>91</sup> *The Fashion Law*, *supra* note 89 (discussing the history of the Gucci and Alibaba litigation).

<sup>92</sup> See Complaint, *Gucci Am. Inc. v. Alibaba Grp. Holding Ltd.*, No. 14-cv-5119 (S.D.N.Y. 2014); see Second Amended Complaint, *supra* note 18, at 3.

<sup>93</sup> See Second Amended Complaint, *supra* note 18, at 3.

<sup>94</sup> See Notice Of Voluntary Dismissal Without Prejudice Against Certain Defendants at 2, *Gucci Am. Inc. v. Alibaba Grp. Holding Ltd.*, No.14-cv-5119 (S.D.N.Y. 2014); see Second Amended Complaint, *supra* note 18, at 3. See also Lulu Yilun Chen, *Alibaba Cooperates With Kering After Fakes Suit Withdrawn*, BLOOMBERG (Aug. 11, 2014, 1:29 PM), <http://www.bloomberg.com/news/articles/2014-08-11/alibaba-cooperates-with-kering-after-fakes-suit-withdrawn>; *The Fashion Law*, *supra* note 89 (discussing the history of the Gucci and Alibaba litigation).

<sup>95</sup> Second Amended Complaint, *supra* note 18, at 3.; see also *The Fashion Law*, *supra* note 89 (discussing the history of the Gucci and Alibaba litigation).

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battle counterfeiting.<sup>96</sup> In September, the plaintiffs were awarded a permanent injunction and statutory damages pursuant to the Lanham Act<sup>97</sup> against individual merchant defendants, a small step towards victory for the luxury brands.<sup>98</sup>

Conversely, Kering's first amended complaint alleges that while Alibaba's policies appear to address counterfeiting issues, they were purposely designed to allow counterfeiters to continue with business as usual on their websites Alibaba.com, AliExpress.com, and Taobao.com, collectively referred to as the "Alibaba Marketplaces."<sup>99</sup> For instance, Alibaba's "three strike rule" for users selling counterfeits is only applied "if each instance of infringement involves the same trademark."<sup>100</sup> Moreover, the complaint alleges that the Alibaba defendants did not recognize U.S. trademark registrations for takedown notices<sup>101</sup> brought

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<sup>96</sup> In a written statement, an Alibaba Spokeswoman spoke on behalf of the company:

We continue to work in partnership with numerous brands to help them protect their intellectual property, and we have a strong track record of doing so . . . Unfortunately, Kering Group has chosen the path of wasteful litigation instead of the path of constructive cooperation. We believe this complaint has no basis and we will fight it vigorously.

Russell Flannery, *Alibaba Criticizes Gucci Owner Kering for 'Wasteful Litigation,' Cites Own IP Record*, FORBES (May 17, 2015, 11:02 PM), <http://www.forbes.com/sites/russellflannery/2015/05/17/alibaba-criticizes-gucci-owner-kering-for-wasteful-litigation-cites-own-ip-record/>. See also The Fashion Law, *supra* note 89 (discussing the history of the Gucci and Alibaba litigation).

<sup>97</sup> 15 U.S.C. § 1051 *et seq.* (2012).

<sup>98</sup> Default Judgment at 3, *Gucci Am. Inc. v. Alibaba Grp. Holding Ltd.*, No. 15-cv-03784 (S.D.N.Y. 2015).

<sup>99</sup> Second Amended Complaint, *supra* note 18, at 3–4.

<sup>100</sup> First Amended Complaint, *supra* note 10, at 4.

<sup>101</sup> A takedown notice occurs, pursuant to Alibaba's Policy, when a trademark owner submits to Alibaba that a user is infringing on trademark rights and/or selling counterfeit products. See Second Amended Complaint, *supra* note 18, at 7, 91; ALIBABA, *IPR Protection Policy* (Updated February 10, 2014), <http://rule.alibaba.com/rule/detail/2049.htm> (last visited October 29, 2015) ("Intellectual property right holders shall use AliProtect (<http://legal.alibaba.com/index.htm>) to file intellectual property infringement claims for centralized processing. Access to AliProtect is also located under the "Help" tab on the top right corner of the front webpage at the Site. AliProtect provides an efficient and transparent channel for intellectual property

against Taobao.com sellers, “even though that site specifically targets U.S. consumers . . . .”<sup>102</sup> Kering argues that by allowing counterfeiters to continue to operate despite “hav[ing] been expressly and specifically informed that merchants are selling counterfeits, and even when the merchants themselves state openly that they are selling counterfeits,” Alibaba “permit[s] and encourage[s]” such counterfeiting activities.<sup>103</sup> By providing the e-commerce marketplace for counterfeiters storefronts, essential business support services, marketing and logistical services, and key word advertising, Alibaba “actively assisted” to “attract customers to buy Counterfeit Products . . . .”<sup>104</sup>

### III. OVERVIEW OF SECONDARY LIABILITY FOR TRADEMARK INFRINGEMENT IN THE U.S. UNDER THE *TIFFANY* STANDARD

Trademark law serves two purposes: to protect brands from unfair competition and to protect consumers from deception.<sup>105</sup> From an economic standpoint, trademarks serve as source identifiers; symbols allowing consumers to identify goods or services that bring satisfaction or reject those that have failed to do so.<sup>106</sup> Trademarks enable consumers to distinguish between similar

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right holders to file intellectual property infringement claims and request takedown of allegedly infringing listings from the Site. Three types of materials must be submitted to AliProtect to facilitate processing of intellectual property infringement claims, namely: 1. Proof of identity of the complaining party and relevant authorization if the complaining party is not the intellectual property right holder; 2. Proof of intellectual property ownership; 3. Exact clickable hyperlinks to the relevant allegedly infringing listings on the Site.”)

<sup>102</sup> First Amended Complaint, *supra* note 10, at 4.

<sup>103</sup> *Id.* at 7.

<sup>104</sup> *Id.* at 7–9.

<sup>105</sup> J. Thomas McCarthy, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, § 2:2 (4th ed. 2015).

<sup>106</sup> *Id.* at § 2:3. *See also* Smith v. Chanel, Inc., 402 F.2d 562, 566 (9th Cir. 1968) (“Preservation of the trademark as a means of identifying the trademark owner’s products . . . . serves an important public purpose. It makes effective competition possible in a complex, impersonal marketplace by providing a means through which the consumer can identify products which please him and reward the producer with continued patronage. Without some means of product identification, informed consumer choice, and hence meaningful competition in quality, could not exist.”).



products by different companies.<sup>107</sup> Thus “without trademarks, [t]here could be no pride of workmanship, no credit for good quality, no responsibility for bad.”<sup>108</sup> Counterfeiters who infringe upon others’ trademarks reduce the value of brands by assuming the brand owner’s mark and established reputation as their own, while simultaneously confusing consumers as to the quality and origin of such products or services.<sup>109</sup> Counterfeiters are considered “economic parasite[s] who must be enjoined by the law,” otherwise their actions threaten to destroy the nature of quality assurance.<sup>110</sup>

#### A. *The Lanham Act*

In the United States, the Lanham Act<sup>111</sup> serves as the federal statutory source of trademark protection. The Lanham Act originated in the Commerce Clause<sup>112</sup> and aims “to promote fair and efficient competition.”<sup>113</sup> Generally, for a brand owner to establish trademark infringement under the Lanham Act, it must prove that its mark is entitled to protection and the infringer’s use

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<sup>107</sup> See McCarthy, *supra* note 105 at § 2:3.

<sup>108</sup> *Id.* at § 2:4 (4th ed. 2015) (quoting Rogers, *The Lanham Act and the Social Function of Trademarks*, 14 LAW & CONTEMP. PROBS. 173, 175 (1949)).

<sup>109</sup> *Id.* at § 2:5. Judge Learned Hand explained:

His mark is his authentic seal; by it he vouches for the goods which bear it; it carries his name for good or ill. If another uses it, he borrows the owner’s reputation, whose quality no longer lies within his own control. This is an injury, even though the borrower does not tarnish it, or divert any sales by its use; for a reputation, like a face is the symbol of its possessor and creator, and another can use it only as a mask.

*Yale Electric Corp. v. Robertson*, 26 F.2d 972, 974 (2d Cir. 1928).

<sup>110</sup> McCarthy, *supra* note 105, at § 2:5.

<sup>111</sup> 15 U.S.C. § 1051 *et seq.* (2012).

<sup>112</sup> *United We Stand America, Inc. v. United We Stand, America New York, Inc.*, 128 F.3d 86 (2d Cir. 1997) (“The history and text of the Lanham Act show that ‘use in commerce’ reflects Congress’s intent to legislate the limits of its authority under the Commerce Clause, rather than to limit the Lanham Act to profit-seeking uses of trademark.”)

<sup>113</sup> 2 BARTON BEEBE, TRADEMARK LAW: AN OPEN-SOURCE CASEBOOK 29 (2015) (ebook), <http://tmcasbook.org/wp-content/uploads/2015/07/BeebeTMLaw-2.0-Introduction.pdf> (providing background on trademark infringement under the Lanham Act).

of the mark in commerce is likely to cause confusion for consumers.<sup>114</sup> The Lanham Act specifically provides for direct liability, occurring when a trademark owner seeks to hold an infringer liable.<sup>115</sup>

### B. *Secondary Liability*

However, liability for trademark infringement is not only limited to those who directly sell goods or services that infringe upon the trademark rights of others.<sup>116</sup> The doctrine of secondary liability allows a trademark owner to hold a third party responsible for a direct infringer's actions, in certain circumstances. The Lanham Act does not explicitly provide for secondary liability;<sup>117</sup> rather, it is “an entirely judge-made doctrine” relying on the common law.<sup>118</sup> Secondary liability lawsuits can be more efficient and thus preferable for trademark owners because they permit “the mark owner to secure, in a single proceeding, relief against a party whose conduct is simultaneously enabling multiple acts of

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<sup>114</sup> See *id.* at 3–4 (providing background on trademark infringement under the Lanham Act).

<sup>115</sup> 15 U.S.C. § 1125 (2012); 15 U.S.C. § 1114 (2012).

<sup>116</sup> McCarthy, *supra* note 105 at § 25:17.

<sup>117</sup> The Lanham Act states:

Any person who shall, without the consent of the registrant – (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or cause mistake, or to deceive; or (b) reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive, shall be liable in a civil action by the registrant for the remedies hereinafter provided.

15 U.S.C. § 1114 (1) (2012). See also Beebe, *supra* note 114, at 279.

<sup>118</sup> Tiffany (NJ) Inc. v. eBay Inc., 600 F.3d 93, 103 (2d Cir. 2010) (“Contributory trademark infringement is a judicially created doctrine that derives from the common law of torts.”). See also McCarthy, *supra* note 105, at § 25:17.

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infringement by a number of primary infringers.”<sup>119</sup> Two branches of secondary liability exist: vicarious infringement and contributory infringement.<sup>120</sup>

1. *Vicarious Infringement*

Generally, vicarious liability will occur when a third party is liable for an infringer’s action based on the relationship between the two.<sup>121</sup> Vicarious liability for trademark infringement occurs when a third party and the direct infringer “have an apparent or actual partnership, have authority to bind one another in transactions with third parties or exercise joint ownership of control over the infringing product.”<sup>122</sup> This theory of liability exists as a joint tortfeasor model.<sup>123</sup>

2. *Contributory Infringement*

Contributory liability is the main source of potential liability for indirect trademark infringement.<sup>124</sup> Generally, contributory liability may extend trademark infringement liability to “all those who knowingly encourage or facilitate illegal and tortious activity.”<sup>125</sup> Due to the limited case law,<sup>126</sup> the doctrine of contributory trademark infringement is “ill-defined.”<sup>127</sup>

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<sup>119</sup> Graeme B. Dinwoodie, *Secondary Liability for Online Trademark Infringement: The International Landscape*, 37 COLUM. J. L. & ARTS 463, 463 (2014).

<sup>120</sup> Saunders & Berger-Walliser, *supra* note 5, at 37, 42.

<sup>121</sup> McCarthy, *supra* note 105, at § 25:22.

<sup>122</sup> *Id.* at § 25:17 (quoting *Hard Rock Café Licensing Corp. v. Concession Services, Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992)).

<sup>123</sup> *Hard Rock Café*, 955 F.2d at 1150 (citing *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 309 (2d Cir. 1963)). *See also* *Tiffany*, 600 F.3d at 103 (2d Cir. 2010) (“Contributory trademark infringement is a judicially created doctrine that derives from the common law of torts.”).

<sup>124</sup> McCarthy, *supra* note 105 at § 25:17.

<sup>125</sup> *Id.*

<sup>126</sup> The Second Circuit in *Tiffany* prefaced their discussion of contributory liability by first “[a]cknowledging the paucity of case law to guide us.” *Tiffany*, 600 F.3d at 103. The Court addressed that the Second Circuit had only encountered contributory trademark infringement in two other decisions, “and even then in little detail.” *Id.* at 105.

<sup>127</sup> *Id.* *See also* McCarthy, *supra* note 105 at § 25:17.

a. *The Inwood Test*

Contributory liability for trademark infringement arises under the *Inwood* test.<sup>128</sup> The Supreme Court in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*<sup>129</sup> determined whether a drug manufacturer could be held vicariously liable for trademark infringement in creating a generic pill to mimic the look of a trademarked competitor drug.<sup>130</sup> Ives Laboratories is a drug manufacturer and seller who received a patent on the drug cyclandelate in 1955.<sup>131</sup> Until 1972 when the patent expired, Ives possessed the exclusive rights to manufacture and sell cyclandelate, which it sold under the registered trademark Cyclospasmol.<sup>132</sup> The drug, a white powder, was sold in blue or blue-red gelatin capsules with the Ives name imprinted and designated numbers for various doses.<sup>133</sup> After the patent expired, several generic drug manufacturing companies, including Inwood Laboratories, copied the appearance of Cyclospasmol pills, selling the cyclandelate drug in identical colored capsules and doses as the Cyclospasmol pills.<sup>134</sup> Such practices are considered normal in the pharmaceutical industry.<sup>135</sup> Pharmacists, whether they are dispensing branded Cyclospasmol pills or generic drugs, remove the capsules from the manufacturer's container and dispense them into the pharmacist's own labeled bottle to provide to consumers.<sup>136</sup> Thus, the consumer receives the final product without seeing any identifying marks other than what is printed on the capsules themselves.<sup>137</sup>

Ives Laboratories initiated a trademark infringement action against Inwood Laboratories, alleging that the generic

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<sup>128</sup> *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844 (1982).

<sup>129</sup> *Id.*

<sup>130</sup> *Id.* at 846.

<sup>131</sup> *Id.*

<sup>132</sup> *Id.*

<sup>133</sup> *Id.* at 846–47.

<sup>134</sup> *Id.* at 847.

<sup>135</sup> *Id.*

<sup>136</sup> *Id.* at 848–49.

<sup>137</sup> *Id.* at 849.

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manufacturers' use of identical capsules and catalogs<sup>138</sup> comparing prices and colors of generic pills effectively induced pharmacists to substitute a generic pill for Cyclospasmol, and to mislabel the generic substitute as Cyclospasmol.<sup>139</sup> Ives did not claim that Inwood itself applied the Cyclospasmol trademark to the drugs it manufactured and sold, but rather that Inwood "contributed to the infringing activities" of pharmacists who mislabeled the generic drugs.<sup>140</sup> The District Court denied Ives' request for a preliminary injunction, because Ives did not establish that Inwood conspired with the pharmacists who mislabeled the generic drugs.<sup>141</sup> The Court of Appeals for the Second Circuit affirmed the District Court's ruling, relying on the reasoning of *Coca-Cola Co. v. Snow Crest Beverages, Inc.*<sup>142</sup> The Second Circuit articulated that Inwood would be liable if it either "suggested, even by implication" that the retailers should mislabel the generics or if Inwood continued to sell the generic to retailers "whom they knew or had reason to know were engaging in infringing practices."<sup>143</sup>

The Supreme Court confirmed that trademark infringement liability can extend beyond those who actually infringe upon others' trademarks.<sup>144</sup> In certain situations, a manufacturer can be liable for the trademark infringement of others within the distribution chain, even if the manufacturer does not directly

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<sup>138</sup> Catalogs are a standard marketing tool in the pharmaceutical industry, which promote drug manufacturers' products through distribution to hospitals, retail pharmacies, and wholesale buyers. *Id.* at 847-48.

<sup>139</sup> *Id.* at 850.

<sup>140</sup> *Id.*

<sup>141</sup> *See id.* at 851.

<sup>142</sup> *Inwood*, 456 U.S. at 851-52; 64 F. Supp. 980 (D. Mass. 1946), *aff'd*, 162 F.2d 280 (1st Cir. 1947) ("Relying primarily upon *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980 (Mass. 1946), *aff'd* 162 F.2d 280 (CA1), cert. denied, 332 U.S. 809, 68 S.Ct. 110, 92 L.Ed. 386 (1947), the court stated that the petitioners would be liable under § 32 either if they suggested, even by implication, that retailers fill bottles with generic cyclandelate and label the bottle with Ives' trademark or if the petitioners continued to sell cyclandelate to retailers whom they knew or had reason to know were engaging in infringing practices.").

<sup>143</sup> *See id.*

<sup>144</sup> *See id.* at 853-54.

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control them.<sup>145</sup> The Supreme Court then articulated what is now known as the *Inwood* test:

[I]f 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>146</sup>

Thus, *Inwood* was only liable to Ives for the pharmacists' trademark infringement if it intentionally induced the pharmacists to mislabel the generics, or if it continued to provide the generics to the pharmacists, knowing that the pharmacists were mislabeling the generics.<sup>147</sup> Ultimately, the Supreme Court concluded that Ives failed to make either showing of fact to the District Court.<sup>148</sup>

The *Inwood* test—now thirty-three years old—has been criticized in recent years for its inadequate application to modern e-commerce contexts.<sup>149</sup> *Inwood* can be difficult to apply to Internet marketplaces because such platforms allow users to generate listings and often do not possess actual knowledge of trademark infringement until they are notified of such, if they ever possess such knowledge.<sup>150</sup> As a result, the level of knowledge required by the *Inwood* test weighs in favor of e-commerce platforms, due to “intentionally inducing” or “continuing to supply” serving as difficult standards for trademark owners to prove, by the very nature of internet commerce.<sup>151</sup>

b. *Common Fact Patterns in Secondary Liability*

In recent years, two common fact patterns have emerged in secondary liability litigation.<sup>152</sup> Search engines have been the recipients of lawsuits for selling keyword advertising that resulted

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<sup>145</sup> *Id.* at 854.

<sup>146</sup> *Id.*

<sup>147</sup> *Id.* at 855.

<sup>148</sup> *Id.*

<sup>149</sup> Justin N. Redman, *Post Tiffany (NJ) Inc. v. EBay, Inc.: Establishing A Clear, Legal Standard For Online Auctions*, 49 JURIMETRICS J. 467, 484 (2009).

<sup>150</sup> *Id.*

<sup>151</sup> *See id.*

<sup>152</sup> *See Dinwoodie, supra* note 119, at 466.

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in trademark infringement.<sup>153</sup> Online auction websites have also been the subject of claims alleging that the websites should be responsible for users who engage in illicit counterfeiting and trademark infringement activities.<sup>154</sup> Secondary liability claims require courts to balance a trademark owner's rights with the advancement of technology.<sup>155</sup>

c. *The Tiffany Standard*

In the United States, *Tiffany v. eBay* has essentially become “the law of the land,” governing online marketplace liability for users’ trademark infringement.<sup>156</sup> Tiffany & Co. is known throughout the world for its luxury goods, which include jewelry, crystal, and china.<sup>157</sup> eBay is an online auction marketplace website which enables users to purchase and sell goods directly to and from each other.<sup>158</sup> Prior to 2004, Tiffany became aware that counterfeit Tiffany merchandise, namely its branded jewelry, was for sale on eBay’s virtual auction marketplace.<sup>159</sup> To investigate the extent of Tiffany counterfeits on eBay, Tiffany established two survey “Buying Programs” in 2004 and 2005, in which the brand purchased various “Tiffany” items on eBay, then inspected the products to determine how many were counterfeit.<sup>160</sup>

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<sup>153</sup> See *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144 (4th Cir. 2012); *1-800 Contacts, Inc. v. Lens.com, Inc.*, 722 F.3d 1229 (10th Cir. 2013). See also *Dinwoodie*, *supra* note 119, at 466.

<sup>154</sup> See *Tiffany (NJ) Inc. v. eBay, Inc.*, 600 F.3d 93 (2d Cir. 2010); *L’Oreal SA v. eBay Int’l AG* [2009] EWHC 1094 (Eng.). See also *Dinwoodie*, *supra* note 119, at 466.

<sup>155</sup> See *Dinwoodie*, *supra* note 119, at 464. See also Yafit Lev-Aretz, *Combating Trademark Infringement Online: Secondary Liability v. Partnering Facility*, 37 COLUM. J.L. & ARTS 639, 640–41 (2014) (“Indeed, much ink was spilled over the quest for a balanced approach to secondary liability that would effectively curb piracy and counterfeiting on the Internet without targeting innocent websites or otherwise obstructing the free exchange of ideas.”)

<sup>156</sup> See Beebe, *supra* note 113, at 279.

<sup>157</sup> Elizabeth K. Levin, *A Safe Harbor for Trademark: Reevaluating Secondary Liability After Tiffany v. Ebay*, 24 BERKELEY TECH. L.J. 491, 500 (2009).

<sup>158</sup> *Tiffany (NJ) v. eBay Inc.*, 600 F.3d 93, 97 (2d. Cir. 2010).

<sup>159</sup> See *id.*

<sup>160</sup> *Id.*

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Approximately 75% of “Tiffany” goods purchased in the 2004 and 2005 Buying Programs were knockoffs.<sup>161</sup> Although the district court found flawed methodology in the Buying Programs, it determined that from 2004 to 2005, a “significant portion of the ‘Tiffany’ sterling silver jewelry listed on the eBay website . . . was counterfeit,” and that eBay knew “that some portion of the Tiffany goods sold on its website might be counterfeit.”<sup>162</sup>

eBay earns revenue in two ways: by charging fees to the vendors who list their items on its website, and through charging transaction fees via its payment processing company, PayPal.<sup>163</sup> “Insertion fees” are charged for each listed item, calculated based on the product’s starting price, ranging from \$0.20 to \$4.80 per item.<sup>164</sup> When a sale is completed, eBay obtains a “final value fee,” which is between 5.25% and 10% of the item’s final sale price.<sup>165</sup> For an additional cost, eBay also offers vendors additional services to differentiate their listings, such as the option of including a border or bold type face.<sup>166</sup> eBay-owned PayPal charges vendors a transaction fee for each processed sale, from 1.9% to 2.9% of the sale, plus \$0.30.<sup>167</sup> Because of this business model, eBay’s revenue increases proportional to the number of products listed for sale and the price of the products sold.<sup>168</sup>

The auction website facilitates numerous sales of Tiffany items, both genuine and counterfeit; from April 2000 to June 2004, eBay earned \$4.1 million dollars in revenue from product listings with the word “Tiffany” in the title in the Jewelry & Watches group.<sup>169</sup> Although eBay undoubtedly generates revenue from every sale on its website, counterfeit or otherwise, the district court

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<sup>161</sup> *Id.* In 2004, counterfeits discovered from the buying program totaled 73.1%; in 2005, 75.5%. *Id.*

<sup>162</sup> *Id.* at 98 (quoting *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 507 (S.D.N.Y. 2008)).

<sup>163</sup> *See Tiffany (NJ) v. eBay Inc.*, 600 F.3d 93, 97 (2d. Cir. 2010).

<sup>164</sup> *Id.*

<sup>165</sup> *Id.* at 98.

<sup>166</sup> *Id.*

<sup>167</sup> *Id.* at 97.

<sup>168</sup> *Tiffany (NJ) v. eBay Inc.*, 600 F.3d 93, 97 (2d. Cir. 2010).

<sup>169</sup> *Id.* at 98.



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recognized the company's "interest in eliminating counterfeit Tiffany merchandise from eBay . . . to preserve the reputation of its website as a safe place to do business."<sup>170</sup> After customers purchase fraudulent Tiffany goods purporting to be authentic, they may blame eBay.<sup>171</sup>

eBay's business model serves to limit its liability, as it merely provides a venue for the sale of goods and services for the transactions, but does not itself act as the seller.<sup>172</sup> eBay never physically possesses the items for sale on its website, and generally does not know whether items sold are in fact ever delivered to buyers.<sup>173</sup> Because it never possessed or inspected the items for sale in the "Tiffany" listings, eBay was limited in its ability to discern whether or not such goods were counterfeit.<sup>174</sup> Furthermore, eBay lacked the expertise to discern whether the Tiffany products for sale were genuine or counterfeit, even if it had an opportunity to inspect the items.<sup>175</sup>

In 2010, the Second Circuit examined whether eBay was responsible for contributory trademark infringement of its vendors selling counterfeit Tiffany goods.<sup>176</sup> The court determined that eBay was not contributorily liable for facilitating the sale of counterfeits, when certain vendors sold counterfeit Tiffany jewelry.<sup>177</sup> Tiffany argued that eBay should be liable under the second prong of the *Inwood* test because eBay permitted counterfeit sellers to use its services and platform "while knowing or having reason to know that such sellers were infringing

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<sup>170</sup> *Id.* (quoting *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 486, 469 (S.D.N.Y. 2008)).

<sup>171</sup> *Id.* eBay in fact received complaints from buyers regarding the purchase of knockoff Tiffany merchandise. "[D]uring the last six weeks of 2004, 125 consumers complained to eBay about purchasing 'Tiffany' items through the eBay website that they believed to be counterfeit." *Id.* (quoting *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 486, 487 (S.D.N.Y. 2008)).

<sup>172</sup> *Id.* at 98.

<sup>173</sup> *Id.* at 97.

<sup>174</sup> *Tiffany (NJ) v. eBay Inc.*, 600 F.3d 93, 98 (2d. Cir. 2010).

<sup>175</sup> *Id.* at 98.

<sup>176</sup> *See id.* at 103.

<sup>177</sup> *Id.*

Tiffany's mark."<sup>178</sup> The Court applied the *Inwood* test to service providers,<sup>179</sup> concluding that eBay's generalized knowledge of counterfeit Tiffany jewelry sales on its website was not an adequate level of knowledge to impose an affirmative duty upon eBay to remedy the issue.<sup>180</sup>

Thus under *Tiffany*, "a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods."<sup>181</sup> Similarly, a service provider may not use the defense of "willful blindness," meaning "[w]hen it has reason to suspect that users of its service are infringing a protected mark, it may not shield itself from learning of the particular infringing transactions by looking the other way."<sup>182</sup> For liability purposes, a service provider who is willfully blind to counterfeit sales is as culpable as a service provider who has actual knowledge of counterfeit sales.<sup>183</sup>

Ultimately, the Second Circuit went beyond the scope of the *Inwood* test to provide reasoning for why eBay was not liable for contributory infringement for its users selling counterfeit Tiffany merchandise on its platform.<sup>184</sup> The Court discussed practicality in determining which party should bear the burden of policing counterfeiters on eBay, insisting that "[t]o impose liability because eBay cannot guarantee the genuineness of all the purported Tiffany products offered on its website would unduly inhibit the lawful resale of genuine Tiffany goods."<sup>185</sup> Primarily, the Second Circuit emphasized eBay's anti-counterfeiting measures, another factor

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<sup>178</sup> *Id.* at 106.

<sup>179</sup> *Id.* at 104. The Court noted that *Inwood* "applies on its face to manufacturers and distributors of goods," however the Ninth and Seventh Circuits have applied the test to service providers in cases such as *Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143 (7th Cir. 1992); *Fonovisa, Inc. v. Cherry Auction, Inc.* 76 F.3d 259 (9th Cir. 1996); and *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980 (9th Cir. 1999).

<sup>180</sup> *Tiffany (NJ)*, 600 F.3d at 107.

<sup>181</sup> *Id.*

<sup>182</sup> *Id.* at 109.

<sup>183</sup> *Id.* at 110 (quoting *Hard Rock Café*, 955 F.2d at 1149) ("[W]illful blindness is equivalent to actual knowledge for purposes of the Lanham Act.") .

<sup>184</sup> *Id.* at 109–10.

<sup>185</sup> *Id.* at 103.

absent from the *Inwood* test.<sup>186</sup> Although eBay generally knew that some of the purported Tiffany merchandise sold on its website was counterfeit, the Second Circuit stressed, “[w]ithout more, however, this knowledge is insufficient to trigger liability under *Inwood*.”<sup>187</sup> Thus, even though eBay was aware that vendors were using its platform to sell counterfeit Tiffany goods, it was not legally obligated to act until it had notice that specific items for sale were counterfeit.<sup>188</sup> Every time Tiffany reported a counterfeit listing, eBay removed it.<sup>189</sup> From 2003-2007, eBay’s policy consisted of removing such listings within 24 hours of receiving a NOCI; in fact, eBay deleted seventy to eighty percent of reported listings within twelve hours of receiving a notification.<sup>190</sup> During the same period of time, eBay removed nearly 285,000 reported counterfeit Tiffany listings from its website, through its Verified Rights Owner (‘VeRO’) program.<sup>191</sup> eBay’s anti-counterfeiting measures set the bar high for other e-commerce platforms whose users sell counterfeit on such websites. Ultimately, the Second Circuit agreed with the district court’s ruling that “eBay consistently took steps to improve its technology and develop anti-fraud measures as such

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<sup>186</sup> *Id.* at 109–10 (“eBay did not ignore the information it was given about counterfeit sales on its website.”) *Id.* at 110.

<sup>187</sup> *Id.*

<sup>188</sup> *Id.* at 107 (quoting *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 508 (S.D.N.Y. 2008)) (“The district court concluded that ‘while eBay clearly possessed general knowledge as to counterfeiting on its website, such generalized knowledge is insufficient under the *Inwood* test to impose upon eBay an affirmative duty to remedy the problem.’”)

<sup>189</sup> *Tiffany (NJ) v. eBay Inc.*, 600 F.3d 93, 103 (2d. Cir. 2010); (“[I]t is undisputed that eBay promptly removed all listings that Tiffany challenged as counterfeit and took affirmative steps to identify and remove illegitimate Tiffany goods.”)

<sup>190</sup> *See id.* at 99.

<sup>191</sup> *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 484 (S.D.N.Y. 2008) (“Specifically, Tiffany reported 20,915 listings in 2003; 45,242 listings in 2004; 59,012 listings in 2005; and 134,779 listings in 2006. As of September 30, 2007, shortly before trial, Tiffany had reported 24,201 listings for 2007. All told, Tiffany reported 284,149 listings through the VeRO Program.”) (internal citations omitted).

measures became technologically feasible and reasonably available.”<sup>192</sup>

Undoubtedly, eBay went beyond merely cooperating with Tiffany’s takedown notices, it took an active role in preventing counterfeiting on its own website with numerous effective mechanisms in place, such as hiring Trust and Safety department staff to combat counterfeiting and implementing a myriad of an anti-counterfeiting measures such as buyer protection programs, a fraud engine, and the VeRO program, among others.<sup>193</sup> eBay’s exemplary anti-counterfeiting procedures serve as a difficult standard for other e-commerce platforms to follow, which in fact assists brand owners. Although actual knowledge may be a difficult standard for trademark owners to prove under the *Inwood* test, certainly the abundance of anti-counterfeiting measures discussed at length in *Tiffany* will serve as a strict standard to evaluate other e-commerce platforms’ policies.

#### **IV. APPLYING *TIFFANY* TO *GUCCI*: WHY THE PLAINTIFF’S SECONDARY LIABILITY ARGUMENT SHOULD PREVAIL**

Due to the sheer volume of knockoffs available for sale, counterfeiters on Alibaba pose a greater threat to trademark owners than those who sell on other websites such as eBay.<sup>194</sup> Whereas individual eBay vendors may offer a limited number of knockoff handbags to direct customers, Alibaba vendors are able to also offer a wholesale approach promising low prices per unit for large quantity knockoff orders.<sup>195</sup> In one instance referenced in the First Amended Complaint, a counterfeit Gucci handbag was priced between \$2-\$5 per unit, for a minimum order of 2,000 units and a maximum order of up to 50,000 units.<sup>196</sup> In contrast, the genuine Gucci handbag retails for \$795.<sup>197</sup>

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<sup>192</sup> *Tiffany*, 600 F.3d at 100 (citing *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 492 (S.D.N.Y. 2008)).

<sup>193</sup> *Id.* at 98–01 (discussing eBay’s range of anti-counterfeiting measures).

<sup>194</sup> *The Economist*, *supra* note 11.

<sup>195</sup> *See id.*

<sup>196</sup> *See* First Amended Complaint, *supra* note 10, at 55. Other Alibaba vendors offer to produce 10,000 units per week or up to 500,000 units per month. *See id.*

A. *Alibaba's Anti-Counterfeiting Policies*

Alibaba maintains that it is also a victim of counterfeiting and that it tirelessly works against such efforts.<sup>198</sup> In an Interview with Xinhua,<sup>199</sup> Ma expressed that counterfeiting hurts Alibaba, as the sale of one fake product could create the loss of five customers.<sup>200</sup> The company employs over 2,000 staff members dedicated to addressing counterfeiting issues, including reviewing listings flagged suspicious by brand owners and removing fraudulent listings.<sup>201</sup> However, many brands deny that Alibaba's efforts are genuine, as these policies amount to lenient sanctions for vendors who are found to sell counterfeit goods.<sup>202</sup> Alibaba's current policy strictly prohibits vendors listing "counterfeits, replicas, or other unauthorized items" for sale on the website.<sup>203</sup> Listings of such items "shall be subject to removal" by Alibaba.<sup>204</sup> Alibaba separates prohibited items into two categories: "General infringements" and "Serious infringements."<sup>205</sup>

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at 65. One counterfeit vendor on Alibaba purported a maximum order capacity of an astounding 8,000,000 units per month. *See id.* at 81.

<sup>197</sup> *See id.* at 54.

<sup>198</sup> The Economist, *supra* note 11.

<sup>199</sup> Xinhua is China's "primary provider of major and authoritative news." *Brief Introduction to Xinhuanet*, XINHUA, [http://news.xinhuanet.com/english2010/special/2011-11/28/c\\_131274495.htm](http://news.xinhuanet.com/english2010/special/2011-11/28/c_131274495.htm) (last visited October 29, 2015).

<sup>200</sup> Ma responded, "I don't believe success can [be] built on dishonesty," when addressing comments suggesting that Alibaba may benefit from counterfeiting. *Counterfeits hurt Alibaba, Chinese economy: Jack Ma*, XINHUA (October 12, 2015), [http://news.xinhuanet.com/english/2015-10/12/c\\_134707013.htm](http://news.xinhuanet.com/english/2015-10/12/c_134707013.htm).

<sup>201</sup> The Economist, *supra* note 11.

<sup>202</sup> John Ruwitch, *Alibaba lobbies to stay off U.S. blacklist list for fakes*, REUTERS (October 18, 2015 12:26 AM), <http://www.reuters.com/article/2015/10/18/us-alibaba-counterfeits-idUSKCN0SC04620151018>.

<sup>203</sup> *Intellectual Property Rights (IPR) Protection Policy*, ALIBABA, <http://rule.alibaba.com/rule/detail/2049.htm> (last visited September 13, 2015).

<sup>204</sup> *Id.*

<sup>205</sup> *Enforcement Actions for Intellectual Property Right Infringement Claims* (Updated Apr. 8, 2015), ALIBABA, <http://rule.alibaba.com/rule/detail/2043.htm> (last visited September 13, 2015) [hereinafter Alibaba].

1. *Penalties for “General Infringements”*

“General infringements” include the unfair use of trademark rights in product descriptions, hyperlinks, on offer or sale of products, or confusing or misleading product descriptions.<sup>206</sup> Sanctions for general infringement exists on a points scale, with remedies ranging from issuing a severe warning to terminating one’s membership.<sup>207</sup> For instance, an image copyright complaint will assign users six penalty points incurred per infringement, as will a complaint by an intellectual property owner.<sup>208</sup> If a listing is removed by Alibaba through a “random check,” a user will incur 0.2 penalty point, with a maximum of six points per day.<sup>209</sup> If Alibaba itself removes a listing by a “random check” for either using a variation of a trademark or listing an infringing product under an incorrect category, each listing will penalize a user by two penalty points, with a maximum of twelve points per day.<sup>210</sup> The severity of penalties increases with the amount of points users accrue: six equals a severe warning; twelve points prohibits a user for posting products for seven days; twenty-four points blocks a user’s search results for seven days and restricts Request for Quotations<sup>211</sup> for seven days; thirty-six points blocks a user’s search results for fourteen days and restricts Request for Quotation for fourteen days; and forty-eight points ultimately terminates a user’s membership.<sup>212</sup> Alibaba notes that penalty points are recorded “for a 365 day period”; they seemingly will return back to zero after a year.<sup>213</sup>

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<sup>206</sup> *Id.*

<sup>207</sup> *Id.*

<sup>208</sup> *Id.*

<sup>209</sup> *Id.*

<sup>210</sup> *Id.*

<sup>211</sup> A Request for Quotation is a detailed compilation of a buyer’s sourcing requirements which must be submitted to Alibaba before a supplier receives it and trade may begin. See ALIBABA, *About RFQ*, [http://service.alibaba.com/ensupplier/faq\\_detail/13810245.htm?spm=5386.1678117.1699655.7.vZNE2p&iid=13810245](http://service.alibaba.com/ensupplier/faq_detail/13810245.htm?spm=5386.1678117.1699655.7.vZNE2p&iid=13810245) (last visited October 29, 2015).

<sup>212</sup> Alibaba, *supra* note 205.

<sup>213</sup> *Id.* In one instance, a merchant who received between 24 and 47 points was still allowed to sell products on Alibaba during the next year. Although the seller did not start the new year at 0 points, the seller started with half of the points it

## 2. Penalties for “Serious Infringements”

“Serious infringements” include the offer or sale of products unauthorized by trademark owners or licensees.<sup>214</sup> Serious infringement sanctions exist on a three or four-strike system, with penalties ranging from a warning to account termination.<sup>215</sup> However, it is critical to note that Alibaba users will only move up the strike system if the same intellectual property owner reports the same infringing listing more than once.<sup>216</sup>

The first strike for an infringement complaint results in a warning, and Alibaba instructs that “[a]ll complaints shall be counted as the first infringement within the first five days regardless of the number of complaints.”<sup>217</sup> The second strike results in restricting the user from listing products, as well as blocking search results and the mini-site for seven days.<sup>218</sup> The third strike either results in restricting the user from listing products and blocking search results and the mini-site for fourteen days, or account termination.<sup>219</sup> Alibaba specifies that account termination is appropriate as a third strike “where the member has been complained by an identical rights holder based on an identical

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had in the previous year. See Second Amended Complaint, *supra* note 18, at 141–42.

<sup>214</sup> Alibaba, *supra* note 205.

<sup>215</sup> *Id.*

<sup>216</sup> *Id.* This policy purportedly “allows merchants to continue to sell Counterfeit Products as long as they are not caught selling products that infringe identical trademarks on three different dates.” Second Amended Complaint, *supra* note 18, at 145.

<sup>217</sup> Alibaba, *supra* note 205.

<sup>218</sup> *Id.* “For example, if a counterfeiter is caught offering a counterfeit version of one of Gucci’s products on one day and then is caught offering a counterfeit version of a different Gucci mark on a second day, the Alibaba Defendants do not consider that merchant to have earned two ‘strikes,’ and the merchant can continue to offer Counterfeit Products until they are caught offering products that infringe on at least four separate occasions.” Second Amended Complaint, *supra* note 18, at 145.

<sup>219</sup> Alibaba, *supra* note 205.

intellectual property,” the same standard for the strike system.<sup>220</sup> The fourth strike ultimately results in account termination.<sup>221</sup>

Alibaba notes that if it receives multiple complaints based on a single infringing listing within the same day, all of the complaints together shall count merely as one serious infringement.<sup>222</sup> As with “General Infringements,” Alibaba instructs that “the number of serious infringements shall be recorded on a rolling basis for a 365-day period;” users seemingly return back to zero after a year.<sup>223</sup>

Unsurprisingly, these vague, confusing policies have been heavily criticized by brand owners as ineffective.<sup>224</sup> Recently, the American Apparel and Footwear Association (“AAFA”) urged the U.S. Trade Representative (“USTR”) to reinstate Alibaba on the USTR’s blacklist, citing the company’s “unwillingness to make serious reforms” to their anti-counterfeiting measures, and for ignoring the AAFA’s concerns.<sup>225</sup> In July 2015, the AAFA wrote an open letter to Jack Ma, calling for changes to Alibaba’s anti-counterfeiting policies as a result of failed negotiations over the years.<sup>226</sup> The AAFA’s requests were simple: that Alibaba “begin addressing counterfeits in a manner that is transparent, comprehensible, and fast.”<sup>227</sup> Although the AAFA opposed the

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<sup>220</sup> *Id.*

<sup>221</sup> *Id.*

<sup>222</sup> *Id.* “Alibaba considers one report of counterfeit offerings to be one ‘strike’ no matter how many individual Counterfeit Products or types of Counterfeit Products the merchant is offering.” Second Amended Complaint, *supra* note 18, at 145.

<sup>223</sup> Alibaba, *supra* note 205.

<sup>224</sup> See Ruwitch, *supra* note 202.

<sup>225</sup> *Id.*

<sup>226</sup> AAFA Calls For Alibaba To Implement New, Transparent Anti-Counterfeiting Measures, AMERICAN APPAREL & FOOTWEAR ASSOCIATION (July 17, 2015), <https://www.wewear.org/aafa-calls-for-alibaba-to-implement-new-transparent-anti-counterfeiting-measures/>.

<sup>227</sup> AMERICAN APPAREL & FOOTWEAR ASSOCIATION, LETTER TO JACK MA 2 (July 17, 2015), available at [https://www.wewear.org/assets/1/7/AAFA\\_Letter\\_to\\_Jack\\_Ma\\_\\_Attachment\\_7.17.15.pdf](https://www.wewear.org/assets/1/7/AAFA_Letter_to_Jack_Ma__Attachment_7.17.15.pdf). Attached to the letter was a suggested strategy to remove counterfeits from Alibaba’s platforms, consisting of four elements: “easy brand certification,” “brand-controlled take-downs,” “brand-approved sales,” and “transparent verification of progress.” *Id.* at 3.



USTR's removal of Taobao from the blacklist in 2012, it has not recommended re-listing the website until recently. This decision occurred as a result of four years of unproductive discussions that did not amount to progress in addressing Alibaba's issues, according to AAFA spokeswoman Catherine Michael.<sup>228</sup>

### B. *Comparing Alibaba to eBay, through the Tiffany Lens*

Kering alleges that Alibaba possesses both actual knowledge of counterfeiting on its platforms, and employs ineffective policies, which seemingly discipline users, while in reality permit such users to maintain their business as usual.<sup>229</sup>

Under the *Tiffany* standard, an e-commerce platform is contributorially liable for trademark infringement if it permits individuals to use its services, knowing or having reason to know that such individuals are selling counterfeit items.<sup>230</sup> The platform must have more than a general awareness of counterfeiting on its website; essentially, it must have specific knowledge of counterfeit sales, by individual users, and fail to mitigate these transactions.<sup>231</sup>

#### 1. *eBay's Level of Knowledge*

eBay, like Alibaba, provides both a marketplace for sale of goods and support services for such purchases, but does not sell the items or physically possess them.<sup>232</sup> The district court noted that eBay possessed "an interest in eliminating counterfeit Tiffany merchandise from eBay . . . to preserve the reputation of its website as a safe place to do business."<sup>233</sup> eBay reportedly spent up

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<sup>228</sup> Other critics of Alibaba's removal of counterfeit listings include the Trademark Working Group, whose members include Fortune 500 companies and other major brands, as well as ANDEMA, a Spanish anti-counterfeiting group representing seventy companies including the brands Levi's and Camper. Ruwitch, *supra* note 202.

<sup>229</sup> Second Amended Complaint, *supra* note 18, at 3–4.

<sup>230</sup> *See Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 109 (2d Cir. 2010).

<sup>231</sup> *See id.*

<sup>232</sup> *Id.* at 97.

<sup>233</sup> *Id.* at 98 (quoting *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 469 (S.D.N.Y. 2008)).

to twenty million dollars each year to facilitate anti-counterfeiting measures on its marketplace.<sup>234</sup>

eBay also partnered with PayPal, its credit card processing company, to create “buyer protection programs” where purchasers could obtain refunds for items bought on eBay that turned out to be counterfeit.<sup>235</sup> It created a Trust and Safety department comprised of four thousand employees to address “trust and safety issues.”<sup>236</sup> Two hundred Trust and Safety employees specifically “focus exclusively on combating infringement,” and seventy “work exclusively with law enforcement.”<sup>237</sup> In addition, eBay implemented a “fraud engine” devoted to search for listings that violate eBay’s counterfeit policies, including filters and keywords specific to the Tiffany brand.<sup>238</sup>

To supplement such efforts, eBay also managed a “Verified Rights Owner (‘VeRO’) Program,” consisting of a “notice-and-takedown system,” where brand owners and trademark owners could report instances of counterfeiting and intellectual property violations on eBay listings.<sup>239</sup> Once eBay received a reported listing, its policy was to remove such listing within twenty-four hours; in most cases, removing listings within twelve hours of notification.<sup>240</sup> eBay permitted brand owners such as Tiffany to maintain “About Me” pages on eBay’s website to warn users of potential counterfeits.<sup>241</sup> Tiffany’s page specifically noted in bold “Most of the purported TIFFANY & CO. silver jewelry and

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<sup>234</sup> *Id.* (citing *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 476 (S.D.N.Y. 2008)).

<sup>235</sup> *Id.*

<sup>236</sup> *Id.*

<sup>237</sup> *Id.*

<sup>238</sup> *Id.* at 98–99. The fraud engine technology was designed to uncover illegal and/or counterfeit listings by automatically searching for listings that violate eBay’s policies. *Id.* at 99. It included ninety different Tiffany-specific keywords to designate between counterfeit Tiffany goods and listings for legitimate items. *Id.*

<sup>239</sup> *Id.*

<sup>240</sup> *Id.*

<sup>241</sup> *Id.* Such pages also served to educate eBay users of the “products, intellectual property rights, and legal positions” of brands. *Id.*

packaging available on eBay is counterfeit.”<sup>242</sup> eBay also created automatic warning messages which appeared when a user would list a Tiffany product for sale.<sup>243</sup> Although eBay implemented a “three strikes rule” governing users’ suspension, it would expedite the suspension process after one violation if it was evident that the seller offered multiple counterfeit listings and did not otherwise appear to be a legitimate seller.<sup>244</sup>

## 2. *Alibaba’s Level of Knowledge*

Notably absent from Alibaba’s policies are the straightforward and effective anti-counterfeiting measures that eBay enacted in *Tiffany*, undoubtedly a significant reason underlying the Second Circuit’s favorable ruling. Unlike eBay, Alibaba did not implement measures to ensure the authenticity of items sold on its platform, promptly remove reported counterfeit listings, or suspend third party sellers from its platform after it was alerted of counterfeit listings.<sup>245</sup> Because Alibaba “permit[s] and encourage[s]” individual users to continue selling counterfeit goods on Alibaba’s various platforms, despite being “expressly and specifically informed that the merchants are selling counterfeits, and even when the merchants themselves state openly that they are selling counterfeits,” under *Tiffany*, Alibaba should be liable for its users trademark infringement.<sup>246</sup> Not only did Alibaba both know and should have known that it was encouraging the sale of counterfeits,

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<sup>242</sup> *Id.* at 100. Tiffany’s About Me page also heeded the warning, “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.” *Id.*

<sup>243</sup> *Id.* (“These messages instructed the seller to make sure that the item was authentic Tiffany merchandise and informed the seller that eBay does not tolerate the listing of replica, counterfeit, or otherwise unauthorized items and that violation of this policy could result in suspension of [the seller’s] account.”). If vendors completed the Tiffany listing, eBay flagged it for review. *Id.* (quoting Tiffany, 576 F. Supp. 2d at 491) (internal citations omitted).

<sup>244</sup> *Id.*

<sup>245</sup> *See id.* at 139–48 (listing a number of ways that Alibaba allegedly permitted and even facilitated the sale of counterfeit goods on its platforms).

<sup>246</sup> *See* Second Amended Complaint, *supra* note 18, at 7.

it also allegedly continued such practices to profit from the transactions.<sup>247</sup>

First, due to the very nature of the services it provides, Alibaba “knowingly assisted” counterfeiters “in virtually all aspects of their illegal operations.”<sup>248</sup> Alibaba’s websites provide the marketplace, “essential support services,” marketing, logistics,<sup>249</sup> keyword advertising, “cloud-based deep learning,”<sup>250</sup> and payment processing services<sup>251</sup> that facilitate the sale of counterfeits.<sup>252</sup> Alibaba even provided micro loans to certain small and medium sized merchants who had issues obtaining credit from large financial institutions until February 2015.<sup>253</sup>

Through “proprietary algorithm” technology, Alibaba uses data analytics to anticipate its buyers’ needs, providing them with additional merchants and products in an individualized search

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<sup>247</sup> *See id.* Alibaba continued to provide its services to counterfeiters even after the initial lawsuit was filed in 2014, and despite Gucci’s attempts to remove the sale of counterfeits from Alibaba’s websites. *Id.*

<sup>248</sup> *See id.* This is due to the Alibaba ecosystem and the numerous support services it offers to its vendors.

<sup>249</sup> Alibaba provides shipping and services to consumers who purchase items on their platforms. *Id.* at 135.

<sup>250</sup> Alibaba’s marketing and data collection services create targeted marketing and personalized search results to consumers in order to obtain a greater conversion rate of sale. *See id.* at 9, 133–34.

<sup>251</sup> Alipay, Alibaba’s payment processing service encourages customers to purchase items on Alibaba’s marketplaces because it utilizes an escrow service. When an item is purchased, the sale’s funds are transferred into an escrow account, to be released only when the consumer confirms receipt or fails to object within a certain time “it eliminates uncertainty in making purchases over the Internet.” *Id.* at 129–30. Furthermore, Alipay owes an obligation to the credit card networks it processes to conduct due diligence on its sellers and the items they offer. *Id.* at 132. The Plaintiffs allege that, in order for Alipay to perform such due diligence, it would need to determine whether a merchant is selling illegal items. *See id.*

<sup>252</sup> *See id.* at 7–10.

<sup>253</sup> *See id.* at 136. To qualify for the loans, merchants must first conduct three months of activity on Alibaba platforms. *Id.* Vendors seeking micro loans were evaluated on the basis of “transactional and behavioral data from sellers,” and if deemed credit worthy, extended an unsecured loan ranging from 7 to 360 days. *Id.*

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engine.<sup>254</sup> By responding to users' searches, the algorithms enabled consumers to find counterfeit products for sale.<sup>255</sup> For instance, when a consumer searched for "replica" in Alibaba.com's search bar, Alibaba's algorithm included "wristwatches" and then led the consumer to a counterfeit watch seller.<sup>256</sup>

Similarly, Alibaba sold keywords to its vendors, such as "replica," "knockoff," "imitation," "synthetic leather," and the Plaintiffs' trademarks such as "Gucci" or "Balenciaga," in order for counterfeiters to market their products.<sup>257</sup> When the Plaintiffs' trademarks were searched on Taobao on or around June 26, 2014, Gucci generated 119,000 listings; Balenciaga generated 17,000 listings; Bottega Veneta generated 42,300 listings; YSL generated 23,500 listings; and Yves Saint Laurent generated 2,543 listings.<sup>258</sup> Misspellings of the Plaintiffs' trademarks were also suggested; when a consumer would type "Gucci" into a search bar on an Alibaba platform, terms such as "cucci" and "guchi" were recommended.<sup>259</sup> According to its business model, Alibaba gains

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<sup>254</sup> See *id.* at 8.

<sup>255</sup> See *id.*

<sup>256</sup> See *id.* at 6. The Plaintiffs allege that the algorithm design was intentional, as Alibaba "inserted the keyword 'Gucci' into the metadata on the HTML code of web pages generated by such searches alongside the additional keywords 'synthetic leather.'" *Id.* at 74.

<sup>257</sup> See *id.* at 8–9, 125–26. ("Importantly, the results that were triggered by the use of such [advertisement] keywords were typically given the most prominent placement on a search results page, such as in the top right position, and were not meaningfully distinguished from the results that are generated through the Alibaba Defendants' algorithmic search process . . ."). Because the ads were not differentiated from the search results, Alibaba's practice differentiates and poses a greater threat to trademark owners than the fact patterns in cases such as *1-800 Contacts*, in which the defendants sold advertising keywords containing trademarks, enabling a competitor's ad to appear with search results. See *1-800 Contacts, Inc. v. Lens.com, Inc.*, 722 F.3d 1229, 1252-56 (10th Cir. 2013).

<sup>258</sup> See Second Amended Complaint, *supra* note 18, at 126. For complete figures of merchant listings resulting from trademark searches on Alibaba.com and Taobao.com, see *id.* at 126–28.

<sup>259</sup> *Id.* at 9, 122–23. The Plaintiffs allege that the misspellings were deliberately "designed to allow the merchant to evade detection by brand owners." *Id.* at 123. One merchant, Back to the Guest, described a counterfeit Gucci handbag using the keywords "Guchi bag," "Qucci Handbags," and "Fake Designer Handbag." *Id.* at 124.

revenue from the sale of keywords whenever a consumer clicks on a keyword advertised store.<sup>260</sup> On AliExpress.com alone, a search conducted for the term “guchi” produced 211 results on or around June 6, 2014.<sup>261</sup> This number escalated to 2,769 results when the same search was repeated on or around July 20, 2015.<sup>262</sup> Both search results revealed merchants selling counterfeit goods bearing Gucci trademarks.<sup>263</sup>

Another reason Alibaba possesses specific knowledge of counterfeits sold on its website is due to its seller designations of “Gold Supplier” and “Assessed Supplier” on Alibaba.com.<sup>264</sup> Alibaba obtains revenue for this website primarily from each sale of “Gold Supplier” designations, a seller membership enabling members to create premium online stores with additional features and services.<sup>265</sup> Sellers aim to achieve “Gold Supplier” designations, as they are more profitable than free unverified memberships, where a seller’s products will be listed at the bottom.<sup>266</sup> “Assessed Supplier” designations are awarded to “Gold Suppliers” sellers who have been audited and physically inspected by a third party company to reassure customers that Alibaba has reviewed such sellers and confirmed that their goods are authentic and legal.<sup>267</sup> The Plaintiff brands maintain that “Gold Supplier” and “Assessed Supplier” sellers, despite such designations, sell counterfeits or sell materials to manufacture counterfeits on Alibaba.com.<sup>268</sup>

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<sup>260</sup> *See id.* at 9

<sup>261</sup> *See id.* at 122–23.

<sup>262</sup> *See id.*

<sup>263</sup> *See id.*

<sup>264</sup> *See id.* at 58–59.

<sup>265</sup> *See id.* Gold Supplier services include “product showcase, custom clearance, value-added tax, or VAT, refund and other import/export business solutions.” *Id.* at 59.

<sup>266</sup> *See id.* For a discussion of Gold Suppliers and Assessed Suppliers selling counterfeit listings, see generally *id.* at 58–74. In one example, a merchant on Alibaba.com identified as both a “Gold Supplier” and an “Assessed Supplier” listed production capabilities ranging from 300 to 50,000 units of counterfeit Gucci wallets per month. *Id.* at 64–65.

<sup>267</sup> *See id.*

<sup>268</sup> *See id.*

The Taobao marketplace poses a larger threat to trademark infringement. The plaintiffs assert that in the thirty days between March 22, 2013 and April 22, 2013, over 26,000 counterfeit Gucci shoes were sold by at least 1400 shops, and over 37,000 counterfeit Gucci handbags were sold by at least 1300 stores on the Taobao marketplace alone.<sup>269</sup> The complaint alleges that before the Initial Action was filed, Taobao would remove a reported infringing listing in ten to fifteen days, if at all.<sup>270</sup> Additionally, if a seller's infringing listing was removed, the seller would simply resurface shortly after to continue selling counterfeits.<sup>271</sup>

Similarly, the Plaintiffs allege that Alibaba's sanctions for intellectual property violations, such as the "three strike" policy or point-based penalty system were not created to prevent trademark infringement and the sale of counterfeit products.<sup>272</sup> "Among other flaws, the Alibaba Defendants' purported three strike policy allows merchants to continue to sell Counterfeit Products so long as they are not caught selling products that infringe identical trademarks on three different days."<sup>273</sup> Moreover, Taobao's notice and takedown policy, recently updated in April 2015, permits the marketplace to prioritize received complaints according to the rating of the complainant.<sup>274</sup> Such ratings are based on how accurate complainants have been in the past: if a trademark owner was at least 90% correct that the listings he reported infringed intellectual property, a "good" rating will be awarded, resulting in take-down requests to be addressed within three business days.<sup>275</sup> Complainants who less than 90% correct, but at least 45% correct would earn a "normal" rating with take-down requests addressed within three business days.<sup>276</sup> Should complainants have a history

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<sup>269</sup> *See id.* at 87.

<sup>270</sup> *Id.* at 88. Alibaba noted that while other websites address complaints by removing listings within twenty-four hours, Alibaba could take weeks to address such issues, due to the system automatically rejecting complaints. *Id.* at 147-48.

<sup>271</sup> *See id.* at 88.

<sup>272</sup> *See id.* at 141.

<sup>273</sup> *Id.* at 145.

<sup>274</sup> *Id.*

<sup>275</sup> *See id.*

<sup>276</sup> *See id.* at 146.

of being less than 45% correct with their complaints, they will receive a “bad” rating, with no disclosed timeline to address their complaints.<sup>277</sup> The Plaintiffs assert that Alibaba allows its merchants to avoid sanctions from takedown notices by unreasonably delaying responses to complaints by brand owners, as well as by inadequately addressing the complaints, or never addressing the complaints at all.<sup>278</sup>

### C. Policy Considerations

As a result of the *Tiffany* decision, trademark owners carry the burden of policing e-commerce marketplaces, and searching for counterfeits.<sup>279</sup> Aside from the duty to address specific instances of counterfeiting addressed by brand owners, “the Second Circuit imposed no duty on eBay to investigate the authenticity of the products sold through its website or to take further steps to combat the sale of counterfeit products through its forum.”<sup>280</sup> This holding has created burdensome implications for trademark owners, who have since been obligated to pore over multiple e-commerce sites on the hunt for counterfeit listings and sellers.<sup>281</sup> From a public policy standpoint, and in the interest of efficiency, e-commerce websites should be required to assess their own marketplaces for fraudulent listings and counterfeit sellers.<sup>282</sup> After all, such websites possess the knowledge and power to do so by “control[ing] access to their marketplaces,” holding the ability to “bar counterfeiters, set up filters, review the identity of sellers, and otherwise impose conditions for entry.”<sup>283</sup>

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<sup>277</sup> *See id.*

<sup>278</sup> *See id.* at 147.

<sup>279</sup> Michael Pantalony, *Contributing to Infringement: Intermediary Liability After Tiffany v. Ebay and Louis Vuitton v. Akanoc*, 105 TRADEMARK REP. 709, 712 (2015).

<sup>280</sup> *Id.*

<sup>281</sup> *Id.* *See also* Dinwoodie, *supra* note 119, at 475 (“The [*Tiffany*] doctrine established a rather wooden, binary system. If the intermediary receives specific notice and does not act, it might be liable; otherwise, it is not.”).

<sup>282</sup> *Id.*

<sup>283</sup> *Id.* at 712–13.



## V. CONCLUSION

Under *Tiffany*, the standard for contributory liability in the United States imposes a burden on the trademark owner, largely shaped by eBay's vigilant anti-counterfeiting measures on its e-commerce platform. Alibaba's policies on trademark infringement are short, vague, and lenient; slaps on the wrist, at best, to no action whatsoever, at worst. It appears likely that Kering will prevail under the *Tiffany* standard for secondary liability against the Alibaba defendants due to Alibaba's specific knowledge of counterfeit products sold on their platform and ineffective takedown procedures. The preliminary injunction awarded to Kering in September 2015 provides an early victory for Kering against individual merchant defendants who directly sold counterfeits.

From a public policy standpoint, Kering should prevail because brand owners deserve to be afforded more protection for their craftsmanship and reputation, both of which can make or break a brand. Although brand owners currently bear the burden of policing their trademarks for infringement such as counterfeits on e-commerce platforms, such marketplaces should have a duty to implement effective policies regarding users' trademark infringement on their website. Moreover, e-commerce platforms must cooperate with brand owners who report infringing item listings by removing such listings in a timely fashion and sanctioning users who sell counterfeits and infringe upon intellectual property in a manner that is proportional to the violation. In doing so, e-commerce platforms act to share the burden of policing counterfeiters with brand owners, resulting in a partnership to effectively combat trademark infringement. These efforts would, in turn, benefit not only the trademark owners, whose good will and reputation will remain intact, but also the e-commerce marketplaces, who can assure customers that their website is a safe and legitimate place to do business, and the customers, who ultimately gain reassurance that the item they purchase on an e-commerce site is what it purports to be.