

08-3947-cv

IN THE
United States Court of Appeals
FOR THE SECOND CIRCUIT

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TIFFANY(NJ) INC. and TIFFANY AND COMPANY,

Plaintiffs-Appellants,

—against—

eBAY INC.,

Defendant-Appellee.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK (NO. 04 CIV. 4607 (RJS))

**BRIEF *AMICUS CURIAE* OF THE
COUNCIL OF FASHION DESIGNERS OF AMERICA, INC.**

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CORPORATE DISCLOSURE STATEMENT

Pursuant to Fed. R. App. P. 26.1, *amicus curiae* the Council of Fashion Designers of America, Inc. (“CFDA”) states that it is not a publicly-held corporation or other publicly-held entity. CFDA does not have any parent corporation and no publicly-held corporation or other publicly-held entity holds 10% or more of IACC’s stock.

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The Council of Fashion Designers of America, Inc. (“CFDA”) submits this brief as *amicus curiae*¹ in support of the appeal of Tiffany (NJ) Inc. and Tiffany and Company (together, “Tiffany”) from the judgment entered against Tiffany by the District Court. *Tiffany (NJ) Inc. v. eBay, Inc.*, ___ F. Supp. 2d ___, 2008 WL 2755787 (S.D.N.Y. 2008) (“Op.”).

STATEMENT OF INTEREST OF AMICUS CURIAE

The Council of Fashion Designers of America, Inc. (“CFDA”) is a not-for-profit trade association whose membership consists of 350 of America’s foremost fashion and accessory designers as well as many newer and smaller designers.

Founded in 1962, the CFDA’s goals are “to further the position of fashion design as a recognized branch of American art and culture, to advance its artistic and professional standards, to establish and maintain a code of ethics and practices of mutual benefit in professional, public, and trade relations, and to promote and improve public understanding and appreciation of the fashion arts through leadership in quality and taste.”

The CFDA’s three main areas of activity are:

¹ The parties have consented to the filing of this proposed *amicus curiae* brief.

Educational Initiatives — The CFDA is committed to nurturing the development of the fashion industry’s future American designers by providing support and resources at the collegiate, post-graduate, and early stages of a designer’s career, through:

- Scholarship Programs;
- Masters Programs;
- Professional Development Programs including the

CFDA/Vogue Fashion Fund, which provides cash awards and mentoring teams to emerging designers.

Philanthropy — Through a separate, not-for-profit entity, CFDA Foundation, Inc., CFDA raises funds for charitable initiatives and campaigns. The main philanthropic efforts include:

- Fashion Targets Breast Cancer – the fashion industry’s response to the devastating impact of breast cancer, which has raised and distributed more than \$40 million since its founding in 1994;
- 7th on Sale – a ground-breaking fundraising event for HIV/AIDS organizations.

The CFDA Fashion Awards — Annual awards gala to recognize and celebrate the outstanding contributions made to American fashion by

individuals in all areas of the industry. Awards are given for design excellence in womenswear, menswear, and accessories, and special awards are presented in such varied fields as publishing, retailing, photography, and entertainment.

CFDA offers this *amicus* brief because counterfeiting strikes at the very heart of the American fashion industry. The counterfeiting of fashion products, clothing and accessories, world-wide has been estimated to comprise 33 to 45% of all counterfeiting.² With the worldwide counterfeit market estimated as of 2006 to be worth \$600 billion a year, and the exponential growth of this market,³ the worldwide fashion counterfeit

² The World Customs Organization (WCO) and Interpol are credited with this estimate. See Coalition for Intellectual Property Rights (CIPR) “First Global Congress on Combating Counterfeiting” Brussels May 25-26 2004

³ Since the early 1990’s, according to Interpol, trade in counterfeits has grown at eight times the speed of legitimate trade. Twenty years ago, commercial losses around the world due to counterfeiting were estimated in the \$5 billion range; today, they are around \$500 billion. That puts the cost of counterfeiting between 5 and 10 percent of the total value of world trade, on a par with, say, the GDP of Australia. And still it grows, at least measured by the number of customs seizures of counterfeit goods. In the European Union, these seizures grew 900 percent between 1998 and 2001, only to double again the following year. Seizures by U.S. customs increased 12 per-cent between 2002 and 2003, and Japan reported substantial in-creases as well. The Internet only makes it more

market may have exceeded \$200 billion by 2006, without counting perfumes and cosmetics.⁴

Given its focus on fostering the talents of new American fashion designers and promoting the efforts of established designers, CFDA is acutely aware of the devastating impact that counterfeits have on the fashion industry. Counterfeits not only affect a designer's financial bottom line but also erode the goodwill in the brand that the designer has painstakingly worked to develop.

Given the growing number of auction websites in the United States and around the world offering fashion products, both articles of clothing and accessories, as well as the considerable amount of counterfeited products offered on these sites and the inordinate cost of monitoring on a daily basis the sales transactions on the multitude of web sites, CFDA wishes to have its members' voices heard in this proceeding, which involves the largest — by far — of these on-line marketplaces.

so: by one estimate, on the order of \$25 billion in counterfeit goods is traded each year online. *See* Moises Naim, *Illicit*, Anchor Books, 2005.

⁴ *See* Organization for Economic Cooperation and Development – “The Economic Impact of Counterfeiting and Piracy” June 2007 Report

SUMMARY OF THE ARGUMENT

This case presents an issue of great importance to the CFDA, its members, and to consumers. The CFDA submits that the district court erred in placing the burden of policing eBay's online auctions for counterfeit products on the brand owner, instead of on eBay, which is responsible for creating and maintaining the marketplace and is aware of the open and notorious acts of trademark infringement and counterfeiting taking place there.⁵

By placing the burden of policing eBay's online auctions for counterfeits on brand owners, the district court's holding effectively requires all fashion designers to police eBay and other web sites around the world, 24 hours a day, and 365 days a year. Under the district court's ruling, fashion designers, big and small, are under the obligation to spend unspecified amounts of resources to police those marketplaces around the clock. Because it would be nearly impossible for many, if not most, fashion

⁵ The CFDA submits this *amicus* brief to address the issue of placing responsibility for policing eBay's online auctions for counterfeits on the brand owner. Although the CFDA is not addressing other aspects of the District Court's decision, CFDA's silence should not be interpreted as agreement with other aspects of the District Court's opinion.

designers to meet this new burden, the district court has critically weakened the fight against counterfeiting

Accordingly, CFDA believes that the district court has improperly and unfairly burdened brand owners with the obligation to police a marketplace, which has been created and developed by eBay, which is founded upon the types of faceless transactions preferred by counterfeiters, and in which the evidence reflects that 30% at least of TIFFANY products sold on eBay are counterfeit. (Op. at 21)

ARGUMENT

I. The District Court Improperly Placed the Burden of Policing Trademark Counterfeiting on eBay's Online Auctions on Brand Owners

In its opinion, the district court incorrectly identifies the central issue in the case to be which party, as between the brand owner and the online auction site, should bear the burden of policing the brand owner's marks. For all the reasons set forth in Tiffany's appellate brief (Tiffany Br. pp. 38-43), CFDA believes this is the wrong issue. The TIFFANY mark is conceded to be famous and as such there is no legal basis for the determination that Tiffany has failed to adequately police its mark. The only valid issue is whether eBay knew or had reason to know that counterfeiting

activity was occurring on its website, which, according to the evidence adduced at trial, it clearly did.

The practical implications of the district court's decision go well beyond this legal error. In its decision, the District Court sets out a litany of acts that Tiffany, a significant player in the luxury goods industry with more resources than most CFDA members, performed in seeking to stem the flow of counterfeits pouring out of eBay's online auctions. As the Court recognized, Tiffany:

- Had its outside counsel contact eBay directly via letter and telephone (Op. at 15-16);
- Participated in eBay's Verified Rights Owner ("VeRO") Program, reporting a total of 284,149 suspect listings from June 2003 through September 2007 (Op. at 18)⁶;
- Participated in the Ranger Online Program to report counterfeit goods (Op. at 16);

⁶ Indeed, as the Court recognized, "Tiffany was among the top ten reporters in 21 of the 28 months between June and September 2005. Thus, by any measure, it is clear that Tiffany was one of the most frequent reporters in the VeRO Program." (Op. at 18)

- Conducted two buying programs, the first of which indicated that 73% of the sterling silver TIFFANY merchandise on eBay was counterfeit, and that only 5% was genuine, while the second found that 75.5% of the sterling silver TIFFANY merchandise on eBay was counterfeit (Op. at 20);
- Budgeted over \$14 million to anti-counterfeiting efforts (including \$3-5 million for its case against eBay) over the 2003 - 2007 period (Op. at 18);
- Devoted anywhere from 172 to 240 man-hours per month to monitoring and reporting on the eBay website, “reflect[ing] the equivalent of anywhere between 1.15 to 1.6 full-time employees per month dedicated to monitoring the eBay website” (Op. at 18-19);
- Ultimately, dedicating one full-time employee to patrol eBay and file Notice of Claimed Infringement forms (“NOCI’s”) through the VeRO Program on a daily basis (Op. at 19);

Despite these extensive efforts, however, the district court found Tiffany’s conduct lacking. Indeed, the district court seemed to go out of its way to criticize and second-guess Tiffany for not allocating more resources to its attempts to stop the flow of counterfeits through eBay. (Op. at 19; 23-

24 n.22). As noted in Tiffany's brief, "[t]he district court, in effect, held that Tiffany's purportedly insufficient efforts to police its marks creates a defense to eBay's illegal behavior." (Tiffany Br. p. 38). As a legal matter, the district court's holding is in error for all of the reasons set forth in Tiffany's brief, which are adopted herein by the CFDA. (Tiffany Br. pp. 38-43). As a practical matter, however, the district court's holding would have a devastating impact of the ability of fashion designers to protect against the counterfeiting of their intellectual property.

Under the district court's ruling, all fashion designers, large and small, would bear the responsibility for monitoring the counterfeiting of their trademarks taking place on eBay and similar web sites. On eBay alone, this would mean monitoring the millions of transactions that take place every day in the United States and in the rest of the world. Further, just within the United States, there are easily more than a dozen other platforms offering fashion goods for auction on the Internet.⁷ Unlike luxury good conglomerates such as Tiffany, the vast majority of the CFDA membership

⁷ See, e.g., Amazon; e-offer; ioffer; Alibaba; uBid; eBid; CQout; Swoopo; Tazbar; InetBid; Clothingbids; fashiononauction; Clothesbid; and Apparelbids.

cannot afford to hire the necessary staff to monitor the transactions on these web sites; to outsource such work to outside investigators; or to acquire and effectively utilize the software available for monitoring eBay's online auctions.⁸ Indeed, a majority of CFDA members do not even have an in-house attorney to advise on issues concerning counterfeiting.

Even large fashion houses such as CFDA member Liz Claiborne, Inc., which owns the JUICY COUTURE and KATE SPADE brands, which have been counterfeited and sold through eBay, have found it difficult to allocate the manpower necessary to constantly monitor eBay. As Gene Bolmarcich, Vice President, Liz Claiborne, Inc., has noted, "Liz Claiborne has experienced enormous problems with the sale of counterfeit Juicy Couture and Kate Spade products on eBay. Up until recently we had a full time person monitoring eBay and sending Vero takedown notices, but as of a few months ago we have been unable to keep a full time person on this for budgetary reasons. Of course this is causing significant harm to our brands now. The outsourcing of such surveillance to specialized companies and

⁸ For instance, the budget for a yearly subscription to one of the leading search service companies can exceed \$150,000 depending upon the number of listings.

even the available software is cost prohibitive, given our trademark enforcement budget.”⁹

What is already extremely onerous for companies selling hundreds of millions of dollars worth of luxury goods, is absolutely prohibitive for smaller, but nonetheless popular and emerging, fashion designers whose annual sales amount to a few millions dollars or less. As Bob Sui, Chief Financial Officer of Anna Sui Corp., has stated, “We cannot pursue further efforts on the eBay front at this time. We can afford neither the hiring of people on staff to address the problem or the outsourcing of such surveillance to specialized companies. As a matter of fact, even the available software is out of reach.”¹⁰

Perhaps more problematic than the issue of manpower, is the feeling expressed by CFDA members (and echoed by Tiffany’s experience) that the policies and procedures put in place by eBay for reporting counterfeiting activity are largely ineffective. At base, there is the fundamental issue that

⁹ Email correspondence with Gene Bolmarcich, Vice President, Liz Claiborne, Inc., dated October 22, 2008.

¹⁰ Email correspondence with Bob Sui, Chief Financial Officer, Anna Sui, Inc., dated October 22, 2008.

the brand owner only learns of the sale of potential counterfeit goods at the same time such goods are offered to the public. The auction process is most of the time too brief for effective action to be taken, and by the time the brand owner files a NOCI with eBay, the sales may have already been concluded.

Moreover, identifying products as counterfeit solely based on the pictures posted by eBay's faceless sellers, which are often doctored or actually show authentic goods and not the actual goods being offered, is ineffective. Further, even when a brand owner's NOCI results in having an auction removed, there is no guarantee that the counterfeited items will not merely reappear under the name of some other seller. As Mr. Bolmarcich has stated, "More than just the cost, such expenditure is seen as not being cost effective because it is simply a small bandage on a gaping wound. The VeRO system does not constitute an effective response to the auction of counterfeit products on eBay. The photographs of the products offered on the site are usually doctored so as to render our identification of the products ineffective if not impossible. It is a game of 'whack a mole' — in the instances where eBay had complied in time with our NOCIs and actually

withdrawn the offers, within hours, the very same products were offered by the same party under a different identity and we had to start all over.”¹¹

These sentiments are echoed by Susan Posen, Chair of CFDA member Zac Posen. “We monitor items that are for sale as ‘Zac Posen’ on eBay. In instances where we spot garments that are being counterfeited, we send an email to the seller informing them that they are selling counterfeit items and demand that they remove the listing from eBay. In many instances, they comply. Shortly thereafter the very same counterfeit goods appear under the name of a different seller. In the end we are ineffective.”¹²

The counterfeiting problem on eBay is further exacerbated by eBay’s response to the purchasers of counterfeit goods. By requiring such purchasers to establish that the goods are indeed counterfeit through a third party (Op. at 12), eBay is effectively directing such purchasers to the brand owners, who are then forced to respond to requests to authenticate goods or

¹¹ Email correspondence with Gene Bolmarcich, Vice President, Liz Claiborne, Inc., dated October 22, 2008.

¹² Email correspondence with Susan Posen, Chair, Zac Posen, dated October 21, 2008.

for compensation. When such requests are refused, it is the brand owner's goodwill that suffers, not eBay's.

Ultimately, the investment required to monitor the sale of products offered on eBay is simply too costly for many, if not most, of the members of the CFDA to be able to afford. If the burden is thrown on the fashion houses, they will never be in a position to respond to a threat that truly puts at risk their very existence. It is eBay, which has created, maintained and profited from this online marketplace, and which acknowledges that 30% or more of the TIFFANY products sold through its site is counterfeit that should properly bear the burden of eliminating counterfeits from its marketplace.

As Ms. Posen of Zac Posen, states, "As a small design house, we can only devote so much time and resources to policing this problem. We can not even afford to buy the samples. We really have no recourse. To absolve eBay from any responsibility for selling counterfeit goods on their market and site will only worsen the problem and give free rein to counterfeiters."¹³

¹³ *Id.*

The views of Ms. Posen and the other CFDA members cited herein are reflective of the expressed consensus among the CFDA membership.

CONCLUSION

For the foregoing reasons, the CFDA respectfully request that this Court vacate the judgment of the District Court and remand for proceedings consistent with the Court's opinion on this appeal.

Dated: October 22, 2008

Respectfully submitted,

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Pursuant to Rule 32(a)(7)(C) of the Federal Rules of Appellate Procedure, the undersigned certifies that:

1. This brief complies with the type-volume limitation of Fed. R. App. P. 32(a)(7)(B) because this brief contains 3,243 words, excluding the parts of the brief exempted by Fed. R. App. P. 32(a)(7)(B)(iii), as determined by the word processing system used to generate the brief.
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I, Samantha Collins, hereby certify that the Amicus Brief submitted in PDF form as an e-mail attachment to **civilcases@ca2.uscourts.gov** in the above referenced case, was scanned using CA Software Anti-Virus Release 8.3.02 (with updated virus definition file as of 10/22/2008) and found to be VIRUS FREE.

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