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WHAT ARE WE GOING TO DO ABOUT AMAZON?

My client Sarah is a talented graphic designer who developed the idea of printing unique designs on curtains. She began selling them on Amazon and the product became wildly successful. Due to this popularity, counterfeiters began copying her items and also selling them on Amazon, but at discounted prices. Soon the cheap counterfeits were outselling the authentic products. Buyers who were unknowingly purchasing shoddy counterfeit curtains began posting poor reviews, which further injured sales of the authentic products.

When she discovered what was happening, Sarah asked Amazon to take down the counterfeit items. Amazon did not take down the products quickly, nor did they agree to Sarah's request to bar obvious counterfeiters from selling on Amazon. Sarah's once-thriving business has been damaged by counterfeiters, and she has turned to me for help.

Sarah's experience is not unusual. Many brand owners are frustrated because counterfeit imitations of their goods are routinely sold on Amazon. They try to have the counterfeit goods removed, but Amazon's reaction to these requests is slow and cumbersome. In the meantime, brand owners face a loss of sales and reputation because low quality, counterfeit versions of their goods are freely sold on Amazon. Often consumers blame the shoddy versions on the brand owner.

How is Amazon able to continue allowing the sale of counterfeit goods with impunity? The answer lies in a 2010 case brought by Tiffany against eBay. Tiffany accused eBay of trademark infringement because 73% of the Tiffany goods sold on eBay were counterfeit. Tiffany argued that eBay had a responsibility to police its website to prevent the sale of counterfeit Tiffany goods.

In a landmark decision, the Second Circuit Court of Appeals held that eBay was not liable for trademark infringement because eBay had an organized and effective program to remove the sales of counterfeit goods, upon request by the brand owner. eBay has a Verified Rights Owner (VeRo) program, a "notice and takedown" policy, in which it partners with brand owners to prevent and remove counterfeit listings. According

FOR MORE INFORMATION

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Mark concentrates his practice on the protection of corporate intellectual property through effective methods of trademark, copyright and patent litigation. He is one of the country's leading lawyers in anti-counterfeiting litigation and is highly skilled in preventing and stopping "gray market" trade through innovative legal techniques.

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to eBay, it handles more than 92% of counterfeit issues within 12 hours. eBay also does not sell items itself nor does it take possession of the items.

Based on eBay's VeRo program and its prompt takedown procedure, the Second Circuit ruled that it would not hold eBay liable for trademark infringement.

The contrast between eBay and Amazon's business models is significant. Amazon originally adopted eBay's business model of acting as an intermediary between buyers and sellers of books. However, Amazon underwent a swift and sweeping expansion to a business with a stock market valuation of almost \$350 billion. Amazon expanded its role of intermediary by having a "Fulfillment By Amazon" program. Amazon built giant warehouses throughout the US to store its sellers' merchandise. It developed a system to store, distribute and ship the product and collected the payment from the buyer. Amazon charges extra fees to sellers who use the FBA service. The FBA service is far different from the eBay business model of acting as a mere intermediary between buyer and seller.

Two recent cases are using the FBA model to challenge Amazon's claim that it is not liable for the sale of counterfeit goods. The first case is *Milo & Gabby, LLC v. Amazon.com, Inc.* in which a maker of children's patented pillow cases was experiencing loss of business caused by knockoff pillow cases sold on Amazon. Amazon denied liability because it was not a "seller" and did not "offer" the counterfeit goods for sale.

Some of the knockoff pillowcases were sold under the FBA program, meaning that Amazon stored, distributed, shipped and received the payment price for the counterfeit pillow case. However, the District Court ruled that under patent law Amazon did not "offer to sell" the infringing products. The District Court clearly was troubled by this result because it wrote:

"However, the Court is troubled by its conclusion and the impact it may have on the many small retail sellers in circumstances similar to Plaintiffs. There is no doubt that we now live in a time where the law lags behind the technology... Amazon enables and fosters a marketplace reaching millions of consumers, where anyone can sell anything, while at the same time taking little responsibility... Indeed, under the current case law, Amazon has been able to disavow itself from any responsibility for "offering to sell" the products at all.... [T]hat is a subject which must be addressed to Congress and not the courts."

Milo & Gabby is now pending at the Federal Circuit, the nation's highest patent court.

In the meantime, a second case was filed last month against Amazon by Daimler, the owner of the Mercedes brand. It alleges that Amazon illegally sold and distributed replica Mercedes-Benz wheels that "blatantly copy" Daimler's patented designs. The Complaint alleges that Amazon "sells" the infringing wheels. In fact, Amazon advertised the wheels as "Shipped from and sold by Amazon.com." It will be interesting to see how Amazon will counter Daimler's argument that Amazon is a seller.

These new cases may signal a change in the legal status of Amazon. Perhaps Amazon's FBA business model has overstepped the immunity provided by the *Tiffany v. eBay* decision which may result in legal liability for Amazon for IP violations. In the meantime, brand owners having problems with Amazon should consult with experienced and knowledgeable counsel who are familiar with Amazon procedures and have relationships with Amazon representatives in order to address their counterfeiting issues.

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