

# COMBATING COUNTERFEIT COUTURE: AN ARGUMENT FOR THE APPLICATION OF THIRD PARTY LIABILITY TO E-COMMERCE WEBSITES IN THE FIGHT AGAINST COUNTERFEIT LUXURY GOODS

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## I. INTRODUCTION

In 2016, luxury conglomerate Kering, comprised of the luxury brands Gucci, Yves Saint Laurent, Bottega Veneta, and Balenciaga, filed a lawsuit against Alibaba Group Holding Ltd. accusing the e-commerce giant of trademark infringement.<sup>1</sup> Kering's primary allegation is that Alibaba, through its e-commerce website, is promoting the sale of counterfeit Kering goods.<sup>2</sup> While not the first of its kind, if successful, Kering's lawsuit could have the potential to set a landmark precedent in the fashion industry, where the simultaneous rise of e-commerce and counterfeit goods has posed a serious threat to luxury brands.

Section II of this article will provide a glimpse into the counterfeit luxury goods industry, including a brief history and examination of the effect e-commerce has had on the luxury goods industry. Section II will also evaluate the ethics surrounding the counterfeit luxury good industry by considering arguments for and against buying counterfeit luxury goods. Section III will look at the way the law addresses counterfeit goods inside and outside the United States, as well as examine the impact Chinese law has on the global luxury counterfeit goods industry. Section IV of this article highlights the ways in which luxury brands have successfully used third party liability to address the sale of counterfeit products. Finally, Section V makes the argument that third-party liability should apply to e-commerce websites who facilitate or, do nothing to stop, the sale of counterfeit luxury goods.

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<sup>1</sup> Gucci Am. Inc. v. Alibaba Grp. Holdings Ltd., No. 15-cv-03784 (S.D.N.Y filed June 15, 2015).

<sup>2</sup> *U.S. Judge Dismisses Part of Alibaba, Gucci Counterfeit Goods Lawsuit*, THE FASHION LAW (Aug. 1, 2016), <http://www.thefashionlaw.com/home/us-judge-dismisses-part-of-alibaba-gucci-counterfeit-goods-lawsuit>.

## II. COUNTERFEIT LUXURY GOODS, AN INDUSTRY OF ITS OWN

The sale of counterfeit luxury goods in the United States is not a recent phenomenon; designer's designs were copied as early as 1903<sup>3</sup> and counterfeit luxury goods such as handbags, watches, and clothing have been sold on the streets of major cities since the 1980s.<sup>4</sup> But the internet has increased the distribution of counterfeit goods around the world.<sup>5</sup> This section offers a brief history of the sale of counterfeit luxury goods, the impact of e-commerce, and contemplates the ethics of the counterfeit industry.

### A. Separating the Reals from the Fakes

The term "counterfeit" is applied to any good that is "made to look genuine in an effort to deceive... with an intent to defraud."<sup>6</sup> Counterfeit goods are different from "knockoffs," which are "exact replicas of an original designer's work that are sold under the trademark of the designer copying the original work."<sup>7</sup> Within the category of "counterfeit" there are variations based on the source, some are:

made in the same factory as the original goods, and sold out the back door; factory rejects that failed inspection; or low-quality fakes that look like originals, but are made from inferior or defective materials or suffer from defective/shoddy manufacturing.<sup>8</sup>

Counterfeit goods are almost always made with the intent to be passed off as the genuine goods they seek to replicate.<sup>9</sup> Luxury counterfeit

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<sup>3</sup> Chavie Lieber, *Why the \$600 Billion Counterfeit Industry Is Still Horrible For Fashion*, RACKED (Dec. 1, 2014, 11:45AM), <http://www.racked.com/2014/12/1/7566859/counterfeit-fashion-goods-products-museum-exhibit>.

<sup>4</sup> Alice Hines, *Knockoff: Another Day at the Office – on Canal Street with Counterfeit Vendors*, THE VILLAGE VOICE (May 18, 2016, 9:45AM), <http://www.villagevoice.com/news/knockoff-another-day-at-the-office-on-canal-street-with-counterfeit-vendors-8626379>.

<sup>5</sup> Mikouya Sargizian, *Counterfeit Chic: Society's Friend or Foe?*, 17 INTELL. PROP. L. BULL. 111, 118 (2013).

<sup>6</sup> BLACK'S LAW DICTIONARY (10th ed. 2014).

<sup>7</sup> Dianna Michelle Martínez, *Fashionably Late: Why the United States Should Copy France and Italy to Reduce Counterfeiting*, 32 B.U. INT'L L.J. 509, 510 (2014); Mikouya Sargizian, *Counterfeit Chic: Society's Friend or Foe?*, 17 INTELL. PROP. L. BULL. 111, 112 (2013).

<sup>8</sup> *The Influx of Fakes on Amazon, Alibaba is an Opportunity for Brands*, THE FASHION LAW (Sep. 13, 2016), <http://www.thefashionlaw.com/home/the-influx-of-fakes-on-amazon-alibaba-is-a-opportunity-for-brands>.

<sup>9</sup> Martínez, *supra* note 7, at 510.

goods, specifically, can be identical in appearance to their authentic counterpart with the only indication of their inauthenticity being their price and quality.<sup>10</sup>

Counterfeiting has become so advanced that separating the fake luxury items from the authentic goods they seek to replicate may be a difficult task for the untrained eye.<sup>11</sup> Authenticity cards that are included when one purchases authentic items are replicated and may be included with a counterfeit item, in which case the only way to identify the counterfeit item may be the font size or type on the counterfeit card.<sup>12</sup> Stitching, color, or an untidy hand-painted line may also reveal a counterfeit item.<sup>13</sup> One common way to identify a counterfeit is an identification stamp, which for brands like Louis Vuitton is a combination of letters and numbers that indicate the item's country, year, and week of manufacturing.<sup>14</sup> However, even an identification stamp can be replicated. In the case of Louis Vuitton, the company previously used the manufacturing month and year to identify their handbags but when counterfeiters began to replicate the numerical system the company transitioned to using the week and year of manufacturing.<sup>15</sup> For most untrained consumers separating a real luxury item from a fake may be a difficult feat.

The quality of counterfeit goods has increased right alongside the accessibility. At one point in time the only way to obtain counterfeit goods was in person at a physical location.<sup>16</sup> Since the 1980's, Canal Street, in New York City, has been the best-known destination in the United States for counterfeit luxury goods.<sup>17</sup> Originally a source for fake Rolexes and Swiss Army knives, by 2000 counterfeit designer handbags, the most commonly counterfeited item in fashion, could be found.<sup>18</sup> Today Canal Street remains a destination for counterfeit luxury items, although they are becoming more difficult to find. Due to New York Police Department crackdowns, frequently vendors will present interested customers with a catalog of items and escort them to a different location in order to make purchases.<sup>19</sup> Canal Street

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<sup>10</sup> *Id.* at 511.

<sup>11</sup> Lieber, *supra* note 3.

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

<sup>13</sup> Laura Gurfein, *Here's How to Spot the Difference Between Real and Fake Designer Bags*, Racked (Jan. 2 2017) <https://www.racked.com/2017/1/2/14149614/fake-handbags>.

<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>16</sup> Martínez, *supra* note 7, at 515.

<sup>17</sup> Hines, *supra* note 4.

<sup>18</sup> Lieber, *supra* note 3.

<sup>19</sup> Amanda Mull, *The Counterfeit Bag Market is Being Overtaken By Fake Contemporary Bags*, PURSE BLOG (July 27, 2015),

vendors are also feeling the effects of the internet. Some vendors attribute the growing ease of purchasing counterfeit items on the internet as a source of decreased customer demand.<sup>20</sup>

### *B. The E-commerce Effect*

The internet has drastically changed the way counterfeit goods are bought and sold.<sup>21</sup> In 1994 the first secure retail transaction was made over the internet.<sup>22</sup> Today e-commerce has blossomed into a trillion-dollar industry,<sup>23</sup> with an estimated twenty million e-commerce stores in operation facilitating the sale and purchase of goods and services through the internet.<sup>24</sup> Deemed a “quicker, more effective, and convenient way of shopping,<sup>25</sup>” e-commerce virtually eliminated time and geographical limitations that existed in retail.<sup>26</sup> The efficiency created by e-commerce did not go unnoticed by counterfeiters, who used the expanded global market to reach new consumers.<sup>27</sup> Today, counterfeit goods can be found on legitimate websites like eBay or Amazon, through search engines like Google, and on social media platforms like Twitter.<sup>28</sup>

Typically, those selling counterfeit goods create websites similar to the website of the authentic designer, these websites can be easily accessed with a Google search.<sup>29</sup> Consumers, may unintentionally end up on these sites when they seek to purchase legitimate luxury goods for less.<sup>30</sup> An annual shopping report created by Mark Monitor revealed one out of every six online shoppers has been tricked into buying a counterfeit item instead of the authentic item they sought to purchase.<sup>31</sup> To further illustrate the large impact

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<http://www.purseblog.com/news/the-counterfeit-bag-market-is-being-overtaken-by-fake-contemporary-bags/>.

<sup>20</sup> Hines, *supra* note 4.

<sup>21</sup> Martínez, *supra* note 7, at 511.

<sup>22</sup> *E-Commerce Growth and Online Counterfeiting: Need to Create a Trusted Online Ecosystem*, SELINKO (Jan 8, 2015, 3:23 PM), <http://selinko.com/blog/online-counterfeiting-2/>.

<sup>23</sup> *Id.*

<sup>24</sup> *Tackling the Scourge of Counterfeit Products Online*, IPEG, <http://www.ipeg.com/tackling-the-scourge-of-counterfeit-products-online/> (last visited April 12, 2017).

<sup>25</sup> SELINKO, *supra* note 22.

<sup>26</sup> IPEG, *supra* note 24.

<sup>27</sup> SELINKO, *supra* note 22.

<sup>28</sup> Martínez, *supra* note 7.

<sup>29</sup> *Id.* at 516.

<sup>30</sup> *Id.* at 511.

<sup>31</sup> Roxanne Elings, Lisa Keith & George Wukoson, *Anti-counterfeiting in the fashion and luxury sectors: trends and strategies*, WORLD TRADEMARK REVIEW (April 26, 2013), <http://www.worldtrademarkreview.com/Intelligence/Anti->

third party vendors have on the luxury goods market in April 2016 Alibaba Group's e-commerce website Taobao, was said to have sold nine thousand Prada products (worth \$3,100,000) claiming to be "authentic," all of which were sold by third party vendors instead of by Prada itself.<sup>32</sup> The odds of being duped can be even more likely on an e-commerce website like Amazon because they permit the sale of products from third party sellers along with those received from the designer.<sup>33</sup>

Amazon specifically, assigns a number to each product they sell.<sup>34</sup> Even when there are multiple vendors for a single product, the same number is assigned to the product.<sup>35</sup> When a consumer purchases a product Amazon may fulfill the order with any product with the correct product number.<sup>36</sup> If a third party vendor ships a counterfeit item to Amazon, it may be placed under a product number reserved for authentic items, and used to fulfill an order.<sup>37</sup> As a result of numbering system Amazon shoppers who intentionally purchase directly from the designer may still end up with a counterfeit product.<sup>38</sup> As it currently stands, the international trade in counterfeit and pirated goods is estimated to generate between \$500,000,000,000 and \$600,000,000,000 annually with online marketplaces growing at a rate that will soon surpass physical marketplaces.<sup>39</sup>

### *C. The Ethics of Buying Counterfeits*

While some consumers are tricked into buying counterfeit luxury goods, there are others who intentionally seek to purchase counterfeit luxury goods. Which begs the question, is buying counterfeit goods wrong? When an individual knowingly (or unknowingly) purchases a counterfeit item instead of an authentic item directly from the designer or its authorized

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counterfeiting/2013/Industry-insight/Anti-counterfeiting-in-the-fashion-and-luxury-sectors-trends-and-strategies.

<sup>32</sup> Marc Bain, *Luxury Brands Won't Solve Their Knockoff Problem by Refusing to Talk to Alibaba*, QUARTZ (May 20, 2016), <https://qz.com/688982/luxury-brands-wont-solve-their-knockoff-problem-by-refusing-to-talk-to-alibaba/>.

<sup>33</sup> Lora Friedemann, *Is Amazon Liable for Counterfeits?*, FREDRICKSON & BRYSON, P.A. (Dec. 9, 2016)

[https://www.fredlaw.com/internet\\_technology\\_trademark\\_advertising\\_alerts/2016/12/09/1399/is\\_amazon\\_liable\\_for\\_counterfeits](https://www.fredlaw.com/internet_technology_trademark_advertising_alerts/2016/12/09/1399/is_amazon_liable_for_counterfeits).

<sup>34</sup> *Id.*

<sup>35</sup> *Id.*

<sup>36</sup> *Id.*

<sup>37</sup> *Id.*

<sup>38</sup> Friedemann, *supra* note 33.

<sup>39</sup> Roxanne Elings, Lisa Keith & George Wukoson, *Anti-counterfeiting in the fashion and luxury sectors: trends and strategies*, WORLD TRADEMARK REVIEW (April 26, 2013), <http://www.worldtrademarkreview.com/Intelligence/Anti-counterfeiting/2013/Industry-insight/Anti-counterfeiting-in-the-fashion-and-luxury-sectors-trends-and-strategies>.

retailers the designer suffers a decrease in profits.<sup>40</sup> But are those who purchase counterfeit goods really impacting designer's revenues? "A woman who makes an impulse buy in a market almost certainly wouldn't otherwise invest in the real deal, while the wealthy buyers of the genuine brand pride themselves on knowing the difference and having the official article."<sup>41</sup>

Some have argued that the growing counterfeit market has benefited the luxury fashion brands.<sup>42</sup> Consumer distrust in e-commerce websites may encourage consumers to buy directly from the brand to ensure the authenticity of their product, thereby increasing the designer's profits.<sup>43</sup> Some even say the counterfeit market helps designers by increasing the awareness of their brand.<sup>44</sup>

In a few instances, counterfeit goods have been linked to traditional crimes with the sales of counterfeit goods alleged to have funded terrorism, child slavery, and human trafficking.<sup>45</sup> However David Wall, a criminology professor at Leeds University, says there is very little evidence profits from counterfeit goods are funding criminal organizations and the real criminal link is to tax evasion by vendors.<sup>46</sup>

Those against counterfeiting argue that brand reputation may be compromised when unknowing and sometimes knowing consumers are seen with seemingly genuine products of a lower quality.<sup>47</sup> But according to Jack Ma, executive chairman of Alibaba Group Holding Ltd, "fake products today are of better quality and better price than the real names... They are exactly the [same] factories, exactly the same raw materials, but they do not use the names."<sup>48</sup>

### III. THE LEGAL RESPONSE TO COUNTERFEIT LUXURY GOODS

The rise of e-commerce has made the production and sale of counterfeit luxury goods a global problem. Unfortunately, each country has

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<sup>40</sup> *Id.*

<sup>41</sup> Bethan Bell, *What's Wrong with Buying Fake Luxury Goods?*, BBC News (Jul. 15, 2016), <http://www.bbc.com/news/uk-england-36782724>.

<sup>42</sup> *The Influx of Fakes on Amazon, Alibaba is an Opportunity for Brands*, THE FASHION LAW (Sep. 13, 2016), <http://www.thefashionlaw.com/home/the-influx-of-fakes-on-amazon-alibaba-is-a-opportunity-for-brands>.

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

<sup>44</sup> Bell, *supra* note 41.

<sup>45</sup> Mikouya Sargizian, *Counterfeit Chic: Society's Friend or Foe?*, 17 INTELL. PROP. L. BULL. 111, 118 (2013).

<sup>46</sup> Bell, *supra* note 41.

<sup>47</sup> Martínez, *supra* note 9, at 510.

<sup>48</sup> Abe Sauer, *Why Alibaba's Jack Ma Said China Makes 'High-Quality' Counterfeit Goods*, BRANDCHANNEL (June 21, 2016), <http://brandchannel.com/2016/06/21/alibaba-062116/>.

their own unique process of dealing with counterfeits, and “countries do not always agree with the laws and decisions of courts in other jurisdictions.”<sup>49</sup> This section will look at the different ways in which the laws in France, Italy, and the United States address counterfeiting and seek to protect designer. This section will also take a special look at Chinese laws and the ways in which they allow the counterfeit market to thrive.

### *A. French Law*

In the fashion community, France is often touted as the country offering the best legal protections for designers.<sup>50</sup> The high level of protection for luxury goods may be due to the fact that French luxury brands make up one quarter of the global luxury brand industry and/or the fact that in France luxury brands comprise a larger part of their manufacturing sector.<sup>51</sup> France offers protection to designer through copyright law (which lasts from their point of creation to 70 years after the creator’s death) and intellectual property law.<sup>52</sup>

In France, intellectual property law considers fashion “wearable art” (in contrast to the United States which considers them utility objects).<sup>53</sup> The intellectual property code in France creates sanctions and liability for both producers and consumers of counterfeit goods.<sup>54</sup> Producers of counterfeit goods may be liable for damages in addition to the seizure of the counterfeit products.<sup>55</sup> France also holds purchasers of counterfeit goods liable.

Those found guilty of purchasing counterfeit goods may be subject to a fine of up €300,000 or jail time for up to three years.<sup>56</sup> Purchasers aren’t only liable when they purchase goods, they may face sanctions anytime they are discovered with the goods.<sup>57</sup>

### *B. Italian Law*

Italy, a country once known for its pervasive counterfeit market, has risen up to join France as one of the countries with the most rigorous anti-counterfeiting laws.<sup>58</sup> Italian law considers fashion designs to be a

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<sup>49</sup> Mikouya Sargizian, *Counterfeit Chic: Society’s Friend or Foe?*, 17 INTELL. PROP. L. BULL. 111, 118 (2013).

<sup>50</sup> Martínez, *supra* note 9, at 523.

<sup>51</sup> *Id.*

<sup>52</sup> *Id.* at 524.

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

<sup>54</sup> *Id.*

<sup>55</sup> Martínez, *supra* note 9, at 524.

<sup>56</sup> *Id.*

<sup>57</sup> *Id.* at 525.

<sup>58</sup> *Id.* at 526-527.

copyrightable art.<sup>59</sup> Under Italian law, both vendors and consumers of counterfeit goods are subject to penalty.<sup>60</sup> Italian law even extends liability to those who receive or conceal money or objects originating from counterfeiting.<sup>61</sup> Consumers may face a penalty up to €10,000 and confiscation of the counterfeit item.<sup>62</sup> Penalties against consumers in Italy frequently make international news, as fines often cost far more than the item that was copied.<sup>63</sup>

### C. *United States Law*

Legal protections for designers in the United States are lacking when compared with the laws of its European counterparts. Under United States law, statutory protection for fashion designs does not currently exist (and efforts to establish such protection have stalled in Congress).<sup>64</sup> Additionally, there is an absence of copyright and patent protection for the majority of fashion items.<sup>65</sup> Furthermore, United States copyright law which covers “creative works,” does not cover luxury items which are deemed to be “useful articles.”<sup>66</sup> In the United States, even the “blatant copying” of a design that does not involve the copying of a trademark is not illegal, which makes it hard to stop counterfeiters from using designs that do not involve logos, and hard for designers to protect their designs.<sup>67</sup>

#### 1. *Potential Legal Protections for Designers in the United States*

Although, protection for fashion designs is severely lacking there are some routes brands can take to attempt to protect their products each with their own positives and negatives. One option for designers in the United States is a design patent, which is given to the holder of a design to protect the appearance of a product.<sup>68</sup> Fashion designers can use design patents for garments and accessories the designer plans to sell widely or re-introduce in an additional season.<sup>69</sup> Unfortunately, the fast-changing nature of the fashion industry makes design patents somewhat impractical. It takes over one year to receive patent protection and can cost over a thousand of dollars for each

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<sup>59</sup> *Id.* at 527.

<sup>60</sup> Martínez, *supra* note 9, at 527.

<sup>61</sup> *Id.* at 528.

<sup>62</sup> *Id.*

<sup>63</sup> *Id.* at 528-529.

<sup>64</sup> *Triangl: The World's Most Copied Bikinis?*, THE FASHION LAW (Aug. 4, 2016), <http://www.thefashionlaw.com/home/triangl-the-worlds-most-copied-bikinis>.

<sup>65</sup> Martínez, *supra* note 9, at 517.

<sup>66</sup> *Id.* at 519.

<sup>67</sup> *Id.* at 522.

<sup>68</sup> *Triangl*, *supra* note 64.

<sup>69</sup> *Id.*



patent by which time the design that has been patented may no longer be in style.<sup>70</sup> Another reason why most designers do not seek out design patents for their designs is because the United States bars design patent protection if the design has been “known” publicly for over a year.<sup>71</sup>

Another option for designers is trademark law. United States trademark law, under the Lanham Act, protects any “word, name, symbol, or device” that is distinct to the designer.<sup>72</sup> Trademark law allows designers to protect logos that appear on products but would not protect an entire fashion design.<sup>73</sup> The Lanham Act makes it so those liable for selling or distributing goods that violate trademark law may be subject to court costs and monetary damages.<sup>74</sup> Unfortunately, trademark law is relatively useless to up and coming fashion designers if their brand or logo is not recognizable to the majority consumers.<sup>75</sup> Additionally, the Lanham Act does not apply to consumers counterfeit goods thus, the act does little to curb the demand for counterfeit goods.<sup>76</sup>

Trade dress, a subset of trademark law, “provides protection for the appearance of a design if it serves the same source identifying function as a trademark.”<sup>77</sup> Trade dress protection requires the design to be inherently distinctive or have acquired a secondary meaning.<sup>78</sup> An item is considered to be inherently distinctive when it communicates its mark is identifying the source of the product (instead of describing the product).<sup>79</sup> A product is considered to have acquired a secondary meaning when consumers associate the design feature with the producer.<sup>80</sup> Courts consider factors including advertising expenditures, consumer studies that link the mark to the source, unsolicited media coverage of the products, sales success, attempts to plagiarize the mark, and length and exclusivity of the marks use to determine if a design has a secondary meaning.<sup>81</sup>

The major luxury brands also have the option to pursue a trademark dilution claim, however this type of claim is meant for “widely recognized” brands with a “famous mark” and is of little use to smaller lesser known

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<sup>70</sup> *Id.*

<sup>71</sup> *Id.*

<sup>72</sup> Martínez, *supra* note 9, at 517.

<sup>73</sup> *Id.* at 518.

<sup>74</sup> *Id.*

<sup>75</sup> *Id.*

<sup>76</sup> *Id.* at 518-19.

<sup>77</sup> *Triangl*, *supra* note 64.

<sup>78</sup> *Id.*

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

<sup>80</sup> *Id.*

<sup>81</sup> *Id.*

designers.<sup>82</sup> Anti-counterfeiting laws are another option that may also provide some protections to designers. In the United States manufacturers and distributors who use counterfeit marks may be subject to criminal or civil liability.<sup>83</sup> “Criminal sanctions include fines of up to \$2,000,000 and ten years in prison, while repeat offenders could face up to a \$5,000,000 fine and twenty years in prison.”<sup>84</sup> When applicable, federal statutes can lead to \$2,000,000 fine, a prison sentence up to ten years, or both for first time trademark counterfeiters and a \$5,000,000 fine for criminal organizations.<sup>85</sup> While some brands like Coach have obtained court rulings against counterfeiters, anti-counterfeit laws in the United States have largely been deemed ineffective.<sup>86</sup> Additionally, similarly to trademark laws, anti-counterfeit laws do not apply to those purchasing counterfeit goods.<sup>87</sup>

## 2. United States Government Initiatives

In 2010 the Department of Justice launched “Operation in Our Sites v. 2.0” which allowed federal authorities to seized domain names that violated intellectual property rights.<sup>88</sup> Shortly following the launch of “Operation in Our Sites v. 2.0” federal authorities seized Eighty-two domain names belonging to websites that sold counterfeit goods.<sup>89</sup> Unfortunately, only small amounts of money are ever seized from these types of raids as individuals using websites to sell counterfeit goods typically remove large amounts of money from their accounts.<sup>90</sup> In another phase of “Operation in Our Sites 2.0,” federal agents made purchases from websites believed to be selling counterfeit luxury goods and once the goods were received and confirmed to be counterfeit seized the domain names.<sup>91</sup> The federal government’s initiatives raised the question of whether public tax dollars should be used to protect the intellectual property rights of luxury brands instead of leaving the battle to the intellectual property owner.<sup>92</sup> There are some who believe luxury brands, who amass in billions of dollars in revenue a year, should have to combat the issue on their own time and on their own dime.<sup>93</sup>

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<sup>82</sup> Sargizian, *supra* note 45, at 119.

<sup>83</sup> Martínez, *supra* note 9.

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

<sup>85</sup> Sargizian, *supra* note 45 at 119.

<sup>86</sup> Martínez, *supra* note 9 at 520.

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

<sup>88</sup> Sargizian, *supra* note 45, at 129.

<sup>89</sup> *Id.*

<sup>90</sup> *Alexander Wang Awarded \$90 Million in Counterfeiting Case*, THE FASHION LAW (Aug. 15, 2016), <http://www.thefashionlaw.com/home/alexander-wang-awards-90-million-in-counterfeiting-case>.

<sup>91</sup> Sargizian, *supra* note 45, at 130.

<sup>92</sup> *Id.* at 130.

<sup>93</sup> *Id.* at 134.

#### *D. Chinese Law and Its Global Impact*

Around the world various laws and regulations exist and offer various levels of protection to fashion designers and their designs. Despite the legal protections offered in some countries, websites selling counterfeit goods thrive due to the difficulty of enforcing intellectual property rights in China.<sup>94</sup>

One impediment to the enforcement of intellectual property rights in China is the cost of protecting designs.<sup>95</sup> China does have a system for protecting design patents but each garment patent must be registered.<sup>96</sup> In fashion, an industry that quickly changes, few if any designers find patents to be a worthy investment.<sup>97</sup> Another impediment to the enforcement of intellectual property rights in China is the high cost of litigating in a foreign jurisdiction.<sup>98</sup> A designer can go to a local government organization and request the issuance of an injunction, but unfortunately local organizations do not have the power to award damages making this a less attractive option.<sup>99</sup>

A better option for luxury designers and brands, although expensive, is civil litigation.<sup>100</sup> Unfortunately, China's civil litigation system doesn't have a disclosure procedure for sales information and profits (where damages are usually calculated).<sup>101</sup> Damages, which are not awarded based on actual harm, are usually small making civil litigation not worth the trouble.<sup>102</sup> While an injunction may stop the sale of an item, in fashion there is a revolving door of new items every season, protecting each item individually would be a costly process.<sup>103</sup>

One of the biggest impediments to enforcing a designer's rights in China is the difficulty of identifying the individuals who operate websites selling counterfeit goods and ensuring they appear in court.<sup>104</sup> It's common

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<sup>94</sup> Rebecca McKenzie, *How Websites Hawking Blatant Designer Fakes Thrive Online*, THE FASHION LAW (Sept. 1, 2016), <http://www.thefashionlaw.com/home/how-sites-hawking-designer-fakes-thrive-online>.

<sup>95</sup> *Id.*

<sup>96</sup> *Id.*

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

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

<sup>99</sup> McKenzie, *supra* note 94.

<sup>100</sup> *Id.*

<sup>101</sup> *Id.*

<sup>102</sup> *Id.*

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

<sup>104</sup> McKenzie, *supra* note 94.

for websites that sell counterfeit goods to register under fake names with fake information.<sup>105</sup> Designers can contact the internet service provider and request the infringing website be removed, which usually results in the website's quick removal.<sup>106</sup> However, the operators of websites selling counterfeit goods are just as quick at finding a new internet service provider to host their site, and often have numerous websites selling the same counterfeit items.<sup>107</sup> When brands do file suits against website owners who permit the sale of counterfeit goods, default judgments are the norm as defendants usually don't respond to the lawsuit notifications or appear in court.<sup>108</sup>

In 2016, fashion designer Alexander Wang was awarded \$90,000,000 in damages in a trademark counterfeiting and cybersquatting case.<sup>109</sup> Wang won via default judgment when none of the 45 defendants, who were offering counterfeit goods for sale using the Alexander Wang brand name, appeared in court.<sup>110</sup> Despite the win in court, it's unlikely that Wang will ever receive up to \$1,000,000 let alone the \$90,000,000 he was awarded due to there being nobody to hold accountable.<sup>111</sup>

#### IV. THIRD PARTY LIABILITY IN THE FIGHT AGAINST COUNTERFEITS

The lack of legal protection afforded to the luxury brands has forced them to come up with creative ways to address the sale of counterfeit products. One such strategy that has been successful in the past is third party liability lawsuits<sup>112</sup>. The Supreme Court's ruling in *Inwood Labs, Inc. v. Ives Labs, Inc.* laid the foundation for third party liability cases.<sup>113</sup>

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<sup>105</sup> *Alexander Wang Awarded \$90 Million in Counterfeiting Case*, THE FASHION LAW (Aug. 15, 2016), <http://www.thefashionlaw.com/home/alexander-wang-awards-90-million-in-counterfeiting-case>.

<sup>106</sup> Rebecca McKenzie, *How Websites Hawking Blatant Designer Fakes Thrive Online*, THE FASHION LAW (Sept. 1, 2016), <http://www.thefashionlaw.com/home/how-sites-hawking-designer-fakes-thrive-online>.

<sup>107</sup> *Id.*

<sup>108</sup> Rebecca McKenzie, *How Websites Hawking Blatant Designer Fakes Thrive Online*, THE FASHION LAW (Sept. 1, 2016), <http://www.thefashionlaw.com/home/how-sites-hawking-designer-fakes-thrive-online>.

<sup>109</sup> *Alexander Wang Awarded \$90 Million in Counterfeiting Case*, THE FASHION LAW (Aug. 15, 2016), <http://www.thefashionlaw.com/home/alexander-wang-awards-90-million-in-counterfeiting-case>.

<sup>110</sup> *Id.*

<sup>111</sup> *Id.*

<sup>112</sup> *Third-Party Enforcement for Counterfeiting*, LAW360 (Jan. 29, 2009), <https://www.law360.com/articles/85255/third-party-enforcement-for-counterfeiting>.

<sup>113</sup> *Inwood Laboratories Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844 (1982).

In *Inwood Labs, Inc. v. Ives Labs, Inc.* the Supreme Court found a pharmaceutical distributor contributorily liable for knowingly supplying generic medication to pharmacies that were committing trademark infringement.<sup>114</sup> If a plaintiff can show a defendant “intentionally induced another to infringe a mark or continued to produce or distribute a product knowing or having reason to know the recipient was engaging in trademark infringement” they can establish contributory trademark infringement.<sup>115</sup> This theory of third party contributory trademark infringement was the basis for LVMH’s successful lawsuit in the fight against counterfeiting in 2006.

LVMH, the European luxury good conglomerate responsible for Louis Vuitton, like many other luxury handbag makers, was faced with counterfeit products being sold on Canal Street.<sup>116</sup> LVMH decided to press charges against the landlords who permit counterfeit goods to be sold on their property instead of filing charges against individual vendors selling the products.<sup>117</sup> LVMH won a permanent injunction against seven landlords with properties on Canal Street, which required the landlords to:

- 1) prevent tenants from selling handbag with counterfeit Louis Vuitton logos;
- 2) hang signs inside and outside their shops warning that the retailers aren't authorized vendors of Louis Vuitton products;
- 3) finance and provide full access to court-appointed officials who will search the shops weekly for fake Louis Vuitton products for the next two years; and
- 4) evict tenants found selling fakes.<sup>118</sup>

The LVMH lawsuit was a legal success but most importantly, LVMH found a way into the “deep pockets” of landlords instead of suing the individual vendors who “may not have anything to lose.”<sup>119</sup> Holding the third-party landlords liable was a more effective way to stop trademark infringement because “landlords, unlike tenants, cannot simply abandon their property in order to flee prosecution.”<sup>120</sup>

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<sup>114</sup>*Third-Party Enforcement for Counterfeiting*, LAW360 (Jan. 29, 2009), <https://www.law360.com/articles/85255/third-party-enforcement-for-counterfeiting>.

<sup>115</sup> *Id.*

<sup>116</sup> Sargizian, *supra* note 45, at 124.

<sup>117</sup> *Id.*

<sup>118</sup> *Id.* at 125

<sup>119</sup> *Id.* at 124.

<sup>120</sup> *Id.* at 125.

## V. THE APPLICATION OF THIRD PARTY LIABILITY TO E-COMMERCE WEBSITES

The key to stifling the e-commerce's exasperation of the problem with counterfeit goods may lie in holding e-commerce websites accountable.

### A. *A Designers Burden?*

The Digital Millennium Copyright Act ("DCMA"), enacted by congress, gave intellectual property owners a means to protect their rights online and clarified the liability of e-commerce websites for copyright entrenchment by site users.<sup>121</sup> However, the DMCA provided a safe harbor for e-commerce websites in some cases of copyright infringement.<sup>122</sup> Under the DMCA, e-commerce websites, such as eBay and Amazon, are generally immune to liability for the copyright infringement of those who use their sites.<sup>123</sup> Instead, right holders have the responsibility to combat the infringement of their rights.<sup>124</sup> E-commerce websites are not (and probably cannot be) experts on the all the goods on their website. In contrast, designers know their merchandise at an intimate level.<sup>125</sup> Many argue that e-commerce websites should not have to spend time or effort protecting the rights of others.<sup>126</sup>

In 2004, when Tiffany & Co. sued eBay. Tiffany & Co. argued eBay was best able to monitor their trademark on the online auction site.<sup>127</sup> In the *Tiffany* case the Second Circuit court took an interesting position by conceding that despite the fact that eBay might be in a better position than Tiffany & Co. to prevent copyright infringement, eBay was not responsible for "contributory trademark infringement or dilution."<sup>128</sup> The Second Circuit confirmed the decision of the court below that trademark owners are responsible for finding infringement violations, "holding that eBay had taken the necessary steps in order to combat infringement."<sup>129</sup>

### B. *The Third Party Liability Precedent*

The belief is that its more efficient to pursue those who are in the best position to investigate and implement the steps that will prevent counterfeiting has designers looking to third party liability. Two landmark

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<sup>121</sup> Sargizian, *supra* note 45, at 120.

<sup>122</sup> *Id.*

<sup>123</sup> *Id.* at 120.

<sup>124</sup> *Id.*

<sup>125</sup> *Id.* at 120.

<sup>126</sup> Sargizian, *supra* note 45, at 120.

<sup>127</sup> *Id.* at 121.

<sup>128</sup> *Id.*

<sup>129</sup> Sargizian, *supra* note 45, at 129.

cases have paved the way towards third party liability, but conflicting outcomes, leaving the path unclear. In *Louis Vuitton v. Akanoc Solutions*,<sup>130</sup> the Ninth Circuit held an online marketplace liable; however, in *Tiffany v. eBay*,<sup>131</sup> the Second Circuit allowed eBay to escape liability.<sup>132</sup> Although *Akanoc* ended in a favorable holding for the luxury brand, other designers have not followed suit by filing lawsuits against web hosts.<sup>133</sup> *Tiffany* set the precedent that liability will generally be found when: a “defendant has substantial “generalized knowledge of counterfeiting,” fails to take meaningful steps to reduce counterfeiting, and knowingly allows counterfeiting to continue.<sup>134”</sup> Since *Tiffany*, courts have interpreted the case in different ways with inconsistent outcomes.<sup>135</sup>

*Tiffany* was the first case to consider liability of a third party in counterfeiting. Through their own investigation Tiffany & Co. discovered that as many as 73% of the sterling silver pieces carrying the Tiffany & Co. name on eBay were actually counterfeit.<sup>136</sup> Tiffany & Co. alleged that by selling counterfeit merchandise, eBay was guilty of contributory trademark infringement.<sup>137</sup> The Second Circuit found eBay had no duty to investigate the authenticity of the products sold on their website, had no duty to combat the sale of counterfeit products and did not have the level of knowledge required for third party liability.<sup>138</sup> The Second Circuit required a specific knowledge, or “more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary.”<sup>139</sup> Ultimately, the specific knowledge requirement placed the burden on the designers to police online market places.<sup>140</sup>

In the aftermath of the Tiffany & Co. case, LVMH sought French judgment on a similar case with substantially different results.<sup>141</sup> LVMH sued eBay’s French website in French court for allowing counterfeit Louis Vuitton items to be sold and for not stopping the re-listing of counterfeit products on

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<sup>130</sup> *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, 658 F.3d 936 (9th Cir. 2011).

<sup>131</sup> *Tiffany Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010).

<sup>132</sup> Michael Pantalony, *Contributing to Infringement: Intermediary Liability After Tiffany v. eBay and Louis Vuitton v. Akanoc*, 105 TRADEMARK REP. 709, 709 (May-June 2015).

<sup>133</sup> *Id.* at 709.

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

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

<sup>136</sup> *Id.* at 711.

<sup>137</sup> Pantalony, *supra* note 132, at 711.

<sup>138</sup> *Id.* at 712.

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

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

<sup>141</sup> Sargizian, *supra* note 45, at 122.

their websites.<sup>142</sup> LVMH alleged that 90% of designer goods being sold on eBay were counterfeit, while eBay alleged they had removed over 2 million sellers who had previously violated trademarks.<sup>143</sup> Ultimately, the court felt eBay bore the responsibility for filtering and authenticating products on their website.<sup>144</sup> The French court held eBay was culpably negligent and found eBay responsible for over \$60,000,000 in damages.<sup>145</sup> Taking it one step further, a French appellate court slapped eBay's French subsidiary with a €50,000 fine for each day they permitted counterfeit LVMH items to be sold on their website.<sup>146</sup>

### *C. An Argument For of E-Commerce Liability*

When Tiffany & Co. sued eBay, the court noted that eBay may be in the better position to prevent infringement and the court is most likely correct.<sup>147</sup> Monitoring for counterfeiting goods does not have to be a time intensive or expensive undertaking and is better executed from the e-commerce end than from the designer end.

Although, designers may know their product better than an e-commerce website ever could, e-commerce websites are in the best position to monitor what can and cannot be sold on their websites. eBay has instituted an "anti-fraud engine" which uses the words and terms in listings to find listings that may be counterfeit.<sup>148</sup> Counterfeit detection tools, such as the one employed by eBay, do not require an intimate knowledge or expertise of a brand.<sup>149</sup> It can easily be utilized by other e-commerce websites.

Some argue that the process of having counterfeit items removed from online based market places, including those in China, is relatively easy and requires designers to simply follow the protocols established by that website.<sup>150</sup> Those who make that argument forget one important step for removal from online based market places in China, the trademark, patent or

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<sup>142</sup> *Id.* at 123.

<sup>143</sup> Doreen Carvajal, *Court Sides with LVMH over eBay*, N.Y. TIMES, (June 30, 2008), <http://www.nytimes.com/2008/06/30/technology/30iht-lvmh.4.14109529.html>.

<sup>144</sup> *Id.*

<sup>145</sup> Sargizian, *supra* note 45, at 122-23.

<sup>146</sup> *Id.* at 123.

<sup>147</sup> *Id.* at 121.

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

<sup>149</sup> *Id.*

<sup>150</sup> Dan Harris, *How to Remove Counterfeits From Alibaba: Register Your China IP*, CHINA LAW BLOG (Oct. 7, 2015), <http://www.chinalawblog.com/2015/10/how-to-remove-counterfeits-from-alibaba-register-your-china-ip.html>.



copyright should be registered somewhere.<sup>151</sup> For designs not registered, it is recommended that the designer seek registration prior to seeking removal.<sup>152</sup>

Although, simply following the protocol for reporting counterfeit items seems easy enough, it may be more effort than its worth. Designers must regularly monitor the e-commerce website themselves for counterfeit products to report.<sup>153</sup> Even though websites like Amazon work quickly and effectively to suspend the accounts of reported counterfeiters, the process can be inefficient because new accounts are created just as quickly as the old accounts are shut down.<sup>154</sup> Instead of making every single luxury designer expend the resources necessary to regularly search for and report counterfeit items it could be more effective for the e-commerce websites themselves to address the problem.

## VI. CONCLUSION

In August 2016, United States District Judge Kevin Castel dismissed the racketeering claims that were a part of *Gucci America Inc. et al v. Alibaba Group Holdings, Ltd et al.*<sup>155</sup> Castel's ruling was based on the fact that the lawsuit did not allege that the fifteen companies formed an enterprise to profit from knockoff goods or establish the merchants were aware of one another.<sup>156</sup> The suit's main allegation that Alibaba, through its e-commerce website, is promoting the sale of counterfeit Kering goods and the other trademark-related claims still stands.<sup>157</sup>

Luxury brand conglomerate Kering is employing a third party liability strategy in its suit against Alibaba Group Holdings and the court should rule in its favor. Although Kering is in the best position to identify their authentic goods from any potential fakes, Alibaba is in the position to control the products sold on its websites. It's time that United States federal courts follow the lead of the French judicial system, and hold e-commerce websites contributorily liable for the sale of counterfeit goods on their sites.

In order for designers to combat the influx of counterfeit products on e-commerce websites they must actively monitor the websites, report questionable items and wait for the websites to take action. This process must

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<sup>151</sup> *Id.*

<sup>152</sup> *Id.*

<sup>153</sup> Spencer Soper, *Amazon Gets Real About Fakes*, BLOOMBERG TECHNOLOGY (Nov. 28, 2016), <https://www.bloomberg.com/news/articles/2016-11-28/amazon-gets-real-about-fakes>.

<sup>154</sup> *Id.*

<sup>155</sup> *U.S. Judge Dismisses Part of Alibaba, Gucci Counterfeit Goods Lawsuit*, *supra* note 3.

<sup>156</sup> *Id.*

<sup>157</sup> *Id.*

be repeated on multiple e-commerce websites regularly to combat the never-ending supply of third party vendors selling counterfeit goods.

In contrast, the monitoring for counterfeit goods by e-commerce websites does not have to be a time intensive or expensive undertaking and is better executed from the e-commerce end than from the designer end. Although, designers may know their product better than an e-commerce website ever could, e-commerce websites alone have the position of monitoring what can and cannot be sold on their websites.

As previously mentioned, instead of making every single luxury designer expend the resources necessary to regularly search for and report counterfeit items it may be more effective for the e-commerce websites themselves to address the problem.

Alibaba's founder has made it clear he has no intention to settle, stating he would rather "lose the case, lose the money."<sup>158</sup> The fashion world is waiting with bated breath for the outcome of *Gucci America Inc. et al v. Alibaba Group Holdings, Ltd et al* and the impact it could have on the luxury counterfeit goods industry.

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<sup>158</sup> Nakia P. Thomas, *Gucci America, Inc. et al. v. Alibaba Group Holding Ltd. et al.*, STYLECHILE (Nov. 16, 2016) <http://stylechile.com/gucci-et-al-v-alibaba-et-al/>.