

Leveraging Notice and Takedown to Address Trademark Infringement Online

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INTRODUCTION

For the purposes of this Symposium, I was assigned the task of defending the current legal standard for assessing online service providers' secondary liability for trademark infringement.¹ In other words, I was asked to defend the "status quo." I think it is safe to say that, at an academic conference, most people would not pick that position as their first option—it's like being asked to discuss how to prepare meatloaf at a conference on new trends in the culinary arts.

That said, with respect to the current law in the United States, I don't completely shy away from the position. To be clear, my position is not that the current state of affairs is perfect. There are real challenges facing brand owners, challenges that I—and Microsoft—truly understand. Microsoft is an online service provider, and our online services, such as Bing, Skype, OneDrive, Office 365 and Xbox Live, are both important lines of business and valuable services that hundreds of millions of customers around the world rely on every day. At the same time, Microsoft owns some of the world's most valuable brands and is a victim of substantial online infringement. Our infringement battles run the gamut from pirated and counterfeit software to counterfeit hardware, such as computer peripherals and game consoles. The damage caused by these infringements is estimated to be in the billions of dollars annually. Moreover, Microsoft expects our acquisition of Nokia's phone business to only increase our counterfeiting and IP enforcement challenges.²

As my background demonstrates, I understand the importance of effective enforcement for brands, and the challenges brands face in getting the job done. For that reason, I believe that we should carefully consider all reasonable proposals that would protect against consumer harm and enable trademark owners to more effectively protect their brands from commercial threats. But before turning to legislative solutions that disrupt the current legal regime, I think we must consider two big picture questions: (1) What have been the results of the current regime? Are platforms being rewarded for good behavior and held liable for bad? Are there

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1. This Article reflects the author's spoken remarks for the Symposium's panel on "Secondary Liability Regimes for Trademark Enforcement Online." Although citations are supplied where possible, many of the author's statements are drawn from his professional experience.

2. See Janet I. Tu, *EU OKs Microsoft's Acquisition of Nokia Handset Business*, SEATTLE TIMES (Dec. 4, 2013, 11:48 AM), <http://blogs.seattletimes.com/microsoftpri0/2013/12/04/eu-oks-microsofts-acquisition-of-nokia-handset-business>.

greater opportunities for effective enforcement under current law, or is the system inherently broken? (2) What are the likely results of a change? How would a higher duty of care impact the vitality of the Internet? What is the likely impact on the integrity of the intellectual property system? What will the economic impact be? Reviewing the answers to these questions will help us to evaluate the potential pros and cons of a change to the current legal standard.

I. THE CURRENT REGIME

As developed through federal case law, the law of the land in the United States is that for an online service provider to be held secondarily liable for trademark infringement, the provider must either intentionally induce another to infringe, or it must continue to offer its services to an infringer with specific, contemporary knowledge that the infringement is occurring.³

To bring real-world color to the way this law has been applied, we can look at the facts surrounding two cases: the *Tiffany* case,⁴ and a recently decided case involving the brand Chloé in California.⁵ The *Tiffany* case involved the sale of counterfeit Tiffany goods on eBay's e-commerce platform.⁶ eBay successfully defended itself against Tiffany's trademark infringement suit, in part based on an impressive list of actions that eBay took to partner with Tiffany and other brand owners to support their enforcement efforts.⁷ Among other things, eBay: (1) maintained a robust "notice and takedown" system and typically processed takedowns very quickly; (2) implemented a repeat infringer policy; (3) suspended tens of thousands of sellers every year who were suspected of engaging in infringing conduct and (4) promptly removed all listings that Tiffany challenged as counterfeit via its notice and takedown system.⁸

eBay went further than typical notice and takedown best practices, including establishing dedicated pages on its site where brand owners could post educational materials for consumers, and by implementing a "fraud engine" to proactively search for and remove listings that violated its policies.⁹ These are precisely the kinds of actions that brand owners want to encourage platforms to take, and the court's holding rewarded eBay for taking them.

Contrast that case with a recent California case, *Chloé SAS v. Sawabeh Information Services Co.* Similarly to the *Tiffany* plaintiffs, Chloé and other Richemont-owned luxury good brands sought to hold the owner of TurnKey, an online "swap meet," liable for hosting the offer for sale of counterfeit goods on its

3. See, e.g., *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 106 (2d Cir. 2010).

4. *Id.*

5. *Chloé SAS v. Sawabeh Info. Servs. Co.*, No. CV 11-04147 GAF (MANx), 2013 U.S. Dist. LEXIS 187398 (C.D. Cal. Oct. 8, 2013).

6. *Tiffany*, 600 F.3d at 96.

7. See *id.* at 109.

8. See *id.* at 98–100.

9. See *id.*

website.¹⁰ Chloé worked with an investigator posing as a seller to build a record regarding the platform's actions, including: (1) upon notice by the investigator-seller that goods being posted for sale were counterfeit, the platform affirmatively responded that it was okay for the seller to be doing that, and that indeed many of the goods on its site were "replicas";¹¹ (2) the platform assisted the investigator with keyword optimization to drive traffic for users actively seeking the counterfeit listings¹² and (3) the platform modified ad copy for the listing to change the characterization of goods from "replicas" to "fashion handbags," which the court interpreted as evidence that TurnKey was trying to hide the real nature of the goods being sold.¹³ Compared to eBay's practices, this was a tough record to defend, and—not surprisingly—the *Chloé* case resulted in secondary liability for TurnKey.¹⁴

These cases illustrate that in most cases the courts are getting it right. The current standard has resulted in decisions that reward good behavior and punish bad behavior by platforms. Platforms like eBay have created multiple measures to protect brand owners, including building systems that allow for notice and takedown, despite the absence of a Digital Millennium Copyright Act-like duty to do so. As a brand owner, we have worked closely with eBay and have found them to be good partners and highly effective at addressing our takedown requests.

As an online service provider, Microsoft too has such a system, and we are proud of our response times across our services. Our experience is that most other reputable online service platforms—and even some less-than-reputable ones—have implemented similar notice-and-takedown systems that have proven effective. For platforms that do not responsibly partner with brand owners to receive and address notices of infringement, try to thwart notice-and-takedown efforts, or take an active role in promoting counterfeiting, the current legal regime provides room for liability.

Notwithstanding the fact that the courts seem to be getting it right, the current system nevertheless places a heavy burden on brand owners (like Microsoft) to identify and provide notice to online platforms. Brand owners may want a solution that lessens the difficulties of accomplishing this goal, or that places a greater duty on online service providers to combat infringement even in the absence of notice from brand owners. As a result, one of the ideas gaining some traction among brand owners is to increase the duty of care for online service providers.

This approach would likely have unintended and undesirable results. But before moving to a discussion of those results, I would like to share how Microsoft has worked within the current legal regime as a rights owner to combat online infringement. We have employed what we believe are the right resources and the right strategy, which has reduced online infringement to a controlled level from

10. See *Chloé*, 2013 U.S. Dist. LEXIS 187398, at *1–2.

11. *Id.* at *10.

12. *Id.* at *3.

13. See *id.* at *10.

14. See *id.* at *11.

what was once considered a significant threat to our business.

The first task is to understand the scope of the problem—how to measure it and how to measure the effectiveness of enforcement efforts. Nearly five years ago, Microsoft implemented a new strategy for combatting online infringement by leveraging notice and takedown in a more significant way than it had before, with a particular focus on piracy. This strategy, of course, has required some hard work. In our last fiscal year, Microsoft took action to remove about 19 million infringements from the Internet, issuing an average of 1.5 million takedown notices per month to online service providers. Although that is a high number, Microsoft is not singularly focused on quantity; measuring success based on quantity would be a fool's errand, because we know that at any given time, tens of thousands of websites offer access to pirated Microsoft products. So above all, our strategy focuses on relevancy.

In the piracy space, we assess relevancy in relation to how long it takes an average user to find the infringing content, not in relation to the absolute number of infringements. And through efforts that analyze Internet traffic patterns and user habits, we estimate that it now takes an average user several minutes to find infringing Microsoft content online. Given the behavior of Internet users, they typically give up within those several minutes, which means that we are targeting the most harmful instances of infringement.

Relevancy is also the focus of our brand-specific enforcement efforts, such as infringement in online marketplaces and domain name disputes. In those cases, we utilize tools that assist us in finding and ranking infringements based on the relevancy factors we have identified, so that we are able to take rapid action against the highest priority infringements, like infringements that associate our brands with pornography, or that are the most confusing for consumers.

We also know, of course, that the worst infringers typically infringe more than once. For example, parties that own one infringing domain name often own many. Parties posting infringing apps often will publish more than one, and a party making one instance of pirated software available will frequently also make the software widely available. Zeroing in on those parties' locations gives us insight into "hot zones" of infringement. Our enforcement team has created visualization tools that help us locate these hot zones and focus our enforcement efforts accordingly.

Another best practice is a technology that we have used to target problematic domain name uses. Current domain name registration rules do not provide an effective remedy for inaccurate or masked registrant information. This often renders it impossible to identify the party behind an infringing website, or to run a reverse WHOIS report and identify that party's other domains. However, we have been able to use a tool that identifies the IP address for a bad site and identifies IPs "nearby," which can find obviously related websites. This tool helps us better identify related infringement and prioritize our enforcement efforts, mainly by using the notice and takedown systems of the appropriate platforms. We also follow our own notice procedures for our own platforms as if we are dealing with an external party, which provides us with important data and a feedback loop of

how well our own takedown system is working.

Of course, all of this progress came at some cost, and I know that brand owners worry about the expenses of enforcement. Microsoft certainly does. My response is that brand protection has always required expenditure of resources, and it is unreasonable to expect anything different in the context of the Internet. Just as stores install alarm systems to protect their merchandise, office buildings hire guards to deter vandalism and brand owners fund undercover operations offline, brand owners simply need to invest in online tools to protect their trademarks. With some investment in the right tools, this type of enforcement is cost effective, and it scales well. For example, the cost per infringing file that Microsoft had taken down last year was literally pennies—a very worthwhile investment.

The lesson here is that today, the law and the courts are generally getting it right. Legal precedent that rewards good behavior and punishes bad has encouraged most major platforms to create workable takedown systems. With the implementation of rights owner best practices—which I believe is a woefully underlooked area of opportunity—those owners can leverage these systems and start to contain the infringement threat to their businesses. In doing so, they can protect consumers from confusion, at scale and at reasonable cost, which is the ultimate policy goal of trademark law.

II. THOUGHTS ON ADOPTING A CONSTRUCTIVE NOTICE STANDARD

I will now turn briefly to what I think would result from a change in the law to impose a higher duty of care on service providers—specifically, the proposal to impose a constructive notice standard. Under this proposal, an online service provider would be liable for trademark infringement by a third-party user of the provider's services even if the provider did not know of the infringement, but merely “should have known.”

The constructive notice standard has been discussed in cases in the United States, and has most recently been raised by some stakeholders in light of recent revisions to the trademark law in China.¹⁵ Imposing liability without actual knowledge of infringement would mark a sharp departure from longstanding principles of secondary liability. As the Second Circuit held in *Tiffany*, eBay had no affirmative duty to address such infringement unless it “knew or had reason to know of specific instances of actual infringement” by particular users of its site.¹⁶

The constructive notice liability proposal would be a 180-degree departure from the *Tiffany* standard. Before undertaking such a fundamental change, it is important to take a close look at its potential effects. I will raise four issues that I think should give us substantial pause in considering such a proposal.

15. See, e.g., *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 106–09 (2d Cir. 2010); Joe Simone, *Comments on the PRC Trademark Law Amendments*, CHINA IPR (Jan. 27, 2013), <http://chinaipr.com/2013/01/27/comments-on-the-prc-trademark-law-amendments>.

16. *Tiffany*, 600 F.3d at 107 (emphasis added) (internal quotations omitted).

First, a constructive notice standard assumes that online service providers have the ability to accurately identify trademark infringement on their sites. As *Tiffany* and other cases demonstrate, this assumption is false.¹⁷ It is far more difficult to detect trademark infringement than copyright infringement, which can rely on digital fingerprinting technology (as YouTube does).¹⁸ That technology would be ineffective in the trademark context, because there are no clear reference copies to operate from, and there are many more fair and legitimate uses of brand names than there are of entire songs or movies.

The problem, then, is that online service providers are not and cannot be trademark experts on the millions of products that might be offered or sold via their services, and they do not have the necessary expertise to distinguish between genuine and counterfeit goods or between legal and illegal resellers. Unlike Justice Stewart's observation about pornography,¹⁹ outsiders cannot "know it when they see it" in relation to trademark infringement. The indicia of counterfeiting that are often suggested—such as the prices of counterfeits relative to retail pricing, the volume of sales by a single user, the quantity of an item offered and so on—are not robust or objective tests for identifying infringement. Hence, brand owners are far more capable than service providers at identifying infringement of their own trademarks.

Second, even if these approaches for identifying counterfeits were robust and reliable, they would require service providers to review the activities of thousands or even millions of users every day. Because this infringement identification process cannot be fully automated, it cannot scale, so it would be prohibitively expensive and time consuming for any significant provider, such as eBay, which has millions of transactions daily. At best, these additional costs would be passed on to consumers, but it is more likely that many innovative platforms would no longer have viable business models.

Third, because online providers would often be unable to distinguish between legal and illegal trademark uses, and would naturally want to avoid untold liability, we can confidently predict that a constructive notice standard would lead them to resolve even remotely close questions about fair use in favor of removal. This would imperil many important, legitimate and fair uses of trademarks, including uses that clearly enhance competition and have undeniable consumer benefits. Any legal rule that results in a suppression of speech would understandably raise substantial concerns among "netizens," and it bears noting that the value of free speech has been a major catalyst for the growth of the Internet and even political empowerment.

Fourth, we need to take into account how such changes would affect the broader Internet from an economic perspective. Online service providers—search engines,

17. *See id.*

18. *See How Content ID Works*, YOUTUBE HELP, <https://support.google.com/youtube/answer/2797370?hl=en> (last visited Feb. 23, 2014).

19. *Jacobellis v. Ohio*, 378 U.S. 184, 197 (1964) (Stewart, J., concurring) (remarking, in reference to the determination of what qualifies as pornography, that "I know it when I see it").

e-commerce platforms, app stores and others—have directly and indirectly created millions of jobs and sparked unprecedented innovation and consumer value. The Internet is responsible for an astounding 21% of total GDP growth in mature markets over the last five years, according to a 2011 McKinsey study.²⁰ Any new legal duties imposed on online service providers must not jeopardize these gains and imperil business online, but that is exactly what a constructive notice standard could do. Forcing platforms to choose between uncertain but potentially enormous liability, or policing its users in a way that does not scale and that undermines the utility of the service, is no choice at all. The current state of the law in the U.S. avoids both of these outcomes.

Indeed, rather than disrupt the rules that we enjoy in the U.S.—which, after years of litigation, finally provide a degree of clarity about enforcement strategies to all players—the trademark bar should be focused on how to achieve similar clarity and consistency around intermediary liability abroad. For instance, the European Union operates under the E-Commerce Directive, which creates an EU-wide structure,²¹ but each Member State implements the Directive through its own laws.²² The lack of uniformity creates significant regulatory and compliance costs for online service providers while providing questionable benefit to brand owners.

In short, a constructive notice standard would place an ineffective trademark enforcement system on the backs of consumers, the economy and society. We can do better.

III. CONCLUSION

I would like to conclude by emphasizing, again, that Microsoft recognizes the significant threat that online counterfeits can pose to brands. We are dedicated to improving trademark enforcement to better protect companies—ourselves included—from bad actors online. Indeed, we have demonstrated our interest in engaging in efforts to improve the system by negotiating and embracing voluntary measures that improve the position of brand owners. In the trademark space, for instance, we partnered with several other leading display ad networks to develop a series of best practices to keep ads off of certain counterfeiting sites.²³ We also participate with the nonprofit Center for Safe Internet Pharmacies, along with other online platforms.²⁴ In the copyright space, we worked with stakeholders, including rights owners and platforms, to develop the User Generated Content Principles.²⁵

20. MATTHIEU PÉLISSÉ DU RAUSAS ET AL., MCKINSEY GLOBAL INST., *INTERNET MATTERS: THE NET'S SWEEPING IMPACT ON GROWTH, JOBS, AND PROSPERITY*, at viii (May 2011), http://www.mckinsey.com/insights/high_tech_telecoms_internet/internet_matters.

21. Council Directive 2000/31, 2000 O.J. (L 178) 1 (EC).

22. *See, e.g.*, Joined Cases C-236/08–C-238/08, *Google France SARL v. Louis Vuitton Malletier SA*, 2010 E.C.R. I-02417.

23. *See* WHITE HOUSE, *BEST PRACTICE GUIDELINES FOR AD NETWORKS TO ADDRESS PIRACY AND COUNTERFEITING* (2013), <http://2013ippractices.com>.

24. *Members*, CTR. FOR SAFE INTERNET PHARMACIES, <http://www.safemedsonline.org/who-we-are/members> (last visited Feb. 16, 2014).

25. *See* PRINCIPLES FOR USER GENERATED CONTENT SERVICES (2013), <http://ugcprinciples.com>.

Similarly, to make progress in online trademark enforcement, rather than impose onerous and untested new liabilities, brands and online service providers should work together to develop best practices and technology that help all of us detect and remove infringing content as quickly as possible. As we have found in practice, this focus can result in effective online enforcement under the current law.