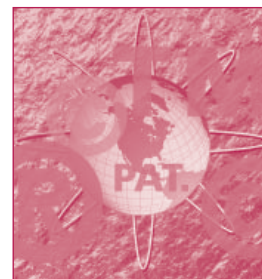


Bright Ideas

A publication of the Intellectual Property Law Section
of the New York State Bar Association



Message from the Chair

Each time I receive the email from our editor, Jonathan Bloom, reminding me of the due date for my Message from the Chair, I wonder whether I have anything new to say to the membership. I am sure that those who know me are chuckling at this, as I am never at a loss for words, but it is always a challenge to decide what to convey to our 2,400 plus members. The tendency is to discuss recent cases and legislative updates, but, while reading the NYSBA bylaws recently in connection with requests for comments about proposed NYSBA rulemaking, I was reminded that we are charged with the obligation to “apply [our] knowledge and experience in the field of the law to promote the public good” and to “enhance the skills and competency of” lawyers. Recent Section initiatives, events, and conversations with



Debra I. Resnick

our members provide ample validation that we are accomplishing these lofty goals.

NYSBA President Mark Alcott started the Empire State Counsel Program to provide pro bono legal services to those unable to afford counsel and to further the NYSBA’s objective for every lawyer to provide fifty hours of pro bono legal services annually. We are pleased to announce that in 2006, the following members of our Section met this challenge: Vincent Doyle III, Aaron Frankel, Jamie McGloin-King, and Christina H. Bost Seaton. To encourage participation by more of our membership, the Section is partnering with the Entertainment, Arts and Sports Law Section to offer pro bono services specifically for artists and arts organizations and liability insurance to those who need it to take advantage of this program. We have also decided to add a Pro Bono Committee to our Executive Committee to work with the NYSBA, law schools, and law firms to further the pro bono and public interest initiatives of our members. Our sincere thanks go to Kelly Slavitt, Secretary of

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the Section, for spearheading the Section's pro bono initiatives.

I am always anxious in the months, days, and hours leading up to our meetings, and our Annual Meeting was no exception. My thoughts run the gamut from wondering whether the room will sell out to whether the attendees will be attentive and participatory, to the weather (our keynote speaker, Todd Q. Dickinson spoke at our 2000 Annual Meeting via videoconference at an out-of-state Kinko's due to a snowstorm). My anxiety was for naught as on January 23, 2007, the Section had what was referred to as "a high water mark in Annual Meeting presentations." The sessions were a perfect blend of law and policy, and the presenters kept the audience discussing ethics, fair use, trade secrets, and patents throughout lunch and the cocktail hour. Credit for the success of this sold-out meeting goes to co-chairs Rory Radding and Robin Silverman, to Linda Castilla, Cathy Teeter, and Pat Stockli at the NYSBA, and to our sponsors, Fross Zelnick Lehrman & Zissu, Microsoft Corporation, Morrison & Foerster, Sills Cummis Epstein & Gross, and Thomson CompuMark.

Combining two initiatives near and dear to me—encouraging the development of our younger practitioners and expanding the growth of our Section's reach globally—on March 6, 2007, the Young Lawyer and International Committees jointly sponsored a program on International Intellectual Property Practice and

Networking. The speakers—Jeffrey M. Butler, Kenyon & Kenyon; Roxanne G. Ellings, Greenberg Traurig LLP; Anouk Dutruit Gamper, AFS International; Barbara Kolsun, Seven for All Mankind; Todd D. Larson, World Intellectual Property Organization; Allan S. Pilson, Ladas & Parry; and Marian Underweiser, IBM, Inc.—were a fabulous mix of attorneys from private practice, government, non-profit entities, and the corporate world. The panelists spoke before a group of approximately one hundred attendees ranging from 1Ls to seasoned practitioners about careers in international intellectual property law. The interactive panel discussed how each began practicing in the international arena and unique issues relating to the practice of intellectual property law internationally. The speakers generously provided mentoring advice and responded to questions during the reception following the program, which was graciously sponsored by Cardozo Law School and Greenberg Traurig. Speaking with many law students during the reception about careers ranging from law firms to public interest, I left the event knowing that the future of intellectual property law is in good hands.

I hope to see you all at our upcoming Roundtables, Committee Meetings, and our inaugural Summer Meeting in the Finger Lakes Region. Should you have any questions or comments, please contact me at debra.resnick@fticonsulting.com.

Debra I. Resnick

Thank You

The Intellectual Property Law Section extends its gratitude to the following for their significant sponsorship over the past year:

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The Implications of Recent New York Transfer Pricing Decisions for IP Lawyers

By Rebel Curd, Susan Fickling, and Molly Minnear

I. Introduction

Eye-catching headlines in the *Wall Street Journal* seem to crop up with increasing regularity. In September 2006, GlaxoSmithKline agreed to pay \$3.4 billion to the IRS to settle a dispute over the transfer prices paid by the United States to the United Kingdom.¹ In November 2006, Merck disclosed that the Canada Revenue Agency had issued the company a notice for \$1.8 billion in back taxes and interest related to intercompany pricing matters.² Those who do not deal directly with international tax planning may read these articles with a touch of schadenfreude, relieved that the intricacies of transfer pricing are not their worry. But while transfer pricing generally is thought of in the context of international tax, intercompany transactions can result in significant state controversies as well. Moreover, the intercompany licensing of intellectual property, particularly legally protected assets such as patents and trademarks, seems to attract a higher degree of scrutiny from state tax authorities and federal tax authorities than other intercompany pricing arrangements.

This article reviews the New York State Division of Tax Appeals January 2006 decision for Hallmark Marketing Corporation along with past state decisions involving Lowe's Home Centers, Inc. and The Sherwin-Williams Company. In each case, economic analyses demonstrating compliance with an arm's-length standard were deciding factors in disputes concerning the taxation of profits generated by intellectual property and other intangible assets. Thus, an intercompany license of intellectual property should be structured in conjunction with such an analysis in order to properly assess the risk of future controversy. Related-party transactions, even at the state level, are governed by the federal transfer-pricing regulations.³ These regulations are continually evolving, with significant changes on deck for intercompany transactions involving intangible assets. Several key changes to the regulations concerning intellectual property and services are briefly summarized in this article.

II. Recent Case Law

The State of New York has been at the forefront of the state disputes and initiated the challenge in all three of the cases discussed in this article. In each of these cases, the New York State Department of Taxation and Finance argued for "forced combination." That is, a corporation paying New York tax may be required to file a combined report with other corporations that the taxpayer controls if the following three conditions are met:

1. the taxpayer owns or controls substantially all of the stock of another corporation;

2. the group of corporations is engaged in a unitary business; and
3. a distortion of income would result if the corporations reported separately.⁴

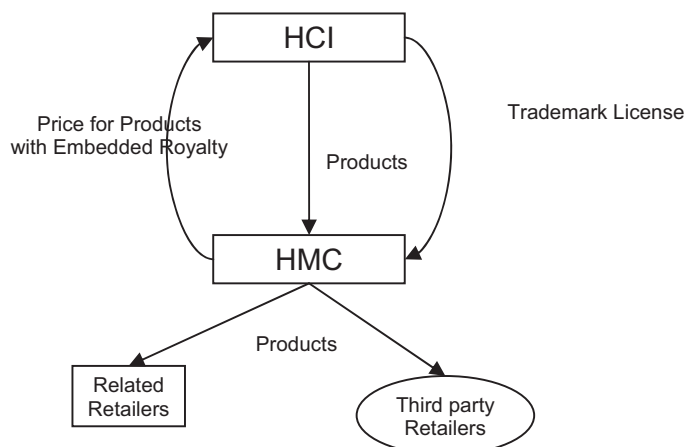
In each case, the dispute focused primarily on the third condition: whether a company filing a corporate tax return in New York reported income that was distorted by invalid, or non-arm's-length, intercompany pricing. In each case, the economic analysis conducted to demonstrate compliance with arm's-length behavior was the key determinant.

A. The Hallmark Case⁵

The Hallmark case centered on the Division of Taxation's requirement that Hallmark Marketing Corporation (HMC), a Delaware corporation, file on a combined basis with its parent, Hallmark Cards Inc. (HCI).⁶ At the heart of the dispute was whether the profit of HMC was distorted by substantial intercompany transactions.⁷ If the Division of Taxation could prove that HMC artificially understated its profit, then it would be able to force the combination of HMC's profit with HCI's profit. Thus, there was an assumption that the transfer prices paid by HMC to HCI for the bundled tangible and intangible property were too high.

HCI was engaged in the design, manufacture, and sale of greeting cards and other social expression products.⁸ HMC, acting as the exclusive U.S. distributor, purchased these products from HCI and sold them to third-party retailers.⁹ HCI granted HMC a non-exclusive royalty-free license to use various Hallmark-related trademarks within the United States.¹⁰ Figure 1 below depicts the relationship between the affiliates and third parties.

**Figure 1:
Hallmark Intercompany Transaction Flow Chart**



The company structured the intercompany license such that HMC performed routine functions and earned a routine return while HCI was responsible for manufacturing the tangible property sold to HMC and retained all responsibility for developing and defending the intangible property. Therefore, the company argued that HCI should retain any above-normal, or “residual,” profit.¹¹

The company documented this policy and the results of this policy using the Comparable Profits Method (CPM) as codified in 26 C.F.R. § 1.482.¹² The CPM method compares the operating profits earned by one of the parties to the transaction (the “tested party,” in this case HMC) to the operating profits earned by independent companies undertaking similar functions and risks. This benchmark provides a range of routine returns associated with the routine function. This method is thought to produce reliable results when significant economic intangibles are not held by the tested party. The state contended that HMC possessed valuable economic intangibles primarily derived from the presence of Hallmark retail stores that enhanced Hallmark’s brand equity and therefore could not be reliably analyzed under the CPM.¹³ That is, the operating profits of the selected comparable distribution companies were an inappropriate benchmark by which to measure the adequacy of HMC’s profits.¹⁴

Hallmark prevailed in demonstrating that its intercompany pricing with HCI was consistent with the arm’s-length standard.¹⁵ The court agreed that naming HMC as a licensee in an intercompany license agreement did not result in the transfer of any intangibles and that no significant investments of risk were made by HMC.¹⁶ Judge Pinto, in finding in favor of Hallmark, emphasized the taxpayer’s “reasonable and flexible approach” and recognized the difficulty taxpayers face when trying to meet the arm’s-length standard.¹⁷ His conclusion highlighted that “the goal is not to find a perfect or identical comparable, but one which is sufficiently similar.”¹⁸ The Division of Taxation is currently appealing the decision.

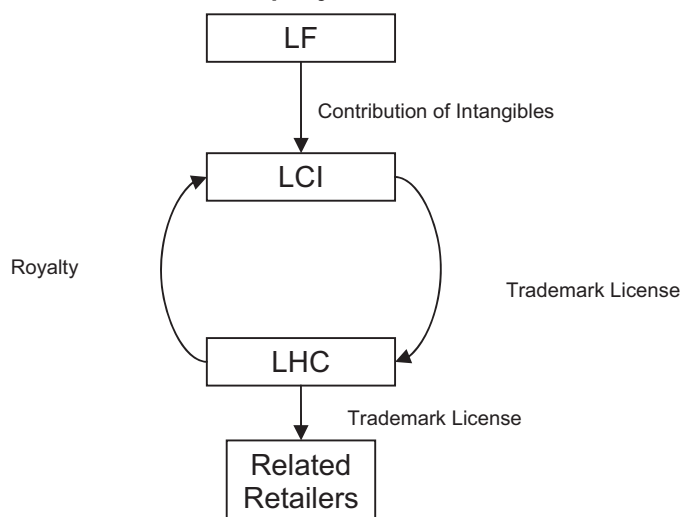
B. The Lowe’s Case¹⁹

Lowe’s Home Centers, Inc. (LHC), a subsidiary of Lowe’s Companies, Inc. (LCI), is an operator of home improvement centers throughout the United States and serves as the centralized corporate management arm of the Lowe’s group.²⁰ Both LHC and LCI are based in North Carolina.²¹ LF Corporation (LF), a Delaware subsidiary of LCI, was created for purposes that included the ownership of trade names and trademarks previously owned by LCI.²² Prior to this transfer, LCI had permitted the use of its trademarks by various subsidiaries.²³ There were no written licensing agreements and no provisions for royalties.²⁴ With the new structure, LF granted to LCI and LHC as licensees a nonexclusive, nontransferable personal right and license to the use of the trade name and trademarks.²⁵ A “reasonable and fair” royalty was determined to be 3.4 percent of gross sales.²⁶ This rate was subsequently reduced to 2.5 percent.²⁷ Later,

it was amended such that LCI’s license was non-royalty bearing.²⁸

Prior to the formation of LF, LCI owned all trademarks and trade names.²⁹ Prior to the formation of LHC in 1989, there were no written licensing agreements, no provision for the payment of royalties, and no formal monitoring of the marks.³⁰ While agreements were put in place upon formation, and royalties were paid, it was not until 1997 that Lowe’s used section 1.482 methods to support the intercompany pricing.³¹ The various studies that were performed by independent firms between 1997 and 2002 supported the royalty payment using the Comparable Uncontrolled Transaction (CUT) method as well as the CPM.³² Figure 2 below depicts the affiliates and the transaction flows at issue.

**Figure 2:
Lowe’s Intercompany Transaction Flow Chart**



The state argued that LF lacked economic substance and business purpose and that the royalty rates paid to LF were not consistent with the arm’s-length standard.³³ In September 2004, after considering the testimony of a number of economists, the court found that the company had not overcome the presumption of distortion of income, *i.e.*, the royalties were not arm’s-length, and that the license had no business purpose.³⁴ In addition, LHC’s relationship to related retail operations gave rise to the argument that such retail operations increased the value of the Lowe’s marketing intangibles.³⁵ The court concluded that under the Residual Profit Split Method (RPSM), LF should have been compensating LHC for services that enhanced the value of the trade names and trademarks.³⁶ The RPSM is applied in cases where both parties are contributing to the development and sustaining activities related to the intellectual property at hand.

C. The Sherwin-Williams Case³⁷

The Sherwin-Williams Company is an Ohio-based company engaged in the production and sale of trademarked paints and other surface coatings.³⁸ Sherwin-Williams Company does business in the State of New York

and files a corporate franchise tax return in New York. The trademarks of the company were held and managed by two related Delaware corporations and licensed back to the company in exchange for a royalty based on a percentage of net trade sales.³⁹ The company deducted these royalty payments, thus reducing its taxable income. The Division of Taxation asserted that the company should file on a combined basis with the Delaware corporations, effectively disallowing the royalty deductions.⁴⁰

An Administrative Law Judge (ALJ) found in favor of the company in June 2001.⁴¹ Two years later, the Tax Appeals Tribunal reversed the ALJ's determination on the ground that the assignment and license-back transactions lacked economic substance and had no business purpose other than tax avoidance.⁴² Further, the Tax Appeals Tribunal found that the royalty payments to the Delaware corporations were not arm's length.⁴³ The company initiated a CPLR article 78 proceeding.

In its October 28, 2004 opinion (corrected February 2, 2005), the New York Court of Appeals upheld the determination of the Tax Appeals Tribunal.⁴⁴ The opinion did not address the underlying issues of whether the Delaware companies lacked economic substance apart from tax avoidance or whether the royalty rates were arm's length. Instead, it looked at whether the Tax Appeals Tribunal had substantial evidence on these points in reaching its determination.⁴⁵ The Court found that the evidence, which included testimony by the economist who prepared the economic analysis of the royalty rates used by the company and testimony by a professor of economics on behalf of the Division that the royalty rates were not arm's length, was substantial.⁴⁶ Thus, the Court found it had no grounds to overturn the decision.⁴⁷

While structures with Delaware holding companies have become less common with the passage of anti-Passive Investment Company legislation, this case illustrates the centrality of the economic analysis, which followed the federal transfer-pricing regulations.

III. Changes in Federal Transfer Pricing Regulations

It is clear from these decisions that interstate intercompany agreements, particularly those concerning intellectual property, must conform to the federal transfer pricing regulations and that the strength of the documentation demonstrating compliance with these regulations is a factor upon challenge, even by state tax authorities. The federal transfer-pricing regulations are constantly evolving, and, perhaps not surprisingly, the sections on intercompany transactions involving intellectual property have seen the most change in recent years.

A. Cost-Sharing Agreements

While the bulk of the federal transfer-pricing regulations were finalized in 1996, the Treasury and the Internal

Revenue Service (IRS) issued proposed regulations to amend IRC §1.482-7, which governs cost-sharing arrangements among related parties, in August 2005. Cost sharing, in the context of transfer pricing, refers to the joint funding of expenditures, such as research and development, for the purpose of achieving joint economic ownership of the resulting intellectual property. The parties to a cost-sharing arrangement agree to share development costs that may result in intellectual property, such as patents, in exchange for a proportional share of the profits from the future use of this property.

Often one of the parties to the cost-sharing arrangement contributes pre-existing intangible assets to the arrangement. The other party (or parties) must compensate the contributing party with an arm's-length payment for the use of the asset. This intercompany payment is known as the "buy-in payment." Valuing the contributed intangibles has been the subject of significant controversy. The proposed cost-sharing regulations introduce the concept of the investor model as the fundamental principle for determining the buy-in payment. Stated simply, the investor model looks to the realistically available alternatives for the contributed intangible to determine value from the perspective of the contributing party. If, for example, the buy-in payment is lower than what the contributing party would earn if it developed and exploited the property on its own, the investor model questions whether, at arm's length, this party would enter into the deal. Taxpayers are not currently bound by these proposed regulations, but they are indicative of the position the IRS, and possibly state tax authorities, are likely to take in these matters.

B. Intercompany Services

More recently, in August 2006, the U.S. Treasury and the Internal Revenue Service tendered temporary regulations on the pricing of controlled service transactions and intangible property ownership. The temporary regulations follow a set of proposed regulations issued in 2003, the first major overhaul of intercompany service regulations since 1968. Importantly, the 2006 temporary regulations follow the approach of IRC § 1.482-4 in that for legally protected intangible property, the legal owner is treated as the owner. If the legal owner licenses the rights to another party, the licensee is considered the owner of the licensed rights, and the licensor is the owner of the retained rights. For intellectual property that is not legally protected, ownership is determined by the facts and circumstances regarding the development of the intellectual property.

The implications of the temporary intercompany service regulations for ownership of intangibles are a major focus of these regulations. The primacy of the issue is such that it is addressed in the preamble. The preamble underscores the need for taxpayers to carefully set forth the functions and risks of the related parties in intercompany agreements. The economic substance of the transaction must conform to the legal document, however, if the

transaction is to be respected. Changes in the intercompany services regulations are intended to “mitigate the extent to which the form or characterization of a transfer of intangibles as the rendering of services can lead to inappropriate results.” Taxpayers may elect to use the temporary regulations for tax year 2006. The new services regulations will go into effect for tax years beginning after December 31, 2007, with some limited exceptions.

IV. Conclusion

Particular care is needed in structuring intercompany transactions involving intellectual property, even when the related parties are both U.S. legal entities. The transaction must be consistent with the arm’s-length principle and, as the state tax cases discussed herein demonstrate, documentation of a rigorous economic analysis to this effect is central to the success of sustaining the structure upon challenge.

In each case discussed above, economic experts on both sides relied on the methods put forth in the federal regulations. These cases follow the same fact patterns and analysis required of the large international cases, and they turned on evaluation of the initial studies performed to support the intercompany pricing. According to the testimony, Hallmark’s documentation was significantly more substantial than Lowe’s.

The international transfer pricing world is a dynamic environment right now. Countries are introducing regulations for the first time, while more established transfer pricing regimes, like that of the United States, are taking a fresh look at the laws and how they have been used over the last decade. Tax controversy involves higher stakes, and audit scrutiny is prevalent. Even the states are more active in scrutinizing intra- and inter-state activities. Therefore, companies that have intercompany pricing, even at the state level, still need to pay attention to the federal laws and document appropriately.

Endnotes

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2. *Merck Settles Tax Case for \$2.3 Billion*, FDANEWS DRUG DAILY BULLETIN, Feb. 23, 2007, available at LEXIS, News & Business Library.
3. 26 C.F.R. § 1.482 (2007).
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5. *In re Hallmark Marketing Corporation*, DTA No. 819956 (N.Y.S. Div. of Tax Appeals Jan. 26, 2006).
6. *Id.* at 1.
7. *Id.* at 24.
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45. *Id.* at 3.
46. *Id.* at 4.
47. *Id.*

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eBay's Secondary Trademark Liability Problem and Its VeRO Program

By Scott Pilutik

I. Introduction

Although the Internet seems custom-built for copyright infringement, trademark infringement also abounds, and nowhere is this more apparent than on eBay,¹ the Internet's leading online auction site, where over one million items, many of them brand-name goods, are traded each day.² As an online facilitator of services between parties exchanging brand-name goods, many of which are not authentic, eBay may be liable as a contributor (or even vicarious) infringer.³

But while secondary *copyright* infringers can look to section 512 of the Digital Millennium Copyright Act ("DMCA")⁴ as a shield against liability, alleged secondary *trademark* infringers, like eBay, have no such sanctuary.⁵ This unfortunate void has forced eBay to fashion a self-help remedy called the Verified Rights Owner Program ("VeRO"),⁶ which essentially deputizes the rights owners themselves to police infringing listings on eBay. But just as the fox has little incentive to act prudently while guarding the henhouse, rights owners have routinely overreached when armed with a quasi-official infringement enforcement badge.⁷

eBay similarly lacks any incentive to protect its sellers. As a result of its virtual monopoly on the online auction market,⁸ sellers have few alternatives to eBay's sizeable market and are forced to sue the complaining rights holder if they wish to reinstate their listings.⁹ eBay punishes sellers who have had listings removed under the VeRO Program, and it has scant oversight in place to rectify wrongful listing removals at the hands of overzealous rights owners.¹⁰

This inequity could be cured legally in one of two ways: eBay could modify its VeRO Program to account for the due process it owes its selling community¹¹ or Congress could enact a safe-harbor provision for online service providers under the Lanham Act similar to section 512 of the DMCA.¹²

Part II of this article examines the circumstances that led eBay to establish its VeRO Program—rampant online counterfeiting and the uncertain state of online secondary trademark liability. Part III focuses on eBay and discusses its VeRO program, demonstrating how it works, with additional insight provided by eBay's VeRO members through a survey administered by the author. Part III also examines the adverse collateral effects VeRO has had on eBay's selling community. Finally, Part IV concludes that the VeRO program insufficiently addresses the problem of counterfeits on eBay's auction site. eBay's solution defers too much to rights owners, whose judgment on ques-

tions of infringement is colored by self-interested business goals. The article endorses the view that the Trademark Act should be amended to supply service providers with a DMCA-like safe-harbor provision.¹³

II. eBay's Problem

A. eBay and the Problem of Counterfeiting

While it is easy to see why and how the Internet poses problems for *copyright* owners, the same is not so intuitively obvious for *trademark* owners—unless your goods are commonly sold in the aftermarket, the most popular aftermarket venue being the dominant online auction site eBay.¹⁴ The heavily traded and public eBay Inc. claimed \$1.2b in revenues for 2005, primarily through its eBay Marketplaces business (its online auction service).¹⁵ eBay Marketplaces (hereinafter "eBay," unless otherwise noted) generates revenues by charging a fee to sellers first when they list an item¹⁶ and again when they sell the item.¹⁷ eBay's community is vast: over 180 million have registered an account, and seventy-one million actively buy and sell.¹⁸ eBay's PayPal service, which accounts for one-third of eBay Inc.'s revenue, is a clearing house for online transactions¹⁹ which enables eBay to profit from the buyer side of the transaction (although it does not guarantee it: a seller controls the method of payment and may or may not include PayPal as an option, although most do). Both buyers and sellers are enticed by eBay to utilize PayPal to complete their transactions.

Although eBay is not the only online auction game in town, it is the most successful.²⁰ eBay's nearest competitors, uBid, Yahoo, and Amazon, do not operate on nearly the same scale.²¹ uBid is considered eBay's largest competitor, but while sources in 2002 put uBid's share of the online auction market at fourteen percent,²² that figure has since greatly dissipated.²³ While eBay's competitors face the identical secondary liability problem, eBay's substantially larger market share makes it the primary target of rights owners. And since eBay's greatest offering to potential buyers and sellers is its unmatched user base, eBay's de facto monopoly on the online auction market is likely only to increase due to the lack of incentives for eBay's buyers and sellers to move out from underneath the eBay tent.²⁴

What distinguishes eBay from its competitors is its vast, self-policing community model.²⁵ By enabling mechanisms through which both buyers and sellers "rate" the quality of completed (or uncompleted) transactions for other users to see, best practices are encouraged, and uncooperative or fraudulent sellers can be avoided. Buyers can make informed choices grounded in the collective

intelligence of the eBay community, choices that factor in considerations beyond the item for sale.²⁶ Other online auction services do offer variants of the community self-policing model,²⁷ but eBay's larger audience makes the ratings generated there more valuable to sellers.²⁸ A seller's status is reflected literally in the form of a "feedback" score.²⁹

eBay sellers are limited in many respects as to what they may sell.³⁰ Although eBay does not actively police for violations, it does implement mechanisms by which certain text within listings will trigger either review or automatic delisting.³¹ While many of the 84 prohibited categories are obvious (illegal drugs, guns, human parts and remains, etc.), most reflect intellectual property concerns in some way (downloadable media, counterfeit items, OEM software, authenticity disclaimers, anti-circumvention devices, etc.).³²

Additional intellectual property-related prohibitions include restrictions on keyword spamming—using terms (usually brand names) to describe a listing that misrepresents the nature of the item.³³ eBay requires the text a seller uses to describe an item to be "directly relevant to the item being sold,"³⁴ which essentially amounts to a prohibition on "passing off." Violations of eBay's lengthy terms of service can result in a variety of eBay-administered punishments: listing cancellation, limits on account privileges, account suspension, forfeit of eBay fees on cancelled listings,³⁵ and loss of "PowerSeller" status.³⁶

Despite these code-based and community policing mechanisms, sales of counterfeit goods are common on eBay,³⁷ which has led eBay to broaden its "self-policing community" to partner, through its VeRO program, with copyright and trademark holders whose goods are sold on eBay.³⁸

B. Secondary Liability Online

Despite exponential growth over the last ten years, the Internet is still in its infancy, and adverse rulings or laws can stunt both technological and business innovation.³⁹ However, some business models unique to the Internet have wreaked havoc on the settled expectations of intellectual property rights owners, which has forced Congress and the courts to balance considerations that protect the Internet's inherent value against legitimate complaints by rights owners whose intellectual property rights are being infringed.⁴⁰ Attempts to strike that balance have been somewhat successful: section 230 of the Communications Decency Act ("CDA")⁴¹ protects Internet Service Providers ("ISPs") from torts such as defamation even if committed by an anonymous user.⁴² Similarly, section 512 of the DMCA⁴³ protects ISPs from allegations of copyright infringement, provided they follow statutorily prescribed steps in removing infringements upon notice,⁴⁴ and courts have effectively immunized domain name registrars from contributory trademark infringement.⁴⁵ But no comparable safe har-

bor exists in an online trademark liability context, and its omission becomes glaring when considering the plight of eBay and its sellers—a community whose active members amount to one quarter of the population of the United States.⁴⁶ Before discussing the law on secondary trademark infringement, this section will recap the same law on secondary copyright infringement, as its evolution is illustrative of the path trademark law might hope to take. This section also covers two eBay-specific cases, as both are helpful in placing eBay's problem in context.

1. Contributory Copyright Infringement and the DMCA

Trademark and copyright law differ (but also share some similarities) in terms of how each body of law treats secondary liability. This is partly due to their differing underlying rationales: copyright law is constitutional in origin and implicitly grounded in an economic rationale, and individual monopolies are granted as incentives to create so as to enrich the public,⁴⁷ whereas trademark protection derives from Congress' power to regulate interstate commerce and is a subset of unfair competition law.⁴⁸ Copyright, by its nature, encompasses a broader range of subject matter than trademark law, as copyright attaches at the moment of creation, whereas trademark rights only attach later, when a mark is used in the marketplace.⁴⁹ Although their scopes often overlap, trademark law receives far less attention from lawmakers than does copyright law.

While the case law concerning online contributory trademark infringement continues to look outside the Internet for guidance (e.g., to cases involving outdoor flea markets⁵⁰), the awkward analogies to landlord-tenant relationships present in early online contributory copyright infringement cases have mostly disappeared.⁵¹ Perhaps the most important of those cases was *Religious Technology Center v. Netcom* (hereinafter "*RTC*").⁵² In *RTC*, an ISP, Netcom, provided Internet access to an electronic bulletin board operator, which in turn provided a venue for a user who posted allegedly infringing material belonging to the plaintiffs.⁵³ After rejecting the proposition that Netcom was a direct infringer,⁵⁴ the court decided genuine issues of fact remained as to whether Netcom had knowledge of the alleged infringement and whether it substantially participated in the infringement—an issue that hinged on how much control it exerted over its online service.⁵⁵ The court also found that a question of fact existed as to whether Netcom satisfied one of the elements of a vicarious infringement theory (whether it had the right and ability to control the infringing activity), but that the second required element was absent (direct financial benefit from the infringement).⁵⁶

Recognizing that ISPs needed protection, while still cognizant of the threat the Internet posed to industries like music and publishing that feared (and still fear) unchecked digital technology capable of unlimited replication of perfect copies,⁵⁷ Congress fashioned the DMCA.

The DMCA responded to some of those fears by placing strict limits on the circumvention of technological copyright control restrictions,⁵⁸ a controversial area never before addressed by copyright law.⁵⁹ For purposes of this article, the DMCA is most noteworthy for its safe-harbor mechanism, which permits an ISP to immunize itself from liability in disputes between alleged copyright infringers and copyright owners.⁶⁰ The immunization is accomplished through a mechanism that requires ISPs, upon notice by a complaining copyright holder, to expeditiously remove any material identified as infringing by the copyright holder.⁶¹ The ISP is then required to notify the customer that its page was removed as a result of the DMCA takedown request. The accused infringer then has opportunity to “counternotify” the ISP if it believes the takedown was the result of a mistake or misidentification.⁶² At that point, the ISP is required to notify the original claimant that unless it receives notice of pending legal action within 14 days, the material will be reinstated.⁶³

This process is designed to permit the ISP to isolate itself from the substantive dispute, so the copyright holder and alleged infringer can pursue it privately. If the ISP chooses to ignore the DMCA safe harbor, the threshold for liability is the same as found in *RTC*: knowledge plus material contribution for contributory infringement and ability to control plus direct financial benefit for vicarious infringement.⁶⁴ But because most ISPs recognize that the DMCA’s safe-harbor provisions are necessary for their continued existence and carefully follow the proscribed procedural steps, questions of knowledge and control have effectively been mooted, at least for compliant ISPs. When an ISP falls outside of its traditional role as a passive service provider as contemplated by the DMCA, the recently revived doctrine of inducement can give rise to liability.⁶⁵

2. Trademark

Trademark law is grounded in a different rationale than copyright law,⁶⁶ but despite the Lanham Act’s silence on the subject of secondary trademark liability, common law has adopted a lexicon similar to that of secondary copyright infringement. In *Inwood Labs, Inc. v. Ives Labs, Inc.*,⁶⁷ the Supreme Court examined the relationship between a generic drug manufacturer and the pharmacists to which it sold. At issue was the degree of participation by the manufacturer necessary to establish liability for the infringing acts of the pharmacists, who mislabeled generic drugs as the plaintiff’s brand name drugs.⁶⁸ The manufacturers were found not liable, as they did not intentionally induce the infringement, nor were they complicit after gaining knowledge of the pharmacist’s infringing acts.⁶⁹ Under *Inwood*, liability for contributory trademark infringement will be found where the third party either induced the infringement or had knowledge of the infringement and still acted to further the infringement.

The Seventh Circuit, in *Hard Rock Cafe v. Concession Svcs.*,⁷⁰ extended *Inwood*’s “knowledge” prong to an alleged “willfully blind” operator of a flea market where counterfeit sales had been rampant. Where a person suspects wrongdoing and yet deliberately fails to investigate, the court stated, actual knowledge may be imputed,⁷¹ although in *Hard Rock Cafe* the standard was not met. Four years later, in *Fonovisa, Inc. v. Cherry Auction, Inc.*,⁷² a flea market operator, under facts similar to those found in *Hard Rock Cafe*, was found liable for contributory trademark infringement by the Ninth Circuit under the same “willful blindness” rationale articulated in *Hard Rock Cafe*.⁷³ The court in *Fonovisa* also explicitly extended the manufacturer-distributor relationship in *Inwood*—where the contributory infringer supplied a *product*—to the seller-marketplace supplier relationship common to flea markets—where the contributory infringer supplied a *service*.

The principles of secondary trademark infringement developed in *Inwood*, *Fonovisa*, and *Hard-Rock Cafe* do not easily transfer to an online context because most online service providers rarely, if ever, have actual knowledge of infringements that take place on their servers (until they are notified).⁷⁴ eBay would characterize the problem as one of scale: how could it possibly have knowledge of individual infringements when 2,000 items are listed on its site each second?⁷⁵ The knowledge/willful blindness standard must be measured against administrative concerns or the auction-site business model—for some users, the Internet’s only practical function—could not exist.

The Central District of California recognized these concerns in *Lockheed Martin Corp. v. Network Solutions, Inc.*,⁷⁶ where it ruled that domain name registrars are not subject to secondary liability for infringing domain names, as the service performed by Network Solutions was technical in nature and “remote” from the types of “domain uses capable of infringement.”⁷⁷ Knowledge, the court implied, must be viewed in relation to the functional role the service provider played in the infringement,⁷⁸ and the court was wary of imposing a duty to know of potential infringements that merely came within the purview of the service provider.⁷⁹

In *Gucci v. Hall & Assocs.*,⁸⁰ however, the Southern District of New York declined to apply *Lockheed* where the alleged contributory trademark infringer was an ISP, distinguishing an ISP’s ability to store infringing material from the highly technical and automated nature of domain name registries.⁸¹ The ISP in *Gucci* ignored two notices from the plaintiff relating the existence of trademark infringements on pages published by the ISP’s customer.⁸² The court easily found that the ISP had actual knowledge and thus was contributorily liable under the second *Inwood* prong.⁸³ The ISP protested that such a holding would amount to “‘notice-based liability’ for trademark infringement, thereby creating a ‘trademark plaintiff’s veto.’”⁸⁴ The court responded by citing *Lockheed*’s dicta

that a “trademark owner’s demand letter is insufficient to resolve [the] inherent uncertainty [of infringement].” But *Lockheed’s* actual holding was essentially that a domain name registrar, by the nature of its function, can almost never contribute to infringement.⁸⁵ The *Gucci* court’s point (and *Lockheed’s* point in dicta) was simply that a plaintiff’s demand does not settle the issue of whether there is actual infringement, which should go without saying. This reality forces an ISP to treat notices of trademark infringement precisely how the defendant ISP in *Gucci* characterized them: as a “trademark plaintiff’s veto.” As demonstrated by its VeRO program, eBay has gone forward on the presumption that notice-based liability exists in the context of online contributory trademark infringement. Based on *Gucci*, it would be difficult to argue it is wrong to do so.

3. *Hendrickson*

Despite the fact that it concerned only copyright issues,⁸⁶ *Hendrickson v. eBay*⁸⁷ is important for establishing that eBay, as a service provider, is entitled to the protection of the DMCA.⁸⁸ Hendrickson, the owner of the copyright to the documentary movie *Manson*, sued eBay for secondary copyright infringement after his attempts to expunge pirated copies of his movie from the site failed.⁸⁹ eBay argued that as a service provider it was protected by the DMCA. The court sided with eBay, which it found was protected by the DMCA, and held that Hendrickson’s failure to strictly comply with the DMCA’s procedural formalities was fatal to his claim.⁹⁰

The court analyzed each of the three prongs necessary for an ISP to qualify for DMCA safe-harbor protection.⁹¹ The actual knowledge prong was satisfied, as eBay did not have actual knowledge of the infringement prior to the notification.⁹² The third prong was effectively satisfied by Hendrickson’s failure to provide adequate notice—to “substantially comply” with section 512(c)(3)(A)(iii).⁹³ The court rejected Hendrickson’s argument that it was “not his job” to identify allegedly infringing listings—merely informing eBay of the existence of infringing activity is not enough under the DMCA; more specificity is required.⁹⁴

The court’s analysis of the second prong—the test for vicarious liability—is the most interesting aspect of *Hendrickson*. The court reasoned that because eBay does not have the “right and ability to control” infringing activity, there was no need to address whether it received a “direct financial benefit” as a result of the infringement.⁹⁵ The court declared that just because eBay has the *ability* to remove or block access to infringing material stored on its Web site (and even acknowledged that it does), does not mean that eBay has the “right and ability to control” the infringing activity as per the DMCA.⁹⁶ To rule otherwise, the court continued, would “defeat the purpose of the DMCA, and render it internally inconsistent.”⁹⁷ The

court then declined to analyze whether eBay received a direct financial benefit.

But if an online auction site does not have the “right and ability to control” infringing content, then what type of online service provider does? The right and ability to control is inherent in every service provider to some degree. The question should be *to what degree*. Contrary to the court’s assertion, reading the prong as I suggest here would not defeat the purpose of the DMCA, because vicarious liability includes a second factor which will *not* be present in every instance: whether the online service provider received a “direct financial benefit” from the infringement.⁹⁸ eBay’s fee structure does not discriminate between genuine and infringing items,⁹⁹ so it is plausible to argue that eBay receives a direct financial benefit from infringing sales.¹⁰⁰

While the court took for granted that eBay was a “service provider” under the DMCA,¹⁰¹ such a label carries almost no weight in trademark law. Analysis of the *type* of service provided dominated the courts’ attention in both *Lockheed* and *Gucci*, but is unnecessary in a pure copyright context, because the DMCA precludes the need to make function-based distinctions for online service providers. While *Hendrickson* was an important victory for eBay, the victory remains hollow so long as eBay (and, by extension, all e-commerce sites that deal in used goods) remains unable to immunize itself from contributory trademark infringement. *Tiffany v. eBay* may have a significant say in whether this will occur.

4. *Tiffany*

Tiffany sued eBay in 2004,¹⁰² claiming that eBay facilitated the sale of a “substantial amount” of counterfeit Tiffany merchandise and thus was liable for contributory trademark infringement.¹⁰³ Over the course of 2004, Tiffany purchased 186 items claimed to be “genuine” Tiffany jewelry through eBay and concluded that only five percent of these items were genuine.¹⁰⁴ Tiffany implicitly argues that the job of policing eBay’s auctions for counterfeits should be eBay’s and not imposed externally through the VeRO Program, which Tiffany derides as having been instituted for eBay’s “own convenience and profit.”¹⁰⁵ eBay counters that Tiffany is “unwilling or unable to take any responsibility for their own IP rights.”¹⁰⁶

Analyzing *Tiffany* through the *Lockheed/Gucci* framework,¹⁰⁷ the issue boils down to whether knowledge of these infringements can be imputed to eBay (as in *Gucci*) in full consideration of the nature of eBay’s role as a service provider (as in *Lockheed*).¹⁰⁸ While Tiffany did notify eBay of trademark infringements occurring on its site, the notice merely requested that eBay take care of the “immense problem” of counterfeit Tiffany merchandise.¹⁰⁹ Tiffany’s complaint fails to allege that eBay refused to remove any specific listing upon request,¹¹⁰ unlike the

notice Gucci received, which identified particular pages it claimed contained infringements.¹¹¹ If this were a copyright case, Tiffany would have committed the same error that proved fatal to the plaintiff in *Hendrickson*: failure to identify specific infringements.¹¹² eBay provides a mechanism (VeRO) by which infringements can be identified, but Tiffany argues that VeRO is insufficient and an unnecessary and costly imposition on the rights owner. It believes, as did the plaintiff in *Hendrickson*, that the onus is on eBay to police for infringements.

eBay will attempt to frame the issue in terms of feasibility—it will argue that like the domain name registrar in *Lockheed*, the task of discerning whether one particular item amongst literally millions of infringes is administratively beyond its scope. eBay's business model is predicated on providing the necessary technological architecture through which users can buy and sell, and a court-imposed duty to review these listings for intellectual property violations prior to posting could effectively kill the online auction business model.¹¹³ eBay also will argue that the rights holder should absorb the administrative burden of policing infringement, since it is better placed to make the close-call decisions that arise on questions of infringement.¹¹⁴

Under the DMCA, the question as to the nature of eBay's role as a service provider would not arise, as *Hendrickson* shows, but it is certain to arise in the Tiffany case due to trademark law's different approach to contributory infringement.¹¹⁵ Tiffany would argue that eBay is inherently unlike a domain name registrar and more like the ISP in *Gucci*. Indeed, eBay is perhaps *most* like the flea market operator in *Fonovisa*, which was held liable under the willful blindness standard of knowledge, where it deliberately ignored infringing activity. A domain name registrar has no need to engage in content considerations in order to perform its function,¹¹⁶ whereas eBay would be an empty shell without its content.

In deciding the key issue in *Tiffany*—whether Tiffany's generalized notice of infringement to eBay constituted “knowledge” as developed in the *Inwood*, *Hard Rock Cafe*, and *Fonovisa* cases—a court likely will focus some of its analysis on eBay's VeRO Program.¹¹⁷ VeRO is essentially a procedure-regulating system, along the same lines as the DMCA, and under the DMCA as interpreted by *Hendrickson*, we know that a generalized notice of infringement is insufficient to impose secondary liability.¹¹⁸ The court might conclude that VeRO's requirement that infringements be explicitly identified is reasonable given the massive size of eBay, the broad deference it grants rights owners, and the imposition of what likely would be debilitating costs on eBay if it held otherwise, Tiffany's “immense problem” notwithstanding.¹¹⁹ Of course, VeRO is not the DMCA—eBay instituted VeRO without Congress' help.¹²⁰ The court likely will confine itself to the issue of VeRO's reasonableness only with regard to

Tiffany (and rights owners generally) and eBay. The issue of VeRO's effect on eBay sellers is addressed below.

III. eBay's Solution

A. Verified Owner's Rights Program (VeRO)

While eBay expressly forbids its sellers from directly infringing others' copyrights and trademarks,¹²¹ the legal question remains open as to whether eBay shares liability with its sellers as a contributing or vicarious infringer. Two extreme possibilities exist: either eBay is akin to a common carrier like AT&T and incurs no liability or it is like a flea market operator that is liable upon constructive notice of an infringement.¹²² VeRO represents an effort by eBay to categorize itself as the former.

VeRO is a procedural mechanism established by eBay to “[protect] the intellectual property rights of third parties” while “providing its users with a safe place to trade.”¹²³ VeRO “membership” is attained by alleging an infringement to eBay via a “Notice of Copyright Infringement” (“NOCI”) form on eBay's site.¹²⁴ The NOCI form requires rights owners to assert under penalty of perjury: (1) ownership of a right or mark, and (2) a “good faith belief” that the listing they are complaining over constitutes an infringement.¹²⁵ The NOCI form provides “reason codes” that reduce infringement claims to simplified one-sentence complaints.¹²⁶ Membership apparently does not require any substantive threshold other than this claim. Evidently, VeRO can even be exploited fraudulently by anyone clever enough to submit a NOCI form filled out using information from a throwaway email account and prepaid-for-in-cash cell phone,¹²⁷ as eBay apparently does not ascertain whether the applicant is indeed the owner of the rights it claims.¹²⁸ Members can choose not to identify themselves as members, although some opt to do so.¹²⁹ Once membership has attached, VeRO members have available to them the VeRO Reporting Tool, which is software designed to automate the process of alleging infringements to eBay.¹³⁰

Upon receipt of a NOCI, eBay removes the allegedly infringing listing apparently with little or no review of the validity of the complaint.¹³¹ eBay then notifies the seller by email that its listing has been removed.¹³² The accused seller has few options after the listing has been removed. If the complaint is based entirely on copyright, eBay will include in the notice that the seller has an opportunity to counternotify, as per the DMCA.¹³³ eBay then will contact the VeRO member and inform it of the counternotification and impending reinstatement of the listing unless it informs eBay within 14 days that it has filed an action against the seller.¹³⁴

eBay instructs accused sellers to contact the complaining rights holder to work out the dispute. eBay will restore a listing upon the acquiescence of the VeRO member who made the original complaint.¹³⁵ eBay will provide

the seller whose listing has been removed with an email address of the VeRO member but no other identifying information.¹³⁶ A removed listing can be reinstated only if the seller can convince eBay the removal was in “error,”¹³⁷ a threshold eBay sellers have had little success in meeting.

eBay penalizes sellers who have had listings removed through its VeRO Program. Initially a “black mark” attaches to their accounts, and additional black marks can lead to account suspension.¹³⁸ Reinstating a suspended account can be difficult.¹³⁹ Because eBay sellers rely heavily on the goodwill that attaches to their accounts through eBay’s community trust features, inaccurate or wrongful VeRO complaints can pose a significant threat to honest sellers’ livelihoods.

1. How Rights Owners Are Using VeRO

Given the fact that eBay’s VeRO Program defers to rights owners, it is not surprising that most rights owners are generally pleased with VeRO, or at least see it as an improvement.¹⁴⁰ Tiffany remains a prominent exception, because it does not believe that policing for infringements is its job.¹⁴¹ It is not difficult to find eBay sellers complaining about VeRO,¹⁴² but in order to find out how other VeRO members see and use VeRO, I created a survey and sent it to over 300 VeRO members.¹⁴³ Sixty members responded, and their replies were illuminating. Although the full results of the survey are set out in the Appendix, the results of three questions are most noteworthy.

Question Five asked, “How often do you report infringements to eBay?” While 60 percent remove listings “Hardly ever” or “Once a month,” 37 percent use the program quite frequently—8 percent answered “More than five times a day.”

Question Six asked, “What is your most common legal reason for reporting infringements to eBay?” The offered responses were “Copyright,” “Trademark,” “Patent,” and “Publicity Rights.”¹⁴⁴ That “Copyright” (31, or 51 percent) and “Trademark” (27, or 45 percent) ran neck and neck did not come as a surprise, but this response underscores the need for a trademark safe harbor, as complaints for trademark infringement are apparently nearly as common as copyright complaints. Of those surveyed that identified their industry segment as “Movies, Television & Radio” or “Music,” all twelve identified their legal reason as copyright. Not surprisingly, those identifying their industry segment as “Sporting Goods & Memorabilia,” “Apparel & Handbags,” or “Jewelry, Sunglasses, & Watches” stated that trademark was the most common basis for complaint. Of the 22 members surveyed who claim to use VeRO frequently (“Once a week or more”), twelve remove most commonly for trademark reasons, and ten for copyright reasons. One person claimed to use VeRO to remove over 500 listings in a day.

Question Seven asked “Who is responsible for identifying and reporting infringements to eBay?” and offered as choices “Staff member,” “In-house counsel,” “Outside counsel,” “Online specialist (e.g., Net Enforcers, et al),” and “Other.” This result was the biggest surprise, as 45 of the 60 VeRO members surveyed (75 percent) answered that a staff member—as opposed to a lawyer—was responsible for identifying and removing infringing listings. While some infringements, e.g., counterfeits, are relatively easy to spot, many are not and might require a more trained legal eye. Whether this result explains the myriad examples of overreaching by VeRO members is debatable. But since this tendency to overreach rarely triggers negative consequence for rights owners, perhaps both lawyers and non-lawyers push the envelope as to what constitutes an infringement in equal measure.

2. How Rights Owners Are Overusing VeRO

Within the online auction infringement universe, three common scenarios dominate. The first is counterfeit goods.¹⁴⁵ Where an item is obviously counterfeit, there is no debate as to its legality, except where the item’s authenticity cannot be discerned easily from the photograph and/or description. The more sophisticated counterfeiters can get around this, meaning that an infringement could escape detection until delivery of the item. eBay’s terms of service are largely focused on keeping potential counterfeits off its site by restricting the language that can be used in item descriptions. For example, a seller might honestly describe a handbag with a missing label in the following way: “Looks like it might be a Kate Spade”—but eBay prohibits such listings.¹⁴⁶ In these situations, where a question of authenticity exists, eBay understandably imposes a burden of proof on the seller to prove that an item is genuine.¹⁴⁷

While the majority of eBay listing removals concern counterfeit goods, the most contentious removals involve items whose copyright may no longer apply. The first-sale doctrine, which terminates a copyright owner’s exclusive distribution right after the first sale,¹⁴⁸ is a commonly cited defense by eBay sellers.¹⁴⁹ Both new and used items are sold on eBay; but even where an item appears new, it may already have been sold, which is where the question of the legality of a particular listing can get confusing. eBay sellers claim that many removals of this sort are pretextual—they believe that the true goal of the complaining VeRO member is to kill off prices they see as undercutting their own.¹⁵⁰ In many cases involving the first-sale doctrine, courts have been quick to recognize illegitimate price discrimination dressed in copyright garb.¹⁵¹ One survey-taker admitted removing listings despite knowing that the items were likely originally purchased at yard sales and would only permit the listing to be reinstated if pressed on the point by a seller with knowledge of the law.¹⁵²

Like the counterfeit problem, it is often difficult to discern from either the picture or the description whether an item has been sold previously. An item may have been sold multiple times while remaining inside its original packaging. Again, eBay pushes the burden of proof onto the seller. A scan of a receipt included in the description page for the item can negate a VeRO member's claim of unauthorized distribution.¹⁵³ Even murkier is the fact that items are often sold multiple times between authorized distributors. Over the course of an email exchange between the author and a bulletin board poster whose listing had been removed repeatedly by a VeRO member, it became clear that he was sold the item *as* an authorized distributor by *another* authorized distributor.¹⁵⁴ The first-sale doctrine does not apply to these situations because the item did not "enter the market."¹⁵⁵

The other common complaint for wrongful removal involves trademark's nominative fair use doctrine.¹⁵⁶ It is often necessary when truthfully describing an item to use the trademark of another without authorization. eBay sellers have constant need to make nominative fair use of another's trademark, since the items they sell often are either actual once-sold products made by the trademark owner or were manufactured to be interoperable with products made by the trademark owner. Typical of how this problem plays itself out is the recently filed *Mohl v. Dymo* complaint, in which the seller of generic printing labels meant to work in the defendant's printers had his listings removed by the trademark holder, despite the seller's explicit disclaimer of endorsement or sponsorship.¹⁵⁷

Because trademark and copyright issues often arise simultaneously, complaining parties can essentially circumvent the DMCA by including a trademark claim in their complaint, removing the possibility that the recipient could countersuit, which then would force the ISP to restore the allegedly infringing page.¹⁵⁸ Likewise, nothing prevents the rights holder from then backing off the trademark claim after its purpose of thwarting the DMCA has been achieved.¹⁵⁹ eBay does advise its sellers that they have a right to countersuit,¹⁶⁰ but it only notifies the seller when the complaint pertains solely to copyright.¹⁶¹

3. How Sellers Are Being Misused by VeRO

When an eBay seller receives a VeRO takedown notice and fails to successfully argue the legitimacy of the sale to either eBay or to the rights owner, its sole recourse, aside from simply eating the loss and moving on, is to sue the rights holder. For a few mostly obvious reasons, this rarely occurs: (a) the sellers are legally and financially mismatched against the more leveraged rights holders; (b) only rarely will an item removed by a VeRO member be expensive enough to justify the cost of a lawsuit in order to have that item restored; and (c) in most cases, where the removed item's cost would not justify filing a

lawsuit, a lawsuit aimed at settling a legal principle carries few guarantees. These realities lead to rampant overreaching by VeRO members.

Anecdotal evidence of this abounds on fora and weblogs that deal in eBay-related news and web technology issues. One site hosts a bulletin board on which eBay sellers who believe they have had a listing wrongfully removed regularly add war stories.¹⁶² "Julie" had her account suspended after receiving a VeRO takedown notice issued by Juice Plus, which had thwarted Julie's attempt to sell recently purchased but unopened vitamins.¹⁶³ When Chaitanya Marvici attempted to sell physical copies (which she lawfully possessed) of McAfee VirusScan 2004, it took her two weeks to have her account reinstated after having those sales removed as a result of a VeRO takedown.¹⁶⁴

An eBay seller of scuba gear, books, and manuals received a VeRO removal notice because, as the complaint was later explained to him, he was copying the manuals and selling the copies on eBay.¹⁶⁵ It took three months for the seller to reinstate the listing after finally convincing the VeRO member that he was selling the actual manual and not a copy.¹⁶⁶

"Atomic Video" had his offer of a DVD copy of the rarely seen 1961 film *Door-to-Door Maniac* (starring Johnny Cash as a guitar instructor turned homicidal killer) taken down by representatives of Johnny and June Carter-Cash despite that the film had entered the public domain after the copyright holder's failure to renew.¹⁶⁷ The representative for Cash's estate explained that the takedown was based on Cash's "right to publicity," and eBay apparently accepted this argument.¹⁶⁸ Besides the obvious overreach by the Cash estate representative, the highly instructive¹⁶⁹ exchange of correspondence between Atomic Video, eBay, and the Cash estate indicate an almost aggressive unwillingness on eBay's part to understand the entirely valid point made by Atomic Video. The item remains unlisted.

Mike Meadors and Karen Dudnikov are perhaps the poster children for wrongful VeRO removals. The married couple go by the username Tabberone on eBay, selling, among other things, tissue box covers, fleece blankets, pillows, aprons, and eyeglass cases made by Dudnikov from fabric she purchases by the yard.¹⁷⁰ The fabrics are emblazoned with famous trademarks: Peanuts, Disney, Coca Cola, NASCAR, Major League Baseball, to name but a few. Springs Global, one of the fabric companies from which Dudnikov purchases, is licensed by these and other trademark owners to produce these trademark-bearing fabrics.¹⁷¹ Are Dudnikov's subsequent creations not, then, protected by the first-sale doctrine?¹⁷² A long and growing list of trademark holders say *no*—they are derivative works—and have resorted to removing various Tabberone listings through VeRO. As there exists no countersuit procedure for trademark violations like that found in the DMCA, eBay simply complies with

the VeRO request, and the only remaining course of action for an eBay seller who believes it has been wrongfully delisted is a lawsuit against the rights holder,¹⁷³ which is what Meadors and Dudnikov have done repeatedly, although neither has any prior legal background or training. Meadors and Dudnikov have sued and forced favorable settlements from Disney, M&M/Mars, Major League Baseball Properties, Shabby Chic, Robert Yates Racing, United Media (Peanuts), Vittoria North America, Wiggles Touring Pty Limited, Sanrio, Weight Watchers, and Fleurville.¹⁷⁴ Despite their impressive list of victories, Meadors and Dudnikov continue to receive VeRO takedown notices and continue to file federal actions to force reinstatement of their eBay listings.¹⁷⁵

Perhaps encouraged by Meadors and Dudnikov's success, eBay seller Rene Mohl recently filed suit against VeRO member Dymo after Dymo used VeRO to remove Mohl's listings for Dymo-compatible printer labels. In his complaint,¹⁷⁶ Mohl describes events that allegedly occurred after his discovery and subsequent sale of generic Dymo-compatible printing labels:¹⁷⁷ Dymo repeatedly offered to contract with Mohl in a licensor-licensee arrangement (where Mohl would sell Dymo brand labels),¹⁷⁸ but Mohl spurned Dymo because the prices he was getting from his suppliers were cheaper.¹⁷⁹ A day after the last rebuke, Dymo issued a VeRO complaint, and Mohl's listing was removed.¹⁸⁰

IV. Possible Solutions

A. What eBay Could Do

eBay sellers' listings are subject to what amounts to arbitrary removal by rights owners, who have little incentive to tread cautiously so long as the consequences of overreaching remain so remote. Without a procedural mechanism for trademark claims such as that found in the DMCA, eBay is forced to take unreasonable steps to protect against liability, but eBay could take steps to improve conditions for its sellers.

eBay could provide its sellers with the right to counternotify to restore removed listings, including removals for trademark claims. Since eBay would remain liable for continued infringements under such a plan, it could require counternotifying sellers to agree to indemnify eBay. eBay could take more seriously sellers' concerns over spurious takedown requests and better train its staff to recognize these spurious takedown requests. eBay could demand a higher degree of certification from its VeRO members in order to prevent fraudulent takedown requests.¹⁸¹

eBay presently implements filtering mechanisms to help identify potential infringements, so intellectual property policing does not rest entirely in the hands of rights holders.¹⁸² But eBay is less than forthcoming about its methodologies. Greater transparency would perhaps

permit the highly informed selling community to contribute to finding a solution. An online dispute resolution system is an intriguing option.¹⁸³

The implementation of some of these suggestions could be accomplished at a relatively low cost to eBay. But others, such as offering sellers the ability to counternotify, could give rise to additional liability for eBay under present law and so seems unlikely to be put into practice. After receiving notice of an infringement, the conscious act of restoring a listing it knew to be a claimed infringement effectively would make eBay a potential direct infringer. It also remains uncertain whether a counternotification not recognized by statute (such as the DMCA counternotification) could effectively indemnify eBay, especially as eBay would remain the more attractive, deeper-pocketed target in the eyes of a trademark holder.

B. What Congress Could Do

While these suggestions would be a step in the right direction, eBay would be served best by an amendment to the Lanham Act such as the one suggested by Fara Sunderji.¹⁸⁴ Sunderji proposed a trademark statute nearly identical to the DMCA specifically directed toward "Online Auction Sites/Houses"¹⁸⁵ which would provide a safe harbor to any online auction site that did not have "actual knowledge" of the infringement, moved expeditiously to remove the listing after receiving knowledge, and "did not receive a financial benefit directly attributable to the infringing activity in a case in which the online auction site [had] the right and ability to control the instrumentality used to infringe."¹⁸⁶ This provision mirrors section 512(c) almost perfectly. But Sunderji stops short in that he does not provide for a counternotification provision such as that found in section 512(g).¹⁸⁷ This would at least afford some protection to honest sellers from overreaching rights owners, as it would thrust the burden of suing onto the rights owner who made the original claim.¹⁸⁸ I would also track the DMCA's misrepresentation provision,¹⁸⁹ which provides a cause of action for sellers whose listings have been removed by anyone knowingly misrepresenting a claim of infringement and provides for damages, costs, and attorney's fees.¹⁹⁰

Although the rationales for protecting trademark and copyright differ, the two converge in the context of the Internet often enough that a single, or compatible, *sui generis* solution is justified. Is the nature of each right (copyright and trademark) so different as to justify such potentially differing outcomes for claims that are quite similar and often overlap? Put another way, if eBay is worth protecting by statute (the DMCA) when it hosts content that infringes copyright, what is it about trademark law that would justify a different outcome? It is often said that trademark is a narrower right than copyright,¹⁹¹ and if so, eBay should be provided with at least as much protection as is afforded to secondary copyright infringers.

The DMCA's stated goal of encouraging development on the Internet is thwarted by the threat of secondary trademark liability. If the *Hendrickson* court is correct that Congress intended to promote the Internet by protecting online service providers, it seems likely that it did not intend to leave online service providers awkwardly exposed in disputes involving trademarks, as currently is the case.

Endnotes

1. eBay is located at www.ebay.com and bills itself as "The World's Online Marketplace, enabling trade on a local, national and international basis." About eBay, <http://pages.ebay.com/aboutebay.html>. eBay's online marketplace model is comprised of sellers who register with eBay but are otherwise externally anonymous; and buyers—also registered, who use eBay's web interface to search for and bid on items listed by sellers.
2. *Id.*
3. "One infringes contributorily by intentionally inducing or encouraging direct infringement, and infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it." *MGM Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764, 2776 (2005). Claims of vicarious infringement aimed at online service providers are routinely dismissed by courts, due to the indirect, even attenuated nature of the financial benefit commonly present, but online contributory infringement has been found in a variety of contexts. *See infra* Part II.B.
4. Online Copyright Infringement Liability Limitation Act, DMCA, § 201, Pub. L. 105-304, 112 Stat. 2877 (1998); codified at 17 U.S.C. § 512.
5. This is not to say that eBay is a stranger to complaints of secondary copyright infringement, however; a survey of VeRO members indicates that complaints of copyright infringement are about as common as complaints for trademark infringement. *See infra* Part III.A.1.
6. *See generally* How eBay Protects Intellectual Property (VeRO), <http://pages.ebay.com/help/tp/programs-vero-ov.html>.
7. *See infra* Part III.A.2.
8. *See* Bruce Gottlieb, *eBay or the Highway*, SLATE (July 7, 2000), <http://www.slate.com/id/85756/> (accurately reasoning through economic theory that eBay's then-monopoly (2000) could only grow). *See also* *Monopolies are bad. Can eBay monopoly be challenged???*, Auction Bytes Forum (Jan. 2006), <http://www.auctionbytes.com/forum/phpBB/viewtopic.php?t=17998> (forum thread reflecting the general helplessness felt by eBay sellers in affecting change at eBay).
9. *See infra* Part III.A.3.
10. *Id.*
11. *See infra* Part IV.A.
12. *See infra* Part IV.B.
13. *See infra* Part IV.B.
14. This is not to imply, however, that eBay has no secondary copyright problem; indeed, it does. *See* Appendix, Survey Question 6. But the DMCA provides protections against secondary copyright infringement that do not exist for trademark.
15. Press release, eBay Inc. Announces Fourth Quarter and Full Year 2005 Financial Results (Jan. 18, 2006), <http://investor.ebay.com/releases.cfm>. eBay's auction site accounts for approximately two thirds of eBay's total revenues. The other third is accounted for by eBay's online payments business (Paypal), which dovetails with eBay's auction business, enabling eBay to collect transaction fees from buyers immediately after an auction sale. *Id.* Additionally, eBay recently entered the online telephony business by purchasing Skype, which allows online users to talk with each other via voice-over Internet protocol (VoIP). *Id.*
16. "Insertion Fees" range according to price, but are generally 1-2% of an item's stated value. *See* eBay.com Fees, <http://pages.ebay.com/help/sell/fees.html>.
17. "Final Value Fees" range between 5.25% for inexpensive items (under \$25) to approximately 8% for more expensive items. *Id.*
18. *See* Press Release, *supra* note 15.
19. PayPal "allows the transfer of money between email users and merchants, avoiding traditional paper methods such as checks/cheques and money orders. PayPal also performs payment processing for e-commerce vendors, auction sites, and other corporate users, for which they charge a fee." Wikipedia, entry for "Paypal," <http://en.wikipedia.org/wiki/PayPal>.
20. It is worth briefly pointing out that substantive differences as to secondary liability separate online auction businesses such as eBay and brick and mortar auction houses like Sotheby's, where the level of service is coextensive with the luxury items it often auctions. Accordingly, Sotheby's warrants the authenticity of the items is auctions to a far greater degree than eBay. *Compare* sample Sotheby's warranty covering five years, found at Kai B. Singer, *Sotheby's Sold Me a Fake! Holding Auction Houses Accountable for Authenticating and Attributing Works of Fine Art*, 23 Colum.-VLA J.L. & Arts 439, 441 (2000), with the eight-step self-examination process required by eBay before it will consider intervening in a buyer-seller dispute. eBay, About Buyer Protection Program, <http://pages.ebay.com/help/tp/isgw-buyer-protection-steps.html>.
21. *See, e.g.*, Yahoo! Auctions, <http://auctions.yahoo.com>; uBid, <http://www.ubid.com>; Bid-Alot, <http://www.bid-alot.com>; CQout Online Auctions UK, <http://www.cqout.com>; InterShopZone.com Marketplace, <http://www.intershopzone.com>; Amazon.com Auctions, <http://auctions.amazon.com>; Bidz.com, <http://www.bidz.com>.
22. *See* Orson Lin & Donald Joyce, *Critical Success Factors for Online Auction Web Sites*, BULLETIN OF APPLIED COMPUTING AND INFORMATION TECHNOLOGY, Vol. 2, Issue 3 (Nov. 2004), available at http://www.naccq.ac.nz/bacit/0203/2004Lin_OnlineAuctions.htm (quoting InfoTech Trends estimate that in 2002, uBid retained 14% of the online auction market share to eBay's 69%).
23. uBid is currently estimated to retain only 4 million registered users (*See* Hoovers, http://hoovers.com/ubid/--ID_57464--/free-co-factsheet.xhtml), whereas eBay now claims 180 million registered users. *See* Hoovers, http://hoovers.com/ubid/--ID_57464--/free-co-factsheet.xhtml. While "registered users" do not necessarily statistically correlate to revenue, it seems at least safe to assume that eBay retains a significantly larger share today than in 2002.
24. In 2000, a very prescient Bruce Gottlieb predicted that eBay's then-monopoly was likely to continue, due to what economists refer to as the "network effect"—the guarantee that as a site becomes more popular, it becomes very difficult for second-comers to displace the original because "buyers are more likely to find what they want as the number of sellers increases," and "sellers are more likely to find a high bidder as the number of buyers increases." Gottlieb, *supra* note 8.
25. *See generally* Mary M. Calkins, *My Reputation Always Had More Fun Than Me: The Failure of eBay's Feedback Model to Effectively Pre-vent Online Auction Fraud*, 7 RICH. J.L. & TECH. 33 (2001).
26. An unnamed eBay executive is quoted as saying "eBay has a high degree of customer lockin. How? Well, for one, many of their customers are getting rich (he says he knows a few power sellers who have already retired). Second, the more you buy and sell on eBay, the better your ratings, and those aren't transferable to other auction systems." Robert Scoble, *eBay executive gives us the inside scoop on eBay's business*, Scobleizer: Microsoft Geek Blogger

- (May 29, 2004), <http://radio.weblogs.com/0001011/2004/05/29.html#a7621>.
27. See, e.g., uBid, which puts both buyers and sellers through a multi-phase review process, intended to weed out unserious purchasers and maintain a degree of quality control. About uBid, <http://ubid.com/about/trust.asp>.
 28. eBay's ratings are not "portable." See Microsoft Geek Blogger, *supra* note 26.
 29. For a detailed explanation of how a feedback score is arrived at, see eBay, What is feedback?, <http://pages.ebay.com/help/feedback/questions/feedback.html>. Additionally, because feedback is so important, additional eBay policies speak to the frowned upon practices of "Feedback extortion," "Feedback solicitation," and "Feedback abuse." See eBay, Feedback Policies, <http://pages.ebay.com/help/policies/feedback-ov.html>. See also Calkins, *supra* note 25 (concluding eBay's feedback system is prone to abuse, unreliable, and inadequately protects buyers from fraud).
 30. See generally eBay, Prohibited and Restricted Items, <http://pages.ebay.com/help/policies/items-ov.html>.
 31. The term "delisting" in the context of this article refers to the removal of a seller's listing as a result of a VeRO complaint.
 32. See eBay Feedback Policies, *supra* note 29.
 33. eBay, Keyword Spam Policy, <http://pages.ebay.com/help/policies/keyword-spam.html>.
 34. *Id.* But see Ina Steiner, *Keyword Spamming on eBay a Waste of Time, Study Shows*, AuctionBytes.com (Jan. 17, 2005), <http://www.auctionbytes.com/cab/abn/y05/m01/i17/s02> (noting a study of visitor patterns that showed the practice of keyword spamming to be ineffective).
 35. eBay, Knowing the Rules for Sellers, <http://pages.ebay.com/help/sell/policies.html>.
 36. An eBay seller who maintains a 98% positive feedback score. <http://pages.ebay.com/help/newtoebay/glossary.html#PowerSeller>. Besides the additional consumer trust implicitly gained through this title, PowerSellers enjoy "prioritized customer support, promotional offers, eBay promotional merchandise, advanced selling education, opportunities to participate in research, and other special rewards."
 37. See, e.g., Matthew Chapman, *EBay blames users for fraud*, BBC NEWS (Dec. 18, 2005), <http://news.bbc.co.uk/1/hi/business/4533154.stm> (reporting that shoemaker Adidas estimated that 40% of the estimated 12,000 daily eBay sales involving their goods were counterfeit). eBay is also a familiar launch point for con artistry and fraud; In the span of a few short weeks, one finds the following examples: George Warren, *Sacramento Man Behind Giant eBay Fraud Goes Public*, NEWS 10 (Sacramento ABC Affiliate) (May 5, 2006), <http://www.news10.net/storyfull2.aspx?storyid=17360> (summarizing an elaborate art fraud played out on eBay utilizing multiple shill bidders; after the perpetrator—a lawyer—was caught and lost his license, he wrote a book entitled *FAKE: Forgery, Lies & eBay*); Samantha Turnbull, *Family Loses \$12,000 in eBay Auction Scam*, NORTHERN STAR (Apr. 29, 2006), <http://www.northernstar.com.au/localnews/storydisplay.cfm?storyid=3682373> (an email offering a losing eBay bidder a "second chance" to purchase the item was discovered to be a fake after the bidder wired \$12,000). The Software & Information Industry Association ["SIIA"], describing VeRO as inadequate, has answered the counterfeit auction problem by filing a series of strategic lawsuits against random copyright infringing sellers of counterfeit software. Press Release, *SIIA Launches Auction Litigation Program, Targets Online Auctions Selling Pirated Software*, May 16, 2006, http://www.sii.net/press/releases/20060516Auction_Lit.pdf. Only two months later, SIIA claimed that the lawsuits have proven effective in stemming the tide of counterfeit auctions. See Press Release, SIIA Illegal Auction Suits Have an Impact, July 24, 2006, http://www.sii.net/press/releases/Auction_Piracy_Litigation_Impact.pdf.
 38. eBay's potential secondary liability can hardly be described as its sole interest in maintaining a counterfeit-free environment; also at stake are eBay's credibility amongst potential users, and its duty to protect its buyers from fraudulent sales.
 39. See LAWRENCE LESSIG, *FREE CULTURE: HOW BIG MEDIA USES TECHNOLOGY AND THE LAW TO LOCK DOWN CULTURE AND CONTROL CREATIVITY* 188 (New York: Penguin 2004) ("The consequence of this massive threat of liability tied to the murky boundaries of copyright law is that innovators who want to innovate in this space can safely innovate only if they have the sign-off from last generation's dominant industries.").
 40. Cf. *A&M Records v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001) (finding the market harms caused by Napster, a peer-to-peer file sharing network populated by unauthorized copies of music files, outweighed its potential non-infringing uses), and *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) ("The Betamax Case") (finding the potential non-infringing uses for video-cassette recorders outweighed the market harm to a movie studio).
 41. "No provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider." 47 U.S.C. § 230(c)(1) [hereinafter "CDA § 230"].
 42. See *Zeran v. AOL*, 129 F.3d 327, 330 (4th Cir. 1997) (interpreting CDA § 230 to immunize service providers from liability for information originating from users of its service).
 43. 17 U.S.C. § 512.
 44. 17 U.S.C. § 512(c)-(g).
 45. See *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949 (C.D. Cal. 1997), *aff'd*, 194 F.3d 980 (9th Cir. 1999) (analogizing a domain name registrar's limited, mechanical role in domain name infringement to the U.S. Post Office's lack of control over the content of the mail it delivers).
 46. See Hoovers, *supra* note 23.
 47. U.S. CONST. art. I, § 8.
 48. *Trade-mark Cases*, 100 U.S. 82, 94–95 (1879) ("While [. . .] the subject of trade-marks [. . .] may be within the competency of legislatures whose general powers embrace that class of subjects, we are unable to see any such power in the constitutional provision concerning authors and inventors, and their writings and discoveries.").
 49. Cf. 15 U.S.C. § 1051 (ability to register a mark is tied to use, or intent to use), and 17 U.S.C. § 102 (stating the threshold for copyrightability to be originality and fixation).
 50. See, e.g., *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996) (a "willfully blind" flea market operator found liable for infringing sales); *Fromont v. Aeolian Co.*, 254 F. 592 (S.D.N.Y. 1918) (a concert hall owner did not contributorily infringe a music publisher's copyrights because his only contact with the direct infringer was through the rent paid to him by the infringing pianist).
 51. See *Religious Technology Center v. Netcom*, 907 F. Supp. 1361, 1374 (N.D. Cal. 1995) (noting how an Internet Service Provider is unlike a landlord).
 52. *Id.*
 53. *Id.*
 54. The court characterized Netcom's role in the infringement as "nothing more than setting up and operating a system that is necessary for the functioning of the Internet." *Id.* at 1372.

55. *Id.* at 1374.
56. *Id.* at 1375–77.
57. See Raymond Shih Ray Ku, *Grokking Grokster*, 2005 WIS. L. REV. 1217, 1251 (2005) (noting the challenge that digital technology presents to copyright law: “unlimited number of perfect copies of sound recordings at virtually no cost”).
58. 17 U.S.C. § 1201.
59. For arguments on both sides of the DMCA § 1201 dispute, compare Jane C. Ginsburg, *Copyright and Control Over New Technologies of Dissemination*, 101 COLUM. L. REV. 1613 (2001) (favoring technological control measures as necessary to ensure the economic incentive), with Pamela Samuelson, *Intellectual Property and the Digital Economy: Why the Anti-Circumvention Regulations Need to be Revised*, 14 BERKELEY TECH. L.J. 519, 537-43 (1999) (arguing that the DMCA’s anti-circumvention provisions, unless severely limited, would “harm competition and innovation in the information technology sector”). See also Timothy B. Lee, *Circumventing Competition: The Perverse Consequences of the Digital Millennium Copyright Act*, Cato Institute Executive Summary No. 564 (Mar. 21, 2006), available at <http://cato.org/pubs/pas/pa564.pdf>.
60. 17 U.S.C. § 512(c)(1).
61. 17 U.S.C. § 512(c)(1)(C). There is a potentially plausible argument that eBay does not conform to the DMCA because it often does not “act expeditiously to remove” as per this section. The time between a listing and sale can be as short as 24 hours; an auction can end immediately if a buyer purchases through eBay’s “Buy it Now” feature, a reality which severely limits the rights holder’s opportunity to identify infringements. Even where eBay is notified of infringements through its VeRO Program, some allege the auctions often end before eBay removes the listings. Even where eBay acts to “end” the auction past the point of sale, the damage may have already occurred, as eBay has already served as a conduit between the buyer and seller, who now have an opportunity to complete the sale outside of eBay’s system (eBay explicitly prohibits this practice but lacks the enforcement capability to stop it). Email from Matthew Eckstein, Software Information Industry Association, to author (Apr. 21, 2006, 11:28:49 EST) (on file with author).
62. 17 U.S.C. § 512(g)(3).
63. 17 U.S.C. § 512(g)(2)(C).
64. 17 U.S.C. § 512(c).
65. See *Grokster*, 125 S. Ct. at 2776 n.9.
66. Trademark law seeks to protect three interests: (1) the mark holder’s business interests directly related to its goods and/or services; (2) the mark holder’s good will and reputation as that relates to his goods and/or services; and, (3) the public from confusion and deceit. See *Scarves by Vera, Inc. v. Todo Imports, Ltd.*, 544 F.2d 1167, 1172 (2d Cir. 1976). Trademark protection is therefore construed more narrowly than the protection owed to copyright owners, since it protects a more narrow range of property interests. See *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 965 (C.D. Cal. 1997), *aff’d*, 194 F.3d 980 (9th Cir. 1999).
67. *Inwood Labs, Inc. v. Ives Labs, Inc.*, 456 US 844 (1982).
68. *Id.* at 846.
69. *Id.* at 854.
70. *Hard Rock Café Licensing Corporation v. Concession Svcs., Inc.*, 955 F.2d 1143 (7th Cir. 1992).
71. *Id.* at 1149.
72. *Fonovisa*, 76 F.3d 259.
73. *Id.* at 265. *Fonovisa* is better known for its holding with regard to contributory copyright infringement, where its reasoning goes farther in depth than its decision on the issue of contributory trademark infringement.
74. See Jonathan E. Moskin, *Trademarks Contributory Liability of ISPs: An Unsettled Issue Despite Gucci v. Hall*, THE INTELLECTUAL PROPERTY STRATEGIST (July 2001) (noting that “[w]hat constitutes knowledge or reckless disregard [with respect to contributory trademark infringement] will be a hotly contested issue for years to come.”).
75. *At 10 years, has eBay lost its allure?* AP, July 6, 2005, <http://www.cnn.com/2005/TECH/internet/06/27/ebay.at.crossroads.ap/index.html>.
76. See *Lockheed*, *supra* note 45.
77. *Id.* at 962.
78. *Id.* at 963.
79. *Id.*
80. *Gucci Am., Inc. v. Hall & Assocs.*, 135 F. Supp. 2d 409 (S.D.N.Y. 2001).
81. *Id.* at 416.
82. *Id.* at 411.
83. *Id.*
84. *Id.* at 417–18.
85. See *Lockheed*, 985 F. Supp. at 957–58.
86. The plaintiff in *Hendrickson* also sued for trademark infringement, but the court, in a pretrial order, ruled that if eBay were found liable for trademark infringement, it was merely an innocent infringer, since it had no knowledge of the direct infringement. Fara S. Sunderji, Note: *Protecting Online Auction Sites from the Contributory Trademark Liability Storm: A Legislative Solution to the Tiffany Inc. v. EBay Inc. Problem*, 74 FORDHAM L. REV. 909, 926 (2005). Treatment as an innocent infringer reduces a plaintiff’s remedy to an injunction against future infringement. 15 U.S.C. § 1114(2).
87. *Hendrickson v. eBay*, 165 F. Supp. 2d 1082 (C.D. Cal. 2001).
88. *Id.* at 1088.
89. *Id.* at 1084.
90. *Id.* at 1089–92.
91. The DMCA safe harbor provisions reflect both theories of secondary liability for copyright—contributory and vicarious. The first provision requires the ISP to show that it does not have actual knowledge of infringing activity, and that it respond expeditiously to remove infringing material upon obtaining actual knowledge (17 U.S.C. § 512(c)(1)(A)(i)–(iii)). The ISP must also show it does not “receive a financial benefit directly attributable to the infringing activity” if it has the “right and ability to control such activity.” 17 U.S.C. § 512(c)(1)(B). Finally, the ISP must show that it responded expeditiously to remove infringing material upon receiving notification of the infringement. 17 U.S.C. § 512(c)(1)(C).
92. *Hendrickson*, 165 F. Supp. 2d at 1092–93.
93. *Id.* at 1089–92.
94. *Id.* at 1090.
95. *Id.* at 1093. *Hendrickson* has since been followed on this point. See *CoStar Group, Inc. v. LoopNet, Inc.*, 373 F.3d 544, 552 (4th Cir. 2004) (declining to apply vicarious copyright liability to a passive owner of an ISP).
96. *Id.* at 1093–94.
97. *Id.* at 1093. Congress has defined the purpose of the DMCA as “[facilitating] the robust development and world-wide expansion of electronic commerce, communications, research, development, and education.” S. Rep. 105-190, at 1 (105th Congress, 2d Session 1998).
98. 17 U.S.C. § 512(c)(1)(B).

99. See *Hendrickson*, 165 F. Supp. 2d at 1088.
100. Albeit in the context of a copyright vicarious infringement analysis, the Ninth Circuit in *Napster* found a “direct financial benefit” on less tangible basis than is present in eBay’s auction site model—namely, the court found that Napster, a peer-to-peer file sharing service, enjoyed a financial benefit even if it was a speculative future benefit contingent on its increased user base. *Napster*, 239 F.3d at 1023.
101. “[T]he term ‘service provider’ means a provider of online services or network access, or the operator of a facilities therefor.” 17 U.S.C. § 512(k)(1)(B).
102. *Tiffany v. eBay*, No. 1:04cv04607 (S.D.N.Y. filed July 14, 2004) (Tiffany complaint found at 2004 WL 2237672).
103. Tiffany contends that two of its employees, during 2003 and 2004, removed more than 19,000 listings for counterfeit Tiffany merchandise. Tiffany complaint, ¶37.
104. *Id.* ¶38.
105. *Id.* ¶35.
106. Anders Bylund, *Tiffany in a tiff over counterfeit eBay sales*, ARS TECHNICA (Feb. 1, 2006), <http://arstechnica.com/news.ars/post/20060201-6097.html>.
107. It is worth noting that Tiffany’s suit was filed in the same court that decided *Gucci*, the Southern District of New York.
108. Tiffany implicitly concedes by the argument’s lack of inclusion in the complaint that eBay’s conduct does not fall under *Inwood*’s inducement prong.
109. Tiffany complaint, ¶31.
110. *Id.* ¶¶31–32.
111. See *Gucci*, 135 F. Supp. 2d at 411.
112. *Hendrickson*, 165 F. Supp. 2d at 1089–92.
113. Katie Hafner, *EBay sales challenged over a flood of fakes*, NEW YORK TIMES (Jan. 29, 2006) (opining that a Tiffany win would trigger other lawsuits against eBay, and eBay’s business model would be threatened due to the impossible task of policing a site that has 60 million items for sale at any given time).
114. See *Tiffany v. eBay*, No. 1:04cv04607 (S.D.N.Y. filed Oct. 1, 2004) (eBay Answer found at 2004 WL 2245643).
115. Or rather the absence of a statutory provision that offers contingent blanket protections to “service providers,” as provided by the DMCA. 17 U.S.C. § 512(c).
116. See *Lockheed*, 985 F. Supp. at 957 (absolving domain name registrar Network Solutions of trademark liability because designating host computers is a “purely ‘nominative’ function”).
117. See *infra* Part III.
118. See *Hendrickson*, 165 F. Supp. 2d at 1089–92.
119. It is perhaps helpful to view Tiffany through an economic lens. Under a dichotomy proposed by Lori Jones, courts in cases pitting IP owners versus internet entities are essentially forced to choose between protecting e-commerce or intellectual property. Under this formulation, only where the entity takes money out of the economy do the courts rule against the Internet (e.g., *Napster*, *Grokster*). Conversely, where the infringing activity boosted the economy, or benefited the Internet generally, the courts permit the activity to continue. Lori L. Jones, *The Online Copyright Auction: How High Will the Bidding Go?* 2 J. HIGH TECH. L. 45, 64–65 (2003).
120. Although to be fair, there is no indication from Congress of any urgency with regard to the problem of online contributory trademark infringement.
121. eBay, Your User Agreement, <http://pages.ebay.com/help/policies/user-agreement.html>.
122. See *Fonovisa*, *supra* note 50.
123. eBay, How eBay Protects Intellectual Property (VeRO), <http://pages.ebay.com/help/tp/programs-vero-ov.html>.
124. Despite its name, the Notice of Copyright Infringement form also covers trademark infringement. Notice of Copyright Infringement Form, <http://pages.eBay.com/help/community/NOCI1.pdf>.
125. *Id.*
126. The reason codes are as follows: 1.1. Trademark owner doesn’t make this type of product; 1.2. Item(s) is an unlawful replica of a product made by the trademark owner [knock offs]; 1.3. Item(s) is an unlawful importation of product bearing trademark; 2.1. Listing(s) contains unlawful comparison to trademark owner’s brand name; 2.2. Listing(s) contains unlawful use of trademark owner’s logo; 3.1. Software offered for sale in violation of a license; 3.2. Item(s) is a bootleg recording of a live performance; 3.3. Item(s) is an unlawful copy of media (software, games, movies, etc.); 3.4. Item(s) is unlawful duplication of printed material; 3.5. Item(s) is an unlawful copy of another copyrighted work (paintings, sculptures, etc.); 4.1. Listing(s) uses unauthorized copy of copyrighted text; 4.2. Listing(s) uses unauthorized copy of copyrighted image; 4.3. Listing(s) uses unauthorized copy of copyrighted image and text; 5.1. Item(s) infringes a valid patent (requires patent registration number); 5.3. Item(s) violates a celebrity’s right of publicity; 5.4. Listing(s) content violates a celebrity’s right of publicity. *Id.*
127. See Mojo, *Eliminate eBay competition . . .* [sic] (forum post), Front Page Hosting (Nov. 19, 2004), <http://www.frontpagewebmaster.com/m-237416/tm.htm>.
128. See *AP*, *supra* note 75.
129. eBay, eBay’s Verified Rights Owner (VeRO) About Me Page, <http://pages.eBay.com/help/community/vero-aboutme.html>. Approximately 800 VeRO members are listed. eBay, Reporting Intellectual Property Infringements (VeRO), <http://pages.ebay.in/help/tp/vero-rights-owner.html>.
130. Joshua Kaufman, *Stopping Infringements on eBay*, VENABLE IP NEWS & COMMENT (Feb. 2006), available at <http://www.venable.com/docs/pubs/1411.pdf>.
131. Phone conversation with eBay’s general counsel Jay Monahan, May 19, 2006 (notes on file with author).
132. Alorie Gilbert, *Software takes aim at auction fakes*, CNET, May 5, 2003, http://news.com.com/Software+takes+aim+at+auction+fakes/2100-1017_3-999876.html?tag=nl (“When [eBay] gets a complaint, it cancels the auction and notifies the seller of the objection. It is up to the seller to prove that the sale is legitimate for it to be relisted.”).
133. 17 U.S.C. § 512(g).
134. *Id.*
135. eBay, How eBay Protects Intellectual Property (VeRO), <http://pages.ebay.com/help/tp/programs-vero-ov.html>.
136. eBay, What is VeRO and why was my listing removed because of it?, <http://pages.ebay.co.uk/help/policies/questions/vero-ended-item.html>.
137. eBay, Why eBay May Remove Your Listing, <http://pages.ebay.com/help/tp/listing-ended.html>. It may be of some significance that the “error” language only recently replaced language that permitted relisting upon a finding of “mistake by the rights owner . . . in reporting your listing.” (emphasis added). See <http://tinyurl.com/nrzmq>. The new language is perhaps indicative of eBay’s admission of the ambiguity that exists in determining liability; eBay’s new wording relies on a general conception of error (which, to the user, could be *anyone’s* fault) whereas the previous language admitted that the delisting was entirely due to action by the rights holder.

138. alt.marketing.online.ebay FAQ, <http://www.faqs.org/faqs/business/online-marketing/ebay/>.
139. See, e.g., Bruce A. Epstein, *Why eBay Sucks*, weblogs.oreilly.com, May 13, 2005, <http://www.oreillynet.com/pub/wlg/7079> (complaining of eBay's customer service with respect to getting an account reinstated).
140. See Appendix, Survey Question 8 (68 percent of responding VeRO members answered that they were satisfied with the VeRO Program).
141. See *supra*, Part II.D.
142. A search on Google (<http://www.google.com>) for "VeRO" + "eBay" leads mostly to pages of sellers complaining about the program.
143. See Appendix. Over 800 VeRO members have opted to be listed on eBay, and eBay claims that over 5,000 VeRO members exist. See eBay, *supra* note 129.
144. These four responses were offered because they mirrored the four bases upon which removal can be granted as listed in the NOCI form, which is what an eBay member fills out when petitioning eBay to remove a listing. See *supra* note 126.
145. The Trademark Counterfeiting Act of 1984 defines the term "counterfeit mark" to mean "a spurious mark (A)(i) that is used in connection with trafficking in goods and services; (A)(ii) that is identical with, or substantially indistinguishable from, a mark registered for those goods and services on the principal register in the United States Patent and Trademark Office and in use, whether or not the defendant knew such mark was so registered; and (A)(iii) the use of which is likely to cause confusion, to cause mistake, or to deceive[.]" 18 U.S.C. § 2320(d)(1)(A)(i)-(iii).
146. See eBay, eBay Policy Tutorial—VeRO, <http://pages.ebay.com/help/tutorial/verotutorial/intro.html>.
147. *Id.*
148. "Notwithstanding the provisions of section 106(3) [17 U.S.C. 106(3)], the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord." 17 U.S.C. § 109(a).
149. See *infra*, Part III.A.3.
150. Evidence of this even arose in the Survey, where one survey taker claimed the need for recourse where "someone is selling the product at below market value." The same commenter suggests that the situation may be even more complex, claiming that the practice of listing items with below market prices is "sometimes done by competitors to disrupt and devalue [. . .] legitimate distribution channels [. . .]" (comments to survey on file with author).
151. See *Quality King Distrib. v. L'anza Research Int.*, 523 U.S. 135 (1998) (noting that the court's duty was relegated to interpreting the Copyright Act and not giving consideration to policy questions on price discrimination).
152. Phone call between author and survey taker (identification withheld by request), Apr. 10, 2006 (notes on file with author).
153. See eBay Policy Tutorial, *supra* note 146.
154. Email exchange with anonymous bulletin board poster, April 2006.
155. See *Sebastian Int'l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1074 (9th Cir. 1995) ("Resale by the first purchaser of the original article under the producer's trademark is neither trademark infringement nor unfair competition."); See also Donna Young, Nevada Law Aims to Halt Drug Diversion by Wholesalers, *American Journal of Health-System Pharmacists* (Jan. 15, 2002), <http://www.ashp.org/news/ShowArticle.cfm?id=2744> (a Nevada law aimed to curb illicit sales of counterfeit drugs by limiting wholesalers from distributing to other wholesalers, as it had become impossible to trace an item's pedigree in order to determine whether it had "entered the market" and thus been "first sold").
156. *New Kids on the Block v. News America Publishing*, 971 F.2d 302 (1992) (holding that a commercial user is entitled to use a trademark holder's mark providing that the product or service is not readily identifiable without the use of the trademark; only so much of it is used as is reasonably necessary to identify the product or service; and sponsorship or endorsement is not implied).
157. See *Rene v. Mohl*, *infra* note 176.
158. See generally Tabberone Disney Lawsuit, <http://tabberone.com/Trademarks/DisneyLawsuit/disneylawsuit.html>. Disney utilized VeRO to allege both trademark and copyright infringement, and then, in correspondence, argued that Tabberone's items (pillows and other fabric items made from fabric bearing Disney characters) were "unauthorized derivatives," making no mention of any trademark issue. Tabberone's subsequent counternotification failed, however, because of the presence of the trademark complaint. *Id.*
159. Email from Tabberone proprietor Karen Dudnikov to the author, May 7, 2006 (recounting experience with VeRO members including trademark complaints alongside more substantive copyright claims, only to detach it at the lawsuit stage).
160. See Counter Notice Letter, <http://tabberone.com/Trademarks/Vero/CounterNoticeLetter.html>.
161. See Gilbert, *supra* note 132.
162. See AuctionBytes: eBay VeRo and Copyright Forum, <http://auctionbytes.com/forum/phpBB/viewforum.php?f=35>.
163. See "n8f8," *VeRO: eBay's version of the DMCA*, Kuro5hin (Dec. 4, 2004), <http://www.kuro5hin.org/story/2004/12/3/92549/2461>.
164. Chaitanya Marvici, *Ebay's Vero program and the start of the downfall of yet another big giant!* (Mar. 25, 2006), <http://www.marvici.com/Blogs/tabid/75/EntryID/2/Default.aspx>.
165. Ed Foster, *Selling Auction Takedown Services*, The Gripe Line Weblog (May 19, 2005), <http://weblog.infoworld.com/foster/2005/05/19.html>.
166. In this case, NetEnforcers, the aforementioned eBay infringement watchdog-for-hire, was acting on behalf of the VeRO member. *Id.*
167. See Atomic Video, *eBay VeRO Fraud, and Non-Performance*, Power Sellers Unite Forum (Feb. 6, 2006), <http://www.powersellersunite.com/viewtopic.php?t=3876>.
168. It should go without saying that a right of publicity claim, in even its broadest possible construction, is wholly inapplicable to instances such as here, where a deceased celebrity's representative wished to expunge the memory of an embarrassing film the celebrity willingly took part in by eradicating sales of it. The use of Cash's name and likeness to sell a video in which he starred would be considered descriptive and necessary, and thus nominative fair use. See *New Kids on the Block*, 971 F.2d 302 (finding nominative fair use where a product is not readily identifiable without use of the trademark; uses only so much of the mark as is reasonably necessary; and does not suggest sponsorship or endorsement by the mark holder).
169. If perhaps difficult to follow, due to a lack of clear formatting. See Atomic Video, *supra* note 167.
170. See Tabberone Site Index, <http://tabberone.com/SiteMap.html>.
171. See Springs Global, About Springs Global, http://www.springs.com/corporateinfo/about_springs/.
172. See *Precious Moments v. La Infantil*, 971 F. Supp. 66 (D.P.R. 1997) (finding that first sale doctrine permitted defendant bedding manufacturer to utilize lawfully acquired fabrics imprinted with the plaintiff's copyrighted work).

173. One unexplored legal avenue in this triangular rights holder-seller-eBay arrangement is eBay's liability to their sellers, as I have not found any instance where a delisted seller sued eBay, either individually, or joined in a larger suit, for its part in the listing removal.
174. In this context, "favorable settlement" most often means that the item was relisted, and often Meadors and Dudnikov have managed to recoup costs. Tabberone's Trademark page, <http://tabberone.com/Trademarks/trademarks.html>. Dudnikov and Meadoers have lost twice: one suit against the E! Network was dismissed for improper service (See Tabberone's Hall of Shame - E! Entertainment Television, <http://tabberone.com/Trademarks/HallOfShame/E/E.shtml>), and another suit against MGA Entertainment, Inc. (licensor of the Bratz line of dolls, characters, games, toys, etc.) was lost when the judge ruled in a preliminary motion that Dudnikov was not the lawful possessor of the item. Dudnikov email to author, May 9, 2006. Interestingly, the judge ruled against Dudnikov on a number of ancillary claims, including a claim for a perjurious DMCA takedown notice (17 U.S.C. § 512(c)(3)(A)). *Dudnikov v. MGA Entm't, Inc.*, 2005 U.S. Dist. LEXIS 41521 (D. Colo. 2005), adopted by, summary judgment granted by 410 F. Supp. 2d 1010 (D. Colo. 2005).
175. Most recently (February 2006), Meadors and Dudnikov filed suit against a British company (Sevenarts Ltd) which holds the copyright and trademarks to famed Russian art deco artist Erté.
176. *Rene v. Mohl*, Complaint (M.D. FL.), available at <http://www.citizen.org/documents/MohlComplaint.pdf> [hereinafter "Mohl Complaint"]. Unlike the pro se Meadors and Dudnikov team, Mohl has chosen to be represented by lawyers, specifically the Public Citizen Litigation Group, a non-profit public interest advocacy firm.
177. The listing that was removed by Dymo was titled "X2375 POSTAGE LABEL compatible with DYMO 99019-EBAY," and the description of the listing similarly did not suggest endorsement by or affiliation with Dymo. See Mohl Complaint, ¶24.
178. *Id.* ¶¶17, 25.
179. *Id.* ¶25.
180. *Id.* ¶26.
181. See Mojo Comment, *supra* note 127.
182. According to eBay, eBay staff use "common sense" in identifying potential infringements and exercise "good faith judgment" on whether to remove a listing. Phone conversation with eBay counsel, May 19, 2006 (notes on file with author).
183. In late 2004, Online Testing Exchange conducted a survey concerning the VeRO Program which eBay invited some of its sellers to take. See VeRO-Verified Rights Owners On-Line Survey, <http://www.tabberone.com/Trademarks/Vero/OnLineSurvey/survey.html>. While results from the survey are presumably only known to eBay (who likely commissioned it), the 26th question is interesting as it asks the survey taker their level of interest in potential additional services related to VeRO that eBay claims to have been considering. The suggestions include the aforementioned online dispute resolution system as well as offering its sellers the ability to file a counternotification regardless of type of infringement. Although there is no cause to doubt the survey's authenticity, it must be noted that the survey was apparently reconstructed by the aforementioned Meadors and Dudnikov (See Part III.A.3) for formatting purposes, who were invited to take it by eBay. The changes to VeRO contemplated by the survey have not been acted upon by eBay.
184. See Sunderji, *supra* note 86, at n.313-17.
185. Sunderji would define an online auction site as one that "includes, but is not limited to, a website that allows third parties to offer their goods for sale on the online auction's website at fixed prices or to the highest bidder." *Id.* at n.317.
186. *Id.* at n.313.
187. See text accompanying *supra* notes 62 and 63 regarding the DMCA counternotification process.
188. *Id.*
189. 17 U.S.C. § 512(f).
190. *Id.* Section 512(f) has been of limited utility to alleged copyright infringers, the sole successful exception being *Online Policy Group v. Diebold, Inc.*, 337 F. Supp. 2d 1195 (N.D. Cal. 2004) (finding that Diebold inappropriately threatened copyright violations, violating section 512(f), for alleging infringement where plaintiffs linked to internal Diebold emails which admitted security flaws in its electronic voting software).
191. *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949 (C.D. Cal. 1997), *aff'd*, 194 F.3d 980 (9th Cir. 1999).

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APPENDIX

Survey of eBay VeRO members, administered by Scott Pilutik, April 10-17, 2006

To get some perspective on how eBay's VeRO Program was being utilized by rights holders, I created a survey designed to find out who was using VeRO (types and size of entities), for what reasons (copyright or trademark), how often it was being used, and whether the users were satisfied with VeRO. Additionally, space was provided for general comments. Full results from this survey are included on pp.22-23.

On its site, eBay lists entities that have become VeRO members. Inclusion on this list is not mandatory for VeRO membership, but over 800 entities have elected to be listed. I was easily able to procure 319 email addresses¹ of the 800+ listed entities, and I emailed each, requesting they take my survey. I supplied my contact information (email and phone) inside the email to ensure survey participants of the validity of my purpose and to avoid the appearance that my request was merely spam. A link in the email brought the user to my survey, which I created online using PHPSurveyor² and hosted on my own site.³ PHPSurveyor works with MySQL (a database) so that the answers can be viewed relationally. It permits the survey taker to determine, for example, "of people who answered X to Question 3, how many also answered Y to Question 4?"

Of the 319 solicitations I received 60 responses, for a reply rate of 18%.⁴

The survey was designed with two purposes in mind: (1) to elicit responses ensuring control—that the replies were not mainly from one particular segment or another, whether those segments could be described by organization size or industry; and (2) to elicit honest responses as to the form and manner in which VeRO members were removing eBay listings.

The first purpose was successfully obtained in questions One, Two, Three, and Four, where I established the member organization's size, nationality, industry segment, and length of VeRO membership. Those surveyed were able to choose industry segments from a list identical to eBay's industry segment categorizations.

The second purpose was accomplished by asking a series of questions related to how VeRO was used. Question Five ("How often do you report infringements to eBay?") sought to determine the frequency of VeRO use, relative merely to the limited survey sample. 30 percent answered "Hardly ever," and another 30 percent answered "Once a month." The remaining 40 percent remove eBay listings with some frequency—nine (9) members answered "Once a week," eight (8) answered "Once a day," and three (3) members replied that they remove eBay listings for infringements more than five times a day.

Question Six sought to discover the most common legal bases underlying the VeRO members listing removal. The responses of the vast majority of those surveyed were split almost evenly between "Copyright" (31, or 51 percent), and "Trademark" (27, or 45 percent), while only one member answered "Publicity Rights," and no member answered "Patent." eBay's NOCI form⁵ only offers these four possibilities as a basis for removing an eBay seller's listing.

Question Seven sought to discover who—which individual—within the VeRO member's organization was responsible for identifying and reporting infringements to eBay. A large majority, 75 percent, replied that staff members—non-lawyers—determined questions of infringement. Ten percent of respondents replied that the job of identifying infringements fell to lawyers, either in-house or outside counsel (4 and 2, respectively). Three percent (2) outsource to third-party online specialists, such as "Net Enforcers." Ten percent (6) replied "Other." Of those six, one responded that the CEO (of a small 1-5 employee company) identified and reported infringements, and one responded with "Customers," perhaps misunderstanding the question (although I believe this intended to convey a technique somewhat common amongst larger companies, who openly solicit their users to report infringements).

Question Eight sought to gauge general satisfaction or dissatisfaction with the VeRO Program—most (68 percent, or 40) responded that they were satisfied. Nineteen percent (11) were not satisfied, and 13 percent (8) chose not to answer.

Question Nine⁶ sought general comments from the members about eBay's VeRO Program. Nearly half (49 percent, or 29) of those surveyed took the opportunity to give their general impressions or relate in more detail their satisfaction or dissatisfaction.

Results:

1. What is the size of your organization (number of employees)?			
No answer	3	5%	
1-5	20	33%	
6-20	12	20%	
21-50	7	12%	
51-200	7	12%	
200+	11	18%	

2. What country are you (the rights holder) based in?			
No answer	1	2%	
United States / Canada	52	87%	
Other	7	11%	

3. When reporting an infringement to eBay through the VeRO Program, which category best describes the good or service you most commonly report?			
No answer	4	7%	
Apparel & Handbags	5	8%	
Arts, Crafts & Photography	5	8%	
Computers & Networking	5	8%	
Electronics	3	5%	
Food Services & Restaurants	1	2%	
Health & Beauty	2	3%	
Home & Garden	2	3%	
Jewelry, Sunglasses & Watches	4	7%	
Movies, Television & Radio	9	15%	
Music	3	5%	
Music Equipment	1	2%	
Organizations	0	0%	
Publishing	5	8%	
Sporting Goods & Memorabilia	6	10%	
Travel & Transportation	0	0%	
Miscellaneous	5	8%	

4. How many years have you been a VeRO member	
	Average: 3.01 years

5. How often do you report infringements to eBay?			
No answer	2	3%	
Hardly ever	18	30%	
Once a month	18	30%	
Once a week	9	15%	
Once a day	8	13%	
Five times a day	0	0%	
More than five times a day	5	8%	

6. What is your most common legal reason for reporting infringements to eBay?			
	No answer	1	2%
	Copyright	31	51%
	Trademark	27	45%
	Patent	0	0%
	Publicity Rights	1	2%

7. Who is responsible for identifying and reporting infringements to eBay?			
	No answer	0	0%
	Staff member	45	75%
	In-house counsel	5	8%
	Outside counsel	2	3%
	Online specialist (e.g., Net Enforcers, et al.)	2	3%
	Other	6	10%

8. Are you satisfied with the VeRO program?			
	No answer	7	12%
	Yes	41	68%
	No	12	20%

Endnotes

1. Each listed member has a link to its own page on eBay, where some, but not all, elect to state its intellectual property policy. Some, but not all, provide contact information as well.
2. "PHPSurveyor is a set of PHP scripts that interact with MySQL to develop surveys, publish surveys and collect responses to surveys." <http://www.phpsurveyor.org/index.php>. Essentially, the user is confronted with a series of questions, answerable by way of pull-down menus, text entry boxes, or check boxes. Each survey-taker is uniquely identified so that responses can be viewed relationally.
3. The precise URL was <http://www.tikk.net/vero/index.php?sid=2&newtest=Y>.
4. The reply rate was actually slightly higher (21%) if one considers that of the 319 solicitations, 51 emails never reached their target, as they were sent to bad or non-existing addresses.
5. See "NOCI Form," *supra* note 124.
6. Comments on file with author, available on request.

Canadian Supreme Court Rules on Republication of Articles in Context of Electronic Media

By James M. Thurman

I. Introduction

In *Robertson v. Thomson Corp.*,¹ the Canadian Supreme Court dealt principally with the question of whether publishers are free to republish in electronic databases articles they have accepted from freelance journalists for publication in their newspapers. The Court held that, without prior consent and corresponding compensation, the publisher, as rightsholder in the newspaper, may only freely republish a freelance article within the context of the entire newspaper or a substantial portion of it. Newspapers represent a collective work, and whether a particular reproduction represents a substantial portion of a newspaper is a *qualitative* question of whether the reproduction maintains the essence of originality in which the publisher's copyright resides. In the case of newspapers, this essence consists of the *editorial content* of the work. Thus, the Court held that where an electronic database represents more a new collection of individual articles rather than reproducing the originality of the newspaper(s) in which the articles initially appeared, it cannot represent a reproduction or republication of the original work.

II. Factual Background

The plaintiff, Heather Robertson, was a freelance writer who submitted two articles to the *Globe and Mail* (Toronto) newspaper for publication in 1995. The first article—an excerpt from a book Robertson had authored—was governed by an agreement between the *Globe* and the publisher of the book. The second article consisted of a book review which was submitted under an oral agreement between Robertson and the *Globe*. Surprisingly, according to the Court, neither agreement addressed copyright issues.

The publishers of the *Globe*—the Thomson Corporation, Thomson Canada Limited, Thomson Affiliates, Information Access Company, and Bell GlobeMedia Publishing Inc.—maintained two online databases that were at issue in the case. One was “Info Globe Online,” which granted users access on a paid subscription basis to *Globe* articles as well as to materials from other newspapers, news wire services, magazines, and reference databases. The other database was an electronic version of the Canadian Periodical Index known as CPI.Q, which indexed selected newspaper articles from various newspapers. Both databases featured search functions to retrieve articles and, in addition to displaying the articles, permitted users to print them. Info Globe Online also allowed subscribers to download

articles. Notably, within both databases “advertisements, some tables, photographs, artwork, photo captions, birth and death notices, financial tables, weather forecasts, and some design elements from the original print edition” had been removed from featured articles.

In addition, the publishers began producing a series of CD-ROMs in 1991 which contained electronic versions of the *Globe* and several other Canadian newspapers published each year. Like the other two databases, the CD-ROMs featured a search engine for locating articles, and advertisements and photos were removed from the articles. Unlike the other databases, however, the content was fixed and finite.

The publishers included Robertson's articles in all three databases without seeking her permission or providing her with additional compensation. For this reason, Robertson brought suit for copyright infringement in the Ontario Court of Justice together with a class of plaintiffs consisting of all contributors to the *Globe* other than those who died on or before December 31, 1943.²

III. Procedural History

On behalf of herself and Cameron Smith, a *Globe* employee, Robertson brought a motion for partial summary judgment and sought an injunction preventing the publishers from using their articles in the databases. Although the motions judge seemed to be convinced that publication of Robertson's articles in all three databases would constitute *prima facie* copyright infringement, the motion for partial summary judgment was ultimately dismissed, as the judge found genuine issues for trial concerning the publishers' asserted contractual defenses.³

Upon Robertson's appeal and the publishers' cross-appeal of the motions judge's decision, the Ontario Court of Appeals dismissed both in a 2-1 decision. Although the majority did not accept all aspects of the motions judge's ruling, they agreed that none of the republications in the databases constituted reproduction of a substantial portion of the newspapers. The majority found that a qualitative test was necessary to determine whether both the selection and arrangement of the original collective work were reproduced in the databases. Since the articles in the database had been “disentangled” from their setting in the newspaper, their arrangement within the collective work was lost, and, accordingly, they could not be covered by the copyright in the collective work. Moreover, the majority found that, with respect to Info Globe Online and CPI.Q, both the form and function of the database collections

differed from that of the original newspapers, since the databases continuously expanded and served research purposes rather than a news function.

The majority also dismissed the appeal, agreeing with the motions judge that the grant of a non-exclusive license did not need to be in writing and that Robertson did not have standing to seek an injunction on behalf of Smith.

One Court of Appeals judge, Blair, dissented in part. Judge Blair argued that the question of copyright infringement should be framed as whether the electronic version of the *Globe* as found in the databases reproduced the collective work. If an article were placed in the database as part of the collective work, he contended, it was irrelevant how the article was “located, deconstructed, identified, retrieved, or displayed on screen.”⁴ Blair also seemed to find it significant that the display of retrieved articles indicated which edition they were pulled from in addition to other details such as whether they were originally accompanied by an illustration. With regard to Smith’s claim, Blair argued that the reproduction of employee articles in the electronic version of the *Globe* fell within the publishers’ rights under section 13(3) of the Canadian Copyright Act to publish employee articles in “a newspaper, magazine or similar periodical.”

IV. Supreme Court Ruling

A. Copyright Infringement of Freelance Articles

Following the decision of the Ontario Court of Appeals, both parties filed applications for leave to appeal to the Supreme Court of Canada.⁵ These applications were subsequently granted.⁶ The Supreme Court addressed four issues: On cross-appeal were the questions of whether reproduction in the databases infringed the rights of freelance writers and whether it infringed the rights of *Globe* employees. On appeal were two other questions: whether a license to republish a freelance writer’s article in an electronic database would need to be in writing and whether Robertson had standing to bring a claim on behalf of *Globe* employees.

Taking up the issues of the cross-appeal first, Justices LeBel and Fish, writing for the majority, noted that the publishers did not have a copyright in the individual articles of freelance contributors but, rather, had a distinct copyright in the newspaper as a whole. Additionally, a newspaper could be considered a “compilation” or a “collective work” under section 2 of the Canadian Copyright Act. The qualification of newspapers as compilations was particularly significant for the Court’s analysis, as explained below. Under section 3(1), the publishers were endowed with the right to produce or reproduce their newspaper “or any substantial part thereof in any material form whatever.” Thus, the Court reasoned, the question boiled down to whether the databases repro-

duced the newspapers or merely the individual articles. This question could be reformulated as whether the databases reproduced the “originality” of the individual authors alone or that of the newspaper publishers in the collective work.

Citing the case of *CCH Canadian Ltd. v. Law Society of Upper Canada*,⁷ the Court repeated the words of Chief Justice McLachlin that “originality” within the context of copyright law consists in “the exercise of skill and judgment”⁸ and that where a *compilation* is concerned, the originality of the work may reside in the *form* of the work.⁹ The Court in the present case declared that a newspaper represents a compilation resulting from the exercise of skill and judgment in selection and arrangement. Since “compilation” was defined under the Copyright Act as a work resulting from selection *or* arrangement, however, the Court concluded that a compilation did not require originality in both its selection *and* arrangement in order to qualify for copyright protection. Therefore, the Court disagreed with the majority below, finding that a reproduction of a compilation need not preserve both the selection and arrangement of the original in order to be within the publisher’s reproduction rights.

The Court thus concluded that the selection alone could constitute a substantial part of a newspaper so long as the essence of the original newspaper was maintained. For newspapers, this essence consists of the editorial content of the paper. However, the Court went on to state that, at a minimum, the editorial content would have to be reproduced *within the context* of the newspaper.¹⁰ Thus, it was within the publishers’ reproduction rights to reproduce the newspaper “without advertisements, graphs, charts, or in a different layout and using different fonts,” but the articles could not be “decontextualized to the point that they are no longer presented in a manner that maintains their intimate connection with the rest of that newspaper.”¹¹

On this basis, the Court determined that the InfoGlobe Online and CPI.Q databases did not constitute reproductions that fell within the publishers’ rights. In these databases, *Globe* articles were stored and presented together with “thousands of other articles” from different periodicals and with different publication dates. Furthermore, the content of the databases was constantly expanding on a daily basis as more articles were added. Thus, the Court reasoned, they were more akin to a collection of individual articles than to reproductions of the *Globe* newspaper. In short, they reproduced the originality of the individual articles and not that of the newspaper.

The Court rejected the publishers’ argument that the inclusion of references with each article to the original newspaper in which that article appeared, together with the corresponding date and page number, was sufficient to establish the necessary contextual link to the newspa-

per. Here, the Court referred to the reasoning of the U.S. Supreme Court in *New York Times Co. v. Tasini*.¹² In that case, Justice Ginsberg, writing for the Court, suggested that such references gave an indication of what periodical the article was previously a part, but that did not automatically mean that the article was being reproduced or distributed as part of that periodical.¹³ Similarly, the Court contended that the inclusion of similar references in Info Globe Online and the CPI.Q provided *historical* information but did not recreate the contextual element of the original *Globe* as a collective work.

The Court also rejected the publishers' argument that the analysis should focus on the *input* of the database rather than the *output*. The publishers argued that the *Globe* articles were input into the database in such a way that each edition of the *Globe* was stored in its own file. The Court, however, indicated that such an approach would ignore the final product as it is presented to the public and that this manifestation of the work was the proper one to compare with the original in determining whether it constituted a permitted reproduction. This final product, according to the Court, was not merely a presentation of a number of collected works joined together, but rather constituted "a collective work of a different nature."¹⁴

Additionally, the Court made clear that the addition of search functionality within the databases was irrelevant to the analysis. The principle of media neutrality inherent in section 3(1) of the Copyright Act, the Court maintained, "precludes a finding of copyright infringement merely because it is possible to search with more efficient tools than in the past."¹⁵ The principle, however, does not give publishers carte blanche with regard to republication of the works once those works have been converted into digital form.

With regard to the CD-ROMs, however, the Court held that there was no infringement of the freelancers' copyrights. Although the CD-ROMs also presented the articles without advertisements, pictures, or color and presented them in a different medium and format than in the original newspaper edition, the Court found that the CD-ROMs preserved the critical link to the newspaper in which the articles first appeared. As opposed to a collection of individual articles, the Court contended that the CD-ROM represented a compendium of daily newspaper editions. Upon loading the database, the user was able to view each newspaper individually. Moreover, when viewing an individual article within a newspaper, the user was presented in the right-hand frame of the screen with a list of the other articles that appeared in the same edition. In this way, the Court found that the CD-ROMs preserved the essence of the original newspaper as a collective work. This circumstance was not defeated by the fact that the *Globe* was included together with a number

of other newspapers on the CD, since it was possible to view each newspaper individually.

B. Licensing Issue

With regard to the licensing issue, the Court began its analysis with an examination of the relevant provisions of the Copyright Act. Section 13(4) of the Copyright Act indicates that the whole or partial assignment of copyright as well as a grant in an interest in the copyright may only be carried out in writing. Section 13(7), however, establishes that an *exclusive license* constitutes the grant of an interest in copyright.¹⁶ The Court cited *Ritchie v. Sawmill Creek Golf & Country Club Ltd.*,¹⁷ in which the Ontario Superior Court of Justice described the distinction between the granting of a license in copyright as opposed to an assignment or granting of an interest. As Section 13(7) establishes, an exclusive license is to be understood as a grant of an interest in copyright and therefore must be in writing according to section 13(4) in order to be effective. That there is no provision similar to section 13(7) with regard to non-exclusive licenses suggests that such licenses need not be in writing. Since there was conflicting evidence concerning the content of an oral agreement or implied license between freelance writers and the *Globe*, the Court ruled that there remained genuine questions for trial on this issue.

C. Standing of the *Globe* Staff Writers

Citing Canada's equivalent of the work-made-for-hire doctrine, the Court concluded that it was improper for the staff writers to be joined in the same class with the freelance writers. Under section 13(3) of the Copyright Act, employers are deemed to be the "first owner" in the copyright inhering in the works of their employees created in the course of employment, unless agreed otherwise. Employees who contribute to a periodical, however, have the right to restrain publication of their works "otherwise than as part of a newspaper, magazine or similar periodical." Since the staff writers had a different constellation of rights than the freelance writers, they could not belong to the same class of plaintiffs as the freelance writers. Furthermore, the Court dismissed their claims on the ground that there was no evidence that they had exercised their right to restrain publication. The Court did not rule on the question of whether the databases fell within the meaning of "newspaper, magazine or similar periodical," but it did explicitly indicate that it would most likely hold in the negative if forced to address the issue.

V. Dissenting Opinion

Four justices, including the Chief Justice, wrote a separate opinion which dissented in part. With regard to the claims of the *Globe* staff writers, the dissenting justices were of the opinion that the electronic databases fell within the meaning of "similar periodical" under section 17(3). Therefore, the dissent concluded that these claims

should be dismissed on the ground that the staff writers would not have the right to restrain republication of their works in the databases. With regard to the freelance writers, the dissent opined that reproduction of their articles in the Info Globe Online as well as in the CPI.Q was within the publishers' rights. According to the dissent, *any* reproduction of the articles from a newspaper would inevitably reproduce both the originality of the authors as well as that of the publishers. In other words, so long as every article which had been selected for publication in an original print edition was reproduced with the exact same wording as the original publication, the originality of the publishers reflected in the selection and editing of the articles would be preserved. By framing the issue along the line of whether the databases reproduced the originality of the individual authors or that of the editors, the majority suggested that the databases reproduced the originality of only one group or the other.

The dissent called particular attention to the issue of media neutrality and paid particular credence to the arguments put forth by Justice Stevens in his dissent in *Tasini*. In the opinion of the dissenting justices, an electronic edition of the *Globe* was, for copyright purposes, qualitatively identical to a collection of articles as electronic files stored on a disk that contained a reference to the newspaper edition and pages on which the articles appeared. Since both would contain all the articles and text the publishers had selected, both would reflect the skill and judgment of the publishers contained in the original collective work. In addition, that the collection was organized by article merely represented a circumstance dictated by the electronic medium, as the article was the "logical unit" by which the newspaper could be divided into manageable pieces.¹⁸ By extension, if such an organized digital collection of articles from a newspaper reproduces the newspaper, this collection does not lose this distinction by virtue of the fact that it is stored together with similarly organized articles from other newspapers, the dissent reasoned. The majority's emphasis on the loss of context within the databases, the dissent maintained, put form over substance and failed to observe the principle of media neutrality.

The dissenting justices also argued that principles reflected in the Berne Convention supported their position. The WIPO *Guide to the Copyright and Related Rights Treaties Administered by WIPO and Glossary of Copyright and Related Rights Terms* (2003) expounds on the author's right to reproduction granted by the Berne Convention, stating that "it is not a condition that, on the basis of the reproduction, the copy of the work be directly perceivable; it is sufficient if the reproduced work may be made perceivable through appropriate equipment."¹⁹ The dissent contended that this language implicated the newspapers as contained within the databases in digital form; the

entirety of the newspaper, with the exception of some features of the original arrangement, is "perceivable" within the database, although there is no exact visual replication of the newspaper. Here, also, the fact that the articles were marked in such a manner as to indicate to which edition they belonged played a significant role in establishing the "perceivability" of the newspaper as such. In addition, the dissent cited a footnote to article 1(4) of the WIPO Treaty which states that storage of a work in digital form on an electronic medium qualifies as a reproduction. Thus, the dissent suggested, storage of the newspaper within an electronic database represents a "reproduction" of the newspaper. Just as individual authors did not lose their rights in their works when these were included in a digital database, likewise the publishers did not lose their reproduction rights when they chose to include their newspapers in the same.

The dissent further relied upon policy considerations, arguing that the holding of the majority upset the balance of interests between the public at large and authors. With respect to newspapers, the dissent attributed a particularly strong public interest to archiving content for research purposes. The dissenting justices noted how the *Tasini* holding had negative consequences for the availability of such archived content. Reportedly, the *New York Times'* response to the success of the freelance writers in that case was to remove all implicated articles from its online databases.²⁰ The dissent expressed concern that the majority holding would have the same effect for Canadian media, rendering many archived articles unavailable in electronic and online databases.

VI. Conclusion

In a 5-4 decision, the Canadian Supreme Court addressed an issue similar to that presented in the U.S. Supreme Court case *New York Times v. Tasini* and resolved it in a similar fashion. The Canadian Court held that articles contributed to a newspaper by freelance writers which are republished in a "decontextualized" manner do not fall within the rights of the newspaper publishers as holders of copyright in the newspaper as a collective work. Unlike under U.S. Copyright law, Canadian law also permits the owner of a copyright in a collective work to reproduce "a substantial part" of the work.²¹ The Canadian Court deemed the reproduction of the articles on CD-ROM to be a valid exercise of the publishers' copyright. Although the articles on the CD-ROM had also been stripped of advertisements and photographs as in the other databases, the Court nonetheless held that the articles within this medium preserved the necessary contextual link to the original newspaper.

The dissent, on the other hand, opined that the reproduction of the freelance articles on all databases "conformed with the publishers' copyright in their

newspapers. Since the judgment and skill of the editors was inherent in the articles, and the databases provided sufficient reference to the newspaper edition and page number on which the article originally appeared, all databases in question reproduced “a substantial part” of the original collective work. In the opinion of the dissenting justices, the majority’s holding upsets the balance between the interests of authors and that of the public and would result in the exclusion of significant material from searchable electronic databases.

Notably, the majority did not address the issue of whether republication of the freelance articles in the Internet edition of the *Globe* fell within the publishers’ rights. The dissent noted that the class action plaintiffs had conceded that the Internet publication was permissible under the Copyright Act. Since the dissent viewed the distinction between publication in the Internet edition and on the databases as merely a difference in medium, they argued that to deem one form of publication a legal reproduction and the other not would be inconsistent with the principle of media neutrality.

Endnotes

1. 2006 SCC 43.
2. Presumably, this date relates to the term of copyright under Canadian law. Under section 6 of the Canadian Copyright Act, copyrights, as a general rule, have a duration of fifty years beginning in the first calendar year immediately following the author’s death. Thus, the class here would encompass all known contributing authors whose copyrights had not expired by 1995. In 1995, Robertson wrote the articles at issue.
3. See *Robertson v. Thomson, Corp.* (2001), 15 C.P.R. (4th) 147, available at <http://www.ontariocourts.on.ca/decisions/2004/october/C38148.pdf>.
4. 2006 SCC 43, at par. 25.
5. See, e.g., Press Release, Supreme Court of Canada, Judgments to be Rendered in Leave Applications (April 18, 2005), at http://scc.lexum.umontreal.ca/en/news_release/2005/05-04-18.2a.wpd/05-04-18.2a.wpd.html.

6. See Press Release, Supreme Court of Canada, Judgments in Appeals and Leave Applications (April 21, 2005), at http://scc.lexum.umontreal.ca/en/news_release/2005/05-04-21.3.wpd/05-04-21.3.wpd.html.
7. [2004] 1 S.C.R. 339, 2004 SCC 13.
8. 2006 SCC 43, at par. 35 (citing *CCH Canadian Ltd.*, [2004] 1 S.C.R. 339, 2004 SCC 13, at par. 16).
9. *Id.* at par. 36 (citing *CCH Canadian Ltd.*, [2004] 1 S.C.R. 339, 2004 SCC 13, at paras. 33-34).
10. *Id.* at par. 40.
11. *Id.* at par. 41.
12. 533 U.S. 483 (2001). At the same time, the Court pointed out that the automatic rights granted to publishers of collective works under U.S. law differ from those granted under Canadian law and that courts should therefore exercise caution in referring to U.S. case law on such issues. See 2006 SCC 43, at par. 43.
13. The Court cited pages 500-501 of the *Tasini* opinion.
14. Par. 47.
15. Par. 48.
16. “For greater certainty, it is deemed always to have been the law that a grant of an exclusive license in a copyright constitutes the grant of an interest in the copyright by license.”
17. 35 C.P.R. (4th) 163 (2004).
18. 2006 SCC 43, at par. 89 (citing *New York Times v. Tasini*, 533 U.S. 483, 513 n. 9 (2001) (Stevens, J., dissenting)).
19. *Id.* at par. 95 (quoting from page 55 of the WIPO *Guide*).
20. *Id.* at par. 71 (citing D. P. Bickham, *Extra! Can’t Read All About It: Articles Disappear After High Court Rules Freelance Writers Taken Out of Context* in *New York Times Co. v. Tasini*, 29 W. St. U. L. Rev. 85, 102 (2001)).
21. As opposed to a “revision” of the original work or reproduction in a “later collective work in the same series.” See 17 U.S.C. § 201(c).

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Ninth Circuit Rejects Aesthetic Functionality Defense

By George R. McGuire and Frederick Price

I. Introduction

The Ninth Circuit in *Au-Tomotive Gold, Inc. v. Volkswagen of America*¹ may have thrown a lifeline to the doctrine of aesthetic functionality as a legitimate defense to trademark infringement, but the decision was even more important for its articulation/clarification of the necessary limits of the doctrine. If the Arizona district court's decision had been allowed to stand, the defensive use of the aesthetic functionality doctrine by alleged trademark infringers likely would have created an end run around federal trademark protection, whereby alleged infringers could reap the benefits of a trademark owner's goodwill and investment in its source-identifying mark any time a trademark had an aesthetically pleasing significance that consumers desired.

What follows is a brief synopsis of federal trademark protection and infringement and a general overview of the doctrine of utilitarian functionality, followed by a discussion of the chronological development of aesthetic functionality and a discussion of the Ninth Circuit's *Au-Tomotive Gold* decision.

II. Trademark Protection and Infringement

Federal trademark protection may be extended to any "word, name, symbol, or device, or any combination thereof" which is used or is intended to be used by a trademark holder "to identify and distinguish . . . [the trademark holder's] goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods."² A person (or entity) may be held liable for trademark infringement where the person uses a valid registered trademark in commerce, without the consent of the registrant, where "such use is likely to cause consumer confusion, or to cause mistake, or to deceive."³

One of the main purposes, or "principal roles," of trademark law "is to ensure that consumers are able to identify the source of goods."⁴ Protection of a source-identifying mark against copying by others "quickly and easily assures a potential customer" that the good associated with the mark "is made by the same producer as other similarly marked items that he or she liked or disliked in the past."⁵ In other words, it allows the potential consumer to make an informed decision based on past experience.

Another main purpose of trademark law is that it "helps assure a producer that it (and not an imitating competitor) will reap the financial, reputation-related rewards associated with a desirable product."⁶ Therefore,

the law "'encourage[s] the production of quality products' . . . and simultaneously discourages those who hope to sell inferior products by capitalizing on a consumer's inability quickly to evaluate the quality of an item offered for sale."⁷

III. Functionality as a Defense to an Allegation of Trademark Infringement

The functionality doctrine, which encompasses utilitarian and aesthetic functionality, is often pled as a defense to a claim of trademark infringement. The doctrine prevents protection, under trademark law, of a functional product feature.⁸

A. Utilitarian Functionality

The "utilitarian functionality" definition was articulated by the Supreme Court in *Inwood Labs., Inc. v. Ives Labs., Inc.*, to wit: "a product feature is functional if it is essential to the use or purpose of the article or if it affects the cost or quality of the article."⁹

The Supreme Court in *Qualitex* explained that "[t]he functionality doctrine prevents trademark law, which seeks to promote competition by protecting a firm's reputation, from instead inhibiting legitimate competition by allowing a producer to control a useful product feature."¹⁰ The Court was concerned that "if a product's functional features could be used as trademarks . . . a monopoly over such features could be obtained without regard to whether they qualify as patents and could be extended forever (because trademarks may be renewed in perpetuity)."¹¹

B. Chronological Development of Aesthetic Functionality

Under the doctrine of aesthetic functionality, "many visually attractive and aesthetically pleasing designs are categorized as 'functional'" and thus are not protected under trademark law.¹² As the Ninth Circuit correctly noted in *Au-Tomotive Gold*, in the aesthetic functionality context, "[e]xtending the functionality doctrine, which aims to protect useful product features, to encompass unique logos and insignia is not an easy transition," as discussed below.¹³

Prior to the Ninth Circuit's decision in *Au-Tomotive Gold*, leading commentators thought that the doctrine of aesthetic functionality had met its "final end."¹⁴ The Ninth Circuit in *Au-Tomotive Gold*, however, stated that the doctrine "retain[ed] some limited vitality" even though it had been "restricted over the years."¹⁵ The court held that the doctrine had "simply returned to whence it came."¹⁶ Set forth below is a brief overview of the chronological devel-

opment of the doctrine of aesthetic functionality beginning with the 1938 Restatement of Torts.

1. 1938 Restatement of Torts

The origin of the doctrine of aesthetic functionality has been traced to a comment in the 1938 Restatement of Torts:

When goods are bought largely for their *aesthetic* value, their features may be *functional* because they definitely contribute to that value and thus aid the performance of an object for which the goods are intended.¹⁷

A candy box in the shape of a heart and a distinctive printing type face were two examples of products with aesthetically functional features that were listed in the comment.¹⁸ The comment further suggested that “[t]he determination of whether or not such features are functional depends upon the question of fact whether the prohibition of imitation by others will deprive the others of something which will substantially hinder them in competition.”¹⁹

2. Important Ninth Circuit Aesthetic Functionality Cases

In *Pagliero v. Wallace China Co.*,²⁰ which is known as “the leading case establishing the concept of aesthetic functionality,” the Ninth Circuit held that floral designs used to decorate hotel china made by Wallace be classified as functional. The court ruled that:

Imitation of the physical details and designs of a competitor’s product may be actionable, if the particular features imitated are ‘non-functional’ and have acquired a secondary meaning. . . . But, where the features are “functional” there is normally no right to relief. “Functional” in this sense might be said to connote other than a trade-mark purpose. If the particular feature is an important ingredient in the commercial success of the product, the interest in free competition permits its imitation in the absence of a patent or copyright. On the other hand, where the feature or, more aptly, design, is a mere arbitrary embellishment, a form of dress for the goods primarily adopted for purposes of identification and individuality and, hence, unrelated to basic consumer demands in connection with the product, imitation may be forbidden where the requisite showing of secondary meaning is made. Under such circumstances, since effective competition may be under-

taken without imitation, the law grants protection.²¹

In applying the above criteria, the court in *Pagliero* noted that it was the “attractiveness and eye appeal of the design” that sold the china.²² The court also noted that the design on the china satisfied “a demand for the aesthetic as well as for the utilitarian.”²³ The court refused to grant relief to Wallace because doing so would have rendered “Wallace immune from the most direct and effective competition with regard to these lines of china.”²⁴

In *Int’l Or. of Job’s Daughters v. Lindeburg & Co.*,²⁵ the Ninth Circuit applied the above-mentioned *Pagliero* criteria and held that jewelry bearing Job’s Daughters’ name and emblem were “functional aesthetic components of the jewelry, in that they are being merchandised on the basis of intrinsic value, not as a designation of origin or sponsorship.”²⁶

The court did note, however, that “a name or emblem could . . . serve simultaneously as a functional component of a product and a trademark.”²⁷ The court explained that even if “the Job’s Daughters’ name and emblem, when inscribed on Lindeburg’s jewelry, served primarily a functional purpose, it is possible that they could serve secondarily as trademarks if the typical customer not only purchased the jewelry for its intrinsic functional use and aesthetic appeal but also inferred from the insignia that the jewelry was produced, sponsored, or endorsed by Job’s Daughters.”²⁸ Importantly, the court found that Job’s Daughters did not show that “a typical buyer of Lindeburg’s merchandise would think that the jewelry was produced, sponsored or endorsed by [Job’s Daughters].”²⁹ Thus, the court held that Lindeburg “was not using the Job Daughters’ name and emblem as trademarks,” but rather that they were “functional aesthetic components of the products.”³⁰

In *Vuitton et Fils S.A. v. J. Young Enters., Inc.*,³¹ the Ninth Circuit again cited the *Pagliero* criteria in deciding “whether the fabric design which decorates luggage and related items of Vuitton is entitled to protection as a trademark or whether the design is ‘functional’ and thus not entitled to protection.”³² The court rejected the district court’s finding that “any feature of a product which contributes to the consumer appeal and saleability of the product is, as a matter of law, a functional element of that product.”³³

The court dismissed defendant’s argument that “if a ‘design is related to the reasons consumers purchase that product,’ it is functional” by holding that “a trademark is always functional in the sense that it helps to sell goods by identifying their manufacturer.”³⁴ The court held further that “a trademark which identifies the source of goods and incidentally serves another function may still be entitled to protection.”³⁵ Moreover, “the defendant’s

use of the Vuitton marks was not functional in the utilitarian sense.”³⁶

The court ultimately reversed and remanded the case for a trial on the issue of functionality on the ground that “questions of material fact still exist[ed] which were not properly disposed of in the summary judgment” by the district court.³⁷ In one of the most strongly worded sections of the opinion, the court held that based on the record before the court, it appeared that the defendant, “as the imitator, is appropriating Vuitton’s reputation in the marketplace for [defendant’s] own purpose and gain . . . [and b]y choosing to appropriate Vuitton’s decorative design, defendant appears to be attempting to piggyback on Vuitton’s trademark and the reputation it has acquired in the marketplace over a number of decades.”³⁸

3. Supreme Court Aesthetic Functionality Cases

The Supreme Court has not specifically addressed application of the doctrine of aesthetic functionality to logos and insignia, but it has addressed its application to product features.³⁹

The Supreme Court in *Qualitex* dealt with the issue of whether the green-gold color of Qualitex’s dry-cleaning press pads could be registered and protected as a trademark.⁴⁰ The Court held that “[h]aving developed secondary meaning (for customers identified the green-gold color as Qualitex’s), [the green-gold color] identifies the press pads’ source” and “[i]t is the source distinguishing ability of a mark—not its ontological status as color, shape, fragrance, word, or sign—that permits it to serve” the basic purposes of trademark law.⁴¹ The Supreme Court rejected the possibility that the functionality doctrine created an absolute bar to the use of a color alone as a trademark.⁴² The Court applied the *Inwood* utilitarian functionality definition and held that the green-gold color in this case was related to source and was not essential to the pads’ use or purpose and did not affect its cost or quality.⁴³

The Court also ruled that a product feature may be functional “if exclusive use of the feature would put competitors at a significant non-reputation-related disadvantage.”⁴⁴ The Court held, however, that the functionality doctrine did not hold up as a defense in this case, since the alleged “anticompetitive consequences” due to the depletion of usable colors, did not exist.⁴⁵

In so ruling, the Court cited a comment in the Restatement (Third) of Unfair Competition that “if a design’s ‘aesthetic value’ lies in its ability to ‘confe[r] a significant benefit that cannot practically be duplicated by the use of alternative designs,’ then the design is ‘functional.’”⁴⁶

Conversely, the court noted that “[t]he functionality doctrine thus protects competitors against a disadvantage (unrelated to recognition or reputation) that trademark

protection might otherwise impose, namely their inability reasonably to replicate important non-reputation-related product features . . . [e.g.,] competitors might be free to copy the color of a medical pill where that color serves to identify the kind of medication.”⁴⁷

The Supreme Court’s decision in *Traffix Devices, Inc. v. Marketing Displays, Inc.*⁴⁸ clarified *Qualitex* as it pertained to the issue of functionality. The Court held that the Supreme Court in *Qualitex* expanded upon the general rule articulated in *Inwood Labs* that “‘a product feature is functional,’ and cannot serve as a trademark, ‘if it is essential to the use or purpose of the article or if it affects the cost or quality of the article.’”⁴⁹ A functional product feature is also “one the ‘exclusive use of [which] would put competitors at a significant non-reputation-related disadvantage.’”⁵⁰

The Court held that the proper inquiry in cases of aesthetic functionality is to inquire into a “‘significant non-reputation-related disadvantage.’”⁵¹ The Court further held, however, that “[w]here the design is functional under the *Inwood* formulation there is no need to proceed further to consider if there is a competitive necessity for the feature,” and no need to “speculate about other design possibilities.”⁵² Thus, if a feature meets the utilitarian functionality definition, there is no need for an analysis of the feature under the aesthetic functionality definition.

IV. *Au-Tomotive Gold, Inc. v. Volkswagen of America*

With all of this as background, the Ninth Circuit tackled an Arizona district court decision that, had it been allowed to stand, would have allowed the defense of aesthetic functionality to be stretched to the point of wiping out the protection trademark law seeks to provide to the owners of source-identifying marks.

Au-Tomotive Gold involved the issue of whether the Lanham Act prevented Au-Tomotive Gold, Inc. “from selling, without a license or other authorization,” key chains and license plate covers “bearing exact replicas of” Volkswagen and Audi’s logos and registered trademarks.⁵³ Au-Tomotive argued that “as used on its key chains and license plate covers, the logos and marks of Volkswagen and Audi are aesthetic functional elements of the product—that is, they are ‘the actual benefit that the consumer wishes to purchase’—and are thus unprotected by the trademark laws.”⁵⁴

The Ninth Circuit summed up the test for functionality in two steps. First, “courts inquire whether the alleged ‘significant non-trademark function’ [of the product feature] satisfies the *Inwood Laboratories* definition of functionality—‘essential to the use or purpose of the article [or] affects [its] cost or quality.’”⁵⁵ If this definition of functionality (also known as utilitarian functionality) is met, then the functionality inquiry is over, and the prod-

uct feature is considered functional and is not protected as a trademark.⁵⁶ Second, where aesthetic functionality is claimed as a defense, the inquiry is “whether protection of the feature as a trademark would impose a significant non-reputation-related competitive disadvantage.”⁵⁷

Under the utilitarian functionality test, the court held that VW and Audi’s trademarks were not functional because Au-Tomotive’s “products would still frame license plates and hold keys just as well without the famed marks.”⁵⁸ The court then turned to the aesthetic functionality test and to the question of whether the trademarks on the products at issue “perform some function such that the ‘exclusive use of [the marks] would put competitors at a significant non-reputation-related disadvantage.’”⁵⁹

The court pummeled Au-Tomotive’s argument that VW and Audi’s “trademarks ‘constitute[] the actual benefit the consumer wishes to purchase.’”⁶⁰ The court held that Au-Tomotive’s position “distorts both basic principles of trademark law and the doctrine of functionality in particular,” because a competitor could use any trademark on its own products “simply because a consumer likes a trademark, or finds it aesthetically pleasing.”⁶¹

The court also held that this argument “*flie[s] in the face* of existing case law.”⁶² In quoting *Vuitton*, the court affirmed the rejection of the rule that “‘any feature of a product which contributes to the consumer appeal and saleability of a product is, as a matter of law, a functional element of that product.’”⁶³ The court added that “[i]n practice, aesthetic functionality has been limited to product features that serve an aesthetic purpose *wholly independent* of any source-identifying [(trademark-related)] function.”⁶⁴

The court stated that it was “difficult to extrapolate from cases involving a true aesthetically functional feature, like a box shape or certain uses of color, to cases involving well-known registered logos and company names, which generally have no function apart from their association with the trademark holder.”⁶⁵ Perfectly illustrating the court’s point was the instant case, where the use of VW and Audi’s trademarks was “neither aesthetic nor independent of source identification.”⁶⁶ According to the court, there was no showing that consumers purchased Au-Tomotive’s products “solely because of their ‘intrinsic’ aesthetic appeal.”⁶⁷

Turning an Au-Tomotive admission that consumers “wanted ‘Audi’ and Volkswagen’ accessories, not beautiful accessories” on its head, the court found that this demand was “difficult to quarantine from the source identification and reputation enhancing value of the trademarks themselves.”⁶⁸

Moreover, Au-Tomotive argued that there would be anticompetitive consequences for Au-Tomotive if it were not allowed to use VW and Audi’s marks.⁶⁹ The court, however, wisely and succinctly characterized this argument as “[i]f I can’t trade on your trademark, I can’t compete.”⁷⁰ Additionally, since consumer demand for Au-Tomotive’s products was “inextricably tied” to VW and Audi’s trademarks, any claimed disadvantage by Au-Tomotive “in not being able to sell [VW] or Audi marked goods [was] tied to the reputation and association with VW and Audi.”⁷¹

Finally, the court found that VW and Audi’s “trademarks undoubtedly increase the marketability of [Au-Tomotive’s] products. But their ‘entire significance’ lies in the demand for goods bearing those non-functional marks.”⁷²

Accordingly, the court reversed the Arizona district court’s summary judgment ruling in favor of Au-Tomotive on the basis of aesthetic functionality and held that VW and Audi’s registered trademarks were not “functional aspects” of Au-Tomotive’s key chain and license plate cover products and that the trademarks were properly protected under the Lanham Act.⁷³

V. Conclusion

The fact that the Ninth Circuit was appalled at Au-Tomotive for advocating, and at the Arizona district court for accepting, an aesthetic functionality argument in a situation involving “exact replicas” of registered trademarks (logos and insignia) of two “famous car companies,” was understandable. This case (as the court pointed out on several occasions) did not involve a product feature that served an aesthetic purpose “wholly independent of any source-identifying function” (e.g., a penguin-shaped martini shaker—where consumers bought the shaker because they had an affinity for penguins, not because they believed that it originated from a particular source). Rather, it involved the blatant copying of trademark holders’ federally protected trademarks that clearly served a source-identifying function.

If the district court’s decision had been allowed to stand, it would have represented a complete usurpation of federal trademark law, contravening its principle role of ensuring that consumers are able to identify the source of goods. It also would have undermined the assurance provided by federal trademark law that a producer of goods, and not a competitor, will reap the financial reputation-related rewards associated with a good marked with the producer’s trademark.

Endnotes

1. 457 F.3d 1062 (9th Cir. 2006).
2. 15 U.S.C. § 1127.
3. 15 U.S.C. § 1114(a).
4. *Au-Tomotive Gold*, 457 F.3d at 1067.
5. See *Qualitex Co. v. Jacobson Products Co.*, 514 U.S. 159, 164 (1995).
6. *Id.* at 164.
7. *Id.*
8. See *Au-Tomotive Gold*, 457 F.3d at 1067 (citing *Qualitex*, 514 U.S. at 164).
9. 456 U.S. 844, 851 n.10 (1982). See, e.g., *Traffix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23 (2001) (The design of a dual-spring road sign could not be protected as trade dress, because the dual-spring mechanism in the road signs made the signs more wind resistant and thus were held as functional under the utilitarian functionality definition.).
10. *Qualitex*, 514 U.S. at 164-65 (finding that “[i]t is the province of patent law, not trademark law, to encourage invention by granting inventors a monopoly over new product designs or functions for a limited time . . . after which competitors are free to use the innovation”).
11. *Id.*
12. See J. McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 7:79 (2005).
13. *Au-Tomotive Gold*, 457 F.3d at 1067 (observing that “as a general matter courts have been loathe to declare unique, identifying logos and names as functional”).
14. See J. McCarthy, *supra* note 12, at § 7:80 (2005) (citing *Clicks Billiards, Inc. v. Six Shooters, Inc.*, 251 F.3d 1252 (9th Cir. 2001)).
15. *Au-Tomotive Gold*, 457 F.3d at 1070.
16. *Id.* (citing Restatement of Torts § 742, comment a (1938)).
17. Restatement of Torts § 742, comment a (1938) (emphasis added); see also *Au-Tomotive Gold*, 457 F.3d at 1068; William E. Levin, *Trade Dress Protection*, § 17:3 (2005); J. McCarthy, *supra* note 12, at § 7:79 (2005).
18. Restatement of Torts § 742, comment a (1938).
19. *Id.*
20. 198 F.2d 339, 343 (9th Cir. 1952); see also William E. Levin, *Trade Dress Protection*, § 17:3 (2005).
21. *Id.* at 344.
22. *Id.*
23. *Id.*
24. *Id.* (noting that “[i]t seems clear that these designs are *not merely indicia of source*, so that one who copies them can have no real purpose other than to trade on his competitor’s reputation[, but o]n the contrary, to imitate is to compete in this type of situation”) (emphasis added).
25. 633 F.2d 912 (9th Cir. 1981).
26. 633 F.2d at 918 (noting that the court in *Pagliero* “found no trademark infringement because the design served the primary purpose as a functional part of the product”) (emphasis added).
27. *Id.* at 919.
28. *Id.* (holding that “[t]rademark law does not prevent a person from copying so-called ‘functional’ features of a product which constitute the actual benefit that the consumer wishes to purchase, as distinguished from an assurance that a particular entity made, sponsored, or endorsed a product”).
29. *Id.* at 920.
30. *Id.* (ultimately holding that there was no trademark infringement).
31. 644 F.2d 769 (9th Cir. 1981).
32. 644 F.2d at 773 (noting that “[m]ost of the Vuitton merchandise is covered with dark brown, vinyl-impregnated canvas, bearing an arrangement of the initials ‘LV’, a registered mark[,] superimposed upon the other and surrounded by three floral symbols”).
33. *Id.* at 773 (holding that “[n]either *Pagliero* nor the cases since decided in accordance with it impel such a conclusion”).
34. *Id.* at 774 (noting that the “policy expressed in *Pagliero* and the cases decided under it is aimed at avoiding the use of a trademark to monopolize a design feature which, in itself and *apart from its identification of source*, improves the usefulness or appeal of the object it adorns”) (emphasis added).
35. *Id.* at 775. (finding that “[i]f the Vuitton mark increases consumer appeal only because of the quality associated with Vuitton goods, or because of the prestige associated with owning a genuine Vuitton product, then the design is serving the legitimate function of a trademark; *it is identifying the source of the product, and thus should be protected*”) (emphasis added).
36. See *Au-Tomotive Gold*, 457 F.3d at 1069 (citing *Vuitton*, 644 F.2d at 776-77 (“Vuitton luggage without the distinctive trademark would still be the same luggage. . . . The only difference would be that it would lack the mark immediately identifying it to the public as an item manufactured and sold by Vuitton.”)).
37. *Id.* at 776.
38. *Id.* at 777.
39. See *Au-Tomotive Gold*, 457 F.3d at 1070-72 (discussing Supreme Court precedent related to the application of aesthetic functionality).
40. 514 U.S. 159, 160 (1995).
41. *Id.* at 164, 166, 174 (holding that “trademark law would protect *Qualitex*’s use of the green-gold color on its press pads” and ruling that the appellate court “erred in barring *Qualitex*’s use of the color as a trademark”) (emphasis added).
42. *Id.* at 164-66.
43. See *id.* at 165 (quoting *Inwood Labs., Inc.*, 456 U.S. at 851 n.10) (“[i]n general terms, a product feature is functional,’ and cannot serve as a trademark, ‘if it is essential to the use or purpose of the article or if it affects the cost or quality of the article’”).
44. *Id.* at 166.
45. See *id.* at 165-66, 168-70 (accepting the district court’s finding that there was “no competitive need in the press pad industry for the green-gold color, since other colors were equally useable”).
46. *Id.* at 170 (quoting Restatement (Third) of Unfair Competition § 17, Comment c, pp. 175-176 (1993)) (further stating that “[t]he ‘ultimate test of *aesthetic functionality*,’ it explains, ‘is whether the recognition of trademark rights would significantly hinder competition.’”) (emphasis added).
47. *Id.* at 169 (citing *Inwood Labs., Inc.*, 456 U.S. at 853).
48. 532 U.S. 23 (2001).
49. *Traffix*, 532 U.S. at 32 (citing *Qualitex*, 514 U.S. at 165 (quoting *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 850 n.10 (1982))).
50. *Id.* (citing *Qualitex*, 514 U.S. at 165).
51. *Id.* at 33.
52. *Id.*
53. See *Au-Tomotive Gold*, 457 F.3d at 1064.
54. *Id.*
55. *Id.* at 1072 (citations omitted).
56. *Id.*

57. *Id.* (citations omitted).
58. *Id.* at 1072-73 (also finding that the “use of the marks does not alter the cost structure or add to the quality of the products”).
59. *Id.* at 1073 (citations omitted).
60. *Id.* at 1072-73 (deeming Au-Tomotive’s position “the *death knell* for trademark protection,” and holding that “the fact that a trademark is desirable does not, and should not, render it unprotectable”).
61. *Id.* at 1064.
62. *Id.* at 1073 (emphasis added).
63. *Id.* (quoting *Vuitton*, 644 F. 2d at 773) (holding that “such a rule would *eviscerate* the very competitive policies that functionality seeks to protect,” *e.g.*, innovation and competition) (emphasis added).
64. *Id.*
65. *Id.*
66. *Id.*
67. *Id.* at 1073-74 (finding that “the alleged aesthetic function [was] indistinguishable from and tied to the mark’s source-identifying nature”).
68. *Id.* at 1074.
69. *Id.* at 1074 n.9.
70. *Id.* (finding that Au-Tomotive’s “argument [had] no traction . . . because the mark is not a functional feature that places a competitor at a ‘significant non-reputation-related [dis]advantage’”) (citing *Traffix*, 532 U.S. at 33); *see also* J. McCarthy, *supra* note 12, at § 7:79 (Thompson/West, 2005) (finding that “deprivation of . . . a ‘right’ to copy a popular trademark would certainly deprive competitors of ‘something which would substantially hinder them in competition’ . . . [and] would [also] wipe out the law of trademarks”).
71. *Id.* at 1074 (citing *Qualitex*, 514 U.S. at 170 (identifying “legitimate (nontrademark-related) competition” as the relevant focus in determining functionality) (emphasis added).
72. *Id.* at 1064, 1074 (citing Restatement of Torts § 742, comment a (1938)) (deeming Au-Tomotive’s behavior as “poaching” and “naked appropriation” not protected under the defense of the doctrine of aesthetic functionality).
73. *Id.*

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The Access-to-Medicines Debate: Arguments Against a Globally Harmonized Patent System

By Jennifer Wu

I. Introduction: Intellectual Property and the Access-to-Medicines Gap

Information goods are taking over the marketplace. Innovations have become the most important resource in the United States, overtaking physical resources such as land, energy, and raw materials. As much as three-quarters of the value of publicly traded companies comes from intangible assets, up from around 40 percent in the 1980s.¹

The economic importance of intellectual property (IP) has led the United States to push for a worldwide system of IP protection. The concern is that inadequate or non-existent patent laws in other countries allow foreigners to copy American inventions, leading to lost profits for inventors and undermining the very incentive to innovate that patents are meant to encourage.

Many innovations that are engendered by the patent system, including life-saving and life-prolonging drugs, provide huge benefits to society. Although innovation has exploded in the past few decades, approximately thirty percent of people around the world still do not have regular access to essential medicines. In the poorest parts of Africa and Asia, the figure is over fifty percent.² One of the reasons for the access-to-medicines gap is the high price of drugs, which has a disproportionate effect on developing countries where consumers are, on average, poorer. Aid agencies such as Médecins Sans Frontières and Oxfam International have stated that the most effective way to lower prices is through generic competition.³ Legally this is only possible when drugs are off patent, which takes many years—often too long for sick people to wait.

The United States succeeded in securing international patent protection through the World Trade Organization in the form of the Agreement on the Trade-Related Aspects of Intellectual Property Rights (TRIPS), which came into effect in 1994. Before 1994 more than fifty countries did not allow patents on medicines.⁴ Under TRIPS all WTO members are required to implement a minimum standard of patent protection. Reactions have been sharply divided between the developed and developing worlds, particularly in light of the worsening AIDS crisis in Africa. South Africa has the largest HIV-infected population in the world, with five million people infected out of a total population of thirty-nine million.⁵ Overall, nine percent of adults in sub-Saharan African countries are infected with HIV, compared with an average of 1.2 percent worldwide.⁶ In an effort to address this disparity,

the developing world recently succeeded in securing an amendment to TRIPS that grants important exceptions to patent requirements.

This article examines the arguments that have been put forward by the United States in favor of harmonizing minimum patent standards worldwide, as well as those that developing countries have relied upon in securing the recent amendment to TRIPS. Given the polarized positions on patent protection, the TRIPS Agreement is necessarily a political compromise between competing interests. The article distills the competing arguments down to their fundamental philosophies, which can then be more readily evaluated in relation to realistic situations. Section II explains the TRIPS Agreement as it relates to patents and the amendments that recently have been proposed to address the access-to-medicines problem. Section III discusses the main arguments that have shaped the Agreement as it stands today and identifies their philosophical foundations. Section IV examines these foundations and the difficulties of reconciling them with real situations. The article concludes that a uniform minimum worldwide patent standard such as the TRIPS Agreement is not justified and that an international patent system customized according to a country's level of development would be preferable.

II. Patent Protection and Global Trade

A. The TRIPS Agreement

The TRIPS Agreement emerged from the 1986-94 Uruguay Round of trade negotiations. Intellectual property rights were formally integrated into the international trading system as one of the three “pillars” of the WTO (the others being the trade in goods and the trade in services), thus successfully redefining intellectual property as a trade issue.

The objectives of TRIPS are outlined in Part I of the Agreement, which states that intellectual property rights “should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare.”⁷ Article 8 provides that while complying with the Agreement countries may in principle “adopt measures necessary to protect public health and nutrition” and “promote the public interest in sectors of vital importance to their socio-economic and technological development,” further measures may be taken to prevent the abuse of intellectual property

rights by rights holders and to prevent the resort to practices that restrain trade or adversely affect technology transfers.⁸

The TRIPS agreement is a harmonization of intellectual property regimes in order to establish a minimum standard of protection that each government must afford to fellow WTO Members.⁹ With respect to pharmaceutical patents, the standard “attempts to strike a balance between the short-term objective of providing access to life-saving medicines and the long-term objective of encouraging and providing incentives to the pharmaceutical industry for the development of new medicines.”¹⁰ It does so by granting patent holders exclusive rights to prevent third parties who do not have consent from making, using, offering for sale, selling, or importing the patented product. Owners also have the right to assign or transfer by succession the patent and to conclude licensing contracts.¹¹ Members are required to provide protection for at least twenty years from the patent filing date.¹²

But there are some important exceptions to the patent holder’s exclusive rights. Article 30 states that some limited exceptions may be provided for by Members as long as they do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking into account the interests of third parties.¹³ Article 31, subtitled “other use without authorization of the right holder,” allows the use of a patented product without consent—in essence, a compulsory licensing provision.¹⁴

Article 31 contains a number of conditions to limit the scope and avoid abuse of compulsory licensing. These include limitation of the license to only the purpose for which it was authorized, the non-exclusivity and non-assignability of such use, and the termination of compulsory licensing when the circumstances that led to the license cease to exist and are unlikely to recur.¹⁵ The most significant condition is found in subsection (b), which requires that the “proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time.” This requirement may be waived “in the case of a national emergency or other circumstances of extreme urgency or in cases of public non-commercial use.”¹⁶ However, in cases of extreme urgency, “the right holder shall, nevertheless, be notified as soon as reasonably practicable.”¹⁷ Another controversial condition is subsection (h), which concerns the payment of adequate remuneration to the right holder for unauthorized use (taking into account the “economic value of the authorization”); unsurprisingly, in practice Members do not agree on what constitutes adequate remuneration, nor on the meaning of economic value.¹⁸

With respect to the access-to-medicines problem, an important limitation in this compulsory licensing

provision is subsection (f) (the “domestic use” provision), which requires that the license only be used “predominantly for the supply of the domestic market of the Member authorizing such use.”¹⁹ This implies that countries cannot make use of compulsory licensing to export medicines to other countries with public health needs. This “domestic use” problem was a central criticism of the TRIPS Agreement because it left many developing countries that lack manufacturing capabilities incapable of effectively using compulsory licensing to import cheaper generic versions of patented pharmaceuticals.

There are nevertheless differentiated transitional arrangements provided for in Part VI of the TRIPS Agreement pursuant to which countries that did not previously have sufficient intellectual property protections were entitled to delay the date of application of the Agreement. For example, least-developed nations had until 2005 to make their laws TRIPS-compliant. Developing nations that did not provide patent protection for a particular area of technology also had until 2005. This was of particular importance for India, which at the time did not allow patents for medicines or drugs²⁰—largely the reason why it also had the largest generic pharmaceuticals industry in the world.

Thus, the seriousness of the “domestic use” problem also largely depended on the fate of India—it could be counted on as a source of cheaper generic versions of new pharmaceuticals until 2005, when it would be required to recognize patents on medicines and drugs.

B. Controversy and the Doha Declaration

The public controversy surrounding TRIPS and the access-to-medicines debate grew over the action of thirty-nine pharmaceutical companies and their supporting governments (the United States and the European Union) against South Africa.²¹ The South African government had enacted legislation allowing parallel imports, generic substitution, and price-control implementations (all of which were TRIPS-compliant), which the pharmaceutical companies attempted to block. Unfortunately for them, their efforts coincided with the HIV pandemic in South Africa and brought to the fore a perceived conflict between intellectual property rights and essential public health objectives.²² Upon request of the African Group (the African members of the WTO), the Council for TRIPS agreed to address the relationship between the Agreement and public health, and at the Doha Ministerial Conference in 2001, the WTO adopted a special declaration.

The *Declaration on TRIPS and Public Health* states that “the TRIPS Agreement does not and should not prevent members from taking measures to protect public health” and that the Agreement “can and should be interpreted and implemented in a manner supportive of WTO members’ right to protect public health and, in particular, to promote access to medicines for all.”²³ The Doha

Declaration also includes in paragraph 6 an instruction to the Council for TRIPS to find an “expeditious solution” to the compulsory licensing “domestic use” problem for countries with insufficient or no manufacturing capacities in the pharmaceutical sector.²⁴ Finally, it provides that least-developed country members of the WTO shall not be obliged, with respect to pharmaceutical products, to implement or enforce rights provided for under the TRIPS Agreement until 2016.²⁵

In the meantime, a temporary waiver of the “domestic use” provision, subject to certain conditions, was decided upon shortly before the 2003 Cancún Ministerial Conference.²⁶ It was not until December 6, 2005 that the General Council adopted a Protocol Amending the TRIPS Agreement, to be submitted to all WTO Members for acceptance.²⁷ Two-thirds of Members must ratify the changes by December 2007 for it to take effect.²⁸ This represents the first attempt by the WTO to amend TRIPS; it consists of article 31*bis* and an Annex to be inserted into the Agreement.

C. The Proposed Amendments to TRIPS

The changes specify that the obligations under “domestic use” article 31(f) shall not apply to the extent necessary for the purposes of producing a pharmaceutical product and exporting it to an eligible importing Member.²⁹ An “eligible importing Member” is defined as a WTO Member that is a least-developed country (LDC) with insufficient or no manufacturing capacities in the pharmaceutical sector or an importer that will use article 31*bis* in a limited way only (for example, in cases of extreme urgency or if it can confirm it has insufficient manufacturing capacity for the product in question).³⁰ The Annex outlines the terms for which article 31(f) shall not apply, including notifying the Council for TRIPS of the names and expected quantities of the products needed (and manufacturing only that amount necessary), creating special packaging for the licensed products, and posting on a Web site all of this information.³¹

These requirements attempt to mitigate the patent holder’s losses due to compulsory licensing. Special packaging requirements allow consumers and distributors to differentiate these specially manufactured medicines from drugs being sold legally, preventing their diversion to other “grey” markets. Provisions related to transparency—such as the Web site requirement—allow patent holders the opportunity to react to and compete with negotiated licenses (for example, by offering a lower price).

The amendment also clarifies article 31(h), stating that “adequate remuneration” paid to the exporter shall take into account the economic value to the importing member of the use that has been authorized in the exporting Member.³² This helps assure that importing Members

do not abuse the compulsory licensing measure by taking some sort of economic responsibility for its use.

Certain developed countries have agreed to opt out of using the amended system as importers, while other developing Members have agreed to only use the system as importers in situations of national emergency or other circumstances of extreme urgency.³³

III. Negotiation Between Competing Interests

TRIPS is the result of negotiation among WTO members. To understand its implications, this section examines the arguments put forward by both developed and developing nations.

A. Developed Countries

The TRIPS Agreement was a central achievement of the United States in the Uruguay round of negotiations, having spearheaded the idea (with support from the EU, Japan, and Switzerland) of securing intellectual property protection internationally. Innovation is one of the key competitive advantages of the United States, as reflected in the fact that a drastically higher percentage of its exports contain domestically generated technologies in comparison to any other country.³⁴ Intellectual property is seen as a primary means of protecting this innovation, as expressed by former Attorney-Advisors for the United States Patent and Trademark Office (USPTO):

The TRIPS Agreement ensures that our national creativity and innovation are as protected abroad as they are at home, and perhaps even more importantly, that other nations are encouraged to develop their own national spirit and economy based on creativity and innovation.³⁵

Intellectual property rights are hence seen as a means of both protecting oneself and promoting the empowerment of others. There are three main assertions by developed countries as to the benefits of enacting some sort of patent law harmonization worldwide: fairly compensating creators for their inventions and protecting them from piracy, promoting research and development, and the opening of trade. Each is discussed below.

1. Fair Compensation

One of the obvious benefits to innovative and “idea-exporting” countries to enforcing patent rights internationally is the generation of compensation to inventors. Some say the entire purpose of the Uruguay TRIPS negotiations was to secure compliance with intellectual property rights in the “Southern Tier” of developing countries so that companies in the industrialized “North” could increase their information and technology rents.³⁶ Advocates of increased patent protection often resort to the rhetoric of intellectual property *theft* or *piracy*, imply-

ing that the use of intellectual property without permission takes something away from the patent holder. Accordingly, pharmaceutical companies estimate that the global pharma industry “loses” billions of dollars due to patent piracy.³⁷ TRIPS is believed to reduce piracy and counterfeiting because it establishes minimum standards of intellectual property protection with enforcement measures.

The difficulty of preventing the piracy problem lies in the non-rival and non-excludable nature of “intellectual objects,” such as the subject matter covered in patents.³⁸ For example, the information contained in a recipe for a drug is non-rival, as it can exist in many places at once and is not consumed by its use; this information is also non-excludable, since the originator cannot (without legal measures) prevent others from using it once it is shared. In addition, the marginal cost of providing this type of information to another user is zero. Thus, the possession or use of a non-excludable and non-rival object does not prevent others from using it, and it is easily spread to multiple users.

The complaint of intellectual property *theft* concerns using the patent owner’s “property” without her permission. It is in essence a Lockean belief that inventors and creators ought to be rewarded for their efforts in innovation—and that appropriate compensation is a property entitlement to the fruits of their labor. This follows a “first connection” line of reasoning: a person who is first connected to an object or activity that produces economic value is entitled to a property right in that object or activity.³⁹ It plays upon romantic notions of the blood-and-sweat relationship between a creator and her work. From this standpoint, the owner has a natural right to her invention, including the right to control the conditions under which it is used.

The fair compensation argument is therefore libertarian because it deems unjust the use of patented inventions when it goes against the free will of the patent holder. Starting with the belief that the patent holder is entitled to the property rights she possesses through the patent, it follows that a redistribution of those rights is only fair when freely transferred by the owner.⁴⁰ The rhetoric of “stealing” intellectual property betrays the belief that injustice occurs when the autonomy of the patent-holder is infringed by circumventing the control of the owner and using the invention without permission.

2. Promoting Innovation

There is also a utilitarian argument for strengthening intellectual property rights protection abroad: the incentive it produces to create new products. The traditional view is that in research-intensive industries such as pharmaceuticals, patent incentives remain essential. Without them, inventive activity would move toward inventions that could be kept secret.⁴¹ The Pharmaceutical

Research and Manufacturers of America (PhRMA) argues that without adequate patent protection from competition in India and China, it would be unable to provide new medicines based on expensive research.⁴² PhRMA also estimates it takes on average twelve to fifteen years and costs \$800 million to develop a new medicine.⁴³ Although this type of statistic is disputable, the development of new drugs undeniably is a costly process.⁴⁴ The argument is that unless the cost of creating the invention is compensated for, there will be less incentive to take the risk of undertaking it in the first place.

The central issue here is the *free-rider* problem: a person or company is much less likely to invest in developing a product if someone else (the free rider) can appropriate at little or no cost some of the economic returns from that investment.⁴⁵ Assuming that the cost of imitation is lower than the original investment involved in creating an invention, the free rider can put a new product on the market at a much lower price than the inventor; this may prevent the inventor from capturing a significant part of the returns from the invention. The pharmaceutical sector is particularly sensitive to this problem because of its relatively high cost of research and development in comparison to other industries as well as the relatively low cost of reverse engineering and imitation. This is evidenced in India, which until 2005 did not provide patent protection for drugs and medicines.⁴⁶ Indian pharmaceutical companies had until then become skilfully adept at taking a foreign-market drug compound, determining how it was made, and devising a process for mass manufacturing it.⁴⁷

Patent rights, if protected, provide a solution to the free-rider problem for a limited period of time. They promise the creator future exclusive rights to prevent those manufacturers in India and China from imitating or using the intellectual good. This future possibility of returns due to monopoly rights gives inventors the incentive to invest their time and labor in creating an invention. A monopoly permits a pharmaceutical company to charge a higher price for its patented drug, allowing the firm to recoup (or profit) from deciding—despite the risk of failure—to put that initial investment into a product’s research and development.

The expansion of intellectual property protection around the world is purported to spur innovation and increase aggregate social welfare by creating products that may never have been created otherwise.⁴⁸ However, this comes at a cost to society: monopoly pricing causes a reduction in utility because of the inefficient allocation of resources, also known as deadweight losses.⁴⁹ Hence justification relies on the belief that though losses may be incurred by patenting, they are outweighed by the benefits it brings to society—such as the progress of science and the useful arts.⁵⁰ From a utilitarian perspective, the means of producing innovation (through the protection of

intellectual property rights) is justified if by creating innovative products human welfare is maximized.⁵¹

To act as an incentive for creating useful products for global society, it follows that intellectual property rights should be uniform around the world. If certain countries are not included, their interests cannot be served. For example, it may take millions of dollars of investment to develop drugs for tropical diseases, but without patent protection there is little incentive to develop medical treatments for ailments that mainly afflict the developing world.⁵² The utilitarian argument for global patent protection is that it maximizes human welfare by creating an incentive for producing useful inventions while giving equal consideration to each participating country's welfare.⁵³

3. Economic Growth

The United States believed that in addition to protecting its innovation at home, intellectual property rights were also critical to emerging economies, as explained by the American Under Secretary of State for Economic, Business and Agricultural Affairs in 1999:

There is a direct correlation between a country's protection of intellectual property—patents, copyrights, and trademarks—and its economic growth and development. [. . .] In case after case, effective protection of intellectual property has been a launching pad for domestic and foreign investment, technology transfer, economic growth, and high-paying jobs.⁵⁴

Thus, a further justification for protecting intellectual property is that it could help emerging countries develop their economies, either directly through trade or from the secondary effects of attracting foreign investment and skilled labor.

i. Trade

Another libertarian argument for increased intellectual property protection is that it could promote industry in the developing world through trade because "at some level nearly all legitimately traded goods and services operate under patent, copyright, or trademark protection."⁵⁵ It is also asserted that the "fair and economic conduct of international trade is dependent on secure intellectual property rights."⁵⁶ The TRIPS Agreement is in this way a success for the United States in its efforts to formally link intellectual property with trade.

This linkage depends on making intellectual objects into a tradable good, which can be done by "propertizing" them. Property rules are used by governments to define and protect individual entitlements: no one can take this type of entitlement away from the holder unless

she sells it willingly at the price at which she subjectively values it.⁵⁷ Once an economic value is placed on an entitlement, it can be traded for other entitlements; for these reasons they form powerful incentives to motivate and frame trading activity.⁵⁸ By creating property entitlements to ideas, we create a market for ideas.

Once it is understood how intellectual property creates entitlements, it is clear that the assertion about the "fair and economic conduct of international trade" has much to do with the libertarian faith in individual autonomy and the free market for transferring entitlements. Robert Nozick's entitlement theory says that whatever is justly acquired can be freely transferred.⁵⁹ If it is believed that the way "secure intellectual property rights" are granted is a fair distribution of goods, then from a libertarian perspective this fairness does not change after the goods are exchanged. Because people have a right to dispose of their entitlements freely, if we assume that patent holders have obtained their patents legitimately and fairly, then a just distribution is whatever results from people's free exchanges.⁶⁰

Because intellectual property protection opens a new market for trade, and increased trade benefits societies by promoting economic growth, it is tempting to think that this argument for patent protection is utilitarian. But the emphasis on trade as a fair means for economic growth is actually a libertarian argument, since it is more about protecting an individual's natural right to transferring goods than it is about public welfare.⁶¹

ii. Secondary Economic Growth Factors

It is widely believed that economic growth benefits societies. In addition to increased trade, some indirect effects of intellectual property protection promote economic growth. A utilitarian argument for patent protection is that in promoting growth it maximizes human welfare, despite any of the known costs due to monopolies (in the form of deadweight losses).

Without some sort of harmonization of patent regimes, it is argued that inventors are likely to stay in countries where they can receive sufficient remuneration for their work.⁶² This means that without adequate patent protection in developing countries, talented engineers and inventors may be motivated to leave for nations where the potential financial rewards are greater. Similarly, research firms from developed countries may leave a developing market just when their innovation is needed the most.⁶³ This "brain drain" of a state's intellectual resources and skilled human capital can have serious consequences by further widening the gap between developing and industrialized countries. The Organization of Pharmaceutical Producers in India estimates that over fifteen percent of scientists engaged in pharmaceutical research and development in the United States are of

Indian origin. A famous example of this is Dr. Ananda Chakrabarty, the first researcher to obtain a patent for a genetically engineered bacterium.⁶⁴ Without creative minds a nation's culture of technological innovation will stagnate, with immeasurable effects on the domestic economy.

Another indirect consequence of a system of enforceable intellectual property rights is the investment it attracts. Foreign direct investment may grow simply because of the predictability IPRs bring to local market rules. Poor intellectual property protection has been likened to trade barriers, akin to tariffs.⁶⁵ Industry is reluctant to exchange goods and services with countries that have insufficient protection out of fear that they may be disclosing sensitive technologies that can be pirated.⁶⁶ Investment is discouraged, stunting growth and development in a developing economy. Examples of foreign investment that can be hindered include drug-manufacturing facilities built by a Northern manufacturer in a Southern country or co-development projects between local and foreign manufacturers. Investments like these encourage growth by creating jobs in developing countries and transferring knowledge and skills to workers.⁶⁷

IV. Developing Countries and LDCs

As much as the TRIPS Agreement was a success for the United States, less-developed countries felt they had made concessions in intellectual property in order to negotiate better access to agricultural and textile markets. They were hesitant about a more uniform and institutionalized system of intellectual property rights because they believed it was most favorable to developed countries' needs.⁶⁸ Developing countries also thought that strong intellectual property laws would impede their access to new technologies by placing the needs of patent owners over those of users, as illustrated by the highly publicized AIDS crisis in South Africa.

It was after this affair that the African Group requested that the TRIPS Council hold a special discussion on intellectual property and access to medicines. In a proposal to the TRIPS Council to make a declaration, the African Group stated:

The inability of large segments of the population to obtain medicines and treatment at prices they can afford threatens the vital interest of States in protecting and promoting public welfare, preserving law and order, and maintaining social cohesion.⁶⁹

The Doha Declaration in 2001 was viewed as a success for developing and least-developed countries, led by the African Group, which secured much of what they sought: a declaration that a broader interpretation is to be used with TRIPS with respect to issues like compulsory licensing and parallel imports of patented pharmaceu-

tical products.⁷⁰ There was also an undertaking by the Council to establish an expeditious solution to the paragraph 6 "domestic use" problem. To that end, Brazil and a group of developing countries submitted a further proposal suggesting:

Article 30 of TRIPS should be interpreted so as to recognize the right of WTO Members to authorize third parties to make, sell and export patented public health-related products without the consent of the patent holder to address public health needs in another country.⁷¹

As seen in the final version of the amendment, it was not this proposal but a secondary one relating directly with Article 31(f) that was accepted. Nevertheless, this passage is instructive as to the purposes that developing countries sought to achieve in their negotiations at the WTO.

A. "No Profiteering from Life and Death"

Indira Gandhi famously summed up India's national sentiment at the World Health Assembly in 1982 when she said, "The idea of a better-ordered world is one in which medical discoveries will be free of patents and there will be no profiteering from life and death." This is the force and simplicity of the access-to-medicines problem: patents on pharmaceutical products raise the price of medical treatments to above-market levels—a price that most of the population in developing countries cannot afford. "The social cost of the patent monopoly, therefore, is measured in human lives."⁷²

What the developing countries fought for in the Doha round of trade negotiations was expanded access to compulsory licensing. Patents grant rights to the owner to prevent all others from making, using, selling, or importing the patented product without her consent. As a legally created monopoly, this is a state-sanctioned inequality in the distribution of rights. The patent holder may choose to bolster that inequality by withholding that right to exclude completely or by licensing out some of those rights to others. Compulsory licensing defrays patent rights by removing the exclusive control of the patent owner, but it also removes the inequalities.

Developing countries and various non-governmental organizations (NGOs) have argued that intellectual property rights "should not prevent Members from taking measures to protect public health."⁷³ Although governments are increasingly expected to allow the efficiencies of the private market regulate certain sectors, they are still different from private companies in that they have public and equitable interests to serve. One of those interests is to provide to their populations adequate access to health resources and treatments.

These countries and NGOs assert that there are situations where patent rights prevent the ability to address basic human needs. Thus, what these rights withhold is

sometimes absolutely required in order to pursue a conception that Waldron calls the *ideal of the good life*; that is, things that all people want to enable them to lead a good life, no matter what differing goals they may have and no matter what position they occupy in society.⁷⁴ Because intellectual property rights are goods that are distributed directly by a social institution (national governments), patent rights—when they are needed to pursue the ideal of the good life—can be considered a social primary good.⁷⁵

The pursuit by developing countries of expanding the legal means of compulsory licensing is an illustration of liberal ideology. According to John Rawls' theory of justice, an inequality is allowed only if it benefits the least well off.⁷⁶ The way patent rights are distributed is not equal: it is determined by each country's rules of what is new, involves an inventive step, and is capable of industrial application.⁷⁷ However, the patents on certain pharmaceutical products also do not currently benefit the least well off; it is arguable that they make the lives of people in a least-developed country worse off by denying them access to a life-saving or life-extending medicine.⁷⁸ Thus, according to Rawlsian liberalism, the inequality in the distribution of patent rights in this situation, as a monopoly, is not justified. One way to remedy the inequality is to remove the monopoly, and this is done through compulsory licensing.

V. Philosophical Incompatibilities with Reality

As discussed above, the arguments for compensation to the creator and for the promotion of trade fit a libertarian view, the incentive to innovate and economic growth arguments are utilitarian, and the distribution of goods to benefit the least well off reflects a liberal perspective. This section groups all these arguments in terms of their political philosophy and examines whether the justifications for the current patent regime envisioned in the TRIPS Agreement realistically can be applied to all countries.

A. Libertarianism: Autonomy and Entitlements

The libertarian argument for patent protection is based essentially on the freedom and autonomy of the patent owner in the form of the control on the fruits of one's labor and in the free will to exchange one's own entitlements. From Nozick's entitlement theory it was shown that if one assumes everyone is entitled to the goods they currently possess, then a just distribution is simply whatever distribution results from people's free exchanges.⁷⁹ Correspondingly, if one believes that the inventor is entitled to control her invention, according to libertarian thought it is unfair to take control away without permission and without compensation.

This conviction is consistent with a strongly individualistic country like the United States, where there is also a widely held belief that people should be rewarded for their labor. The American Dream is built around the concept that each individual has the ability to make a pros-

perous life for herself through hard work, self-reliance, and perseverance—and rewards can be gained if one just works hard enough. It follows that if a person expends a lot of labor on an invention, she should be allowed to profit from it if she can. This notion is related to protecting a person's autonomy: there is the sense that using someone's work without compensation is exploitation. Correspondingly, if one uses a patented product without paying rents to the owner, it is an exploitation of the patent holder's work.

Libertarianism is about protectionism: protecting rights from being infringed by others and protecting entitlements from being taken away by others. Libertarians are devoted to a strong sense of entitlement and self-ownership; each person has unfettered freedom of individual contract over her self and her holdings.⁸⁰ The idea of compulsory licensing is irreconcilable with libertarian ideology because it is done without the owner's consent and therefore is an infringement of her autonomy.

But it is also because the United States is one of the wealthiest nations in the world that it stands to benefit from this philosophy. The least well off in the United States has rights to a great deal more social primary goods than the least well off in, say, Burkina Faso.⁸¹ Where most people have at least a minimum set of entitlements that allow them to pursue the *ideal of the good life*, there is a tendency to want to strengthen and protect the rights to those entitlements. The possibility that they could be taken away without the owner's consent is anathema to the libertarian. With a given set of entitlements, a person could serve her needs and wants by autonomously negotiating exchanges with other individuals and their respective entitlements.

For those who do not have sufficient goods to allow them to pursue the ideal of the good life, the autonomy argument is not helpful. It is dependent on a minimum freedom of choice, which itself is predicated on having some basic human needs satisfied. Until these basic needs are fulfilled, a person cannot afford to pursue the ideal of the good life, but rather must pursue a life of *survival*. The higher cost of a patented drug is not an absolute barrier to its use as long as one holds a minimum set of entitlements with which one can trade or if one has adequate access to social primary goods. For example, in many developed countries over seventy percent of pharmaceuticals are publicly funded.⁸² Contrast this with least-developed countries, where consumers are on average poorer and pay a higher proportion of their own medical costs because of the lack of private insurance or government-funded programs.⁸³ In low- and middle-income countries, fifty percent to ninety percent of medicines are paid for by the patients themselves.⁸⁴

Thus, though libertarian theories aspire to protect individual autonomy, in practice they sometimes lead to its deprivation. Where a person lacks sufficient rights or

entitlements, she may be forced to agree to unfair terms determined by the patent holder. As Will Kymlicka notes, this is a restriction on the self-determination of a person, exactly what libertarians seek to prevent.⁸⁵ But even more restrictive is when an individual cannot afford to negotiate an agreement for access to a life-saving medicine. Just as inadequate compensation for a life-saving drug could constitute exploitation, so could profiteering from its retention.⁸⁶ It is not about unequal bargaining power, it is rather about the lack of any such power at all. Because of this, the libertarian argument is not capable of justifying the inclusion of least-developed countries in a global uniform patent system.

For Nozick's entitlement theory to work, one must further assume that everyone is entitled to the goods they currently possess—that the initial distribution of goods is just.⁸⁷ Formally, everyone has the right to patent their inventions as long as they are new, non-obvious, and useful. But in practice the distribution of patent rights is unevenly allocated—the allotment is related to whether a person is able to pursue the ideal of the good life or whether she must pursue a life of survival. An individual is not at liberty to expend labor on being innovative if she must constantly focus on subsistence. It is no surprise, then, that members of highly developed countries hold by far the highest number of patents worldwide. In 2004, the United States filed 43,026 international patents through WIPO, compared to a total of 2,672 for China, India, and Brazil combined.⁸⁸

The libertarian argument for global patent protection strongly disadvantages least-developed countries. It works better for countries with populations that are in possession of a sufficient quantity of goods to permit a certain amount of self-ownership and autonomy. Furthermore, it can work only if the initial distribution of patent rights is fair; that is, *if everyone has a fair chance at being innovative*. The libertarian argument is not appropriately justified until the equality in real life corresponds to the formal equality in law. In practice this may not be absolutely possible, but it would at least be better if the disparity were less severe. For example, there might be a case for having uniform patent protection in both highly and middle-developed countries but not for both highly and least-developed countries. Otherwise, if the real inequality is too great, the system is vulnerable to the injustice of having those that have rights using them to exploit those that do not.

B. Utilitarianism: Innovation and Monopolies

The utilitarian argument for global patent protection is that it maximizes human welfare while giving equal consideration to each country. Despite the losses it incurs, it is of maximal benefit to us because it provides the necessary incentive to create valuable innovations. However, in reality sometimes the losses are too great to be reconcilable with our sense of justice.

When national intellectual property laws are harmonized, developed countries are much better equipped to absorb the deadweight losses that result from monopoly rights. They are willing to absorb these costs in order to protect the existing industries that depend on them, such as pharmaceuticals. Developing countries are understandably less willing to pay higher monopoly rents in order to protect inventions; copycat industries provide jobs and access to cheap goods, while having to invest in original research and development is expensive and risky.⁸⁹ For some countries it may well be worth the sacrifice if it means that valuable innovations will be made that are useful to their societies. However, the trade-off for least-developed countries is grim. The cost of monopoly pricing of medicines is often too high for most of the population—it is sometimes measured in human lives, for those who cannot access life-saving or life-extending drugs. Such a sacrifice is too drastic, considering the marginal benefits it may or may not bring. In the case of pharmaceutical products, the incentive to innovate that patents might produce is mitigated heavily by other factors such as lack of resources, expertise, and capital.

There is also a flaw in the utilitarian argument for a globally uniform patent system in that it fails to give the equal consideration that it purports to each country, at the expense of LDCs. It is naïve to believe that including developing countries in the system is enough to create the incentive needed for investing in the development of drugs for diseases that afflict mainly them. Even with their inclusion, firms have little incentive to develop products for such small markets: the total revenue from all low and middle income countries accounts for only five to seven percent of profits by the branded pharmaceutical industry.⁹⁰ One author argues that firms have no incentive to innovate regardless of the level of patent protection for afflictions such as tropical diseases where the demand is elastic or the market is very small.⁹¹ The drugs that are being focused on for research and development are those of the blockbuster variety, based on potential demand in major markets instead of on public health requirements.⁹² As a result, only ten percent of the world's spending on research and development is devoted to drugs for conditions that cause ninety percent of the global disease burden.⁹³

The deadweight losses due to market monopolies have to be in the first place outweighed by the benefits of patent protection, namely, spurring innovation. However, in the case of pharmaceutical companies in the developed world—which have made their industry strongly dependent on patent rights—it becomes more and more questionable whether they are truly being innovative. Take as an example the PhRMA companies: few new chemical entities are being discovered, and much of the research on which they rely is publicly funded and licensed to them at comparably negligible fees.⁹⁴ Most research is actually conducted at universities, teaching hospitals, and research

institutes.⁹⁵ At least a third of the drugs marketed by major drug companies are licensed from universities or small biotech companies.⁹⁶ Much of the huge investments that large branded pharmaceutical companies trumpet is not related to innovative research; a large portion goes into launching massive marketing campaigns that simply distinguish their products from others.⁹⁷

The utilitarian argument works best for countries that have sufficiently progressed economically with the aid of copycat industries because innovation may be required to further develop those nations. Taking India as an example, there is indication that the “me too” drugs market has become detrimental to innovation, as evidenced by the investments made by Indian-owned pharmaceutical companies: they typically spend only one percent of sales on research and development compared to an average of fifteen percent by Western companies.⁹⁸ The lack of patent protection on medicines for thirty-five years also has removed any incentive for its best scientists to develop cures for tropical diseases endemic to their country.⁹⁹ Thus, India has much to gain from shifting the focus of its sixteen thousand pharmaceutical firms¹⁰⁰ from copying American drugs to developing products that will serve the needs of its own domestic market—a shift that may have been initiated by its new patent legislation of last year, in conformance with the requirements of the TRIPS Agreement.

C. Liberalism: The Costs of Compulsory Licensing

Liberalism really focuses on the least well off in society. According to Rawls, as noted, an inequality is allowed only if it benefits the least well off. This is crucial when the stakes are so drastic as to mean the difference between life and death, as could be the case with respect to access to essential medicines. It is logical, then, that Rawlsian liberalism—were it to be extended to the state level—would favor least-developed countries if it meant a better distribution of social primary goods from wealthier nations.¹⁰¹

The objective of the TRIPS amendment was to provide those in medicine-deprived countries access to quick, low-priced supplies of essential medicines while still maintaining a legal environment that encourages research and development of new products. But even with the allowance of compulsory licensing, it is unclear whether least-developed countries receive a net benefit. There are other factors that may make LDCs incapable of using the flexibilities built for them into the TRIPS Agreement. Even with the governments most willing to address the health issues in their countries, the lack of institutional capacity and the expertise required to put it into practice present a barrier to effectively making use of compulsory licensing.¹⁰² The cumbersome conditions that are attached to compulsory licensing also represent a high administrative expense. The Indian Pharmaceutical Alliance has indicated that anti-diversion packaging re-

quirements may make the sale of generic drugs to LDC markets by Indian firms excessively costly.¹⁰³ The pre-notification and labelling requirements also may limit the development of a dynamic generic export market. Generic markets work most efficiently with competition, and the quasi-regulatory regime outlined in the TRIPS Amendment limits the flexibility of generic firms in responding to LDC demand.¹⁰⁴

Even without these requirements, there is a psychological barrier to using compulsory licensing. Developing countries are more willing to respect international laws in order to attract investment and technology into their economies.¹⁰⁵ Compulsory licensing is such an extraordinary measure that it could potentially alienate or offend many developed countries and multinational companies. An exporting member’s government is likely to be unwilling to make that sacrifice just to help a poor country that wants to import pharmaceuticals.¹⁰⁶ Moreover, since governments often are slow to react to their country’s own health needs, it would be remarkable for one to come to the aid of a foreign government,¹⁰⁷ especially one less powerful.

The utility of the TRIPS compulsory licensing provisions for developing countries is questionable. Though the formality of compulsory licensing exists and removes the inequality in the distribution of social primary goods (exclusive patent rights in public health emergencies) when it does not benefit the least well off (LDCs), it is of little benefit if it is rarely used. Even when used, the removal of this distribution inequality still may not help because of the attached administrative costs required by TRIPS. These costs mean that in reality the field still is not equalized.

Although of little benefit to LDCs, the liberal argument for compulsory licensing may work for highly developed or middle developed countries that are adequately self-sufficient. They can afford the administrative costs related to the compulsory licensing requirements and have less to lose politically by its invocation in the face of a public health emergency.¹⁰⁸

VI. Mapping Patent Protection to Development

After examining the various arguments for creating and modifying the TRIPS Agreement, it is no surprise that they are each to the advantage of the countries that espouse them. However, it can be seen that they each generally fit into one of three political philosophies: libertarianism, utilitarianism, or liberalism.

Some of these justifications fit certain nations better than others, and is generally related to a country’s level of development. Three levels of development are considered here: least-developed countries (LDCs), middle-developing countries (MDCs), and highly developed countries (HDCs). In context of the realities of the access-to-essen-

tial medicines problem, it is possible to map each ideology to one of these levels of development.

In general, if a country is at the point of development where it is more important to protect their innovations, then the libertarian arguments for patent protection work best. It requires that the population have a minimum set of entitlements that allow people to pursue the ideal of the good life. Therefore the argument that patent protection is needed to protect existing innovations is most justified for highly developed countries.

On the other hand, if the population is so needy that it is by and large focused solely on survival, then it can only afford to take care of its basic needs first. Thinking about innovation is a game only for those who can afford it. LDCs have few entitlements to protect with patents, and although it would also be great to promote innovation through patent laws, the cost is too high when measured in human lives. Since in the global context least-developed countries are the “least well off,” it makes sense that they would espouse liberal ideology. However, it is unclear that the legal provisions for the redistribution of patent rights in their favor are of practical use.

In the case of an industrializing country, it can afford to think beyond survival and more into growth. To continue developing its economy it needs to gain competitiveness—and this is best done through innovation. The utilitarian arguments for patent protection work best for middle-developing countries, because they have much to gain from it, and the losses are not so severe as to mean human lives.

From these conclusions, it is possible to imagine an international patent regime that has different coverage than TRIPS. Instead of a uniform minimum standard of patent protection worldwide, it makes more sense to scale protection depending on the level of development of each country. Patent laws are justified for HDCs because they provide compensation to inventors and thereby protect innovation; they also permit further trade. Patent protection also is justified for MDCs, as it promotes innovation and economic growth.

However, the case for patent protection does not make sense for least-developed countries. Even with the provisions for compulsory licensing, there is no benefit to LDCs. It costs more to invoke the license—including the expense of the legal infrastructure, the expertise, and administrative costs—then to have no patent regime in the first place. This is confirmed by at least one empirical study of the rents produced from patent protection abroad: although patent harmonization in the form of TRIPS has benefited the United States in terms of rents produced (net transfers received from the TRIPS Agreement is estimated to be up to forty percent of the gains associated with trade liberalization), developing countries pay net transfers of up to sixty-four percent of the gains they receive from trade liberalization.¹⁰⁹

The TRIPS Agreement should be altered to exclude least-developed countries from its patent obligations. Although intellectual property protection provides incentives for innovation, it also prevents imitation and adaptation of inventions by competitors, which also are valuable economic activities.¹¹⁰ Because the investments that go into imitating goods are far less than those required for original research and development, there is less of a barrier for an LDC to develop its economy based on copycat industries. When the economy is developed enough, it then could be required to join TRIPS—but by that point it will be in its own self-interest to do so.

VII. Conclusion

Through the lens of the access-to-essential medicines problem, there appears to be no justification for a worldwide minimum standard of patent protection. There are no valid arguments for least-developed countries to have a patent regime such as the one outlined in the TRIPS Agreement, even with its amendments. Because middle- and highly developed countries have reasons to provide patent protection, an international patent system should be customized for them only. It is important to note that the access-to-medicines gap will not be solved by any change to a patent system alone—the problem is much more complex, since access to even off-patented medicines remains difficult¹¹¹—but it provides an extreme case that exposes the limits of patents and trade for providing solutions to issues that are important to global society.

Endnotes

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4. Amy Kapczynski *et al.*, “Addressing Global Health Inequities: An Open Licensing Approach for University Innovations,” 20 *Berkeley Tech. L.J.* 1031, 1044 (2005).
5. Stephen Barnes, “Pharmaceutical Patents and TRIPS: A Comparison of India and South Africa,” 91 *Ky. L.J.* 911, 928 (2003).
6. *Id.* at 929.
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8. *Id.* at art. 8.
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10. Bryan C. Mercurio, “TRIPS, Patents, and Access to Life-Saving Drugs in the Developing World,” 8 *Marq. Intell. Prop. L. Rev.* 211, 217 (2004).

11. *TRIPS Agreement*, *supra* note 7, at art. 28.
12. *Id.* at art. 33.
13. *Id.* at art. 30.
14. *Id.* at art. 31.
15. *Id.* at art. 31(c, d, e, g).
16. *Id.* at art. 31(b).
17. *Id.*
18. Mercurio, *supra* note 10, at 222.
19. *TRIPS Agreement*, *supra* note 7, at art. 31(f).
20. See *The Patents Act, 1970* (India), No. 39 of 1970, at Intellectual Property India <<http://www.ipindia.nic.in/ipr/patent/patAct1970-3-99.html>> [the “1970 Act”].
21. See *Notice of Motion in the High Court of South Africa (Transvaal Provincial Division)*, Case; No. 4183/98, at <<http://www.cptech.org/ip/health/sa/pharmasuit.html>>; “Drugs firms drop Aids case” *BBC News* (19 April 2001), online: BBC News Online <<http://news.bbc.co.uk/2/hi/africa/1284633.stm>>.
22. See Frederick M. Abbott, “Toward a New Era of Objective Assessment in the Field of TRIPS and Variable Geometry for the Preservation of Multilateralism,” 8 J. Int’l Econ. L. 77, 86-87 (2005).
23. WTO, *Declaration on the TRIPS Agreement and Public Health*, WTO Doc. WT/MIN(01)/DEC/2 (2001) at para. 4, online: Doha WTO Ministerial 2001, at <http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_trips_e.htm> (“Doha Declaration”).
24. *Id.* at par. 6.
25. *Id.* at par. 7.
26. See WTO, *Decision of the General Council of 30 August 2003*, WTO Doc. WT/L/540 and Corr.1 (2003), online: Implementation of paragraph 6 of the Doha Declaration on the TRIPS Agreement and public health at <http://www.wto.org/english/tratop_e/trips_e/implem_para6_e.htm>.
27. See WTO, *Amendment of the TRIPS Agreement Decision of 6 December 2005*, WTO Doc. WT/L/641 (2005), online: WTO <<http://docsonline.wto.org/imrd/directdoc.asp?DDFDdocuments/t/WT/L/641.doc>> [Amendment].
28. See GATT, *Marrakesh Agreement Establishing the World Trade Organization*, 15 April 1994, THE LEGAL TEXTS: THE RESULTS OF THE URUGUAY ROUND OF MULTILATERAL TRADE NEGOTIATIONS 4 (1999), 1867 U.N.T.S. 154, 33 I.L.M. 1144 (1994), at: WTO Legal Texts <http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm>.
29. *Amendment*, *supra* note 27, at art. 31bis(1).
30. *Id.* at Annex art. 1.
31. *Id.* at art. 2.
32. *Id.* at art. 31bis(2).
33. The developed non-importing countries are Australia, Canada, the European Communities, Iceland, Japan, New Zealand, Norway, Switzerland and the United States. The developing countries are Hong Kong, Israel, Korea, Kuwait, Macao, Mexico, Qatar, Singapore, Taiwan (including Penghu, Kinmen and Matsu), Turkey and the United Arab Emirates. See WTO, *General Council Chairman’s Statement*, WTO Doc. PRESS/426 (2005), at <http://www.wto.org/english/news_e/news05_e/trips_319_e.doc> [at “Chairman’s Statement”].
34. Michael J. Trebilcock & Robert Howse, *The Regulation of International Trade* 400 (3d ed. (2005)).
35. Peter N. Fowler & Alice T. Zalik, “A U.S. Government Perspective Concerning the Agreement on the Trade-Related Aspects of Intellectual Property: Past, Present and Near Future,” 17 St. John’s J. Legal Comment. 401, 402 (2003) (hereinafter, “*US Perspective*”).
36. Abbott, *supra* note 22, at 80.
37. *US Perspective*, *supra* note 35 at 403. See also Board on International Health, Institute of Medicine, *America’s Vital Interest in Global Health: Protecting Our People, Enhancing Our Economy, and Advancing Our International Interests* (Washington: National Academy Press, 1997), at Chapter 5: Intellectual Property Rights and the Problem of Piracy <<http://newton.nap.edu/html/avi/5.html#int>>.
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40. “People have the right to dispose of their goods and services freely [. . .] a just distribution is simply whatever distribution results from people’s free exchanges.” For a discussion of libertarianism and entitlement theory, see Will Kymlicka, *Contemporary Political Philosophy: An Introduction* 96-97 (1990).
41. Richard A. Posner, *Economic Analysis of Law* 38 (6th ed. 2003).
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44. See Dan L. Burk & Mark A. Lemley, “Policy Levers in Patent Law,” 89(7) *Virginia L.Rev.* 1575, 1581, 1616 (2003) [“*Policy Levers*”].
45. Trebilcock, *supra* note 34, at 398.
46. See *1970 Act*, *supra* note 20. See also *The Patents (Amendment) Act, 2005* (India), No. 15 of 2005, at Intellectual Property India <http://patentoffice.nic.in/ipr/patent/patent_2005.pdf>.
47. Rishi Gupta, “TRIPS Compliance: Dealing with the Consequences of Drug Patents in India,” 26 *Hous. J. Int’l L.* 599, 602 (2004).
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49. See Posner, *supra* note 41, at 273-81.
50. U.S. Constitution, art. I, § 8, cl. 8.
51. For a discussion of utilitarianism, see Kymlicka, *supra* note 40, at 9.
52. Fayerman, *supra* note 48, at 268.
53. For a discussion of equal consideration as a characteristic of utilitarianism, see Kymlicka, *supra* note 40, at 9-12.
54. Stuart E. Eizenstat, “Intellectual Property Rights Protection and Emerging Economies,” U.S. Department of State (21 July 1999), at Embassy of the United States: Canberra, Australia <<http://melbourne.usconsulate.gov/hyper/WF990721/epf308.htm>>.
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56. Nabila Ansari, “International Patent Rights in a Post-Doha World,” 11 *Currents: Int’l Trade L.J.* 57 (2002).
57. See Guido Calabresi & A. Douglas Melamed, “Property Rules, Liability Rules and Inalienability: One View of the Cathedral,” 85 *Harv. L. Rev.* 1089 (1972).
58. Drahos, *supra* note 39, at 125-26.
59. For a description of Nozick’s entitlement theory, see Kymlicka, *supra* note 40, at 97.
60. *Id.* at 96-99.
61. This conflation of libertarianism with utilitarianism has been termed “stealth libertarianism.” See E. Richard Gold, “The Reach of Patent Law and Institutional Competence,” 1 *U. Ottawa L. & Tech. J.* 263, 266 (2004).
62. Fayerman, *supra* note 48, at 268.

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64. Susan Finston, "India: A Cautionary Tale on the Critical Importance of Intellectual Property Protection," 12 *Fordham Intell. Prop. Media & Ent. L.J.* 887, 890 (2002).
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69. See WTO, *Proposal by the African Group, Bangladesh, Barbados, Bolivia, Brazil, Cuba, Dominican Republic, Ecuador, Haiti, Honduras, India, Indonesia, Jamaica, Pakistan, Paraguay, Philippines, Peru, Sri Lanka, Thailand and Venezuela*, WTO Doc. WT/GC/W/450 (2001), at WTO Documents Online Database <<http://docsonline.wto.org:80/DDFDdocuments/t/WT/GC/W450.doc>>.
70. Mercurio, *supra* note 10, at 212.
71. See WTO, *Paragraph 6 of the Ministerial Declaration on the TRIPS Agreement and Public Health*, WTO Doc. IP/C/W/355 (2002), at WTO Documents Online Database <<http://docsonline.wto.org:80/DDFDdocuments/t/IP/C/W355.doc>>.
72. Opderbeck, *supra* note 67, at 503.
73. *Doha Declaration*, *supra* note 23.
74. For an explanation of Rawlsian liberalism and the social contract argument, see Kymlicka, *supra* note 40, at 63-64.
75. See Kymlicka's description of primary goods, *id.*
76. *Id.* at 54.
77. *TRIPS Agreement*, *supra* note 7, at art. 27.
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79. Kymlicka, *supra* note 40, at 96.
80. Kymlicka, *supra* note 40, at 128.
81. The United States is ranked 8th in the human development index, while Burkina Faso is ranked 174th. See United Nations Development Programme, "Human Development Report 2006," at Statistics in the Human Development Report <<http://hdr.undp.org/hdr2006/statistics/>>.
82. WHO *Medicines Policy*, *supra* note 2, at 1.
83. Kapczynski, *supra* note 4, at 1048.
84. WHO *Medicines Policy*, *supra* note 2, at 1.
85. Kymlicka, *supra* note 40, at 120-21.
86. Trebilcock, *supra* note 34, at 398.
87. Kymlicka, *supra* note 40, at 96-97.
88. WIPO Industrial Property Statistics, "PCT Annual Statistics (1978-2004)" (April 2005), at WIPO Patents and PCT at <http://www.wipo.int/ipstats/en/statistics/patents/pdf/yearly_report_2004.pdf>. The United States also accounts for many of the patents filed nationally abroad; for example in 2001, it filed 2,351 patent applications in India, compared to 2,371 filed by Indians. See Office of the Controller General of Patents, Designs and Trade Marks, "Annual Report 2001-2002," at: Intellectual Property India, Publications of Patent Office <http://patentoffice.nic.in/cgpdm/ar_2001_02.pdf>.
89. Opderbeck, *supra* note 67, at 507.
90. Kapczynski, *supra* note 4, at 1038.
91. See Opderbeck, *supra* note 67.
92. Abbott, *supra* note 22, at 92.
93. This situation has been termed the "10/90 gap." Kapczynski, *supra* note 4, at 1051.
94. Abbott, *supra* note 22, at 91-92.
95. In 2001, the U.S. Federal Government accounted for 59% of the funding for R&D performed in academic institutions. See National Science Board, "Science and Engineering Indicators 2004," Chapter 5: Academic Research and Development, at: National Science Board at <<http://www.nsf.gov/statistics/seind04/c5/c5s1.htm#c5s1l2>>.
96. Marcia Angell, "The Truth About the Drug Companies" (2004) 51(12) *The New York Review of Books*, Online: The New York Review of Books, at <<http://www.nybooks.com/articles/17244>>.
97. Michele Svatos, "Biotechnology and the Utilitarian Argument for Patents," 13(2) *Soc. Philos. Policy* 113, 122 (1996). *Policy Levers*, *supra* note 44, at 1581, 1616.
98. Barnes, *supra* note 5, at 926.
99. Finston, *supra* note 64, at 890.
100. Gupta, *supra* note 47, at 602.
101. It is worth noting, however, that Rawls himself never meant to extend his theory to the international realm.
102. Duncan Matthews, "TRIPS Flexibilities and Access to Medicines in Developing Countries: The Problem with Technical Assistance and Free Trade Agreements," *E.I.P.R.* 27(11) 420 (2005).
103. Opderbeck, *supra* note 67, at 517. See also *Chairman's Statement*, *supra* note 33. The Chairman notes some "Best Practices" Guidelines with examples of companies that have used special labelling, colouring, shaping, sizing, etc. to differentiate their drugs supplied through discounted pricing programmes; however, the companies listed are perhaps not as sensitive to cost as are Indian firms, since they comprised five of the seven largest pharmaceuticals in the world in 2005 (Pfizer, GlaxoSmithKline, Novartis, Merck and Bristol-Myers Squibb), with revenues ranging from \$21.9M to \$52.9M. See *Fortune Global500 2005: Pharmaceuticals*, at CNN Money.com at <<http://money.cnn.com/magazines/fortune/global500/industries/Pharmaceuticals/1.html>>.
104. Opderbeck, *supra* note 67, at 517.
105. Fayerman, *supra* note 48, at 265.
106. Mercurio, *supra* note 10, at 230.
107. *Id.*
108. For example, Canada overrode Bayer's antibiotics patent for its own needs during the anthrax scare in 2001, and the U.S. threatened to do the same. Michael A. Carrier, "Cabining Intellectual Property Through a Property Paradigm," 54 *Duke L.J.* 1, 124 (2004).
109. Phillip McCalman, "Reaping what you sow: an empirical analysis of international patent harmonization," *J. Int'l Econ.* 161 (2001).
110. Trebilcock, *supra* note 34, at 397.
111. See Harvey E. Bale, Jr., "Consumption and Trade in Off-Patented Medicines" (May 2001), at WHO Commission on Macroeconomics and Health <http://www.cmhealth.org/docs/wg4_paper3.pdf>.

Jennifer Wu is a law student at McGill University in Montreal, Canada. A version of this article won First Prize in the Section's Annual Law Student Writing Contest.

ANNOUNCING THE
Intellectual Property Law Section's

ANNUAL LAW STUDENT WRITING COMPETITION

To be presented at the **Annual Meeting of the Intellectual Property Law Section, January 29, 2008, New York, NY** to the authors of the best publishable papers on subjects relating to the protection of intellectual property **not published elsewhere, scheduled for publication, or awarded another prize.**

COMPETITION RULES ARE AS FOLLOWS:

To be eligible for consideration, the paper must have been written solely by students in full-time attendance at a law school (day or evening program) located in New York State or by out-of-state students who are members of the Section. One hard copy of the paper and an electronic copy in Word format on a 3.5" H.D. disk must have been submitted by mail, postmarked not later than **November 6, 2007**, to the person named below. As an alternative to sending the disk, the contestant may have e-mailed the electronic copies, provided that they were e-mailed before 5:00 p.m. EST, **November 6, 2007**.

Papers will be judged anonymously by the Section and must meet the following criteria or points will be deducted: no longer than 35 pages, double-spaced, including footnotes; and one file with a cover page indicating the submitter's name, law school and expected year of graduation, mailing address, e-mail address, telephone number, and employment information, if applicable.

Winning papers may be published in the Section's publication *Bright Ideas*. Reasonable expenses will be reimbursed to the author of the winning paper for attendance at the Annual Meeting to receive the Award.

The judges reserve the right to: not consider any papers submitted late or with incomplete information, not to publish papers, not award prizes, and/or to determine that no entries are prizeworthy or publishable.

Entries by hard copy and e-mail were sent to: Naomi Pitts, NYSBA, One Elk Street, Albany, NY (e-mail: npitts@nysba.org). Comments and/or questions may be directed to the Co-Chairs of the Young Lawyers Committee: Michael J. Kelly, Kenyon & Kenyon, 1 Broadway, New York, NY 10004, (212) 425-7200, (e-mail: mkelly@kenyon.com) or Dana L. Schuessler, Greenberg Traurig LLP, 200 Park Avenue, New York, NY 10166, (212) 801-6707, (e-mail: schuesslerd@gtlaw.com).

Law Student Writing Contest Winners

2006

First Prize: Jennifer Wu
McGill University
Second Prize: Scott Pilutik
Brooklyn Law School

2005

No prizes awarded

2004

First Prize: Thad McMurray
SUNY Buffalo School of Law
Second Prize: Michele Gross
Cardozo School of Law

2003

First Prize: Christopher Barbaruolo
Hofstra School of Law
Second Prize: Anna Kingsbury
New York University School
of Law

2002

First Prize: Deborah Salzberg
Fordham Law School
Second Prize: David V. Lampman, II
Albany Law School

2001

First Prize: Maryellen O'Brien
SUNY Buffalo School of Law
Second Prize: Safia A. Nurbhai
Brooklyn Law School
Third Prize: Stephen C. Giametta
St. John's University School of Law

2000

First Prize: Michael J. Kasdan
New York University School of Law
Second Prize: David R. Johnstone
SUNY Buffalo School of Law
Third Prize: Donna Furey
St. John's University School of Law

Trade Winds

Trade Winds offers Section members a way to keep up on the comings and goings of their colleagues and upcoming events of interest. Has there been a change in your practice? Any recent or forthcoming articles or lecture presentations? Won any awards recently? Please e-mail submissions to Jonathan Bloom at jonathan.bloom@weil.com.

Welcome New Members:

Daniel Aaron
Maureen Victoria Abbey
Gary Abelev
Zachary J. Abella
Tae Yong Ahn
Janel R. Alania
Aaron E. Albert
Rosanna Almonte
William A. Alper
Stephanie R. Amoroso
Denise Rae Anderson
Scott Asmus
Eric Nissim Assouline
Robert L. Baechtold
Amanda Jean Bagatta
Keith J. Barkaus
Richard Bartel
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Tanja Beemer
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Neil Brody
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Stacey L. Brown
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Traevena Lea Byrd
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Michelle Marie Campana
Barbara A. Cannova
Gregory Joseph Carbo
Olivier G. Cassagnol
David Anthony Casserly
Andrew Stephen Chalson
Elena Kar-Hing Chan
RayMing Chang
Ta Shiou Chang
Julie M. Chelico
Angus Chen

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Sean M. Crowley
Robert Brown Culliford
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Jonathan M. D'Silva
Catherine Elizabeth Dabney
Brian Daley
La-Keshia Dandy
Jeremy B. Davis
Michael J. Davis Velasco
Michael Javier Debono
Michael Decker
Nancy Ann Del Pizzo
John M. Del Vecchio
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Jason L. Ederer
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Takashi Ito
Cara Leigh Jackson
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Scott L. Jensen
Eric R. Johnson
Noreen C. Johnson
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Galia Messika	Jeffrey Adam Schwartz	Grace Yang
Peter C. Michalos	Janet M. Schwarzenegger	Emily Justine Zelenock

The Litigation Committee Roundtable on “The Eastern District Court of Texas Comes to New York”



On March 22, Section Chair, Debra Resnick hosted, and Litigation Committee Co-Chair Marc Lieberstein moderated a panel featuring the Hon. Leonard Davis and the Hon. Caroline Craven from the U.S. District Court for the Eastern District of Texas as well as three local practitioners: Sean Rommel

(Patton Roberts McWilliams & Capshaw), Robert Latham (Jackson Walker), and Otis Carroll (Ireland Carroll & Kelley). Approximately 140 attorneys attended, most of whom currently have patent cases pending in the district. Such a turnout makes this event one of the best-attended events the Section has ever presented. Special thanks to Debra Resnick, Marc Lieberstein, and Ira Levy for putting the program together and to Skadden Arps for hosting the event.

The panel was high-spirited, engaging, and very interactive. It began with Mr. Lieberstein informing attendees—litigators who are not shy to begin with—that the panelists, including the judges, would take all questions and had agreed in advance to be interrupted. After Mr. Lieberstein’s first set-up question, attendees essentially carried the program through to the end with provocative queries concerning the best way to practice patent litigation in the Eastern District of Texas.

Some of the practice highlights from the event:

1. Know the local rules very well.
2. Local counsel is crucial—the judges explained that their familiarity with the local counsel immediately lets them know if the national counsel is trustworthy. The local counsel is expected to know the case and play the role of advisor to the national counsel so that the case goes smoothly and rules are followed. Judge Davis felt that having local counsel try at least a portion of the case is very helpful to the jury—he cited *voir dire*

and damages as portions of the trial that local counsel could try without effecting national counsel’s presentation of the case while still giving the jury a local feeling.



3. Magistrates play a very large role in discovery, and there is a discovery hotline for disputes that take place during deposition that need immediate rulings.
4. Judge Davis noted that he felt the parties should consent more often to having the very qualified Eastern District of Texas magistrate judges try cases.
5. Tutorials are very important, but they should not be argumentative.
6. Technical advisors: the district uses them often to explain matters and to serve as a sounding board as to whether the court understands the technology and has accurately portrayed it in any rulings. The parties are expected to agree on the appointment of such advisors.
7. Summary judgment: motions will not likely be granted. If you narrow the motion to one or two issues, you will have a better chance of success on such a motion. If the issue is dispositive, that is even better. NB: Recently the CAFC has affirmed one or two Eastern District of Texas summary judgment rulings.
8. Trials will not last more than five to six days.
9. Markman hearings will only last half a day at most.



10. You will have to limit your claim construction issues whether you like it or not. If you start out with twenty, odds are you will end up with ten for Markman.

11. The courthouses have all the latest technology and can employ most technologies for audio and video presentations.

MEMBERSHIP APPLICATION

New York State Bar Association:

INTELLECTUAL PROPERTY LAW SECTION

Membership in the New York State Bar Association's Intellectual Property Law Section is a valuable way to:

- enhance professional skills;
- keep up-to-date with important developments in the legal profession;
- join colleagues in exciting Section events.

OPPORTUNITIES FOR EDUCATION

The Intellectual Property Law Section offers both the experienced and novice practitioner excellent opportunities to enhance their practical and legal knowledge and expertise. Through Section activities, including conferences on intellectual property (an annual fall event), members may examine vital legal developments in intellectual property law. The Section's Web site provides current information regarding Section events and offers "members only" access to current issues of *Bright Ideas* and current Committee bulletins providing updates on intellectual property law. The Section plans to sponsor continuing legal education (CLE) credit-bearing programs for Section members at reduced rates. Recent programs offered by the Section related to computer software and biotechnology protection, conducting intellectual property audits, and practical considerations in trade secret law. The Section sponsors an annual Intellectual Property Law writing contest for New York State Law Students.

OPPORTUNITIES FOR PROFESSIONAL DEVELOPMENT

Intellectual Property Law Section committees address unique issues facing attorneys, the profession and the public. The Section offers opportunities to serve on committees such as Patent Law; Trademark Law; Copyright Law; Internet Law; Trade Secrets; Technology, Transfer and Licensing and Young Lawyers.

Committees allow you to network with other attorneys from across the state and give you the opportunity to research issues and influence the laws that can affect your practice. Committees are also an outstanding way to achieve professional development and recognition. Law students are automatically members of the Young Lawyers Committee. Section members may join more than one committee.

A VOICE IN THE ASSOCIATION

The Intellectual Property Law Section takes positions on major professional issues that affect practitioners and advocates those positions within the New York State Bar Association, the legislature, and the public.

See page 56 to become a member of the Intellectual Property Law Section

COMMITTEE ASSIGNMENT REQUEST

Please designate, from the list below, those committees in which you wish to participate. For a list of Committee Chairs and their e-mail addresses, please refer to page 58 of this issue.

- | | |
|--|---|
| <input type="checkbox"/> Copyright Law (IPS1100) | <input type="checkbox"/> Meetings and Membership (IPS1040) |
| <input type="checkbox"/> Diversity Initiative (IPS2400) | <input type="checkbox"/> Patent Law (IPS1300) |
| <input type="checkbox"/> Ethics (IPS2600) | <input type="checkbox"/> Pro Bono and Public Interest (IPS2700) |
| <input type="checkbox"/> International Intellectual Property Law (IPS2200) | <input type="checkbox"/> Transactional Law (IPS1400) |
| <input type="checkbox"/> Internet & Technology Law (IPS1800) | <input type="checkbox"/> Trademark Law (IPS1600) |
| <input type="checkbox"/> Legislative/Amicus (IPS2300) | <input type="checkbox"/> Trade Secrets Law (IPS1500) |
| <input type="checkbox"/> Litigation (IPS2500) | <input type="checkbox"/> Young Lawyers (IPS1700) |

* * *

To be eligible for membership in the Intellectual Property Law Section, you first **must** be a member of the NYSBA.

- ☐ As a member of the NYSBA, I enclose my payment of \$30 for Intellectual Property Law Section dues. (Law student rate: \$15)
- ☐ I wish to become a member of the NYSBA and the Intellectual Property Law Section. I enclose both an Association and Section application with my payment.
- ☐ Please send me a NYSBA application. No payment is enclosed.

Name _____

Office _____

Office Address _____

Home Address _____

E-mail Address _____

Office Phone No. _____

Office Fax No. _____

Home Phone No. _____

Please return payment and application to:

Membership Department
New York State Bar Association
One Elk Street
Albany, New York 12207
Telephone: 518/487-5577
FAX: 518/487-5579
<http://www.nysba.org>

"The Copyright Office Comes to New York"



The Intellectual Property Law Section held its fourth annual "The Copyright Office Comes to New York" program, at Cardozo School of Law on March 27, 2007.



The turnout and program itself were excellent, as attendees heard presentations from top U.S. Copyright Office personnel, including the Register

of Copyrights Marybeth Peters, Associate Register of Copyrights David Carson, General Counsel Tanya Sandros, Deputy General Counsel Maria Pallante, and Head of Visual Arts Section John Ashley.

Besides enjoying breakfast, lunch and a cocktail reception as part of the registration fee, attendees were also treated to co-panelist Robert Clarida's Copyright Litigation Year In Review. Officials announced the new electronic filing system (with new forms) scheduled for roll-out this summer, as the Office goes live with a completely new computer system, and new procedures.

Panels also included discussions

on current legislative activities, the copyright registration process, and a special panel dedicated to legal issues related to contemporary art. Copyright Office officials also made presentations on how to register specific kinds of works including Web sites, computer programs and CD-ROMS, and how to avoid mistakes commonly made in applications for registration.



A panel of private-sector speakers, moderated by the Copyright Office Deputy General Counsel, made a very interesting presentation on the application of copyright law to the creation, reproduction and display of contemporary art, including appropriation art and mixed-media installations, including ownership and originality, rights models, technology migration, moral rights, fair use and the potential extension of § 108 to museums.



At \$220 for 7.0 MCLE credits, this is one of the best values for CLE programs. Look for the program again in the Spring of 2008!

The Program Co-Chairs were Paul M. Fakler, Section Treasurer, and Richard L. Ravin, Immediate Past Section Chair.

Section Committees and Chairs

The Intellectual Property Law Section encourages members to participate in its programs and to contact the Section Officers or Committee Chairs for information.

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New York State Bar Association Intellectual Property Law Summer Meeting August 5 - 7, 2007

*The Statler Hotel at Cornell University
Ithaca, New York*



Explore the Finger Lakes Region this Summer!

Earn valuable MCLE credit while exploring the beautiful Finger Lakes Region - Central New York's "wine country" this August.

The Intellectual Property Law Section will hold its inaugural Summer Meeting, **in association with IPIC, the Intellectual Property Institute of Canada**, at the Statler Hotel on the campus of Cornell University in Ithaca, New York.

FEATURED MCLE TOPICS WILL INCLUDE:

Litigating Surname Cases in the United States
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Legislative Reform in the United States and Canada
Ethical Walls and Disqualification of Counsel
Cross-Border Discovery and IP Litigation

MCLE programming will take place the mornings of August 6 & 7th. Spend the afternoon exploring the region or join us on a tour and tastings at three Keuka Lake wineries: Pleasant Valley, popularly known as the Great Western Winery, established in 1860 with eight remarkable stone buildings listed on the National Register of Historic Places; winner of New York State's 2006 Winery of the Year, Dr. Konstantin Frank and Heron Hill Winery. Keep your eyes on your inbox for program information shortly; check www.nysba.org/IPSummerMtg2007 for meeting updates.

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Anyone wishing to submit an article, announcement, practice tip, etc., for publication in an upcoming issue of *Bright Ideas* is encouraged to do so. Articles should be works of original authorship on any topic relating to intellectual property. Submissions may be of any length.

Submissions should preferably be sent by e-mail to Jonathan Bloom, Editor-in-Chief, at the address indicated on this page. Submissions for the Fall 2007 issue must be received by July 15, 2007.

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