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E-commerce platform liability for trademark infringement

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With the meteoric rise in popularity of e-commerce platforms like Amazon, Ebay, and Alibaba, it's never been easier for businesses to open a storefront, advertise goods, and turn a profit. Yet the ease with which almost anyone can sell almost anything has created an incubator for counterfeit goods, exposing these platforms to trademark infringement liability. Indeed, Forbes Magazine once commented on the “unprecedented torrent of counterfeit and sham goods” sold on the massive e-commerce platform Alibaba and the lawsuits that followed.

Even so, the current legal landscape makes it difficult to hold e-commerce platforms liable for a merchant's sale of counterfeit goods.

One way is under the doctrine of contributory trademark infringement, but the bar is high. The seminal decision on this issue is *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010), *cert. denied*, 562 U.S. 1082 (2010). There, Tiffany sued eBay for contributory liability on the grounds that eBay had a generalized knowledge that counterfeit Tiffany goods were widely offered on eBay but didn't remedy the problem. The Second Circuit rejected Tiffany's argument. It held that for contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. “Some contemporary knowledge



Counterfeit copies of “The Sanford Guide to Antimicrobial Therapy,” purchased from Amazon and Amazon's third-party sellers. | The New York Times

of which particular listings are infringing or will infringe in the future is necessary.” Few contributory trademark lawsuits have since been brought against e-commerce platforms - likely because of the high bar set by *Tiffany*.

Still, other ways exist for rights holders to prevent infringement and hold e-commerce platforms responsible. Most recently, in *Kelly Toys Holdings, LLC v. 19885566 Store*, the Southern District of New York granted plaintiff Kelly Toys's motion to hold e-commerce platform

Alibaba, a nonparty, in contempt for aiding and abetting merchants in violation of injunctions that prevented the merchants from selling counterfeit goods. No. 22-CV-9384 (JMF), 2023 WL 4288356, at *1 (S.D.N.Y. June 29, 2023).

There, the court had enjoined dozens of e-commerce merchants from selling or marketing counterfeits of plaintiff Kelly Toys's most popular toy, the Squishmallow. The court's injunction also prevented nonparty online platforms, including Alibaba, from aiding or abet-

ting the merchants in violating the injunction. Alibaba did not comply: Alibaba refused to shutdown merchant storefronts, continued to advertise the Squishmallow, and allowed more than twenty merchants to re-list the Squishmallow on its platform. The court found Alibaba partially in contempt and ordered Alibaba to comply with the injunction and pay Kelly Toys fees and costs.

The decision leaves rights holders and online platforms with some important lessons about when non-

party platforms like Alibaba must comply with injunctions, and under what circumstances noncompliance can result in contempt.

First, a district court can enforce an injunction against a nonparty such as Alibaba *only if it has personal jurisdiction* over that nonparty. The court held that it had personal jurisdiction over Alibaba under New York's personal jurisdiction statute because "Alibaba.com and AliExpress.com are 'interactive' websites that enable Defendants and other companies to sell and ship counterfeit products to consumers in New York."

Second, injunctions may only bind nonparties who are in "active concert or participation" with (or "aided and abetted") the party subject to the injunction. This requires showing that the non-party had actual knowledge of the judicial decree and violated it, and that the challenged action was taken for the benefit of, or to assist, a party subject to the decree.

To determine whether Alibaba acted to benefit or assist any defendant merchant, the court assessed "the actuality of concert or participation, without regard to the motives that prompt the concert or participation." The court observed that even after the injunction, Alibaba marketed counterfeit Squishmallows through its platform and sponsored Google

advertisements, and allowed several defendant merchants - who received premium membership services from Alibaba - to relist the counterfeit toys. This means, the court concluded, that Alibaba provided "comprehensive ways" for the Defendants to promote the counterfeit products.

The court rejected Alibaba's reliance on *Blockowicz v. Williams*, 630 F.3d 563 (7th Cir. 2010). There, the Seventh Circuit concluded that a website host had not aided and abetted the enjoined defendants by failing to remove defamatory comments because "mere inactivity is simply inadequate to render them aiders and abettors in violating the injunction." The court pointed out that "Alibaba has gone far beyond mere inactivity" and "has taken several affirmative steps to assist the enjoined Defendants."

Finally, to hold a nonparty in contempt for aiding and abetting a violation of the injunction, a plaintiff must establish that *the party* subject to the court's mandate committed contempt, and that the nonparty assisted the enjoined party. As articulated by Judge Learned Hand almost a century ago, "if an injunction purports to bind the independent conduct of nonparties, then 'the persons enjoined are free to ignore it.'" *Alemite Mfg. Corp. v. Staff*, 42 F.2d 832 (2d. Cir. 1930).

Here, because the shut-down

order only enjoined the conduct of nonparties like Alibaba, the court could not make the necessary predicate finding that *defendants* violated the injunction by keeping their storefronts active. Without that finding, the court ruled that Alibaba could not be held in contempt for violating the shut-down order.

Nevertheless, the court held Alibaba in contempt for providing the services necessary for the merchant defendants to re-list counterfeit Squishmallows and promoting the counterfeit Squishmallows through emails and sponsored advertisements.

As online shopping continues to surge, rights holders should take from *Kelly Toys* that nonparty e-commerce platforms can be held liable for helping merchants sell and advertise counterfeit goods in violation of an injunction. Likewise, e-commerce platforms - tasked with the daunting responsibility of hosting thousands of online merchants - should understand that injunctions are not boundless, and that baseline considerations like personal jurisdiction and the language of the injunction will determine whether an injunction even applies.

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