ARE Amazon Marketplace Law Alert: Virginia Court Finds Amazon Terms Do Not Compel Arbitration In Counterfeit Goods Lawsuit

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On Thursday, April 9, 2020, the United States District Court for the Eastern District of Virginia decided in *Maglula, Ltd. v. Amazon.Com, Inc. et al.* that the arbitration clauses in the plaintiff's two agreements with Amazon did not apply to plaintiff's infringement and counterfeiting claims.

Background

On December 12, 2019, Plaintiff Maglula, Ltd. (Maglula), a manufacturer of firearm accessories, sued Amazon.com, Inc. and Amazon Services, Inc. (collectively Amazon) for trademark counterfeiting, trademark infringement, copyright infringement, patent infringement and unfair competition stemming from Amazon's alleged unauthorized use of Maglula's trademarks and copyrights and for infringing or counterfeiting Maglula's patented products.

Maglula alleged in the complaint that, since at least 2016, Amazon has continued to sell "knock-off" Maglula products that infringe on Maglula's patents, copyrights, and trademarks. According to Maglula, there were several notable differences between the genuine products and the counterfeits, including that genuine products contain a "Made in Israel" label, while the counterfeits are marked "Made in China".

Maglula further claimed that despite its "extensive and repeated requests" over three years, Amazon failed to take reasonable steps to prevent the infringement. In addition, Maglula alleged that "Amazon has become so overrun with counterfeit products—and its meager efforts to address this problem have been so ineffective—that counterfeit products are now leaving Amazon warehouses all over the US at an alarming rate".

In response, Amazon filed motions: (1) to compel arbitration, (2) to transfer the suit and (3) to

dismiss the case in its entirety.

The Court Finds That Maglula's Claims Are Not Subject to Arbitration

Amazon asserted that the Amazon Business Solutions Agreement (BSA) is binding on the parties and governs this dispute. The BSA states, in part, "any dispute with Amazon or its affiliates or claim relating in any way to the BSA or [Maglula's] use of Services will be resolved by binding arbitration."

Amazon asserted that Maglula clicked through and accepted this agreement when it opened a third-party seller account in December 2016. As such, Amazon contended that all disputes between the parties were subject to arbitration.

Amazon further argued that the Court need not even consider the applicability of these provisions—the arbitrability question—at this stage, as the Parties agreed to abide by the American Arbitration Association (AAA) rules. Amazon further claims that the application of the AAA rules to the provision clearly removes the arbitrability question from the Court's purview.

In response, Maglula explained that, while it agreed to the BSA, this lawsuit does not fall within its scope, and its arbitration clause cannot control. Maglula contended that the BSA "only applies to disputes relating to the suite of services that Maglula gained access to by registering *as a seller."* In this regard, Maglula argued that Amazon did not conduct itself as if the BSA applied in the lead-up to the litigation. Rather, in connection with enforcement of Maglula's intellectual property, Amazon steered Maglula to Amazon's Brand Registry service, which provides tools to brand owners for report intellectual property violations.

The Brand Registry terms include a separate "Dispute Resolution" provision that incorporates Amazon's essentially universal Conditions of Use ("COU") agreement:

8. Dispute Resolution. Any dispute or claim relating to these terms or any Brand Registry service is subject to the arbitration, class action waiver, and governing law provisions in the Amazon.com Conditions of Use, which are incorporated by reference.

The COU agreement has an arbitration provision that is similar to, but not the same as, the arbitration provision in the BSA. However, the COU carves out suits "to enjoin infringement or other misuse of intellectual property" from the arbitration clause. Considering the parties' arguments and contract provisions, the Court determined that the parties are bound—if at all—by the Brand Registry terms and, therefore, the COU carve-out.

The Court determined that this lawsuit was not subject to any arbitration provision, and there is no contractual limitation on the forum in the federal courts. Specifically, the COU states that either party "may bring suit in court," without specifying which court, as there is no forum selection clause in the agreement.

Ultimately, the Court denied Amazon's motion to compel arbitration and concluded:

The Services as identified in the BSA do not apply here, because Maglula's claims only address sales that are not its own. . . . The Brand Registry terms may apply here, invoking the COU, but they would not require arbitration of these claims. Under either arbitration provision, the action is carved out of the reach of the AAA rules, and the district court would be the proper decision-maker for arbitrability. Applying the COU terms, the instant suit would fall under the applicable carve-out, and would not be bound by a forum selection clause.

The Court also denied Amazon's Motions to Transfer or Dismiss.

Conclusion

The Court's determination that the dispute between the parties was not subject to arbitration turned on a straightforward application of the terms of the relevant agreements. However, this case highlights the lengths to which Amazon will go to try to pull all disputes into private arbitration proceedings, where Amazon's business practices can be kept out of the public record. Amazon sellers (and others doing business with Amazon) must understand that disputes arising from their dealings with Amazon will likely be subject to arbitration, significantly limiting the available recourse.

We will continue to monitor and report on developments in this area of intellectual property law related to online marketplaces. In the meantime, please feel free to contact us to learn more.

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