

## LIDC Congress 2011

### Question B – Response from the Competition Law Association (UK)

25 April 2011

*‘To what extent should on-line intermediaries (such as ISPs and operators of online market places) be responsible for the control or prohibition of unfair competitive practices (in particular sales of products contrary to the law) carried out on their systems?’*

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#### **QUESTION 1**

**In your jurisdiction on what legal theories can on-line intermediaries be held liable for infringement under intellectual property and unfair competition laws?**

#### **On-line Intermediaries**

1. In Europe, a broad range of information society service (“ISS”) providers, including on-line intermediaries, are given specific protection from liability under the E-commerce Directive 2000/31.
2. This response will focus upon those on-line intermediaries who rights holders most frequently seek to hold liable under intellectual property and unfair competition law for infringements by third parties using the services of the on-line intermediary. These are:
  - i) Internet Service Providers (“ISPs”) (e.g. BT Broadband, Virgin Media, AOL)
  - ii) Search Engines (e.g. Google, Yahoo!, Bing)
  - iii) Online Marketplaces (e.g. eBay)
  - iv) User Generated Content (“UGC”) systems (e.g. YouTube, Facebook, Twitter, Flickr)

#### **Legal theories of liability**

3. On-line intermediaries provide their services for use by third parties. In some cases, those third parties may engage in unfair competitive practices such as unfair competition (including passing-off) or the infringement of copyright or trade marks. This question is concerned with legal theories which place responsibility on the online intermediary in the

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United Kingdom for the control or prohibition of such practices by third parties. It does not consider liability for the on-line intermediaries' own activities.

4. The key legal theories which will be discussed in detail below are:
  - i) Primary infringement;
  - ii) Authorising copyright infringement;
  - iii) Joint tortfeasorship; and
  - iv) Criminal liability
5. In the United Kingdom, liability for civil wrongs and criminal offences are dealt with by separate systems and courts. The first three legal theories concern civil liability, which is the more likely basis for liability of on-line intermediaries.

#### **(i) Primary Infringement**

6. Civil liability for primary infringement of intellectual property rights is typically a question of strict liability. Therefore, provided that the conditions for infringement are met there is no need to show any intention to infringe.
7. On-line intermediaries, in providing services to third parties, may therefore unwittingly carry out acts which constitute primary acts of infringement.
8. This is particularly the case for copyright infringement. For instance, the intermediary's systems, at the instigation of the third party, may electronically copy music, films or broadcasts without the consent of the copyright owner and thus infringe copyright.
9. By contrast, on-line intermediaries are unlikely to be primary infringers of trade mark rights or passing off, for the reasons explained below.

#### **Copyright**

10. UK copyright law is set out in the Copyright, Designs and Patents Act 1988 (the "**CDPA**"). Protection is by category of work and covers original literary, dramatic, musical and artistic works, sounds recordings, films, broadcasts and typographical arrangements.<sup>2</sup> The use of copyright works online is now specifically regulated by the Copyright and Related Rights Regulations 2003 ("**Copyright Regulations**"),<sup>3</sup> which implement the Information Society Directive 2001/29.<sup>4</sup>
11. Primary copying is typically an issue for ISPs and for UGC systems, although it will also be carried out by search engines and online marketplaces. Examples of copying by

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<sup>2</sup> CDPA, s1.

<sup>3</sup> SI 2003/2498.

<sup>4</sup> Directive 2001/29 [2001] OJ L167/10.

intermediaries include: transmitting or hosting copies e-mailed or uploaded to newsgroups; peer-to-peer sharing and indexing;<sup>5</sup> unauthorized streaming of broadcasts; and copyright material uploaded without consent onto UGC systems. Such copying is mainly dealt with under the defences discussed in response to Question 2.

### Trade marks

12. UK trade mark law is set out in the Trade Marks Act 1994 (“**TM Act**”), implementing the Trade Mark Directive,<sup>6</sup> and the Community Trade Mark Regulation (“**CTMR**”).<sup>7</sup> These provide the trade mark owner with exclusive rights to use the registered mark in the course of trade.
13. Trade marks could be used by any of the on-line intermediaries. However, in contrast to the position for copyright, the main issues have arisen in relation to search engines and online marketplaces.

### *Search engines*

14. When using search engines, users may search for trade marks as well as for generic words. The response of the search engine to trade mark searches may raise arguable issues of trade mark infringement.
15. When a search term is entered into a search engine (i.e. Google), the search engine produces two kinds of results. First, it produces natural search results according to the search engine’s algorithm. Secondly, it produces sponsored links which advertisers pay to appear in response to that search term (or “keyword”). The payments by advertisers for sponsored links are an important part of the income of search engines.
16. Trade mark owners have argued that the sale of keywords which are trade marks constitutes trade mark infringement by the search engines. However, to date those arguments have been rejected in the UK.
17. For instance, in *Wilson v Yahoo! UK Limited*,<sup>8</sup> the owner of the “MR. SPICY” trade mark sued the search engine Yahoo! for infringement of his trade mark. He complained that typing “Mr Spicy” into the Yahoo! search engine triggered sponsored links to Sainsbury’s website and a price comparison site, PriceGrabber.co.uk. However, the evidence showed that no one, including Sainsbury’s and PriceGrabber, had ever

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<sup>5</sup> *Twentieth Century Film Corporation v Newzbin* [2010] EWHC 608 (Ch), where the intermediary was found to have communicated the copyright works to the public. This case is considered further below in relation to authorising copyright infringement and joint tortfeasorship.

<sup>6</sup> Directive 2008/95 [2008] OJ L299/25, codifying Directive 89/104 [1989] OJ L40/1.

<sup>7</sup> Regulation 2009/207 [2009] OJ L78/1, codifying Regulation 40/94 [1994] OJ L11/1.

<sup>8</sup> *Wilson v Yahoo! UK Limited* [2008] EWHC 361 (Ch).

purchased Mr Spicy as a keyword. Rather, the advertisers had bid on the word ‘spicy’ and so the search engine’s algorithm had responded to the input of “Mr Spicy” with the sponsored links. The court found that Yahoo! was not liable for trade mark infringement as neither it nor the advertisers had used the trade mark in the course of trade. The only person who had done so was the searcher. This was sufficiently clear that it could be decided by way of summary judgment without the need for a trial.

18. In that case the trade mark and the keywords were not the same. However, the ECJ in Google France v Louis Vuitton<sup>9</sup> has held that the same approach applies where the keyword is identical to the trade mark, on the slightly different basis that any use of the trade mark by the search engine was not for its own commercial communication and therefore not a trade mark infringing use. As this binds the UK courts, the position can be considered settled.

### *Online marketplaces*

19. A similar approach has been taken to date in relation to online marketplaces, although the position is not yet settled.
20. In L’Oreal v eBay,<sup>10</sup> L’Oréal sued the online marketplace eBay and a number of its third party users for trade mark infringement. One issue raised was whether the use of the trade mark on eBay’s website was infringing where some goods sold on eBay were counterfeit, unlawful parallel imports or otherwise infringing. The English High Court referred this question to the ECJ (along with a number of other questions), questioning whether this constituted “use” and whether it was “in relation to” the goods. The ECJ has yet to give judgment, but the Advocate General has opined that eBay’s storage and display of listings uploaded by users does not constitute “use” by eBay but only by the users, and that any search and display functions are not infringing use following Google France v Louis Vuitton. The Advocate General indicated clearly that infringement by the search engine is a question of secondary liability, not primary liability.

### Passing off

21. Passing off is the main form of unfair competition protection in the United Kingdom and can also be considered as unregistered trade mark protection. It is a common law tort which requires the claimant to establish goodwill, misrepresentation and damage.
22. It is unlikely that an online intermediary would be primarily liable for passing off for the same reasons as for trade marks (although passing off is a question of UK law). The

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<sup>9</sup> Joined Cases C-236/08 to C-238/08 Google France v Louis Vuitton, judgment of 23 March 2010, paras 55-58.

<sup>10</sup> L’Oreal v eBay [2009] EWHC 1094 (Ch), paras 426-431; Case C-324/09 L’Oreal v eBay, Advocate General’s Opinion of 9 December 2010, paras 119-120.

English courts are likely to regard any relevant misrepresentation as being made by the third party user, not the intermediary.

### Breach of confidence

23. Confidential information is protected by the tort of breach of confidence, which occurs where information is confidential, where it is imparted so as to import an obligation of confidence, and where there is an unauthorised and detrimental use of that information.
24. In *Sir Elton John v Countess Joulebine*,<sup>11</sup> the claimant sought summary judgment for damages for breach of confidence where confidential legal advice was posted on a website specialising in gossip. Although the advice was published on the website by a third party, initially without the website operator's knowledge, the operator subsequently became aware of it and added a link to the advice from the home page. She did not remove the advice until she was informed it was confidential. The court held that there could be no liability before the website operator became aware of the material, but that she could be liable from that time provided that she ought to have known the material was confidential. It was held that this was unarguably the case here, given the nature of the material. Therefore, the operator was liable for damages and summary judgment was granted.

### (ii) Authorising Copyright Infringement

25. Copyright infringement also covers authorising the doing of anything that infringes someone else's copyright.<sup>12</sup> For instance, it could be argued that providing UGC systems which provide users with a means of uploading infringing content and allowing others to stream and/or download that content would constitute authorising that infringement.
26. The leading UK case on this issue is *CBS Songs v Amstrad Consumer Electronics*,<sup>13</sup> where Amstrad was sued for copyright infringement for selling twin tape decks which permitted the copying of recordings which were subject to copyright. However, Lord Templeman in the House of Lords took a narrow approach to the construction of "authorising" which was agreed by the other Lords. Where technology can be used for legitimate purposes, he held that the seller does not authorise infringement if it does not 'sanction, approve or countenance' the use of that technology to infringe copyright.

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<sup>11</sup> *Sir Elton John v Countess Joulebine* [2001] MCLR 91.

<sup>12</sup> CDPA, s16(2): Copyright in a work is infringed by a person who without the licence of the copyright owner does, or authorises another to do, any of the acts restricted by the copyright (emphasis added). Although technically another form of primary infringement, it is of a different nature to those considered in the previous section.

<sup>13</sup> *CBS Songs v Amstrad Consumer Electronics* [1988] AC 1013.

27. This judgment provides some protection for on-line intermediaries but it is not without limits. In *Twentieth Century Film Corporation v Newzbin*,<sup>14</sup> the English High Court considered Newzbin, a members-only service which indexed Usenet message files relating to films, including unauthorised copies which would be split into hundreds or thousands of messages. Its index listed the message files for each film and provided additional information from Newzbin's team of editors, confirming that the film was complete and identifying the genre, language etc. Users could search the indices in order to find the messages necessary to download the film and could use the system to automatically download the film. A number of film makers and distributors issued proceedings against Newzbin for copyright infringement
28. Newzbin claimed to be a search engine, "just like Google", and claimed that it did not authorise any copyright infringement. However, the High Court considered the detailed information provided to users and the failure to apply any kind of filtering to exclude copyright materials and held that in the circumstances the site purported to possess the authority to grant permission to copy the indexed films and sanctioned, approved and countenanced such copying.

**(ii) Joint Tortfeasorship**

29. Copyright and trade mark infringement, and passing off, are all classified as tortious actions in the UK. It is possible to find that multiple parties are responsible for a tortious act. However, merely facilitating or knowingly assisting the tortious act is not enough. In order to be a joint tortfeasor, a party must have acted pursuant to a common design with another party to conduct the infringing act, or have procured that infringement by inducement, incitement or persuasion.<sup>15</sup>
30. This issue was considered by the English High Court in *L'Oreal v eBay*.<sup>16</sup> Having determined briefly that eBay did not procure any infringement, the court considered in more detail whether they had acted pursuant to a common design. In particular, it considered eBay's activities in assisting users to list items for sale, controlling listings, assisting in the sales transactions and profiting from both listings and sales, and that eBay could reasonably have been expected to take additional measures to prevent infringement. However, it held that eBay had no duty to take such additional measures, that it could be used to sell non-infringing goods as well as infringing goods and that at most it was facilitating infringing sales. Therefore, it rejected the claims of joint tortfeasorship.
31. The issue was considered again in *Twentieth Century Film Corporation v Newzbin*. Unsurprisingly, given that the site was found to have authorised copyright infringement, it was also found to be a joint tortfeasor with its users to infringe copyright, both by procuring and by engaging in a common design.

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<sup>14</sup> *Twentieth Century Film Corporation v Newzbin* [2010] EWHC 608 (Ch).

<sup>15</sup> *CBS Songs v Amstrad Consumer Electronics* [1988] AC 1013.

<sup>16</sup> *L'Oreal v eBay* [2009] EWHC 1094 (Ch), paras 343-382.

32. Joint tortfeasorship will be decided on the specific facts of any case. However, the high threshold applied means that on-line intermediaries are unlikely to be regarded as joint tortfeasors save in exceptional cases such as Newzbin.

**(iv) Criminal Liability**

33. The UK legislation also imposes criminal liability for certain types of intellectual property infringement. However, unlike civil liability, criminal liability is not strict and typically requires knowledge of the infringement. In addition, the burden of proof is higher and must be demonstrated beyond reasonable doubt rather than on the balance of probabilities. As a consequence, on-line intermediaries are unlikely to be found guilty of criminal infringement save in extreme cases where they are knowingly involved and are not mere intermediaries.

34. On-line intermediaries could conceivably be charged with aiding and abetting one of the statutory infringement offences if a sufficient level of involvement could be proven. Alternatively, they could be charged with conspiracy to defraud, which is a common law offence which is committed where two or more people agree to a course of conduct which will deprive a third party dishonestly of something to which he is entitled, including proprietary rights in copyright material.<sup>17</sup>

35. In R v Ellis,<sup>18</sup> Alan Ellis was cleared of conspiracy to defraud the music industry by a jury at Teesside Crown Court. He was the creator of the site Oink's Pink Palace. The site provided a BitTorrent index, which allowed registered users to upload and locate the .torrent files which would enable them to find copies of music. This included copyright and unreleased albums. Although originally arrested on charges of criminal copyright infringement, he was charged only with the common law offence. The likely difficulty in proving the offence beyond reasonable doubt was the requirement to show dishonesty, in particular where Mr Ellis claimed to have run the site as a hobby.

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<sup>17</sup> Scott v Metropolitan Police Commissioner [1975] AC 819.

<sup>18</sup> R v Ellis, unreported but see discussion in (2010) 10(1) e-commerce law reports 18.

## QUESTION 2

### **In your jurisdiction are there any special liability defences available to on-line intermediaries for infringement of intellectual property rights?**

36. On-line intermediaries can rely on the same defences available to primary infringers, including those within the intellectual property legislation and other defences such as free movement of goods/exhaustion, competition law and human rights. They can ask the court to refuse to grant discretionary remedies and can seek to recover damages from the infringer by way of contractual or implied indemnity or as a contribution claim.
37. However, on-line intermediaries can also rely on special liability defences.
38. The E-Commerce Directive (2000/31/EC), Articles 12-14 required all Member States to introduce special defences for information society service (“ISS”) providers. In the UK, this was implemented by the Electronic Commerce (EC Directive) Regulations 2002, Regulations 17-19.<sup>19</sup>
39. These create three separate defences for on-line intermediaries from damages, pecuniary remedies or criminal sanctions:
- i) where they are a “mere conduit” for the infringing material,
  - ii) where they have merely “cached” the infringing material without actual knowledge, or
  - iii) where they are merely “hosting” the infringing material without actual knowledge.
40. There is also no general obligation of monitoring.
41. However, these do not provide defences to other forms of relief, such as injunctions or disclosure orders.
42. In addition, a defence is also available for temporary technological reproduction of copyright works.

### **Mere Conduit**

43. Regulation 17 of the Electronic Commerce Regulations (Article 12) states:

- (1) *Where an information society service is provided which consists of the transmission in a communication network of information provided by a recipient of the service or the provision of access to a communication network, the service provider (if he otherwise would) shall not be liable for damages or for any other*

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<sup>19</sup> SI 2002/2013.

*pecuniary remedy or for any criminal sanction as a result of that transmission where the service provider—*

- (a) did not initiate the transmission;*
- (b) did not select the receiver of the transmission; and*
- (c) did not select or modify the information contained in the transmission.*

*(2) The acts of transmission and of provision of access referred to in paragraph (1) include the automatic, intermediate and transient storage of the information transmitted where:*

- (a) this takes place for the sole purpose of carrying out the transmission in the communication network, and*
- (b) the information is not stored for any period longer than is reasonably necessary for the transmission.*

44. The Department of Trade and Industry (DTI) published guidance on the Regulations<sup>20</sup> which indicated that manipulations of a technical nature that take place in the course of the transmission, for example the automatic adding of headers and the automated removal of viruses from emails, do not mean that a service provider will fail the 'modification' part of the test. It will only do so if it in some way modifies the information itself.

45. The limitations on this defence to transmission and ancillary storage mean it is primarily of use for ISPs. However, it does mean that they will not be liable for infringing material transmitted on their systems, without any question of knowledge.

## **Caching**

46. Regulation 18 of the Electronic Commerce Regulations (Article 13) states:

*Where an information society service is provided which consists of the transmission in a communication network of information provided by a recipient of the service, the service provider (if he otherwise would) shall not be liable for damages or for any other pecuniary remedy or for any criminal sanction as a result of that transmission where—*

- (a) the information is the subject of automatic, intermediate and temporary storage where that storage is for the sole purpose of making more efficient onward transmission of the information to other recipients of the service upon their request, and*
- (b) the service provider—*
  - (i) does not modify the information;*
  - (ii) complies with conditions on access to the information;*

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<sup>20</sup> DTI, A guide for business to the Electronic Commerce (EC Directive) Regulations 2002, 31 July 2002.

- (iii) *complies with any rules regarding the updating of the information, specified in a manner widely recognised and used by industry;*
- (iv) *does not interfere with the lawful use of technology, widely recognised and used by industry, to obtain data on the use of the information; and*
- (v) *acts expeditiously to remove or to disable access to the information he has stored upon obtaining actual knowledge of the fact that the information at the initial source of the transmission has been removed from the network, or access to it has been disabled, or that a court or an administrative authority has ordered such removal or disablement.*

47. This defence protects on-line intermediaries where they temporarily cache copies of information in the provision of their services, provided that they stop caching material if they have “actual knowledge” that the initial source has been removed or access to it has been disabled, or either has been ordered by a court or administrative authority. Again, this defence is rather limited and will be primarily of use for ISPs and search engines.

### **Hosting**

48. Regulation 19 of the Electronic Commerce Regulations (Article 14) states:

*Where an information society service is provided which consists of the storage of information provided by a recipient of the service, the service provider (if he otherwise would) shall not be liable for damages or for any other pecuniary remedy or for any criminal sanction as a result of that storage where—*

- (a) *the service provider—*
  - (i) *does not have actual knowledge of unlawful activity or information and, where a claim for damages is made, is not aware of facts or circumstances from which it would have been apparent to the service provider that the activity or information was unlawful; or*
  - (ii) *upon obtaining such knowledge or awareness, acts expeditiously to remove or to disable access to the information, and*
- (b) *the recipient of the service was not acting under the authority or the control of the service provider.*

49. The first question is whether the on-line intermediary merely stores (hosts) the information in question or whether it undertakes activities which go beyond storage. In the defamation field, for instance, the English courts have held that the editing, amendment or alteration of blog postings could go beyond storage and therefore take the information outside the scope of Article 19.<sup>21</sup>

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<sup>21</sup> *Kashke v Gray* [2010] EWHC 690 (QB).

50. The second question is then whether the on-line intermediary has actual knowledge of the infringement or, where the claim is for damages, was aware of facts or circumstances from which the infringement would have been apparent to the on-line intermediary.

51. Going beyond the Directive, Regulation 22 states that for the purposes of determining whether a service provider has actual knowledge (for Regulations 18 and 19), a court shall take into account all matters which appear to it in the particular circumstances to be relevant. The Regulation provides a non-exhaustive list of matters to which the court should have regard:

- (a) whether the service provider has received a notice via the contact options on its site;
- (b) the extent to which that notice includes –
  - i. the full name and address of the sender of the notice;
  - ii. the details of the location of the information in question; and
  - iii. details of the unlawful nature of the activity or information in question.

52. The Advocate General in *L’Oreal v eBay*,<sup>22</sup> has suggested that “actual knowledge” should cover the same infringement by the same user in the future. This is a broad interpretation of “actual knowledge” which may not be followed by the ECJ. However, it would certainly seem reasonable to suggest that an intermediary may be “aware of facts and circumstances” in relation to such repeat infringement.

### **No general obligation to monitor**

53. Article 15(1) of the E-commerce Directive prohibits Member States from imposing a general obligation on on-line intermediaries to monitor the information which they host or to seek facts or circumstances indicating illegal activity. This is not specifically implemented by the Electronic Commerce Regulations, but clearly limits the factors which can be taken into consideration when considering liability of on-line intermediaries. However, as clarified in recital 47, this does not preclude monitoring obligations in a specific case (for instance, after a finding of infringement).

54. Article 15(2) provides that:

*Member States may establish obligations for information society service providers promptly to inform the competent public authorities of alleged illegal activities undertaken or information provided by recipients of their service or obligations to communicate to the competent authorities, at their request, information enabling the identification of recipients of their service with whom they have storage agreements.*

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<sup>22</sup> Case C-324/09 *L’Oreal v eBay*, Advocate General’s Opinion of 9 December 2010, paras 169-182.

## **Temporary technological reproduction**

55. Finally, Article 5(1) of the Information Society Directive 2001/29<sup>23</sup> provides a specific exemption from copyright infringement for temporary technological reproductions as follows:

*Temporary acts of reproduction referred to in Article 2, which are transient or incidental [and] an integral and essential part of a technological process and whose sole purpose is to enable:*

*(a) a transmission in a network between third parties by an intermediary, or*

*(b) a lawful use*

*of a work or other subject matter to be made, and which have no independent economic significance, shall be exempted from the reproduction right provided for in Article 2.*

56. This was implemented by amending the CDPA to introduce new s28A, s182A(1A) and Schedule 2, paragraph 1A.<sup>24</sup>

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<sup>23</sup> Directive 2001/29 [2001] OJ L167/10.

<sup>24</sup> Copyright and Related Rights Regulations 2003, SI 2003/2498, Regulation 8.

### QUESTION 3

**In your jurisdiction what sort of remedies, in particular injunctions, can be awarded against on-line intermediaries and in what circumstances?**

57. The remedies available to intellectual property owners have been harmonised across the EU by the Enforcement Directive 2004/48.<sup>25</sup> This required some minor changes to the law in the UK, by the Intellectual Property (Enforcement, etc) Regulations 2006<sup>26</sup> and amendment to the Civil Procedure Rules (“CPR”) in England and Wales. Therefore, many of the remedies should be the same across the EU.

58. The main remedies available against on-line intermediaries are:

- i) Injunctive relief
- ii) Damages or an account of profits, including notice and takedown
- iii) Legal costs
- iv) Disclosure of the names of infringers (Norwich Pharmacal order)
- v) New remedies under the Digital Economy Act 2010

59. Criminal prosecutions may be brought, seeking fines, imprisonment and/or confiscation of criminal proceeds, but following *R v Ellis* the prosecuting authorities may be unwilling to bring criminal prosecutions against on-line intermediaries save in extremely clear cases.

#### **(i) Injunctive relief**

60. The defences under the E-commerce Directive only apply to damages, pecuniary remedies and criminal liability, and do not preclude injunctive relief.

61. Recital 45 in the preamble to the E-commerce Directive makes it explicit that national courts retained their power to grant injunctive relief:

*The limitations of the liability of intermediary service providers established in this directive do not affect the possibility of injunctions of different kinds; such injunctions can in particular consist of orders by courts or administrative authorities requiring the termination or prevention of any infringement, including the removal of illegal information or the disabling of access to it.*

62. However, it was recognised that intermediaries would often be in the best position to bring infringing activities to an end, as explained in recital 59 of the Information Society Directive 2001/29:

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<sup>25</sup> Directive 2004/48 [2004] OJ L195/16.

<sup>26</sup> SI 2006/1028.

*In the digital environment, in particular, the services of intermediaries may increasingly be used by third parties for infringing activities. In many cases such intermediaries are best placed to bring such infringing activities to an end. Therefore, without prejudice to any other sanctions and remedies available, rightholders should have the possibility of applying for an injunction against an intermediary who carries a third party's infringement of a protected work or other subject-matter in a network. This possibility should be available even where the acts carried out by the intermediary are exempted under Article 5. The conditions and modalities relating to such injunctions should be left to the national law of the Member States.*

63. Therefore, Article 8(3) of the Information Society Directive required Member States to provide such relief in relation to copyright infringement:

*Member States shall ensure that rightholders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe a copyright or related right.*

64. In the UK, this was implemented by amending the CDPA to include a new section 97A.<sup>27</sup> This gives the court the statutory power to grant an injunction against a service provider who has actual knowledge of another person using the service to infringe copyright:

*Injunctions against service providers*

- (1) *The High Court (in Scotland, the Court of Session) shall have power to grant an injunction against a service provider, where that service provider has actual knowledge of another person using their service to infringe copyright.*
- (2) *In determining whether a service provider has actual knowledge for the purpose of this section, a court shall take into account all matters which appear to it in the particular circumstances to be relevant and, amongst other things, shall have regard to—*
  - (a) *whether a service provider has received a notice through a means of contact made available in accordance with regulation 6(1)(c) of the Electronic Commerce (EC Directive) Regulations 2002 (SI 2002/2013); and*
  - (b) *the extent to which any notice includes—*
    - (i) *the full name and address of the sender of the notice;*
    - (ii) *details of the infringement in question.*

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<sup>27</sup> Copyright and Related Rights Regulations 2003, SI 2003/2498, Regulation 27, which also introduced a similar power in relation to performer's rights as s191JA.

65. This approach was continued in the Enforcement Directive, where recital 23 states:

*Without prejudice to any other measures, procedures and remedies available, right holders should have the possibility of applying for an injunction against an intermediary whose services are being used by a third party to infringe the right holder's industrial property right. The conditions and procedures relating to such injunctions should be left to the national law of the Member States.*<sup>28</sup>

66. This was required by Article 11 of the Enforcement Directive, which states:

*...Member states shall also ensure that rights holders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe an IPR, without prejudice to Article 8(3) of the Copyright Directive 2001/29/EC.*

67. No particular steps have been taken to implement this in the UK. However, the High Court has confirmed that the courts have the equitable power to grant such relief.<sup>29</sup>

68. Despite the emphasis on injunctive relief in the legislation, it will often be unnecessary to seek such relief as the immediate infringement can be addressed simply by notifying the on-line intermediary. However, in some cases the claimant will seek broader relief against future infringement.

69. In *L'Oreal v eBay*, the claimants sought injunctive relief against the on-line intermediary under Article 11 of the Enforcement Directive. However, Arnold J in the High Court considered that the scope of Article 11 was unclear and referred the question to the ECJ. The Advocate General has opined that the relief must be efficacious, dissuasive and proportionate, while providing certainty for the intermediary and not imposing impossible, disproportionate or illegal duties on him. It can require prevention of repetition of the same or similar infringement (for instance, infringement of the same mark by the same user) in future, which could be implemented by closing that user's account. The question is now before the ECJ for determination.

70. In *Twentieth Century Fox Film Corporation v Newzbin Limited*,<sup>30</sup> Kitchin J considered whether to grant an injunction under section 97A of the CDPA (Article 8(3) of the Information Society Directive). The claimants contended that the defendant was a

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<sup>28</sup> As far as infringements of copyright and related rights are concerned, a comprehensive level of harmonisation was already provided for in Directive 2001/29/EC [on the harmonisation of certain aspects of copyright and related rights in the information society (OJ 2001 L 167, p10)]. Article 8(3) of Directive 2001/29/EC should therefore not be affected by this Directive.

<sup>29</sup> *L'Oreal v eBay* [2009] EWHC 1094 (Ch), paras 447-454, finding the issue difficult but concluding that the court has equitable power to grant such relief.

<sup>30</sup> *Twentieth Century Fox Film Corporation v Newzbin Limited* [2010] EWHC 608 (Ch).

relevant service provider and that it had actual knowledge that its premium members were infringing the claimants' copyrights and, indeed, the copyrights of other rights holders in the content made available on Newzbin. Accordingly they invited Kitchin to grant an injunction to restrain the defendant from including in its indices or databases, entries identifying any material posted to or distributed through any Usenet group in infringement of copyright. The defendant accepted that it was a relevant service provider but disputed that it had actual knowledge of any person using its service to infringe because it had never been served with a notice of the kind referred to in section 97A(2).

71. In his judgment, Kitchin J accepted the need for injunctive relief without a specific notice. However, he declined to grant the broad injunction sought by the claimants to restrain the defendant from including in its indices entries identifying any material posted to or distributed through any Usenet group in infringement of copyright. Instead, he granted relief by reference to the claimant's repertoire. He explained:

*I do not accept that service of such a notice is a precondition of a finding that a service provider has actual knowledge of another person using its service to infringe copyright. Such is evident from the section which says that this is simply one of the matters to which the court must have regard. Nevertheless, I do not believe it would be appropriate to grant an injunction of the breadth sought by the claimants for a number of reasons. First, it is apparent from the terms of Directive 2001/29/EC that it is contemplating the grant of an injunction upon the application of rights holders, yet the claimants are seeking an injunction to restrain activities in relation to all binary and all text materials in respect of which they own no rights and about which I have heard little or no evidence. Second, I do not accept that the defendant has actual knowledge of other persons using its service to infringe all such rights. Therefore I am not persuaded I have the jurisdiction to grant such an injunction in any event. Third, the rights of all other rights holders are wholly undefined and consequently the scope of the injunction would be very uncertain. In my judgment the scope of any injunction under section 97A(2) should extend no further than that to which I have already concluded the claimants are entitled, namely an injunction to restrain the defendant from infringing the claimants' copyrights in relation to their repertoire of films.*

### **Interim Injunction**

72. A claimant may wish to apply for an interim injunction, as the continued reproduction of infringing articles pending a full hearing could put the copyright or trade mark owner out of business or be highly prejudicial. The matters that must be proved for the grant of an interim injunction were established in American Cyanamid Co. v Ethicon Ltd.<sup>31</sup>

73. To obtain an interim injunction the rights holder must show that:

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<sup>31</sup> American Cyanamid Co. v Ethicon Ltd [1975] AC 396

- i) There is a serious issue to be tried (and, if freedom of expression is in issue, that the rights holder is likely to succeed at trial);<sup>32</sup>
- ii) Damages are not an adequate remedy;
- iii) The balance of convenience; and
- iv) There has been no delay in applying for an injunction, and that there are no other equitable reasons why this equitable remedy should not be provided by the court.

74. An interim injunction can be obtained without giving prior notice to the defendant, where necessary, subject to the being given prior notice of the application. Usually, it is possible to obtain an order for an interim injunction very quickly where urgent. However, the claimant must provide a cross-undertaking to compensate the defendant for any damage caused if it later turns out that the relief should not have been granted. Again, it will usually be simpler for the claimant simply to notify the on-line intermediary of the infringement.

**(ii) Damages or account of profits, including notice and takedown and threats**

75. A claimant who succeeds in establishing infringement can elect for an inquiry into damages or an account of profits. The claimant is entitled to seek relevant information from the defendant before making this election.<sup>33</sup>

76. Damages are intended to put the claimant in the position it would have been in if the infringing act had not occurred. The House of Lords in *General Tire v Firestone Tyre*<sup>34</sup> identified three ways that damages could be assessed:

- i) The loss of profits caused to the claimant by the infringement;
- ii) The royalty the infringer would have paid if he had obtained a licence;
- iii) The evidence adduced by the claimant to guide the court on the appropriate measure of loss (where it is not possible to show that there is a normal rate of profit or a normal royalty rate).

77. The court also has discretion to award such additional damages as it considers appropriate, having regard to all of the circumstances, in particular the flagrancy of the infringement and any benefit accruing to the defendant by reason of the infringement.

78. An account of profits is intended to make the defendant disgorge the profits made as a result of the infringing act.

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<sup>32</sup> Human Rights Act 1998, s12(3).

<sup>33</sup> *Island Records Limited v Tring International plc* [1995] FSR 560.

<sup>34</sup> *General Tire v Firestone Tyre* [1976] RPC 197

79. As already indicated, on-line intermediaries have statutory defences against any claim for damages. However, the key “hosting” defence requires that the intermediary acts expeditiously to remove or disable access to the infringing material as soon as it has actual knowledge of it. Therefore, although the Regulations do not provide a statutory “notice and takedown” procedure (as the DTI Guidance notes), a claimant can simply notify the intermediary (providing actual knowledge) and request that the material be taken down. The intermediary is then liable for damages if it fails to do so. In most cases, it will comply with the request rather than accepting potential liability for the infringing acts of its users.
80. However, this process is not without risk to the rights holder.
81. First, if the third party user disagrees that there is infringement (or that the right is valid), they may bring an action against the rights holder for groundless threats, seeking an injunction against future threats and damages for past threats.<sup>35</sup> This was applied to give a remedy to a third party user of eBay in *Quads4Kids v Campbell*.<sup>36</sup> In that case, Campbell had notified eBay under its VeRO programme that Quads4Kids was infringing his Community registered design by selling dirt bikes. eBay removed the listings but Campbell said he did not intend to sue Quads4Kids. Quads4Kids therefore began an action for groundless threats and was granted an interim injunction to prevent any repetition of the threats pending trial.
82. Second, if the process is clearly used without basis, the Office of Fair Trading may consider it an unfair commercial practice and take action against the rights holders.

### **(iii) Legal costs**

83. If proceedings are commenced, the usual position in litigation in the UK is that the successful party on an application or trial will be awarded its reasonable legal costs (or, in extreme cases, all of its legal costs – the “indemnity” basis). Although this general rule now applies in all Member States as a result of Article 14 of the Enforcement Directive, costs awards in the United Kingdom are typically more reflective of actual costs than in some other Member States. Also, the defendant to an application for a *Norwich Pharmacal* order will normally be entitled to its costs.

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<sup>35</sup> Patents Act 1977, s70 (patents); Trade Marks Act 1994, s21, Community Trade Mark Regulations 1996, regulation 4 and Trade Marks (International Registrations) Order 1996, Article 4(6) (trade marks); Registered Designs Act 1949, s26 (registered designs); Copyright, Designs and Patents Act 1988, s253 (unregistered designs); Community Design Regulations 1995, regulation 2 (Community designs). A proposal to add a similar provision for copyright was withdrawn during the passage of the Digital Economy Bill: HL Deb 20 January 2010 vol 719 cc1038-1044 (Amendment 129).

<sup>36</sup> *Quads4Kids v Campbell* [2006] EWHC 2482 (Ch)

**(iv) Disclosure of the names of infringers (Norwich Pharmacal order)**

84. The court may also order an on-line intermediary to disclose the names of infringers under a so-called *Norwich Pharmacal* order.
85. In *Norwich Pharmacal Co. v Customs and Excise Commissioners*<sup>37</sup>, the owner of a patent knew that infringing goods were entering the UK, but could not ascertain the identity of the importers. The Commissioners, in the course of performing their duties, had information that would identify the importers. Also, they had unknowingly played a part in facilitating importation of infringing goods. The House of Lords found that where a third party had become involved in unlawful conduct, they were under a duty to assist the person suffering damage by giving them full information and disclosing the identity of wrongdoers. If the third party bears expense in assisting compliance with an order, the person seeking assistance is bound to reimburse those expenses. The person seeking assistance normally must also pay the third party's costs of responding to the application, given that the third party could be subject to liability if they wrongly consented to such an order, and seek to recover those costs from the wrongdoer in due course.<sup>38</sup>
86. This has been frequently used in relation to on-line intermediaries, forcing them to provide information regarding potential infringers that may then be used by potential claimants to bring their claims. The provision of such information may be resisted if the order sought is too broad and is not likely to elicit accurate information.
87. These orders have come in for some criticism recently before the Patents County Court in *Media CAT v Adams*<sup>39</sup>. In that case, 3-4 *Norwich Pharmacal* orders had been granted requiring the disclosure by ISPs of the names and addresses of tens of thousands of individuals alleged to have used file sharing software to download pornographic films. Letters were sent to these individuals demanding compensation of £495, but notably very few cases were brought to court and they were not pursued with any vigour, leading to serious criticism by the court.
88. In addition, HHJ Birss made the following comments on *Norwich Pharmacal* orders more generally:<sup>40</sup>

*I cannot imagine that the court making the Norwich Pharmacal orders in this case did so with a view to setting in train an exercise that was to be conducted in the manner that has subsequently emerged. In my judgment when a Norwich Pharmacal order is sought of the kind made in this case, it may well be worth considering how to manage the subsequent use of the identities disclosed.*

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<sup>37</sup> *Norwich Pharmacal Co. v Customs and Excise Commissioners* [1974] AC 133.

<sup>38</sup> *Totalise v Motley Fool* [2001] EWCA Civ 1891 (in relation to defamation); *Grant v Google* [2005] EWHC 3444 (Ch) (copyright).

<sup>39</sup> *Media CAT v Adams* [2011] EWPC 6

<sup>40</sup> Paras 112-113.

*Perhaps consideration should be given to making a Group Litigation Order under CPR Part 19 from the outset and providing a mechanism for identifying test cases at an early stage before a letter writing campaign begins. When Anton Piller (search and seizure) orders are made the practice is for a supervising solicitor who does not act for the claimant to be closely involved in order to ensure that the orders are not abused. The supervising solicitors are experienced practitioners. Perhaps a court asked for a Norwich Pharmacal order of the kind made here should consider requiring some similar form of supervision from a experienced neutral solicitor.*

89. It seems likely that Norwich Pharmacal orders against on-line intermediaries will be scrutinised more carefully in the future. In so doing, the UK courts will apply the guidance laid down by the ECJ in *Promusicae v Telefónica de España*, that such disclosure orders must comply with fundamental rights (balancing the right to property and the right to effective judicial protection with the right to personal data and a private life) and other general principles of EU law (such as the principle of proportionality).<sup>41</sup>

#### **(v) Digital Economy Act 2010**

90. The Digital Economy Act 2010 introduced primary legislation addressing a range of areas including the prevention of online copyright infringement.<sup>42</sup> This followed a long consultation process, including Recommendation 39 in the Gowers Review of Intellectual Property in December 2006,<sup>43</sup> a pilot Memorandum of Understanding between copyright owners, ISPs and the government in July 2008 (which was annexed to a Consultation by the Department for Business Enterprise & Regulatory Reform)<sup>44</sup> and the Digital Britain White Paper in June 2009.<sup>45</sup>

91. When implemented, the Act will introduce a new range of potential remedies for copyright owners who suspect online copyright infringement. The three main remedies are:

- i) The copyright owner may report an infringement of their copyright to an ISP by submitting a 'copyright infringement report' ('CIR'). The CIR must include evidence of the infringement and the IP address of the subscriber concerned. The ISP is then obliged to notify the subscriber that a CIR has been filed about them. This notification must, amongst other things, contain details of the alleged infringement and advice on how to legally download copyright works. The copyright owner may then request the ISP to provide a

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<sup>41</sup> Case C-275/06 *Promusicae v Telefónica de España* [2008] ECR I-271.

<sup>42</sup> Sections 3-18.

<sup>43</sup> <http://www.official-documents.gov.uk/document/other/0118404830/0118404830.pdf>.

<sup>44</sup> <http://www.berr.gov.uk/files/file47139.pdf>.

<sup>45</sup> *Digital Britain: Final Report* (Cm 7650)

‘copyright infringement list’ (‘**CIL**’). This CIL will indicate how many of the copyright owner’s CIRs are about any one particular subscriber. The purpose of the CIL is to help copyright owners identify serious repeat infringers against whom they may want to take legal action. It is intended to help target legal action effectively making it a more attractive option for copyright owners. The ISP will not include any of the subscriber’s personal details in the CIL. Therefore, the copyright owner must first obtain a court order (a *Norwich Pharmacal* order) compelling the ISP to disclose that subscriber’s personal details if it wishes to commence legal proceedings against that subscriber.

- ii) The Secretary of State may ask the Office of Communications (OFCOM) to prepare reports on whether technical measures (such as slowing, restricting or suspending internet access) should be taken against subscribers who are infringing copyright, and following such reports may impose such requirements on ISPs.
  - iii) The Secretary of State may also make regulations granting the courts power to order blocking injunctions in relation to specific websites involved in copyright infringement.
92. However, the Act had been challenged by two ISPs, BT and TalkTalk, by way of a judicial review. The ISPs raised various issues, including incompatibility with the E-Commerce Directive 2000/31, with the Privacy and Electronic Communications Directive 2002/58, with the Authorisation Directive 2002/20 and with general requirements of proportionality.
93. Although the judicial review was largely rejected on 20 April 2011 (save in relation to certain cost-sharing under the Authorisation Directive),<sup>46</sup> it may be the subject of appeal and in any case has delayed implementation. In addition, some of the grounds raised were only rejected on the basis that they could only properly be raised against the implementing measures and so could be pursued further at a later date.
94. In addition to the continued threat of judicial review, major issues still need to be resolved before the Act is implemented (in particular, as to allocation of costs). In addition, the implementation may be affected by the ECJ’s judgment in *Scarlet v SABAM*, where the Advocate General has recently opined that EU law may place restrictions on the measures available to Member States to prevent copyright infringement.<sup>47</sup>

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<sup>46</sup> *R v Secretary of State for Business Innovation and Skills, ex parte British Telecommunications and TalkTalk Telecom Group* [2011] EWHC 1021 (Admin).

<sup>47</sup> Case C-70/10 *Scarlet v SABAM* (AG Opinion of 14 April 2011).

#### QUESTION 4

By reference to the current state of the law in your jurisdiction as to the status of on-line intermediaries for unfair competitive practices carried out in their systems, and having reference to, *inter alia*, the issues discussed above under “Policy Considerations”:

- (a) Does your law strike an appropriate balance as between rights owners, on-line intermediaries, those who use such facilities to sell or to provide services, and finally consumers, who may themselves also be selling goods and providing services. If not why not, and what suggestions do you have as to how the law might be amended to strike such a balance?
- (b) Are there any inconsistencies in treatment or approach (for example as between different types of on-line intermediary, between copyright, trade marks and unfair competition, between civil law and criminal law, and between direct and accessorial liability) that you would either support or question, explaining the basis for your view?

95. The Competition Law Association recognises the importance for EU industry of protecting intellectual property rights on-line. We believe there is an important role for on-line intermediaries in ensuring such protection. However, at the same time, we recognise that it is important for EU industry that on-line intermediaries are not subjected to excessively burdensome restraints.

96. Overall, we believe that the UK law strikes an appropriate balance between the relevant interest groups in most cases. Although the burden of monitoring infringement is placed on the rights owners, this is no different to infringements offline. The discretion to order injunctive relief (and the scope of such relief), together with the *de facto* take down notice regime, provides rights owners with effective methods to deal with infringement which they discover.

97. However, where infringement is systemic rather than occasional, and particularly where on-line intermediaries are profiting (directly or indirectly) from the infringement, the balance may need adjusting in favour of rights holders. This is particularly the case for trade mark infringement. For copyright infringement, the framework of the Digital Economy Act already provides stronger rights and it is important that these are implemented soon but in a proportionate manner.

98. Judicial disquiet with the current position in relation to trade marks is clear. For instance, Arnold J commented in *L’Oreal v eBay*,<sup>48</sup>:

*277. L’Oréal contend that eBay Europe could do more to prevent, or at least minimise, sales of counterfeit and other infringing products on the Site. I am in no doubt that it would be possible for eBay Europe to do more than they currently do. For example, it would appear to be possible for eBay Europe to take some or*

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<sup>48</sup> *L’Oreal v eBay* [2009] EWHC 1094 (Ch), paras 277 and 370.

*all of the following steps, although some would be more technically challenging and costly than others: (i) filter listings before they are posted on the Site; (ii) use additional filters, including filters to detect listings of testers and other not-for-sale products and unboxed products; (iii) filter descriptions as well as titles; (iv) require sellers to disclose their names and addresses when listing items, at least when listing items in a manner which suggests that they are selling in the course of trade; (v) impose additional restrictions on the volumes of high risk products, such as fragrances and cosmetics, that can be listed at any one time; (vi) be more consistent in their policies, for example regarding sales of unboxed products; (vii) adopt policies to combat types of infringement which are not presently addressed, and in particular the sale of non-EEA goods without the consent of the trade mark owners; (viii) take greater account of negative feedback, particularly feedback concerning counterfeits; (ix) apply sanctions more rigorously; and (x) be more rigorous in suspending accounts linked to those of users whose accounts have been suspended (although it is fair to say that the evidence is that eBay Europe have recently improved their performance in this regard). The fact that it would be possible for eBay Europe to do more does not necessarily mean that they are legally obliged to do more, however.*

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*370. I confess to having considerable sympathy with the suggestion that eBay Europe could and should deal with the problem of infringement by accepting liability and insuring against it by means of a premium levied on sellers. In characterising L'Oréal's claim as an attack on eBay's business model, it seems to me that counsel for eBay Europe came close to the heart of the issue. As the evidence in this case graphically demonstrates, eBay and its competitors have created a new form of trade which carries with it a higher risk of infringement than more traditional methods of trade. I consider that there is much to be said for the view that, having created that increased risk and profited from it, the consequences of that increased risk should fall upon eBay rather than upon the owners of the intellectual property rights that are infringed.*

99. In addition, in its report on the Enforcement Directive, the Commission has suggested that some change may be desirable.<sup>49</sup>

*The Directive leaves it to Member States to determine when and how an injunction can be issued against an intermediary. For this to work efficiently, it could be useful to clarify that injunctions should not depend on the liability of the intermediary. Furthermore, the findings reported in the Staff Working Paper that accompanies this Report indicate that the currently available legislative and non-legislative instruments are not powerful enough to combat online infringements of intellectual property rights effectively. Given intermediaries' favourable position to contribute to the prevention and*

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<sup>49</sup> COM (2010) 779 final (22 December 2010), section 3.3.

*termination of online infringements, the Commission could explore how to involve them more closely.*

100. Concerns have also been raised by the legislature and the judiciary about the excessive use of the mechanisms in relation to copyright enforcement.<sup>50</sup> Although those concerns were raised specifically in relation to the activities of Media CAT, they have broader application and resonate with the public.
101. Given the relative speed of technological and commercial developments in this field, it is unlikely that legislative changes will provide an appropriate balance in the short- to medium-term. There is also a serious risk that any legislative change will be perceived as heavy-handed and will reduce public support for the protection of intellectual property rights, as can be seen from the public response to the Digital Economy Act 2010 and other “three strikes” proposals.
102. Accordingly, the balance is more likely to be achieved by rights owners seeking broad but balanced relief under the existing legislative framework. In particular, there is scope within the existing provisions to seek proportionate and specific (not general) monitoring obligations, for instance in relation to specific infringing users. There is also the possibility of seeking damages from on-line intermediaries where there is repeat infringement giving rise to “awareness” of the infringement.
103. Equally, however, on-line intermediaries should observe judicial smoke-signals and consider what additional steps they could take to reduce infringement by their users without unduly damaging their business model. Failure to do so is increasingly likely to encourage legislative intervention.
104. In making any change, differences between copyright and trade mark rights should be considered but any distinctions in the remedies should be kept within reason. In particular, this may involve developing a stronger basis for liability for trade mark infringement by on-line intermediaries who fail to take reasonable steps to reduce such infringement.

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<sup>50</sup> See footnote 3536 and paragraphs 87-89 above.