

***Is it an infringement of trade mark law for the operator of an online marketplace (such as eBay) to allow counterfeit goods to be sold?  
As a matter of policy, should it be?***

For as many years as people or businesses have produced objects of perceived value, one imagines that there has been counterfeiting. It can take a number of different forms, but generally it will involve the deliberate copying and marketing of goods bearing trade marks belonging to third parties. In Europe this type of infringement falls within the scope of the Trade Marks Directive (the "**TMD**")<sup>1</sup>, which is implemented in the UK via the Trade Marks Act (the "**TMA**")<sup>2</sup>.

What constitutes an act of counterfeiting, and the sanctions which counterfeiters face, is quite clear, but we enter murkier waters where primary and secondary liability of third parties is concerned. In this regard, and of particular interest and increasing commercial importance, is whether liability for infringement can extend beyond a counterfeit seller using an online marketplace, and reach the online marketplace operator (the "**OMO**") itself.

These issues cast a wide net, but the principals centre on: (i) whether use of third party trade marks to drive web traffic gives rise to primary liability; (ii) whether trade mark infringements committed by users give rise to joint liability; and (iii) the availability and scope of the "hosting defence" as an exemption to such liability under the E-Commerce Directive ("**ECD**")<sup>3</sup>. The lack of legislative harmonisation at EU level means that the answer to each of these questions is in a state of flux.

Several references have been made to the European Court of Justice (now the Court of Justice of the European Union ("**CJEU**")) requesting clarification on OMO liability; however to date the judgments remain outstanding, and in the absence of guidance, Member States, and even national courts within the same Member State, have handed down a series of judgments using contrasting interpretations and reasoning.

### **Primary liability**

There are a variety of online marketplace operators, with arguably the best-known being the eBay auction service. Whilst eBay's sales and purchase structure may be familiar to the reader, other OMOs have slightly different business models and configurations (for example, PriceMinister, which operates a fixed-price only sales format<sup>4</sup>). Broadly, however, most OMOs face similar legal risks, and so for convenience this discussion will focus primarily on

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<sup>1</sup> European Parliament and Council Directive 2008/95/EC of 22 October 2008 to approximate the laws of the Member States relating to trade marks.

<sup>2</sup> Trade Marks Act 1994 (c.26).

<sup>3</sup> European Parliament and Council Directive 2000/31/EC of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market.

<sup>4</sup> PriceMinister, "Why sell on PriceMinister?" [http://www.priceminister.co.uk/info/assistance\\_reasons](http://www.priceminister.co.uk/info/assistance_reasons) (Accessed 26.02.10).

eBay, which is representative as the world's largest OMO, and is also the prime focus of OMO-liability litigation.

In its capacity as advertiser, eBay promotes its users' listings by using third party trade marks, both on its website, and through sponsored links by purchasing keywords consisting of third party trade marks on search engines such as Google, MSN and Yahoo. This means that when a user searches for one of these trade marks (referred to as a "**Link Mark**"), it triggers sponsored links to apparently relevant eBay seller listings.

The issue of Link Marks, insofar as they link to listings of counterfeit goods, is whether they make an OMO a primary infringer of the third party's trade marks. Primary liability requires (i) the use of a sign by a third party, (ii) in the course of trade, (iii) without the trade mark proprietor's consent, (iv) of a sign identical to the trade mark, (v) in relation to identical goods or services and (vi) it must affect the functions of the trade mark, in particular its essential function as an indication of origin of the goods or services.<sup>5</sup> Quite how this applies, if at all, to OMO use is unclear, particularly if one considers how national courts have decided the issue. For instance, the French Tribunal de Commerce in *Dior*<sup>6</sup> found eBay primarily liable for use of third party trade marks - both on its website and in sponsored links - in respect of listings which sold counterfeit goods. This is at odds with the German Federal Court ("**Bundesgerichtshof**"), which concluded that OMOs do not "use" trade marks in the sense of Article 5 TMD, and so denied the existence of any such liability.<sup>7</sup>

Similar facts arose in *L'Oréal*<sup>8</sup> before Arnold J in the UK High Court. He considered that the statutory test for infringement was unclear in this context, in particular (i) whether such advertising amounted to infringing "use", and (ii) whether, if some of the listings which were revealed by clicking on sponsored links turned out to be marketing infringing goods whereas some did not, this amounted to "in relation to" infringing goods. Rather than throw yet another hat into the ring, he submitted a reference to what is now the CJEU on 12 August 2009.<sup>9</sup>

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<sup>5</sup> Pursuant to Article 5 TMD, implemented in the UK by Section 10 TMA.

<sup>6</sup> *Christian Dior Couture SA v eBay Inc, eBay International AG* RG No.2006077807 (Paris Tribunal de Commerce), 30 June 2008 ("*Dior*").

<sup>7</sup> *Montres Rolex SA v Ricardo.de AG* I ZR304/01, 11 March 2004 ("*Internet Auction I*").

<sup>8</sup> *L'Oréal and others v eBay and others*, 22 May 2009, [2009] EWHC 1094 (Ch) [2009] E.T.M.R.53 ("*L'Oréal*").

<sup>9</sup> Reference for a preliminary ruling from the High Court of Justice (England and Wales), Chancery Division, 12 August 2009 ("C-324/09").

## Joint liability

Above and beyond its advertising role, eBay provides a number of services to facilitate trade between users of its website. The extent to which the different services influence user activity is important to the issues of joint liability and the "hosting" defence under the ECD.

eBay provides a display platform on which users list goods for other users to purchase. eBay does not create, edit or post any listings. Listings can be advertised using two main sales formats: auction-style, and fixed price. eBay exercises a more prominent intermediary role in the auction-style format than for fixed price transactions completed directly between buyer and seller.

eBay also provides a number of facilities to improve, diversify and increase transactional activity. Searchable categories filter listings and improve the relevancy of results returned for buyers' search requests. Online workshops<sup>10</sup> and a University Learning Centre<sup>11</sup> provide advisory services to sellers. For high-volume sellers, enhanced software enables quicker listing of items, sales analysis, and creation of virtual shops. A "PowerSeller" status - a mark of reliability - is awarded to sellers who achieve and maintain minimum standards set by eBay, including a "proven track record of both quality and quantity"<sup>12</sup>.

eBay also acts as intermediary in the post-sale buyer/seller relationship through its Buyer Protection program. This provides a dispute resolution service in the event of a problem, including where the buyer considers an item to be counterfeit.<sup>13</sup>

Furthermore eBay has voluntarily implemented a number of measures designed to combat breaches of its policies, including dealing in counterfeits. It uses software filters to search listings titles for potential infringement, and any flagged listings are then examined and removed by customer services representatives. The Community Watch<sup>14</sup> system and Verified Rights Owner ("**VeRO**")<sup>15</sup> notice-and-takedown program allow users and intellectual property rights owners respectively to notify eBay of any suspicious activity.

eBay has an arsenal of available sanctions for infringing listings, including removal of a listing, requiring sellers to complete an online third party rights tutorial, quantity limitations,

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<sup>10</sup> eBay, "Welcome to the eBay Workshop Discussion Board" <http://workshops.ebay.com/forum.jspa?forumID=93> (Accessed 03.02.10).

<sup>11</sup> eBay, "eBay University Learning Center" <http://pages.ebay.com/education/> (Accessed 03.02.10).

<sup>12</sup> eBay, "PowerSeller Program" <http://pages.ebay.com/sellerinformation/PowerSeller/requirements.html> (Accessed 03.02.10).

<sup>13</sup> eBay, "eBay's got you covered" <http://pages.ebay.com/coverage/index.html> (Accessed 03.02.10).

<sup>14</sup> eBay, "File a report" <http://contact.ebay.com/ws/eBayISAPI.dll?ReportItemMember> (Accessed 03.02.10).

<sup>15</sup> eBay, "How eBay protects intellectual property (VeRO)" <http://pages.ebay.com/help/policies/programs-vero-ov.html>; "VeRO: About VeRO" <http://pages.ebay.com/vero/about.html>; "Reporting Intellectual Property Infringements (VeRO)" <http://pages.ebay.com/help/tp/vero-rights-owner.html> (Accessed 03.02.10).

temporary or indefinite suspension of sellers' accounts, and ultimately referral to law enforcement authorities.

In spite of such preventative and punitive measures, counterfeit goods do make their way into eBay's marketplace, and it is here that eBay's potential liability as a joint infringer may lie. The TMD does not harmonise the law of accessory liability, and national courts have struggled to reach consensus.

In UK case law, precedent standards deemed to give rise to joint tortfeasorship have included "*conspiring*", "*identifiable procurement...in respect of a particular infringement*"<sup>16</sup>, "*inducement*", "*joining in the common design*"<sup>17</sup>, "*acting in concert*"<sup>18</sup>, and making the primary infringer's acts "*its own*"<sup>19</sup>. This melée of synonyms convey a range of involvement, from deliberate encouragement to mere guilt by association, but in *L'Oréal Arnold J* was unconvinced of eBay's culpability even under the most all-embracing of these standards. While he agreed that eBay (i) facilitated the infringement of third parties' trade marks, (ii) did so with non-specific knowledge that infringements had occurred and would likely continue, and (iii) profited from such infringement save in cases where a VeRO notification was submitted before completion of a sale, none of this was enough to give rise to statutory or common law joint liability. eBay operated its website in an impartial manner in relation to its sellers and listings, and any discrimination was exercised in a preventative manner, for example through its VeRO system. Though he believed eBay *could* do more to combat counterfeit trading, there was "*no legal duty or obligation*" to do so.<sup>20</sup>

The Bundesgerichtshof pronounced on joint liability in three cases against the German OMO Ricardo.de.<sup>21</sup> Under German law, liability for aiding and abetting arises only if intention (including "knowledge") can be shown, which the Court considered was difficult to prove on the part of an OMO in relation to listings posted automatically by users.<sup>22</sup> The Court did think that Ricardo's overall activities made a "wilful" and "causal" contribution to the infringement,<sup>23</sup> and that liability might arise under the German legal principle of *Störerhaftung*, meaning "interferer" liability. The associated "examination duty" could be discharged by "technically

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<sup>16</sup> *CBS Songs Ltd v Amstrad Consumer Electronics Plc* [1988] A.C.1013 ("*CBS Songs*"), Lord Templeman at 1058.

<sup>17</sup> *Credit Lyonnais Bank Nederland NV (now Generale Bank Nederland NV) v Export Credits Guarantee Department* [1998] 1 Lloyd's Rep.19, Hobhouse L.J. at 46.

<sup>18</sup> *CBS Songs*, stemming from *Unilever Plc v Gillette (UK) Ltd* [1989] R.P.C.583, Mustill J. at 608-609: "*It is enough if the parties combine to secure the doing of acts which in the event prove to be infringements*".

<sup>19</sup> *Sabaf SpA v MFI Furniture Centres Ltd* [2002] EWCA Civ.976; [2003] R.P.C., Gibson L.J. at 59.

<sup>20</sup> *L'Oréal*, at 277 and 375.

<sup>21</sup> *Internet Auction I*; I ZR 35/04 [2007] E.T.M.R.70 ("*Internet Auction II*"); I ZR 73/05 Unreported 30 April 2008 ("*Internet Auction III*").

<sup>22</sup> *Internet Auction I*.

<sup>23</sup> *Internet Auction III*, at 22.

possible" and "reasonable" means to prevent similar infringements.<sup>24</sup> For an OMO, the Court concluded that this went no further than filtering.<sup>25</sup>

Conversely, French Courts have been unequivocal in pronouncing eBay liable for "gross negligence"<sup>26</sup> in allowing fake goods to be auctioned on its website.

### **"Hosting"**

Article 14(1) ECD (implemented in the UK by Regulation 19 of the E-Commerce Regulations ("ECR"<sup>27</sup>)) provides a specific "hosting defence" to liability for trade mark infringement for intermediary service providers ("ISPs") in respect of information stored at the request of the recipient of the service. Furthermore, recital 47 and Article 15 ECD prohibit Member States from imposing general obligations on ISPs to monitor their online portals. Judicial discussion has considered how, if at all, these provisions apply to OMOs.

OMOs argue that they do apply, admonishing them from any potential liability for, or duty to monitor, user counterfeiting. In turn, rights owners argue that the composite role of an OMO exceeds a threshold of passivity beyond which the defence should be unavailable.

### **Composite role**

Recital 42 ECD limits the scope of the defence to cases where ISP interference "*is limited to the technical process of operating and giving access to a communication network over which information made available by third parties is transmitted or temporarily stored, for the sole purpose of making the transmission more efficient.*" Activities must be merely "*technical, automatic and passive*".

In *L'Oréal*, the rights owner argued that the cumulative and combined effect of eBay's services exceeded the boundaries of a mere "technical", "automatic" and "passive" storage process.<sup>28</sup> Arnold J was uncertain as to the intention of the law in this respect, and requested CJEU guidance.<sup>29</sup>

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<sup>24</sup> *Internet Auction II*, referring to *Internet Auction I*, at 51.

<sup>25</sup> *Internet Auction III*, at 24.

<sup>26</sup> *Dior, Hermès International v Cindy Feitz, eBay France and eBay International AG* RG No.06/02604 (Troyes Tribunal de grande instance), 4 June 2008 ("*Hermès*"); *Louis Vuitton Malletier v eBay Inc and eBay International AG* RG No.2006077799 (Paris Tribunal de Commerce), 30 June 2008 ("*Louis Vuitton*").

<sup>27</sup> The Electronic Commerce (EC Directive) Regulations 2002, SI 2002 No.2013.

<sup>28</sup> *L'Oréal*, at 437.

<sup>29</sup> C-324/09.

In *Lancôme*<sup>30</sup>, the Belgian Court accepted that eBay exercised numerous roles beyond that of host, including "content author" and "sales and purchase advisor". However, since the complaint was based solely on the infringing listings, in relation to which eBay's involvement went no further than hosting, the impact of any ancillary activities was not considered.

The French Courts, however, have considered that impact. As well as "host", eBay has been described as "publisher" and "author"<sup>31</sup>, as well as a "broker" playing a "very active role" in increasing the proliferation of transactions (from which it earns commission) on its website.<sup>32</sup> eBay's hosting and brokerage services are in France considered indivisible, meaning that, even to the extent of its hosting role, it is not exempted from liability.<sup>33</sup>

### **"Control" and "knowledge"**

Recital 42 ECD also stipulates that the ISP must have "*neither knowledge of nor control over the information which is transmitted or stored.*" Interpreting the "control" and "knowledge" elements of the hosting defence has proved particularly problematic, and national courts have exhibited differing viewpoints.

Article 14(2) ECD specifically denies the hosting defence "*when the recipient of the service is acting under the authority or the control of the provider*". In France eBay's brokerage services have been deemed to inherently control the information transmitted on its website, to a sufficient degree as to deny the defence,<sup>34</sup> whereas in the UK Arnold J was not so sure, and sought guidance from the CJEU.<sup>35</sup>

Article 14(1)(a) also makes the defence contingent on an ISP having no "actual knowledge" of illegal activity or information. Pursuant to recital 46 ECD, ISPs must, upon obtaining such knowledge, "*act expeditiously to remove or to disable access to the information concerned*". Generalised awareness is impliedly insufficient to create a legal duty to act, an implication supported by the general monitoring prohibition.

The Bundesgerichtshof interpreted the ECD at face value. The "examination duty" was considered to be contingent on receiving actual notice of infringement.<sup>36</sup> In *L'Oréal*, Arnold J also took a moderate view, finding that generalised knowledge should not fall foul of Article

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<sup>30</sup> *Lancôme Parfums et Beaute & Cie v eBay International AG and eBay Europe S.A.R.L. and S.P.R.L.* (Belgium, Comm. Bruxelles) (Unreported), 28 May 2008 ("*Lancôme*").

<sup>31</sup> *Hermès*, at 15.

<sup>32</sup> *Louis Vuitton*, at 11.

<sup>33</sup> *Ibid.*, at 11.

<sup>34</sup> *Ibid.*, at 11.

<sup>35</sup> C-324/09.

<sup>36</sup> *Internet Auction III*, at 24.

14 ECD, but he deferred to the CJEU for clarification.<sup>37</sup> Meanwhile, the French and Belgian Courts have exhibited radically different interpretations of "actual knowledge". In France a duty to act exists even in the absence of specific notification,<sup>38</sup> whereas in Belgium a duty has been rejected even *after* specific notification.<sup>39</sup>

Recent U.S. jurisprudence offers another viewpoint on the control and knowledge elements of joint liability, and is therefore worth brief consideration. The U.S. common law doctrine of contributory trade mark infringement is based on principles laid down in *Inwood*<sup>40</sup>, which imposes a high knowledge threshold of "knowing (or with reason to know)" that the service recipient is engaging in trade mark infringement. The *Inwood* test relevant to service providers is the extent of control exercised over the third party's means of infringement.<sup>41</sup> *Inwood* was applied in *Tiffany*<sup>42</sup> to eBay, which in running its virtual premises was likened to a flea market operator,<sup>43</sup> and exercised sufficient control over its site to incur liability.

The absence of a consistent approach, either within the EU or elsewhere, is plainly evident. Even within each jurisdiction's own borders, courts have been unable to follow a uniform approach. For instance, in France, based on the same causes of action as in *Dior, Louis Vuitton* and *Hermès*, a subsequent judgment found that eBay had met its anti-counterfeiting obligation.<sup>44</sup> In 2009, the Bundesgerichtshof also changed tack, but in the other direction, ruling against eBay.<sup>45</sup> In a recent U.S. case<sup>46</sup> brought against a webhosting operations company, evidence of demand letters by rights owners - which in *Tiffany* had been considered inadmissible<sup>47</sup> - was taken into account in establishing the requisite knowledge and control, and so contributory liability.

Moreover, given that appeals to higher courts are currently pending in respect of many of the decisions considered above, such decisions represent a work in progress rather than a final position.

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<sup>37</sup> C-324/09.

<sup>38</sup> *Louis Vuitton*, at 11.

<sup>39</sup> *Lancôme*, at 11.

<sup>40</sup> *Inwood Laboratories Inc v Ives Laboratories Inc* 546 U.S.844 (1982), at 854.

<sup>41</sup> *Lockheed Martin v Network Solutions, Inc.* 194 F.3d 980 (9th Circuit, 1999).

<sup>42</sup> *Tiffany (NJ) Inc and Tiffany & Co v eBay Inc*, No.04 Civ. 4607, Southern District of New York, 14 July 2008 ("*Tiffany*"), at 43.

<sup>43</sup> *Hard Rock Café Licensing v Concession Services* 955 F.2d 1143 (7th Circuit, 1999).

<sup>44</sup> *L'Oréal v eBay France*, Paris Tribunal de Grande Instance, 3rd Chamber, 13 May 2009, no.07/11365.

<sup>45</sup> Birgit Clark, "High Court: L'Oréal v eBay - eBay wins again?" 22 May 2009 [http://ipkitten.blogspot.com/2009/05/breaking-news-uk-high-court-loreal-vs\\_22.html](http://ipkitten.blogspot.com/2009/05/breaking-news-uk-high-court-loreal-vs_22.html) (Accessed 03.02.10).

<sup>46</sup> *Louis Vuitton Malletier v Akanoc Solutions Inc. et al.*, CV07-03952 JW (N.D.Cal.2007).

<sup>47</sup> *Tiffany*, at 44.

## "Allow"

We return to the specific title of this discussion: "Is it an infringement of trade mark law for an OMO (such as eBay) to *allow* counterfeit goods to be sold?"

In relation to its proactive advertising, regulatory and intermediary roles, an OMO is not merely "allowing" but actively shaping the nature and scale of trading activity. A more appropriate expression in relation to such roles as they impact on counterfeit activity could be "facilitation", or at the very least, "failure to prevent". It seems sensible that primary and/or joint liability should attach to such interventionist behaviour, and that the hosting defence should be unavailable at least to the extent of such activities.

In respect of more subtle activities, however, the answer hinges on an interpretation of "allow". If this implies a *laissez-faire* role which preserves user autonomy and involves no more specific knowledge than that infringement *might* be occurring somewhere on your virtual premises (an argument which OMOs can only push so far), this falls within the meaning of "hosting", and any finding of joint liability would be neutralised by the relevant defence.

The notion of "allow", however, implies a greater degree of knowledge. An appropriate synonym might be "tacit consent", or "knowing permission", of infringement. In relation to such concepts, liability may well arise, and the availability of the hosting defence is questionable.

Essentially, while CJEU guidance remains outstanding, it is impossible to answer this question definitively.

Recent developments in the law relating to ISP liability for copyright infringement may forecast the future for OMOs. Currently UK copyright legislation provides powers to grant injunctions against ISPs with "actual knowledge" of third parties using their services to infringe copyright.<sup>48</sup> However, the Gowers Review suggested a new act of secondary copyright infringement for "facilitating" file sharing.<sup>49</sup> The Court of First Instance (now the General Court) has affirmed such secondary liability, ruling that an ISP has a legal obligation to implement technology on its network to filter and block the sharing of copyright-infringing content via peer-to-peer file sharing networks.<sup>50</sup>

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<sup>48</sup> Copyright, Designs and Patents Act 1988 (c.48), section 97A.

<sup>49</sup> Gowers Review of Intellectual Property, November 2006 [http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/d/pbr06\\_gowers\\_report\\_755.pdf](http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/d/pbr06_gowers_report_755.pdf), paragraph 5.96 (Accessed 09.02.10).

<sup>50</sup> *Sabam v S.A. Tiscali (Scarlet)* (No.04/8975/A), 29 June 2007.

In the U.S., secondary liability has also been applied to trade mark law, with an ISP being held contributorily liable for facilitating the website owner's illegal activity by providing it with the requisite services to carry out the infringement.<sup>51</sup> An ISP renting out domain names and web pages was considered comparable to a landlord leasing office space to an infringer (for which the law imposes contributory liability).

It is clear that intellectual property law has begun a sea change, away from blanket denial of ISP liability save in circumstances of specific knowledge, and towards laying down a set of rules which take into account the ISP's proximity to, and level of interference exercised over, users' infringing activity. As a matter of policy, is this where we should be heading?

### **Counterfeiting: the facts**

Although eBay contends that less than 0.2 percent of products on its website are fakes,<sup>52</sup> on an individual rights owner basis the figures can be much higher. For instance, of 456,551 eBay sales of Tiffany products (from which eBay profited \$4.1 million) it was estimated that at least 75% were counterfeit.<sup>53</sup> Trade marks with a reputation are particularly vulnerable to infringement, and the success of enterprises built on the value of such brands is at risk.

So what? Why should the average consumer care about counterfeiting? What harm does it do, other than to erode the margins of multi-million pound businesses? Recent evidence suggests that this is a prevalent consumer viewpoint. During the Fifth Global Congress on Combating Counterfeiting and Piracy, the Business Action to Stop Counterfeiting and Piracy ("**BASCAP**") initiative released the results of a global study of consumers spanning the developed and developing world (including the UK). It found that 57% of surveyed consumers believed people bought counterfeits "because they think genuine products are overpriced", and noted an overall lack of remorse by consumers who had purchased counterfeits at least once - a demographic making up 80% of the interviewees.<sup>54</sup>

Although cheap counterfeit items are conceivably becoming more socially acceptable, the consumer is just as likely to lose out as the brand owner, and not just financially. Nowadays every imaginable product is susceptible to illegal cloning: from the relatively innocuous - clothing, footwear, leather goods - to the downright hazardous - pharmaceuticals, electrical products, toys, car and aviation parts. The producers of these fakes circumvent the time and

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<sup>51</sup> *Gucci America, Inc. v Hall & Associates*, 135 F.Supp.2d 409 (S.D.N.Y.2001).

<sup>52</sup> Heather Smith, "eBay Wins French Lawsuit Over Sales of L'Oréal Fakes", 13 May 2009 <http://www.bloomberg.com/apps/news?pid=20601090&sid=aQRaMrVZQPZY> (Accessed 23.02.10).

<sup>53</sup> *Tiffany*, at 15.

<sup>54</sup> International Chamber of Commerce ("ICC"), BASCAP, "Research Report on Consumer Attitudes and Perceptions on Counterfeiting and Piracy", November 2009 [http://www.iccwbo.org/uploadedFiles/BASCAP/Pages/BASCAP-Consumer%20Research%20Report\\_Final.pdf](http://www.iccwbo.org/uploadedFiles/BASCAP/Pages/BASCAP-Consumer%20Research%20Report_Final.pdf) (Accessed 03.02.10).

cost expended by legitimate businesses on research and development, quality control and consumer health and safety. A consumer might well be nonplussed by a knowing purchase of a knock-off pair of trainers, but would that consumer be equally nonchalant about buying a more volatile product - medication perhaps - in whose authenticity they erroneously believed?

Counterfeiters defraud creators, industries, retailers, consumers and national economies, and exploit the people who manufacture and distribute counterfeit goods. Furthermore, links between counterfeiting profits and the funding of organised crime such as drugs, guns and people-smuggling, child pornography, and even terrorist activity, are a sinister reality to which the consumer is often ignorant.

The economic ramifications of counterfeiting are also staggering. Another BASCAP report estimated the annual cost to G20 governments and consumers of counterfeiting and piracy at €100 billion, comprising lost tax revenues, higher welfare spending, increased costs of crime, the economic cost of deaths resulting from counterfeiting, and the additional cost of health services to treat injuries caused by dangerous fake products.<sup>55</sup>

With the arrival of the Internet, online marketplaces have flourished, providing a fertile breeding ground for counterfeit trade on a global scale. But for the existence of OMOs like eBay, it is difficult to imagine that online trading could have reached such sophisticated levels on such a considerable scale. Should not OMOs be held accountable for their undoubted contributory role, however "unknowing" it may be, for opening the floodgates, not least because they derive considerable financial benefit from it? Arnold J thought as much: *"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"*.<sup>56</sup>

### **Liability: the two extremes**

It is clear that eBay does not merely act as "host"; even the Belgian Court noted the "composite nature" and "mixed qualification" of eBay's role.<sup>57</sup> To deny any duty whatsoever, or to apply the hosting defence too liberally, contradicts the clear intention of the law, which as discussed provides specific carve-outs in instances of actual knowledge and control.

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<sup>55</sup> ICC, BASCAP, "The Impact of Counterfeiting on Governments and Consumers", May 2009 <http://www.iccwbo.org/uploadedFiles/BASCAP/Pages/Impact%20of%20Counterfeiting%20on%20Governments%20and%20Consumers%20-%20Final%20doc.pdf> (Accessed 03.02.10).

<sup>56</sup> *L'Oréal*, at 370.

<sup>57</sup> *Lancôme*, at 7.

In the absence of any liability, injunctive relief for rights holders is expressly made available by recital 45 ECD, and also potentially under Article 11 of the Enforcement Directive<sup>58</sup> which obliges intermediaries "*whose services are used by a third party to infringe an intellectual property right*" to prevent the "continuation" of the same or similar infringement. However, the scope of "continuation" is the subject of a reference to the CJEU,<sup>59</sup> and, in any event, an injunction is not a monetary remedy, and therefore provides limited recourse for financial losses suffered by rights owners as a result of counterfeiting.

On the other hand, to follow the strictest argument for liability would entail obligations based on mere *suspicion* of infringement rather than "actual knowledge". This also contradicts the express provisions of the ECD, shifting the burden of monitoring entirely onto the ISP by requiring validation of every listed item which is not obviously genuine. Given that online operators such as eBay experience infinitely higher volumes of sales than physical auction houses, do not take custody of the items sold under their virtual "roof", and cannot physically inspect items to verify authenticity, the associated logistical and costs issues arising from such stringent obligations might ultimately render the entire OMO business model unworkable.

So, while OMOs should not get off "scot-free", it is equally important that liability is reasonably imposed in relation to what can feasibly and economically be achieved, and is not exercised punitively against the perceived wilful negligence of profit-hungry online auctioneers. It must be borne in mind that OMOs have, to date, transcended the boundaries of their legal obligations through voluntary anti-counterfeiting measures. eBay already spends \$20 million annually on its VeRO program, anti-fraud engine, About Me pages and complaints reporting channels, resulting in the removal of tens of thousands of listings each month,<sup>60</sup> while rights owners budget comparatively little.<sup>61</sup> eBay also continues to invest in new anti-counterfeiting initiatives, including its High Risk Brands policy which addresses the higher risk of infringement to which certain brands and industry sectors are exposed.<sup>62</sup>

OMO's should not be penalised for implementing precautionary measures which rights owners merely consider should go further. In particular, is it fair that such measures are cited by rights owners as among the activities which take an OMO's role beyond the scope of "passive host"? After all, should an OMO's liability for counterfeiting be founded on the basis of its anti-counterfeiting efforts?

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<sup>58</sup> European Parliament and Council Directive 2004/48/EC of 29 April 2004 on the enforcement of intellectual property rights.

<sup>59</sup> C-324/09.

<sup>60</sup> *L'Oréal*, at 77 and 86.

<sup>61</sup> *Tiffany*, at 18-19: Tiffany's online anti-counterfeiting budget in fiscal year 2003 totalled \$763,000 - less than 0.05% of net sales.

<sup>62</sup> *L'Oréal*, at 91.

## A fair solution?

The German concept of "reasonable measures" offers a good compromise position. Liability based on filtering would not be unduly onerous. The obligation to prevent "similar" infringements could reasonably include listings of the same trade marks, and perhaps even others owned by the same rights holder.<sup>63</sup> Filtering software could feasibly filter listings descriptions as well as titles, and sanctions could be applied more rigorously, particularly in suspending accounts for repeat infringers. A subscription-based automatic notification system could also be introduced to alert rights owners whenever items bearing their trade marks are listed.

eBay in particular could also investigate the practicability of implementing measures introduced by other OMOs, such as PriceMinister's filtering software which monitors listings before, as well as after, they are posted online, and pop-up messages which require sellers to verify the authenticity of products.

In parallel, rights owners could be required to assist in the protection of their own brands, for example by allocating increased anti-counterfeiting budgets, developing their own monitoring resources, and subscribing to automatic notification systems.

A collaborative approach is usually the most proportionate and effective means of combating a problem with multiple causes. It is, after all, in OMOs' interests to protect the integrity of their own brands, and avoid the risk of being sullied by continual association with the black market.

The risks associated with a policy of OMO liability could be effectively counterbalanced by an insurance policy against claims by rights owners. OMOs could in turn levy premiums on sellers, mirroring a doctrine established by Lord Denning in relation to innocent acquirers and handlers: "*This system is the commercial way of doing justice between the parties .... It means that all concerned are protected. The true owner is protected by the strict law of conversion. He can recover against the innocent acquirer and the innocent handler. But those innocents are covered by insurance so that the loss is not borne by any single individual but is spread through the community at large.*"<sup>64</sup>

It is clear that an acceptable middle ground needs to be formalised. The finer details of any solution will depend on technological, cost and other feasibility assessments which should rightly be carried out by the affected parties. Broadly speaking, however, neither OMOs nor rights owners have exhausted the boundaries of what is technically and economically

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<sup>63</sup> *Internet Auction III*, at 25.

<sup>64</sup> *R.H. Willis & Son v British Car Auctions Ltd* [1978] 1 W.L.R.438, at 441H-442E and 443D-H.

feasible in anti-counterfeiting efforts. Perhaps, if the mounting sums spent litigating the issues had instead been invested in focusing respective minds on a workable solution through open dialogue and mutual support, more would have been achieved.