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## The Liability of Online Markets for Counterfeit Goods: A Comparative Analysis of Secondary Trademark Infringement in the United States and Europe

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# The Liability of Online Markets for Counterfeit Goods: A Comparative Analysis of Secondary Trademark Infringement in the United States and Europe

*Kurt M. Saunders\**  
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*Abstract: Online trademark infringement and counterfeiting is a growing problem for luxury brands. In recent years, trademark owners have taken aim at the operators of online marketplaces and auction websites, asserting that these defendants are liable for contributory infringement due to sales of counterfeit goods on their sites. In addressing the scope of secondary liability for trademark infringement, the courts of the United States and European nations, including France, Germany, and the United Kingdom, have applied differing standards and reached inconsistent results. This article considers the question of secondary liability for trademark infringement from a comparative perspective and contrasts the rationales offered by the various courts in their decisions. It argues for a harmonization of the law across borders that also fits the realities of the online intermediary market business model, and proposes a standard for doing so.*

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*“[A merchant’s] . . . mark is his authentic seal; by it he vouches for the goods which bear it; it carries his name for good or ill.”*<sup>1</sup>

## I. INTRODUCTION

A luxury brand’s most valuable asset is often its trademark, which signifies the status, quality, and price of the brand’s goods. Although they may look the same as luxury goods, many counterfeit “knock-offs” of luxury goods are shoddily made. The materials used may be of poor quality, and the high standards of manufacture and assembly on which luxury brands pride themselves are lacking. Counterfeiting amounts to free-riding on the goodwill and reputation for quality associated with the brand’s trademark. In the end, counterfeiting is damaging to a brand’s status in the luxury market because unknowing consumers may conclude that the knock-offs are genuine and that all items made by the actual luxury brand are inferior or not worth the upscale price.

The incidence of counterfeiting and trademark infringement has surged with the widespread use of online marketplaces such as eBay, the Internet auction platform. As a result, such sites have faced a steady stream of lawsuits brought by prominent trademark owners in United States and European courts in connection with the sale of counterfeit merchandise.<sup>2</sup> Famous luxury brands, such as Tiffany, Louis Vuitton, L’Oréal, Hermès, and Rolex, have argued that eBay and other online market operators and service providers are liable for the sale of counterfeit products by their users. In these cases, the courts have had to address the critical issue of what level of knowledge is necessary to impose contributory liability on these intermediaries for sales by their users of infringing and counterfeit merchandise.

Despite the best efforts of luxury brand owners to police their marks in the courts, counterfeiters continue to find new avenues to sell knock-off goods online.<sup>3</sup> To complicate matters further, the courts in the U.S. and Europe have been divided on the issue, offering divergent approaches to the scope of secondary trademark infringement liability. The possibility that an online market’s liability may now depend on where an action is brought is

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<sup>1</sup> Yale Elec. Corp. v. Robertson, 26 F.2d 972, 973 (2d Cir. 1928).

<sup>2</sup> See *infra* notes 52–67, 79–89, 111–113, 195–239, 264–281, and accompanying text.

<sup>3</sup> See Maura Kutner, *The Fight Against Fakes Online*, HARPER’S BAZAAR (Dec. 14, 2010), <http://www.harpersbazaar.com/fashion/fashion-articles/fight-against-fakes-online-0111>.

the focus of this article. We begin by analyzing the current state of U.S. trademark law on the secondary liability of online markets for the sale of counterfeit goods. We then go on to compare U.S. law to the law of the European Union as well as the domestic laws of several European countries where courts have addressed the issue.

Thus, we start with the recent decision in *Tiffany (NJ), Inc. v. eBay, Inc.*,<sup>4</sup> the first U.S. case that addressed the secondary liability of an online market. In *Tiffany v. eBay*, the court dismissed all claims against eBay, reasoning that “it is the trademark owner’s burden to police its mark, and companies like eBay cannot be held liable for trademark infringement based solely on their generalized knowledge that trademark infringement might be occurring on their websites.”<sup>5</sup>

In contrast to the ruling in *Tiffany v. eBay*, the outcomes in similar cases brought by trademark owners in the courts of various European countries have been mixed. While a Belgian court reached a decision in the case of *Lancôme Parfums et Beauté & Cie v. eBay International AG*<sup>6</sup> that is in accordance with the U.S. decision in *Tiffany v. eBay*, most French courts have taken a contrary view and ordered eBay to pay—for European standards—substantial damages jointly with the seller of the product,<sup>7</sup> while other French courts have exempted eBay from liability,<sup>8</sup> because of the company’s special status as a host provider according to the EU E-Commerce Directive.<sup>9</sup> In three decisions, *Internet-Versteigerung I–III*

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<sup>4</sup> 576 F. Supp. 2d 463 (S.D.N.Y. 2008), *aff’d in part, rev’d in part*, 600 F.3d 93 (2d Cir. 2010) (affirming the district court’s holding as to the trademark infringement claims).

<sup>5</sup> *Id.* at 527.

<sup>6</sup> Tribunal de Commerce [Comm.] [Commerce Tribunal] Bruxelles, July 31, 2008, *REVUE LAMY DROIT DE L’IMMATERIEL* [RLDI] 2008, 41 (Belg.).

<sup>7</sup> *See, e.g.*, Tribunal de commerce [TC] [commercial court] Paris, 1e ch. B, June 30, 2008, no. 2006077799 (Fr.), *available at* <http://www.foruminternet.org/specialistes/veille-juridique/jurisprudence/IMG/pdf/tcom-par20080630.pdf>; Tribunal de commerce [TC] [commercial court] Paris, 1e ch. B, June 30, 2008, no. 2006077807 (Fr.), *available at* <http://www.juriscom.net/documents/resp20080630-Diorc.pdf>; Tribunal de commerce [TC] [commercial court] Paris, 1e ch. B, June 30, 2008, no. 2006065217 (Fr.), *available at* <http://www.foruminternet.org/specialistes/veille-juridique/jurisprudence/IMG/pdf/tcom-par20080630bisbis.pdf> (€8.6 million (approximately \$60.8 million) awarded to LVMH); Tribunal de grande instance [TGI] [ordinary court of original jurisdiction] Troyes, ch. civ., June 4, 2008, no. 06/02604 (Fr.), *available at* <http://www.juriscom.net/documents/tg-itroyes20080604.pdf> (€20,000 (approximately \$31,000) awarded to Hermès).

<sup>8</sup> *See, e.g.*, Tribunal de grande instance [TGI] [ordinary court of original jurisdiction] Paris, 3e ch., May 13, 2009, no. 07/11365 (Fr.), *available at* <http://www.foruminternet.org/specialistes/veille-juridique/jurisprudence/IMG/pdf/tgi-par20090513.pdf>; Tribunal de grande instance [TGI] [ordinary court of original jurisdiction] Paris, 3e ch., July 13, 2007, no. 07/05198 (Fr.), *available at* <http://www.juriscom.net/documents/tgiparis20070713.pdf>.

<sup>9</sup> Directive 2000/31/EC, of the European Parliament and of the Council of 8 June 2000 on Certain Legal Aspects of Information Society Services, in Particular Electronic Commerce, in the Internal Market, 2000 O.J. (L 178) 1, *available at* <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2000:178:0001:0016:EN:PDF>.

(*Internet Auction Decision I–III*),<sup>10</sup> the Bundesgerichtshof (BGH), the highest German court for civil and commercial matters, imposed monitoring obligations on eBay to prevent trademark infringement by third parties via its auction site under certain circumstances, but dismissed claims for damages for lack of fault. In another case, *L'Oréal SA v. eBay International AG*,<sup>11</sup> the High Court of England and Wales was sympathetic to eBay, but referred the case to the European Court of Justice (ECJ) and requested the ECJ's ruling on certain issues related to EU law before reaching a final decision.<sup>12</sup> The ECJ held that an operator of an online marketplace will be exempt from secondary liability under the E-Commerce Directive if the operator has not played an "active role" in assisting or promoting the merchant and the data that it hosts.<sup>13</sup> This decision, along with the ECJ's decision in *Google France SARL v. Louis Vuitton Malletier SA (Google v. Louis Vuitton)*,<sup>14</sup> a dispute over keyword advertising, might aid in harmonizing future court decisions among the EU member states.

The different results in the cases mentioned above raise an interesting set of questions: What is the underlying trademark law in these cases? How different are national laws on the question of secondary liability for trademark infringement? What is the reason for those differences? Do they reflect fundamental differences between the national legal systems or different policies? In what degree do courts in different countries and the national law makers differentiate between secondary trademark infringement on- and off-line? What is the current EU position, and what are perspectives for European and international development? Are there specific limitations of the liability of intermediary service providers on the

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<sup>10</sup> Bundesgerichtshof [BGH] [Federal Court of Justice] Mar. 11, 2004, 158 ENTSCHIEDUNGEN DES BUNDESGERICHTSHOFES IN ZIVILSACHEN [BGHZ] 236 (Ger.) (Internet-Versteigerung I); Bundesgerichtshof [BGH] [Federal Court of Justice] Apr. 19, 2007, 172 ENTSCHIEDUNGEN DES BUNDESGERICHTSHOFES IN ZIVILSACHEN [BGHZ] 119 (Ger.) (Internet-Versteigerung II); Bundesgerichtshof [BGH] [Federal Court of Justice] Apr. 30, 2008, MULTIMEDIA UND RECHT [MMR] 531, 2008 (Ger.) (Internet-Versteigerung III).

<sup>11</sup> [2009] EWHC 1094 (Ch) (Eng.).

<sup>12</sup> This was done pursuant to Article 234 of the Treaty Establishing the European Community, Dec. 24, 2002, 2002 O.J. (C 325) 33, available at [http://eurlex.europa.eu/en/treaties/dat/12002E/pdf/12002E\\_EN.pdf](http://eurlex.europa.eu/en/treaties/dat/12002E/pdf/12002E_EN.pdf), as amended by the Treaty of Lisbon Amending the Treaty on European Union and the Treaty Establishing the European Community, Dec. 13, 2007, 2007 O.J. (C 306) 1, available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2007:306:0001:0010:EN:PDF>. See also Consolidated Version of the Treaty on the Functioning of the European Union art. 267, Sept. 5, 2008, 2008 O.J. (C 115) 47, available at <http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:115:0047:0199:EN:PDF>.

<sup>13</sup> Case C-324/09, *L'Oréal, SA v. eBay, Int'l A.G.*, COURT OF JUST. OF THE EUR. UNION (July 12, 2011), <http://curia.europa.eu/juris/cgi-bin/form.pl?lang=EN&Submit=rechercher&numaff=C-324/09>.

<sup>14</sup> Joined Cases C-236/08 to C-238/08, *Google France SARL v. Louis Vuitton Malletier SA*, 2010 E.C.R. I-02417.

Internet in the U.S., in Europe? What are the liability and business implications for companies and service providers doing business in an environment that—like the Internet—touches numerous jurisdictions with differing laws, economic systems, and policies?

In this article, we will attempt to provide answers to the questions raised above by analyzing the *Tiffany v. eBay* decision and then comparing and contrasting it, from a doctrinal point of view, to recent German and French court decisions dealing with secondary liability of online marketplaces for trademark infringement. As the expansion and success of online marketplaces like eBay illustrate, e-commerce itself is borderless. However, inconsistent national standards of secondary trademark infringement liability are likely to escalate costs on such merchants and prompt forum shopping and further litigation. After our discussion of results and rationales in these cases, we propose a standard based broadly on that suggested in *Tiffany* as a means to harmonize the law of contributory trademark infringement across borders and within the realities of the business model of online intermediary markets.

## II. SECONDARY LIABILITY FOR TRADEMARK INFRINGEMENT IN THE UNITED STATES

The Lanham Act is the source of federal trademark law in the United States.<sup>15</sup> Under the Lanham Act, any commercial use of another firm's mark without permission that causes a likelihood of confusion as to source or sponsorship of the goods or services constitutes direct trademark infringement.<sup>16</sup> Injunctive relief is the primary remedy for infringement,<sup>17</sup> though actual damages, lost profits, and costs are also recoverable.<sup>18</sup>

The type of direct infringement that results when the defendant uses the identical mark owned by the plaintiff on the same type of goods and sells those goods in direct competition with the plaintiff is often referred to as trademark counterfeiting.<sup>19</sup> The Lanham Act defines a counterfeit mark as a spurious mark that is identical to, or substantially indistinguishable from, a mark that is in use and registered.<sup>20</sup> Consumers who purchase

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<sup>15</sup> 15 U.S.C. §§ 1051–72, 1091–96, 1111–27, 1141, 1141a–41n (2010).

<sup>16</sup> *See id.* § 1125(a)(1)(A). To prove infringement in cases where the mark used by the defendant is not identical, the court will consider an array of factors, including: similarity of the marks, proximity of the goods or services, evidence of actual confusion, defendant's intent, strength of the plaintiff's mark, likelihood of bridging the gap, consumer sophistication, and marketing channels used by the parties. *See* *AMF, Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348–49 (9th Cir. 1979); *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1963).

<sup>17</sup> 15 U.S.C. § 1116(a).

<sup>18</sup> *Id.* § 1117(a).

<sup>19</sup> *Id.* § 1114(1)(b). The Lanham Act authorizes seizure of any counterfeit goods or marks. *Id.* § 1116(d)(4)(B).

<sup>20</sup> *Id.* § 1116(d)(1)(B).

counterfeit goods are likely to be confused into believing that they have purchased genuine goods.<sup>21</sup>

The conditions for imposing liability on those who are not direct infringers are not defined in the Lanham Act. Rather, indirect or secondary liability for trademark infringement is a judicially-created doctrine that has been imported from the common law of torts.<sup>22</sup> According to principles of indirect tort liability, “one is subject to liability if he permits [a third person] to act with his instrumentalities, knowing or having reason to know that the other is acting or will act tortiously . . . .”<sup>23</sup>

There are two routes to proving secondary trademark liability. Vicarious infringement arises when there is an agency or similar type of relationship between the defendant and the direct infringer, or when the defendant and direct infringer jointly own or control the means of infringement.<sup>24</sup> The second type of liability, contributory infringement, has been at the heart of the dispute between Tiffany and eBay. Liability for contributory infringement arises when the defendant either actively induces another to directly infringe the plaintiff’s trademark, or continues to supply a product to another who is directly infringing the plaintiff’s trademark.<sup>25</sup>

#### A. Liability for Contributory Trademark Infringement

The standard for determining liability for contributory infringement was first enunciated by the U.S. Supreme Court in the case of *Inwood Laboratories v. Ives Laboratories*.<sup>26</sup> The defendant in that case was a pharmaceuticals manufacturer that continued to supply generic drugs to retail pharmacists who were relabeling them with another manufacturer’s trademark. In analyzing whether the defendant was indirectly liable for the pharmacist’s infringing activities, the Court explained:

[L]iability for trademark infringement can extend beyond those who actually mislabel goods with the mark of another. Even if a manufacturer does not directly control others in the chain of distribution, it can be held responsible for their infringing activities

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<sup>21</sup> See *TCPIP Holding Co. v. Haar Commc’ns, Inc.*, 244 F.3d 88, 94–95 (2d Cir. 2001).

<sup>22</sup> See *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148 (7th Cir. 1992). Citing the Restatement of Torts, the Seventh Circuit reasoned that a third party “is responsible for the torts of those it permits on its premises ‘knowing or having reason to know that the other is acting or will act tortuously . . . .’” *Id.* at 1149.

<sup>23</sup> RESTATEMENT (SECOND) OF TORTS § 877(c) & cmt. d (1979).

<sup>24</sup> See *David Berg & Co. v. Gatto Int’l Trading Co.*, 884 F.2d 306, 311 (7th Cir. 1989) (explaining that vicarious infringement occurs when a party is in privity with the direct infringer); *Philip Morris USA, Inc. v. Lee*, 547 F. Supp. 2d 667 (W.D. Tex. 2008) (holding that vicarious liability requires a finding of a partnership or agency relationship); see also MARY LAFRANCE, UNDERSTANDING TRADEMARK LAW 257–60 (2d ed. 2009).

<sup>25</sup> See *Inwood Labs. v. Ives Labs.*, 456 U.S. 844, 854–55 (1982).

<sup>26</sup> *Id.*

under certain circumstances. Thus, if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.<sup>27</sup>

The courts have applied the *Inwood* decision to find that operators of intermediary markets, such as flea markets and swap meets, can be held liable for the infringing activities of their vendors under certain circumstances. In these cases, the key issue has been the extent of knowledge necessary to impose liability on the intermediary who continues to supply the direct infringer with a product or service.

In *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*,<sup>28</sup> the owner of the Hard Rock trademark sued the owner and operator of a flea market for contributory infringement after discovering that vendors at the flea market were selling counterfeit items. The court of appeals began its analysis by pointing out that the defendant could be liable for trademark violations by the vendors if it knew or had reason to know of them, and that willful blindness is equivalent to actual knowledge for purposes of the Lanham Act.<sup>29</sup> According to the court, “[t]o be willfully blind, a person must suspect wrongdoing and deliberately fail to investigate.”<sup>30</sup> Therefore, a defendant could not be liable for contributory infringement for mere failure to take reasonable precautions to prevent direct infringement.<sup>31</sup> As the court explained:

CSI [the flea market owner] has no affirmative duty to take precautions against the sale of counterfeits. Although the “reason to know” part of the standard for contributory liability requires CSI (or its agents) to understand what a reasonably prudent person would understand, it does not impose any duty to seek out and prevent violations. We decline to extend the protection that Hard Rock finds in the common law to require CSI, and other landlords, to be more dutiful guardians of Hard Rock’s commercial interests.<sup>32</sup>

While the flea market owner could still be liable for contributory infringement, the 7th Circuit Court of Appeals remanded the case to the district court to determine whether the defendant had reason to know of the vendor’s trademark violations, choosing not to immediately order an

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<sup>27</sup> *Id.*

<sup>28</sup> 955 F.2d 1143 (7th Cir. 1992).

<sup>29</sup> *Id.* at 1149.

<sup>30</sup> *Id.*

<sup>31</sup> *See id.*

<sup>32</sup> *Id.* (citation omitted).



imposition of contributory liability.<sup>33</sup>

Likewise, in *Fonovisa, Inc. v. Cherry Auction, Inc.*,<sup>34</sup> the owners of trademarks and copyrights for musical recordings sued a swap meet owner for contributory infringement. The local sheriff had raided the swap meet and seized more than 38,000 counterfeit recordings. The following year, after finding that vendors at the swap meet were still selling counterfeit recordings, the sheriff sent a letter notifying Cherry Auction of the on-going sales of infringing materials, and reminding Cherry Auction that it had agreed to provide the sheriff with identifying information from each vendor. In addition, the defendant's investigator had observed sales of counterfeit recordings. Based on these facts, there was no dispute that Cherry Auction and its operators were aware that vendors in the swap meet were selling counterfeit recordings. Relying on the *Inwood* and *Hard Rock* precedents, the 9th Circuit Court of Appeals determined that "a swap meet can not disregard its vendors' blatant trademark infringements with impunity."<sup>35</sup> Thus, the trademark owner had adequately stated a claim for contributory trademark infringement.<sup>36</sup>

The *Inwood* test and the analogous *Hard Rock* and *Fonovisa* precedents provide useful guidance in analyzing the contributory liability issue in the litigation between Tiffany and eBay. These cases and others have made clear that contributory liability exists when the defendant supplies a product to a distributor and intentionally induces the distributor to use that product to directly infringe a trademark, or when the defendant has actual or constructive knowledge that the product is being used to infringe a trademark.

#### B. The Tiffany and eBay Business Models

For over 170 years, Tiffany & Co. has been an internationally recognized seller of high end jewelry, watches, and related luxury items.<sup>37</sup> Tiffany owns U.S. registrations for its family of famous marks, which include TIFFANY, TIFFANY & CO., and T & CO., along with various designs.<sup>38</sup> All of its goods are closely inspected to meet Tiffany's quality standards. Tiffany does not make its quality standards available to the public or to other jewelry manufacturers. In addition, Tiffany closely controls the distribution of its goods.<sup>39</sup> Since 2000, all new Tiffany jewelry sold in the United States has been available exclusively through Tiffany's

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<sup>33</sup> *Id.* at 1150.

<sup>34</sup> 76 F.3d 259 (9th Cir. 1996).

<sup>35</sup> *Id.* at 265.

<sup>36</sup> *Id.*

<sup>37</sup> *About Tiffany*, TIFFANY & CO., <http://www.tiffany.com/About/Default.aspx?isMenu=1&> (last visited Nov. 25, 2011).

<sup>38</sup> *See Tiffany*, 576 F. Supp. 2d at 471–72.

<sup>39</sup> *Id.* at 472–73.

retail stores, catalogs, and website, and through its corporate sales department. It does not use liquidators, sell overstock merchandise, or sell its goods at discounted prices.<sup>40</sup>

eBay, Inc., is an online auction website that facilitates commercial transactions between individual buyers and sellers, including small businesses. Founded in 1995 and drawing more than 97 million current active users worldwide, eBay describes itself as “the world’s largest online marketplace, where practically anyone can buy and sell practically anything. . . . [eBay users’] collective impact on e-commerce is staggering: In 2010, the total worth of goods sold on eBay was \$62 billion.”<sup>41</sup> eBay generates revenue by charging sellers a fee to list their goods for sale and by deducting a percentage of the price for which the goods are sold.<sup>42</sup>

At no time does eBay take physical possession of the goods available for purchase on its site. Nevertheless, eBay exercises some control over those who do business on its website by requiring all users to register with eBay and to sign eBay’s User Agreement. The User Agreement requires users to refrain from violating any laws, third party rights, including intellectual property rights, and eBay policies. If a user violates the User Agreement, eBay may take disciplinary action against the user, including removing the user’s listings, issuing a warning, or suspending the user.<sup>43</sup>

To combat fraud and counterfeiting, eBay has instituted several measures. One such measure is the eBay fraud engine, which utilizes rules and complex models to monitor the website and automatically search for activity that violates eBay policies. eBay spends over \$5 million per year in maintaining and enhancing the fraud engine, which is mainly dedicated to identifying fraudulent and counterfeit listings.<sup>44</sup> For example, eBay monitors its website for and removes listings that expressly offer “knock-off,” “counterfeit,” “replica,” or “pirated” merchandise, and listings in which the user “cannot guarantee the authenticity” of the goods being offered for sale.<sup>45</sup>

In addition to the fraud engine, eBay has instituted a set of procedures, known as the Verified Rights Owner (VeRO) Program, to address listings offering potentially infringing items posted on the website.<sup>46</sup> The VeRO Program is a “notice-and-takedown” system, whereby rights owners can report to eBay any listing offering potentially infringing items so that eBay can remove such reported listings.<sup>47</sup> The VeRO Program places the

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<sup>40</sup> *Id.*

<sup>41</sup> *Who We Are*, EBAY, <http://www.ebayinc.com/who> (last visited Nov. 25, 2011).

<sup>42</sup> *Tiffany*, 576 F. Supp. 2d. at 474–75.

<sup>43</sup> *Id.* at 478–79.

<sup>44</sup> *Id.* at 477.

<sup>45</sup> *Id.*

<sup>46</sup> *Id.* at 478.

<sup>47</sup> *Id.* at 477–78.

responsibility on rights owners to police their trademarks and copyrights.<sup>48</sup>

A rights owner who discovers a potentially infringing item listed on the site can report the listing directly to eBay by submitting a Notice of Claimed Infringement form (NOCI). A NOCI attests that the rights owner possesses a “good-faith belief” that the item infringes on a copyright or a trademark.<sup>49</sup> If a NOCI contains all of the required information and has indicia of accuracy, eBay promptly removes the challenged listing within 24 hours of receiving the NOCI.<sup>50</sup> Indeed, eBay removes thousands of listings each week based on the submission of NOCIs by rights holders.<sup>51</sup>

### C. The *Tiffany v. eBay* Litigation

In 2003, after discovering that substantial quantities of counterfeit Tiffany merchandise were being sold on eBay, Tiffany contacted eBay in an effort to curtail the sale of such items. Tiffany remained unsatisfied with eBay’s efforts to remedy the counterfeiting problem and filed suit against eBay for contributory trademark infringement, asserting that eBay facilitated the advertisement and sale of counterfeit Tiffany jewelry on its website.<sup>52</sup> The first type of contributory infringement identified in the *Inwood* case did not apply because Tiffany did not allege that eBay intentionally induced infringement of Tiffany’s marks. Rather, Tiffany asserted that eBay continued to provide its auction services despite its knowledge, or reason for knowing, that counterfeit Tiffany merchandise was being sold.

Following a trial, the district court ruled in favor of eBay on all claims.<sup>53</sup> The district court concluded that while eBay possessed general knowledge as to counterfeiting on its website, such generalized knowledge was insufficient under the *Inwood* test to impose upon eBay an affirmative duty to remedy the problem.<sup>54</sup> Tiffany then appealed to the Second Circuit Court of Appeals. On appeal, the court first ruled that eBay was not liable for direct trademark infringement.<sup>55</sup> According to the court, eBay properly used Tiffany’s mark on its website to describe accurately the genuine Tiffany goods offered for sale and none of eBay’s uses of the mark suggested that Tiffany affiliated itself with eBay or endorsed the sale of its

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<sup>48</sup> 576 F. Supp. 2d. at 478.

<sup>49</sup> *Id.*

<sup>50</sup> *Id.*

<sup>51</sup> *Id.*

<sup>52</sup> *Id.* at 481–82.

<sup>53</sup> *Id.* at 527.

<sup>54</sup> *Id.* at 511–15. Thus, the standard was not whether eBay could “reasonably anticipate” infringement, but whether eBay continued to supply its services to users when it knew or had reason to know of infringement by those users.

<sup>55</sup> *Tiffany (NJ), Inc. v. eBay, Inc.*, 600 F.3d 93 (2d Cir. 2010).

products through its site.<sup>56</sup>

The court next turned to the issue of whether eBay was liable for contributory trademark infringement.<sup>57</sup> Tiffany did “not argue that eBay induced the sale of counterfeit Tiffany goods on its website.”<sup>58</sup> As such, the court reiterated the second part of the *Inwood* test for proving contributory liability for trademark infringement: the defendant must (1) have actual or constructive knowledge of the direct infringement and (2) continue to do business with the infringer despite such knowledge or reason to know of the infringing conduct.<sup>59</sup> The court of appeals determined that Tiffany was required to prove that eBay had more than “a general knowledge or reason to know that its service is being used to sell counterfeit goods” to satisfy the knowledge prong of the *Inwood* test.<sup>60</sup> More specifically, the court required “some contemporary knowledge of which particular listings are infringing or will infringe in the future,” and a subsequent failure to act on such knowledge constituting “willful blindness,” in order to satisfy both elements of contributory trademark infringement.<sup>61</sup>

Tiffany argued that eBay failed the *Inwood* test because it continued to supply services to sellers of counterfeit goods while knowing or having reason to know that such sellers were infringing on Tiffany’s mark. However, the court determined that eBay’s generalized knowledge of trademark infringement by users of its site did not impose an affirmative duty to remedy the problem.<sup>62</sup> The court emphasized eBay’s internal controls and procedures for detecting and removing counterfeit goods from its website. In particular, the court observed that eBay spends \$20 million per year on these efforts and maintains an entire department of employees dedicated to fraud prevention.<sup>63</sup> eBay also works with trademark owners, including Tiffany, to detect and notify eBay of suspected counterfeiters.<sup>64</sup>

The Court of Appeals also noted that eBay has an incentive to

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<sup>56</sup> *Id.* at 103.

<sup>57</sup> The facts of the case would not have supported a claim based on vicarious liability, since eBay sellers had no actual or apparent authority to contract on behalf of eBay, and were not subject to eBay’s direct control.

<sup>58</sup> *Id.* at 106.

<sup>59</sup> *Id.*

<sup>60</sup> *Id.* at 107; *accord* Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 439 n.19 (1984).

<sup>61</sup> *Tiffany*, 600 F.3d at 109–10.

<sup>62</sup> *Id.* at 108–09.

<sup>63</sup> *See id.*; *see also Tiffany*, 576 F. Supp. 2d at 476.

<sup>64</sup> When eBay detects or is alerted to signs of counterfeit goods on its site, eBay responds swiftly within 24 hours and suspends or takes down the suspect auction page. This is followed by a formal investigation and permanent page or seller cancellation in the event that actual fraud is detected. In some instances, eBay will refund a purchaser’s money if a counterfeit item was purchased on eBay. *Tiffany*, 600 F.3d at 98–100; *see also Tiffany*, 576 F. Supp. 2d at 478.

eliminate the sale of counterfeit goods on its website in order to maintain the confidence of eBay customers in the authenticity of the goods they are purchasing.<sup>65</sup> As such, the court concluded that eBay did not have the specific knowledge of infringement required by the *Inwood* test and that eBay's efforts to fight counterfeiting did not amount to willful ignorance.<sup>66</sup> Having found an absence of actual or constructive knowledge of specific individuals selling counterfeit merchandise, the court unanimously held that eBay was not liable for contributory trademark infringement.<sup>67</sup>

*1. Implications and Aftermath of the Tiffany v. eBay Decision*

The Second Circuit's decision is instructive on several fronts. First, the decision provides guidance to online markets as to the likely scope of their liability for secondary trademark infringement under U.S. law. To be liable for contributory infringement, an operator of an online market must either intentionally induce trademark infringement by its users, or continue to provide access to its services to specific users whom it knows, or has reason to know, are engaging in direct infringement.<sup>68</sup> By requiring specific knowledge of infringing activity, rather than general awareness, the decision places the ultimate responsibility for policing the use of trademarks on the trademark owner.<sup>69</sup>

Further, the decision underscores the importance of proactively implementing anti-counterfeiting policies and procedures. If, when an online market has been notified of specific instances of infringing activity, it takes affirmative steps to eliminate such activity, then it will be immunized from liability for contributory infringement. Such evidence proved crucial to the court of appeals in *Tiffany*, as the court's finding that eBay was neither encouraging nor ignoring violations of trademark owners' rights was dispositive.

The standard that emerges in *Tiffany* is broadly consistent with that applied to online service providers under the Digital Millennium Copyright Act (DMCA).<sup>70</sup> Under the DMCA, an online service provider is exempt

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<sup>65</sup> *Tiffany*, 600 F.3d at 109.

<sup>66</sup> *Id.* at 109–10.

<sup>67</sup> *Tiffany* had also alleged that eBay was liable for contributory trademark dilution. The appellate court affirmed the district court's holding that eBay was not liable for dilution because, as eBay "did not itself sell the goods at issue, it did not itself engage in dilution," and because *Tiffany* had conceded that its contributory dilution claim would fail if its contributory trademark infringement claim failed. *Id.* at 111–12. However, the court remanded the case to the district court for reconsideration of its conclusion that eBay was not liable for false advertising. *Id.*

<sup>68</sup> *Id.* at 106.

<sup>69</sup> Nor is it likely that general warnings or demand letters will be sufficient to impute specific knowledge to the intermediary market operator. *See Lockheed Martin Corp. v. Network Solutions*, 985 F. Supp. 949, 965 (C.D. Cal. 1997).

<sup>70</sup> 17 U.S.C. §§ 512, 1201–05, 1301–32 (2010); 28 U.S.C. § 4001 (2010).

from secondary liability for the copyright infringement of its users when it has adopted, implemented, and informed users of its policy providing for termination of users who repeatedly infringe copyrights.<sup>71</sup> This is accomplished in part by a notice-and-takedown requirement that allows copyright owners to notify an online service provider of allegedly infringing content on its system. After receiving such notice, the online service provider must block or remove such content.<sup>72</sup> The notice must specifically identify the work allegedly infringed and must be specific enough to allow the online service provider to locate the infringing material.<sup>73</sup> Additionally, the online service provider must have adopted standard technical measures to identify and protect copyrighted works.<sup>74</sup> Notably, online service providers do not need to monitor or affirmatively search for infringing content to be exempt from liability.<sup>75</sup>

As such, the DMCA regime shields online service providers from secondary liability unless they have actively failed to discourage infringement by their users and have actual knowledge of directly infringing material but have failed to remove it. This is consistent with the court's examination of eBay's conduct in the *Tiffany* case. Indeed, eBay was immune from secondary liability for sale of infringing DVDs on its site in *Hendrickson v. eBay, Inc.*<sup>76</sup> The court in *Hendrickson* found that eBay had implemented a notice-and-takedown policy that complied with the requirements of the DMCA and responded expeditiously to a notice from the copyright owner.<sup>77</sup> Furthermore, the court held that eBay did not have actual or constructive knowledge of the infringing material because the plaintiff's notice failed to comply "substantially" with the DMCA notice requirements.<sup>78</sup>

In addition to its alignment with the DMCA, the ruling in *Tiffany v. eBay* also makes sense from a practical business perspective in that it places the primary responsibility on the trademark owner to monitor the use of its mark by others. It is impossible for eBay to inspect and accurately determine the authenticity of every item for sale on its site because eBay would need to take physical possession of all items offered for sale and determine whether each user is selling genuine goods. The result would likely diminish the functionality of eBay's site. Because operators of online markets would not be willing to devote substantial resources and time to authenticate every item for sale on its site, it is unlikely that they would

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<sup>71</sup> 17 U.S.C. § 512(i)(1)(A).

<sup>72</sup> *Id.* § 512(c)(2)–(3).

<sup>73</sup> *Id.*

<sup>74</sup> *Id.* § 512(I)(1)(B).

<sup>75</sup> *Id.* § 512(m).

<sup>76</sup> 165 F. Supp. 2d 1082 (C.D. Cal. 2001).

<sup>77</sup> *See id.* at 1089–92.

<sup>78</sup> *Id.* at 1093.

obey every request to remove merchandise, even if it was in fact genuine or if the use of another's mark was non-infringing. In the end, a standard based on generalized knowledge of direct infringement would be financially ruinous to the online auction business model.

Aside from its implications for online auction sites, *Tiffany* may be influential in deciding cases involving other online intermediaries. For instance, assume that a manufacturer discovers that counterfeits of its luxury merchandise are being sold on websites on servers owned by a certain web hosting provider. The manufacturer sends a number of takedown notices to the web hosting provider, which fails to respond and which otherwise has taken no measures to limit the infringing activity taking place on its system. If the manufacturer sues the web hosting provider for contributory infringement, is it likely that the web hosting provider's failure to act would lead to a finding of contributory liability? This was the situation in *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*,<sup>79</sup> where a web host, Akanoc, hosted Chinese retailers selling counterfeit Louis Vuitton goods. After Akanoc ignored numerous takedown notices, Louis Vuitton sued for contributory trademark infringement.

The case went to trial and the jury returned a verdict for Louis Vuitton, holding Akanoc liable for contributory infringement.<sup>80</sup> On appeal, Akanoc argued that the jury instructions were erroneous because a "contribution to infringement must be intentional for liability to arise."<sup>81</sup> The Ninth Circuit disagreed, holding that Louis Vuitton was required to prove only that Akanoc provided its service with actual or constructive knowledge that its users were engaging in trademark infringement.<sup>82</sup> Thus, an express finding of intent is not required. The court vacated and remanded with instructions that the district court award statutory damages in the amount of \$10,500,000 for contributory trademark infringement.<sup>83</sup>

The outcome in *Akanoc* appears to be broadly consistent with the rationale of the court in *Tiffany*. Akanoc's failure to promptly respond to takedown notices, along with its specific knowledge of direct infringement, amounted to willful blindness that led to contributory liability. In the same vein, *Tiffany* may be persuasive in resolving claims against domain name registrars<sup>84</sup> and search engines that sell trademarks as keywords to produce

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<sup>79</sup> 2011 WL 4014320 (9th Cir. 2011).

<sup>80</sup> See *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, 591 F. Supp. 2d 1098 (N.D. Cal. 2008).

<sup>81</sup> 2011 WL 4014320, at \*4.

<sup>82</sup> *Id.*

<sup>83</sup> *Id.* at \*8.

<sup>84</sup> See *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980 (9th Cir. 1999). In *Lockheed Martin*, the court ruled that a domain name registrar was not liable for contributory infringement because it did not directly control or monitor the activities of its regis-

a list of websites or advertisements containing the search terms. In *Rosetta Stone Ltd. v. Google, Inc.*,<sup>85</sup> the court granted summary judgment in favor of Google on a contributory infringement claim against Google for selling allegedly infringing adwords that triggered sponsored links. Citing *Tiffany*, the court held that Google lacked the requisite specific intent because it contractually prohibits advertising of counterfeit goods, honors takedown notices, and, like eBay, Google had no way of confirming if advertisers were selling genuine or counterfeit goods.<sup>86</sup>

In a post-*Tiffany* case involving a luxury brand mark, *Gucci America, Inc. v. Frontline Processing Corp.*,<sup>87</sup> the owner of the famous GUCCI trademarks filed an action for contributory trademark infringement and counterfeiting against two credit card processors and a business that assisted an online seller of counterfeit products in setting up credit card processing services. In denying the defendants' motion to dismiss, the court held that the complaint sufficiently alleged contributory infringement under the same standard applied in *Tiffany*.<sup>88</sup> The court found that one defendant had intentionally induced trademark infringement by marketing itself as specializing in services for high risk accounts for merchants selling "replica products," and that the other two defendants had exerted sufficient control over the infringing activities and had knowingly provided services essential to the sale of counterfeit items.<sup>89</sup>

Whether the reasoning in *Tiffany* will be adopted by the U.S. courts of appeals in other circuits is a question that remains to be answered. If not, the decisions of several European courts that have addressed the issue of secondary trademark infringement liability of online marketplaces may offer a line of reasoning less sympathetic to the operators of online markets.

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trants, some of which had registered domain names containing the plaintiff's registered service marks.

<sup>85</sup> 730 F. Supp. 2d 531 (E.D. Va. 2010).

<sup>86</sup> See *id.* at 548–49; see also *Sellify, Inc. v. Amazon.com, Inc.*, 2010 WL 4455830 (S.D.N.Y. 2010) (holding there had been no vicarious or contributory infringement because there was no evidence that the direct infringer was Amazon's agent or that Amazon had had particular knowledge of the infringing activities). *But c.f.* *Government Employees Ins. Co. v. Google, Inc.*, 330 F. Supp. 2d 700 (E.D. Va. 2004) (holding that the sale of trademark keywords was a commercial use of the mark necessary to support a claim of contributory infringement).

<sup>87</sup> 721 F. Supp. 2d 228 (S.D.N.Y. 2010).

<sup>88</sup> *Id.* at 253.

<sup>89</sup> *Id.* at 249–53. In *Perfect 10, Inc. v. Visa International Service Ass'n*, a similar case decided before *Tiffany*, two credit card processing services were held not liable for contributory infringement when their services were used in the sale of infringing photographs. The court held that the credit card services neither exercised control nor had specific knowledge of the directly infringing activities. 494 F.3d 788, 801 (9th Cir. 2007).



### III. SECONDARY LIABILITY FOR TRADEMARK INFRINGEMENT IN THE EUROPEAN UNION

In the member states of the European Union, national trademark law and EU trademark law co-exist. Each EU member state has its own national trademark law, such as the German Trademarks Act, *Markengesetz* (*MarkenG*),<sup>90</sup> or the U.K. Trade Marks Act 1994.<sup>91</sup> In France, statutory provisions on trademark law are part of the Intellectual Property Code, *Code de la Propriété Intellectuelle* (*CPI*).<sup>92</sup> The harmonized EU trademark law approximates, supplements, or replaces the domestic trademark law of individual EU member states regarding secondary liability for trademark infringement.

#### A. EU Trademark Law

Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to Approximate the Laws of the Member States Relating to Trade Marks<sup>93</sup> (Trade Marks Directive) harmonizes the trademark laws of the EU member states. The Trade Marks Directive does not have any direct effect; it needs instead to be transposed into national law by the legislature of each individual EU member state, according to Article 288 of the Treaty on the Functioning of the European Union (formerly Article 249 of the Treaty Establishing the European Community).<sup>94</sup> Therefore, trademark law in the EU member states is not identical, but based on a uniform minimum standard as set down by the Trade Marks Directive. Furthermore, many provisions of the Trade Marks Directive have been taken over quasi-literally by national statutes.

Even if the Trade Marks Directive lacks direct effect and national trademark protection varies, however, according to the ECJ decisions in *Leur-Bloem v. Inspecteur*<sup>95</sup> and *Giloy v. Hauptzollamt*,<sup>96</sup> national trademark

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<sup>90</sup> Gesetz über den Schutz von Marken und sonstigen Kennzeichen [*Markengesetz*] [German Trade Mark Act], Oct. 25, 1994, BUNDESGESETZBLATT, Teil I [BGBL I] at 3082 (Ger.), available at <http://www.gesetze-im-internet.de/markeng/>.

<sup>91</sup> Trade Marks Act, 1994, c. 26 (U.K.), available at [http://www.opsi.gov.uk/acts/acts1994/ukpga\\_19940026\\_en\\_1.htm](http://www.opsi.gov.uk/acts/acts1994/ukpga_19940026_en_1.htm).

<sup>92</sup> See CODE DE LA PROPRIÉTÉ INTELLECTUELLE [C. PRO. INTELL.] art. L711-17, R712-18 (Fr.), available at <http://www.legifrance.gouv.fr/affichCode.do?cidTexte=LEGITEXT000006069414&dateTexte=20100814>.

<sup>93</sup> 2008 O.J. (L 299) 25, available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:299:0025:0033:EN:PDF>.

<sup>94</sup> 2008 O.J. (C 115) 47 [hereinafter TFEU], available at <http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:115:0047:0199:EN:PDF>. An EU directive only has direct effect, if it has not been correctly transformed into national law within the time limit set down in the directive, if it is sufficiently clear and precisely stated, unconditional or non-dependent, and confers a specific right for the citizen to base his or her claim upon. See Case 41/74, *Yvonne van Duyn v. Home Office*, 1974 E.C.R. 01337.

<sup>95</sup> Case C-28/95, *A. Leur-Bloem v Inspecteur der Belastingdienst/Ondernemingen Am-*

laws must be interpreted in accordance with the Trade Marks Directive and the economic and political goals it sets forth. In order to ensure a uniform application of the Trade Marks Directive, and in accordance with Article 267 of the Treaty on the Functioning of the European Union, any domestic court of an EU member state that needs to interpret a provision in national trademark law that is based on the Trade Marks Directive:

[M]ay, if it considers that a decision on the question is necessary to enable it to give judgment, request the Court [of Justice of the European Union] to give a ruling thereon. Where any such question is raised in a case pending before the highest court or tribunal of a Member State, that court or tribunal shall bring the matter before the Court [of Justice of the European Union].<sup>97</sup>

In addition to the Trade Marks Directive, Council Regulation (EC) No 207/2009 of 26 February 2009 on the Community Trade Mark<sup>98</sup> (Community Trade Mark Regulation) regulates the Community Trade Mark. A Community Trade Mark is a trademark registered with the Office of Harmonization for the Internal Market (OHIM) in a single registration procedure.<sup>99</sup> Upon registration the trademark is valid in the European Union as a whole—that is, its protection cannot be limited to certain member states. A Community Trade Mark confers to its proprietor an exclusive right to use the trademark and to prevent third parties from using, without consent, the same or a similar mark for identical or similar goods and/or services as those protected by the Community Trade Mark.<sup>100</sup> A Community Trade Mark is valid for 10 years and can be renewed indefinitely for periods of ten years.<sup>101</sup>

In contrast to some national laws which protect registered and unregistered trademarks,<sup>102</sup> the Community Trade Mark grants its proprietor the right to prevent unauthorized use of the mark in trade without his/her consent only if the trademark has been registered.<sup>103</sup> The proprietor of a Community Trade Mark can act against trademark infringements by taking

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sterdam 2, 1997 E.C.R. I-4161.

<sup>96</sup> Case C-130/95, *Bernd Giloy v Hauptzollamt Frankfurt am Main-Ost*, 1997 E.C.R. I-4291.

<sup>97</sup> TFEU art. 267.

<sup>98</sup> 2009 O.J. (L 78) 1 (EC), available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:078:0001:0042:EN:PDF>.

<sup>99</sup> See *id.* art. 1.

<sup>100</sup> See *What is a Community Trade Mark (CTM)?*, OFFICE OF HARMONIZATION IN THE INTERNAL MARKET, <http://oami.europa.eu/ows/rw/pages/CTM/communityTradeMark/communityTradeMark.en.do> (last updated Apr. 15, 2009).

<sup>101</sup> *Id.*

<sup>102</sup> See, e.g., Gesetz über den Schutz von Marken und sonstigen Kennzeichen [Markengesetz] [German Trade Mark Act], Oct. 25, 1994, BGBl I at 3082, §4(2) (Ger.).

<sup>103</sup> Council Regulation 207/2009, art. 6, 2009 O.J. (L 78) 1 (EC).

measures expressly provided for under the Community Trade Mark Regulation, in relation to disputes concerning the infringement and validity of Community Trade Marks, via proceedings in the Community Trade Mark courts established under the Community Trade Mark Regulation.<sup>104</sup> Community Trade Mark courts function as specifically designated national courts in the EU member states.<sup>105</sup> It is important to note, as well, that community trademark law does not replace national trademark law.<sup>106</sup> Small- and mid-sized companies that operate solely within a national market might not find a special interest in registering a trademark as a Community Trade Mark.<sup>107</sup>

Some of the European eBay decisions refer to both national and Community Trade Marks,<sup>108</sup> others to national trademarks only.<sup>109</sup> Alternatively, as in the case of the German Internet litigation *Internet-Versteigerung I*, some trademark infringement disputes have not been brought via proceedings in Community Trade Mark courts but in national civil courts.<sup>110</sup> In such cases, the Community Trade Mark Regulation does not apply; rather, national trademark law, as harmonized by the EU Trade Marks Directive, is applicable.

#### B. Liability for Contributory Trademark Infringement

The conditions for imposing liability on parties who are not direct infringers are not defined in either the EU Trade Marks Directive or the EU Community Trade Mark Regulation. Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights<sup>111</sup> (Enforcement Directive) explicitly refers the regulation of conditions and procedures relating to injunctions against intermediaries to the national laws of the EU member states.<sup>112</sup> Accordingly, the question of secondary liability is primarily a

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<sup>104</sup> See *What is a Community Trade Mark (CTM)?*, *supra* note 100.

<sup>105</sup> *Id.*

<sup>106</sup> See Council Regulation 207/2009, *pmbl.*, 2009 O.J. (L 78) 1 (EC).

<sup>107</sup> See HORST-PETER GÖTTING, *GEWERBLICHER RECHTSSCHUTZ* 405 (9th ed. 2010).

<sup>108</sup> See, e.g., 172 BGHZ 119 (Ger.) (*Internet-Versteigerung II*); *L'Oréal SA v. eBay Int'l AG*, [2009] EWHC 1094 (Ch) (Eng.).

<sup>109</sup> See, e.g., Tribunal de grande instance [TGI] [ordinary court of original jurisdiction] Troyes, ch. civ., June 4, 2008, no. 06/02604 (Fr.); Cour d'appel [CA] [regional court of appeal] Reims, ch. civ., July 20, 2010, no. 08/01519 (Fr.), *available at* [http://www.legalis.net/spip.php?page=breves-article&id\\_article=2960](http://www.legalis.net/spip.php?page=breves-article&id_article=2960); Tribunal de grande instance [TGI] [ordinary court of original jurisdiction] Paris, 3e ch., May 13, 2009, no. 07/11365 (Fr.).

<sup>110</sup> See 158 BGHZ 236 (Ger.) (*Internet-Versteigerung I*).

<sup>111</sup> 2004 O.J. (L 195) 0016, *available at* [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32004L0048R\(01\):EN:HTML](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32004L0048R(01):EN:HTML).

<sup>112</sup> *Id.* *pmbl.*, art. 11.

matter of national law.<sup>113</sup>

### *I. Germany*

In Germany, a civil law country, the primary source of trademark law is a federal statute, the German Trademarks Act, *Markengesetz* (*MarkenG*).<sup>114</sup> Nevertheless, in Germany, case law plays a significant role in the interpretation and development of the written law. Though court decisions in Germany are, following the civil law tradition, nonbinding, lower courts tend to follow the decisions of the *Bundesgerichtshof*, the highest German civil court, in order not to be overruled.

Contrary to the EU Trade Marks Directive and French domestic law,<sup>115</sup> the German Trademarks Act protects not only registered but also unregistered trademarks.<sup>116</sup> Furthermore, under German law, in contrast to the EU Trade Marks Directive, the trademark proprietor in the case of an unlawful infringement, in addition to being entitled to prevent the infringer from using the trademark, is entitled to collect damages for financial loss resulting from the infringement.<sup>117</sup> The collection of damages, though, depends on an intentional or negligent trademark infringement.<sup>118</sup>

Section 14(7) of the *Markengesetz* explicitly addresses secondary liability for trademark infringement. The provision states that “[i]f the trademark infringement is caused by an employee or agent of a business, the owner of the business will be liable for such infringement . . . .”<sup>119</sup> This standard equates to vicarious liability as defined under U.S. law.<sup>120</sup> However, section 14(7) of the *MarkenG* does not address contributory liability, as it refers merely to agents and employees (i.e., those who at least are under some control of the business owner).<sup>121</sup>

Nevertheless, contributory liability as a general concept is not unknown under German trademark law. Section 14(4) of the *MarkenG*

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<sup>113</sup> See *Joined Cases C-236/08 to C-238/08, Google France SARL v. Louis Vuitton Malletier SA*, 2010 E.C.R. I-02417.

<sup>114</sup> Gesetz über den Schutz von Marken und sonstigen Kennzeichen [*Markengesetz*] [German Trade Mark Act], Oct. 25, 1994, BGBl I at 3082 (Ger.).

<sup>115</sup> See *infra* Part III.B.2.

<sup>116</sup> Gesetz über den Schutz von Marken und sonstigen Kennzeichen [*Markengesetz*] [German Trade Mark Act], Oct. 25, 1994, BGBl I at 3082, § 4(2) (Ger.).

<sup>117</sup> *Id.* § 14(6).

<sup>118</sup> *Id.*

<sup>119</sup> *Id.* § 14(7).

<sup>120</sup> See *David Berg & Co. v. Gatto Int’l Trading Co.*, 884 F.2d 306, 311 (7th Cir. 1989) (explaining that vicarious infringement occurs when a party is in privity with the direct infringer); *Philip Morris USA, Inc. v. Lee*, 547 F. Supp. 2d 667, 676 (W.D. Tex. 2008) (holding that vicarious liability requires a finding of a partnership or agency relationship); see also *LAFRANCE*, *supra* note 24, at 257.

<sup>120</sup> See *Inwood Labs. v. Ives Labs.*, 456 U.S. 844, 854 (1982).

<sup>121</sup> See *KARL-HEINZ FEZER, MARKENRECHT 1060* (4th ed. 2009).

gives examples of activities which, under U.S. law, would qualify as contributory liability:

Without having the consent of the proprietor of the trade mark, third parties shall be prohibited in the course of trade from

1. affixing a sign which is identical with or similar to the trade mark to packaging or wrappings or to means of marking such as labels, tags, sewn-on labels or the like;
2. offering packaging, wrappings or the means of marking under a sign which is identical with or similar to the trade mark, putting them on the market or stocking them for these purposes under that sign; or,
3. importing or exporting packaging, wrappings or means of marking under a sign which is identical with or similar to the trade mark,

if there is a risk that the packaging or wrappings are being used for the packaging or the wrapping of goods or services, or the means of marking for marking goods or services, in respect of which, pursuant to subsections (2) and (3), third parties would be prohibited from using that sign.<sup>122</sup>

Accordingly, in *Ettaler Klosterliqueur*, a German case very similar to the U.S. *Inwood* decision, the Bundesgerichtshof held the defendant liable for trademark infringement for producing labels which were identical to a trademark and—without using them himself—selling these labels to businesses who attached them to similar goods as those protected under the trademark.<sup>123</sup> In a more recent decision, *Ambiente.de*, the Bundesgerichtshof recognized that the examples of contributory liability enumerated in section 14(4) of the MarkenG were not exclusive, and therefore applied the concept of contributory liability to a domain name registrar.<sup>124</sup> However, according to the BGH, such secondary liability required an unlawful trademark infringement by a third party and intent on the part of the indirect infringer, which the court found lacking in this particular case.<sup>125</sup> Generally, “intention” under German law means:

[K]nowing and desiring the elements of the definition which constitutes tort. It includes not only direct intention but also

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<sup>122</sup> Gesetz über den Schutz von Marken und sonstigen Kennzeichen [Markengesetz] [German Trade Mark Act], Oct. 25, 1994, BGBL I at 3082, §14(4) (Ger.).

<sup>123</sup> See Bundesgerichtshof [BGH] [Federal Court of Justice] Nov. 18, 1955, GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT [GRUR] 179, 1956 (Ger.).

<sup>124</sup> See Bundesgerichtshof [BGH] [Federal Court of Justice] May 17, 2001, 148 ENTSCHEIDUNGEN DES BUNDESGERICHTSHOFES IN ZIVILSACHEN [BGHZ] 13 (Ger.); see also REINHARD INGERL & CHRISTIAN ROHNKE, MARKENGESETZ 136 (2d ed. 2003).

<sup>125</sup> See 148 BGHZ 13 (Ger.).

conditional intention. It also involves knowledge that what is done is in breach of the law or the relevant duty in case of special relationships. The difference between intention and negligence may depend on whether the defendant is prepared to take the risk of a perceived possible consequence occurring or whether he trusts it will not occur.<sup>126</sup>

Thus, contributory liability in Germany is covered under general tort law, which is broader in scope and remains applicable in case a defendant is not liable under German trademark law. The central provision in German tort law, section 823(1) of the German Civil Code, *Bürgerliches Gesetzbuch* (BGB),<sup>127</sup> reads: “A person who, intentionally or negligently, unlawfully injures the life, body, health, freedom, property or another right of another person is liable to make compensation to the other party for the damage arising from this.”<sup>128</sup>

Accordingly, to establish contributory trademark liability under this provision, a claimant must have been harmed in one of the five specific rights listed in section 823(1) of the BGB. According to a decision of the German Constitutional Court, intellectual property is considered to be property under section 823(1) of the BGB.<sup>129</sup> In addition to proving a violation of its trademark, a plaintiff needs to prove an intentional or negligent act to claim damages.<sup>130</sup> The meaning of intention under the BGB does not differ from the definition given above in the context of secondary trademark infringement under the MarkenG. Meanwhile, “a person acts negligently if he fails to exercise reasonable care.”<sup>131</sup> The standard is objective and not dependent on the individual capacity of the defendant.<sup>132</sup> In the case of an omission, the harm caused by the omission will only be illegal under German law if the injurer had a specific duty of care and the omitted act would otherwise have prevented the harm from arising.<sup>133</sup> Such a duty may, for example, arise because the injurer has a close relationship to

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<sup>126</sup> RAYMOND YOUNGS, *ENGLISH, FRENCH & GERMAN COMPARATIVE LAW* 363 (2d ed. 2007) (quoting DIETER MEDICUS, *SCHULDRECHT I, ALLGEMEINER TEIL* 144, 145 (6th ed. 1992)).

<sup>127</sup> BÜRGERLICHES GESETZBUCH [BGB] [CIVIL CODE], Jan. 2, 2002, *BUNDESGESETZBLATT, Teil I* [BGBL I] at 42, 2909 (Ger.), available at <http://www.gesetze-im-internet.de/bgb/>.

<sup>128</sup> *Id.* § 823(1).

<sup>129</sup> See Bundesverfassungsgericht [BVerfG] [Federal Constitutional Court] July 7, 1971, 31 *ENTSCHEIDUNGEN DES BUNDESVERFASSUNGSGERICHTS* [BVERFG] 229 (Ger.).

<sup>130</sup> BÜRGERLICHES GESETZBUCH [BGB] [CIVIL CODE], Jan. 2, 2002, *BGBL I* 42, 2909, § 823(1) (Ger.).

<sup>131</sup> *Id.* § 276(1).

<sup>132</sup> See Bundesgerichtshof [BGH] [Federal Court of Justice] May 21, 1963, 39 *ENTSCHEIDUNGEN DES BUNDESGERICHTSHOFES IN ZIVILSACHEN* [BGHZ] 281 (Ger.).

<sup>133</sup> See Bundesgerichtshof [BGH] [Federal Court of Justice] Sept. 25, 1952, 7 *ENTSCHEIDUNGEN DES BUNDESGERICHTSHOFES IN ZIVILSACHEN* [BGHZ] 204 (Ger.).

the injured, such as parents for their children,<sup>134</sup> or the injurer is in control of premises or goods which might be dangerous to others.<sup>135</sup>

Because section 823(1) of the BGB is dependent on intent or negligence, it turns out that rights owners, in certain situations, may lack necessary protection under general German tort law. Therefore, German jurisprudence, unsatisfied with this insufficient protection under section 823 of the BGB, and based on a mutatis mutandis application of sections 823 and 1004 of the BGB, has created a judicial legal concept called “Störerhaftung,” which might be translated as “disquieter” or “disturber” liability.<sup>136</sup> According to this concept, anyone who—without being an infringer or a participant—causally and wilfully contributes in any adequate way to the infringement of a protected right,<sup>137</sup> and is in a position to prevent it,<sup>138</sup> can be sued as a disquieter (Störer) for a trademark infringement. Disquieter liability can be imposed irrespective of fault, and is aimed at injunctive relief, not damages.<sup>139</sup>

The German eBay decisions, analyzed below,<sup>140</sup> are based on these statutory provisions and the German case law on disquieter liability. The secondary liability of eBay in these decisions depends heavily on the interpretation of intent and negligence by the German courts under the specific circumstances of online marketplaces and the monitory obligations the courts are willing to impose on companies like eBay.

## 2. France

In France, trademark law is regulated under Articles L711 to L717 of the French Intellectual Property Code, Code de la Propriété Intellectuelle (CPI), which is supplemented by a number of executive acts starting at Article R712-1 of the CPI. The French code provisions correspond to the provisions of the EU Trade Marks Directive and are interpreted by French courts in accordance with EU law and the European Court of Justice’s decisions,<sup>141</sup> even if the wording of the French trademark laws are—

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<sup>134</sup> See Bundesgerichtshof [BGH] [Federal Court of Justice] Jan. 16, 1979, 73 ENTSCHEIDUNGEN DES BUNDESGERICHTSHOFES IN ZIVILSACHEN [BGHZ] 190 (Ger.).

<sup>135</sup> See Bundesgerichtshof [BGH] [Federal Court of Justice] May 26, 1966, NEUE JURISTISCHE WOCHENSCHRIFT [NJW] 1456, 1966 (Ger.).

<sup>136</sup> See Bundesgerichtshof [BGH] [Federal Court of Justice] May 18, 1955, GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT [GRUR] 492, 1955 (Ger.); Bundesgerichtshof [BGH] [Federal Court of Justice] Jan. 15, 1957, GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT [GRUR] GRUR 352, 1957 (Ger.).

<sup>137</sup> See Bundesgerichtshof [BGH] [Federal Court of Justice] Oct. 18, 2001, GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT [GRUR] 618 (619), 2002 (Ger.).

<sup>138</sup> See Bundesgerichtshof [BGH] [Federal Court of Justice] Oct. 30, 1981, NEUE JURISTISCHE WOCHENSCHRIFT [NJW] 440, 1982 (Ger.).

<sup>139</sup> See GRUR 618 (619), 2002 (Ger.).

<sup>140</sup> See *infra* Part III.D.1.

<sup>141</sup> See PAUL LANGE, INTERNATIONALES HANDBUCH DES MARKEN UND

following a “Napoleonic tradition”<sup>142</sup>—often less concise than that used by the European legislators.

In contrast to German and U.S. law, under French law, ownership of a mark can be acquired only by registration.<sup>143</sup> This is in accordance with the EU Trade Marks Directive, which requires protection only for registered trademarks.<sup>144</sup> The effects of registration begin on the filing date of the application and continue for a term of 10 years, which can be renewed any number of times.<sup>145</sup> Unlike U.S. or British trademark law, French trademark law does not require the use of a trademark for its validity.<sup>146</sup> Nevertheless, after an owner has not put his mark to use for an uninterrupted period of five years, without good reason, he shall be liable to revocation of his rights.<sup>147</sup>

Counterfeiting constitutes a cause of action under French trademark law. According to the CPI, registration of a mark confers on its owner a right of property in that mark for the goods and services that he or she has designated.<sup>148</sup> According to Article L713-2 of the CPI:

The following shall be prohibited, unless authorized by the owner:

- a) The reproduction, use or affixing of a mark, even with the addition of words such as: “formula, manner, system, imitation, type, method,” or the use of a reproduced mark for goods or services that are identical to those designated in the registration;<sup>149</sup>

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Also, according to Article L713-3 of the CPI:

The following shall be prohibited, unless authorized by the owner, if

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KENNZEICHENRECHTS 1196–1202 (2009).

<sup>142</sup> Following the French Revolution, Emperor Napoléon wanted the French Civil Code to be drafted “for the people” (i.e., in a manner such that ordinary people, not only legal experts, would be able to understand). See P. ANTOINE FENET, I RECUEIL DES TRAVAUX PREPARATOIRES DU CODE CIVIL 3 (1836), available at [http://books.google.com/books?id=LVfiAAAAMAAJ&pg=PR63&dq=Bigot-Pr%C3%A9ameneu,+Recueil+des+Travaux+pr%C3%A9paratoires+du+Code+Civil,+Fenet,+Volume+1&hl=fr&ei=tx2GTNSTEo7eOKL9rbYI&sa=X&oi=book\\_result&ct=result&resnum=1&ved=0CCsQ6AEwAA#v=onepage&q&f=false](http://books.google.com/books?id=LVfiAAAAMAAJ&pg=PR63&dq=Bigot-Pr%C3%A9ameneu,+Recueil+des+Travaux+pr%C3%A9paratoires+du+Code+Civil,+Fenet,+Volume+1&hl=fr&ei=tx2GTNSTEo7eOKL9rbYI&sa=X&oi=book_result&ct=result&resnum=1&ved=0CCsQ6AEwAA#v=onepage&q&f=false).

<sup>143</sup> CODE DE LA PROPRIÉTÉ INTELLECTUELLE [C. PRO. INTELL.] art. L712-1 (Fr.).

<sup>144</sup> Directive 2008/95/EC, art. 1, 2008 O.J. (L 299) 25. As previously discussed, the EU Trade Marks Directive provides a minimum standard only; any EU member state is free to provide higher protection. See *supra* Part III.A.

<sup>145</sup> CODE DE LA PROPRIÉTÉ INTELLECTUELLE [C. PRO. INTELL.] art. L712-1 (Fr.).

<sup>146</sup> See *id.* arts. L712-2 & L712-7.

<sup>147</sup> *Id.* art. L714-5.

<sup>148</sup> *Id.* art. L713-1.

<sup>149</sup> *Id.* art. L713-2.



there is a likelihood of confusion in the mind of the public:

- a) The reproduction, use or affixing of a mark or use of a reproduced mark for goods or services that are similar to those designated in the registration;
- b) The imitation of a mark and the use of an imitated mark for goods or services that are identical or similar to those designated in the registration.<sup>150</sup>

Another form of direct counterfeiting prohibited under French law is expressed in Article L716-10 of the CPI. Under this provision, anybody shall be punishable for trademark infringement who:

- a) Without lawful reason, holds goods he knows to bear a counterfeit mark or has knowingly sold, offered for sale, furnished or offered to furnish goods or services under such mark;
- b) Has knowingly delivered a product or furnished a service other than that requested of him under a registered mark,<sup>151</sup>

\* \* \*

The French courts in the eBay cases had to decide whether eBay knowingly offered counterfeit goods for sale on its online auction platform, and whether eBay was therefore liable for direct counterfeiting according to Article L716-10 of the CPI.<sup>152</sup>

As a legal consequence, infringement of the rights of a trademark owner constitutes an offense for which the offender would incur civil liability,<sup>153</sup> which includes, as in German law, damages for prejudice to the owner of the trademark. In addition to civil sanctions, French law provides that trademark infringement may give rise to penal sanctions, such as fines or imprisonment.<sup>154</sup> The court may also order a closing down of the business of the trademark infringer<sup>155</sup> or the publication of the court ruling in a newspaper.<sup>156</sup>

Articles L713-2 and L713-3 of the CPI concern direct infringements only. Unlike German trademark law as expressed in section 14(4) of the MarkenG,<sup>157</sup> in French intellectual property law, contributory liability is

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<sup>150</sup> *Id.* art. L713-3.

<sup>151</sup> *Id.* art. L716-10.

<sup>152</sup> *See infra* Part III.D.2.

<sup>153</sup> CODE DE LA PROPRIÉTÉ INTELLECTUELLE [C. PRO. INTELL.] art. L716-1 (Fr.).

<sup>154</sup> *See id.* arts. L716-9 to L716-11.

<sup>155</sup> *Id.* art. L716-11-1.

<sup>156</sup> *Id.* art. L716-13.

<sup>157</sup> *See supra* note 122 and accompanying text.

expressly regulated only for patents.<sup>158</sup> We have found no evidence in French jurisprudence or literature which justifies extending secondary liability to trademarks, particularly when such regulation is not expressly provided for under statute. On the contrary, the fact that secondary liability is expressly regulated for patents but not for trademarks suggests that French lawmakers did not intend to regulate or impose secondary liability for trademarks.<sup>159</sup>

Similar to German law, general tort law remains applicable for secondary trademark infringements in France.<sup>160</sup> In contrast to German law, French jurisprudence has not developed a legal instrument similar to the German Störerhaftung disquietor liability. The reason for this is that the basic provision in French law on tort liability is much broader than the German provision in section 823 of the BGB.<sup>161</sup> So thus far, there has been no need for an analogous concept to disquietor liability. Article 1382 of the French Civil Code (Code Civil) reads: “Any act whatever of man, which causes damage to another, obliges the one by whose fault [“faute”] it occurred, to compensate it.”<sup>162</sup>

The concept of “faute,” which can most closely be translated as “fault,” equates to neither the German meaning of “intent” nor the U.S. definition of “negligence.” The definitions of “faute” found in the French legal literature are not very informative.<sup>163</sup> The term merely refers to any “abnormal behaviour” (“comportement anormal”) or “failure to do something that one should do.”<sup>164</sup>

Article 1382 of the Code Civil is supplemented by Article 1383: “Everyone is liable for the damage he causes not only by his intentional act, but also by his negligent conduct or by his imprudence.”<sup>165</sup> Here, again, the French meaning of negligence is much broader than the definition of the same term given in section 276(2) of the German BGB. Not only is imprudence assimilated with negligence, but negligence in French law is commonly defined as a failure to behave as a “prudent man” (“un homme avisé”) or “a good father of a family” (“un bon père de famille”).<sup>166</sup> This

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<sup>158</sup> See C. PRO. INTELL. art. L613-4 (Fr.).

<sup>159</sup> See Marianne Schaffner & Alexandra Abello, *LVMH c/ eBay : Une Synthèse des Questions Relatives à la Responsabilité des Plates-formes d'enchères*, 41 REVUE LAMY DROIT DE L'IMMATERIEL [RLDI] 75 (2008) (Fr.).

<sup>160</sup> See Cour d'appel [CA] [regional court of appeal] Paris, Sept. 27, 1996, D. 1996, 31 (Fr.).

<sup>161</sup> See CODE CIVIL [C. CIV.] art. 1382 (Fr.), available at <http://www.legifrance.gouv.fr/affichCode.do?cidTexte=LEGITEXT000006070721>.

<sup>162</sup> *Id.*

<sup>163</sup> See JOHN BELL ET AL., PRINCIPLES OF FRENCH LAW 365 (2d ed. 2007).

<sup>164</sup> See JEAN-LUC AUBERT ET AL., DROIT CIVIL, LES OBLIGATIONS : 2. LE FAIT JURIDIQUE 99 (11th ed. 2006).

<sup>165</sup> CODE CIVIL [C. CIV.] art. 1383 (Fr.).

<sup>166</sup> See BELL ET AL., *supra* note 163, at 367.

implies that, under Article 1383 of the Code Civil, anyone is expected to care for the wellbeing of others, which is far more demanding than the “reasonable care” required in section 276(2) of the German BGB. Another difference from German law, under the French provision, account may be taken of the character of the individual involved.<sup>167</sup>

Under French law, it has also been recognized that an omission equals “faute” in the sense of Articles 1382 and 1383 of the Code Civil, at least in the case where the omission is related to a duty to act,<sup>168</sup> such as where an official receiver of a bankrupt company does not inform clients about the company’s financial situation.<sup>169</sup> But in some French cases, even a simple omission without any duty of care has been found sufficient to hold the defendant liable in the sense of Articles 1382 and 1383 of the Civil Code,<sup>170</sup> though this jurisprudence is not undisputed, so it makes drawing a line between what is considered to be legal and illegal difficult.<sup>171</sup>

In addition to the broad scope of Articles 1382 and 1383 of the Code Civil, secondary liability has been accepted by French courts under France’s general tort law in cases where “faute” can be established between the indirect infringer and the harm.<sup>172</sup> Our analysis of the French and German eBay decisions<sup>173</sup> will show how far these fundamental differences between French and German general tort law impact the outcome of the respective countries’ eBay litigation.<sup>174</sup> Surprisingly, trademark law and tort liability issues have scarcely been addressed by the French courts in French eBay litigation; the decisions, analyzed below,<sup>175</sup> concentrate on the question of a specific limitation of liability for online service providers.

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<sup>167</sup> YOUNGS, *supra* note 126, at 366.

<sup>168</sup> See LAMY DROIT DE LA RESPONSABILITE 226–63 (Philippe Brun et al. eds., 2010).

<sup>169</sup> See Cour de cassation [Cass.] [supreme court for judicial matters] com., May 10, 2005, D. 2005, 1475, obs. A. Lienhard (Fr.).

<sup>170</sup> See, e.g., Cour de cassation [Cass.] [supreme court for judicial matters] 1e civ., Feb. 27, 1951, D. Jur. 1951, 329 (Fr.).

<sup>171</sup> See FRANÇOIS TERRE ET AL., DROIT CIVIL, LES OBLIGATIONS 721 (10th ed. 2009).

<sup>172</sup> See LAMY DROIT DE LA RESPONSABILITE, *supra* note 168, at 226–35.

<sup>173</sup> See *infra* Part III.D.

<sup>174</sup> In general, a comparison of the French and German Civil Codes shows that a “strong moral and ethical core of values runs through the [French] Code, as illustrated by Arts 6 and 1134.” PETER DE CRUZ, COMPARATIVE LAW IN A CHANGING WORLD 66 (2d ed. 1999). In contrast, the German Civil Code has been influenced by the Pandectist Movement. “[Pandectist] methodology was a scientific, logical approach to the solution of legal problems. Law was therefore approached outside any ethical, moral or religious considerations, and, at least for the resolution of problems, was a mathematical process determined by a ‘conceptual calculus.’” *Id.* at 81. These different approaches seem to be well reflected in the French and German court decisions regarding eBay’s secondary liability.

<sup>175</sup> See *infra* Part III.D.2.

### C. Limitations on Liability of Intermediary Service Providers on the Internet

In addition to the question of secondary liability for trademark infringements, the European eBay cases raise the question of whether an online service or host provider is exempt from liability because of specific Internet regulation.

#### 1. E-Commerce Directive 2000/31 EC

At the European Union level, liability of online service or host providers for illegal activity by third parties is regulated by Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on Certain Legal Aspects of Information Society Services, in Particular Electronic Commerce, in the Internal Market<sup>176</sup> (E-Commerce Directive). Article 14(1) of the E-Commerce Directive states:

[EU] Member States shall ensure that the service provider is not liable for the information stored at the request of a recipient of the service, on condition that:

- a) the provider does not have actual knowledge of illegal activity or information, and as regards claims for damages, is not aware of facts or circumstances from which the illegal activity or information is apparent; or
- b) the provider, upon obtaining such knowledge or awareness, acts expeditiously to remove or to disable access to the information.<sup>177</sup>

Additionally, a court or administrative authority of a member state still has the ability to require the service provider “to terminate or prevent an infringement.”<sup>178</sup> Article 15 of the E-Commerce Directive prevents member states from imposing general monitoring obligations on the host provider.<sup>179</sup>

The definition of “host provider” under Articles 14 and 15 of the E-Commerce Directive has been addressed in the ECJ’s decision in *Google v. Louis Vuitton*, a dispute between Google and Louis Vuitton that was referred to the ECJ by the French Cour de Cassation.<sup>180</sup> In its decision, the ECJ decided that Google does not use a mark in the course of trade when it

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<sup>176</sup> 2000 O.J. (L 178) 1.

<sup>177</sup> *Id.* art. 14(1).

<sup>178</sup> *Id.* art. 14(3).

<sup>179</sup> *Id.* art 15. Overall, the E-Commerce Directive is generally consonant with the protection afforded in the U.S. by the Digital Millennium Copyright Act, 17 U.S.C. §§ 512, 1201–05, 1301–32 (2010); 28 U.S.C. § 4001 (2010).

<sup>180</sup> Joined Cases C-236/08 to C-238/08, *Google France SARL v. Louis Vuitton Malletier SA*, 2010 E.C.R. I-02417.

sells a mark as a keyword, stores the mark on its servers, or displays advertisements on the basis thereof. To the incidentally-raised question of whether Internet search engine Google must be qualified as a host provider according to Article 14(1) of the E-Commerce Directive, the ECJ ruled that:

[I]n order to establish whether the liability of a referencing service provider may be limited under Article 14 of Directive 2000/31, it is necessary to examine whether the role played by that service provider is neutral, in the sense that its conduct is merely technical, automatic and passive, pointing to a lack of knowledge or control of the data which it stores.<sup>181</sup>

The ECJ noted that the fact that Google gets paid for its service does not mean that Google takes an active role in content, but also noted that the role Google plays “in the drafting of the commercial message” and the “selection of keywords” are relevant considerations.<sup>182</sup> Ultimately, the ECJ left it to the national courts to determine whether Google can be qualified as a “host provider” on a case-by-case basis.<sup>183</sup> Thus, future domestic decisions will have to respect the ECJ’s definition as given in the *Google v. Louis Vuitton* decision, but will still have freedom in interpreting the ECJ’s definition on a case-by-case basis.<sup>184</sup> Also, the ECJ’s decision in *Google v. Louis Vuitton* did not address the question of whether an online auction provider could benefit from the E-Commerce Directive’s Article 14(1) safe harbour—which so far has been left to future decisions<sup>185</sup>—nor does it affect the substantial differences in national trademark and tort laws, as presented above<sup>186</sup> and as reflected in the variant court decisions to be analyzed below.<sup>187</sup>

## 2. National Law

The EU E-Commerce Directive was transposed in Germany by the Telemedia Act, Telemedia Gesetz (TMG).<sup>188</sup> The liability exemption in Article 14(1) of the E-Commerce Directive corresponds to section 10(1) of the TMG. The ban on the imposition of a general monitoring obligation in

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<sup>181</sup> *Id.*

<sup>182</sup> *Id.*

<sup>183</sup> *Id.*

<sup>184</sup> *See id.*

<sup>185</sup> *See* Case C-324/09, *L’Oréal, SA v. eBay, Int’l A.G.*, COURT OF JUST. OF THE EUR. UNION (July 12, 2011), <http://curia.europa.eu/jurisp/cgi-bin/form.pl?lang=EN&Submit=rechercher&numaff=C-324/09>.

<sup>186</sup> *See supra* Part III.B.

<sup>187</sup> *See infra* Part III.D.

<sup>188</sup> Telemediengesetz [TMG] [German Act for Telemedia Services], Feb. 26, 2007, BUNDESGESETZBLATT, Teil I [BGBL I] at 179 (Ger.), available at <http://www.gesetze-im-internet.de/tmg/>.

Article 15 of the E-Commerce Directive is found in section 7(2) of the TMG. In France, the E-Commerce Directive was transposed by the Law on Confidence in the Digital Economy, *Loi pour la Confiance dans l'Économie Numérique (LCEN)*.<sup>189</sup> The liability exemption in Article 14(1) of the E-Commerce Directive corresponds to Article 6.I.2 of the LCEN. In addition, Article 6.I.5 of the LCEN includes presumptions of when a provider is supposed to be aware of a legal infringement by a third party. Like Article 15 of the E-Commerce Directive, Article 6.I.7 of the LCEN exempts host providers from general monitoring obligations.

Articles 6.I.7(3) and (4) of the LCEN, however, go beyond the specifications in the EU E-Commerce Directive and the German TMG by expressly requiring the host provider to actively combat the criminal offenses of glorifying crimes against humanity, inciting racial hatred, promoting child pornography, inciting violence, and violating human dignity. To this end, the French law requires online service providers to install mechanisms on their websites that enable users to report this type of illegal content to the providers.<sup>190</sup> An online service provider is then obliged to inform the authorities accordingly and to disclose what action it is taking to combat illegal activities.<sup>191</sup> The LCEN limits its requirements to technical mechanisms and otherwise leaves it up to the users to report these illegal activities.<sup>192</sup> It does not oblige the host provider to actively search for illegal activities.<sup>193</sup> Article 15(2) of the E-Commerce Directive expressly permits national legislators to impose information obligations on online service providers.<sup>194</sup> As Article 6.I.7 of the LCEN does not impose general monitoring obligations on host providers, it therefore stays within the framework of Article 15 of the E-Commerce Directive. In turn, Article 6.I.4 of the LCEN stipulates fines for improper notification of content that is actually legal. This prevents misuse of the regulation.

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<sup>189</sup> *Loi 2004-575 du 21 juin 2004 pour la confiance dans l'économie numérique* [Law No. 2004-575 of 21 June 2004 on Confidence in the Digital Economy], *JOURNAL OFFICIEL DE LA RÉPUBLIQUE FRANÇAISE [J.O.] [OFFICIAL GAZETTE OF FRANCE]*, June 22, 2004, p. 11168 (Fr.), available at <http://www.legifrance.gouv.fr/affichTexte.do?dateTexte=&categorieLien=id&cidTexte=JORFTEXT000000801164&fastPos=1&fastReqId=1859418048&oldAction=rechExpTexteJorf>.

<sup>190</sup> *Id.* art. 6.I.7(3)–(4).

<sup>191</sup> *Id.*

<sup>192</sup> *See id.* art. 6.I.7.

<sup>193</sup> *See id.*

<sup>194</sup>

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.

Directive 2000/31/EC, art. 15(2), 2000 O.J. (L 178) 1.

Although the French law transposing the E-Commerce Directive contains more thorough and apparently more stringent regulations than the German TMG, this does not necessarily mean that German legislators intended to apply lower standards for protection against legal infringements on the Internet. The discrepancy is due rather to the general tendency of French legislators towards more politically-motivated and more detailed regulations. As the following analysis of the respective countries' eBay rulings will show, corresponding to a general tradition in the two legal systems, expansion on the governing statute is left to the German courts to a greater degree than in France.

#### D. The European Online Auction Litigation

##### 1. Germany

In Germany, there is both well-developed Bundesgerichtshof case law on the liability of online markets for secondary trademark infringement as well as extensive additional commenting literature on the subject.<sup>195</sup> To date, three cases have been presented to the BGH, giving the court the opportunity to refine its own ruling from case to case: *Internet-Versteigerung I–III (Internet Auction Decisions I–III)*.<sup>196</sup> As the two later decisions confirm and supplement the first decision, we will not consider them separately but will analyze them together.

All three cases were brought by the prominent luxury watch manufacturer Rolex SA (Rolex). The *Internet-Versteigerung I* case was against the online marketplace Ricardo, which now no longer provides services to the German market, but still operates in Switzerland, Denmark, Greece, and some other countries, using a business model similar to eBay.<sup>197</sup> The *Internet-Versteigerung II* and *Internet-Versteigerung III* cases were against eBay. The facts in these cases were very similar to the *Tiffany v. eBay* litigation. Plaintiff Rolex owns international and nationally-registered trademarks, which consist of the word "Rolex" and the famous logo of a five-pointed crown, as well as the names of its individual models of watches.<sup>198</sup> As in the *Tiffany v. eBay* litigation, counterfeit Rolex

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<sup>195</sup> See, e.g., Stefan Leible & Olaf Sosniza, *Haftung von Internetauktionen—Reloaded*, 60 NEUE JURISTISCHE WOCHENSCHRIFT [NJW] 3324 (2007) (Ger.); Thomas Wilmer, *Überspannte Pflichten für Host-Provider—Vorschlag für eine Haftungsmatrix*, 61 NEUE JURISTISCHE WOCHENSCHRIFT [NJW] 1845 (2008) (Ger.).

<sup>196</sup> 158 BGHZ 236 (Ger.) (*Internet-Versteigerung I*); 172 BGHZ 119 (Ger.) (*Internet-Versteigerung II*); MMR 531, 2008 (Ger.) (*Internet-Versteigerung III*).

<sup>197</sup> See *Übersicht*, RICARDO.CH, <http://www.ricardo.ch/pages/start/de.php> (last visited Nov. 25, 2011).

<sup>198</sup> While the second case *Internet-Versteigerung II* was pending, several watch models had also been registered as European Community Trade Marks in addition to the national and international trademarks, which raised some additional legal problems. See 172 BGHZ 119 (124–25) (Ger.). It would go beyond the scope of this article to discuss them here.

watches had been sold between individual buyers and sellers on the Ricardo and eBay auction sites at prices far below those for genuine Rolex products. In some cases, those counterfeit watches had been expressly designated as “imitations” or “replica.” Rolex sought injunctive relief against the online marketplaces, to stop the sale of counterfeit Rolex products on the defendants’ websites, and claimed damages for trademark infringement.<sup>199</sup>

The German BGH in all three decisions examined direct and secondary trademark infringement by the defendants, general tort liability on the part of Ricardo and eBay, and limitation of liability for the online marketplaces; the court also incidentally addressed trademark infringement by the individual sellers of the counterfeit goods.<sup>200</sup> As far as the direct individual seller is concerned, the BGH, without going into details, assumed that the sale of counterfeit Rolex watches constituted trademark infringements according to section 14(2) number 1 and section 14(3) number 2 of the MarkenG.<sup>201</sup> The court pointed out that even if the watches were sold at a low price and marked as imitations, in a way that the individual buyer could have known that the watches were counterfeit and not genuine products, there was trademark infringement.<sup>202</sup> Following the European Court of Justice decision in *Arsenal Football Club v. Reed*,<sup>203</sup> the BGH stated that sections 14(2) and 14(3) of the MarkenG do not require an actual showing of confusion by the public in a specific case; the court considered the abstract likelihood of confusion between the genuine and the imitated marks on the part of the public to be sufficient.<sup>204</sup>

The court also found that the marks had been “used in trade,” as required by sections 14(2) and 14(3) of the MarkenG, because, at a minimum, two of the sellers of the counterfeit Rolex products had eBay feedback scores of 26 and 75, respectively, which, according to the BGH, indicates more than private activity.<sup>205</sup> The court pointed out that, although the requirements for meeting the “use in trade” standard are low, the “use in trade” criterion is not fulfilled when a private seller offers a single good on an online marketplace.<sup>206</sup> The lower court had previously found the fact that a seller on an online marketplace tries to reach a multitude of potential

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<sup>199</sup> See Landgericht Köln [LG Köln] [regional court of Köln] Oct. 31, 2000, INTERNET-ZEITSCHRIFT FÜR RECHTSINFORMATIK [JURPC] 81, 2001 (Ger.); Landgericht Düsseldorf [LG Düsseldorf] [regional court of Düsseldorf] Oct. 29, 2002, INTERNET-ZEITSCHRIFT FÜR RECHTSINFORMATIK [JURPC] 11, 2003 (Ger.).

<sup>200</sup> See 158 BGHZ 236 (246–52) (Ger.).

<sup>201</sup> See *id.* at 246; see also MMR 531 (533), 2008 (Ger.).

<sup>202</sup> See 158 BGHZ 236 (250–52) (Ger.).

<sup>203</sup> Case C-206/01, *Arsenal Football Club plc v Matthew Reed*, 2002 E.C.R. I-10273.

<sup>204</sup> See 158 BGHZ 236 (250–52) (Ger.).

<sup>205</sup> See MMR 531 (532), 2008 (Ger.).

<sup>206</sup> See *id.* For a detailed discussion, see Cornelis Lement, *Zur Haftung von Internet-Auktionshäusern – Anmerkung zum Urteil des BGH “Internetversteigerung,”* 107 GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT [GRUR] 210, 213–14 (2005) (Ger.).



buyers in order to reach the highest price possible sufficient to satisfy the “use in trade” criterion.<sup>207</sup> To the BGH, this rule would have meant a boundless expansion of the criterion “use in trade.”<sup>208</sup> It therefore required that the sale take part within the framework of a commercial activity, rather than an occasional private sale.<sup>209</sup> The BGH is probably right with this interpretation, but, as the situation implicates Article 5 of the EU Trade Marks Directive, it is regrettable that the court did not refer the question to the European Court of Justice.<sup>210</sup>

As far as a host provider is concerned, until now the BGH has dismissed all claims against host providers based on arguments of direct trademark infringement. In the *Rolex* litigation, the BGH, without even discussing this issue, found that the operators of the online auction sites did not themselves offer the counterfeit products, put them into circulation, or use them in advertising, and were therefore not liable for direct infringement.<sup>211</sup>

In terms of contributory trademark infringement, which was at the heart of the *Tiffany v. eBay* case, the BGH did not find such secondary liability in the *Internet-Versteigerung* cases due to lack of intent.<sup>212</sup> Overall, the BGH came to the same result as the U.S. courts under the *Inwood* test—that is, no secondary liability because of lack of intent, as eBay had only general knowledge of trademark infringement being committed by users of its auction site.<sup>213</sup> The reasoning of the BGH, though, is relatively sparse compared to that of the Second Circuit Court of Appeals. The BGH reiterated the German definition of intent, which requires “knowing and desiring the elements of the definition which constitutes the tort.”<sup>214</sup> According to the BGH, the defendants lacked this “knowledge” because the offers for sale of the counterfeit goods that appeared on the auction sites had been placed online using an automatic process without the prior knowledge of the site operators.<sup>215</sup> The fact that an operator may expect occasional trademark infringement was immaterial to the court, which focused on the fact that vicarious intent must relate to a principal offense that is actually imminent.<sup>216</sup>

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<sup>207</sup> Oberlandesgericht Köln [OLG Köln] [higher regional court of Köln] Nov. 2, 2001, INTERNET-ZEITSCHRIFT FÜR RECHTSINFORMATIK [JURPC] 69, 2002 (Ger.).

<sup>208</sup> See MMR 531 (532), 2008 (Ger.).

<sup>209</sup> See *id.*

<sup>210</sup> The case before the England and Wales High Court, *L'Oréal SA v. eBay Int'l AG*, [2009] EWHC 1094 (Ch) (Eng.), does not raise this question.

<sup>211</sup> 158 BGHZ 236 (250) (Ger.).

<sup>212</sup> See *infra* notes 214–216 and accompanying text.

<sup>213</sup> See *Tiffany*, 576 F. Supp. 2d at 527.

<sup>214</sup> YOUNGS, *supra* note 126; see 172 BGHZ 119 (128) (Ger.).

<sup>215</sup> See 172 BGHZ 119 (128) (Ger.).

<sup>216</sup> See *id.*

The German court did not explain its rationale for this aspect of its decision, in contrast to the detail the U.S. courts put in explaining why eBay's generalized knowledge did not impose an affirmative duty to remove counterfeit Tiffany jewelry from its auction site.<sup>217</sup> The reason that the BGH paid so little attention to the question of generalized knowledge of infringement is probably because the court considered the German concept of *Störerhaftung* disquietor liability, as developed by the German courts under sections 823(1) and 1004 of the BGB,<sup>218</sup> appropriate for deciding the cases before it. As discussed above, disquietor liability can be found independent from fault and gives a right of injunctive relief instead of damages.<sup>219</sup> It is worth noting that some aspects mentioned by the U.S. courts under the *Inwood* test can be found in the BGH's reasoning in finding disquietor liability. The German court also pointed out that it considered the concept of disquietor liability as an appropriate means to comply with the EU Enforcement Directive in German law, and therefore examined the conditions for granting an injunction against the defendants as a matter of domestic law according to Article 11 of the Enforcement Directive.<sup>220</sup>

With respect to its disquietor liability findings, the BGH first reiterated the conditions of disquietor liability. As discussed, a disquietor is anyone who—without being an infringer or a participant—contributes causally, wilfully and in any adequate way to the infringement of a protected right<sup>221</sup> and is in a position to prevent such infringement.<sup>222</sup> The BGH acknowledged that there had been direct trademark infringement by the individual sellers on the defendant's auction sites.<sup>223</sup> It is unclear, though, whether the BGH would base a decision against host providers on direct or secondary (indirect) disquietor liability or on an action/omission. The latter would require a duty of care. To us, the most appropriate choice would be to tie any liability of eBay and other online marketplaces to the provision and maintenance of the Internet auction sites which make the direct trademark infringement committed by users possible. Thus, eBay and other marketplaces would, if anything, be considered indirect disquietors.<sup>224</sup>

In order not to unduly extend disquietor liability to third parties who have not actually made any unlawful contribution to infringement of a protected right, German jurisprudence, in the area of intellectual property

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<sup>217</sup> See *Tiffany*, 600 F.3d at 108–09.

<sup>218</sup> See *supra* note 136 and accompanying text.

<sup>219</sup> See *supra* notes 136–139 and accompanying text.

<sup>220</sup> See 172 BGHZ 119 (129) (Ger.).

<sup>221</sup> GRUR 618 (619), 2002 (Ger.).

<sup>222</sup> See NJW 440, 1982 (Ger.).

<sup>223</sup> See 158 BGHZ 236 (246) (Ger.).

<sup>224</sup> See Heiko Klatt, *Die Kerngleichheit als Grenze der Prüfungspflichten und der Haftung des Hostproviders*, 53 ZEITSCHRIFT FÜR URHEBER- UND MEDIENRECHT [ZUM] 265, 266 (2009) (Ger.).

law and in the case of secondary disquietor liability, typically requires a violation of monitoring obligations for liability to be found.<sup>225</sup> Violation of monitoring obligations is also a requirement for finding liability in the case of an active contribution.<sup>226</sup> Thus, active contribution and omission are treated equally. The nature and degree of such monitoring obligations are determined by what, given the specific circumstances of the case, is technically and economically possible and can be reasonably expected from the person owing the obligations.<sup>227</sup> Therefore, further discussion by the BGH in its disquietor liability findings focused on the scope of Ricardo's and eBay's monitoring obligations, and the court's efforts to find a compromise between the trademark owner and the online auctioneer.<sup>228</sup>

The court considered it unreasonable "to monitor every offer for potential infringement prior to publication on the Internet."<sup>229</sup> The judges pointed out that such an obligation would challenge the "whole business model" of the operator of an online auction platform and run counter to the E-Commerce Directive.<sup>230</sup> On the other hand, the BGH brought into play the fact that since "the operator participates in the sale of the pirated goods through the fee payable, its interest in the smoothest possible operation of its business is less important than for example the interest of a domain name registration office in allocating domains as quickly and cheaply as possible."<sup>231</sup> Thus, the court stated that the operator of an online marketplace, whenever informed of an obvious infringement, "must not only immediately disable access to the actual offer, but also take precautions to ensure that as far as possible no further similar trademark infringements (with core similarities) occur."<sup>232</sup> Pursuant to this so-called core theory, the BGH requires the operator, on being informed of an obvious trademark infringement, to take steps to subject "in core similar" offers to special scrutiny. In other words, the BGH does not consider it sufficient for the provider to look for identical infringements in existing online offerings, but requires it also to check new offers, using a preferred

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<sup>225</sup> See Bundesgerichtshof [BGH] [Federal Court of Justice] Oct. 10, 1996, GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT [GRUR] 313 (315–16), 1997 (Ger.); Bundesgerichtshof [BGH] [Federal Court of Justice] June 30, 1994, GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT [GRUR] 841 (842), 1994 (Ger.); Bundesgerichtshof [BGH] [Federal Court of Justice] Oct. 15, 1998, GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT [GRUR] 418 (419), 1999 (Ger.).

<sup>226</sup> See Bundesgerichtshof [BGH] [Federal Court of Justice] May 17, 2001, 148 ENTSCHEIDUNGEN DES BUNDESGERICHTSHOFES IN ZIVILSACHEN [BGHZ] 13 (17) (Ger.).

<sup>227</sup> See *id.*

<sup>228</sup> See MMR 668 (671), 2004 (Ger.).

<sup>229</sup> See *id.*

<sup>230</sup> *Id.*

<sup>231</sup> *Id.*

<sup>232</sup> *Id.*

filter, and to delete infringing offers as necessary.<sup>233</sup> How the filter system should work in practice depends, among other things, on what is technically feasible and reasonable.<sup>234</sup>

Under the terms of Article 14(1) of the EU E-Commerce Directive, codified in German law at section 10(1) of the TMG, a host provider is not liable for information stored at the request of the recipient of the service.<sup>235</sup> To benefit from this liability exemption, Internet auction sites must be host providers within the meaning of these regulations. Unlike the French courts, the BGH did not go into an extensive discussion of eBay's status as a host provider.<sup>236</sup> It basically assumed that the liability exemption referred to in Article 14 of the E-Commerce Directive, and in sections 8 to 10 of the TMG, applied to Ricardo and eBay because the auction sites' offers had been placed online using an automatic process.<sup>237</sup>

According to Article 14(3) of the E-Commerce Directive, codified in German law at section 7(2) of the TMG, however,

This Article shall not affect the possibility for a court or administrative authority, in accordance with Member States' legal systems, of requiring the service provider to terminate or prevent an infringement, nor does it affect the possibility for Member States of establishing procedures governing the removal or disabling of access to information.<sup>238</sup>

Thus, based on Article 14(3), the BGH ruled that the limitation of liability provided for in Article 14(1) of the E-Commerce Directive did not apply to injunctive relief but to damages claims only.<sup>239</sup>

#### a. Implications and Aftermath of the Internet-Versteigerung I–III Decisions

Each of the three *Internet-Versteigerung* decisions confirms and supplements the precedent decisions, without substantively changing them. Thus, it appears that there is now a stable jurisprudence in Germany on secondary liability of online markets for the sale of counterfeit goods. From a business perspective, however, the criteria used by the Bundesgerichtshof are unclear and not precise enough, leaving room for

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<sup>233</sup> *Id.*

<sup>234</sup> See Lement, *supra* note 206, at 212.

<sup>235</sup> See *supra* note 177 and accompanying text.

<sup>236</sup> See 172 BGHZ 119 (128) (Ger.).

<sup>237</sup> See *id.*

<sup>238</sup> Directive 2000/31/EC, art. 14(3), 2000 O.J. (L 178) 1.

<sup>239</sup> See MMR 668 (671), 2004 (Ger.). This outcome arguably violates the ban on the imposition of general monitoring obligations under § 7(2) of the TMG (Article 15 of the E-Commerce Directive). Thus, this legal opinion is extremely contentious in German literature. We do not intend to discuss the dispute in detail here, but it should be pointed out that it is a question of interpretation of Community law.

different interpretations. Therefore, the BGH's decisions actually create uncertainty and make it hard to predict under what circumstances an online service or host provider may actually be liable. It is likewise unclear what, if anything, a host provider must do in order to efficiently limit its potential liability in connection with illegal activities of customers using its website.

In essence, the BGH clearly dismisses Rolex's claims for damages based on a direct or indirect trademark infringement for lack of fault,<sup>240</sup> but the court also imposes on the online auction provider obligations to monitor, detect, and prevent future trademark infringements by third parties.<sup>241</sup> A prerequisite for these monitoring obligations is that the trademark infringements need to be obvious and similar to those known to the online auction provider.<sup>242</sup> What is considered to be an "obvious" violation of protected rights remains unclear. For sure, after receiving notice by a trademark owner, the online auctioneer must check the allegedly counterfeit article and, in the case of an actual infringement, must remove the counterfeit article from the auction.<sup>243</sup> But, the BGH extends this obligation to "in core" similar infringements.<sup>244</sup> Thus, according to the German court, it is not enough to search for the same infringement after having received notice; the Internet auction operator needs to also actively search for "in core" similar counterfeit products and remove them from the auction site.<sup>245</sup> In other words, after receiving notice of a particular counterfeit item, eBay is required to filter any identical and similar products, either currently offered or listed in the future, from its auction website. The BGH does not instruct as to whether the online service or host provider only needs to filter illegal products or if it also needs to monitor suspicious sellers.<sup>246</sup>

As far as their scope is concerned, the monitoring obligations need to be reasonable and technically feasible. In its recent decision *Kinderhochstühle im Internet*,<sup>247</sup> which confirmed the *Internet-Versteigerung I-III* decisions, the BGH specifies that the online service provider has an obligation to technically filter and to effectively manually control suspicious offers, but the online service provider need not manually search for trademark infringements that the technical filter program was

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<sup>240</sup> See 158 BGHZ 236 (250–52) (Ger.).

<sup>241</sup> See *id.* at 250–53.

<sup>242</sup> *Id.*

<sup>243</sup> *Id.*

<sup>244</sup> *Id.*

<sup>245</sup> See *id.*; see also Lement, *supra* note 206, at 212.

<sup>246</sup> See Bundesgerichtshof [BGH] [Federal Court of Justice] Mar. 11, 2004, MULTIMEDIA UND RECHT [MMR] 668 (673), 2004, obs. T. Hoeren.

<sup>247</sup> Bundesgerichtshof [BGH] [Federal Court of Justice] July 22, 2010 GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT [GRUR] 152, 2011 (Ger.).

unable to detect.<sup>248</sup>

What is considered to be reasonable and technically feasible depends on the factual circumstances of the individual case, in particular the importance of the protected right and the economic considerations,<sup>249</sup> the facts of which will all be evaluated by the deciding judge. Technical feasibility may change depending on the degree of technical and technological development. Thus, in the *Internet Versteigerung I – III* rulings, the BGH did not reach any firm conclusions or set any firm standards, thereby deferring the ultimate finding until the enforcement proceedings of each individual case.<sup>250</sup> This, added to the already complicated prerequisites of disquietor liability, makes it difficult for the online service provider to know what exactly he is expected to do to avoid liability.

In addition to this uncertainty about how to apply the rulings of the BGH in practice, there is also some larger-scale legal uncertainty. The BGH decisions raise several unsolved issues related to EU law, such as the definition of “host provider” under Articles 14 and 15 of the E-Commerce Directive.<sup>251</sup> This question, though not decisive for the BGH cases, has partly been answered by the European Court of Justice in its *Google v. Louis Vuitton* decision.<sup>252</sup> It will be interesting to observe the degree to which the ECJ’s ruling in *Google v. Louis Vuitton* will influence the BGH’s future decisions on host provider liability.

Still, the ECJ’s *Google v. Louis Vuitton* decision does not answer the ultimately decisive question in the German *Internet-Versteigerung* cases. That is, whether the ban on the imposition of general monitoring obligations under Article 7(2) of the TMG (Article 15 of the E-Commerce Directive) applies to injunctive relief.<sup>253</sup> Because the German decision imposes extensive monitoring obligations on eBay, this question is of extreme importance for the outcome of the German cases. In addition, the issue is extremely contentious in German literature.<sup>254</sup> Unfortunately, the BGH did not submit this question to the ECJ for a preliminary ruling—although it was actually obliged to do so, as a court of last instance, under the Treaty on the Functioning of the European Union.<sup>255</sup>

Another open legal question is the influence of Article 11 of the EU

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<sup>248</sup> *See id.*

<sup>249</sup> *See Klatt, supra* note 224, at 271.

<sup>250</sup> *See Bundesgerichtshof [BGH] [Federal Court of Justice] Apr. 19, 2007, MULTIMEDIA UND RECHT [MMR] 507 (511–12), 2007, obs. G. Spindler.*

<sup>251</sup> *See* 158 BGHZ 236 (250–53) (Ger.); 172 BGHZ 119 (124–32) (Ger.).

<sup>252</sup> *Supra* notes 180–184 and accompanying text.

<sup>253</sup> *See supra* note 137–139 and accompanying text.

<sup>254</sup> *See, e.g., Lement, supra* note 206, at 210 nn. 2–3.

<sup>255</sup> TFEU art. 267.

Enforcement Directive<sup>256</sup> concerning the scope of injunctive relief granted by national law.<sup>257</sup> As the injunctive relief in the form of the German disquietor liability is at the heart of the German decisions against eBay, the decision of the ECJ in the case referred to it by the High Court of England and Wales, *L'Oréal SA v. eBay International AG*,<sup>258</sup> should significantly impact future decisions in Germany. The ECJ held in that case:

Article 11 of [Enforcement] Directive must be interpreted as requiring the Member States to ensure that the national courts with jurisdiction in relation to the protection of intellectual property rights are able to order the operator of an online marketplace to take measures which contribute, not only to bringing to an end infringements of those rights by users of that marketplace, but also to preventing further infringements of that kind. Those injunctions must be effective, proportionate, dissuasive and must not create barriers to legitimate trade.<sup>259</sup>

Also, recent BGH jurisprudence in the area of competition law might indicate a new trend in German jurisprudence. In a decision concerning the sale of video games, DVDs, etc.—which were considered to be dangerous for young people—on eBay,<sup>260</sup> the BGH had qualified eBay as a direct violator of competition rules according to sections 3 and 2(1) number 1 of the German Act Against Unfair Competition, Gesetz gegen unlauteren Wettbewerb (UWG).<sup>261</sup> It has been argued that this ruling might impact future decisions regarding the liability of online service providers for trademark infringements by third parties.<sup>262</sup> According to the current rulings of the BGH, and probably confirmed by the ECJ's *Google v. Louis Vuitton* decision, as a direct violator, eBay would also be exempt from liability according to Article 14(1) of the E-Commerce Directive.<sup>263</sup>

Finally, because the German decisions seem to be tailored to

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<sup>256</sup> Directive 2004/48/EC, of the European Parliament and of the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights, 2004 O.J. (L 195) 0016, available at [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32004L0048R\(01\):EN:HTML](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32004L0048R(01):EN:HTML).

<sup>257</sup> See *L'Oréal SA v. eBay Int'l AG*, [2009] EWHC 1094 (Ch) (Eng.).

<sup>258</sup> *Id.*

<sup>259</sup> *Id.*

<sup>260</sup> Bundesgerichtshof [BGH] [Federal Court of Justice] July 12, 2007, 173 ENTSCHEIDUNGEN DES BUNDESGERICHTSHOFES IN ZIVILSACHEN [BGHZ] 188 (Ger.).

<sup>261</sup> Gesetz gegen den unlauteren Wettbewerb [UWG] [German Act Against Unfair Competition], Mar. 3, 2010 BUNDESGESETZBLATT, Teil I [BGBL I] at 254, available at [http://www.gesetze-im-internet.de/uwg\\_2004/index.html](http://www.gesetze-im-internet.de/uwg_2004/index.html).

<sup>262</sup> See Daniel Holznagel, *Die Urteile in Tiffany v. eBay (USA) – zugleich zu aktuellen Problemen der europäischen Providerhaftung*, 59 GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT, INTERNATIONALER TEIL [GRUR INT] 654, 659 (2010).

<sup>263</sup> *Id.*

secondary trademark infringement, it would not be appropriate to draw conclusions from these decisions to the secondary liability of host providers for violations of other rights. In the case of an Internet opinion forum, for example, extensive monitoring obligations probably would constitute a violation of freedom of speech, which, as a fundamental right, is also protected under the German constitution.

## 2. France

While the German *eBay* and *Ricardo* litigation has remained fairly unnoticed in the U.S. and other non-German-speaking countries,<sup>264</sup> some of the French *eBay* decisions have caused stir on both sides of the Atlantic, and not only because of the glamorous names involved. Namely, the decisions in the *SA Louis Vuitton Malletier v. eBay Inc.*, *Christian Dior Couture, SA v. eBay Inc.*, and *SA Parfums Christian Dior v. eBay Inc.* (collectively *LVMH v. eBay*)<sup>265</sup> and the *Hermès International v. Cindy F (Hermès v. eBay)*<sup>266</sup> cases have been extensively commented on outside of France, including in U.S. law reviews.<sup>267</sup> These decisions not only entitled the respective trademark owners to injunctive relief, as in the German decisions discussed above, but awarded damages to the plaintiffs: €38.6

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<sup>264</sup> A few U.S. law review articles have done comparative studies and mentioned the German cases, but the space devoted to the German decisions is relatively short compared with the section on the French court rulings. See, e.g., Sofia H. Ahmed, *Life, Liberty, and the Pursuit of Luxury: eBay's Liability for Contributory Trademark Infringement in the United States, Germany, and France*, 5 *BYU INT'L L. & MGMT. REV.* 247 (2009); Brandon Peene, *Lux for Less: eBay's Liability to Luxury Brands for the Sale of Counterfeit Goods*, 40 *SETON HALL L. REV.* 1077 (2010).

<sup>265</sup> The *LVMH* litigation consists of three individual claims, all brought by LVMH affiliates and decided by the Paris Commercial Court on the same day. The first claim was brought by Louis Vuitton, the second by Christian Dior, and the third by various perfume trademark holders (all belonging to LVMH). See Tribunal de commerce [TC] [commercial court] Paris, 1e ch. B, June 30, 2008, no. 2006077799 (Fr.); Tribunal de commerce [TC] [commercial court] Paris, 1e ch. B, June 30, 2008, no. 2006077807 (Fr.); Tribunal de commerce [TC] [commercial court] Paris, 1e ch. B, June 30, 2008, no. 2006065217 (Fr.).

<sup>266</sup> Tribunal de grande instance [TGI] [ordinary court of original jurisdiction] Troyes, ch. civ., June 4, 2008, no. 06/02604 (Fr.).

<sup>267</sup> See, e.g., Shanna Bailey, *Fighting an Anonymous Enemy: The Uncertainty of Auction Sites in the Face of Tiffany v. eBay and LVMH v. eBay*, 40 *CAL. W. INT'L L.J.* 129 (2009); James Ciula, *What Do They Know? Actual Knowledge, Sufficient Knowledge, Specific Knowledge, General Knowledge: An Analysis of Contributory Trademark Infringement Considering Tiffany v. Ebay*, 50 *IDEA* 129 (2009); Kate Goldwasser, *Knock it Off: An Analysis of Trademark Counterfeit Goods Regulation in the United States, France, and Belgium*, 18 *CARDOZO J. INT'L & COMP. L.* 207 (2010); Rebecca M. Haynes, *Should Designers Pay the Price? A Look at Contributory Trademark Infringement as it Relates to Different Outcomes of Internet Auction Site Litigation in the United States and France*, 8 *AVE MARIA L. REV.* 223 (2009); Ellie Mercado, *As Long as "It" is Not Counterfeit: Holding Ebay Liable for Secondary Trademark Infringement in the Wake of LVMH And Tiffany Inc.*, 28 *CARDOZO ARTS & ENT. L.J.* 115 (2010).



million (approximately \$60.8 million) to LVMH Moët Hennessy • Louis Vuitton S.A. (LVMH)<sup>268</sup> and €20,000 (approximately \$31,000) to Hermès International S.A. (Hermès).<sup>269</sup> Another decision, *S.A. L'Oréal v. S.A. eBay France (L'Oréal v. eBay)*,<sup>270</sup> seems to have garnered far less international attention, but is interesting on several fronts. Based on similar facts, but ultimately dismissing L'Oréal S.A.'s (L'Oréal's) claims, the court in this decision takes a much more nuanced position on the question of who should be responsible for monitoring trademark infringements on the Internet, and suggests mediation as a possible new method of dispute resolution between trademark holders and online service providers.<sup>271</sup> Most recently, two decisions, on appeal from *Hermès v. eBay* and *LVMH v. eBay*, though moderating the *LVMH v. eBay* decision by significantly reducing the amount of damages awarded to LVMH, seem to confirm the original French position.<sup>272</sup> It should be noted, though, that even the recent court of appeal decisions are lower court decisions, without any binding effect on French trial or other courts of appeal. In fact, because France is a civil law country, even a decision from the highest court of ordinary jurisdiction, the Cour de Cassation, would not be binding—though practically speaking, such a Cour de Cassation decision will usually de facto be respected by lower courts, and therefore would provide more clarity about the liability of online marketplaces for secondary trademark infringements in France.

The facts of the French cases were very similar to *Tiffany v. eBay*. In *Hermès v. eBay*, following receipt of a report of counterfeit merchandise purchased by a buyer of a Hermès Birken handbag and accessories on eBay, Hermès brought suit in the Tribunal de Grande Instance de Troyes, seeking to hold eBay liable for facilitating and participating jointly in acts of trademark infringement with the seller of two counterfeit Hermès handbags on eBay's auction site.<sup>273</sup> In *LVMH v. eBay*, after discovering that substantial quantities of counterfeit merchandise were being sold on eBay, French conglomerate of luxury trademarks LVMH contacted eBay in an effort to curtail the sale of such items.<sup>274</sup> Like Tiffany and Rolex, LVMH remained unsatisfied with eBay's efforts to remedy the counterfeiting

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<sup>268</sup> See TC Paris, June 30, 2008, no. 2006077799 (Fr.); TC Paris, June 30, 2008, no. 2006077807 (Fr.); TC Paris, June 30, 2008, no. 2006065217 (Fr.).

<sup>269</sup> See TGI Troyes, June 4, 2008, no. 06/02604 (Fr.).

<sup>270</sup> Tribunal de grande instance [TGI] [ordinary court of original jurisdiction] Paris, 3e ch., May 13, 2009, no. 07/11365 (Fr.).

<sup>271</sup> See *infra* text accompanying notes 345–348.

<sup>272</sup> See Cour d'appel [CA] [regional court of appeal] Reims, ch. civ., July 20, 2010, no. 08/01519 (Fr.); Cour d'appel [CA] [regional court of appeal] Paris, 2e ch., Sept. 3, 2010, no. 08/12820, 08/12822, 08/12821 (Fr.), available at [http://www.legalis.net/spip.php?page=breves-article&id\\_article=2973](http://www.legalis.net/spip.php?page=breves-article&id_article=2973) (last visited March 22, 2011).

<sup>273</sup> See TGI Troyes, June 4, 2008, no. 06/02604 (Fr.).

<sup>274</sup> See Tribunal de commerce [TC] [commercial court] Paris, 1e ch. B, June 30, 2008, no. 2006077807 (Fr.).

problem and filed suit in the Tribunal de Commerce de Paris against eBay for contributory trademark infringement. LVMH claimed that eBay had facilitated the marketing and sale of counterfeit LVMH products on its website and continued to do so after having been notified by the plaintiff.<sup>275</sup> Though the *LVMH* litigation consists of three individual claims, we will concentrate on the first two judgments, as they are based on identical considerations and concentrate on secondary liability for trademark infringement.<sup>276</sup> Finally, in *L'Oréal v. eBay*, French cosmetic group L'Oréal had brought suit against eBay in the Tribunal de Grande Instance de Paris, claiming damages and injunctive relief for the sale of several counterfeit perfumes on eBay's auction site.<sup>277</sup>

Contrary to the U.S. and German cases, which concentrate on the legal questions related to secondary trademark infringement<sup>278</sup> or general tort liability,<sup>279</sup> the French cases concentrate on the question of whether eBay is a host provider and therefore free to enjoy a limitation of liability under Article 14(1) of the EU E-Commerce Directive, codified in French law at Article 6.I.2 of the LCEN.<sup>280</sup> This, in our opinion, is problematic because before liability can be limited, a standard for finding liability must first be established.<sup>281</sup> Therefore, in the following, we will first analyze the cause of action used by each French court in its decision against eBay, though—at least in the trial court decisions—it is not always clearly expressed. We will then present the discussion of liability exemption for host providers as argued by the French courts.

The decision of the Tribunal de Grande Instance de Troyes,<sup>282</sup> confirmed by the Cour d'Appel de Reims,<sup>283</sup> in *Hermès v. eBay* was based on Article L713-2 of the CPI.<sup>284</sup> Nowhere did the French courts deciding

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<sup>275</sup> *See id.*

<sup>276</sup> The third judgment deals mainly with unfair competition issues related to the sale of goods outside the trademark owner's selective distribution network, which is beyond the scope of this article. *See Ahmed, supra* note 264, at 268–70; Todd Evan Lerner, *Playing The Blame Game, Online: Who is Liable When Counterfeit Goods are Sold Through Online Auction Houses?*, 22 PACE INT'L L. REV. 241, 253–54 (2010).

<sup>277</sup> *See* Tribunal de grande instance [TGI] [ordinary court of original jurisdiction] Paris, 3e ch., May 13, 2009, no. 07/11365 (Fr.).

<sup>278</sup> *See Tiffany*, 576 F. Supp. 2d 463.

<sup>279</sup> *See* 158 BGHZ 236 (Ger.) (Internet-Versteigerung I); 172 BGHZ 119 (Ger.) (Internet-Versteigerung II); MMR 531, 2008 (Ger.) (Internet-Versteigerung III).

<sup>280</sup> *See supra* note 189 and accompanying text. For a comparative analysis of this issue, see Miquel Peguera, *The DMCA Safe Harbors and Their European Counterparts: A Comparative Analysis of Some Common Problems*, 32 COLUM. J.L. & ARTS 481 (2009).

<sup>281</sup> *See Schaffner & Abello, supra* note 159.

<sup>282</sup> Tribunal de grande instance [TGI] [ordinary court of original jurisdiction] Troyes, ch. civ., June 4, 2008, no. 06/02604 (Fr.).

<sup>283</sup> Cour d'appel [CA] [regional court of appeal] Reims, ch. civ., July 20, 2010, no. 08/01519 (Fr.).

<sup>284</sup> CODE DE LA PROPRIÉTÉ INTELLECTUELLE [C. PRO. INTELL.] (Fr.).

*Hermès v. eBay* discuss secondary trademark infringement, which was appropriate, as Articles L713-2 and L713-3 of the CPI concern direct infringement only. Unlike German statutory trademark law in section 14(4) of the MarkenG, French intellectual property law does expressly regulate contributory liability, but for patents only.<sup>285</sup> As previously mentioned, we have found no evidence in French jurisprudence or literature which justifies extending secondary liability to trademarks, when such liability is not expressly regulated under statute—a finding that is enhanced by the fact that express regulation of secondary liability in the patent, but not trademark, context, which suggests that French lawmakers did not intend to regulate or impose secondary liability for trademarks.<sup>286</sup>

According to the courts deciding *Hermès*, eBay was responsible for direct trademark infringement because it did not comply with its obligation to ensure that no one used its website illegally.<sup>287</sup> Thus, in contrast to the U.S. courts,<sup>288</sup> the French courts found eBay's VeRO program to be insufficient, because "counterfeiters adapt themselves to the detection procedures simply by confirming the authenticity of their goods in the good's description."<sup>289</sup> According to the Tribunal de Grande Instance de Troyes, "eBay should instead [have used] all means to force sellers to extensively identify the items put up for sale with detailed information such as the product code, serial number, type indication, authenticity certificate, etc."<sup>290</sup>

Where this obligation is grounded legally remains unclear. The concept of duty of care, which in German law even assimilates an omission into an active infringement, does not exist in French law. Moreover, it is not clear what would have justified such a duty of care in *Hermès v. eBay*. If eBay's business were somehow dangerous, a duty of care would be created, but eBay's activity most likely cannot itself be considered dangerous. Apparently, the French courts had in mind an obligation for a host provider to do its best in order to prevent any possible harm that emanates from its website. This is a concept that exists in French tort law under Articles 1382 and 1383 of the Code Civil.<sup>291</sup> Nevertheless, in its

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<sup>285</sup> *Id.* art L613-4.

<sup>286</sup> *See supra* note 159 and accompanying text.

<sup>287</sup> *See* TGI Troyes, June 4, 2008, no. 06/02604 (Fr.).

<sup>288</sup> *See Tiffany*, 576 F. Supp. 2d at 476.

<sup>289</sup> TGI Troyes, June 4, 2008, no. 06/02604 (Fr.).

<sup>290</sup> Patrick Van Eecke & Maarten Truyens, *Recent Events in EU Internet Law*, 12 J. INTERNET L. 25 (2008) (citing TGI Troyes, June 4, 2008, no. 06/02604 (Fr.)).

<sup>291</sup> *See supra* notes 162–165 and accompanying text. "Any act whatever of man, which causes damage to another, obliges the one by whose fault ["faute"] it occurred, to compensate it." CODE CIVIL [C. CIV.] art. 1382 (Fr.). "Everyone is liable for the damage he causes not only by his intentional act, but also by his negligent conduct or by his imprudence." *Id.* art. 1383.

decision the courts did not examine the common law of torts.<sup>292</sup> Moreover, under Articles 1382 and 1383 of the Code Civil, eBay's liability would have been dependant on fault,<sup>293</sup> which was not addressed in the *Hermès* decisions either. In sum, the French decisions in *Hermès v. eBay* seem to fail in addressing several important issues, and it will be interesting to learn the opinion of the Cour de Cassation on these questions.

Having established—supposedly—eBay's liability for facilitating and participating in acts of trademark infringement, the central question examined by the French courts in *Hermès* was whether eBay was a host provider, in the sense of Article 6.I.2 of the LCEN and Article 14(1) of the E-Commerce Directive, such that it could thereby be exempted from civil liability for simply storing the information of third parties.

The Tribunal de Grande Instance de Troyes found that eBay was indeed inherently a host provider within the meaning of Article 6.I.2 of the LCEN and Article 14 of the E-Commerce Directive, since eBay only stored on its auction site information, which had been placed online by its customers, without having any influence on its content.<sup>294</sup> However, according to the court, the business of eBay's online site went beyond that of a typical host provider, since eBay set up the auction website, established auction rules, and provided the recipients of its service with the tools to present their goods attractively.<sup>295</sup> To this extent, eBay acted not only as a host provider but simultaneously as an online auctioneer. In contrast to if eBay's role had purely been that of a technical host provider, eBay could not qualify for limitation of liability because of its direct engagement in commercial activity related to the site.<sup>296</sup> As such, according to the court, it was incumbent upon eBay to ensure that its service was not misused for illegal purposes and, to the extent that eBay failed to do so, it could not call on the liability exemption reserved for pure host providers.<sup>297</sup>

This reasoning was fully confirmed on appeal.<sup>298</sup> In the meantime, the ECJ had issued its decision in *Google v. Louis Vuitton*, so the Cour d'Appel de Reims added a second line of reasoning by reiterating the ECJ's definition of host provider as a service provider that is "neutral, in the sense that its conduct is merely technical, automatic and passive, pointing to a lack of knowledge or control of the data which it stores."<sup>299</sup> According to

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<sup>292</sup> See TGI Troyes, June 4, 2008, no. 06/02604 (Fr.).

<sup>293</sup> See CODE CIVIL [C. CIV.] art. 1382 (Fr.).

<sup>294</sup> See TGI Troyes, June 4, 2008, no. 06/02604 (Fr.).

<sup>295</sup> See *id.*

<sup>296</sup> See *id.*

<sup>297</sup> See *id.*

<sup>298</sup> See Cour d'appel [CA] [regional court of appeal] Reims, ch. civ., July 20, 2010, no. 08/01519 (Fr.).

<sup>299</sup> Joined Cases C-236/08 to C-238/08, *Google France SARL v. Louis Vuitton Malletier SA*, 2010 E.C.R. I-02417.

the court of appeals, eBay had played an active role in the sale of the counterfeit goods by providing marketing tools, dispute settlement procedures, and payment services to the third party seller and his or her customers.<sup>300</sup> eBay had also, the court found, encouraged sales by providing links to similar offers of counterfeit products.<sup>301</sup> Therefore, the court held, eBay could not benefit from the host provider safe harbour privilege.<sup>302</sup> Under general trademark law, the court required eBay to make sure that no counterfeit items were sold on its auction site.<sup>303</sup> Unlike the German and U.S. courts, who dismissed an Internet auction site operator's general knowledge of trademark infringement by third parties as insufficient, and required specific knowledge,<sup>304</sup> the Cour d'Appel not only held a generalized knowledge sufficient, but considered eBay to be "all the more punishable since eBay knew that not all Hermès products sold on its site are genuine goods."<sup>305</sup>

In the case of *LVMH v. eBay*, the Tribunal de Commerce de Paris<sup>306</sup> and the Cour d'Appel de Paris<sup>307</sup> based their decisions addressing LVMH's claims for injunctive relief and damages on common French tort liability, specifically Articles 1382 and 1383 of the Code Civil.<sup>308</sup> This is because trademark claims can only be filed with the civil courts, not the commercial courts.<sup>309</sup> As discussed above, Articles 1382 and 1383 of the Code Civil are extremely comprehensive and require anyone who has contributed to harming someone in any way to rectify the damage caused.<sup>310</sup>

Apart from the different cause of action, the reasoning of the court in *LVMH v. eBay* is very similar to the decision in *Hermès*. By providing online auction services to its customers, the Tribunal de Commerce de Paris stated, eBay had significantly assisted in the sale and marketing of

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<sup>300</sup> See CA Reims, July 20, 2010, no. 08/01519 (Fr.).

<sup>301</sup> See *id.*

<sup>302</sup> See *id.*

<sup>303</sup> See *id.*

<sup>304</sup> See *supra* Parts II.C. & III.D.1.

<sup>305</sup> CA Reims, July 20, 2010, no. 08/01519 (Fr.).

<sup>306</sup> Tribunal de commerce [TC] [commercial court] Paris, 1e ch. B, June 30, 2008, no. 2006077799 (Fr.); Tribunal de commerce [TC] [commercial court] Paris, 1e ch. B, June 30, 2008, no. 2006077807 (Fr.); Tribunal de commerce [TC] [commercial court] Paris, 1e ch. B, June 30, 2008, no. 2006065217 (Fr.).

<sup>307</sup> Cour d'appel [CA] [regional court of appeal] Paris, 2e ch., Sept. 3, 2010, no. 08/12820, 08/12822, 08/12821 (Fr.).

<sup>308</sup> *Id.*

<sup>309</sup> See LAMY DROIT COMMERCIAL 1615 (2010); see also CODE DE LA PROPRIÉTÉ INTELLECTUELLE [C. PRO. INTELL.] art. L716-3 (Fr.).

<sup>310</sup> See *supra* notes 162–165 and accompanying text. "Any act whatever of man, which causes damage to another, obliges the one by whose fault ['faute'] it occurred, to compensate it." CODE CIVIL [C. CIV.] art. 1382 (Fr.). "Everyone is liable for the damage he causes not only by his intentional act, but also by his negligent conduct or by his imprudence." *Id.* art. 1383.

counterfeit products by third parties and had, therefore, infringed a legal right of the plaintiff.<sup>311</sup> According to the court, eBay had not fulfilled its obligation to ensure that its business did not give rise to any illegal activity to the detriment of other companies, and therefore acted with fault according to Articles 1382 and 1383 of the Code Civil.<sup>312</sup> The court found that the trademark infringements had been obvious to eBay given the descriptions used in the listings, such as “imitation” and “replica,” as well as the quantities sold and the low prices offered by the sellers.<sup>313</sup>

Therefore, the Tribunal de Commerce de Paris stated, eBay was subject to a general monitoring obligation, and eBay’s liability was all the greater since it had refused to use effective means to combat trademark infringements, such as by compelling sellers to submit a receipt or certificate of authenticity or by closing a user’s account the first time the user made an illegal offer of sale.<sup>314</sup> With regard to eBay’s VeRO program, the court did qualify it as an effective measure to limit the sale of counterfeit products on its website, but also as an effort to mitigate the effects of its past negligence and therefore represented an acknowledgement of eBay’s fault.<sup>315</sup> Thus, the court ordered eBay to pay damages on the grounds of negligence and serious omissions.<sup>316</sup> Similar to the ruling in *Hermès v. eBay*, the Tribunal de Commerce de Paris in *LVMH v. eBay* also refused to qualify eBay as a host provider and, therefore, denied limitation of liability under Article 6.I.2 of the LCEN and Article 14 of the E-Commerce Directive, as eBay had acted not only as a host provider but simultaneously as an online auctioneer.<sup>317</sup>

The view of the Tribunal de Commerce de Paris in *LVMH v. eBay* was confirmed by the Cour d’Appel de Paris in its decisions rendered on appeal.<sup>318</sup> The appellate court confirmed eBay’s obligation to control its site and ensure that the goods sold on its auction platform are genuine goods.<sup>319</sup> How eBay should do this, given the fact that eBay never actually possesses the goods sold on its site, remains unclear. In any case, the court set very high standards of compliance concerning eBay’s filter program, requiring that eBay conduct active searches and demanding that eBay remove counterfeit products immediately upon receiving notice from rights

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<sup>311</sup> See TC Paris, June 30, 2008, no. 2006065217 (Fr.).

<sup>312</sup> See *id.*

<sup>313</sup> See *id.*

<sup>314</sup> See *id.*

<sup>315</sup> See *id.*

<sup>316</sup> See *id.*

<sup>317</sup> See TC Paris, June 30, 2008, no. 2006065217 (Fr.).

<sup>318</sup> See Cour d’appel [CA] [regional court of appeal] Paris, 2e ch., Sept. 3, 2010, no. 08/12820, 08/12822, 08/12821 (Fr.).

<sup>319</sup> See *id.*

owners.<sup>320</sup> The court found that, based on the underlying facts at the time the *LVMH* dispute arose, eBay had not satisfied the requirement, or at least had not sufficiently proven, that its trademark owner's rights protection measures lived up to these standards.<sup>321</sup> Actually, it is this part of the decision on appeal which might offer some hope for eBay and other online service providers in France. Given that since the beginning of the *LVMH* litigation, eBay has made significant progress in its owner rights protection efforts,<sup>322</sup> the court may come to a different finding in future cases.

Regarding eBay's status as a host provider the court reiterated the ECJ's definition.<sup>323</sup> Though the outcome is the same as that in *Hermès v. eBay*, the rationale of the Cour d'Appel de Paris is slightly different from that of the Cour d'Appel de Reims. The Cour d'Appel de Paris makes clear that eBay's business cannot be divided into two separate activities, one of providing a technical hosting service, the other one of offering a commercial online auction service.<sup>324</sup> According to the court, the hosting activity is only a technical means necessary for eBay's overall business activity, which is online auctioneering.<sup>325</sup> In running its business, the court found, eBay did not simply classify or facilitate access to sales offers stored by third parties, but also offered marketing tools, links, and other services to its customers.<sup>326</sup> Thus, according to the Cour d'Appel de Paris, eBay actively promoted and financially benefited from the sale of counterfeit products on its site.<sup>327</sup> The court held that eBay's role was not limited to that of a neutral technical host provider, eBay had control over the information stored on its servers, and, therefore, eBay was obliged to monitor the sales of third parties on its auction site.<sup>328</sup>

In the case of *L'Oréal v. eBay*, the Tribunal de Grande Instance de Paris, unlike the other French trial courts discussed, makes passing reference to trademark law in its decision, but without specifying any relevant articles of the CPI or examining its conditions.<sup>329</sup> The ruling gives the impression that the court wanted to rely directly on Article 6.I.2 of the LCEN and Article 14(1) of the E-Commerce Directive as the principle basis of *L'Oréal's* claim.<sup>330</sup> The court held that "online service providers are

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<sup>320</sup> *See id.*

<sup>321</sup> *See id.*

<sup>322</sup> *See supra* notes 44–50 and accompanying text.

<sup>323</sup> *See supra* note 299 and accompanying text.

<sup>324</sup> *See* CA Paris, Sept. 3, 2010, no. 08/12820, 08/12822, 08/12821 (Fr.).

<sup>325</sup> *See id.*

<sup>326</sup> *See id.*

<sup>327</sup> *See id.*

<sup>328</sup> *See id.*

<sup>329</sup> *See* Tribunal de grande instance [TGI] [ordinary court of original jurisdiction] Paris, 3e ch., May 13, 2009, no. 07/11365 (Fr.).

<sup>330</sup> *See* Mercado, *supra* note 267, at 128.

inherently liable under the general principles of tort, unless it is proved that their businesses are carried on within the context of the *specific liability system* of the [E-Commerce] Directive and its transposition into French law.”<sup>331</sup>

Whether this interpretation is in keeping with the intentions of the E-Commerce Directive appears doubtful.<sup>332</sup> In this respect, the ECJ should have clarified whether Article 14(1) of the Directive is a standard on limitation of liability, as defined by German BGH case law, or a special liability regime that could be used directly to substantiate liability. But, the Tribunal de Grande Instance de Paris, like the BGH, decided not to refer this question to the European Court of Justice.<sup>333</sup> It has to be mentioned, though, that unlike the BGH which, as a court of last instance, was obliged to refer a question on the interpretation of EU law to the European Court of Justice,<sup>334</sup> the Tribunal de Grande Instance, as a lower court of law, has a right, not an obligation, of submission to the ECJ.<sup>335</sup>

The ruling in *L'Oréal v. eBay* raises a further question, however, as yet unanswered by French case law, concerning the apportionment of the burden of proving that the requirements of Article 6.I.2 of the LCEN and Article 14(1) of the E-Commerce Directive have been fulfilled. As a claim requirement, this should logically fall to the plaintiff. In stark contrast to the decisions in *Hermès v. eBay* and *LVMH v. eBay*, the Tribunal de Grande Instance in *L'Oréal v. eBay* allowed eBay the benefit of the liability exemption for host providers.<sup>336</sup> The court reasoned that the expansion of the Internet and the complexity of e-commerce make it impossible to distinguish between the “main and secondary businesses” of a host provider, as done by the previous French decisions; therefore, the court said, the online service provider must be granted liability exemption for both activities in accordance with Article 14 of the E-Commerce Directive, even for a commercial activity.<sup>337</sup> Thus, the court rejected L'Oréal's claim against eBay for trademark liability in connection with the sale of counterfeit goods by the site's users.<sup>338</sup>

Nevertheless, the Tribunal de Grande Instance de Paris imposed the following limitation, which must be complied with in the future:

[L]iability exemption shall only apply to the extent that eBay's activities are restricted to storing the information provided by users

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<sup>331</sup> TGI Paris, May 13, 2009, no. 07/11365 (Fr.) (emphasis added).

<sup>332</sup> The ECJ decision in *Google v. Louis Vuitton* does not clarify this question either.

<sup>333</sup> See *supra* text accompanying note 210.

<sup>334</sup> TFEU art. 267.

<sup>335</sup> *Id.*; see also Leible & Sosnitza, *supra* note 195, at 3324–25.

<sup>336</sup> See TGI Paris, May 13, 2009, no. 07/11365 (Fr.).

<sup>337</sup> See *id.*

<sup>338</sup> See *id.*



of its service and to placing their offers on the Web. Advertising over and above this, and other commercial activities intended to assist sales but which are not vital for an online auction site shall continue not to qualify for liability exemption.<sup>339</sup>

The court clearly stated that, for example, advertising or commercial links to the eBay portal, as well as headings like “Favorites,” are excluded from liability exemption.<sup>340</sup> It is worth noting here that a comparison of the French eBay portal with other countries’ eBay portals clearly shows how eBay has adjusted to France’s distinct national case law: today, the French website “eBay.fr” looks extremely plain in comparison to other national eBay websites.

Having established eBay’s status as a host provider, the court examined eBay’s knowledge of trademark infringements by its users according to Article 6.1.2 of the LCEN, which states that a service provider is not liable for information stored at the request of a recipient of the service, provided that:

- a) [T]he provider does not have actual knowledge of illegal business or information and, as regards claims for damages, is not aware of facts or circumstances from which the illegal business or information is apparent; or
- b) the provider, upon obtaining such knowledge or awareness, acts expeditiously to remove or disable access to the information.<sup>341</sup>

This transposition by France of the E-Commerce Directive differs from Germany’s TMG in that Article 6.I.5 of the LCEN lists detailed requirements—including dated notification of actual infringements, with precise details of the source—which must be satisfied to achieve a presumption that the host provider had knowledge of a legal infringement. In the case of *L’Oréal v. eBay*, the allegation that a presumed offense had occurred was dismissed, as the letter sent by L’Oréal to eBay contained general information on the infringement of the plaintiff’s trademarks, but did not list individual specific adverts as formally required by the LCEN.<sup>342</sup>

The remainder of the ruling in *L’Oréal v. eBay* is surprising. The court did not examine how else eBay could have obtained knowledge of the infringements on its website or whether eBay immediately took action to remove or disable access to the illegal information, as required by Article

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<sup>339</sup> *See id.*

<sup>340</sup> *See id.*

<sup>341</sup> Loi 2004-575 du 21 juin 2004 pour la confiance dans l’économie numérique [Law No. 2004-575 of 21 June 2004 on Confidence in the Digital Economy], JOURNAL OFFICIEL DE LA RÉPUBLIQUE FRANÇAISE [J.O.] [OFFICIAL GAZETTE OF FRANCE], June 22, 2004, p. 11168, art. 6.1.2 (Fr.).

<sup>342</sup> *See* TGI Paris, May 13, 2009, no. 07/11365 (Fr.).

6.I.2 of the LCEN and Article 14(1)(b) of the E-Commerce Directive, but dismissed L'Oréal's claim for damages against eBay.<sup>343</sup> Very different from the previous French decisions, the court acknowledged that eBay "had entered into negotiation on the measures to be taken to improve the existing situation but those talks were broken unilaterally by L'Oréal who chose legal action."<sup>344</sup>

Instead of definitively deciding the case, however, the court proposed that "in order to achieve effective trademark protection on the Internet, close collaboration is necessary between the online service provider and the trademark owner."<sup>345</sup> On these grounds the court suspended the proceedings and recommended that the parties resolve the dispute amicably through mediation,<sup>346</sup> a possibility expressly set out in the French Code of Civil Procedure.<sup>347</sup> However, a mediation process between the parties prior to the lawsuit had already failed, suggesting slim prospects of success for a further mediation attempt; this was confirmed with the filing, despite its prior agreement to the mediation proceedings,<sup>348</sup> of an appeal by L'Oréal shortly after the court made its ruling.<sup>349</sup>

#### a. Implications and Aftermath of the French eBay Litigation

After these cases, the liability of online auction sites for trademark infringement and online service providers in general in France is far less clear than some commentaries on the French eBay litigation would suggest.<sup>350</sup> *Hermès v. eBay* and *LVMH v. eBay* are only two decisions in a series of sometimes contradictory decisions, mostly decided by lower courts, related to the responsibility of online service or host providers for illegal acts of third parties in France. Concerning the statutory conditions of secondary liability for trademark infringement, the French eBay decisions leave many questions open such that, for now, it is impossible to determine a clear position.

None of the French decisions analyzed here examined the criterion "use in trade" in Article 5(1) of the EU Trade Marks Directive, which had been argued extensively in the Bundesgerichtshof decisions *Internet-*

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<sup>343</sup> *See id.*

<sup>344</sup> *See id.*

<sup>345</sup> *See id.*

<sup>346</sup> *See id.*

<sup>347</sup> NOUVEAU CODE DE PROCÉDURE CIVILE [N.C.P.C.] art.131-1 (Fr.).

<sup>348</sup> *See L'Oreal Loses Suit vs. eBay*, AUCTIVA (May 13, 2009), <http://www.auctiva.com/edu/entry.aspx?id=Loreal-Loses-Suit-vs.-eBay>.

<sup>349</sup> *See Poursuites Contre eBay: L'Oréal Fait Appel de la Décision du TGI Paris*, FRANCEBOURSE.COM (June 24, 2009), [http://www.francebourse.com/fiche\\_news\\_46947.fb](http://www.francebourse.com/fiche_news_46947.fb).

<sup>350</sup> *See, e.g.,* Todd Evan Lerner, *supra* note 276, at 242–55; Elizabeth K. Levin, *A Safe Harbor for Trademark: Reevaluating Secondary Trademark Liability After Tiffany v. eBay*, 24 BERKLEY TECH. L.J. 491, 493 (focusing on *Hermès v. eBay* and *LVMH v. eBay*).

*Versteigerung II* and *Internet-Versteigerung III*.<sup>351</sup> At least, for *Hermès v. eBay*, it seems to us that the sale of two counterfeit handbags does not necessarily meet the condition set up by the Trade Marks Directive.

As far as the question of eBay's legal status as a host provider, ultimately leading to limitation of liability, is concerned, French case law has been highly inconsistent. In contrast to *Hermès v. eBay* and *LVMH v. eBay*, some rulings from 2007–2008, which did not concern online auction sites but other online service providers, issued a guideline stating that anyone who is not an “editor” (“éditeur”)—i.e., one who would be able to influence the content of the information placed online by recipients of the service—is classified as a host provider, and therefore qualifies for liability exemption.<sup>352</sup> This argument was confirmed after the publication of the French eBay decisions by a ruling of the Cour d'Appel de Paris in a lawsuit against Daily Motion in connection with video streaming.<sup>353</sup> The two court of appeal decisions in *LVMH v. eBay* and *Hermès v. eBay*, though, still lean towards denying eBay host provider status.

Despite this jumble of contradictory rulings, with respect to trademark infringements in France on auction sites, the following “trends” can be identified. First, French courts seem to be far more favorable to trademark owners than the U.S. courts in *Tiffany v. eBay* and the German courts in the *Rolux* litigation. *LVMH v. eBay* and *Hermès v. eBay* put the entire burden of identifying and combating trademark infringements on eBay's auction site upon eBay. The courts in *LVMH v. eBay* did not even require LVMH to take part in eBay's VeRO program. Following *LVMH v. eBay* and *Hermès v. eBay*, eBay must, in a nutshell, do everything technically possible not only to take down counterfeit products offered on its website after having received notice but also to identify trademark infringements through a precautionary filtering process and by requiring authenticity certifications of sellers using its auction site. In this respect, however, the

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<sup>351</sup> See *supra* notes 205–210 and accompanying text.

<sup>352</sup> See, e.g., Tribunal de grande instance [TGI] [ordinary court of original jurisdiction] Paris, 3e ch., July 13, 2007, no. 07/05198 (Fr.); Tribunal de grande instance [TGI] [ordinary court of original jurisdiction] Paris, 3e ch., Apr. 15, 2008 (Fr.), available at [http://www.legalis.net/spip.php?page=breves-article&id\\_article=2298](http://www.legalis.net/spip.php?page=breves-article&id_article=2298); Tribunal de grande instance [TGI] [ordinary court of original jurisdiction] Paris, 3e ch., Apr. 15, 2008, no. 08/01371 (Fr.), available at <http://www.juriscom.net/documents/tgiparis20080415-Lafesse.pdf>; Tribunal de grande instance [TGI] [ordinary court of original jurisdiction] Paris, 3e ch., June 3, 2008 (Fr.), available at [http://www.legalis.net/spip.php?page=breves-article&id\\_article=2328](http://www.legalis.net/spip.php?page=breves-article&id_article=2328); Tribunal de commerce [TC] [commercial court] Paris, 8e ch., Feb. 20, 2008 (Fr.), available at [http://www.legalis.net/jurisprudence-decision.php?id\\_article=2223](http://www.legalis.net/jurisprudence-decision.php?id_article=2223).

<sup>353</sup> See Cour d'appel [CA] [regional court of appeal] Paris, 4e ch., May 6, 2009, no. 07/14097, available at <http://www.juriscom.net/documents/caparis20090506.pdf>; see also Ségolène Rouillé-Mirza, *Dailymotion: un hébergeur Web 2.0 sans Obligation Générale de Surveillance*, JURISCOM.NET (May 13, 2009), <http://www.juriscom.net/actu/visu.php?ID=1130>.

French rulings are consistent with a decision handed down in 2000 by the Tribunal de Grande Instance de Paris against Yahoo! Inc. (Yahoo!), under which the host provider Yahoo! was ordered to do everything technically and technologically possible to prevent access by French Internet users to websites on which Nazi memorabilia could be bought at auction.<sup>354</sup> The ruling also drew great international attention, and is still regarded as a textbook example of the different values in American and French case law.<sup>355</sup>

### 3. *The High Court of England and Wales Decision and the ECJ's Opinion*

As in the French case *L'Oréal v. eBay*, in the High Court of England and Wales case of *L'Oréal SA v. eBay International AG*,<sup>356</sup> L'Oréal argued that eBay should be liable for the sale of counterfeit goods and parallel imports goods on its website. In a preliminary ruling, the High Court held that eBay was not jointly liable for the sale of counterfeit L'Oréal products on its website.<sup>357</sup> However, the High Court was also of the opinion that EU trademark law and the EU E-Commerce Directive were unclear as to several issues raised by the case, and referred those issues to the ECJ for further guidance.<sup>358</sup>

The ECJ subsequently ruled that the exemption from liability found in Article 14(1) of the E-Commerce Directive applies where an online marketplace operator has not played an "active role" that would provide it with knowledge or control over the data that it hosts.<sup>359</sup> According to the court, an operator plays an active role, and thereby loses the protection of the exemption, when it provides additional assistance, such as optimizing the presentation of offers for sale or promoting them.<sup>360</sup> It will be for the High Court to determine whether the particular acts undertaken by eBay constituted an "active role" disqualifying it from the Article 14 exemption. ECJ further stated that, even if an operator has not played an "active role"

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<sup>354</sup> Tribunal de grande instance [TGI] [ordinary court of original jurisdiction] Paris, May 22, 2000 (Fr.), available at <http://www.juriscom.net/txt/jurisfr/cti/tgiparis20000522.htm>; see also Gerlinde Berger-Walliser & Franck Valencia, *L'affaire YAHOO, Comment Repenser la Notion de Souveraineté à L'heure d'Internet* (ICN Business School, Working Paper No. 2008-22, 2008), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1926554#](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1926554#); Kevin A. Meehan, Note, *The Continuing Conundrum of International Internet Jurisdiction*, 31 B.C. INT'L & COMP. L. REV. 345 (2008).

<sup>355</sup> See LARRY A. DI MATTEO & LUCIEN J. DHOOGHE, INTERNATIONAL BUSINESS LAW 116 (2d ed. 2006).

<sup>356</sup> [2009] EWHC 1094 (Ch) (Eng.).

<sup>357</sup> See *id.*

<sup>358</sup> See *id.*

<sup>359</sup> See Case C-324/09, *L'Oréal, SA v. eBay, Int'l A.G.*, COURT OF JUST. OF THE EUR. UNION (July 12, 2011), <http://curia.europa.eu/jurisp/cgi-bin/form.pl?lang=EN&Submit=rechercher&numaff=C-324/09>.

<sup>360</sup> See *id.*

by providing such assistance, it will nevertheless be liable if it was aware of facts or circumstances that should lead a diligent business operator to realize that the acts in question were unlawful, and failed to act expeditiously to prevent such acts.<sup>361</sup>

It remains for the High Court to determine eBay's liability, if any. However, the ECJ's opinion will certainly be instructive in this and future cases. If the operator of an online marketplace knew that particular infringing goods had been sold or offered for sale, due either to notice from others or to its own inspection, and knew that similar infringements by the same or other users were likely to continue, then, in general, this might constitute "actual knowledge" of the infringement and preclude immunity under the liability exemption of Article 14(1) of the E-Commerce Directive. Likewise, where the operator has provided promotional assistance to sellers, or assisted them in optimizing their offers for sale, the operator loses its immunity.

On its face, the standard is generally in agreement with that spelled out in the *Tiffany v. eBay* decision. Nevertheless, the precise interpretation of "actual knowledge" and the determination of whether an operator has undertaken an "active role" in its sellers' activities is less clear and could be construed to include generalized knowledge of infringing activity as well as specific knowledge.

## V. CONCLUSION

Counterfeiting results in direct losses to trademark owners, but it also leads to consumer confusion and deception. Although sellers of luxury goods have been the traditional targets of counterfeiters, producers of entertainment media, food products, electronics, auto parts, and medicines face the problem as well. The occurrence of counterfeiting and trademark infringement has accompanied the widespread use of online marketplaces. The recent U.S. decision in *Tiffany v. eBay* has provided an answer as to the secondary trademark infringement liability of operators of online markets, explaining that "[i]t is the trademark owner's burden to police its mark, and companies like eBay cannot be held liable for trademark infringement based solely on their generalized knowledge that trademark infringement might be occurring on their websites."<sup>362</sup>

Conflicting approaches to the question of secondary trademark infringement liability of online markets among U.S. and European courts harm consumers who desire to purchase genuine goods, and undermine the businesses of luxury brand trademark owners and the development of the e-commerce intermediaries. Our analysis suggests that, ultimately, the issue comes down to "[w]ho should bear the burden of policing against the sale

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<sup>361</sup> *See id.*

<sup>362</sup> *Tiffany*, 576 F. Supp. 2d at 527.

of counterfeits.”<sup>363</sup> On this question, different national courts have arrived at conflicting answers, which makes it difficult for globally-operating online auction platforms like eBay to adapt their business models to the requirements of individual states. Our analysis has shown that the contradictory decisions of different national courts are partly grounded in differences of underlying trademark or tort law, but also to a large degree seem to depend on conflicting views on the issue of who needs more legal protection, the trademark owner or the online market.

This dilemma also represents a policy question, which to a large degree is linked to national economic interests. Perhaps, therefore, it is not surprising that the French eBay decisions are more favourable to the luxury brand trademark holders. French brands represent one-fourth of the global market for luxury goods—more than twice the market share of Italian brands and two and one-half times the market share of U.S. brands.<sup>364</sup> Sixty-eight out of 200 luxury brands in the world are French.<sup>365</sup> E-commerce sales of merchandise in the U.S. have grown exponentially and now represent almost half of all retail sales.<sup>366</sup> By contrast, in Germany, neither of the two conflicting industries has a particular prevalence, which can explain the more neutral position reflected in the BGH decisions.

All stakeholders would greatly benefit from a more uniform judicial assessment of online service providers’ secondary trademark infringement liability by different national courts, as such uniformity would lead to greater legal certainty. In civil law countries, such as Germany and France, where the freedom of courts to create law is limited, the issue ultimately can only be resolved by the legislator. In contrast, in common law systems, such as the U.S. and the U.K., a standard of secondary liability can be judicially fashioned, as indeed it was by the U.S. Supreme Court in the *Inwood* case.<sup>367</sup> It seems to us that the online market operator in Germany and France faces a real dilemma. Online market operators in these countries are obligated to filter items listed on their websites, but if they filter too much, they will face lawsuits brought by their customers for breach of contract.<sup>368</sup> Moreover, before removing any suspicious products, an online market operator needs to determine whether there is or is not

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<sup>363</sup> *Id.*

<sup>364</sup> See *Key Figures*, COMITÉ COLBERT, [http://www.comitecolbert.com/internet/index.php?option=com\\_content&task=view&id=229&Itemid=191&lang=en](http://www.comitecolbert.com/internet/index.php?option=com_content&task=view&id=229&Itemid=191&lang=en) (last visited Nov. 25, 2011).

<sup>365</sup> See *id.*

<sup>366</sup> According to the most recent statistics compiled by the U.S. Census Bureau, e-commerce retail sales represented forty-seven percent of all sales in 2008. See U.S. CENSUS BUREAU, THE 2011 STATISTICAL ABSTRACT, ELECTRONIC SHOPPING AND MAIL-ORDER HOUSES—TOTAL AND E-COMMERCE SALES BY MERCHANDISE LINE tbl.1055 (2010), available at <http://www.census.gov/compendia/statab/2011/tables/11s1055.pdf>.

<sup>367</sup> See *Inwood Labs. Inc.*, 456 U.S. at 854–55.

<sup>368</sup> See MMR 668, (673), 2004 (Ger.).

actually a direct trademark infringement. This appears to be almost impossible in the case of auction websites like eBay, given the fact that the operator never has possession of the goods sold on its site.

The issue of secondary trademark infringement liability of online markets is a perfect example of the general legal problem encountered in many Internet-related cases: on the Internet, it is difficult to limit a state power to only one territory, because the Internet is borderless and inherently international. Internet users and service providers virtually pass state borders often without even being aware of the fact that they are doing so. They often do not realize that a foreign jurisdiction may govern their dealings, that foreign law may apply to their business transactions, and that ultimately a foreign court may judge their case. Unlike traditional business transactions, which usually are governed by a specific national law, the e-commerce merchant faces a multitude of sometimes conflicting national laws. The accessibility of Internet service from almost anywhere often conveys unto foreign courts jurisdiction over cases they traditionally would not oversee. Consequently, there is an obvious need for international harmonization of the law relating to secondary trademark infringement liability of online markets, or relating to civil liability of online service providers in general. Our analysis of European law and examples of national European case law shows that, even where a unified legal framework, such as that provided by the EU Trade Marks Directive or the EU E-Commerce Directive, is available, international harmonization does not always prevent national courts from applying and interpreting the unified law in different ways according to the political or economic background of their home countries.

Our analysis also reveals that the different outcomes in the eBay decisions, as rendered by different national courts, are partly grounded in considerable differences in the national trademark or tort law the decisions are based on. The comparison of the French and German decisions shows that, even if a common understanding about the limitation on host provider liability could be reached (for example, following the French court of appeals' application of the ECJ's ruling in *Google v. Louis Vuitton* to find an online auctioneer not being exempt from secondary trademark liability), the fundamental differences in the underlying statutory trademark law, or statutory or common law of torts, will probably still lead to conflicting outcomes. In order to establish secondary trademark infringement liability, the U.S., U.K. and German courts require some form of intent or specific knowledge, on the part of the online auctioneer, about direct trademark infringements by third parties. In contrast, due to the considerably broader liability standard in French law, a French court probably would still acknowledge an online market's liability when the other countries' courts would deny it. While countries could certainly agree on ways to harmonize specific issues related to Internet host provider liability, to us it seems unrealistic to expect them to unify issues so fundamental to national tort

liability, especially given the conflicting economic interests involved in the cases analyzed above. It seems to us that, given these fundamental differences, online markets will continue to have to deal with different national laws and adapt their business models accordingly, as the different versions of national eBay websites illustrate.

Conflicting standards of secondary liability will only ensure a seemingly never-ending series of litigation before different national courts. Such lawsuits may have some merit in generating publicity for the luxury brands involved, but the lawsuits do not contribute to finding a remedy to the problem of online counterfeiting. An online market operator which suspects that counterfeiting is occurring should take reasonable precautions to remedy the problem. If the online marketplace model is to remain viable, however, the most effective approach to combat trademark counterfeiting, as some of the eBay decisions suggest, would be collaboration between the trademark holders and online service providers, rather than a standard predicated on the strict liability of the market operator.

A trademark “notice and takedown” approach, combined with an anti-fraud filtering search engine, such as that employed by eBay and sanctioned by the court in the *Tiffany v. eBay* case, may prove to be the practical answer to intermediary market liability in the long run. At a minimum, such a procedure should require that the trademark owner act on a good faith belief in submitting a notice that counterfeit or trademark infringing goods have been offered for sale by a user of the online market. After receiving such notice, the online market operator would immediately locate and remove the alleged counterfeit merchandise. Should the user dispute the trademark owner’s allegation, the online market operator could refer the parties to expedited arbitration or a similar alternate dispute resolution process, such as mediation, as the Tribunal de Grande Instance de Paris suggested in *L’Oréal v. eBay*.

We believe that such a safe harbor approach would offer a strong incentive for the operators of online markets to implement notice and takedown procedures similar to that used by eBay. The procedure would be consonant with that commonly applied in copyright cases under the DMCA in the U.S., as well as the EU’s E-Commerce Directive. Without such a consensus, eBay and other online merchants will have to police their sites differently in different countries. A standard of secondary liability based on specific knowledge, as we have recommended, and which the U.S., German, and U.K. courts have essentially already adopted, places the onus of policing trademarks on the trademark owners rather than on the online market operator. Trademark owners know their goods best of all. In the end, they are best suited to most efficiently authenticate their goods and identify counterfeits, much more so than intermediary market operators. Moreover, such a standard will not discourage the operation of legitimate online marketplaces.



