

L'Oréal v eBay & the growing accountability of e-operators

Online operators may face greater accountability for commercial activities on their websites, following the Court of Justice of the European Union's (CJEU) decision in *L'Oréal & Ors v eBay & Ors*¹. The much-anticipated decision was the CJEU's latest attempt to define the fine line between commercial endeavour and infringement on the internet. Although subject to interpretation and application by national courts, the ruling restricts online intermediaries from taking an active role in the marketing of goods and services by their customers where they bear third party trade marks or otherwise embody third party IP rights. In addition, the decision further closes the door on intermediaries with knowledge of unlawful acts taking place on their sites. The CJEU's decision gives impetus to a recent movement to increase the accountability of e-marketplaces but its lasting effect remains to be seen, as Steven James, Associate at Latham & Watkins, discusses.

Before *L'Oréal v eBay*

Article 14 of Directive 2000/31/EC offers a degree of protection for online intermediaries such as Google and eBay from liability for infringing activity taking place on their sites, providing that an 'information society service' shall not be liable where (a) the provider does not have actual knowledge of illegal activity or information and is not aware of the circumstances from which the illegal knowledge or information is apparent and (b) the provider, having obtained such knowledge

or awareness, acts expeditiously to remove or disable the information. Article 14 is therefore designed to protect internet service providers (ISPs) where they play a passive role, merely hosting information without modifying it in any way (whilst having an effective notice-and-takedown procedure).

Article 14 shielded Google from liability in the CJEU's decision last year in the *Google France* cases², in which the CJEU ruled on claims made by a number of brand owners that Google was infringing its trade mark rights through its AdWords program - which allows advertisers to bid on keywords as sponsored links, including trade marks, and allow their advertisements to appear prominently in search engine results pages. The CJEU decided that Google should receive protection under Article 14 because its involvement is 'of a mere technical, automatic and passive nature', despite the fact that its Google AdWords program is one of Google's most valuable revenue streams and can allow advertisers to infringe third party trade marks. Further, the CJEU held that Google was not liable for trade mark infringement because it did not 'use' the Louis Vuitton mark and that merely rendering referencing services is not enough to trigger liability. The CJEU, however, caveated its decision in *Google France* by saying that where an online intermediary is notified of an unlawful advertisement, it must act expeditiously to remove it, failing which Google will become jointly liable with the advertiser.

L'Oréal v eBay

It was against this background that the CJEU gave its ruling in *L'Oréal v eBay*, in which it ruled on eBay's own 'use' of keywords and specific issues relating to the sale of

counterfeit goods on its online auction site. eBay, the well-known online marketing platform, has known success and popularity, but also attracted opportunism, and some have sought to sell fake luxury goods through its platform. L'Oréal was concerned by this activity, and issued High Court proceedings against eBay, attempting to cut off one of conduits through which it believed counterfeit L'Oréal goods were being sold. L'Oréal complained that eBay had not done enough to prevent trade mark infringement on its auction site and in its claim, pointed out various forms of infringement occurring on eBay's website, including the parallel importation of goods. L'Oréal also complained that eBay had promoted the sale of counterfeit items through its use of keywords on Google's AdWord program and other such engines, directing consumers to counterfeit goods bearing the L'Oréal trade mark. eBay defended its position vigorously, submitting that:

- it had no duty to prevent third parties from infringing L'Oréal's or third party trade marks;
- the eBay site was operated in a neutral and impartial manner, simply offering a platform for consumers to buy and sell goods; and
- where eBay did intervene in a listing, this was done to prevent or minimise infringements.

When Mr Justice Arnold handed down his 2009 judgment, he broadly agreed with eBay but made it clear that further guidance was required from Europe's highest court, ultimately referring no less than ten questions to the CJEU, hoping to clear up some of the confusion as to how the internet should be policed. At the centre of the reference was the question: is eBay liable for trade mark infringements by its users?

The ruling

The CJEU held that online marketplaces such as eBay could be found liable for trade mark infringement if they do more than merely host material and:

- play a more active role, such as optimising or promoting the presentation of offers for sale;
- become aware of facts or circumstances such that they should realise that online offers for sale are unlawful but they do not act 'expeditiously' to remove such items for sale; and
- purchase via Google's AdWord program a keyword corresponding to a registered trade mark and the resulting advertising displayed when the keyword is entered into Google's search engine does not enable the average internet user, or enables them only with difficulty, to ascertain whether the goods or services advertised derive from the owner of the trade marks, or an entity economically linked with the trade mark owner, or from an independent or unconnected third party³. In other words, eBay will not be liable for trade mark infringement in circumstances where all it is doing is allowing third parties to offer for sale goods via its website but it could become liable where it becomes 'active', by either taking positive steps (purchasing a keyword, optimising or promoting offers for sale) or acquiring knowledge of infringement. The CJEU also reminded operators of online market places that there is a duty of transparency in the display of advertisements on the internet, and, in particular, of the statutory rule that the person on whose behalf a commercial communication is made must be clearly identified (Article 6 of 2000/31/EC).

The CJEU decided that where online operators cross the line, national courts should be

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empowered with the ability to make injunctive orders against online operators to not only stop existing, but also future, infringements. Such orders must be effective, proportionate, dissuasive and must not create legitimate barriers to trade. This means that where a national court considers that an online operator is doing enough to eliminate IP infringements on its website, it can step in and compel the online operator to take action.

As to the particular issue of commercial activities directed towards the EU via online marketplaces such as eBay, the CJEU said that it is up to the national courts to determine whether an offer for sale or an advertisement, displayed on an online marketplace, is targeted at EU consumers. When the relevant national court has determined that an advert is targeted at EU consumers, EU trade mark laws on to parallel importation and the exhaustion of rights should apply.

The move to greater accountability

The decision was certainly positive for brand owners, giving them the right to obtain an injunction where online service providers are not doing enough to combat infringements. However, the CJEU was keen to point out that brand owners will only be able to take action against an individual where the individual's actions on online marketplaces go beyond what can reasonably be described as private activity (on the basis of the volume and frequency of sales).

The decision marks a growing trend towards increasing the accountability of online service providers, a wind of change which was reinforced by a UK High Court's ruling a few days later⁴, where a group of movie studios obtained an order which prevents

BT's customers from visiting a content download site called Newzbin2, which makes available pirate versions of films, TV and other content such as music. The High Court held that BT had actual knowledge of infringement, and that internet users were utilising BT services almost exclusively to access infringing works. Although the Newzbin2 case is predicated on copyright infringement rather than trade mark infringement, and the statutory provision used is copyright specific⁵, it suggests that the UK courts will probably not have any difficulty in taking proportionate and effective measures, including measures to prevent future infringement against online intermediaries and issuing injunctions not just against those who directly infringe rights but those intermediaries which have imputed knowledge of infringing activities and do not take action.

While there appears a movement to increase the accountability of online services, search engines still enjoy a significant amount of protection. Last year, the CJEU found in Google's favour in the Google France cases and Google enjoyed further success a few months later after the UK's High Court ruled it was not liable for defamatory third party comments found in Google's natural search results (Metropolitan International Schools Limited v Design Technica & Ors⁶) on the basis that it did not monitor or control such search results. The High Court explained that search engine services are mere facilitators that display content from host websites, as opposed to hosts or ISPs which may be responsible for the content of their users.

The contrast in liability results from the theoretical degree of separation that search engines

enjoy between themselves and internet users. There is a direct correlation between the knowledge and control that hosts are expected to be able to exhibit, and the liability resulting from unlawful content or acts on their pages/websites. In *L'Oréal v eBay*, the CJEU made the distinction between Google's 'passive' role in operating its AdWords service (noting that eBay would also enjoy protection where it hosts sponsored links) and what it perceived to be the extra steps that eBay takes on its website to promote goods which are put on the market with the brand owner's consent. In a press statement, however, eBay said that it has already made changes to its service since proceedings were issued to comply with the CJEU's guidance.

Some have disputed whether Google is as uninterested or inactive as courts interpret them to be. The Google AdWord program charges advertisers for the placement sponsored links in response to users' keyword searches and in May 2008, Google opened up its AdWords policy to allow third parties to bid on others' trade marks. Arguably, in actively organising sponsored links on the basis of bids from advertisers (ranking the links in order of the highest bidders), Google may ascertain knowledge of infringement, and can control the display of, and access to, infringing works/content. To illustrate the dichotomy, if a site like Newzbin2 placed a bid for 'Quantum of Solace' via a Google AdWord, the sponsored link may appear above the authorised DVD sales sites. Should an internet user access the site and download content illegally, did they not employ Google services to access and locate the data? In accepting payment for service, has Google not hosted and played an active role with the

infringing site?

The key here, however, is that Google uses an automated system for the selection of keywords and the creation of the adverts is up to the advertiser. In these circumstances, the brand owners' right of redress is against the advertiser, (provided it is clearly identified) and not Google, and Google will only risk liability if it is put on notice of an infringing ad and does not act expeditiously to remove it. So, while an active operator is essentially liable for the use of its services, mere search engines and ISPs without notice remain largely unaccountable (at least until they are notified of an infringement) because of how the CJEU has interpreted the degree of knowledge of infringement.

It is debateable whether large-scale online marketplaces such as eBay, Overstock and uBid actually possess the degree of control or knowledge that courts deduce and ascribe to them. Equally, it is an issue whether they should do, and whether they will now have to exercise more control. According to a CNBC Special Report⁷, eBay conducts more transactions every day than either the New York Stock Exchange or the Nasdaq. While these transactions are recorded, can eBay really be said to have knowledge of each of them?

In seeking to protect brand owners, there is a risk that the entrepreneurial activities of online marketplaces could be curtailed by these rulings. Trade mark and copyright owners, buoyed by recent decisions in their favour, are more likely to over notify than under notify online marketplaces of potential infringements. The result may be a system where online marketplaces, fearing liability, remove all products upon notice from the brand owner whether there is an actual infringement or not. The balance

between protecting trade mark and copyright owners' rights and the legitimate trading activities of online marketplaces will ultimately have to be struck by the national courts. As the 'movement' from the courts towards greater accountability gathers momentum, it is also possible that search engines could fall prey to the 'active role' test in the future. There is a thin line (which is getting thinner with each judgment) between knowledge and unawareness, and playing an 'active' and 'passive' role. As these various entities become more involved in the marketing of infringing goods, the potential for liability increases dramatically. Much however still depends on how national courts interpret the judgments, as they hold the keys to how far these CJEU rulings are implemented. This may in turn have the consequence of further conflicting decisions and more uncertainty across Europe, which is the very reason why references were made by national courts to the CJEU in the first place.

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1. Case C-324/09.
2. Joined Cases C-236/08 to 238/08, *Google France & Ors v Louis Vuitton Malletier, Viaticum Luteciel and CNRRH & Ors*.
3. This reflects the decisions handed down by the CJEU in the series of Google AdWords cases last year, with the CJEU affirming that eBay will not be liable where it merely hosts sponsored links but could be liable where it promotes infringing goods by paying for sponsored links to them on referencing websites, such as Google AdWords.
4. *Twentieth Century Fox Film Corp & Ors v British Telecommunications Plc* [2011] EWHC 1981 (Ch) (28 July 2011).
5. Copyright Right Designs and Patents Act 1988, Section 97A.
6. [2009] EWHC 1765 (QB); [2009] EMLR 27.
7. See www.msnbc.msn.com/id/8391726/