

# ARTICLES

## LIABILITY FOR TRADEMARK INFRINGEMENT FOR INTERNET SERVICE PROVIDERS

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I. INTRODUCTION.....	2
II. ISPS IN ACTION.....	10
A. ISPs in the Market Context.....	10
B. Online Auction Sites: eBay .....	11
C. Search Engines: Google .....	14
III. LEGISLATIVE BASIS .....	16
A. The E-Commerce Directive.....	16
B. European Trademark Law .....	22
1. Harmonization in Practice: Trademark-Specific Legislation .....	22
2. Harmonization in Practice: General Rules That Apply to Trademarks .....	26
C. Summary.....	28
IV. THE CONFLICT IN PRACTICE: THREE APPROACHES.....	30
A. Property Rules and Contributory Infringement.....	30
B. Liability Rules: Duty to Act .....	32
C. Liability Rules and Safe Harbors.....	35
V. ANALYSIS AND PROPOSALS.....	36

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A. Liability for ISPs.....	36
1. Intellectual Property Rights and Trademark Protection .....	36
2. Protecting Trademarks With Property or Liability Rules.....	41
3. Protecting ISPs With Property or Liability Rules .....	44
B. Pooling Resources and Enhancing Cooperation .....	46
VI. CONCLUSION .....	49

## I. INTRODUCTION

The rise of the internet made two things apparent: (1) borderless, wireless, and classless communication challenges traditional societal and legislative structures; and (2) the advantages of the internet also benefit criminal actors and organized crime, and disproportionately so when legislation lags behind.<sup>1</sup> It is commonly known that members of organized crime groups use both technological hijacking of personal computers as well as ISPs to further their own goals. ISPs may serve as mere [technological] conduits of data, but nonetheless allow illegal activity. In addition, ISPs may also serve as hosts of illegal material or allow illegal transactions on their sites. Unlike in the case of copyright piracy, there are no sites or ISPs that trade exclusively in counterfeit goods. Instead, fake goods are mixed with legitimate trade in the primary or secondary markets.

Illegitimate trade, by which trademarks are exploited, are commonly referred to as trademark piracy and trademark counterfeiting. The World Intellectual Property Organization, WIPO, defines trademark piracy as “the registration or use of a generally well-known foreign trademark that is not registered in the country or is invalid as a result of non-use.”<sup>2</sup> Trademark piracy targets the trademark itself and hijacks

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1. *A serious problem for everyone*, EUROPEAN COMM’N., [http://ec.europa.eu/taxation\\_customs/customs/customs\\_controls/counterfeit\\_piracy/combating/index\\_en.htm](http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/combating/index_en.htm) (last visited Nov. 5, 2011); *Statistics of customs detentions recorded at the external borders of the EU*, EUROPEAN COMM’N., [http://ec.europa.eu/taxation\\_customs/customs/customs\\_controls/counterfeit\\_piracy/statistics/index\\_en.htm](http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/statistics/index_en.htm) (last visited Nov. 5, 2011) (highlighting statistics of customs’ actions to enforce intellectual property rights at the EU’s external border from 2000-2008); ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, *THE ECONOMIC IMPACT OF COUNTERFEITING (2007)*, available at <http://www.oecd.org/dataoecd/13/12/38707619.pdf>.

2. WORLD INTELLECTUAL PROP. ORG., WIPO INTELLECTUAL PROPERTY HANDBOOK: POLICY, LAW AND USE, PUB. NO. 489 § 2.493, available at <http://www.wipo.int/about-ip/en/iprm/>. For the sake of comparison, copyright piracy is “the

the trademark's value in order to sell the pirate's own products.<sup>3</sup> Article 6bis of the Paris Convention offers a remedy for holders of globally well-known marks who are victims of trademark piracy and allows them to prevent registration and use of identical or similar marks for identical or similar products, despite the mark not being used or registered in the country in question.<sup>4</sup>

Counterfeiting, a second form of illegitimate trade, can be defined as "the unlawful forgery, copying, or imitation of an item, . . . or the unauthorized possession of such an item, with the intent to deceive or defraud by claiming or passing the item as genuine."<sup>5</sup> While trademark counterfeiting often involves copying of the trademark itself, the primary object of copying is the product that is sold under a particular brand.<sup>6</sup> An element of deceit is present because the goal of the counterfeiter is to tap into the market of the brand and, to some extent, pass off the fakes as the real merchandise.<sup>7</sup> Unlike traditional trademark infringement and trademark dilution, which are sanctioned by civil remedies, trademark counterfeiting and piracy are universally criminally sanctioned.<sup>8</sup> For purposes of discussion in this article, reference to illegitimate trade refers solely to instances of trademark counterfeiting.

Illegal trade such as the buying, selling, soliciting, or trading in

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unauthorized copying of copyright materials for commercial purposes and the unauthorized commercial dealing in copied materials." *Id.* at § 2.232. Copyright, which is based on the exclusive right of authorization, is thus completely hijacked.

3. It could be argued that keyword advertising fits the theoretical definition of trademark piracy, since the trademark in one sense is hijacked. Trademark piracy is, however, narrowly tailored and understood as an exception that is closely tied to the specific remedy in Article 6bis of the Paris Convention. Treaty provisions cannot be interpreted expansively under customary norms of international law. *See Vienna Convention on the Law of Treaties* art. 31, May 23, 1949, 1155 U.N.T.S. 331 [hereinafter *Vienna Convention*].

4. Paris Convention on the Protection of Industrial Property art. 6bis, July 14, 1967, 21 U.S.T. 1583, 828 U.N.T.S. 303 [hereinafter *Paris Convention*] (last revision entered into force on 15 December 1972.); *see also* Roshana Kelbrick, *The Term Well-Known in South African Trade-mark Legislation: Some Comparative Interpretations*, 38 CILSA 435, 436 (2005). Trademark piracy should not be confused with the extended protection granted to owners of famous marks against trademark dilution or tarnishment. While the former applies to trademarks that are not used in the territory in question, the latter requires registration or use in the country in which protection is sought.

5. BLACK'S LAW DICTIONARY 376 (8th ed. 2004).

6. WIPO, *supra* note 2, § 2.496.

7. *Id.*

8. Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299, 33 I.L.M. 1125, 1197 (1994) [hereinafter *TRIPS Agreement*].

material depicting child pornography is relatively easy to deal with in legislative terms, although enforcement in practice remains difficult. Infringement of trademark rights presents a more difficult legal conundrum because the sale of counterfeit goods is criminalized, but buying counterfeit goods may not be. Furthermore, when we approach the question from the perspective of trademark law, the object of protection is not the good itself, but the label under which it is sold.<sup>9</sup> This is also true in cases of trademark counterfeiting because trademark law does not protect the good itself. Therefore, legitimate trade under the same trademark is, technically speaking, identical to illegitimate trade because it stems from protection of a typed word-mark. Although modern trademark law recognizes several types of marks in the context of the internet, our focus is directed at word marks and the scope of exclusivity.

In the world of 1s and 0s, established legal concepts<sup>10</sup> have a whole new meaning; in practice, legal concepts in the context of the internet may mean nothing at all, or at least not what they mean in the real market.<sup>11</sup> While somewhat useful in distinguishing other than protected uses from real market commerce, these artificial constructs become increasingly burdensome in the virtual context when attempting to force new uses into set molds.<sup>12</sup> Thus, we run the risk of addressing the issue

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9. The incentive theory that underlies French trademark law would argue that the branding of luxury goods is a protected creative effort, much like that underlying copyrighted works. Elsewhere, trademark law is generally not considered as strongly grounded in incentive theory as patents and copyrights. *See, e.g.,* WILLIAM LANDES & RICHARD POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 11 (2003); Annette Kur, *Fundamental Concerns in the Harmonization of (European) Trademark Law*, *TRADEMARK LAW AND THEORY: A HANDBOOK OF CONTEMPORARY RESEARCH* 151, (Graeme Dinwoodie & Mark Janis, eds., 2008); On incentives and the fashion industry in Italy as compared to France, *see, e.g.,* J.H. Reichman, *Preface to Intellectual Property and Competition Law*, GUSTAVO GHIDINI, *INNOVATION, COMPETITION AND CONSUMER WELFARE IN IP LAW*, xv, 1, 4, 10 (Edward Elgar, 2010).

10. Established legal concepts include trademark use, nominative use, confusing similarity, and even willful trademark infringement.

11. Efforts have been made to categorize uses on the internet according to these theoretical concepts. When applied to the acts of intermediaries, courts on both sides of the Atlantic, however, seem unwilling to adopt these concepts into trademark law. *See, e.g.,* *Tiffany, Inc. v. eBay Inc.*, 600 F.3d 93, 102–03, 113 (2d Cir. 2010); joined cases C-236/08 - 238/08, *Google France S.A.R.L., Google Inc. v. Louis Vuitton Malletiere SA* (C-236/08), *Viaticum SA, Lucetiel S.A.R.L* (C-237/08), and *Centre National de Recherche en Relations Humaines (CNRRH) S.A.R.L* (C-238/08), 2010 E.C.R. I-02417 [hereinafter *Google AdWords Case*].

12. On the difference between real market uses of trademarks and uses on the internet see Stacey L. Dogan & Mark Lemley, *Grounding Trademark Law Through Trademark Use*, 92 Iowa L. Rev. 1669, 1672 (2007). The European Union Court of Justice (EUCJ) and some

of third party liability squarely as a question of direct infringement without considering the secondary nature of the tort.<sup>13</sup> In a time when the text of a directive from the year 2000 is outdated, efforts still seem focused on defining in technological detail what constitutes and what does not constitute infringement. At the same time, we know that organized crime adapts faster than restrictive measures are imposed. Still, questions of liability are decided in this framework using definitional bridges such as “neutrality,” “actual knowledge,” and “technical capacity.”<sup>14</sup>

The Anti-Counterfeiting Trade Agreement (ACTA)<sup>15</sup> extends the discussion on legislative safe harbors and liability of internet intermediaries to infringements in trademark law. However, much of the discussion still seems to center on copyright infringement, while issues peculiar to trademark law seem to be given less, if any, in-depth scrutiny. Thus, if the activities of ISPs are opened to scrutiny under the respective trademark laws in place, the balancing outcomes from the copyright setting should not be applied without scrutiny to ISP liability, but should first be recalibrated to trademark law.<sup>16</sup> This is especially

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American courts show their unease with the theoretical concepts of nominative or trademark use by simply refusing to adopt these doctrines. However, lacking better alternatives, trademark practitioners, and academics routinely refer to these constructs as tools in delimiting trademark law, as evidenced, for example, by the questions presented to the EUCJ for a preliminary ruling. Whether used by courts, practitioners, or academics, there seems to be no single understanding of a concept in trademark law, but several narrow, case-specific understandings, depending on the jurisdiction, position, and background of the speaker. Generalization is thus difficult, and even when there seems to be common understanding on outcome or effect, the concept remains tied to its national context and theoretical framework. Even with the best of efforts, there exists uncertainty on how trademark law theory should deal with uses of trademarks on the internet. At present, there is a sizable gap between trademark law on the books and trademark law in practice, and the two seem to be speaking different languages. If the law as set forth by the EUCJ is not understandable to national judges, since it refuses to adopt or reject concepts, how are they to interpret EU trademark law, balance competing interests, and decide cases brought before them?; see Kur, *supra* note 9, at 155.

13. See Dogan & Lemley, *supra* note 12, at 1670.

14. See *infra* Part IV; *infra* Part III(A)(2) (discussing the *Google Adwords Case*).

15. *Anti-Counterfeiting Trade Agreement (ACTA)*, THE EUROPEAN COMM’N, <http://ec.europa.eu/trade/creating-opportunities/trade-topics/intellectual-property/anti-counterfeiting/> (last visited Nov. 5, 2011).

16. While the EU officially states that its position when negotiating ACTA is that there will be no substantive change in EU intellectual property laws, the Commission admits that it bases its position on that of the Corrigendum to Directive 2004/48/EC, 2004 O.J. (L 195) [hereinafter *Enforcement Directive*] (correcting Directive 2004/48/EC of the European Parliament and of the Council of Apr. 29, 2004 on the Enforcement of Intellectual Property Rights). The protection available under the Enforcement Directive constitutes a higher level of protection than Member States have clearly adopted and thus presupposes a certain level

important since trademark laws tend not to distinguish between direct and indirect infringers, nor do the laws cap the use of all available remedies.<sup>17</sup>

Another recent attempt at navigating this unmapped legal landscape was made by the EU CJ, as well as Advocate General (AG) Poiares-Maduro, in three joined cases concerning Google's Adwords service and keyword advertising in general.<sup>18</sup> The ruling answered broad questions such as whether trademark law can apply at all to the activities of ISPs. It opened the possibility of a broad reading of outdated<sup>19</sup> technological language in the E-Commerce Directive<sup>20</sup> to include Google's activities. However, it could be interpreted to open the safe harbor in practice, since the ruling hinges on the concept of 'actual knowledge,' which is not defined in either the directive or in practice.

In practice, Article 15 of the E-Commerce Directive, which includes a prohibition against imposing a general duty on ISPs to monitor infringing activity on their sites, had been interpreted to require *bona fide* cooperation, e.g., with a notice-and-take down procedure, but nothing more.<sup>21</sup> While actual knowledge remains undefined in practical

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of protection under substantive law. The Enforcement Directive clearly states that it should not apply to the question of ISP liability, since the provisions of the Directive 2000/31/EEC of the European Parliament and of the Council on Certain Legal Aspects of Information Society Services, in Particular Electronic Commerce, in the Internal Market, 2000/31/EC, 2000 O.J. (L 178) [hereinafter *E-Commerce Directive*] should prevail there; *see also* Press Release, European Comm'n, Anti-Counterfeiting Trade Agreement: European Commission welcomes release of negotiation documents, (April 21, 2010) *available at* <http://trade.ec.europa.eu/doclib/press/index.cfm?id=552&serie=337&langId=en>. Nevertheless, the negotiating text of ACTA includes a section regulating safe harbors for ISPs. EUROPEAN COMM'N, ANTI-COUNTERFEITING TRADE AGREEMENT, INFORMAL PREDECISIONAL/DELIBARATIVE DRAFT, (Oct. 2, 2010), *available at* [http://trade.ec.europa.eu/doclib/docs/2010/october/tradoc\\_146699.pdf](http://trade.ec.europa.eu/doclib/docs/2010/october/tradoc_146699.pdf).

17. First Council Directive 89/104/EEC, of the European Communities of 21 December 1988 to approximate the laws of the Member States relating to trade marks, 89/104/EEC, 1988 O.J. (L 40) 1-7 [hereinafter *Trademark Directive*].

18. *See* Joined cases C-236/08 - 238/08, Google France S.A.R.L, Google Inc. v. Louis Vuitton Malletiere SA (C-236/08), Viaticum SA, Lucetiel S.A.R.L (C-237/08) and Centre National de Recherché en Relations Humaines (CNRRH) S.A.R.L (C-238/08), 2010 E.C.R. I-02417.

19. The definitions adopted in the E-Commerce Directive are based on directives for technical standards. For example, Article 2(a) defines "information society services" according to Article 1(2) of Directive 98/34/EC of the European Parliament and of the Council of July 20, 1998 amending Directive 98/34/EC Laying Down a Procedure for the Provision of Information in the Field of Technical Standards and Regulations, 98/34/EC, 1998 O.J. (L 217), 21. These definitions do not necessarily apply well in the context in which ISPs operate in the 2010s.

20. E-Commerce Directive, *supra* note 16, at 1-16.

21. Advocate General's Opinion, Sept. 9, 2009, Joined Cases C-236/08, Google France

terms, ISPs will face right holder pressure in court. This is because contemporary, allegedly infringing ISP activity fits less and less neatly with the technological definitions underlying the legal provisions in place.<sup>22</sup>

Legislation tailored to solve a general problem is now marginalized in favor of specific legislation tailored to right holder interests, or no legislation, with accompanying battles in court. The remedies available to right holders, which include criminal sanctions or automatic damages for willful trademark infringement, are a measurement for societal consequences.<sup>23</sup> The effect is enhanced since trademark law today, in most countries, does not distinguish between indirect and direct trademark infringement. Courts are left to balance established interests vested in trademark law against the vague and disproportionate interests of a disorganized group of ISPs.<sup>24</sup> The latter interests are also constantly changing because technological and other innovation spurs new business ideas and models on the internet while making others

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S.A.R.L.; C-236/08, *Google Inc. v. Louis Vuitton Malletiere*, SA; C-237/08, *Viaticum SA, Lucetiel S.A.R.L.*; C-238/08, *Centre National de Recherché en Relations Humaines (CNRRH) S.A.R.L.*, (EUCJ March 23, 2010) at 147-151 [hereinafter *Opinion of Advocate General*].

22. See Joined cases C-236/08 - 238/08, *Google France S.A.R.L, Google Inc. v. Louis Vuitton Malletiere SA (C-236/08), Viaticum SA, Lucetiel S.A.R.L (C-237/08) and Centre National de Recherché en Relations Humaines (CNRRH) S.A.R.L (C-238/08)*, 2010 E.C.R. I-02417. Likewise, the narrowly defined safe harbors for mere conduit, caching, or hosting could not have foreseen the uses of trademarks with which courts are today. The EUCJ, however, broadened the understanding of "hosting" against such a narrow interpretation in the *Google AdWords Case*. Joined cases C-236/08 - 238/08, *Google France S.A.R.L, Google Inc. v. Louis Vuitton Malletiere SA (C-236/08), Viaticum SA, Lucetiel S.A.R.L (C-237/08) and Centre National de Recherché en Relations Humaines (CNRRH) S.A.R.L (C-238/08)*, 2010 E.C.R. I-02417.

23. Enforcement Directive, *supra* note 16, at Recital 28, art. 13.

24. One could argue that ISPs like Google, eBay, and Yahoo are powerful actors today and vigorously fight right holder interests (and to some extent also organize others to fight). Multinational corporations do not necessarily reflect the needs of national enterprises, startup businesses, and SMEs that cannot afford to establish tools like eBay's fraud engine, or openly defy copyright laws in place like the Google Books Project. If requisite knowledge for failure to act is tailored to the technological capability or resources of these operators in mind, the standards are well out of reach of most ISPs in the world. For example, the national equivalent of eBay in Finland is approximately eight years behind eBay in addressing concerns relating to combating sales of counterfeit goods on line. Note that eBay does not operate in markets with less than eight-million people, for example Denmark, Finland, Greece, Norway, Portugal, and Eastern Europe (with the exception of Poland). See *Who We Are*, EBAY INC., <http://www.ebayinc.com/who> (last visited Nov. 5, 2011). Solving a practical problem that arises due to the fast-paced development of multinationals on the international level does not necessarily provide for any scrutiny of competing interests on a more level national playing field.

obsolete. The question becomes one of priority. Legislation that allows innovation that spurs ISPs to supply where there is demand, or legislation that allows right holders *en groupe*<sup>25</sup> to curtail innovation by a multitude of disproportionate threats of damages. This article suggests that we put the carriage back behind the horse and allow the horse to pull the carriage into the unknown.

More specifically, this article makes three suggestions. First, it is vital to prioritize in light not of current economic value and actors, but in light of preserving and stimulating continued economic growth, recognizing that growth may take place in new fields, and thus shift economic power in society. Without diminishing the importance of the legitimate interests of holders of intellectual property rights in, for example, combating counterfeiting and piracy, the recent technological breakthroughs should be allowed to reach their potential, and the overall social benefit of the activity of an internet service provider should weigh heavily against curtailment. *Ex post facto* legislation should therefore be preferred over *ex ante* legislation. This means that ISPs should presumptively enjoy protection against individual lawsuits that suggest liability because harmful conduct occurs on the internet, not because the ISP itself has acted inappropriately.

Second, substantive trademark law should develop new tools to define trademark infringement on the internet. There are two sides to this argument. On the one hand, the virtual market differs from the real world market, and trademarks are utilized differently, blurring the line between commercial and noncommercial use. The issue is what in the trademark is at the heart of protection; is it its distinguishing capacity in relation to competing goods or services, or its ability to invoke consumer recollection and consequently, its asset value? Consequently, when is the technologically speaking identical act of reproducing the trademark allowed, and when is it not? On the other hand, absolute protection of ISPs is equally harmful to society as is too strong a protection of trademark owners' interests. Thus, allowing recourse against ISPs that predominantly trade in illegal goods, profit from infringement, or openly defy current intellectual property laws is vital. Although clear cases of abuse are being redressed successfully in court today, the gray area is growing. It should be noted that the clearly abusive cases concern copyright piracy.<sup>26</sup>

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25. Right holders act individually to optimize their gain but target the same ISP, thus having an aggregated and real effect on the ISP and influencing its future behavior.

26. See, e.g., *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001);



Due to the weighty and far-reaching interests at stake, courts, at least in Europe, are not suited to decide these cases without specific legislative guidelines<sup>27</sup> that balance the societal interests at stake.<sup>28</sup> To narrow the area of uncertainty, defining “infringement” both in terms of direct and indirect infringement is necessary. Only after recognizing indirect infringement as a separate offense with appropriately tailored remedies can the question of third party liability be resolved. Substantive trademark law, thus, needs new parameters to define infringing use on the internet and new tools to distinguish between direct and indirect infringers. In the meanwhile, society should err on the side of over-protection of ISPs.<sup>29</sup>

Third, instead of allowing direct legal redress, the right holders should be encouraged to pool their resources in fighting trademark counterfeiting and infringement on the internet. Nothing under current law prevents right holders from more efficiently policing their rights. As the well-known jeweler Tiffany has proven, it is technologically possible to reach a state of enforcement that is higher than the one reached today, irrespective of the actions of the ISP.<sup>30</sup> Optimal efficiency in utilizing notice-and-takedown procedures can be reached without imposing liability on third parties. In addition, overall efficiency is best reached when the interested parties pool their resources to combat a common threat.<sup>31</sup> Moreover, cooperation with ISPs is already deeply rooted, and will likely prove even more fruitful when self-protective

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Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913 (2005); Stockholm District Court, department 5, Apr. 17, 2009, the so-called *Pirate Bay Case*.

27. It is argued here that adequate guidelines answer the question of how interests should be balanced in a new setting. A statement that the court should balance competing interests taking into account the fundamental interests at stake is not considered, for reasons discussed in detail, “legislative guidelines.” It is also argued that a statement by the EU CJ that national courts should consider fundamental interests and perform balancing of legitimate interests cannot be interpreted to mean that they should presume that legislation in place (e.g., national trademark laws or the Trademark Directive) already reflects such an appropriate balance (e.g., Gillette or Google AdWords).

28. MAURO CAPPELLETTI, *THE JUDICIAL PROCESS IN COMPARATIVE PERSPECTIVE* xviii (Oxford University Press 1981).

29. See Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089, 1090 (1972) (providing that “[w]henver a state is presented with the conflicting interests of two or more people, it must decide which side to favor. Absent such a decision, access to goods, services, and life itself will be decided on the basis of ‘might makes right’—whoever is stronger or shrewder will win.”).

30. Tiffany Inc. v. eBay Inc., 576 F. Supp. 2d 463, 484–85 (S.D.N.Y. 2008); Tiffany Inc. v. eBay Inc., 600 F.3d 93 (2d Cir. 2010).

31. Calabresi & Melamed, *supra* note 29, at 1094.

measures can be removed. Finally, and most importantly, the bulk of the costs of combating trademark-pirate ingenuity and organized crime, and consequently, the ultimate risk of non-enforcement, fall on the right holders, who are thus incentivized to put a larger amount of resources toward this cause if they deem it necessary. The resources allocated to the endeavor are likely to be more proportionate to the overall harm of illegal trade in counterfeit goods than if a third, predominantly disinterested party, is forced to act under threat of liability.<sup>32</sup>

The contemporary activities of some ISPs are described in Part II, and present and future trademark law trigger-points are highlighted. Contemporary legislation that applies to the question of whether ISPs may be held liable for trademark infringement under EU law is presented in Part III. Part IV describes the approach of three national courts and sets the approaches in a theoretical context, when tackling the issue whether and to what extent the on-line auction site eBay is liable for the sale of counterfeit merchandise on its site. Part V analyzes the approaches of the national courts and presents proposals for future action.

## II. ISPS IN ACTION

### A. *ISPs in the Market Context*

The purpose of this section is to depict the general activities of ISPs that may give rise to concerns under trademark law and more specifically, trigger a lawsuit from a trademark holder for infringement, dilution, or failure to act.<sup>33</sup> The aim is to place the internet service provider's legitimate activity in a societal perspective before addressing

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32. It could be argued that not all trademark owners can afford to put more resources toward combating infringement. Counterfeiting affects mostly regionally or globally well-known brands, such as multinational corporations, rendering the argument for absolute and limitless protected status unpersuasive. These companies already benefit from notice-and-takedown procedures and comprehensive schemes to combat the sale of counterfeit products on the internet at the expense of ISPs. Limiting liability of ISPs to what can reasonably be expected from them in terms of monetary, human, and technological resources allocated to the endeavor should sufficiently address right holder's legitimate interests. For the sake of comparison of the gravity of social interests concerned, ISP liability or duty to act is also not absolute when it comes to removing material relating to criminal offences such as child pornography, in fighting terrorism, or protecting national security. E-Commerce Directive, *supra* note 16, art. 3.4.

33. The services are depicted based on information provided by the company in question, such as a description of services provided, the technology used, trademark policies, and complaint procedures. Press releases or reported news on the size of the business, transactions, and market volume are also cited.

trademark concerns. While this article focuses on a line of cases involving trademark counterfeiting on eBay, this section is intended to bring forth other trademark law issues that are routinely, even if not yet addressed in court, triggered in contemporary practice, and thus, will inevitably be addressed in law in the future. This article argues that the answer to the question of liability of ISPs should necessarily be informed by contemporary business practices.

This context is important for three reasons. First, the E-Commerce Directive, unlike its U.S. counterpart, left the issue of establishing notice-and-takedown procedures to self-regulation, and allows the market to develop procedures and change them to adapt with development. However, in Article 21.2 of the E-Commerce Directive it was noted that there might be a “need for additional conditions for the exemption from liability . . . in the light of technical developments,”<sup>34</sup> which precludes the interpretation that the Directive was intended to leave the issue completely unregulated.<sup>35</sup> Second, courts are unduly restricted in striking a fair balance between the fundamental interests at stake when ISP activities are only viewed restrictively from the point of view of trademark infringement. Indeed, the E-Commerce Directive recognizes that such case-specific, fact-based inquiry may not address ISP activities and social benefit adequately and would easily amount to disproportionate burdens on ISPs that consequently thwart technological development of legitimate services and activity.<sup>36</sup> Third, even if the inquiry was restricted to the activities alleged to constitute trademark infringement, contemporary market and business practices should bear on what “a normally informed and reasonably attentive [consumer]” may assume from the use of the trademark in the internet context.<sup>37</sup>

### *B. Online Auction Sites: eBay*

EBay operates an online auction site at [www.ebay.com](http://www.ebay.com), which allows

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34. E-Commerce Directive, *supra* note 16, art. 21.2.

35. *See also* First Report on the application of 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 (Directive on Electronic Commerce), at 65, 71, 75, COM (2003) 702 final (Nov. 21, 2003) [hereinafter *First Commission Report*].

36. *Id.* at 72–73.

37. Advocate General’s Opinion, Dec. 9, 2010, Case C-324/09, L’Oréal SA, Lancôme Parfums et Beauté & Cie, Laboratoire Garnier & Cie L’Oréal (UK) Limited v. eBay International AG, eBay Europe S.A.R.L., eBay (UK) Limited, at 108 *available at* <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:62009C0324:EN:HTML>.

anyone to register to buy and sell goods to one another. Products are sold at auction, through fixed price or “buy it now” listings.<sup>38</sup> The site contains 100 million listings at any given time, with a daily contribution of six million listings more.<sup>39</sup> eBay earns an “insertion fee” for each listing and a “final value fee” based on the final sale price for any sold item. While eBay does not sell items itself (or have the physical good in its possession at any time) it connects buyers and sellers and enables secure transactions between them.<sup>40</sup> In addition, eBay also owns and operates PayPal<sup>41</sup> and advertises its services, including availability of specific listed goods on its site, both on its own site and externally, for example, through a key word advertising.

Unlike a real world auction house, the entirety of eBay’s service is technically generated. A search engine that can find specific items within the database accompanies the auction listings. In addition, eBay actively develops technical tools to allow for specific sellers and buyers to more efficiently find each other on the site. The company also provides seminars and workshops for sellers to help them increase sales on eBay;<sup>42</sup> ‘Powersellers’ receive even more assistance and guidance.<sup>43</sup>

Technically speaking, eBay’s advertising is highly automated. For example, when a potential buyer enters a search term in eBay’s internal search engine, it may trigger an automated advertisement such as “Find [brand keyword] items at low prices.” Likewise, eBay runs general ads like “great brands, great prices” or “Fall Fashion Brand Blowout,” which links the clicking buyer to listings entailing a reference to branded products. eBay also guides its buyers to the cheapest deals for any given product and advises them to take advantage of the high demand of branded merchandise;<sup>44</sup> while eBay does not advertise particular listings, its advertisements tend to, in effect, promote the sale of counterfeit products, in its more general effort to improve the volume of legitimate sales in general, or in a niche market.

According to court record, eBay invests \$20,000,000 in United States dollars (USD) annually in tools to promote trust and safety on its website, including tools to combat anti-counterfeiting and facilitate

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38. *Tiffany Inc. v. eBay Inc.*, 576 F. Supp. 2d 463, 474 (S.D.N.Y. 2008).

39. *Id.* at 474–75 (citing Def’s Decl. at 9).

40. *Id.* at 474, 476.

41. *Id.* at 475; PayPal offers secure payment services, and charges a fee for each transaction.

42. *Id.* at 475–76.

43. *Id.* at 476.

44. *Id.* 479–81.

removal of such listings.<sup>45</sup> Roughly 4,000 of eBay's total workforce of 16,000 employees is devoted to trust and safety, and of a total of 2,000 customer service representatives, more than ten-percent are devoted exclusively to infringement issues.<sup>46</sup> In addition, seventy people are employed to cooperate with law enforcement, which includes providing information necessary to arrest counterfeiters.<sup>47</sup>

On the technological side, eBay operates several programs, commonly termed "eBay's fraud engine," to search for fraudulent listings, and spends in excess of \$5,000,000 USD annually to maintain and enhance these technological tools that automatically search for listings by employing more than 13,000 search rules and complex models. eBay developed this technology in 2002 based on the results of two years of performing manual searches. Together, these programs flag thousands of listings daily, which customer service representatives review and remove according to internal guidelines designed to target violations of eBay's policies.<sup>48</sup>

In addition, eBay maintains a procedure commonly referred to as the Verified Rights Owner Program (VeRO), which in effect is a notice-and-takedown system, serving approximately 14,000 right holders.<sup>49</sup> By filing a Notice of Claimed Infringement (NOCI) via fax, email, or the online VeRO Reporting Tool, a right holder can report an infringing listing. The program also provides tools to assist right owners in searching for infringing listings, including an automated search tool called "My Favorite Searches" that can repeat favorite searches daily and email the search results to the right holder.<sup>50</sup>

Among thousands of listings reported weekly, each was, according to eBay's policy, to be reviewed and removed within twenty-four hours, and in practice 70–80% of the listings are removed within twelve hours; bidding on items in infringing listings is suspended and transactions are retroactively cancelled.<sup>51</sup> eBay also refunds all fees, and in some cases reimburses the buyer through its "Buyer Protection Program."<sup>52</sup> Lastly, eBay provides an opportunity for right holders to create an "About Me" page on the eBay web-site designed to inform eBay's customers about

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45. *Id.* at 477.

46. *Id.*

47. *Id.* (referring to the operation of the www.eBay.com site).

48. *Id.*

49. *Id.* at 478.

50. *Id.*

51. *Id.*

52. *Id.* at 479.

their products, intellectual property rights, and legal positions.<sup>53</sup>

Questions of trademark law that are triggered by eBay's activity include: (1) is eBay liable for direct trademark infringement for advertising or promoting the use of brands in consumer searches and seller advertising, and failing to prevent listings for the sale of counterfeit goods; (2) is eBay liable for indirect trademark infringement for facilitating and inducing the sale of counterfeit goods; and (3) is eBay liable for dilution of a famous mark by allowing and promoting searches using brands?

### C. Search Engines: Google

Google is the world's largest search engine and the flagship of Google Inc., operating with a mission "to organize the world's information and make it universally accessible and useful."<sup>54</sup> The Google search engines operate at [www.google.com](http://www.google.com) and 150 other domains in different countries and languages. In addition, Google offers many other services,<sup>55</sup> applications,<sup>56</sup> software, and search features.<sup>57</sup> Google services are mostly free for both private and business users, and Google finances its services through selling advertising space on its sites.<sup>58</sup> For this purpose, Google operates programs called Google Adwords and Google AdSense, and supporting tools such as Google Analytics, Website Optimizer, Insights for Search, and AdPlanner.<sup>59</sup> The services that trigger questions of trademark law are described by AG Poiares-Maduro as follows:

On entering keywords into [the] search engine, internet users are presented with a list of natural results. These natural results are selected and ranked according to their relevance to the keywords. This is done through the automatic algorithms underlying the search engine program, which apply purely objective criteria.

Google also operates an advertisement system called 'AdWords',

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53. *Id.*

54. Google, Inc., *Corporate Information*, GOOGLE, <http://www.google.fi/intl/en/corporate/> (last visited Nov. 5, 2011).

55. Some services are Google Maps, Google Books, and Google News Archive.

56. Some applications are Google Calendar and Google Docs.

57. Some search features are Google Toolbar, Google Chrome, and Personalized Search.

58. Opinion of Advocate General, *supra* note 21, at 13.

59. Google, Inc., *supra* note 54.

which enables ads to be displayed, alongside natural results, in response to keywords. Ads typically consist of a short commercial message and a link to the advertiser's site; they are differentiated from natural results by being presented, under the heading ['Sponsored links'], either at the top of the page, against a yellow background, or on the right-hand side. Google's main competitors (Microsoft and Yahoo!) operate similar advertising systems.

Through AdWords, Google allows advertisers to select keywords so that their ads are displayed to internet users in response to the entry of those keywords in Google's search engine. Every time an internet user subsequently clicks on the ad's link, Google is remunerated in accordance with a price agreed beforehand ('price per click'). There is no limit to the number of advertisers that can select a keyword, and if all the ads relating to that keyword cannot be displayed at the same time they will be ranked according to the price per click and by the number of times that internet users have previously clicked on the ad's link.

Google has set up an automated process for the selection of keywords and the creation of ads: advertisers type in the keywords, draft the commercial message, and input the link to their site. As part of this automated process, Google provides optional information on the number of searches on its search engine featuring the selected keywords, as well as related keywords, and the corresponding number of advertisers. Advertisers can then narrow down their selection of keywords in order to maximize the exposure of their ads.<sup>60</sup>

Although Google provides a 'Trademark Complaint Procedure' under which it investigates trademark complaints regarding the sponsored links, Google does not offer services akin to eBay's notice-and-takedown regime. Instead, Google encourages trademark owners to contact the individual advertiser that, according to Google's AdWords and AdSense Trademark Policy, is responsible for the keywords selected. Google does not have a complaint procedure for

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60. Opinion of Advocate General, *supra* note 21, at 9–12 (paragraph numbers and footnotes omitted). However, due to litigation Google has changed its policy for some countries; Google, Inc., *AdWords Trademark Complaint Procedure*, GOOGLE, [http://www.google.com/intl/en/tm\\_complaint\\_AdWords/complaint.html](http://www.google.com/intl/en/tm_complaint_AdWords/complaint.html) (last visited Nov. 13, 2010).

trademark complaints regarding natural results.<sup>61</sup>

### III. LEGISLATIVE BASIS

#### A. *The E-Commerce Directive*

The European Union adopted a horizontal approach and regulated the issue of liability of ISPs from the perspective of e-commerce as opposed to that of infringement of a specific right.<sup>62</sup> As a consequence, the E-Commerce Directive applies to all types of illegal activity. The Directive provides safe harbors for mere conduit, caching, and hosting under the following circumstances:

#### Article 12: “Mere conduit”

1. Where an information society service is provided that consists of the transmission in a communication network of information provided by a recipient of the service, or the provision of access to a communication network, Member States shall ensure that the service provider is not liable for the information transmitted, on condition that the provider:

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

2. The acts of transmission and of provision of access referred to in paragraph 1 include the automatic, intermediate and transient storage of the information transmitted in so far as this *takes place for the sole purpose of carrying out the transmission* in the communication network, and provided that the information is not stored for any period longer than is reasonably necessary for the transmission.<sup>63</sup>

#### Article 13: “Caching”

1. Where an information society service is provided that consists of the transmission in a communication network of information

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61. Google, Inc., *What is Google's AdWords and AdSense trademark policy?*, GOOGLE, <http://AdWords.google.com/support/aw/bin/answer.py?hl=en&answer=6118> (last visited Nov 5, 2011).

62. The text is, nevertheless, strongly influenced by copyright concerns that were at the forefront at the time of adoption of the E-commerce Directive.

63. E-Commerce Directive, *supra* note 16, art. 12(1)–(2) (emphasis added). “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.” *Id.* at art. 12(3).



provided by a recipient of the service, Member States shall ensure that the service provider is not liable for the automatic, intermediate and temporary storage of that information, performed for the sole purpose of making more efficient the information's onward transmission to other recipients of the service upon their request, on condition that:

- (a) the provider does not modify the information;
- (b) the provider complies with conditions on access to the information;
- (c) the provider complies with rules regarding the updating of the information, specified in a manner widely recognised and used by industry;
- (d) the provider does not interfere with the lawful use of technology, widely recognised and used by industry, to obtain data on the use of the information; and
- (e) *the provider acts expeditiously to remove or to disable access to the information it has stored upon obtaining actual knowledge of the fact that the information at the initial source of the transmission has been removed from the network, or access to it has been disabled, or that a court or an administrative authority has ordered such removal or disablement.*<sup>64</sup>

#### Article 14: "Hosting"

1. Where an information society service is provided that consists of the storage of information provided by a recipient of the service, 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.*

2. Paragraph 1 shall not apply when the recipient of the service is acting under the authority or the control of the provider . . . .<sup>65</sup>

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64. E-Commerce Directive, *supra* note 16, art. 13(1) (emphasis added). "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." *Id.* at art. 13(2).

65. E-Commerce Directive, *supra* note 16, art. 14(1)–(2) (emphasis added). "This Article shall not affect the possibility for a court or administrative authority, in accordance

Member States were not required to institute or require intermediaries to put notice-and-takedown procedures in place. Instead, self-regulation by interested parties was expressly encouraged.<sup>66</sup>

#### Article 15

##### No general obligation to monitor

1. Member States shall *not impose a general obligation on providers*, when providing the services covered by Articles 12, 13 and 14, *to monitor* the information which they transmit or store, *nor a general obligation actively to seek facts or circumstances indicating illegal activity*.

2. 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.<sup>67</sup>

Most Member States literally transposed Articles 12–14 into their national laws. In addition, some Member States provided limitations on liability for providers of hyperlinks and search engines.<sup>68</sup> The First Commission Report accepts this development as being in line with the E-Commerce Directive, and encourages Member States to develop legal security for intermediaries on the internet.<sup>69</sup> The report recognizes, albeit in reference to activity in Articles 12–14 only, that the general monitoring of millions of sites and web pages would, in practical terms, be impossible and would result in disproportionate burdens on intermediaries and higher costs of access to basic services for users.

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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." *Id.* at art. 14(3).

66. E-Commerce Directive, *supra* note 16, at Recital 40, art. 16; *see also* First Commission Report, *supra* note 35, at 74–75. At the time of publication of the report, only Finland had set out a copyright-specific Notice and Takedown procedure in legislation. All other Member States had left the issue to self-regulation.

67. E-Commerce Directive, *supra* note 16, art. 15(1)–(2) (emphasis added).

68. Spain and Portugal considered hyperlinks and search engines to fall under Article 14. Austria and Liechtenstein placed search engines under Article 12, while hyperlinks were regulated by Article 14. In addition, Hungary and Poland have extended the protection granted to hosts in Article 14 to location tool providers. Stephen Ott, *Liability of Providers of Hyperlinks and Location Tools (PHLTs) in EU Member States*, LINKS & LAW (Nov. 1, 2006), <http://www.linksandlaw.com/news-update44.htm>.

69. First Commission Report, *supra* note 35, at 67, 72.

There is not yet technology that cannot be circumvented and provide full effectiveness in blocking or filtering illegal and harmful information that at the same time avoids blocking entirely legal information. Over-protection by blocking entirely legal information inevitably results in violations of the freedom of expression of other users.<sup>70</sup>

The European Union Court of Justice (EUCJ) gave its Grand Chamber ruling on March 23, 2010, on the question of whether Article 14 of the E-Commerce Directive covers search engines and hyperlinks and whether Google's AdWords service constitutes "hosting" within the meaning of Article 14.<sup>71</sup> Despite unofficial legislative history to the contrary,<sup>72</sup> both the EUCJ and Advocate General Poiares-Maduro concluded that Google's AdWords program may be an "information society service" within the meaning of the E-Commerce Directive. This decision was reached because the service is provided at a distance, by means of electronic equipment for the processing and storage of data, at the individual request of a recipient of services, and normally in return for remuneration.<sup>73</sup> However, the requirement of remuneration in a strict sense is not typically satisfied by ISPs since these services are generally provided free of charge. In the instant case, AG Poiares-Maduro solved this conundrum by stating that "the search engine is provided free of charge in the expectation of remuneration under AdWords."<sup>74</sup> Although not articulated in the present case, but instead passed in favor of a flexible interpretation, the definition of an

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70. *Id.* at 73.

71. See Joined cases C-236/08 - 238/08, *Google France S.A.R.L, Google Inc. v. Louis Vuitton Malletiere SA (C-236/08), Viaticum SA, Lucetiel S.A.R.L (C-237/08) and Centre National de Recherché en Relations Humaines (CNRRH) S.A.R.L (C-238/08)*, 2010 E.C.R. I-02417.

72. Opinion of Advocate General, *supra* note 21, at 131–35. The Advocate General noted that the Commission itself had changed its opinion on whether search engines and hyperlinks were covered by the E-Commerce Directive, since the First Commission Report.

73. Joined cases C-236/08 - 238/08, *Google France S.A.R.L, Google Inc. v. Louis Vuitton Malletiere SA (C-236/08), Viaticum SA, Lucetiel S.A.R.L (C-237/08) and Centre National de Recherché en Relations Humaines (CNRRH) S.A.R.L (C-238/08)*, 2010 E.C.R. I-02417, at 110. The Court based its determination on the description of Google's AdWords service at paragraph 23 of the judgment: "In addition, Google offers a paid referencing service called 'AdWords.' That service enables any economic operator, by means of the reservation of one or more keywords, to obtain the placing, in the event of a correspondence between one or more of those words and that/those entered as a request in the search engine by an internet user, of an advertising link to its site. That advertising link appears under the heading 'sponsored links,' which is displayed either on the right-hand side of the screen, to the right of the natural results, or on the upper part of the screen, above the natural results." *Id.* at 23.

74. Opinion of Advocate General, *supra* note 21, at 131.

“information society service” fits poorly with the business models employed by ISPs. Additionally, the requirement of the service being “provided at individual request” seems strained in the increasingly automated setting in which consumers and service providers operate.<sup>75</sup> Thus, this definition that stems from the directive on providing information in the field of technical standards is arguably ill-fitted for ISPs.<sup>76</sup>

The court, however, was not satisfied with Google’s service falling within the definition of “information society service.” Indeed, to avail itself of the safe harbor in Article 14, the service provider’s conduct must be limited to that of an information society service, that is, the activity is of a mere technical, automatic, and passive nature, which implies lack of both knowledge and control over the information transmitted or stored.<sup>77</sup> The role played by the service provider must be neutral.<sup>78</sup> Neutrality is impaired neither by the mere fact that the referencing service is subject to payment, nor that the service provider sets the payment terms or provides general information to its clients.<sup>79</sup> Likewise, the identity of the keyword and the search term selected by consumers does not in itself mean that the service provider has knowledge of, or control over, the data entered into its system and stored in the memory of its server.<sup>80</sup> Instead, the role played by the service provider in drafting the commercial message, or in the selection of the key word, is relevant when determining neutrality.<sup>81</sup> Based on these considerations the national court must determine whether the

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75. Lilian Edwards & Charlotte Waelde, *Online Intermediaries and Liability for Copyright Infringement*, at 6-7, WIPO (2005), <http://www.era.lib.ed.ac.uk/bitstream/1842/2305/1/wipo-onlineintermediaries.pdf>; see also Lilian Edwards, *The Fall and Rise of Intermediary Liability Online*, LAW AND THE INTERNET 62-63 (Lilian Edwards & Charlotte Waelde eds., 3d ed. 2009).

76. In order to qualify as an “information society service” the service must be provided at a distance, by means of electronic equipment for the processing and storage of data, at the individual request of a recipient of services, and normally in return for remuneration. Parliament and Council Directive 98/48/EC of 20 July 1998 amending Directive 98/34/EC Article 1(2) laying down a procedure for the provision of information in the field of technical standards and regulations; see also Opinion of the Advocate General in Case C-324/09, *supra* note 37, at 46–53 (discussing the complex policy issues at hand).

77. Joined cases C-236/08 - 238/08, Google France S.A.R.L, Google Inc. v. Louis Vuitton Malletiere SA (C-236/08), Viaticum SA, Lucetiel S.A.R.L (C-237/08) and Centre National de Recherché en Relations Humaines (CNRRH) S.A.R.L (C-238/08), 2010 E.C.R. I-02417 at 112–13 (citing Recital 42 of the E-Commerce Directive, *supra* note 16).

78. *Id.* at 114.

79. *Id.* at 116.

80. *Id.* at 117.

81. *Id.* at 118.

terms of service do in fact reflect a neutral information society service.

While the court did consider Google's activity to be within the realm of hosting, the AG did not. AG Póiares-Maduro reached this conclusion after *comparing* Google's Adwords program to its [presumptively neutral] search engine. In determining whether the service was neutral, AG Póiares-Maduro relied not solely on the technical neutrality of the service, but the *neutrality of Google's interests* affecting the provision of the service. While Google has no interest in displaying a specific natural result, Google has an interest in displaying specific results that optimize the number of clicks on sponsored links. Because the display of ads stems from Google's relationship with advertisers, AdWords is no longer a neutral information vehicle. AG Póiares-Maduro did not consider the technical features of the AdWords program in determining neutrality.<sup>82</sup> Nevertheless, AG Póiares-Maduro reached the conclusion that Google, in allowing advertisers to select specific keywords, did not infringe trademark rights because there were many legitimate reasons for selecting a registered trademark as a key word.<sup>83</sup>

The AG in his opinion in *L'Oréal v. eBay*<sup>84</sup> criticized the EUCJ's reading of Article 14 of the E-Commerce Directive. The EUCJ stated:

[I]n order to establish whether the liability of a paid internet referencing service provider may be limited . . . 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>85</sup>

First, it should be mentioned that the AG does not view Articles 12–14 of the E-Commerce Directive as exceptions to liability for ISPs that should be interpreted narrowly merely as restatements of existing law without any such intended effect.<sup>86</sup> The AG criticizes importing any neutrality requirement into Article 14 based on Recital 42, which

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82. Opinion of Advocate General, *supra* note 21, at 141–45.

83. *Id.* at 152.

84. Opinion of the Advocate General in Case C-324/09, *supra* note 37, at 139–51.

85. Joined cases C-236/08 - 238/08, *Google France S.A.R.L., Google Inc. v. Louis Vuitton Malletiere SA (C-236/08), Viaticum SA, Lucetiel S.A.R.L (C-237/08) and Centre National de Recherché en Relations Humaines (CNRRH) S.A.R.L (C-238/08)*, 2010 E.C.R. I-02417, at 114.

86. Opinion of the Advocate General in Case C-324/09, *supra* note 37, at 136. Instead he views them as restatements or clarifications of existing law.

discusses such a requirement in relation to Articles 12 and 13 as mere conduit and caching.<sup>87</sup> Instead, the duty to expeditiously remove or disable access to the information concerned is triggered “upon obtaining actual knowledge or awareness of illegal activities.”<sup>88</sup>

Furthermore, the established duty to act is limited by the freedom of expression of others.<sup>89</sup> While both commercial communications and proprietary interests of trademark holders are protected by the Charter of Fundamental Rights, a balance between them must be struck. Indeed, the proprietary right is limited “in the context of electronic commerce, [since it] may not take forms that would infringe the rights of innocent users of an electronic marketplace or leave the alleged infringer without due possibilities of opposition and defen[s]e.”<sup>90</sup> The proprietary right is protected by specific means such as a notice-and-takedown procedure, with which the ISP is required to cooperate in order to enjoy freedom from liability.<sup>91</sup>

Thus, actual knowledge or awareness arises when served with a specific court order or notice that cannot be based on mere suspicion or assumption regarding illegality.<sup>92</sup> Similarly, it would not seem possible under the general prohibition in Article 15 of the E-commerce Directive to accept construed knowledge, such as the ISP “should have known” or had “good reasons to suspect” illegality.<sup>93</sup> The AG noted that “actual knowledge” of future infringements could arise when the same user was allowed to continue infringing the same mark. However, he noted that a more general knowledge of any future infringements of the same mark would not amount to the requisite ‘actual knowledge.’<sup>94</sup>

### *B. European Trademark Law*

#### 1. Harmonization in Practice: Trademark-Specific Legislation

Trademark law, although not completely harmonized in the European Union, is increasingly influenced by centralized decision-making both by law and in practice. New and contested issues tend to

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87. *Id.* at 140–42, 146.

88. E-Commerce Directive, *supra* note 16, at Recital 46; Opinion of the Advocate General in C-324/09, *supra* note 37, at 142.

89. E-Commerce Directive, *supra* note 16, at Recital 46.

90. Opinion of the Advocate General in Case C-324/09, *supra* note 37, at 158.

91. *Id.* at 157–58.

92. *Id.* at 160, 162.

93. *Id.* at 163.

94. *Id.* at 162, 167–68.

proceed from the OHIM by way of appeal to the General Court and the EUCJ, the rulings of which are considered authoritative statements on the interpretation of the identical provisions in the Trademark Directive, which are binding on national registration authorities as well.<sup>95</sup> The Trademark Directive<sup>96</sup> is modeled on the traditional premise that affords an exclusive right to trademarks for the purpose of distinguishing goods or services in the course of trade. The protection is three-fold. First, Article 5.1(a) affords protection against the use of identical mark in relation to identical goods or services. The 10th Recital of the Trademark Directive states that this protection is absolute, however, the EUCJ has in some landmark cases interpreted this provision to set forth a rebuttable presumption of infringement.<sup>97</sup> These cases lie at the outskirts of traditional trademark law, where absolute rules may lead to results inconsistent with the traditional premise of trademark and EU law.<sup>98</sup> However, in most cases at the core of trademark law, e.g., in cases of counterfeiting or using a competitors trademark with only slight alterations, the protection is in fact absolute.

Second, Article 5.1(b) affords protection for identical or similar

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In the field of trade mark, the ECJ and the CFI have been busy in handing down a cornucopia of decisions. This has led to considerable clarification of provisions of the Trade Mark Directive and Regulation. Indeed, it can be said that there is now a “bedrock” of case law relating to these provisions which is unlikely to be questioned or overruled. For institutions who have no *stare decisis*, this is to be welcomed. The inconsistency of approach that in the past, characterized the Community court’s decisions has largely gone.

Guy Tritton Et Al., *Intellectual Property in Europe*, at viii (Sweet & Maxwell eds., 3d ed. 2008).

96. The Trademark Directive that includes provisions of substantive trademark law entered into force in 1989 and has since been implemented by old and new Member States. Council Regulation on the Community Trademark 207/2009 O.J. (L 78) 1 (originally EC 40/94) (CTMR) introduced a community-wide trademark right (CTM) in 1994 administered by the Office for Harmonization in the Internal Market (OHIM) in Alicante, Spain. The CTM that spans the entire European Union co-exists with national rights available in most Member States. Community-wide protection is only available to registered marks, thus, unregistered marks are protected under national laws of trademark or unfair competition. In substance, the Trademark Directive and the CTMR set forth the same provisions. In addition, the CTMR sets forth numerous procedural rules. Although, not directly and entirely intended for harmonization of national registration procedures the CTMR has in fact had a strong harmonizing effect on national registration practice.

97. Case C-17/06, *Céline S.A.R.L. v. Céline S.A.*, 2007 E.C.R. I-07041, ¶ 32.

98. See, e.g., Case C-206/01, *Arsenal Football Club plc v. Matthew Reed*, 2002 E.C.R. I-1027, ¶ 51; Case C-245/02, *Anheuser-Busch Inc. v. Bud•jovický Budvar, národní podnik*, 2004 E.C.R. I-10989, ¶ 59; Case C-48/05 *Adam Opel AG v. Autec AG*, 2007 E.C.R. I-01017, ¶ 21.

marks for use on identical or similar goods or services when there exists a likelihood of confusion on the part of the relevant public. The Trademark Directive broadened the traditional concept of likelihood of confusion to include a likelihood of association. Thus, a trademark owner could receive protection although the consumers were not confused *per se*, but may be confused in believing that the second user is connected by sponsorship or affiliation to the trademark owner. A likelihood of association as such is not, however, enough for a finding of infringement under Article 5.1(b).<sup>99</sup>

Third, Article 5.2 provides that Member States may afford additional protection for marks with a reputation when an identical or similar mark is used for dissimilar products provided that such use without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trademark. The EUCJ has since confirmed that protection under Article 5.2 is available to marks with a reputation against uses on identical or similar goods or services as well.<sup>100</sup> Therefore, an owner of a reputed mark may enjoy almost absolute protection under Articles 5.1(a) and 5.2, which raises the question of what uses a trademark owner is entitled to prohibit. Although discussed at length in legal doctrine, the EUCJ has not accepted a “trademark use” concept<sup>101</sup> into European trademark law.<sup>102</sup>

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99. Case C-408/01, *Adidas-Salomon AG and Adidas Benelux BV v. Fitnessworld Trading Ltd.*, 2003 E.C.R. I-12537.

100. Case C- 487/07, *L'oréal SA v. Bellure NV*, 2009 E.C.R. I-05185, ¶ 35 (referring to Case C-292/00, *Davidoff v. Gofkid, Ltd.*, 2003 ECR I-389, ¶ 30; Case C-408/01, *Adidas-Salomon AG v. Fitnessworld Trading Ltd.*, 2003 ECR I-12537, ¶ 18–22; and Case C-102/07, *Adidas AG v. Marca Mode CV* ECR I-2439, 37).

101. Each contributor to the discussion seems to have a slightly different take on trademark use as a theoretical phenomenon. Many look at trademark use in relation to a specific legal question: what is required to acquire a distinctive character? *See, e.g.*, Arnaud Folliard-Monguiral, *Distinctive Character Acquired through Use: The Law and the Case Law*, in *TRADE MARK USE* (Jeremy Phillips & Ilanah Simon eds., 2005); Anna Carboni, *Distinctive Character Acquired through Use: Establishing the Facts*, in *TRADE MARK USE* (Jeremy Phillips & Ilanah Simon eds., 2005). Drawing the line to functional use, *see, e.g.*, Thomas Hays, *Distinguishing Use versus Functional Use: Three dimensional Marks*, in *TRADE MARK USE* 93–108 (Jeremy Phillips & Ilanah Simon eds., 2005); drawing the line to denominative use, *see* Neil J. Wilkoff, *Third Party Use of Trade Marks*, in *TRADE MARK USE* 111–24 (Jeremy Phillips & Ilanah Simon eds., 2005); Massimo Sterpi, *Trade Mark Use and Denominative Trade Marks*, in *TRADE MARK USE* 125–46 (Jeremy Phillips & Ilanah Simon eds., 2005); or looking at trademark use on the internet *see* Spyros Maniatis, *Trade Mark Use on the Internet*, in *TRADE MARK USE* 263–78 (Jeremy Phillips & Ilanah Simon eds., 2005). While chosen scope, labels, juxtapositions, and categorizations differ, the substantive law recognized as relevant for the discussion on trade mark use covers the two general categories outlined below. Attempts to theorize on the problems surrounding trade mark use have been made by tying the concept to the user. *See* Bojan Pretnar, *Use and Non-Use in Trade Mark*



Instead, it refers to the protected functions of a trademark, namely indicating the [albeit anonymous] origin of goods or services. Recently, in *L’Oreal v. Bellure*, the court recognized the investment and advertising function as protected under the Trademark Directive, which in effect waters down any filtering effect built into limiting the trademark right by functions.<sup>103</sup>

EU trademark law is tailored to real market commerce, and struggles with addressing new uses of trademarks, as well as uses of trademarks on the internet. For example, Article 5.3 of the Trademark Directive expressly includes the following acts that the trademark owner is entitled to prohibit:

[O]ffering the goods, or putting them on the market or stocking them for these purposes under th[e protected] sign, or offering or supplying services thereunder; importing or exporting goods under th[e protected] sign and using the sign on business papers and in advertising.

Although clearly within the realm of the trademark owner’s right in territorially defined real market commerce, these traditionally commercial acts are mixed with other acts on the internet.<sup>104</sup> The traditional one-on-one infringement setting in real market trademark law is increasingly challenged on the internet where there may be one or millions of traditional infringers, but also intermediaries who, regardless

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*Law*, in TRADE MARK USE 12–27 (Jeremy Phillips & Ilanah Simon eds., 2005), and from the perspective of third parties see Jennifer Davies, *The Need to Leave Free for Others to Use and the Trade Mark Common*, in TRADE MARK USE 29–45 (Jeremy Phillips & Ilanah Simon eds., 2005), or to the context of acquisition and enforcement of rights as opposed to infringement analysis see Bojan Pretnar, *Use and Non-Use in Trade Mark Law*, in TRADE MARK USE 12–27 (Jeremy Phillips & Ilanah Simon eds., 2005). Dogan & Lemley look at the historical emphasis on the concept of trademark use in infringement analysis through the lens of the distinction between indirect and direct infringement. Stacey L. Dogan & Mark A. Lemley, *Grounding Trademark Law through Trademark Use*, 92 IALR 1669 (2007). Graeme B. Dinwoodie and Mark D. Janis discuss the significance of the temporal dimension to the concept of trademark use in U.S. trademark law. Graeme B. Dinwoodie & Mark D. Janis, *Use, Intent to Use and Registration in the USA*, in TRADE MARK USE 313–27 (Jeremy Phillips & Ilanah Simon eds., 2005). Most authors recognize the other dimensions of the concept, but choose to focus on a certain aspect of it.

102. Case C-206/01, *Arsenal Football Club plc v. Matthew Reed*, 2002 E.C.R. I-10273; Case C-408/01, *Adidas-Salomon AG v. Fitnessworld Trading Ltd.*, 2003 E.C.R. I-12537; Case C-48/05, *Adam Opel AG v Autec AG*, 2007 E.C.R. I-01017.

103. Case C-487/07, *L’oréal SA v. Bellure NV*, 2009 E.C.R. I-05185, ¶ 49-50.

104. Eric Goldman, *Online Word of Mouth and Its Implications for Trademark Law*, *Trademark Law and Theory: A Handbook of Contemporary Research* 404–05 (Graeme Dinwoodie & Mark Janis eds., 2008).

of intent, in fact facilitate direct infringement of trademark rights. European trademark law entails neither distinction between direct or indirect infringement, nor a safe harbor for intermediaries. The internet also blurs the territoriality embedded in trademark law; whose rights apply to acts on the internet and for what acts can an intermediary be held accountable? If all trademark owners in the world can bring suit in national court against acts occurring on the internet, is it not the worst case scenario recognized by the Commission that the “general monitoring of millions of sites and web pages would, in practical terms, be impossible and would result in disproportionate burdens on intermediaries and higher costs of access to basic services for users?”<sup>105</sup>

## 2. Harmonization in Practice: General Rules That Apply to Trademarks

Lastly, the Directive on the Enforcement of intellectual property rights (“Enforcement Directive”) applies to trademarks.<sup>106</sup> Under Article 2, it does not affect Articles 12–15 of the E-Commerce Directive and, thus, does not affect the liability of information society services. Nevertheless, Recital 23 of the Enforcement Directive states that “right holders should have the possibility of applying for an injunction against an intermediary whose services are being used by a third party to infringe the right holder’s industrial property right.”<sup>107</sup>

It is left to national law to determine the conditions and procedures relating to such injunctions.<sup>108</sup> The Enforcement Directive, while not limited in application, targets counterfeiting and piracy. In substance, the Enforcement Directive provides for effective enforcement measures, such as measures for preserving evidence, the right to information (including names and addresses of infringers and distributors), and provisional, precautionary, and corrective measures, as well as injunctions.<sup>109</sup>

The EUCJ has, albeit in a copyright setting,<sup>110</sup> ruled on how the

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105. First Commission Report, *supra* note 35, at 73.

106. Enforcement Directive, *supra* note 16; *see also* Statement by the Commission Concerning Article 2 of Directive 2004/48/EC of the European Parliament and of the Council on the Enforcement of Intellectual Property Rights, 2005 O.J. (L 94) 37.

107. Enforcement Directive, *supra* note 16, at Recital 23.

108. *Id.*

109. *Id.* at art. 3-11 (requiring Member States to implement the provisions of the Enforcement Directive by Apr. 29th, 2006).

110. EU copyright law places internet service providers under stricter scrutiny than does the E-Commerce Directive standing alone. Thus, if this duty is limited in copyright law, it would logically follow that internet service providers are not under a stricter duty under

seemingly conflicting provisions of different directives should be interpreted, and what obligations and rights are set forth. After all, in the end, the directives leave it to the national laws of the Member States to strike a fair balance between the fundamental interests at stake.

In *Productores de Música de España (Promusicae) v. Telefónica de España SAU*, the court held that Article 8 of the Enforcement Directive does not lay down an obligation to communicate personal data in order to ensure effective protection of copyright in the context of civil proceedings.<sup>111</sup> However, the court also held that the same provision does not preclude Member States from imposing an obligation to disclose to private third parties personal data relating to internet traffic in order to enable them to bring civil proceedings for copyright infringement.<sup>112</sup> It is for the national court, when presented with a justified and proportionate request, to determine whether a right of information is appropriate.<sup>113</sup> In this determination, the national courts, and national regulators when transposing the directives, are required to balance the fundamental rights at stake and choose the interpretation of EU legislation that strikes a fair balance between competing interests.<sup>114</sup>

Not only are national courts left to determine whether a request for information is justified, but they must also determine whether requiring the disclosure of information is proportionate to the wrong at hand. Indeed, the EUCJ explained:

As to those directives, their provisions are relatively general, since they have to be applied to a large number of different situations which may arise in any of the Member States. They therefore logically include rules which leave the Member States with the necessary discretion to define transposition measures which may be adapted to the various situations possible . . . . That being so, the Member States *must* . . . take care to *rely on an interpretation* of the directives which allows a fair balance to be struck between the various fundamental rights protected by the Community legal order. Further . . . the authorities and courts of

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trademark law, which is regulated only on a general level.

111. Case C-275/06, *Productores de Música de España (Promusicae) v. Telefónica de España SAU*, 2008 E.C.R. I-271, at 55.

112. *Id.* at 54. The ruling was confirmed by order in Case C-557/07, *LSG-Gesellschaft zur Wahrnehmung von Leistungsschutzrechten*, 2009 E.C.R. I-1227.

113. Case C-275/06, *Productores de Música de España (Promusicae) v. Telefónica de España SAU*, 2008 E.C.R. I-271, at 58.

114. *Id.* at 68–69.

the Member States *must not only interpret* their national law in a manner consistent with those directives but also *make sure that they do not rely on an interpretation* of them which would be in conflict with those fundamental rights or with the other general principles of Community law, such as the principle of proportionality. . . .<sup>115</sup>

Therefore, the required balancing exercise is to be completed via fundamental rights balancing—an act that most judges in the civil law tradition are arguably ill-equipped to perform absent fairly specific guidelines from the legislator.<sup>116</sup> In this setting, where a general duty is pitted against a specific provision, the risk of over-protection of right holders is apparent. Here, the requirement that the request be justified and proportionate may easily be reduced to scrutiny based on the content rather than the basis of the request. In my view, the EUCJ, in *Promusicae*, requires scrutiny of both whether the request itself is justified and proportionate, and whether the extent of the request is justified and proportionate.

### C. Summary

While the EU has reached an exceptionally high level of harmonization of laws in the field of trademark law and protection of non-registered marks, trade names and good will remain in the legislative domain of the Member States. Principles of unfair competition and questions of civil liability are regulated by national law, and left outside of the purview of the Trademark Directive.<sup>117</sup> Nevertheless, the protection afforded under Article 5(1) against uses of an identical mark on identical products, or an identical or similar mark on identical or similar products, is completely harmonized, and the Member States may not derogate.<sup>118</sup> Similarly, Member States that have

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115. *Id.* at 67–68 (emphasis added) (internal references omitted).

116. Kur, *supra* note 9, at 170 (arguing that legislative reform is required to find solutions to the balancing of fundamental interests within trademark law, and thus, to avoid having to refer to external grounds).

117. Trademark Directive, *supra* note 17, at Recital 6 (“[T]his directive does not exclude the application to trade marks of provisions of law of the Member States other than trade mark law, such as the provisions relating to unfair competition, civil liability or consumer protection”).

118. See Case C-206/01, Arsenal Football Club plc v. Matthew Reed, 2002 E.C.R. I-10273, at 43 (citing joined cases Case C-414/99-416/99, Zino Davidoff SA v. A & G Imports Ltd. and Levi Strauss & Co. and Others v. Tesco Stores Ltd. and Others, 2001 E.C.R. I-08691, at 32).

implemented Article 5(2) of the Trademark Directive, which affords extended protection to marks having a reputation, may not derogate from the interpretation of that provision given by the EUCJ. All Member States have implemented Article 5(2). Thus, Member States may not afford protection based solely on a likelihood of association, nor require a likelihood of confusion under Article 5(2).<sup>119</sup> However, under Article 5(5) of the Trademark Directive, Member States are free to grant additional protection for reputed marks, for example under the rules of unfair competition.<sup>120</sup>

The Trademark Directive does not include provisions on secondary liability or contributory infringement. In the *Google AdWords Case*, Advocate General Poiares-Maduro discussed this issue and found that the concept of contributory infringement is foreign to European trademark law.<sup>121</sup> Traditionally, these concerns are regulated under the rules on civil liability. Articles 12–15 of the E-Commerce Directive address the issue of liability for internet service providers, and exempt certain uses from liability, such as mere conduit, and caching and hosting, where the internet service provider is passive, lacks actual knowledge, and is neutral. While the EUCJ did read Article 14 broadly, and included Google’s AdWords service as potentially falling under its exemption for hosting, it was left to national courts to decide whether Google’s activities did indeed constitute those of a neutral information society service. It was within the national court’s discretion to balance the competing interests at stake and, ultimately, to strike a fair balance, if in fact it was presented with a “justified and proportionate” request. The issue of whether the request is justified and proportionate is inevitably influenced by the provisions of the Enforcement Directive, which was not meant to apply to these provisions of the E-Commerce Directive, but nevertheless allows a trademark owner to demand, and courts to issue, an injunction against intermediaries.

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119. See Case C-408/01, *Adidas-Salomon AG and Adidas Benelux BV v. Fitnessworld Trading Ltd.*, 2003 E.C.R. I-12537 at 30. See also Case C-102/07, *Adidas AG, Adidas Benelux BV v. Marca Mode CV, C&A Nederland CV, H&M Hennes & Mauritz Netherlands BV, and Vendex KBB Nederland BV*, 2008 E.C.R. I-02439, at 42. Case C-252/07, *Intel Corporation Inc. v. CPM United Kingdom Ltd.*, 2008 E.C.R. I-08823, at 41.

120. Kur, *supra* note 9, at 169.

121. Opinion of Advocate General, *supra* note 21, at 47–50, 114–19.

## IV. THE CONFLICT IN PRACTICE: THREE APPROACHES

*A. Property Rules and Contributory Infringement*

On June 4, 2008,<sup>122</sup> a French court found eBay directly responsible for allowing the sale of counterfeit Hermes bags on [www.ebay.fr](http://www.ebay.fr). In a joint action against eBay and the seller of two counterfeit bags, the court held that both eBay and the seller “committed acts of counterfeiting and imitation of French brand names . . . to the detriment of Hermes International . . . by selling Hermes bags . . . and by failing to act within their powers to prevent reprehensible use of the site.”<sup>123</sup>

The court dismissed eBay’s claim that it was only hosting information. Instead, it viewed eBay both as a host and a website editor that controls the page layout and makes profits from the exploitation of hosted ads. The fact that eBay offers the technical means for classifying content and makes profit is, however, not enough when the content is provided by users and not by eBay. Insofar as eBay makes tools available to vendors to develop sales, present objects, and establish rules of operation and architecture of the auction service, it should be regarded as a publisher of an online communications service (website editor) that is subject to brokerage. Unlike liability imposed on other such publishers, the court did not impose strict liability on eBay. It did, however, remove the exemption from liability when the website is used for illegal purposes (i.e. the sale of counterfeit goods).<sup>124</sup> The Court

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122. Since then, other French courts have rendered similar decisions on the same grounds. eBay has yet to succeed on any of its appeals. *See, e.g.*, Dior, Kenzo, Givenchy, Guerlain, LMVH v. eBay, Tribunal de Commerce de Paris, Jun. 30, 2008; Dior, Kenzo, Givenchy, Guerlain, LMVH v. eBay, Cour d’Appel de Paris, Jul. 11, 2008; Louis Vuitton Malletier v. eBay, Tribunal de Grande Instance de Paris 3<sup>ème</sup> Chambre, 4<sup>ème</sup> Section, Feb. 11, 2010. Louis Vuitton and Dior respectively seek 20-million and 17-million Euro in damages.

123. *Hermes International/eBay et autres*, Tribunal de grande instance [TGI] [ordinary court of original jurisdiction] Troyes, civ., Jun. 4, 2008 (Fr.). Translation by AFP: French Court fines eBay over counterfeit goods, June 4, 2008, available at <http://afp.google.com/article/ALeqM5ieVhlM9xNEzcmDtrdw6ToFLtkRAg>.

124. *Id.* The court recognized that a reliable technological tool for finding infringing content in listings is not available today. Nonetheless, it imposed on eBay the duty to seek, by all means, sellers that use the trademark in combination with the product number, serial number, model number, or a certificate of authenticity to identify the object sold. eBay must also take all measures to notify the buyer and seller that they accept the terms of service, including the civil and penal consequences for acts of counterfeiting, potential authenticity checks by right holders and possible transmission of personal data to them. Even though the seller had assured authenticity of the goods sold to eBay, it had, for failing to assure compliance by other means, not fulfilled its duty to ensure the absence of improper use of the site.

ordered eBay to pay damages of 1,500 Euros per instance of infringement and to publish the decision for three months on its homepage and in four journals and magazines of the plaintiff's choice, on pain of a daily penalty of 1,500 Euros.

The French courts approach the question as one of direct infringement, including contributory infringement. This means that where an underlying act of direct infringement is established, it determines the scope and intensity of the wrong.<sup>125</sup> The acts of the infringer and contributor are equally reprehensible, and are, therefore, equally punished. All measures available to the right holder against a direct infringer are available against a contributor. While some limitations are found in determination of what acts constitute "contributing" to a direct infringement, these considerations do not affect available measures once it has been determined that they do, in fact, contribute to the infringement. The fact that counterfeit goods are sold on the auction site, therefore, determines whether and what liability arises. Consequently, the trademark owner must prove that there was a sale of counterfeit goods, and that acts that contributed to the sale of counterfeit goods took place.

In determining what acts constitute unlawful direct contributory infringement, the French courts use the safe harbors for internet intermediaries in French and European law as guidance.

The court assessed whether the claimed infringing acts constituted hosting, or whether a general duty to monitor was imposed. It was also noted that uses for illegal purposes are generally exempted from the prohibition against placing hosts under a general duty to monitor or actively seek facts. While generally restricted to crimes against humanity, inciting racial hatred, child pornography, incitement to violence, and injury to the dignity of the human person, the French court applies this obligation to put in place targeted surveillance measures in cases of trademark counterfeiting. Thus, French law places a duty to actively monitor and seek facts of illegal trademark counterfeiting upon hosts and other internet intermediaries.<sup>126</sup>

While this duty may be fulfilled by imposing technical surveillance measures, this is not always the case. The ultimate liability of the intermediary or host is determined by whether the actual sale of

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125. See Mark Lemley, *Inducing Patent Infringement*, 39 U.C. DAVIS L. REV. 225, 227 (2005) (discussing the origins of contributory infringement in U.S. Patent Law).

126. *Hermès International/eBay et autres*, Tribunal de grande instance [TGI] [ordinary court of original jurisdiction] Troyes, civ., June 4, 2008 (Fr.).

counterfeit products persists. The standard is one of zero tolerance, that is, no acts attributable to the intermediary may contribute to the sale of counterfeit goods.<sup>127</sup>

*B. Liability Rules: Duty to Act*

The German Federal Supreme Court (Bundesgerichtshof, “BGH”) has on several occasions held internet auction sites potentially liable for allowing vending of counterfeit goods on their site.<sup>128</sup>

The owner of the trademark ROLEX brought suit against the German online auctioneer Ricardo and the globally and nationally active eBay (www.ebay.de) for failing to preemptively block listings offering counterfeit ROLEX merchandise. In its 2004 ruling, the BGH considered whether the German Teleservices Act,<sup>129</sup> which implemented the E-Commerce Directive, prevented suit against an internet auctioneer for allowing vending in counterfeit products. The court recognized that the hosting safe harbor applies when an intermediary does not have influence over the text of the infringing listing. However, the court held that the E-Commerce Directive does not prevent Member States from imposing further obligations on intermediaries for dereliction of duty, as long as they do not amount to a general duty to monitor or actively seek facts indicating infringement. Likewise, the safe harbor, under the interpretation of the BGH, only prevents injunctive relief, not a claim for damages.<sup>130</sup>

Thus, the safe harbor does not apply to a claim for damages against intermediaries that fail to act when it is reasonably within their control to prevent infringement.<sup>131</sup> However, the Enforcement Directive,

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127. *See id.* (determining whether eBay is a host, where the Court views eBay as a neutral host regarding acts attributable to users content of listings, while services rendered to sellers for payment are attributable to eBay, and thus can result in liability).

128. Bundesgerichtshof [BGH] [Federal Court of Justice] Mar. 11, 2004, I ZR 304/01, 2004; Bundesgerichtshof [BGH] [Federal Court of Justice] Apr. 19, 2007, I ZR 35/04, 2007; Bundesgerichtshof [BGH] [Federal Court of Justice] Apr. 30, 2008, I ZR 73/05, 2008 (Ger.).

129. The Teledienstgesetz [Teleservices Act], Jul. 22, 1997, BGBL I.S. at 1870, replaced by the Telemediengesetz [Teleservices Act], February 26, 2007, BGBL I.S. at 179, 251 (Ger.). The revised Act does not address this issue. Henning Krieg, *Online Intermediaries May Have an Obligation to Monitor Content Posted by Users*, BIRD & BIRD (April 6, 2007), [http://www.twobirds.com/English/News/Articles/Pages/Online\\_intermediaries\\_obligation\\_monitor\\_user-posted\\_content.aspx](http://www.twobirds.com/English/News/Articles/Pages/Online_intermediaries_obligation_monitor_user-posted_content.aspx).

130. Bundesgerichtshof [BGH] [Federal Court of Justice] Apr. 19, 2007, I ZR 35/04, 2007, at 14 (Ger.).

131. Bundesgerichtshof [BGH] [Federal Court of Justice] Mar. 11, 2007, I ZR 304/01, 2007, at 27–36 (Ger.). It should be noted that this form of liability is not a form of indirect trademark infringement, since no proof of trademark infringement is required. Instead, the



according to the BGH, not only allows, but specifically calls for this type of remedy for trademark owners.<sup>132</sup>

For the court, the threshold seems reached when the intermediary has actual knowledge of past infringements, and it is technically possible, and reasonable, to require it to prevent future infringements.<sup>133</sup> More specifically, the court targeted filtering out uses of words like “replica” or “copy” in combination with a well-known trademark. The burden of showing that reasonable steps have been taken falls on the defendant, that is, the internet intermediary.<sup>134</sup>

The BGH emphasized that the intermediary cannot be under a duty to act that includes performing acts that are technically impossible, or acts that would endanger its business model. Fault<sup>135</sup> on the part of the intermediary must be present before a claim for damages can succeed.<sup>136</sup> The BGH indicated that the use of filtering software, and performing manual checks on the results, are reasonable to ask from the intermediary. The absence of reliable filtering software does not, however, excuse the failure of the intermediary to act.<sup>137</sup> The court dismissed the claim that it was unreasonable that the software would flag legitimate claims for removal, since a claim for damages would only succeed in respect to a failure to remove infringing content.<sup>138</sup> On remand, eBay avoided liability by introducing filtering software that automatically removes listings that contain the most common expressions used in counterfeit listings.<sup>139</sup>

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tor is based on a dereliction of duty. In the view of the BGH, the CTMR allows the German premise for liability, since it remains silent on the issue of indirect or vicarious liability. *Id.* at 35.

132. Bundesgerichtshof [BGH] [Federal Court of Justice] Apr. 19, 2007, I ZR 35/04, 2007, at 36, 38 (Ger.).

133. Bundesgerichtshof [BGH] [Federal Court of Justice] Mar. 11, 2007, I ZR 304/04, 2007, at 19–20 (Ger.).

134. Bundesgerichtshof [BGH] [Federal Court of Justice] Apr. 30, 2007, Az. I ZR 73/05, 2007, at 46 (Ger.).

135. The degree of required negligence remains unclear. However, the standard is not gross negligence. Bundesgerichtshof [BGH] [Federal Court of Justice] Apr. 19, 2007, I ZR 35/04, 2007, at 47 (Ger.).

136. *Id.* at 47.

137. *Id.* at 46.

138. *Id.* The trademark owner’s claim that listings with an offered price lower than 800 Euro would also be automatically filtered was deemed reasonable, and the court dismissed objections of over-protection of legitimate content on the grounds that no damages would issue when no violation was present.

139. Oberlandesgericht [OLG] [Düsseldorf Higher Regional Court] Feb. 26, 2009, Az: I-20 U 204/02, 2009 (Ger.).

The court based its decision on the *Störerhaftung*-doctrine.<sup>140</sup> The term *Störerhaftung* implies indirect acts, that is omissions, and does not cover direct acts of interference or violation of property rights. A willful omission that contributes to—according to set rules on causality (*adequāt kausal*)—the violation of a property right triggers potential liability. A duty to act, in the case of internet intermediaries, can be triggered by a specific notification. The trademark owner can claim *Störerhaftung* without proving specific direct infringement or a causal connection to direct infringement (i.e. indirect infringement). Instead, the trademark owner must prove that the intermediary has actual knowledge of *past* infringements. While not held liable, the intermediary is placed under a duty to act, and thus held potentially liable for similar future infringements.

After the duty has been triggered, and the intermediary thus has actual knowledge, it is no longer sufficient to remove the specific infringing listing notified. In fact, this results in a duty to monitor the site for trademark-specific infringements under a threat of damages.<sup>141</sup> Although the duty itself is general, it is limited by a rule of reason, which is applied on a case-by-case basis. If the property owner is obligated to tolerate the omission by law, the *Störerhaftung* claim is preempted.<sup>142</sup> This explains why the BGH carefully explained its

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140. In German law liability for nuisance covers responsibility for interference by act, by state, or by fellowship. The nuisance liability is regulated by general rules in the field of property law, Bürgerliches Gesetzbuch [BGB] [Civil Code], § 1004, and by administrative law. Without being an infringer or participant, anyone, who in any way, by dereliction of duty deliberately contributes to (according to rules of causality) the violation of a protected good, may be enjoined as an interferer with a property right. Author's translation based on the following German definition: "Als Störerhaftung bezeichnet man im deutschen Recht die Verantwortlichkeit eines Störers als Handlungsstörer, Zustandsstörer oder Mitstörer. Die Störerhaftung ist durch allgemeine Vorschriften im Bereich des Sachenrechts (§ 1004 BGB) sowie des Verwaltungsrechts geregelt. Nach der Störerhaftung kann derjenige, der – ohne Täter oder Teilnehmer zu sein – in irgendeiner Weise willentlich und adäquat kausal zur Verletzung eines geschützten Gutes beiträgt, als Störer für eine Schutzrechtsverletzung auf Unterlassung in Anspruch genommen werden." Available at <http://de.wikipedia.org/wiki/St%C3%B6rerhaftung>. (last visited Nov. 5, 2011).

Reference is made to the following provision (not translated) BGB § 1004 Beseitigungs- und Unterlassungsanspruch

(1) Wird das Eigentum in anderer Weise als durch Entziehung oder Vorenthaltung des Besitzes beeinträchtigt, so kann der Eigentümer von dem Störer die Beseitigung der Beeinträchtigung verlangen. Sind weitere Beeinträchtigungen zu besorgen, so kann der Eigentümer auf Unterlassung klagen. (2) Der Anspruch ist ausgeschlossen, wenn der Eigentümer zur Duldung verpflichtet ist.

141. Bundesgerichtshof [BGH] [Federal Court of Justice] Apr. 30, 2007, Az. I ZR 73/05, 2007, at 51 (Ger.).

142. Bürgerliches Gesetzbuch [BGB] [Civil Code], § 1004(2).

interpretation of the E-Commerce Directive and other applicable rules of EU law.

*C. Liability Rules and Safe Harbors*

In *Tiffany, Inc. v. eBay, Inc.*, where the plaintiff had brought suit for direct and indirect trademark infringement, dilution, unfair competition, and false advertising on the grounds that eBay facilitated and allowed the sale of counterfeit products on its site [www.ebay.com](http://www.ebay.com), the plaintiff argued that although eBay was not responsible for the listing and selling of counterfeit items, it was on notice. This obligated eBay to investigate and control the illegal activities of these sellers by (1) refusing to post any listing offering five or more Tiffany items and (2) immediately suspending sellers upon being notified by Tiffany of potentially infringing behavior. The case ultimately boiled down to the question of who bears the burden of policing the mark, that is, monitoring eBay's site for infringing listings. The district court held that this burden rests on the trademark owner. On appeal, the Second Circuit agreed, although the claim for false advertising was remanded for a new trial.<sup>143</sup>

There is no federal legislation imposing liability for contributory or vicarious trademark infringement, and neither is there legislation removing liability of ISPs for trademark infringement. The United States Supreme Court has, however, recognized a cause of action against intermediaries who induce others to infringe, or that have continued to supply while aware of specific instances of infringement.<sup>144</sup> The trademark owner must prove specific instances of infringement, and that the intermediary continues to supply despite actual knowledge. The requirement of proving actual knowledge, and specific instances of infringement, establishes a standard of reasonableness for intermediaries. Thus, proof of infringing acts, and that these acts contribute to further infringement, does not suffice. Secondary liability is determined on a different premise, and the societal interest in preventing trademark infringement is balanced against other societal interests, namely access to, and availability of, internet services to consumers.

In determining what acts are unlawfully contributing to the phenomenon of trademark counterfeiting, recognized defenses in trademark law apply. Likewise, it is of importance whether trademarks are used truthfully or falsely to indicate the availability of authentic

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143. *Tiffany Inc. v. eBay Inc.*, 600 F.3d 93, 114 (2d Cir. 2010).

144. *See Inwood Labs. v. Ives Labs.*, 456 U.S. 844 (1982).

goods. Most importantly, however, the legality of the acts of intermediaries is determined by what could reasonably be required of them in practice, in light of known technological tools. It is at this point of the assessment that a balance between the competing interests is struck, and consumer interests weigh against finding the intermediary liable.

## V. ANALYSIS AND PROPOSALS

### A. *Liability for ISPs*

#### 1. Intellectual Property Rights and Trademark Protection

According to the Commission report on the application of the Enforcement Directive:

Injunctions against intermediaries are not intended as a penalty against them, but are simply based on the fact that such intermediaries (e.g., Internet service providers) are in certain cases in the best position to stop or to prevent an infringement . . . . As far as third parties are concerned, these are only addressed indirectly in [the Information Society Directive<sup>145</sup> and Enforcement Directive] where Member States are required to ensure that rightholders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe a copyright or related right. The aim of the respective provisions of each of those Directives is that injunctive relief can be granted against the intermediary irrespective whether there has been a determination of liability of the intermediary or the third party. Other than these provisions, third party liability has been left to the legal system of each Member State.<sup>146</sup>

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145. Directive 2001/29/EC of the European Parliament and of the Council of May 22, 2001 on the Harmonisation of Certain Aspects of Copyright and Related Rights in the Information Society, O.J. (L 167) 10–19 [hereinafter *Information Society Directive*].

146. Analysis of the Application of Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights in the Member States Accompanying document to the Report from the Commission to the Council, the European Parliament and the European Social Committee on the Application of Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights, at 16, COM (2010) 1589 final (Dec. 12, 2010). Article 11 of the Enforcement Directive states: “Member States shall ensure that, where a judicial decision is taken finding an infringement of an intellectual property right, the judicial authorities may issue against the infringer an injunction aimed at prohibiting the continuation

The Commission makes clear that interlocutory injunctions must be available against “intermediaries,” irrespective of fault, when their services are used to distribute “counterfeit goods,” and that they cannot rely on “absolute immunity” when “intellectual property rights” are infringed.<sup>147</sup>

Intellectual property rights can be understood to refer to all forms of intellectual property, e.g., patents, trademarks, designs, copyrights and related rights, etc. Another possible interpretation, based on a historical division between types of intellectual property, namely in the European tradition, is that “intellectual” refers to copyright and related rights, as opposed to “industrial” property rights (e.g., patents, trademarks, and the like).<sup>148</sup> The Commission’s continued reference to “intellectual property rights” interchangeably with “copyright and related rights,” in discussing injunctions against intermediaries, seems to indicate that it focuses on the narrower definition of intellectual property rights. On the other hand:

In the area of the sale of counterfeit goods over the Internet, feedback received from stakeholders indicates that intermediaries (for example online market places such as online shopping sites) have realized that the presence and the sale of counterfeit goods via their sites undermines their efforts to be regarded as a safe place to buy and sell products . . . therefore [they] have adopted comprehensive policies on the protection of intellectual property rights . . . . These policies include sanctions for users which breach the rules, in particular for the repeat infringers, comprehensive notice and take-down processes and other tools that allow a timely elimination of illegal offers, the sharing of information with right holders and reimbursement schemes for consumers who unintentionally bought counterfeit goods on their site. All these measures have been applied without affecting the liability status of the intermediaries and have significantly contributed towards the elimination of

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of the infringement. Where provided for by national law, non-compliance with an injunction shall, where appropriate, be subject to a recurring penalty payment, with a view toward ensuring compliance. Member States shall also ensure that rightholders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe an intellectual property right, without prejudice to Article 8(3) of Directive 2001/29/EC [European Copyright Directive].” Enforcement Directive, *supra* note 16.

147. Information Society Directive, *supra* note 136, at 15.

148. Paris Convention, *supra* note 4.

counterfeiting on the Internet; however, problems remain.<sup>149</sup>

The reference to counterfeit goods and online shopping sites could also be read to include trademark counterfeiting. This reading seems natural, since copyright piracy and trademark counterfeiting are considered equally reprehensible. Willful trademark counterfeiting, and copyright piracy on a commercial scale, are both criminally sanctioned in most countries.<sup>150</sup> However, separate laws govern copyright (and related rights) and trademark infringement. Copyright piracy is “[t]he unauthorized copying of copyright materials for commercial purposes and the unauthorized commercial dealing in copied materials.”<sup>151</sup> Copyright, which is based on the *exclusive right of authorization*, is thus completely hijacked. Trademark counterfeiting primarily copies the underlying product and attempts to pass the counterfeit good off as the genuine item by using the trademark. Trademark protection, which is based on the *exclusive right to prevent uses of a mark on identical or similar goods or services*, is inherently limited to only certain uses of marks. While the pirate causes harm, it does not as straightforwardly hijack the right, or even the market, for legitimate sales. Trademark law also applies in a context of legitimate concurrent use (including advertising) by licensees, retailers, second-hand marketers, repair service providers, parallel importers, and competitors out of which illegitimate references to trademarks must be technically distinguishable. Unlike copyright law, the market for legitimate use<sup>152</sup> of

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149. Analysis of the Application of the Enforcement Directive, *supra* note 145, at 38.

150. TRIPS, *supra* note 8, at Article 61. “Members shall provide for criminal procedures and penalties to be applied, at least, in cases of *willful trademark counterfeiting or copyright piracy on a commercial scale*. Remedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity. In appropriate cases, remedies available shall also include the seizure, forfeiture, and destruction of the infringing goods, and of any materials and implements, the predominant use of which has been in the commission of the offense. Members may provide for criminal procedures and penalties to be applied in other cases of infringement of intellectual property rights, in particular where they are committed willfully and on a commercial scale.” (author’s emphasis).

151. WIPO, INTRODUCTION TO INTELLECTUAL PROPERTY: THEORY AND PRACTICE 166 (Kluwer Law Int. 1997).

152. *Tiffany Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010). Although the searchers employed by Tiffany found 19,000 listings per year that were in fact selling counterfeit items, their searchers also found approximately 5,000 legitimate listings. Unlike operators of counterfeit listings, legitimate businesses have no need for opening new accounts. Instead they may operate their entire business under one account. Thus, the number of listings that included the term “Tiffany” does not necessarily correlate with actual sales of Tiffany products, nor is indicative of the effect on the market. The fact that Tiffany does not operate

trademarks is, in large part, *not* controlled by the trademark owner under trademark law. In this light, the statements of the Commission, or general intellectual property legislation, should not unequivocally be read to apply as such to trademark law.

Are intermediaries potentially subject to injunctions or liability because they are “in the middle,” or because they “contribute to, or facilitate, infringement?” It would seem that in the copyright setting, at least in the view of the Commission, “an intermediary who carries a third party’s infringement of a protected work or other subject matter in a network”<sup>153</sup> is potentially liable *per se*, irrespective of its actions. The intermediary can be ordered to prevent repeated infringement, regardless of previous acts to reduce infringement, or its own direct or contributory infringement. Liability, or a duty to act, is based on who is in the best position to prevent the harm in question.<sup>154</sup>

Translated into legal and economic terms, it is not a question of entitlements, but merely one of cost allocation.<sup>155</sup> Coase argues that because all situations that give rise to harm are reciprocal, maximizing society’s wealth really boils down to avoiding the more serious harm.<sup>156</sup> Whenever making someone liable promotes an efficient overall allocation, the defendant’s conduct will be deemed the cause of an injury. Liability is placed on whoever is the cheapest cost avoider. That means that when not placing liability on the defendant would not

on the internet, and therefore finds all sales of Tiffany items harmful, does not translate into what could be considered “harmful” within the meaning of infringing conduct. On the contrary, the harm of over-protection of trademark owners to legitimate businesses from closing their listings may be gravely disproportionate and harmful not only to their sales of trademarked items, but their entire online presence, and sales of other items.

153. Enforcement Directive, *supra* note 16 (citing and interpreting Recital 59 of the Information Society Directive, *supra* note 145, at Recital 59, which states “In the digital environment, in particular, the services of intermediaries may increasingly be used by third parties for infringing activities. In many cases such intermediaries are best placed to bring such infringing activities to an end. Therefore, without prejudice to any other sanctions and remedies available, right-holders should have the possibility of applying for an injunction against an intermediary who carries a third party’s infringement of a protected work or other subject-matter in a network. This possibility should be available even where the acts carried out by the intermediary are exempted under Article 5. The conditions and modalities relating to such injunctions should be left to the national law of the Member States.”).

154. Analysis of the Application of the Enforcement Directive, *supra* note 16, at 16. Safe harbors in place may limit liability when specific requirements are satisfied; however, the Commission’s view here seems to argue for limitation of these safe harbors.

155. NICOLAS MERCURO & STEVE G. MEDEMA, *ECONOMICS AND THE LAW: FROM POSNER TO POST-MODERNISM* 23 (1997). Allocative efficiency and “social efficiency requires trading-off resource allocation against distribution of income.” WERNER Z. HIRSCH, *LAW AND ECONOMICS: AN INTRODUCTORY ANALYSIS* 6 (1988).

156. Ronald H. Coase, *The Problem of Social Cost*, 3 *J.L. & ECON.* 1, 2 (1960).

promote efficiency, placing liability on him promotes efficiency, because no liability (i.e. no action or compensation) would make society worse off.<sup>157</sup> When taking Coase's theory of cost allocation to its extreme, it is argued that parties to a dispute will, regardless of the initial assignment of rights (entitlements), negotiate to the same efficient outcome.<sup>158</sup> Consequently, allocative efficiency is reached by allowing them to do so.<sup>159</sup> Coase's theory, however, presumes clearly defined property rights and no transaction costs.<sup>160</sup>

In the context of copyright and related rights, where the market for copyrighted works is arguably endangered by large-scale commercial piracy, the theory of cost allocation may, or may not, have weight. In our scenario, the transaction costs involved in separating infringing from non-infringing conduct cannot realistically be less than high, which precludes reliance on Coase's theory. Indeed, theories on allocative efficiency are grounded in economic theory,<sup>161</sup> but a partial goal of law and economics is that in all prevailing schools of thought the ultimate goal is *social efficiency*.<sup>162</sup> Social efficiency is reached by way of striking a balance between two, often competing, objectives: that of distribution of income and efficient resource allocation.<sup>163</sup>

It is argued here that we have before ourselves a question not easily resolved, because "the expansion of trademark law has made the definition of *harm insufficiently certain* to serve as the basis [defined property right] for defining the outer limits of trademark protection."<sup>164</sup> It cannot be assumed that the granted trademark right is specific and

157. MERCURO & MEDEMA, *supra* note 154, at 67 (citing an example 'defining' causation from the perspective of wealth maximization in William M. Landes & Richard A. Posner, *Causation in Tort Law: An Economic Approach*, 12 J. LEGAL STUD. 109, 110 (1983)).

158. Coase, *supra* note 156, at 5–8. Coase recognizes that the agreement alters the distribution of income between the parties, but presumes that this is outweighed by the long-term social cost of involving the legal system in the (re)distribution.

159. It is noteworthy here that the Chicago School, as well as Coase's theory, presuppose a common law system, which indeed allows and channels "bargaining" efficiently, and a legislator that is inefficient in comparison. MERCURO & MEDEMA, *supra* note 155, at 66.

160. *Id.* at 67–68.

161. *Id.* at 24. However, the power of rhetoric is weak in practice, since scholarship focuses almost exclusively on allocative efficiency.

162. Obviously, some schools emphasize social efficiency more than others.

163. MERCURO & MEDEMA, *supra* note 155, at 67.

164. Graeme Dinwoodie, *Developing Defenses in Trademark Law*, 13 LEWIS & CLARK L. REV. 99, 101 (2009) (emphasis added). This is true whether you argue for limiting doctrines, articulated defenses, or fair use provisions in trademark law.



delimited enough to allow for no-cost bargaining as envisioned by Coase.<sup>165</sup> Coase himself recognizes that when a large number of people are involved, and related costs are high, government intervention promotes efficiency and maximizes wealth, because it prevents squandering resources on numerous transactions.<sup>166</sup>

It is argued here that treating the question of liability of intermediaries for trademark infringement as a simple issue of cost allocation may not, due to high inherent transaction costs, promote social or allocative efficiency.

Therefore, we are left to seek other more appropriate means. First, we begin by trying to discover and define any existing entitlements. Second, we consider new entitlements. The question of liability for intermediaries is treated as uncharted territory, surrounded by poorly defined entitlements, each pressing for recognition and expansion. The competing entitlements are the trademark owner's property right and the intermediary's freedom to provide services.

## 2. Protecting Trademarks With Property or Liability Rules

Thus, what does the trademark right, as an entitlement protected by property rules, entail? What is included in the bundle of rights? Trademark rights are alienable, that is, they can be freely transferred (Article 21 of TRIPS), but some aspects of the exclusive right are

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165. *Coase, supra* note 156, at 8, (stating that "[i]t is necessary to know whether the damaging business is liable or not for damage caused since without the establishment of this initial delimitation of rights there can be no market transactions or transfer and recombine them. But the ultimate result (which maximizes the value of production) is independent of the legal position if the pricing system is assumed to work without cost . . . . But it has to be remembered that the immediate question faced by the courts is not what shall be done by whom but who has the legal right to do what. It is always possible to modify by transactions on the market the initial legal delimitation of rights. And, of course, if such market transactions are costless, such a rearrangement of rights will always take place if it would lead to an increase in the value of production . . . . Once the costs of carrying out market transactions are taken into account it is clear that such a rearrangement of rights will only be undertaken when the increase in the value of production consequent upon the rearrangement is greater than the costs which would be involved in bringing it about . . . . In these conditions the initial delimitation of legal rights does have an effect on the efficiency with which the economic system operates . . . . equally there is no reason why, on occasion, such governmental . . . . regulation should not lead to an improvement in economic efficiency. This would seem particularly likely when . . . a large number of people are involved and in which therefore the costs of handling the problem through the market or the firm may be high . . . . Even when it is possible to change the legal delimitation of rights through market transactions, it is obviously desirable to reduce the need for such transactions and thus reduce the employment of resources carrying them out." (internal citations omitted)).

166. *See id.*

inalienable.<sup>167</sup> For example, *the entitlement* in Article 21 of TRIPS that *prohibits compulsory licensing* of trademark rights is inalienable (i.e., cannot be ‘transferred’)<sup>168</sup> between a willing buyer and seller, and it is designed to protect the initial entitlement, or even to define the trademark right itself.<sup>169</sup> To support and protect the initial grant, additional protection could, in principle, be afforded to new entitlements<sup>170</sup> with liability rules.

However, the above-mentioned inalienability of the core of the trademark right distinguishes them from other forms of intellectual property rights, namely copyrights and patents.<sup>171</sup> A consequence of this inherent difference is that the application of liability rules to entitlements in trademark law, that is, *allowing transfer of entitlements based on willingness to pay*,<sup>172</sup> becomes problematic. If the exclusive control<sup>173</sup> of the exclusive use of a trademark is inalienable, that is, not permitted between a willing buyer and a willing seller,<sup>174</sup> it is hardly

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167. See Stacey Dogan & Mark Lemley, *A Search-Costs Theory of Limiting Doctrines*, TRADEMARK LAW AND THEORY: A HANDBOOK OF CONTEMPORARY RESEARCH 82 (Graeme B. Dinwoodie & Mark D. Janis ed., 2008) (discussing the effect of unsupervised licensing of trademarks).

168. This entitlement could be likened to moral rights protection in copyright law (Berne Convention Article 6bis). Many European countries consider the right inalienable, that is, a contract transferring moral rights is *invalid*. It is considered necessary to protect the entitlement from outside pressure or force, be it from government, contract partners, or third parties. See also Spyros M. Maniatis, *Trademark Rights—A Justification Based on Property*, 2 INTELL. PROP. Q. 123, 151–52 (arguing that the threat of compulsory licensing, as well as the time limit on the right in patent law, can be used as a direct means to reset the equilibrium in the commons. In trademark law, where these means are not available [because they would create confusion], Maniatis argues that a use requirement could serve a similar purpose, creating a powerful incentive to actually apply the mark).

169. TRIPS, *supra* note 8, at Article 21.; Calabresi, *supra* note 28, at 1090.

170. Dogan *supra* note 12, at 1670 (arguing that the pop-up and keyword cases giving rise to the *trademark use* debate involve attempts at allowing trademark holders to “assert a new and unprecedented form of trademark infringement claims,” and, in effect, impose “third-party liability under the guise of direct infringement suits”).

171. See Dogan & Lemley, *supra* note 167, at 82 (discussing assignment in gross and naked licensing of trademarks). Note, however, that the search-cost theory legitimizes a narrower confusion-based trademark right than in force in most countries today.

172. Calabresi & Melamed, *supra* note 29, at 1106.

173. While trademarks can be freely sold or licensed, a valid trademark requires a trademark owner to control it. This is because the trademark owner may lose its exclusive right if it does not control the use of the trademark by licensees. A trademark cannot distinguish the goods and services of an entity if its use is not coherent and centrally managed. A mark that loses its distinguishing function is no longer a trademark. This requirement was added when the prohibition of transferring the trademark separately from the firm was removed.

174. Calabresi & Melamed, *supra* note 29, at 1092.

possible to allow release of the entitlement without destroying the initial grant.

For example, while trademarks can be freely sold or licensed, *a valid trademark requires ONE trademark owner that controls it*. This is because the trademark owner may lose its exclusive right if it does not itself use or control the use of the trademark by its subsidiaries or licensees. A trademark cannot distinguish the goods and services of an entity if its use is not coherent and centrally managed. *A mark that loses its distinguishing function is no longer a trademark*. To protect the core trademark right (initial entitlement), the requirement of maintained control was specified with an inalienability rule, to allow the prohibition of transferring the trademark without the accompanying firm, to be removed.

This means that an entitlement that allows infringement of a trademark right (i.e. use without the right holder's consent), as long as the infringer pays compensation, is *not logically possible*. Thus, unlike patent or copyright law, the choice or remedy of *proscribing* the use of a valid trademark under a compensatory scheme<sup>175</sup> *with a liability rule* cannot be available in trademark law, since it would dilute the distinguishing function of the trademark, which is at the heart of trademark protection. While the heart does not enjoy absolute legal protection, it is the core, without which the construct of trademark rights could not exist.<sup>176</sup>

Thus, an inalienability rule cannot be replaced by a liability rule without destroying the initial entitlement. Therefore, the issue of liability of intermediaries for trademark infringement cannot be resolved by a legislative compromise that takes away *some* of the trademark owner's control of the *legitimate* exercise of the trademark *right*, with or without compensation. Must-carry solutions, or collective licenses for use<sup>177</sup> of the mark, cannot, due to the fundamental construct

175. See Jane Ginsburg, *Copyright Control v. Compensation*, PEER-TO-PEER FILE SHARING AND SECONDARY LIABILITY IN COPYRIGHT LAW 123 (Edward Elgar ed., 2009).

176. See Dogan & Lemley, *supra* note 167, at 82 (discussing assignment in gross and naked licensing of trademarks); see also the case law of the EUCJ on the essential function of trademarks. Note what the inclusion of protection of the investment and advertising function, recognized in *L'oreal v. Bellure*, does bring protection closer to being absolute for owners of famous marks.

177. A recent inclusion in trademark law allows measuring the compensation to be paid for infringing use by way of assessing voluntary trademark licensing fees. Analogy to copyright is apparent. However, trademark owners are obviously willing to assist the court in assessing the correct amount of compensation they should receive. The court could not, however, rule that the trademark owner's right has not been infringed (entitlement protected

of the right, apply by analogy from copyright law to trademark law. *The exclusive right is either present in its entirety, or not at all.* This fact explains the trademark owner's "all or nothing" approach on the internet—they stand to gain an absolute right and to lose an entire right.

### 3. Protecting ISPs With Property or Liability Rules

ISPs, on the other hand, can, like other market actors, easily be regulated by liability rules, and be made to answer to a property owner wronged, when negligent. However, economic efficiency, distributional equality and dynamic efficiency, the apparent consistency with new entitlements, and the relative worthiness of them, may require us to rethink the situation. Liability rules, we know, are often used to protect entitlements when there is uncertainty regarding which entitlement most efficiently can attain economic efficiency.<sup>178</sup> Thus, for our purposes, when it is unsure whether enforcing a property right in a new setting, that is, granting an additional entitlement, increases allocative efficiency and distribution of income, a liability rule is to be preferred.

However, when transaction costs are high on both sides, a granted entitlement that has been proven wrong, that is, does not increase economic efficiency, will not be corrected by the market place.<sup>179</sup> Therefore, *it is better to entitle one actor to be free from a nuisance with a liability rule, than entitle another to create a nuisance with a liability rule, since the latter can pay the former for loss of the privilege, were it efficient, and leave the former to enjoy the privilege in peace, were it not.*<sup>180</sup> *Allowing recourse to trademark owners for contributory infringement or inducement is a question of granting a new entitlement. Granting ISPs freedom from individual lawsuits is as well.* Thus, when there is a choice between two liability rules, the latter should be preferred.

If, however, we are certain that optimal allocative efficiency and distribution of income demands an entitlement that protects ISPs from a multitude of claims, we should choose a property rule to protect this

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by a property rule), but instead it is forced to allow the use, and the owner is merely entitled to compensation for the use (entitlement protected by a liability rule) of the mark. A copyright owner's right includes *either* a right to prevent use, *or* to receive compensation, when use is allowed.

178. Calabresi & Melemand, *supra* note 29, at 1120.

179. *Id.*; see also Dogan & Lemley, *supra* note 167, at 66 (arguing that "trademark law reflects a continual balancing act that seeks to maximize the informational value of marks while avoiding their use to suppress competitive information").

180. Calabresi & Melemand, *supra* note 29, at 1119.

entitlement.<sup>181</sup> A property rule can be used to protect both private and public property. In this instance, the entitlement to communal property (maintaining public access and use of internet auction sites, search engines, and virtual worlds) can give rise to a communal property right that takes the form of a safe harbor for ISPs. In instances where liability rules are relatively cheap to circumvent, and where a large number of actors thus choose to avail themselves of the possibility to infringe and pay (or get away with it), we either have chosen the incorrect entitlement and the market self-corrects to reach economic efficiency, or, although the initial choice to protect an entitlement is correct, we have tailored the entitlement poorly, or chosen the wrong rules to protect it. The latter situation will allow high-jacking of the entitlement by whomever is strongest.<sup>182</sup> In a situation where transaction costs are high on both sides, the market will entrench the right of the stronger entity(ies), and will not allow the market forces to readjust and correct the wrong.<sup>183</sup>

In the current market for ISPs, transaction costs are relatively high in maintaining a lawful practice, including creating and maintaining technical tools and providing a service that manually filters and removes infringing listings. Allowing trademark owners, with relatively low transaction costs, to have the right to sue internet intermediaries for contributory infringement would raise these costs even more, including the costs for defending the entitlement *not to act* in court.

Thus, it is preferable that the law prevents interference with the entitlement of intermediaries *ex ante*, as opposed to allowing them remuneration for interference *ex post facto*. Exposing ISPs to a multitude of claims that demand high transaction costs to settle seems inefficient and disproportionate in relation to the actual loss due to trademark counterfeiting that the individual trademark owner suffers. Thus, an entitlement in the form of a safe harbor for ISPs should prevail. The fact that counterfeiting will likely persist, regardless of efforts or liability, should also be given weight in the search of an appropriate rule. Similarly, less onerous alternative means of achieving the same end should be considered. After all, trademark owners are free to enforce their property right in alternative ways (against direct infringers or by utilizing notice-and-take down systems more efficiently)

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181. An inalienability rule may even be preferred to prevent actors from self-regulating under right holder pressure.

182. Calabresi & Melemand, *supra* note 29, at 1090.

183. *Id.* at 1097; *see also* Dogan & Lemley, *supra* note 167, at 66.

that may lead to an equally, if not more, efficient overall result.

*B. Pooling Resources and Enhancing Cooperation*

The approach of the German Federal Supreme Court, *Störerhaftung*, seems close to vicarious liability that stems not only from a protected property right, but society's response to protecting this right against mass-infringement. Thus, the property right and the aggravated nature of the wrong together, give rise to the responsibility of key actors that control the infrastructure of real or virtual markets. Once the decision has been made to protect, it is common in property law to place a duty to act, not necessarily on the party that is at fault, but on the party that is best suited to repair the injury.<sup>184</sup> However, such cases tend to focus on repairing past wrongs, and not on the prevention of future wrongs. The German Federal Supreme Court, thus, placed the actor with the technical capacity to correct the wrong under a duty to act on pain of damages.

While the German Federal Supreme Court indicated that the internet auction sites would only be held liable for failing to remove listings containing replica, copy, imitation, or the like, the duty to act was left open-ended. The possible deterring effect on the legitimate acts—removal of legitimate sites, or the proportion of limited resources channeled to fight counterfeiting—were not enough to remove liability entirely, since the legitimacy of the initial entitlement “to protect” was not considered. The suitability of this form of liability in the contemporary market context, where there is not one trademark owner, but thousands, not one trademark infringed, but thousands, and not one infringement, but thousands, can be questioned. It seems at odds with the principle of proportionality to impose potential liability for failure to act in this setting, without considering the initial entitlement, or whether the ultimate goal will be furthered by imposing liability. The long history of persistent trade in counterfeit goods, regardless of legislative efforts, seems to prove that there is true uncertainty regarding whether the measures by ISPs will ever successfully reduce instances of infringement. Is automatic liability over-kill when similar results may be achieved with less invasive means?

If the ultimate goal is to reduce harm to property owners, and

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184. Calabresi & Melamed, *supra* note 29, at 1092. After society makes its decision to protect, it needs to enforce the decision, sometimes by granting new entitlements to protect the underlying entitlement. This is done without reassessing the value or worth of the initial entitlement.

measures reached by imposing *some liability on ISPs* are somewhat effective, the entitlement seems proportionate and justified. However, if imposing *more liability on ISPs* does not produce a decrease in harm, it would appear that there is no point in creating a nuisance via legislation that does not outweigh the social costs of such a nuisance. It seems disproportionate to have the intermediaries bare *the whole risk of non-enforcement*, when it is unlikely that counterfeiting will cease entirely, regardless of efforts by third parties or property owners. However, the property owner who suffers direct harm is in the best position to evaluate putting a proportionate amount of resources towards the harm it suffers, and is best suited to bear *the ultimate risk of non-enforcement* of the property right. One could consider alternative ways of achieving the ultimate goal, that is, decreasing the sale of counterfeit goods.

Trademark owners, much like copyright collective societies, could pool their resources to reach a higher state of economic efficiency. In *Tiffany v. eBay*, Tiffany, the trademark owner, had hired two employees who focused exclusively on searching for infringing listings for the year preceding the law suit. In that year, the employees found 19,000 listings that gave rise to concern, and filed notices for claims of infringement to eBay, who expeditiously removed the infringing listings. While the trademark owner in this instance chose to discontinue this at least partially successful attempt at combating trademark counterfeiting, it shows that a higher level of enforcement is attainable if resources are allocated to the endeavor. Tiffany's frustration, although not acceptable as a ground for shifting the duty to police the mark, is understandable because the sale of counterfeit merchandise persisted regardless of its effort.<sup>185</sup> If trademark owners, even only the brands most harmed by trademark counterfeiting, were to pool their resources together and hire employees to create and improve filtering software, to manually sort

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185. On the policy issue of where to place the enforcement burden, Professor Jane Ginsburg has argued that monitoring sites for infringing listings can be unduly burdensome for the individual copyright owner and, therefore, the enforcement burden then shifts to internet service providers, especially in instances of recurring infringement despite notices and takedowns. The argument seems to presuppose technological development in the area of filtering software, and is presented in the context of user-generated content. Jane Ginsburg, *Separating the Sony Sheep From the Grokster Goats: Reckoning the Future Business Plans of Copyright-Dependent Technology Entrepreneurs* 29–30 (Colum. L. Sch. Pub. L. & Theory Working Paper Group, Working Paper No. 08-166, 2008). Although the notion of the “individual” can be debated in the copyright context, it must clearly be rejected in the trademark context, since trademarks are part of doing business. Shifting the inherent risk in doing business from one entity to another requires more than mere inefficiency or lack of resources on the part of the property owner.

through flagged listings, and to cooperate with ISPs, a higher level of enforcement should ultimately follow. ISPs have already shown that such action has a positive effect in combating counterfeiting.

Internet auction houses have also seemed quite willing to share their experience and knowledge in developing better filtering tools. Pressure to do more than what is reasonable will likely increase self-protective measures, and decrease voluntary cooperation.<sup>186</sup> Since the ultimate duty to police the mark lies with the trademark owner, it should be in every brand owner's interest to cooperate, and also to utilize resources to develop better technology. This is vital for further development, since there are other ISPs (e.g., Second Life) that need be wooed into cooperation in the future. Not only are there many smaller actors that cannot afford efforts like those of eBay, but there are also new forms of intermediaries and new forms of infringement occurring on the internet all the time. Trademark owners could incentivize adoption of filtering software and infringement policies by commissioning the creation of, or purchasing, filtering software, and distributing it, and updates, to intermediaries for free. Remuneration would be received by a decrease in counterfeiting on the site of a cooperating internet intermediary.

Trademark owners, in establishing the pooling organization, are best equipped to measure the appropriate level of enforcement, and thus, the amount of allocated resources to correct the wrong or harm they suffer. Such an organization would likely gather the most interested actors, that is, those who suffer most from trademark counterfeiting. The success in combating trademark counterfeiting, especially long-term, would likely be greater than imposing liability on a primarily disinterested party. Tailoring the agency to the demands of the internet, that is, adopting a global focus and a conciliatory approach to intermediaries, will likely reduce litigation costs on a global scale.

While legal enforcement against organized crime and the sale of counterfeit merchandise will remain important, the proposed agency could soften the public image of the "all or nothing" approach<sup>187</sup> by informing, aiding, and providing tools to intermediaries, in order to

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186. Unlike eBay that chose the path of cooperation, other internet service providers, no doubt informed by eBay's constant pressure from right holders and battles in court, have chosen the path of tailoring their policies so as not to involve themselves at all as intermediaries. See, e.g., *infra* section II.C discussing Google and Linden Labs.

187. By the "all-or-nothing" approach, I refer to advertising campaigns targeting consumers with threatening messages, such as the consequences of buying counterfeit merchandise or the possibility of law suits against intermediaries for willful trademark infringement.



preemptively combat organized crime.

## VI. CONCLUSION

It is true that ISPs, or intermediaries, are not what they were at the wake of the millennium—up-starting businesses at the frontier of societal and technological revolution. The generation of ISPs that have benefited from legislative safe harbors are today extremely successful, powerful, and wealthy enterprises. However, wealth and success alone are not grounds for increasing liability.<sup>188</sup> At the same time, those businesses that attempted to profit from infringement of the rights of others are bankrupt<sup>189</sup> or struggling<sup>190</sup> today. Thus, fears of mass-infringers on the loose, because of ISP immunity, are groundless.<sup>191</sup> The issue of ISP liability is not one of intent, since those who intentionally attempt to infringe or profit from infringement by others are held liable across the globe.

In the trademark context, the question today is one of enforcement in combating organized crime, but beneath the surface lies the fundamental question of exclusive or open use of trademarks on the internet. So far, extending trademark rights to all uses of a protected trademark on the internet has been squarely rejected.<sup>192</sup> However, attempts at preventing offering or advertising using a protected trademark comes very close to permanently blurring the line between protecting the distinguishing function of a trademark to allowing absolute protection of the investment and advertising function of a trademark. Therefore, it is imperative to tread carefully in this domain, and to refrain from allowing actions of direct or indirect infringement against ISPs, absent clear evidence of fault.

As long as the internet service provider supplies an infrastructure that primarily benefits society and reasonably cooperates with right holders that present justified and proportionate claims, it should

188. Lemley, *supra* note 125, at 244.

189. Napster, Inc. closed its site after the Supreme Court found them liable for copyright infringement.

190. Tingsrätt [TR] [Stockholm District Court], Apr. 17, 2009, at 73, B13301-06 (Swed.). Since the criminal convictions rendered by the District Court of Stockholm, the owners of Pirate Bay have opened the site off and on without long-term success.

191. Ginsburg, *supra* note 185, at 25.; E-Commerce Directive, *supra* note 16, at Recitals 42, 44.

192. See *Tiffany, Inc. v. eBay Inc.*, 600 F.3d 93, 102-03, 113 (2d Cir. 2010); See also Joined cases C-236/08 - 238/08, *Google France S.A.R.L., Google Inc. v. Louis Vuitton Malletiere SA* (C-236/08), *Viaticum SA, Lucetiel S.A.R.L* (C-237/08) and *Centre National de Recherche en Relations Humaines (CNRRH) S.A.R.L* (C-238/08), 2010 E.C.R. I-02417.

presumptively enjoy immunity from individual right holder law suits, and expanded statutory or case law-based duties of care. We should be careful to tailor liability rules based on the acts of a few strong ISPs, and pit them against the interests of trademark holders. Instead, in fashioning liability rules, we should look to what rules enabled us to have a thriving market place, and thus, would allow continued growth of technologically savvy, and primarily infringement neutral, technologies. All potentially infringing uses of trademarks in ISP domains are not known to us today. Neither is the impact of the start-up businesses of today and tomorrow.<sup>193</sup> Rather than focusing solely on the old generation of ISPs, policy-making should take account of the marketplace as a whole. The standards for duty of care should also be tailored with small and medium-size businesses in mind.<sup>194</sup> Developing a culture of sharing and cooperation between right holders and ISPs (e.g., filtering software, best practices, etc.) would likely improve the overall effectiveness in combating the sale of counterfeit merchandise, and optimize the use of allocated resources.

New tools should be developed within trademark law that specifically establish the prerequisites for indirect infringement and narrowly tailor appropriate remedies. This would aid judges in the difficult task of balancing fundamental interests properly. Until then, preserving consumer access to services, consumer and business utilization of technological tools, competition, expressive freedom, and freedom of enterprise, are weighty interests that outweigh the individual trademark owner's interests in combating individual instances of trademark counterfeiting, and new forms of infringement.<sup>195</sup>

Allowing ISPs a presumptively wide safe harbor would not preclude trademark owners from utilizing alternative means to reach a higher rate of combating trademark counterfeiting in the online environment, namely, pooling their resources and establishing a global agency for utilizing the notice-and-takedown procedures already in place. The burden of enforcement would then lie with the most interested parties who are best suited to allocate the appropriate level of resources in relation to the actual harm caused by trademark counterfeiting.

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193. Compare to the situation in the 1990s. Edwards & Waelde, *supra* note 74, at 7.

194. Dogan & Lemley, *supra* note 12, at 1673.

195. First Commission Report, *supra* note 35, at 19 (citing a consumer study by DoubleClick Touchpoints: Effective Marketing Sequences in the Interactive Media Age, March 2003).