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**eBay on the European Playing Field:
A Comparative Case Analysis of *L'Oréal v eBay***

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Abstract

*This article analyses the recent High Court decision in *L'Oréal v eBay*, which is part of a Europe-wide string of cases initiated by *L'Oréal* against the online auction portal. The article focusses on the contentious questions of law which Mr Justice Arnold has referred to the European Court of Justice (ECJ) for clarification. His judgment makes several references to German cases. This article takes up this approach and compares the High Court's judgment with the relevant German case law. The findings reveal some considerable differences between the two EU Member States. It will be argued that these deviations in the interpretation of the Directives alone underline how necessary the substantial referrals to the ECJ are to achieve consistency and clarity at the European level. The article will place the discussions about eBay's liability for third party auctions into the wider debate about Internet intermediary liability at the European level.*

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1. Introduction

It may be argued that the High Court's recent judgment in *L'Oréal v eBay*¹ has raised more questions than it has answered. In fact, Mr Justice Arnold has referred all contentious legal issues regarding the liability of Internet auction portals for the sale of unauthorised goods on their website to the European Court of Justice (ECJ). While this approach has initially disappointed some commentators, a closer analysis of the judgment and the reasons behind the substantial referrals is required.

As this area of law is based on different EU Directives which were enacted in order to harmonise the law, it is to be applauded that the High Court did not take a unilateral domestic approach to their interpretation. Instead, the legal situation in other member states whose courts already had a chance to address similar issues was carefully considered. Significant parts of Mr Justice Arnold's discussions revolve around the German case law² which has evolved for some years and has created widespread discussions among German academics.³

This article will take up this comparative method and will analyse how the High Court and the German courts respectively have addressed the contentious legal questions raised by the cases. The aim of the paper is to compare the two approaches and to analyse if the German case law offers any guidance as to how the ECJ might decide the referrals or if these issues are, in fact, as unclear as the High Court's decision would suggest.

2. The English round in *L'Oréal v eBay*

L'Oréal and *eBay* – these two parties are currently facing each other in judicial proceedings throughout Europe. *L'Oréal* sued *eBay* not only in the United Kingdom for the infringement of its trademarks, but around Europe. The company has simultaneously started proceedings in France, Belgium, Spain and Germany. *L'Oréal* followed the example of other prominent brands such as *Rolex* and *Louis Vuitton* who have taken legal action against online auction portals in the past.⁴ The press was quick to declare the High Court decision as another “victory” for *eBay* after the recent French and Belgian decisions which were in its favour.⁵ This article will analyse if this assessment is accurate.

¹ *L'Oréal SA v eBay International AG*, [2009] EWHC 1094 (Ch).

² See the following German cases: Case I ZR 304/01 *Internet Auction I*, [2005] ETMR 25, Case I ZR 35/04 *Internet Auction II*, [2007] ETMR 70 and Case I ZR 73/05 *Internet Auction III*.

³ See e.g. S Leible and O Sosnitza, “Haftung von Internetauktionshäusern – reloaded” (2007) *Neue juristische Wochenschrift* 3324-3326.

⁴ For *Rolex* see note 2; for *Louis Vuitton* see the following French case: *Louis Vuitton Moët Hennessy (LVMH) v eBay*, see account at OUT-LAW, 01/07/2008, available at <http://www.out-law.com/page-9225> (accessed 10 August 2009).

⁵ See report about the French and Belgian cases by B May and M Liens, “Host Liability: *L'Oréal v eBay*: Liability of Hosting Service for Counterfeits” (2009) 11 *e-commercelaw&policy* Issue 6, June 2009; For a more general overview of the global cases between *eBay v* the brand owners see: J Nurton,

In the UK case, L'Oréal had identified 17 cases of unauthorised sales by six individuals. Two of these cases involved counterfeit goods and the other 15 were genuine goods that were put on the market outside the European Economic Area (EEA). L'Oréal had not consented to them being sold in the EEA. While the High Court agreed with L'Oréal that these sales by the individual sellers were unlawful, it held that eBay was not liable for joint tortfeasance.

The judgment did not answer various questions of law which have been referred to the ECJ for clarification.⁶ The questions on which the ECJ will have to decide address the following issues:⁷

1. Whether eBay had infringed L'Oréal's trademarks by sponsoring Internet links which led to listings on eBay's site, including listings for infringing goods, contravening Article 5 (3) of the Trade Marks Directive.⁸
2. Whether eBay has a defence against liability for trademark infringements conducted by the individual sellers under Directive 2000/31 (E-Commerce Directive), Article 14 (liability exemption).
3. The scope of relief which Directive 2004/48 (Directive on the enforcement of intellectual property rights)⁹, Article 11, requires national courts to grant against intermediaries such as eBay.
4. Furthermore, the High Court will ask the ECJ to decide if the sale of tester and dramming products¹⁰ and unboxed products amounts to an infringement of the trademarks according to the Trade Marks Directive 89/104, Article 7 (1). However, as this question only relates to the liability of the individual sellers and not to eBay it will not be discussed in this article.

3. The legal issues of the case

The following part will analyse the contentious legal issues of the case regarding eBay's liability and compare the English approach with the German one. eBay's primary liability for the use of sponsored links will be discussed first, followed by the joint liability of eBay for trademark infringements committed by the individual sellers. This will be followed by the scope of the defence for host providers in Article 14 of the E-Commerce Directive and the granting of injunctions pursuant to Article 11 of the Directive on the enforcement of intellectual property rights (hereafter Enforcement Directive).

"Questions referred to ECJ in L'Oreal v eBay dispute" (2009) *Managing Intellectual Property Law*, 12-13, at 13.

⁶ The specific formulation of the questions can be found at C-324/09, [2009] OJ C267/40.

⁷ See note 1 above, at para 481.

⁸ Directive 89/104/EEC on Trade Marks.

⁹ Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights.

¹⁰ Dramming bottles are large containers from which smaller samples are given to consumers.

3.1. Primary liability of hosts for use of sponsored links

L'Oréal complained about the use of their trade marks in sponsored links. Sponsored links are an advertising model where advertisers pay the search engine for displaying their advertisement if users search for a particular keyword. This advertisement is displayed alongside the hit list.¹¹ Keywords are important for search engines such as Google, for example, which derives 99% of its income from advertising.¹² L'Oréal claimed that eBay Europe was primarily liable for this use on third party search engines and on the site in so far as such use is in relation to infringing goods.¹³ eBay has purchased keywords consisting of the link marks which trigger sponsored links on third party search engines including Google, MSN and Yahoo. The effect of this is that a search on, for instance, Google causes a display of search results on the site for products by reference to the link mark. eBay Europe pays a certain amount for every click-through of each keyword.

The issue here is if eBay has, in fact, infringed L'Oréal's trademarks by these advertisements in so far as they link to the sale of counterfeit goods.

3.1.1. English law

The analysis in the High Court's judgment starts with outlining the preconditions which must be satisfied in order to constitute an infringement of the trade mark pursuant to Article 5 of the Trade Marks Directive. These conditions are derived from existing case law of the ECJ and are as follows: (i) the use of a sign by a third party, (ii) in the course of trade, (iii) without the consent of the proprietor of the trade mark, (iv) of a sign which is identical to the trade mark, (v) in relation to goods or services which are identical to those for which the trade mark is registered and (vi) it must affect the functions of the trade mark, in particular its essential function of guaranteeing to customers the origin of the goods or services.¹⁴

The contentious conditions in this case are "use", "in relation to infringing goods" and "infringing use". Mr Justice Arnold favoured the opinion that the display of the sponsored links constitutes "use" of L'Oréal's trade marks as eBay advertises with them.¹⁵ However, he was not sure if this interpretation was an *acte clair*. The question will subsequently be referred to the ECJ.

The judge also held that, in the present state of the ECJ's jurisprudence, it was possible to consider such use of signs as use "in relation to" infringing goods by assuming that clicking on the sponsored link leads the user directly to listings for goods by reference to the sign which include infringing goods.

¹¹J Cornthwaite, "AdWords or bad words? A UK perspective on keywords and trade mark infringement" (2009) *European Intellectual Property Review* 347-352, at 348.

¹²P Ruess, "Just google it? – *Neuigkeiten und Gedanken zur Haftung der Suchmaschinenanbieter für Markenverletzungen in Deutschland und den USA*" (2007) *Gewerblicher Rechtsschutz und Urheberrecht* 198-203, at 203.

¹³See note 1 above, at para 384.

¹⁴See *Arsenal Football plc v Reed*, [2002] ECR I-10273, at [51].

¹⁵See note 1 above, at para 392.

Since this judgment, the Advocate General has released his opinion on AdWords.¹⁶ This opinion relates to cases where Google is the defendant and not the advertiser. The Advocate General advised the ECJ that Google does not infringe companies' trade mark rights when AdWords allows other firms to pay for their adverts to be shown when a trade marked term is searched for. He argued that the use of the trade marks was limited to the selection of keywords which was internal to AdWords and concerned only Google and the advertisers. Such a use could therefore not be considered as use in relation to goods or services identical to those covered by the trade marks.¹⁷ The Advocate General argued that the mere display of relevant sites in response to keywords was not enough to establish a risk of confusion on the part of consumers as to the origin of the goods or services.

The Advocate General made some comments about the advertisers, but emphasised that the Court did not have to decide about such uses by third parties in the underlying referrals.¹⁸ He stated that the selection of keywords was a private activity of the advertiser and therefore not "in the course of trade". He highlighted that the risk of confusion lies in the ad and in the advertised sites. Trade mark owners would consequently not be "left totally defenceless" as they could prevent use if it involves a risk of confusion.¹⁹ It is important to note though that the opinions of the Advocate General are not binding on the ECJ.

A further contentious issue in the High Court's decision was L'Oréal's claim that the sponsored links infringed where they related to listings for non-EEA goods. The advertisement complained of in this case had been about goods placed on the market by L'Oréal outside the EEA which were targeted at UK customers on eBay. Mr Justice Arnold considered L'Oréal to be right on this point but did not feel that this was an *acte clair* either and again required guidance from the ECJ.

To summarise, the issue whether eBay had infringed the link marks by use in sponsored links and on its website depends upon a number of questions relating to the interpretation of the Trade Marks Directive. The hitherto limited case law has now been complemented by the opinion of the Advocate General, but has not been resolved, particularly not in relation to eBay.

3.1.2. German law

There have been more cases in Germany than in the United Kingdom regarding keyword advertisement which were mainly directed against the advertiser and not the search engine. This matches the situation of the underlying case. The most controversial issue in German law in this regard is whether or not sponsored links constitute "use" of trade marks. German Higher Regional Courts were divided about

¹⁶ Advocate General Poiras Maduro delivered his opinion in the conjoined French cases before the ECJ *Google France & Google Inc. v Louis Vuitton Malletier, Google France v Viaticum & Luteciel and Google France v CNRRH, Pierre-Alexis Thonet, Bruno Raboin & Tiger, franchisee Unicis* (Cases 236/08, 237/08 and 236/08) on 22 September 2009.

¹⁷ *Ibid*, at paras 66-67.

¹⁸ *Ibid*, at para 91.

¹⁹ *Ibid*, at paras 147-154.

the interpretation of the Trade Marks Directive in this regard.²⁰ Ultimately, the Federal Court of Justice had to decide in January 2009 in the case *Bananabay*.²¹ In this case, the erotic product retailer *Bananabay* sued a competitor who had purchased the AdWord *Bananabay* so that its website was displayed as a sponsored link every time someone searched for *Bananabay*. The Court referred this question to the ECJ for a preliminary ruling.

Those who consider the choice of trade marks as “use” base their view on the argument that advertisers create the impression that the advertisement leads to the trade mark owner’s website. This potentially results in a risk of confusion as to the origin of goods and services thereby compromising the function of the trade mark as an indicator of origin. The contrary position is that the average Internet user does not consider this use as an indication of origin since the search results and advertisements are clearly separated in position and colouring.

3.1.3. *Comments*

The English and German courts diverge in their approach to the functions of a trade mark: English courts endeavour to keep the power of the trade mark within tight boundaries and have recognised that there can be infringing and non-infringing use of trade marks.²² German courts emphasise the main function of a trade mark as an indicator of origin. Significantly, a comparative study has recently revealed that French courts approach this issue again completely differently thus adding to the importance of a clarifying ruling by the ECJ which has already received six references to date.²³

If the ECJ decides to follow the Advocate General’s opinion, then it will consider the choice of trade marks as “non-infringing use” thus following the English understanding of “use”. The Advocate General is right in his opinion that the average Internet user can distinguish between natural search results and sponsored links which are marked as advertisement.

However, it is important to bear in mind that the facts in *L’Oréal v eBay* are different. In most cases regarding keyword advertisement where he is the defendant, the advertiser is a competitor of the trade mark proprietor. In this kind of case, the trade mark proprietor makes the claim that the competitor confuses the public with the use of the sign as a keyword. This is different here, as eBay is, of course, not a competitor of L’Oréal. Instead, eBay tries to induce users to look at the offers made on their website by others. In so far as this relates to goods which have been marketed in the EU under this trade mark or with permission by L’Oréal this is subject to an exhaustion of the trade mark owner’s rights (Article 7). It is far from clear, however, if eBay will be able to avoid liability where its keywords link to the sale of counterfeit goods.

²⁰ A Ohly, “Keyword-Advertising *auf dem Weg von Karlsruhe nach Luxemburg*” (2009) *Gewerblicher Rechtsschutz und Urheberrecht* 709-717, at 710.

²¹ BGH, GRUR 2009, 498.

²² T Bednarz and C Waelde, “Search Engines, Keyword Advertising and Trade Marks: Fair Innovation or Free Riding?” in L Edwards and C Waelde (eds), *Law and the Internet*, 3rd ed (Oxford: Hart Publishing, 2009) at 291.

²³ *Ibid.*

In respect of eBay, it is significant that eBay only offers a marketplace where others sell the infringing goods. If eBay is considered to be a hosting provider, it will be subject to the liability exemption of Article 14 which, again, is subject to a referral to the ECJ and will be discussed below. The underlying case is therefore peculiar in a number of ways.

Nevertheless, things are not as simple for eBay as one might suspect. In respect of keyword advertisements, eBay does not only offer a marketplace but also actively advertises and thereby directs users to infringing goods as well. eBay holds a much more active position than a mere neutral host. It is therefore interesting that, in the French round of *L'Oréal v eBay*, the French court differentiated between eBay's role in the selling process and the advertising measures taken by eBay.²⁴ The court held that when eBay actively uses sponsored links, this falls outside their role as a hosting service. The court emphasised the active role of eBay regarding the placing of the advertisement as opposed to their passive position in providing a website on which auctions may take place. It was held that, for this reason, eBay should not benefit from the hosting provider status under Article 14 (1) of the E-Commerce Directive. This finding had no consequences for eBay in the particular case though, as the court rejected L'Oréal's claims on the basis that it had not precisely defined which facts were to be sanctioned.²⁵

This reasoning of the French court matches with the approach undertaken by the Advocate General in relation to Google. He noted that information society providers such as Google's search engine and AdWords should remain neutral as regards the information they carry or host in order to benefit from the liability exemption in Article 14 (1) of the E-Commerce Directive.²⁶ However, he considered AdWords to fall outside this exemption as Google has a direct pecuniary interest in users clicking on the advertisements. It is therefore imaginable that the ECJ will similarly establish distinctions in relation to eBay, thus potentially following the French approach.

The eagerly anticipated clarifications of the ECJ will therefore have to address various issues from the liability of advertisers to search engines. In relation to Internet auction portals, the ruling might have severe implications. If their more active role in choosing keyword advertisement is differentiated from their passive hosting role, it is going to be interesting to see how eBay will deal with advertisements in the future.

As the interpretation of Directives must be uniform with EU law, it is to be hoped that the law following such a ruling will be clearer and not, as predicted by some commentators, "likely to remain chaotic" afterwards.²⁷

3.2. Joint liability of hosts for trademark infringement in the sale of counterfeits

3.2.1. English law

Articles 5 to 7 of the Trade Marks Directive contain rules concerning the infringement of a registered trade mark, but do not address the issue of accessory liability. This

²⁴ See note 5 above.

²⁵ *Ibid.*

²⁶ See note 14 above, at para 138.

²⁷ See note 22 above, at 292.

made Mr Justice Arnold turn to domestic law. He held that eBay Europe is under no legal duty or obligation to prevent infringements of third parties' registered trade marks under domestic common law. This is regardless of the scope of Article 11 of the Enforcement Directive which concerns injunctions, and which will be addressed below. The question of eBay's joint liability was discussed in relation to the different infringements committed by the individual sellers, namely the sale of counterfeits, the sale of testers and dramming products, the sale of unboxed products and the sale of non-EEA goods. Except for the sale of non-EEA goods, Mr Justice Arnold agreed with the proposition by eBay Europe that nothing in eBay's systems and policies favoured or encouraged the listing or sale of counterfeit goods. Though the judge said that eBay actively encouraged the listing and sale of goods from outside the EEA, this fell short of common law joint tortfeasance. The court considered, however, that eBay was not under an obligation to prevent third parties from infringing registered trademarks.²⁸ It is important to note that the Court still thought that eBay could do more to combat the trade mark infringements.²⁹

3.2.2. German law

The famous trilogy of judgments of the German Federal Court of Justice (*Bundesgerichtshof*) regarding the liability of Internet auction providers have become known as *Internet Auction I, II and III*.³⁰ The facts of the three cases are similar. In *Internet Auction I*, the luxury watch maker Rolex sued Ricardo, an Internet auction provider, for trade mark infringements following the selling of counterfeit watches on its website. These watches were expressly described by the sellers as counterfeit Rolex watches. The watches were consequently sold for prices which were significantly below the prices usually paid for Rolex watches. In *Internet Auction II*, Rolex sued eBay following the offer of obviously or presumably counterfeit goods. *Internet Auction III* concerns a claim by Rolex against eBay requiring them to filter out the sale of counterfeit goods in advance.

These judgments are unequivocal in their denial of a primary criminal or civil liability of Internet auction providers for infringements of trademark rights committed by individual sellers. The Federal Court of Justice ruled in *Internet Auction I* that the host provider does not "use" the trade mark in the sense of Article 5, Trade Marks Directive and is therefore not liable for trade mark infringements.³¹ Ricardo had not, in its own right, committed a trade mark infringement. Consumers perceive an online transaction as a transaction where sellers and bidders meet online via an automated system so that the offer does not originate from the e-auction site. The Internet auction portal Ricardo could not be held liable for aiding and abetting either as, in German tort law, the aider and abettor is only liable if intention can be shown on his side as well as on the side of the principal. This includes knowledge of the unlawfulness which is, however, difficult to prove due to the automatic placing of the offer.

²⁸ See note 1 above, at para 375.

²⁹ Ibid.

³⁰ See note 2 above.

³¹ See Case I ZR 304/01 *Internet Auction I*, [2005] ETMR 25.

However, the trade mark proprietors were granted injunctions against eBay. This will be discussed below.³²

3.2.3. *Comments*

Both English and German courts denied the claims for damages against the online auction provider following the sales of counterfeits by an individual seller. The area where the courts diverged is the granting of injunctions against Internet intermediaries and the scope of Article 11 of the Enforcement Directive.³³

It is nevertheless important for eBay to take into account that the High Court declared that eBay could do more to prevent further infringements on this auction portal.³⁴

3.3. Immunity vs injunctive relief

For the benefit of clarity, and given their interdependence, it is important to discuss the scope of the liability privilege for host providers jointly with the requirements of the Enforcement Directive regarding injunctions.

3.3.1. *English law*

eBay claimed that it had a defence pursuant to Article 14 of the E-Commerce Directive.³⁵ Article 14 (1) exempts hosts from liability for the information stored at their site if the host does not have “actual knowledge of illegal activity” and, as regards claims for damages, “is not aware of circumstances from which illegal activity or information is apparent”. Accordingly, the host must remove such information once he obtains knowledge of it or become liable for it under Article 14 (1) (b).

L’Oréal argued that this exemption was not applicable in relation to eBay. They based their argument on Recital 42 of the Directive which stated that the exemption from liability would only cover cases where the activity of the information society service provider is “of a mere technical, automatic and passive nature”. It was argued that eBay’s activities go beyond such passive storage. Mr Justice Arnold indicated his

³² For a more detailed discussion of this liability category see below at 3.3.2

³³ See discussion below, at para 3.3.

³⁴ See note 1 above, at para 277. The Court outlined ten steps which eBay could take: (i) filter listings before they are posted on the site; (ii) use additional filters, including filters to detect listings of testers and other not-for-sale products and unboxed products; (iii) filter descriptions as well as titles; (iv) require sellers to disclose their names and addresses when listing items, at least when listing items in a manner which suggests that they are selling in the course of trade; (v) impose additional restrictions on the volumes of high risk products, such as fragrances and cosmetics, that can be listed at any one time; (vi) be more consistent in their policies, for example regarding sales of unboxed products; (vii) adopt policies to combat types of infringement which are not presently addressed, and in particular the sale of non-EEA goods without the consent of the trade mark owners; (viii) take greater account of negative feedback, particularly feedback concerning counterfeits; (ix) apply sanctions more rigorously; and (x) be more rigorous in suspending accounts linked to those of users whose accounts have been suspended (although it is fair to say that the evidence is that eBay Europe have recently improved their performance in this regard).

³⁵ See note 1 above, at para 432.

preference for L'Oréal's position but concluded that the interpretation of Article 14 (1) was not an *acte clair*.³⁶

The ECJ will also have to answer a referral regarding the requirements of Article 11 of the Enforcement Directive. The Enforcement Directive was enacted later than the E-Commerce Directive. With regard to eBay, sentence 3 of Article 11 of the Directive is significant. It states that Member States shall ensure that right holders 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. Consequently, L'Oréal argued that eBay must be subject to such an injunction.³⁷

Mr Justice Arnold had doubts about whether the current position in English law was compatible with this regulation as the United Kingdom had not taken any specific steps to implement sentence 3 of Article 11 of the Enforcement Directive. He discussed the scope of sec 37 (1) of the Supreme Court Act 1981 which entitles the High Court to grant an injunction in all cases in which it appears just and convenient to do so. However, the judge was not sure if Article 11 does not only (as contended by counsel for eBay) require an injunction to be available against the intermediary to prevent the continuation of a specific act of infringement and therefore decided to refer this issue.³⁸

3.3.2. German law

Interestingly, the Court noted that the German interpretation of the scope of Article 14 was "fairly expansive", yet this would be *obiter dicta* due to the fact that no liability for trade mark infringements was found in the first place anyway.³⁹

In fact, the German courts held eBay to be a hosting provider which qualified for the liability exemption granted by Article 14 of the E-Commerce Directive.⁴⁰ Pursuant to §10 of the German Tele Media Act which implements Article 14 of the E-Commerce Directive, service providers are not liable for external information which they store on behalf of a user provided that they have no knowledge of the unlawful act or the information and if they, in case of a claim for damages, are not aware of the facts from which the unlawful act or information is apparent. The relevant requirements for liability are "knowledge" and "apparent unlawfulness". It is important that the knowledge must be obtained by a physical person. Notably, the claimant has to prove that the host had knowledge of the infringement in the case. Hence, the claimant has to provide the non-existence of the liability exemption.⁴¹ This restricts the liability of hosts to intentional torts or criminal offences.⁴²

³⁶ Ibid, at para 443.

³⁷ Ibid, at para 444.

³⁸ Ibid, at paras 444-465.

³⁹ Ibid, at para 442.

⁴⁰ See Case I ZR 304/01 *Internet Auction I*, [2005] ETMR 25.

⁴¹ A Wiebe and M Neubauer, "Teil 15 Rechtsprobleme bei Internet Auktionen" in T Hoeren and U Sieber (eds), *Handbuch Multimedia-Recht 21. Ergänzungslieferung* (München: Beck, 2008), at para 157.

⁴² T Hoeren, "Liability for Online Services in Germany" (2009) 10 *German Law Journal* 561-584, at 567.

It is also important that the information stored on the website must be created by third parties. The German courts have not considered this to be a contentious criterion as the auctions are conducted by third parties.⁴³ Even though the service provided by hosts expands beyond the usual contribution of a hosting provider, it is still considered to be the storage of external information on behalf of the user. The liability privilege for host providers was therefore held to be applicable.

Where the English and the German courts particularly differ is the issue of granting injunctions against host providers. The Federal Court of Justice has consistently held that the liability privilege for host providers would not cover injunctions against the Internet intermediary such as an online auction portal.⁴⁴ Issuing an injunction against hosting providers in Internet law is based on the German principle of *Störerhaftung* which can be translated as the liability of a “disturber” or “interferer”⁴⁵. It is important to note that interferer liability is a long-standing principle which has existed for many years and is now being applied to Internet law. This principle protects absolute rights pursuant to secs 823, 1004 of the German Civil Code. It means that anyone who somehow contributes deliberately and adequately causal to the infringement of a protected right can be subject to an injunction, without being the perpetrator or an accessory. Trade marks are such protected absolute rights. Injunctions can be issued regardless of negligence or fault. However, this action does not result in monetary compensation for the trade mark owner.⁴⁶

In *Internet Auction I*, the Court ordered the Internet auction provider not only to delete the offer for sale of an good which infringed the trade mark but also issued an injunction against it which required preventive measures against future infringements of the trade mark.⁴⁷ In *Internet Auction II*, the Federal Court of Justice has further complemented its approach to issuing injunctions against host providers.⁴⁸ In this case, the court found further reason for its approach in sentence 3 of Article 11 of the Enforcement Directive. The Court held that Germany had sufficiently implemented the requirements of this provision with its principle of interferer liability. The Court was therefore entitled to apply German law as it would otherwise have to apply the Enforcement Directive directly. The Court referred to Recital 23 of the Enforcement Directive according to which right holders should have the possibility of applying for an injunction against an intermediary whose services are being used by a third party to infringe the right holder’s industrial property right. The conditions and procedures relating to such injunctions should be left to the national law of the member states.

This interpretation of the Directives is further based on Article 14 (3) of the Directive which states that the Directive shall not affect the possibility for a court of requiring the service provider to terminate or prevent an infringement. The compatibility of this principle with Article 14 (1) of the E-Commerce Directive has been based on Recital 46 of the Directive which explicitly says that Article 14 would leave open the option

⁴³ OLG Braunschweig, WRP 2004, 627, 628; OLG Düsseldorf, WRP 2004, 631, 635.

⁴⁴ See note 2 above.

⁴⁵ Hereafter called “interferer liability”.

⁴⁶ BGH, Case V ZR 202/57.

⁴⁷ Case I ZR 304/01 *Internet Auction I*, [2005] ETMR 25.

⁴⁸ Case I ZR 35/04 *Internet Auction II*, [2007] ETMR 70.

to member states to request a host provider to cut or to prevent the infringement. Federal Judge Bornkamm differentiates between the *ex ante* and *ex post* situations.⁴⁹ The directive would expressly prohibit the imposition of any duty to monitor the information stored on their site prior to the committing of the tort (*ex ante* situation). However, once a right has been infringed, the host provider may be required not only to terminate the infringement but also to prevent further infringements (*ex post* situation). Injunctive relief as to further infringements would therefore not be ruled out.

According to the German case law, the auction provider must ensure that no such further infringements are committed once it has been notified of a clear infringement.⁵⁰ This duty would encompass not only identical, but also “equal” infringements. It has not been specified what is exactly expected from an auction portal. The Federal Court of Justice only made clear that the “interferer” must not be unreasonably burdened as it has not committed the infringement itself. Therefore, liability as an “interferer” presupposes that the Internet auction provider has failed to exercise certain monitoring duties. The scope of these duties depends on what can reasonably be expected from the interferer. The Court found it unreasonable to request a provider of Internet auctions to check every offer for sale as to its potential trade marks infringements prior to its activation on the website. Such a duty would render the whole business model unworkable.

On the other hand, it has to be taken into account that Internet auction providers benefit from the sale of the infringed goods as they receive a commission for every good purchased on their website. As the infringements are committed upon their website, the interest of the Internet auction provider to run its site as inexpensively as possible deserves less protection than the interest of the trade mark owner to have its trade mark secured. The courts followed from these considerations that an adequate balance of the conflicting interest would require the auction provider to block the respective offer for sale infringing trade mark rights as soon as possible once it has been notified of the infringement (*Notice-and-Take-Down*). It must furthermore take reasonable and technically possible measures to prevent further infringements.

Although the courts failed to specify the measures which an auction provider has to take once an infringement has occurred, they said that eBay could, to a certain extent, use filter software to filter out suspicious offers for sale which would then need to be checked manually.⁵¹ It would, however, be unreasonable to expect eBay to filter out those offers where there is no search term available to detect the infringement. Where no filter software would have detected the infringing offer, an Internet auction provider will not be held liable for the infringement. The Court did not consider a low starting price as sufficient evidence for an infringement.

In *Internet Auction II*, the Court also held that a pre-emptive injunction against host providers can be issued if a trade mark has not yet been infringed but if this is

⁴⁹ J Bornkamm, “E-Commerce Directive vs IP Rights Enforcement – Legal Balance Achieved?”, (2007) *Gewerblicher Rechtsschutz und Urheberrecht, Internationaler Teil* 642- 644, at 643.

⁵⁰ See note 45 above, at paras 40-41.

⁵¹ *Ibid*, at para 41.

imminent.⁵² The use of filter software would be reasonable in so far as this is technically possible.

It is interesting to consider how the Higher Regional Court of Düsseldorf applied these rather general and broad principles when *Internet Auction II* was remanded back from the Federal Court of Justice.⁵³ This court denied Rolex's claim as trade mark owner upon the specific facts of the case. It was held that eBay had fulfilled its duties to monitor its site as required by the Federal Court of Justice so that there was no scope for issuing an injunction. The court referred to Article 15 of the E-Commerce Directive which prohibits the imposition of a general obligation on providers to monitor the information which they transmit or store. This would not conflict with a specific duty to control offers for sale. This would follow from Recital 48 of the Directive which makes clear that the Directive shall not affect the possibility for Member States to apply monitoring duties to hosts as long as the scope of the duties can reasonably be expected from them and which are specified by national law in order to detect and prevent certain types of illegal activities. So, in the end the court reverted to *Notice-and-Take-Down*.

These discussions reveal the somewhat conflicting requirements of the different directives that the courts in the member states have to handle: immunity for hosting providers versus injunctions. In between the two the other contentious issue is what can reasonably be expected of an auction provider in terms of monitoring its website.

3.3.3. *Comments*

These comparisons marked a difference in approach between the courts of the two countries. German courts considered eBay to qualify as a hosting provider pursuant to Article 14 of the Directive, but have issued injunctions against hosting providers despite this immunity. By contrast, the High Court was hesitant to decide if eBay is a host at all and did not impose an injunction on the basis of the current state of domestic law.

In this respect, Mr Justice Arnold's comments that it is not entirely clear if English law is fully compliant with the requirements of Article 11 of the Enforcement Directive are interesting.⁵⁴ The Patent Office's consultation paper on the UK implementation of the Enforcement Directive expressly stated that no action was required in the UK to implement Article 11.⁵⁵ The paper referred to sec 37 (1) of the Supreme Court Act 1981. The High Court's findings about the compatibility of the current legal situation in the UK with the Enforcement Directive therefore come as a surprise.

Regardless of the various criticisms of the German approach, it is based on a carefully thought of application of the Directives. But does it really strike "a fair balance between the intellectual property rights and the interests of host providers" as argued

⁵² See note 46 above, at para H5.

⁵³ OLG Düsseldorf, Urt. v. 24.02.2009, Case I-20 U 204/02.

⁵⁴ See note 1 above, at para 447

⁵⁵ The Patent Office, *Consultation Paper: The UK Implementation of the Directive on the Enforcement of Intellectual Property Rights (2004/48/EC)*, available at: <http://www.ipo.gov.uk/consult-enforcement.pdf> (accessed 12 August 2009).

by Federal Judge Bornkamm?⁵⁶ He claims that the balance struck by the German courts “is in accordance with European law, but European law only allows such a balance without stipulating it”.⁵⁷ In fact, the approach of the German courts has not gone undisputed.⁵⁸ A particular concern is the expansion in *Internet Auction II* of pre-emptive injunction relief.

The German approach tries to circumvent any referral to the ECJ by avoiding references to the directives, thereby effectively taking on a unilateral approach. In light of the obvious contradictions between the different directives and the need to balance them, this is questionable. This is even more so as the concept of interferer liability is unique and not even based on a statutory base in the new Tele Media Law. Some commentators have therefore argued that the Federal Court of Justice breached its duty to ask for a preliminary ruling in accordance with Article 234 (3) EC when it even expanded the scope of interferer liability in *Internet Auction II*.⁵⁹ Another criticism which can be made about the German position is the Federal Court of Justice’s lack of clear guidance. It is still not sufficiently clear what level of monitoring can reasonably be expected from an online auction provider. At the moment, further judgments are likely as the exact scope of this duty is still subject to speculation despite the numerous cases.

It is submitted that it was therefore correct for the High Court to refer the contentious questions in this area to the ECJ. Although it initially seemed that the Court only presented the relevant law and analysed the approaches of foreign courts instead of taking on a clear view of its own, this was the right decision to provide more uniformity among member states.

In this respect, it is important to note that the approaches of other member states do not help to find a unifying approach to the interpretation of the E-Commerce Directive or the Enforcement Directive. French courts have proved to be particularly adverse to Internet intermediaries and have been unpredictable in their rulings. In the French round of *L’Oréal v eBay*, a Paris Civil Court recently held that eBay was not liable for the online auction sale of counterfeit goods.⁶⁰ However, the Court has postponed its final ruling and has given the parties time to mediate. In this case, the French Court also considered eBay to be a hosting provider pursuant to Article 14 of the E-Commerce Directive in relation to the sales as eBay does not control the selling process. The Court distinguished the placing of keyword advertisement from this as here eBay plays a more active role and therefore may not benefit from the hosting provider status (see above). This judgment differs from previous French decisions where the trade mark proprietors won against eBay and were granted damages.⁶¹ In the Belgian round of this legal dispute, the court considered eBay to be protected by the Belgian implementation of Article 14.⁶² The Belgian court also held that eBay

⁵⁶ See note 47 above, at 644.

⁵⁷ *Ibid.*

⁵⁸ See note 3 above.

⁵⁹ See note 3 above, at 3324.

⁶⁰ See note 5 above.

⁶¹ *Ibid.*

⁶² *Ibid.*

does not have a “general monitoring obligation” about what is offered on its website. This case law indicates that there seems to be an agreement amongst European courts that eBay now falls under Article 14.

The fact that the European Commission has not yet published the findings of a study of the liability regimes pertaining to E-Commerce which it had conducted in accordance with Article 21 of the E-Commerce Directive gives even more reason for concern.⁶³ This underlines how disputed this area of law is.

No matter how much the member states’ courts differ in their interpretation of the Directives, one consensus in the recent Europe-wide decisions in *L’Oréal v eBay* was that eBay was not liable to pay damages for the sale of counterfeits by individual sellers. Given the criticisms of eBay’s role it is not clear if this will lead to a more coherent approach in the future. It is therefore important that there are three further references pending before the ECJ as to the proper interpretation of Article 14 which means that the area is likely to be revisited.⁶⁴ It is important that the ECJ clearly rules if eBay is a host provider or not.⁶⁵ Moreover, a clear decision regarding injunctions and how this corresponds with the prohibition to impose monitoring duties in Article 15 of the E-Commerce Directive is crucial.⁶⁶ It remains to be seen if the ECJ will follow the detailed German jurisprudence.

The national diversities are obviously too strong for a common approach as to the liability of host providers. European legislative institutions bear part of the blame. The conflict between the requirements of the various Directives was not unforeseeable. A cleaning up of the Directives at an earlier stage or at least more express recitals would have provided more clarification. It is to be hoped that the goal of harmonisation will still be reached.

4. Conclusion

While the hesitance of the High Court to give clear answers might seem disappointing at first sight, this comparative case analysis has shown that the interpretation of the relevant European law is, in fact, not as straightforward as contended by other member states’ courts. This was even admitted by the parties in the underlying decision – eBay and L’Oréal - themselves. It was therefore the right step of the High Court to refer the questions to the ECJ.

There is some justification towards being critical of the tendency of some Member States’ courts of too quickly referring questions to the ECJ as law requires interpretation and the EU legislative institutions cannot foresee every single situation

⁶³A Lensing-Kramer and P Ruess, “*Markenrechtliche Verantwortlichkeit von Internet-Auktionsportalen im Rechtsvergleich – Deutschland als Vorbild für Europa?*” (2009) *Gewerblicher Rechtsschutz und Urheberrecht* 722-727, at 724.

⁶⁴ See note 1 above, at para 442.

⁶⁵ See for the different arguments R Bond, “Business Trends in Virtual Worlds and Social Networks – an Overview of the Legal and Regulatory Issues Relating to Intellectual Property and Money Transaction” (2009) *Entertainment Law Review* 121-128, at 124.

⁶⁶ See for a discussion of filtering mechanisms: H Rösler, “Anti-Counterfeiting in Online Auctions from the Perspective of Consumers’ Interests” (2006) *International Review of Intellectual Property and Copyright Law* 771-788, at 786-787.

when drafting the directives. There is a danger of national courts being too hesitant towards applying directives themselves. Preliminary rulings obviously take time and therefore extend the time frame until judgment is dispensed in the cases affected. This would reverse the goal of directives to facilitate the law through harmonisation. However, things are different here. E-Commerce in the European Union urgently needs clarity about some significant legal questions. The current differences in how Member States' courts address similar issues clearly does not facilitate trade across the Single Market.

The outcome that eBay is not liable for joint tortfeasance is positive for the future development of e-commerce generally. It is in line with a string of similar outcomes in other Member States and based on the immunity granted by Article 14 of the E-Commerce Directive.

While the ECJ's final say is now eagerly anticipated, the findings of the courts offer two provisional interpretations. Firstly, a common European approach regarding the liability of hosts for trade mark infringements committed by third parties slowly evolves. Secondly, eBay should be cautious about celebrating the UK decision as a "victory" as the Court made it clear that eBay could do more to prevent further infringements by others and even explicitly stated how eBay should do so.⁶⁷

It will be interesting to see how the ECJ will reconcile Article 11 of the Enforcement Directive with Articles 14 and 15 of the E-Commerce Directive. The above analysis has shown that though an extra category of interferer liability exists under German law, it is not clear if this is at all compatible with the Directives even though the German courts contend that it strikes a careful balance between the different requirements.

This whole topic is not just a question of the exact legal interpretation of the Directives but touches on the wider issue of Internet intermediary liability.⁶⁸ Resolution is needed on who will bear the (financial) consequences of web 2.0. The contention by the trademark owners that online auction portals have increased the risk of selling counterfeits and infringements of their trademark rights is true; yet, it does not necessarily follow from this that these portals are liable for the infringements of the individual sellers. This would render web 2.0 economically unworkable, a result which is undesirable for all. The Internet intermediary is all too soon and all too often seen as the more lucrative alternative defender than the individual infringer.

At the same time, eBay and other Internet intermediaries have to accept that they have become powerful companies. It is possible for them to dedicate teams of employees to ensure that only a minimum of counterfeits are sold. It is also hard to believe eBay's contention in the High Court case that no filter software (however flawed) exists which could be applied more coherently and consequently than before. Article 14 (1) (b) which provides that a host provider upon obtaining knowledge of illegal activity on its site has to "act expeditiously to remove or disable access to the information" to be exempted from liability has led to a system of *Notice-and-Take-Down*. However, in this system the trade mark proprietors are burdened with the cost of web 2.0 by having to detect the infringements. Instead, given that some intermediaries are highly

⁶⁷ See note 34 above.

⁶⁸ For a detailed discussion see L Edwards, "The fall and rise of Intermediary Liability Online" in L Edwards and C Waelde (eds), *Law and the Internet*, 3rd ed (Oxford: Hart Publishing, 2009), at 47-88.

profitable, they could be required to do more within the limits of Article 15, E-Commerce Directive.

It is the European Commission's duty to provide more clarity in an increasingly controversial area of commerce and law. The questions here are first and foremost legal issues, questions of how to interpret the wording of directives; but, in the end, the impact of these issues on the future economic development in the online world is not to be underestimated. Law needs to keep up with the pace of changes in the online world which have become an important economic factor.⁶⁹ The EU institutions need to review the current liability exemption provisions to retain any kind of harmony across the Single Market.

The European case law in this area has proved to be unpredictable. From the host providers' point of view, a clear and harmonised approach is needed more than a victory in one country's courtroom. If the High Court's decision contributes towards reaching this goal, then we can, in fact, say that it has helped to answer more questions than it has risen.

⁶⁹ eBay declares on its website that it is present in 39 markets and has approximately 84 million active users worldwide. In 2007, the total value of sold items on eBay's trading platforms was nearly 60 billion US dollars, see: <http://news.ebay.com/about.cfm> (accessed 12 August 2009).