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Back to Bulletin Main Page

Combating Contributory Infringement on the Internet

Susan M. Kayser and Lucy J. Wheatley, Jones Day, Washington, D.C., USA

Chiang Ling Li, Jones Day, Hong Kong SAR, China

Marc Groebl and Gregor Stoerzinger, Jones Day, Munich, Germany

Alastair McCulloch and Francois Holmey, Jones Day, London, UK

Emmanuel Baud and Edouard Fortunet, Jones Day, Paris, France

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Is an Internet service provider (ISP), e-commerce site or other sponsor of online content contributorily liable for a third party's online infringing activities? The answer depends on a number of factors. These include:

- The company's knowledge of third-party infringement;
- The amount of control the company can exert over third-party infringers; and
- The country in which action against the contributory infringers is taken.

This article first examines contributory liability for online infringement under the laws of the United States, China, the EU, France, Germany and the United Kingdom, and then recommends some strategies for combating contributory infringement.

Contributory Liability for Online Infringement in Key Jurisdictions

United States

In the United States, contributory trademark infringement exists at the common law level. To prevail on a claim for contributory trademark infringement, a plaintiff must show (1) knowledge of the infringement and (2) control of the infringing instrumentality. Proving knowledge requires showing that the defendant (a) intentionally induced a direct infringer to infringe or (b) continued to supply its products or services to one who it knew or had reason to know ("willful blindness") was engaging in trademark infringement. To prove control by an online contributory infringer, a plaintiff must show that it had direct control and monitoring of the instrumentality used to infringe a party's trademarks. For example, a trademark owner must show that a host or sponsor has the ability to stop the direct infringement by ceasing to provide its services to the direct infringer (e.g., an e-commerce site could remove listings or ban the member). The degree of knowledge and control required to create liability for online activity has been hotly debated; however, three federal appellate decisions have provided some clarity on these requirements in recent years.

Proving Knowledge of Direct Infringement

Several major decisions in the past three years have addressed the degree of knowledge an e-commerce site must have to face liability for contributory infringement. The issue of knowledge was central to the well-known online contributory infringement case *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010), the first U.S. case to apply the contributory infringement standard to an online marketplace. In Tiffany, the U.S. Court of Appeals for the Second Circuit held that the online marketplace eBay was not liable for sales of counterfeit Tiffany products by eBay's members. The court based this conclusion, in part, on the fact that while eBay had generalized knowledge that counterfeit Tiffany goods were sold on its platform, it did not have knowledge of specific infringing sellers or listings. The court found that eBay's generalized knowledge that counterfeit Tiffany goods were sold on eBay by unknown sellers was insufficient to create liability.

After the *Tiffany* decision, it was unclear whether U.S. courts would require brand owners to show knowledge of infringement by proving that formal take-down notices were submitted for each instance of direct infringement. The Ninth Circuit's decision in *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc*., 658 F.3d 936 (9th Cir. 2011), clarified that a brand owner asserting contributory trademark infringement claims can show that an alleged contributory infringer has provided its services with actual or constructive knowledge that the users of its services are engaging in trademark infringement. Akanoc involved an ISP that hosted websites selling counterfeit goods. *Akanoc* did not follow *Tiffany*'s focus on knowledge of specific infringing listings, although the plaintiff in *Akanoc* also sent formal take-down notices with respect to specific infringing websites. The Ninth Circuit further clarified that a brand owner does not need to prove that a defendant intended to assist counterfeiting.

In *Chloe SAS v. Sawabeh Information Services Co*., No. 2:11-cv-04147-GAF-MAN, 2013 BL 286656 (C.D. Cal. Oct. 8, 2013)), a U.S. district court in California applied the *Akanoc* standard, noting that intent could be imputed as a result of a knowing failure to prevent infringing actions. Six luxury brands sued an online B2B marketplace, TradeKey.com, for contributory infringement, alleging that TradeKey.com actively promoted and facilitated the sale of counterfeits in bulk by its members. Although the brands did not send any formal take-down notices, the court held that the B2B website was liable for contributory infringement on a motion for summary judgment, finding that it operated a virtual "swap meet" where it knowingly allowed members to engage in wholesaling of counterfeit goods.

Similarly, in *1-800 Contacts, Inc. v. Lens.com, Inc*., 722 F.3d 1229 (10th Cir. 2013), the U.S. Court of Appeals for the Tenth Circuit held that "knowledge" did not necessarily require knowledge of specific acts of direct infringement. The appellate court ruled that a company could be liable for the actions of its affiliate that directly infringed a competitor's trademark. The affiliate posted advertisements online using the competitor's trademark. The company argued that it could not be liable for its affiliate's actions because it had thousands of affiliates and it did not know for several months which specific affiliate was infringing. The court rejected this argument, holding that where the company could have stopped the infringement by sending a blast email to all its affiliates, lack of knowledge as to which specific affiliate had infringed did not preclude liability for contributory infringement. "When modern technology enables one to communicate easily and effectively with an infringer without knowing the infringer's specific identity, there is no reason for a rigid line requiring knowledge of that identity." Id. at 1254.

Looking at these cases in total, knowledge sufficient for liability for contributory infringement depends on the type of infringing activity, the nature of the services used by the direct infringer and provided by the online provider, and the online provider's control over those services. Liability is not necessarily conditioned on whether the brand owner followed a formal notice and take-down procedure.

Control over the Instrumentality Used to Infringe

In the online contributory infringement cases discussed above, an evaluation of the "control" element helps to explain the type of knowledge required and the ultimate finding as to liability. The ease and ability of the online provider or have played a major role in all the decisions against alleged contributory infringers.

In *Akanoc*, the Ninth Circuit upheld a jury's finding that the web hosting company was liable for contributory infringement where some of the websites it hosted sold counterfeit goods. The court reasoned that the web host could unquestionably "pull the plug" by ceasing to provide its services and servers to the infringing websites, which would in turn stop the infringement. Chloe further emphasized the service provider's ability to control infringement, finding that factual evidence that the website monitored and controlled the member listings by preventing changes and optimizing listings amounted to sufficient "control" under Akanoc. Chloe, 2013 BL 286656, at *7-9.

In *Tiffany*, the court emphasized that eBay had invested over $20 million a year on anticounterfeiting efforts, that eBay had an established notice and take-down procedure that promptly removed infringing listings and that eBay had taken affirmative steps to identify and remove illegitimate Tiffany goods. The implication was that there was no feasible way that eBay could further "control" the infringement on its platform beyond the efforts it was already taking, without specific knowledge of which particular listings were infringing or would infringe in the future.

The *1-800 Contacts* decision arguably synthesized the holdings in *Tiffany* and *Akanoc* as to the amount of "control" over the infringement required to show liability. In *1-800 Contacts*, the defendant, Lens.com, argued that it did not know which of its affiliates were infringing. The court found, however, that the fact that the defendant had a simple and inexpensive way to control the infringement undercut its argument that it lacked the specific knowledge to be liable for contributory infringement.

The three cases discussed above indicate that, in practice, proving the control element for online contributory infringement may be highly dependent on a showing of an alleged contributory infringer's practical ability, and affirmative steps taken, to detect and stop infringement. Defendants that can show, as in Tiffany v. eBay, extensive efforts to prevent infringement may be found not to have the requisite knowledge or ability necessary to control the infringement. On the other hand, defendants that could take simple affirmative steps to stop infringement, but fail to do so, cannot escape liability by professing ignorance as to the identities of individual infringers.

The cases above also indicate the scope of activities that may subject a party to liability for online contributory infringement. In the United States, any company that facilitates the provision of online content by a third party, whether as an ISP, through e-commerce websites or by simple online advertising, may ultimately be held responsible for the third party's infringing activities.

China

Under Chinese law, a website or ISP is contributorily liable for a third party's online trademark infringing activities as long as it has actual or constructive knowledge of the third party's infringement.

Article 36 of the People's Republic of China Infringement Law provides that if an ISP is aware of infringement by a user of its network but does not take necessary measures, the ISP is jointly liable with the user.

Article 50(2) of the Implementing Regulations of the People's Republic of China Trademark Law provides that facilitating trademark infringement by a third party constitutes infringement.

Article 24 of the Provisional Measures Governing Activities in e-Commerce and Related Services provides that ISPs must take measures to protect, among other things, trademarks and trade names, and should take actions as required by the People's Republic of China Infringement Law when presented with evidence of infringement by their users.

The most famous case is Yinian (Shanghai) Fashion Trading Co., Ltd. v. Zhejiang Taobao Network Co., Ltd & Du Guofa. Taobao is one of the largest e-commerce sites, if not the largest e-commerce site, in China. It is akin to a Chinese version of eBay. Du Guofa opened shops on Taobao for selling clothing bearing cartoon bear logos that were similar to a registered trademark of Yinian. Taobao closed down the shops after receiving notice from Yinian. However, Yinian commenced a suit, claiming that Taobao should have done more, including blocking the opening by Du Guofa of further infringing shops on Taobao. The trial court and appeal court in Shanghai both agreed that Taobao should have done more and ruled that Taobao was jointly liable with Du Guofa.

European Union

Generally, European trademark law does not expressly recognize contributory trademark infringement as a theory of liability. However, online marketplaces and ISPs have an obligation under Article 14 of the e-Commerce Directive (Directive 2000/31/EC) to remove or disable access to any infringing information expeditiously upon becoming aware of it. Under the e-Commerce Directive, an intermediary can avoid liability for the information it hosts or stores if, "upon obtaining [actual] knowledge or awareness [of illegal activities], [it] acts expeditiously to remove or to disable access to the information" (Article 14 (1)(b)).

The Court of Justice of the European Union's (CJEU's) ruling in L'Oréal SA v. eBay International AG (Case C-324/09, [2011] ECR I-6011 (CJEU July 12, 2011)) states that online marketplaces, such as eBay, cannot rely on the hosting defense provided by Article 14(1) where (a) they have taken an active role in the relationship between buyers and sellers or (b) they are "aware of facts or circumstances on the basis of which a diligent economic operator should have identified" an illegal activity and did not act to remove or disable the infringing information (id. para. 120). An online marketplace takes an active role when it "provide[s] assistance which entails, in particular, optimising the presentation of the offers for sale in question or promoting those offers" (id. para. 116). This includes any behavior that goes beyond a neutral or merely technical or administrative position.

According to the CJEU, there are two further ways in which a marketplace operator may be "aware" and thus cannot rely on the described defense: (1) where the operator undertakes reasonable monitoring activities that show infringements and (2) where an operator receives notification of infringements from rights holders and fails to act expeditiously to remove/disable the infringing information. The CJEU confirmed its position in Google v. Louis Vuitton (Joined Cases C-236/08–C-238/08 (CJEU Mar. 23, 2010)), refusing to impose liability on Google for allegedly contributing to the counterfeiting of Louis Vuitton's trademarks by means of its "AdWords" tool.

In addition, in a recent decision rendered on the basis of Directive 2001/29/EC (on copyright and related rights in the information society), the CJEU held that an ISP that allows its customers to access protected subject matter made available to the public on the Internet by a third party may qualify as an intermediary whose services are used to infringe a copyright or related right. (UPC Telekabel Wien GmbH v. Constantin Film Verleih GmbH, Case C-314/12 (CJEU Mar. 27, 2014).) Accordingly, the CJEU ruled that a national court is entitled to grant an injunction aimed at prohibiting the ISP from allowing its customers to access such litigious content. While this decision was copyright-related, it might have an impact on similar situations where the litigious content at stake is violating trademark rights. Indeed, pursuant to Article 11 of the IP Rights Enforcement Directive (Directive 2004/48/EC), "Member States shall … 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."

It should be noted that decisions by the European courts, such as the CJEU or the General Court of the European Union, are strictly binding only on the specific court of a Member State that submits a question (e.g., in a preliminary-ruling proceeding). Also, courts of the Member States and authorities that are concerned with the specific issues triggering the submission of a question to the European courts are bound by the decisions. Even though judgments technically are not binding on courts and administrative authorities in other Member States, they still have a strong persuasive effect with regard to the interpretation of harmonized European law.

France

Like that of the European Union, French trademark law does not expressly recognize contributory trademark infringement as a theory of liability. However, contributory trademark infringement may be punished under French criminal law where a person is complicit or involved in the infringing acts. While very few companies initiate infringement actions on the basis of criminal law, in at least two criminal cases French judges have sanctioned individuals for their involvement in trademark infringement. See, e.g., Case No. 94/01538 (Paris Court of Appeal Nov. 18, 1994); Case No. 94-85940 (French Supreme Court May 29, 1996) (sanctioning individual for his involvement in a trademark infringement case in which a company used his surname, which was identical to a famous trademark, in order to promote services); Case No. 07/00860 (Pau Court of Appeal June 19, 2008) (finding company and several individuals liable for the sale of jewelry similar to the claimant's trademark, on the basis both of infringement and of involvement/complicity in the infringing acts).

Germany

Generally, in copyright and trademark law matters, German courts take the approach that third parties, such as ISPs, are not liable as perpetrators or participants. ISPs, however, may be liable for interference (Störerhaftung). To establish liability based on interference, a third party has to (1) deliberately and with proximate cause contribute to the procurement or maintenance of an unlawful encroachment, (2) even though it was de facto and de jure possible and reasonable to prevent the direct infringement, and (3) violate reasonable control obligations. I ZR 73/05 (Bundesgerichtshof (BGH) (German Federal Supreme Court) Apr. 30, 2008), 27—Internetversteigerung III. Interestingly, contributory liability in unfair trade practices cases, and recently in some copyright and trademark law decisions, is based on principles of direct infringement regarding duty of care or on participation (e.g., abetting).

The leading case for liability for interference on the Internet is Internetversteigerung III. The BGH found there was no liability for contributory infringement where "trademark infringements were not detectable in spite of the use of a reasonable filtering method and possible subsequent manual checks. If infringements are not recognizable even after the defendant, an online auction platform, has taken reasonable measures, there is no culpable breach of an obligation that could be penalized in summary proceedings."

Subsequent decisions have confirmed that ruling (e.g., 3 U 216/06 (Oberlandesgericht (OLG) Hamburg (Hamburg Court of Appeals) July 24, 2008) and I ZR 139/08 (BGH July 22, 2010)—Kinderhochstühle im Internet) and have also shown that the requirements for reasonable control obligations can be flexible and extensive. Factors such as private or commercial activities, as well as the purpose of the respective Internet service (e.g., targeted only at infringing content), influence the degree of reasonableness and have to be evaluated in a case-by-case analysis. For example, in the recent high-profile case of RapidShare v. Senator, I ZR 85/12 (BGH Aug. 15, 2013), the BGH held that RapidShare had to comply with extensive control obligations because of its knowledge of the hazardousness of its service. The Federal Supreme Court held that even though RapidShare could not control all data uploaded on its service, it procured copyright infringements by, inter alia, offering its service anonymously, rewarding extensive use that typically was related to illegal activities, and failing to apply measures to prevent similar infringements in the future (e.g., regularly scanning the link collection for obvious infringements). In Internetversteigerung III, the BGH made an interesting remark: It observed that more extensive control obligations may be necessary when well-known or famous trademarks, which are susceptible to infringements by third parties, are at stake. So far, however, the courts have not acted upon this remark.

United Kingdom

Third parties, and in particular online marketplaces, usually will not be found liable in the United Kingdom when their facilities do not inherently lead to trademark infringement and are capable of use in a way that does not infringe third-party marks. The leading authority for this principle is *L'Oréal SA v. eBay International AG*, [2009] EWHC 1094 (Ch). The court held that eBay was not jointly liable for acts of trademark infringement carried out by the individual sellers who used the eBay site. It relied on the principle set out in *Credit Lyonnais v. ECGD*, [1998] 1 Lloyd's Rep. 19, namely that "mere assistance, even knowing assistance, does not suffice to make the 'secondary' party liable as a joint tortfeasor. What he does must go further. He must have conspired with the primary party or procured or induced his commission of the tort." Even though eBay could be said to have facilitated the infringement of third-party trademarks and profited from such acts, that was insufficient to make it jointly liable. Some of the issues in this case (in relation to Article 14 of the e-Commerce Directive, for example) were referred to the CJEU, whose decisions are discussed above.

Summary

Brand owners should carefully consider how to obtain jurisdiction over online entities, which may be located in jurisdictions with unfavorable or difficult-to-enforce trademark laws. In the United States, evidence that an online service provider "interacts" with local customers is vital to establishing jurisdiction. In *Chloe SAS v. Sawabeh Information Service Co*., a California federal district court found that it had jurisdiction over corporate defendants located in Pakistan and Saudi Arabia. The court found, among other things, that the corporate defendants' "highly interactive web site" permitted businesses to offer for sale counterfeit luxury goods and was intended to be used by Californians. 2013 BL 286656, at *17. This decision followed prior cases such as *Mavrix Photo, Inc. v. Brand Technologies, Inc.*, 647 F.3d 1218, 1229 (9th Cir. 2011), where the court considered, among other things, the "interactivity" of the defendant's website in determining whether there was jurisdiction over the defendant.

Similar factors can support jurisdiction in other countries. For example, in the United Kingdom, jurisdiction will be found to exist where the website is "aimed and directed" at a consumer in the United Kingdom (*Dearlove v. Combs*, [2007] EWHC 375 (Ch)). This will ultimately depend upon the circumstances and, in particular, upon the intention of the website owner and what the reader will understand if he or she accesses the site (*1-800 FLOWERS v. Phonenames Ltd,* [2001] EWCA Civ 721).

In sum, the jurisdiction where a case is filed can dictate whether a claim for contributory infringement will be successful. But no matter what the country, it is critical for brand owners to actively police online infringement to combat counterfeiting.