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Liability for Trademark Infringement in Web 2.0 Era: Analysis of Legal Conundrum in Google and Ebay Cases

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Abstract

Many online entrepreneurs do not realize that they may be held legally liable for keywords they select during their marketing campaigns, especially if they correspond to registered or famous trade marks. The present contribution highlights some of the most important aspects of the Google and eBay cases that illustrate this problem. The European Court of Justice has recently ruled that a search engine provider is not infringing trade marks as it does not “use” them in a legal sense. The advertiser, in turn, will usually be held primarily liable, although eBay dispute demonstrates there may be a room for manoeuvre for larger intermediaries. These legal developments are important, firstly because they promise to offer a greater protection to Web 2.0 business models based on user-generated content. Secondly, online business offering paid search services will be shielded from liability for storing infringing content provided that their activities remain technically neutral.

Keywords: trade mark infringement, liability of intermediaries, hosting, user-generated content, principle of neutrality, Google case, E-bay case.

1 Introduction

For several years since the enactment of the directive on electronic commerce in 2000 (Directive on electronic commerce, 2000), the European Court of Justice (ECJ) had very few occasions to issue verdicts of significance to information society services. Although the tensions between rightholders and intermediaries such as Google or Ebay have existed for years they were resolved on national level and rarely affected service
providers in other Member States. Recently, however, the situation has changed and it's worth to get acquainted with the binding interpretations of European directives issued by the ECJ as they may affect the functioning of the whole Internet market in the European Union.

The aim of this contribution is to discuss some of the consequences of two cases that were recently brought to the attention of the European Court of Justice. One is the ruling of the Court in the Google cases (Google cases, 2010), and the other is the Opinion of Advocate General in the eBay case (eBay Opinion 2010), which is yet to be applied by the ECJ. It is worth underlining that the ECJ is the only Court that can interpret EU legislation, and it does so mainly via the mechanism of preliminary rulings, which is a system of answering questions posed by national courts having difficulties with application of EU legislation in a national context.

Google cases actually consist of three distinct disputes that were combined by the ECJ as their factual backgrounds were similar. The most representative is the case of Louis Vuitton, who called into question the legality of Google's practices where a ‘Louis Vuitton’ keyword led to sites offering counterfeit products (case C-236/08). Google has not blocked the possibility of combining keywords corresponding to registered trade marks with keywords such as ‘copy’ or ‘replica’ thus helping the sellers of counterfeit products to offer their services via sponsored links. In France, Google was found guilty of trademark infringement in all instances, but when the case reached Cour de cassation the proceedings were stayed and three questions were referred to the ECJ for a preliminary ruling. The first question concerned the legality of Google's keyword selection practices, particularly with respect to counterfeit products, in the light of the European IP laws (Directive 89/104; Community Regulation 40/94). The second question concerned the interpretation of Community trade mark secondary law as to the permissibility of such practices with respect to trade marks that have reputation. The third question concerned the potential application of limitation of liability for hosting third-party content to AdWords services.

The second important development is the Opinion of Advocate General Jääskinen delivered on 9 December 2010 in the case L'Oreal SA v eBay (eBay Opinion, 2010), which will be the basis for a judgment of the ECJ that is expected soon. In this case, eBay bought keywords corresponding to trade marks belonging to L'Oreal. L'Oreal challenged this practice as far as it facilitated the sale of (1) counterfeit products, (2) products without the original packaging and (3) the sale of products not meant for sale in the European Economic Area. In this case, the Court was requested to give an interpretation concerning among others the legal position under EU trade mark law and E-commerce directive of electronic marketplace operator who (a) purchases keywords identical to trade marks from a paid internet referencing service so that the search engine results will display a link that leads to marketplace operator's website, and (b) stores on its website on behalf of its clients offers for sale of counterfeit, unpackaged or non-EEA source branded products; and (2) the definition of the scope of the exemption
Liability for Trademark Infringement in Web 2.0 Era

of the information service providers’ liability, as contained in Article 14 of E-commerce Directive (eBay Opinion, 6). This case illustrates well not only tensions arising out of the L'Oreal's IP-monopoly, but also conflicts, which result from the operation of its closed, selective distribution network, which has been challenged by the eBay's marketplace.

The methodology of this paper is to apply legal tools of analysis to these two cases. Although information science community does offer interesting insights into this area (e.g. Clarke, R. 2006; E. Halpin, S. Simpson 2002) it is hard to use qualitative, not to mention, quantitative research methods in a legal domain. Consequently, the present contribution is divided into two parts. The first part aims to analyze some aspects of the legality of use of keywords that correspond to registered trade marks in sponsored links campaigns. The second part tries to provide the analysis of whether search engine service providers and intermediaries such as eBay can be regarded as hosting service providers under Article 14 of the E-commerce Directive, and therefore be exempted from liability for infringing IP laws given they are unaware of illegality of content they store.

This paper draws on an earlier research (Polanski 2009; Polanski 2010) that described the reasoning of the ECJ to service providers who either requested or stored IP-infringing content at the direction of their subscribers. The analysis will start with a brief presentation of trade mark law concepts, followed by a detailed analysis of potential hosting defence to Web 2.0 service providers.

2 Trademark laws in the Web 2.0 era

Trade marks are linguistic expressions and graphical signs that often acquire an independent economic value as brands. As a result, numerous legal issues revolve around the basic tenet of intellectual property regime, which entitles the proprietor of a registered trade mark to prevent all third parties not having his consent from using in the course of trade any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered (Directive 89/104, Article 5(1)(a)). The application of the above provision requires absolute identity between the sign and the trade mark. The protection of similar trade marks is also envisaged but entails the application of the "risk of confusion" test. Consequently, the proprietor of such registered trade mark may prohibit among others using the sign in advertising, or offering the goods under the sign.

The monopoly of the trade mark proprietor is not absolute, tough. Firstly, trade mark is only protected when it's used in the course of trade, and not in the context of non-business transactions. Secondly, unless the trade mark has gained a reputation, the protection covers only identical or similar goods for which the trade mark was registered. Thirdly, the law protects only trade mark uses that fulfil certain functions, primarily that of indication of the origin of goods or services. Other functions such as quality, advertising, investment and communication function are also protected, but the
trade mark proprietor cannot oppose practices that do not have an adverse effect on the functions of the trade mark. Fourthly, the protection is granted for a limited period of time, although it can be renewed. Fifthly, trade mark protection is not global and is limited to a territory of one or few states.

Last, but not least, there are fair use provisions, which permit third parties to use registered trade marks in certain limited circumstances. For instance, the trade mark does not entitle the proprietor to prohibit a third party from using, in the course of trade, (...) (b) indications concerning the kind, quality, intended purpose, value, geographical origin, the time of production of goods or of rendering of the service, or other characteristics of goods or services; (c) the trade mark where it is necessary to indicate the intended purpose of a product or service, in particular as accessories or spare parts; provided he uses them in accordance with honest practices in individual or commercial matters (Directive 89/104, article 6). As a result, purely descriptive use or use in comparative advertising is allowed.

Furthermore, as a rule of thumb, goods which had been introduced onto the EU market can circulate there freely, and consequently the trade mark does not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the European Economic Area under that trade mark by the proprietor or with his consent. However, such prohibition is permitted where there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market Directive 89/104, article 7).

One of the major dilemmas is whether operators of electronic marketplaces, such as eBay can be held primarily liable for infringement of registered trade marks (e.g. jointly with the sellers). As the Advocate General Jääskinen noted there is no single judgment ascribing primary liability to online intermediaries such as eBay for trade mark infringements (eBay Opinion, para. 58). Another crucial aspects involves the possible liability of hosting intermediaries for infringements committed by subscribers of the service, despite lack of legal obligation in the EU "requiring businesses to prevent trade mark infringements by third parties or to refrain from acts or practises that might contribute to or facilitate such infringements" (eBay Opinion, para. 55). Apparently, there is some case-law on this point with conflicting verdicts. Some French and American courts found marketplace operator liable, whereas the majority seems to deny the existence of such liability.

To be held liable under Article 5(1)(a) of the Trademark Directive six conditions have to be fulfilled: (1) there must be use of a sign by a third party; (2) the use must be in the course of trade; (3) the use must be without the consent of the trade mark proprietor; (4) it must be a sign which is identical to the trade mark; (5) it must be in relation to goods or services which are identical to those for which the trade mark is registered; and (6) it must affect or be liable to affect some of the functions of the trade mark. We will briefly analyze some of these points in the context of eBay as well as Google cases.
Are advertisers liable for infringement of trade marks in the content of sponsored links?

The first dilemma concerns the legal position of an advertiser who purchases keywords, which correspond to registered trade marks. Is such advertiser "using" the trade mark in a legal sense? If the answer is positive, then eBay, who reserved several keywords with Google or any other subscriber of sponsored links services could be held primarily liable for infringement of trade marks.

Two divergent interpretations are noticeable. The first is represented by Advocate General Maduro, who argued in his opinion to Google cases: "...the display of a link proposing connection to a site operated by that economic operator for the purposes of offering for sale goods or services, and which reproduces or imitates a trade mark registered by a third party and covering identical or similar goods, without the authorisation of the proprietor of that trade mark, does not constitute in itself an infringement of the exclusive right..." (Google Opinion, 2009). As a result, in the Advocate's General view, advertisers are free to use whatever keywords they deem appropriate to trigger the display of sponsored links.

The prevailing interpretation is, however, that an advertiser who purchases a keyword identical with a protected trade mark is using it in a legal sense, and therefore may be held legally liable. The Google Court ruled that relevant EU trademark laws: "... must be interpreted as meaning that the proprietor of a trade mark is entitled to prohibit an advertiser from advertising, on the basis of a keyword identical with that trade mark which that advertiser has, without the consent of the proprietor, selected in connection with an internet referencing service, goods or services identical with those for which that mark is registered, in the case where that advertisement does not enable an average internet user, or enables that user only with difficulty, to ascertain whether the goods or services referred to therein originate from the proprietor of the trade mark or an undertaking economically connected to it or, on the contrary, originate from a third party." The basic problem that arises in this context is how an advertiser should formulate an advertisement so as not to misguide an Internet user as to the origin of a given product or service. (Polanski, 2010). eBay Opinion shed some light on this point.

Firstly, the Advocate General Jääskinen referred to Google ruling and found no room for doubts that eBay has been "using" registered trade marks in its marketing campaigns. He also noted the diverging views as to whether such use is, in fact, in relation to goods or services for which the trade mark is registered. Several governments argued that such use fulfils this condition, but the UK government and the EU Commission argued that there is no "use" in relation to goods offered for sale by third parties on eBay (eBay Opinion, para. 98). The Advocate General has nevertheless argued that marketplace keyword advertising "uses" trade marks, which clearly supports the second interpretation.
However, as it was noted above the last trademark liability prerequisite that stems from the case-law of the ECJ is that the prohibited "use" of the trade mark must adversely affect one of its functions, e.g. the origin, advertising, investment or quality function. The AG in fact criticised the Google ruling when he put forth that: "a mistake concerning the origin of goods or services cannot be presumed only because a link leads to the ad of an electronic marketplace operator if the ad itself is not misleading as to the nature of the operator" (eBay Opinion, para. 108). Noting a rather extensive fair use provisions concerning trade marks the Advocate General concluded that if the nature of an operator of electronic marketplace is clearly communicated in the advertisement, then infringements committed by users of that service cannot adversely affect also other functions of that trade mark.

As a result, a legal position of an advertiser who selects keywords corresponding to registered trade marks requires further clarification. Nevertheless, it seems that the majority view is that such practice constitutes a "use" of a registered trade mark and hence can potentially lead to a liability for trade mark infringement. The situation may improved provided that the operator of a marketplace clearly communicates his role in the sponsored advertisement. One should keep in mind, though, that this line of reasoning has to be yet confirmed by the ECJ.

**Is an intermediary such as search engine provider liable for contribution to trade mark infringement committed by its users?**

The situation seems to be simpler as far as the charges against Google for contribution to the trademark infringement are concerned. The AG in the Google cases argued that a trademark proprietor cannot prevent a search engine operator from making available to the advertisers keywords corresponding to trademarks nor "....from arranging under the referencing agreement for advertising links to sites to be created and favourably displayed, on the basis of those keywords." (Google Opinion, 2009)

The ECJ followed this suggestion and ruled that Google does not use the sign within the meaning of the EU trademark laws: "An internet referencing service provider which stores, as a keyword, a sign identical with a trade mark and organises the display of advertisements on the basis of that keyword does not use that sign within the meaning of Article 5(1) and (2) of Directive 89/104 or of Article 9(1) of Regulation No 40/94." As a result Google and other search engine service providers seem to have won an assurance that the keyword advertising service they provide does not in itself infringe trademark laws. The Advocate General Jääskinen added, in turn, that the activity of eBay's search and display functions bear some similarity to that of Google. In this context, he concluded that the use and display of third party trade marks on eBay listings also does not constitute the "use" in the EU trademark law sense.

In summary, advertisers rather than intermediaries risk the collision with trademarks laws when they use keywords identical with trademarks in a way that may confuse
Internet users. Now, the focus will be turned to the possible defence to trade mark infringement charges based on a hosting exemption.

3 Exemption from liability for infringement of trade marks under the Ecommerce Directive

There are some rules in the European legal order allowing information society service providers to avoid liability for storing infringing content uploaded by third-parties. Most of these rules have their roots in Article 14 of the Directive 2000/31/EC titled "Hosting", which reads as follows: "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." The most important points could be summarized as follows:

(1) hosting exemption applies where there is an information society service. According to the EU law information society services are services normally provided for remuneration, at a distance, by electronic means and on the individual request of a user. As a result, they can be equated with e-commerce activities, and hosting falls under the scope of information society services. (Polanski 2008a)

(2) the aforementioned exemption limits the liability of the hosting service provider for the storage of information provided by a recipient of the service. The directive does not define the term "storage" but it is argued it also encompasses the making available of the content hosted 24/7.

(3) for the limitation of liability to apply the hosting service provider cannot have an actual knowledge of illegal activity associated with the content it stores. The test of actual knowledge entails both criminal and civil cases "for all types of illegal activities initiated by third parties." ((COM(2003) 702 final (21.11.2003), para 4.6)

(4) awareness of facts or circumstances from which the illegal activity is apparent may lead to the imposition of civil liability. Therefore the hosting service provider has to apply a higher duty of care in order to avoid claims for damages.

(5) the hosting service provider will be jointly liable with the content provider, if the latter acts under the authority or the control of the hosting service provider.

(6) the hosting service provider has to expeditiously remove or disable access to the allegedly illegal data upon obtaining knowledge or awareness. Such knowledge can be obtained by various means such as a service of a court document or a notice. However, "the removal or disabling of access has to be undertaken in the observance of the principle of freedom of expression and of procedures established for this purpose at
national level" (Directive on electronic commerce, recital 46), which indicates that the blocking of content cannot have an automatic character.

(7) the E-commerce Directive has not established the EU-wide procedure for taking-down infringing content. Member States may, however, introduce such national procedures: "this Directive does not affect Member States’ possibility of establishing specific requirements which must be fulfilled expeditiously prior to the removal or disabling of information" (Directive on electronic commerce, recital 46). Some Member States have done so, for instance Finland.

(8) national courts and administrative authorities may require the hosting service provider to prevent or to terminate a specific instance of an infringement. "The limitations of the liability of intermediary service providers established in this directive do not affect the possibility of injunctions of different kinds; such injunctions can in particular consist of orders by courts or administrative authorities requiring the termination or prevention of any infringement, including the removal of illegal information or the disabling of access to it." (Directive on electronic commerce, recital 45).

(9) Member States cannot impose a general obligation on hosting service providers to monitor the information which the store, nor a general obligation actively to seek facts or circumstances indicating the illegal activity. Consequently, the prevention, detection or termination of infringements cannot have a general scope. In the words of the Directive, "Member States are prevented from imposing a monitoring obligation on service providers only with respect to obligations of a general nature; this does not concern monitoring obligations in a specific case and, in particular, does not affect orders by national authorities in accordance with national legislation" (Directive on electronic commerce, recital 47).

(10) Member States may require hosting service providers "to apply duties of care, which can reasonably be expected from them and which are specified by national law, in order to detect and prevent certain types of illegal activities." (Directive on electronic commerce, recital 48). In particular, Member States may:

- establish information obligations on hosting service providers to promptly inform public authorities of alleged illegal activities undertaken
- oblige hosting service providers to communicate to the competent authorities information enabling the identification of recipients of hosting service (Directive on electronic commerce, article 15(2)).

4 Ambiguous notion of "the storage of information" requirement and its consequences

Although the term ‘hosting’ is used twice in the text of the directive (in recital 18 and in the title of Article 14) no definition is present. Instead, Article 14 outlined above uses
Liability for Trademark Infringement in Web 2.0 Era

the term "the storage of information", which is usually treated as a synonym of "hosting". This approach may not always produce clear results as some lawyers could argue that Article 14 protects only "the storage" of information and not its' actual publication. Unfortunately such argumentation has already been noted in a legal scholarship (e.g. Sadowski 2009). In such cases a definition of hosting could resolve such misconceptions rather than forcing to engage in a discourse that hosting is a service provided primarily by data centres that offer a 24/day access to a disk space with varying levels of service and various kinds of additional services (perhaps with a reference to e.g. Wikipedia 2009).

Lack of precise definition of "the storage of information" causes, however, even more serious problems. It is unclear, whether hosting encompasses data stored by subscribers of services such as Google's AdWords, i.e. whether such service "...constitutes an information society service consisting in the storage of information supplied by the advertiser, with the result that that information is the subject of ‘hosting’ within the meaning of that article and that the referencing service provider therefore cannot be held liable prior to its being informed of the unlawful conduct of that advertiser" (Google cases, para. 106). In other words, referring court has voiced its doubts whether Google AdWords service could escape the liability for content uploaded by its subscribers if no notice of infringement was received by its staff.

The answer to this question is not only important for search engine service providers but for all kind of service providers that store digital content at the request of a user (i.e. user-generated content service providers). If Article 14 of the directive is construed narrowly then such services will not be covered by the hosting exemption. On the other hand, if a wider interpretation prevails then Web 2.0 services might find a safe haven despite a lack of explicit regulation of search engine liability in the directive on electronic commerce.

Two interpretations of "hosting" have emerged. The narrow interpretation of "the storage of information" requirement is visible in the argumentation of plaintiffs in the Google cases (Polanski 2010). Trade mark rightholders raised the argument that hosting is a purely technical operation and by incorporating hosting into an advertising activity AdWords fell outside the purview of Article 14 (Google Opinion, para. 139). This is a strong argument because hosting services were traditionally offered by data centres providing services of storage of files for the purpose of making them available at the request of a recipient of an Internet service. Justice Eady in Metropolitan International Schools Ltd v Designtechnica Corporation and Others referring to natural search services of Google rejected its characterization as hosting services (MIS 2009).

The broader construction of hosting seems to prevail, however. For example, the Advocate General in Google cases noted that "(...) the Commission itself has changed its opinion on the scope of Directive 2000/31, having argued in the present cases that the exemption provided for in Article 14 applies to AdWords." (Google Opinion, para. 135). This approach would be in line with the American approach where the equivalent
provisions of DMCA were interpreted extensively to encompass services distributing third-party content (Bailey 2006, p. 10). Similar lines of argumentation are presented in the British literature offering a wide interpretation of hosting exemption in the UK implementation of the Directive 2000/31/EC (Holmes 2007, p. 339).

The broader interpretation of Article 14 seems to have been confirmed by the European Court of Justice in the Google cases as well as by Advocates General Maduro and Jääskinen in their respective Opinions (Polanski 2010). However, each of the aforementioned authorities developed their own tests that should be applied by courts to grant protection to service providers storing the information at the request of their users. As a result, a broad interpretation of hosting exemption prevailing at this moment does not mean that an intermediary will be automatically protected.

**1) Maduro's principle of pecuniary neutrality**

In his Opinion in the Google cases, the Advocate General Maduro suggested to the Court that access to Article 14 safe haven should actually be denied to Google AdWords service, despite the fact that Google service nominally stores the information at the request of its users. The AG argued that the underlying aim of Article 14 precludes recognition of Google AdWords as a provider of “(...)an information society service consisting in the storage of information (...)” (Google Opinion, answer 4).

The Advocate General Maduro argued that "(...) service providers which seek to benefit from a liability exemption should remain neutral as regards the information they carry or host.” Google, in his opinion, does not remain neutral because: "Google’s display of ads stems from its relationship with the advertisers. As a consequence, AdWords is no longer a neutral information vehicle: Google has a direct interest in internet users clicking on the ads’ links (as opposed to the natural results presented by the search engine).” (Google Opinion, para. 145)

Since a pecuniary interest is, in fact, one of the characteristics of information society services, a direct interest in users clicking on the ads should not be the sole criterion for attributing liability for content stored (Walden 2009, Polanski 2009). Therefore, a more precise criterion for distinguishing information society services that fall under the sphere of application of Article 14 of the Directive, and those that fall outside is required.

**2) Google Court and its principle technical neutrality**

The European Court of Justice has not explicitly endorsed the neutrality principle in the version presented by Mr Maduro, but offered its own version. The Google Court began with the observation that "(...) the conduct of that service provider should be limited to that of an ‘intermediary service provider’ (...)” (Google cases, para 112). The characterization of intermediary service providers the Court found in recital 42 of the Ecommerce Directive, which covers "... only cases in which the activity of the information society service provider is ‘of a mere technical, automatic and passive
nature’, which implies that that service provider ‘has neither knowledge of nor control over the information which is transmitted or stored’” (Google cases, para. 113).

Since the behaviour of an intermediary has to be automated irrespective of its financial interest in the content, this criterion could also be regarded as a principle of neutrality in its technical, rather than pecuniary sense (Polanski 2010). As a result, in order to be protected by liability limitations it is necessary to examine the role played by service provider.

It may be rather hard, though, to apply this test to intermediaries who store user-generated data as their conduct is rarely completely passive, and often they must manually intervene to edit or delete some parts of its content. The Advocate General Jääskinen rejected this test arguing that the requirements of technical, automatic and passive conduct should only be applied to Internet service providers and caching intermediaries (eBay Opinion, para. 141). It remains to be seen if the eBay Court will follow the AG’s suggestion.

In summary, though, the Google Court has accepted the extension of the sphere of application of Article 14 to sponsored links services, although under the condition that a service provider remains a passive and automated intermediary in a technical sense. National courts who are to apply this test were offered some hints as to what knowledge or control over data really means (Polanski 2010).

5 Conclusion

Google and eBay cases well illustrate difficulties with the application of existing EU e-commerce law to settle disputes involving trademark holders and information intermediaries. The reasoning of the Court and its Advocates General demonstrates though that intellectual property protection regime is being adapted to the realities of information revolution, and large scale intermediaries may be exempted from liability for trade mark infringements both on the grounds of IP as well as e-commerce law. Individual advertisers, however, are not intermediaries and therefore have to obey existing laws, including the obligation to refrain from using keywords that correspond to registered trade marks. The situation is not clear as their is no EU-wide database of protected trade marks, which makes the potential liability a serious concern. Furthermore, the widening of the sphere of application of Article 14 to "virtual storage" intermediaries became a fact. Such liberal application of hosting exemption may allow Web 2.0 website owners to apply for a legal protection when their user-generated content violates laws.

References


