

Industry insight

Taking the fight to intermediaries

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When it is difficult to take action against counterfeiters and pirates directly, rights holders can target intermediaries to try to stop, or at least restrict, counterfeit activity. Actions against intermediaries have become increasingly prevalent in the last decade or so, largely because of the astounding growth of the Internet. Whether it is making it easier for individuals to copy and share music and films, or providing a platform for counterfeiters to market and distribute their goods openly around the world with very little risk of being caught, the Internet has created a number of challenges for rights holders and the law. This chapter looks at some of the ways in which rights holders have sought either to impose liability on intermediaries or to put pressure on them to take more effective action to prevent their services from being used by counterfeiters and pirates. In particular, we focus on the liability of those intermediaries involved in e-commerce.

Liability of online intermediaries in general

A number of territories have taken steps to limit the liability of online service providers in circumstances where they have no knowledge of the infringements concerned or act quickly to take down any infringing material once notified. The template for this has been the 'safe harbour' exemptions in the US Digital Millennium Copyright Act, which protects online service providers from liability for copyright infringement provided that they block access or remove infringing material on receipt of a takedown notice. Similar legislation has been enacted

in the European Union in the form of the EU E-commerce Directive.

There is a growing recognition that a notice and takedown system alone is insufficient to protect rights holders and consumers from, among other things, counterfeit goods. In the United States, the Stop Online Piracy Act, together with its sister bill, the Protect IP Act, would have given greater power to US law enforcement agencies and rights holders to fight online violations of IP rights and the trade in counterfeit goods. However, the bills have proved controversial, with opponents claiming that they threaten freedom of speech and could, if implemented, actually damage e-commerce (in January 2012 the House Judicial Committee announced that it had postponed consideration of the legislation).

Within the European Union, the European Commission recently issued a communication as part of its review of the digital single market for e-commerce and online services, in which it recognises the fragmentation of applicable rules and practice which govern the liability of internet service providers (ISPs) for illegal content on their websites. As a result, the commission is proposing to set up a horizontal European framework for notice and action procedures. In 2012 the commission will also seek to revise the EU IP Rights Enforcement Directive, with the stated aim of combating illegal content more effectively and in an improved civil law framework.

Progress on ratification of the Anti-counterfeiting Trade Agreement (ACTA) (which has been negotiated by the United States, the European Union and its members, Australia, Canada, Japan, South Korea, Mexico, Morocco, New Zealand, Singapore and Switzerland) is also at a

critical stage. Despite the commission passing ACTA to national governments and the European Parliament for ratification, it recently decided to refer it to the European Court of Justice to determine whether it is compatible with EU law and the European Charter of Human Rights.

At one stage, it appeared that ACTA would bring a certain level of international harmonisation to this area; early drafts of the treaty would have required signatories to adopt measures that combined protection for online service providers with a notice and takedown procedure and a requirement to take steps to address "the unauthorised storage or transmission of materials protected by copyright or related rights". However, the final text of ACTA has watered down these provisions. Although signatories are required to ensure that their law permits "effective action against an act of infringement of intellectual property that takes place in the digital environment", there is considerable discretion as to what form that effective action should take and the balance to be struck with other considerations such as freedom of expression and privacy. Despite these limitations, ACTA is a sign of an increased determination to tackle the problem of counterfeits at the international level - something that is clearly necessary in this global age.

Internet service providers

ISPs which provide access to the Internet through broadband or another form of internet connection are an obvious focus of the efforts to stamp out the infringement of intellectual property online.

These efforts have included requests for ISPs to block access to websites infringing IP rights. Much of the focus in this area has been on requests by copyright owners for ISPs to block access to websites that are

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being used to facilitate the illegal download of copyright-protected works such as music and films. Examples include the orders imposed by a number of European courts requiring ISPs to block access to websites such as Pirate Bay and Newzbin. However, the European Court of Justice (ECJ) recently ruled in *Scarlet Extended v SABAM* that more general orders, requiring ISPs to monitor for and block illegal downloading, fall foul of the safe harbour provisions in the EU E-commerce Directive.

It seems likely, therefore, that an increasing level of focus will be placed on ISPs to block websites, as there is a growing recognition that the blocking of websites could be an effective way to deal with the infringement of IP rights online.

A number of countries, including South Korea, France and New Zealand, have also introduced specific measures into national law that require ISPs to cut off internet access for accounts that have been used to infringe copyright. Such measures usually involve the ISP’s customer being provided with an initial warning or warnings and are often described as ‘three strikes’ laws, after the number of warnings that are usually given before a connection is cut off. Even in countries that have not yet adopted such measures, rights holders have sought to put pressure on ISPs to implement similar policies. An example of this is the proceedings brought by a number of film and entertainment companies against ISP iiNet in Australia, on the basis that it is authorising the infringement of copyright by failing to notify its customers of infringements and cutting them off if the infringements persist.

Online marketplaces

Online marketplaces and auction sites have long been a breeding ground for the trade in counterfeit goods. However, recent decisions

in a number of jurisdictions, as well as increased legislative focus, should prompt such websites to review and improve their procedures for ensuring the legality of the items listed for sale on their websites, and have provided brand owners with greater powers of redress against them should they fail to do so.

In recent years, a slew of cases have been brought against eBay in a number of jurisdictions. eBay successfully defended some of them - for example, those brought by Rolex in Germany, L’Oréal in Belgium and France, and Tiffany in the United States (the courts in those cases deciding that eBay, through its VeRo notice and takedown programme, had done enough to prevent the sale of counterfeit products) - but was found liable for claims brought by Hermès and LVMH in France.

The prospects for claims against online marketplaces in Europe have probably been strengthened by the ECJ’s decision in *L’Oréal v eBay*, a referral from the UK High Court. With respect to the use of third-party trademarks in advertisements on its website, the court held that the operator of an online marketplace does not itself ‘use’ those trademarks. However, it could still be liable for such use by its customers and be unable to take advantage of the safe harbour provisions of the E-commerce Directive, either where it has played an “active role” in a transaction (eg, by optimising the presentation of the offers for sale) or otherwise where the circumstances were such that a diligent operator should have realised that the offers for sale in question were unlawful and, being so aware, failed to act expeditiously. Whether eBay is in fact liable for the infringing use of L’Oréal’s trademarks will have to be determined by the UK courts.

The ECJ also made clear that, even if eBay was not found liable for particular

infringements, under the EU IP Rights Enforcement Directive it could be ordered to “take measures which contribute, not only to bringing to an end infringements of those rights by users of that marketplace, but also to preventing further infringements of that kind”. Such a finding is important as it suggests that online marketplaces can be required to take steps to police the listings on their website that extend beyond a simple notice and takedown system.

Search engines

Those looking to sell counterfeit or pirated material on the Internet obviously need to attract customers. One way to do this is to try to increase their prominence on search engine results through ‘natural’ results or sponsored links. Therefore, rights holders have looked to search engines to remove links to websites that are selling counterfeit and pirated products. As with online marketplaces, search engines have sought to avoid liability by relying on notice and takedown procedures in respect of sponsored links. In respect of natural search results, there has been a reluctance to take responsibility, with search engines claiming that freedom of information takes precedence over IP rights.

However, there are signs that search engines will be forced to take an increasing level of responsibility for the listings on their websites. In Europe, in *Google France v Louis Vuitton* the ECJ ruled that a search engine cannot take advantage of the safe harbour provisions when it “plays an active role of such a kind as to give it knowledge of, or control over, various data”. This suggests that search engines could be liable if their advertising programmes assist counterfeiters in the selection of keywords, so that links to their websites are displayed when rights holders’ brands are searched, or for the drafting of the commercial message

“ Rights holders may consider taking action against other intermediaries that enable illegal websites to operate ”

that accompanies the advertising link. In the United States, Google recently agreed a \$500 million settlement with the US Department of Justice over advertisements it carried by online Canadian pharmacies for prescription drugs.

Search engines are also coming under increasing pressure to ensure that websites engaging in widespread IP infringement are removed or given less prominence in natural search results. This is a hugely contentious issue, but there are signs that search engines may have to accept at least some responsibility for the links that they display. For example, the Stop Online Piracy Act, if implemented, envisages rights holders being able to obtain injunctions against search engines to remove links to illegal websites.

Peer-to-peer sharing platforms and applications

Rights holders have enjoyed a fair degree of success in convincing courts to impose liability on those intermediaries whose services and applications are predominantly used to copy and share copyright-protected works. Successful cases include those against Napster, Grokster and Limewire in the United States, Kazaa in Australia, Pirate Bay in Sweden, Newzbin in the United Kingdom and Foxy in Taiwan.

Rights holders have also sought to take action against peer-to-peer platforms with more legitimate business models. The most high-profile case to date is Viacom's action against YouTube in the United States for the huge number of unauthorised clips of Viacom's television programmes. Viacom was unsuccessful at trial, but at the time of writing, the decision had been appealed and a judgment is awaited. What is clear, however, is that the prospect of this type of claim has encouraged YouTube and other peer-to-peer platforms to police better the material that is

hosted on their websites and take more account of the interests of rights holders. In YouTube's case, this has involved the implementation of automatic systems to screen for copyright-protected works and the agreement of a number of licensing deals.

Other intermediaries

In addition to the intermediaries and approaches discussed above, rights holders may consider taking action against other intermediaries that enable illegal websites to operate, such as those that provide web hosting, domain name system hosting or domain name registration services.

Payment facilitators and credit card companies may also be in a position to restrict the trade in counterfeit goods by refusing to process transactions with illegal websites. Some payment facilitators, such as PayPal, operate an infringement report service enabling rights holders to alert them to websites offering illegal goods, and the Stop Online Piracy Act, if implemented, could allow rights holders to obtain orders against payment facilitators to prevent them from doing business with infringing websites.

Delivery or courier companies may also play an active role in facilitating transactions involving counterfeit goods, as may fulfilment houses, especially where the transaction involves a large number of goods.

Conclusion

It is clear that the liability of intermediaries and their responsibility to police their services is a rapidly developing area. In part, this is because of legislative changes or proposed legislative changes in many territories. It is hoped that the tendency for rights holders to be given greater levels of protection will continue, while at the same time striking an effective balance that enables e-commerce to flourish.

In any event, in dealing with the

problem of counterfeit and pirated goods, rights holders should always be conscious of the role played by intermediaries and the pressure that can be brought to bear on them to put a stop to, or at least reduce, the level of counterfeit activity that they are facilitating. [WTR](#)

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Robert Guthrie is a senior associate in SJ Berwin LLP's IP group. Mr Guthrie qualified in 2004 and advises on all aspects of IP protection, enforcement and dispute resolution. He has worked with a number of high-profile clients, from generic drug companies to the owners of well-known brands, across the breadth of both hard and soft IP rights. As well as trademark prosecution and the handling of individual disputes, he also has considerable experience in the conduct of large-scale enforcement campaigns for brand owners. These campaigns have concerned counterfeits, lookalikes and parallel imports.

Mr Guthrie has also handled matters involving a number of other IP rights including copyright (in computer programs, websites, sculptures and photographs), registered design rights and passing off.