



ECJ rules on trademark protection online and intermediaries' liability – *L'Oréal v eBay*

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Summary

On July 12 2011 the Court of Justice of the European Union (ECJ) ruled on trademark protection on the Internet and the extent to which operators of online marketplaces can be held liable for trademark infringements by users (Case C-324/09, *L'Oréal SA, Lancôme parfums et beauté & Cie SNC, Laboratoire Garnier & Cie, L'Oréal (UK) Ltd v eBay International AG, eBay Europe SARL, eBay (UK) Ltd, Stephen Potts, Tracy Ratchford, Marie Ormsby, James Clarke, Joanna Clarke, Glen Fox, Rukhsana Bi.*)

The ECJ held that when the operator of an online marketplace performs an active role, providing assistance which involves optimising the presentation of online offers for sale or promoting such offers, it cannot rely on the liability exemption that the E-Commerce Directive (2000/31/EC) grants to online service providers in certain circumstances

Facts

The case was the result of legal proceedings between L'Oréal and eBay in the United Kingdom.

L'Oréal is a famous manufacturer and supplier of perfumes, cosmetics and hair care products, and owns several national and Community trademarks. It operates a closed selective distribution network which prevents authorised distributors from supplying products to other distributors.

eBay operates an electronic marketplace which displays listings of goods offered for sale. Sellers, who must create an account with eBay, can also create online shops within the marketplace. In some cases eBay assists sellers in enhancing their offers for sale, creating online shops and promoting and increasing sales. eBay charges a percentage fee on completed transactions. It also advertises some of the products sold on its marketplace using paid referencing services supplied by search engines (including Google AdWords) to trigger the display of advertisements.

L'Oréal found several offers for sale on eBay's European websites which infringed its trademark rights. On May 22 2007 L'Oréal sent eBay a letter expressing its concerns about the infringing activities. Not satisfied with eBay's response, L'Oréal filed suit before the High Court of Justice of England and Wales, Chancery Division, together with actions in various other EU member states. In the UK action it claimed that eBay and a number of sellers were liable for sales of 17 items through the website www.ebay.co.uk. In particular, L'Oréal argued that:

- two of the 17 items were counterfeits of goods bearing L'Oréal's trademarks;
- the other 15 items, even if not counterfeit, nonetheless infringed its trademark rights, as they were either
- goods not intended for sale (eg, tester or dramming products); or
- goods bearing L'Oréal trademarks and intended for sale in North America, not in the European Economic Area;
- some of the items were sold without packaging.

Offers targeted at EU consumers

The High Court referred certain preliminary questions to the ECJ. These concerned the interpretation of the European Trademarks Directive (1989/104/EC – now replaced by EU Directive 2008/95/EC),ⁱ the EU Regulation on the Community Trademarks (40/1994 – now replaced by EU Regulation 207/2009),ⁱⁱ the E-commerce Directive (2000/31/EC) and the Enforcement Directive (2004/48/EC).

The ECJ began by ruling on offers of sale directed towards EU customers by means of eBay's marketplace. It stated that EU trademark rules apply insofar as offers of sale and advertisements relating to trademarked goods located in third-party states are clearly targeted at EU consumers.

The ECJ disagreed with eBay, which had argued that the owner of a trademark registered in an EU member state, or the owner of a Community trademark, cannot invoke its trademark rights if the goods which bear the trademark and are offered for sale on an online marketplace are located in a third country. On this contention, e-commerce operators that offer trademarked goods located in a third country, but on an online marketplace targeted at consumers within the European Union, so that the goods can be viewed on-screen and ordered through the marketplace, would not be obliged to comply with EU rules on IP rights, at least so far as such offers for sale are concerned. Such a situation would clearly impair the effectiveness of such rules.

According to the ECJ, in the case before the High Court the website www.ebay.co.uk appeared, in the absence of evidence to the contrary, to be targeted at consumers in the territory covered by the relevant national and Community trademarks. Therefore, the offers for sale on the website fell within the scope of EU rules on IP rights.

In this regard, the ECJ stressed that the mere fact that a website is accessible from the territory covered by a trademark is insufficient to conclude that offers for sale displayed there are targeted at consumers in that territory. Thus, websites and advertisements which are targeted solely at consumers in third countries, although they may technically be accessible from the European Union, are not subject to EU law.

It falls to national courts to assess, on a case-by-case basis, the criteria that establish whether an offer for sale or an advertisement in an online marketplace is targeted at EU consumers. For example, national courts might take into account the geographical areas to which a seller is willing to dispatch the goods.

Testers, dramming bottles and unboxed products

The ECJ held that where the trademark owner supplies perfume and cosmetic testers and dramming bottles to its authorised distributors, those goods (in the absence of evidence to the contrary) are not 'put on the market' within the meaning of the Trademarks Directive and the Community Trademark Regulation. In so doing, it confirmed its previous ruling in *Coty Prestige v Simex Trading*, in which it stated that the fact that testers bear the words 'not for sale' precludes a finding that the trademark owner has implicitly consented to the goods being placed on the market.ⁱⁱⁱ

Moreover, in the ECJ's view the trademark owner may, by virtue of the exclusive right conferred by the trademark, oppose the resale of goods whose packaging has been removed by resellers if the

consequence of such removal is that essential information required by the Cosmetics Directive is missing, such as information relating to the identity of the manufacturer or the person responsible for marketing the cosmetic product.^{iv} The absence of such information impairs the trademark's function of indicating origin (ie, of guaranteeing that the goods which it designates are supplied under the control of a single undertaking which is responsible for their quality). Where the removal of the packaging does not result in the absence of such information, the trademark owner may nevertheless oppose the resale of unboxed perfumes or cosmetic products that bear its trademark if it can prove that the removal of the packaging has damaged the product's image and, in turn, the reputation of the trademark. The ECJ followed the advocate general's opinion on the same case - the advocate general had previously noted that in the case of products such as luxury cosmetics, the outer packaging may sometimes be considered part of the product's condition in view of its specific design and the use of the trademark therein.^v

Sponsored links

eBay had selected keywords corresponding to L'Oréal trademarks as part of Google's sponsored links function. When users searched for the words in question, sponsored links appeared to www.ebay.co.uk, accompanied by a marketing message informing users that goods bearing the search-term trademark could be bought from the website in question.

The ECJ held that in such a situation, the operator of the online marketplace (ie, eBay) acts as an advertiser. It causes links and messages to be displayed which advertise not only offers for sale on that marketplace, but also the marketplace itself.

In this regard, the ECJ confirmed its previous ruling in *Google AdWords*^{vi} and stated that a trademark owner is entitled to prevent an online marketplace operator from advertising - on the basis of a keyword which is identical to the owner's trademark and has been selected by means of an internet referencing service by that operator - goods bearing the trademark which are offered for sale on the marketplace. This is the case for advertising whereby a reasonably well-informed and reasonably observant internet user cannot (at least without difficulty) ascertain whether the goods concerned originate from the trademark owner (or an economically associated undertaking) or from a third party.

As in *Google AdWords*, the ECJ found that the operator of an internet marketplace does not 'use' trademarks within the meaning of EU trademark legislation if it provides a service that consists merely in enabling customers to display signs corresponding to trademarks on its website, in the course of such customers' commercial activities.

Operator's liability

The ECJ clarified some important issues concerning intermediaries' liability. While making clear that it is for the national courts to carry out the assessment involved, the ECJ concluded that the exemption from liability for hosting providers in Article 14 of the E-commerce Directive applies only to activities which are technical, automated, passive and neutral. In the ECJ's view, an online marketplace is not sufficiently passive if "*it provides assistance which entails, in particular, optimising the presentation of the offers for sale in question or promoting them*".

Moreover, even in cases in which the operator has not played an active role of this kind, but which may result in an order to pay damages, the operator cannot rely on the exemption if it was aware of the unlawfulness of online offers for sale and, on becoming aware of such unlawfulness, failed to act promptly to remove the data from its website or to disable access to it. The ECJ held that such awareness may be found to arise in any situation in which the operator becomes aware (in whatever manner) of such facts or circumstances. Among other things, this covers situations in which the operator:

- discovers unlawful activity or information as the result of an investigation on its own initiative; or
- is notified of the activity or information.

Finally, the ECJ ruled on the question of injunctions under the Enforcement Directive^{vii} which may be granted against the operator of an online marketplace when fails to stop infringements of IP rights on its own initiative or to prevent further infringements.

According to the ECJ, EU law requires EU states to ensure that national courts with jurisdiction in relation to the protection of IP rights can order an operator to take measures to end such user infringements and prevent further instances. Such injunctions must be effective, proportionate and dissuasive and may not create barriers to trade.

Comment

Although eBay's liability falls to be established by the referring court in the United Kingdom, the ECJ's ruling appears to be a victory for trademark owners and for advocates of stricter rules for online trademark enforcement.

The ECJ decision is likely to provide guidance for national courts in assessing intermediaries' liability for infringements committed by users.

The French courts refused to recognise eBay as an hosting provider under Article 14 of the E-commerce Directive, referring to it as a broker or intermediary (using the term '*courtage*')^{viii} in view of the active role that it performed in relation to the offers for sale on its marketplace. This reflects the fact that it enabled its sellers to create online boutiques or become 'power sellers' and assisted them in enhancing their offers for sale.

ⁱ EU Directive 2008/95/EC is not relevant to the main proceedings at this time.

ⁱⁱ EU Regulation 207/2009 is not relevant to the main proceedings at this time.

ⁱⁱⁱ *Coty Prestige Lancaster Group GmbH v Simex Trading AG* (C-127/09), June 3 2010, Paragraph 48.

^{iv} See Article 6(1) of the Cosmetics Directive.

^v Opinion of Advocate General Niilo Jääskinen, delivered on December 9 2010.

^{vi} Joined cases C-236/08 to C-238/08, March 23 2010, *Google France SARL, Google Inc v Louis Vuitton Malletier SA, Google France SARL v Viaticum SA, Luteciel SARL, Google France SARL v Centre national de recherche en relations humaines (CNRRH) SARL, Pierre-Alexis Thonet, Bruno Raboin, Tiger SARL*.

^{vii} According to Article 11 of the Enforcement Directive, member states must 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."

^{viii} Paris Court of Appeal, decision of September 3 2010, *eBay Inc et eBay International AG / Louis Vuitton Malletier*.