

LEGAL

EU high court rules Amazon not liable for stocking infringing items sold by merchants on its platform

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By **Milton Springut**

Luxury goods companies, like many other trademark owners, have been vexed by the large numbers of counterfeits and other infringements offered by ecommerce platforms such as Amazon, eBay and Alibaba.

Courts and legislatures have struggled with what responsibility these platforms have for infringing sales by independent vendors on their sites.

I recently wrote about a proposed U.S. bill that would impose liability on these platforms for some counterfeit sales in a *Luxury Daily* article titled, *New US SHOP SAFE bill holds online platforms liable for counterfeits. Next steps luxury brands must take.*

On April 2, the Court of Justice of the European Union (CJEU) ruled that online marketplace Amazon was not liable for trademark infringement for stocking infringing items for third-party sellers.

The opinion failed, however, to address whether Amazon's deeper involvement in many sales could be a basis for liability.

I review that court's ruling, and its impact on future enforcement efforts in Europe.

Then I compare that result with the law in the U.S., and examine trends in E.U. and U.S. law concerning ecommerce platforms.

Coty sues Amazon in Germany

The case began when a company named Coty Germany, the European licensee of the Davidoff trademark for perfumes and cosmetics, discovered that sellers on Amazon's German site were selling infringing product i.e., unauthorized imports, which are considered infringing in Europe.

Coty demanded that Amazon provide it the stock of infringing items and the seller's contact information. Amazon refused. So Coty brought suit for infringement against four Amazon companies in Germany.

The case reached Germany's highest court, the Federal Court of Justice, which certified a legal question to the CJEU: whether the storage of infringing goods by one Amazon company, without knowledge of their infringing nature.

...mere storage of infringing goods by the Amazon company, ...knowledge of such infringing marks, rendered Amazon liable.

Coty protested that this narrow framing of the issue did not fully capture Amazon's involvement in the process of selling items on its site. But the CJEU refused to go beyond this narrow framing, given that the German court which referred the question of law to it had framed it so narrowly, and was presumed to know the relevant facts.

CJEU ruling

Under E.U. law, to be directly liable for infringement, a company must be "using" the trademark at issue. "Using" a trademark "involves active behavior and direct or indirect control of the act constituting the use."

Thus, in prior cases involving platforms such as Google and eBay, merely allowing third parties to use the platform to advertise branded goods was not considered "using" the mark by the platform, only by the seller.

As presented to the CJEU, Amazon did nothing more than allow its warehouse to be used to stock goods sold by third parties. That, the CJEU ruled, is not considered "using" the trademarks that are on the goods. So Amazon escaped liability.

Amazon's involvement

As noted, the CJEU refused to address Coty's argument that Amazon is more heavily involved than the question certified by the German court suggested.

Coty pointed to various services that Amazon companies provide in connection with sales on the platform, including advertising, filling orders and promoting items on Google. This, Coty argued, goes far beyond the more limited activities of Google and eBay in prior cases, and means that Amazon in effect entirely replaced the seller and should be held liable.

Coty is not alone in asserting this argument.

The European Union's advocate-general, Campos Sánchez-Bordona, advised the CJEU to rule that Amazon should be liable for trademark infringement because of the "Fulfillment by Amazon" service.

In his view, this service results in Amazon running an "integrated store" in which Amazon plays an active role in the selling process, including preparation for delivery, advertising, answering queries and providing refunds. Amazon's close involvement means it is "using" the mark.

While the CJEU did not address those facts, part of its ruling that "direct or indirect control" of the use of the trademark could suffice might, in a future case, be a basis for holding Amazon liable.

Difference between primary and intermediary liability

One nuance about the decision is that Coty sought to hold Amazon liable as a primary infringer in U.S. law, a "direct infringer" because of its heavy involvement in the marketing and sales process. This requires no knowledge of Amazon that the items infringe.

An alternative that Coty did not pursue involves what is termed intermediary liability, or "contributory liability" in U.S. law.

In a 2016 case involving Tommy Hilfiger, the CJEU ruled that a company that allows its services in that case, leasing commercial space to a seller to be used to support sales of counterfeits could be liable.

However, such liability, secondary liability, requires knowledge by the company providing the services, or strong reason to know that infringements are being sold. In the case of Amazon, this is generally very difficult to prove.

U.S. law

U.S. law has many similarities to E.U. law, and the liability of ecommerce platforms is likewise still developing.

U.S. law distinguishes between direct and secondary liability.

Direct liability requires that the party make a "use" of the trademark in commerce, such as advertising goods with the mark, or selling goods bearing the mark. It does not, however, require any particular knowledge that the goods are infringing.

The narrow question presented to the CJEU whether mere storage of branded goods in a warehouse suffices to hold a company directly liable would likely be decided the same way by a U.S. court.

Merely allowing a vendor to stock infringing goods in one's warehouse is not a "use" of the trademarks that are on

the goods.

Like E.U. law, U.S. law recognizes what is termed here "contributory liability," where a company supplies goods or services used to aid in the primary infringement by the seller.

For example, many U.S. courts have held that operators of flea markets and commercial landlords can be liable for sales of counterfeits by vendors who lease space from them.

However, under this theory, U.S. law requires knowledge or, at least, willful disregard of the fact that the company's services are being used by others to sell counterfeits.

A 2010 federal appeals court in *Tiffany v. eBay* held that this knowledge must be specific the selling platform has to know that the specific listing is infringing, not merely have general awareness that many offerings on its site are counterfeit. This is often a very difficult thing to show for platforms such as Amazon.

Unsettled areas of U.S. law

The unsettled question, however, is whether Amazon's involvement in the selling process is sufficient to impose liability, without showing Amazon's knowledge.

It is certainly true that Amazon is much more involved in the selling process than other platforms such as eBay. Among other things:

- Price control: Amazon requires its sellers to give Amazon customers the best available price as they charge through other selling outlets
- Advertising: Amazon requires that the same images be used for all vendors to illustrate the same item
- Warehousing and shipping: Amazon's fulfillment services involve vendors sending items to Amazon warehouses. Amazon is then involved in shipping from its warehouses to fill orders
- Customer service: Amazon deals with post-sale complaints and refund requests
- Payment processing

Although some of these services are optional, Amazon strongly encourages vendors to use them, and many in fact do. And, of course, Amazon takes a hefty percentage varying from 6 percent to 25 percent of the sales revenue for the various services it provides.

This heavy level of involvement, at least arguably, could render Amazon liable.

Recently, a federal court determined in a case involving sales of counterfeit Chanel products, that a Web site heavily involved in the sales process was directly liable for trademark infringement, even though, technically, the seller of each item was not the Web site itself but individuals who had consigned the items for sale.

While that site's involvement was not identical to Amazon's, the *Chanel* decision makes clear that whether a company is considered a "seller" of infringing items is not based solely on who owns the item at the point of sale.

Another possible basis to hold platforms such as Amazon liable is what is termed vicarious liability.

To hold a party liable under that theory, a trademark owner must show that "the defendant and the infringer have an apparent or actual partnership, have authority to bind one another in transactions with third parties, or exercise joint ownership or control over the infringing product."

Vicarious liability does *not* require any specific, or even general, knowledge of infringement it basically requires two parties that are working closely together to be responsible for one another, even if technically only one of them is the direct infringer. This is akin to partnership law, where partners in a business are strictly liable for the their partners' activities.

Although no one has to date asserted this theory against Amazon, given its close involvement in virtually every stage of the selling process, and the large percentage of the sales price it takes, a strong argument can be made that Amazon is in a virtual partnership with its vendors, and thus is vicariously liable for its vendors' sales of infringing items.

Finally, one possible, albeit controversial theory of liability is that *shipping* goods bearing an infringing trademark constitutes "use" of the trademark, and hence the shipper is directly liable.

A number of courts have accepted this theory to hold shipping companies and customs brokers liable. Some have

rejected this theory.

To date, no one has asserted it against Amazon, but given its involvement in shipping items through its fulfillment program, at some point a trademark owner will likely assert it.

THE EXPLOSIVE growth of ecommerce platforms has also led to an explosive growth of sales of counterfeits and other infringements, much to the consternation of brand owners.

While once these platforms were fairly passive in their involvement in the marketing and sales that occurs there, of late they have become much more involved in controlling what is offered and how it is offered.

The law in both the E.U. and the U.S. continues to evolve to grapple with this problem.

The recent CJEU decision on its face is narrow, merely holding that storage of infringing items is not enough for liability. But in the near future, one can expect that courts in both Europe and the U.S. will be called on to determine the liability of these platforms.

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