

# Online auctioneers must work harder in Germany

In a landmark decision, Germany's Supreme Court has put the onus on online auctioneers to stop counterfeit goods being advertised. Henning Hartwig examines whether the ruling will be welcomed by trade mark owners

**P**roduct piracy is thriving. If statistics are correct, Customs confiscated almost 50 million counterfeit products and pirated copies on the outer borders the European Union in only the first six months of 2003. According to the European Commission, product piracy is no longer limited to luxury goods but more and more concerns consumer products too. For example, five times as many mobile phones were confiscated in 2002 as in 2000. According to a 2002 survey of the software industry, 37% of computer programs used within the EU are pirated copies.

Online auctioning is booming, too. For example, the number of worldwide registered users of eBay amounted to 68.8 million in April 2003, by its own account, and 114 million by July 2004. For the second quarter of 2004, eBay announced worldwide total revenue of \$773.4 million. In the same period the total value of products and services offered by eBay worldwide was about \$8 billion, with \$625 million for consumer electronics, \$550 million for clothes and accessories and \$300 million for watches and jewellery.

## First German case law

Naturally, no-one will ever be able to tell how many of these goods are fakes, but trade mark owners have a strong suspicion that product piracy is expanding with the unintended help of internet auction houses such as eBay.com and intoko.nl. They fear that masses of exact copies are sold anonymously without brand owners having a serious chance to stop the flood. This is why right holders, particularly the owners of the famous Rolex trade marks, tried to enjoin online auctioneers such as eBay.de and intoko.de from enabling people to sell clear copies of the well-known Rolex wristwatches, most notably in Germany, a jurisdiction known as the seat of some of the most competent IP courts worldwide, and at the same time a prime destination

**The decision may significantly impede the operability of online auction houses**

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of an increasing migration of falsifications stemming from Eastern Europe. (In 2003 German Customs confiscated consumer goods worth 47 million, and 15% of all products confiscated in 2003 were watches and jewellery.) Rather surprisingly, however, the Düsseldorf Appeal Court and the Cologne Appeal Court – both reputed as competent and experienced in trade mark matters – denied corresponding claims for legal and technical reasons. The Düsseldorf Appeal Court in particular exculpated eBay.de from any responsibility for fakes being sold on-line, since the e-auctioneer was not aware of the concrete offer (which sounds true, because individual offers are usually put online by each seller without the internet auctioneer having the offer pre-checked in advance).

## The Supreme Court's decision, March 11 2004

Now Germany's Federal Supreme Court seems to have assisted brand owners with a recently-published decision that may significantly impede the operability of online auction houses and other e-commerce sites. The plaintiff, again, was the manufacturer of the famous Rolex wristwatches, while the defendant had been operating an inter-

net auction house where Rolex watches were offered that did not originate from the plaintiff. However, the watches depicted on the electronic platform were explicitly designated as “noble replica” or “deceptively similar to the original” which made it clear to everyone that forgeries were being offered.

The German Supreme Court did not stop at ordering the defendant to delete merely the concrete offers of the forged watches, the decision reached much further: if the auction house had knowledge of the forgeries, it was all the more obliged to take measures to prevent any further offers being placed on-line which could also be defined as being “clearly recognizable”. The Supreme Court explicitly relied on Article 14 (3) of the Directive 2000/31/EC on electronic commerce. This article allows a court to require the service provider to terminate or prevent an infringement, and permits member states to establish procedures governing the removal or disabling of access to information.

While the auction house could not be expected to examine every offer for potential unlawful content, it was nonetheless effectively participating in the sale of pirated goods by the commission owed to it, said the German Supreme Court. For this reason, the defendant must bar without delay not only any concrete offer whenever a clear infringement is pointed out to him, but also take measures to prevent further trade mark infringements. From a technical point of view, the defendant could “possibly” make use of software for detecting suspicious offers, with potential points of suspicion being the low price as well as hints to imitations such as in the present case, ruled the Supreme Court.

As already indicated, other courts of lower instance had addressed but denied these and other related questions (also in a parallel suit against eBay.de). However, with the Supreme Court’s decision, a responsibility of internet auction houses has to be affirmed with regard to potential claims to cease and desist on the basis of the auction houses’ ability to “disturb”. In particular, Article 14 (3) of the Directive and the corresponding German case law are not limited to the situation where the service provider has gained explicit knowledge of the respective information, that is of each concrete infringement. They also cover the possibility that e-auction houses are not taking note of offers prior to their publication online, but the offers are being put automatically on to the internet platform by the individual offerer.

### **Some important exceptions from e- auctioneer’s liability**

However, it is more than noteworthy that the defendant, according to the German Supreme Court, would not be held responsible for trade mark infringements that are not detectable by such a filtering process (for example, a forged Rolex watch being offered for a price appropriate to an original and without a hint as to its forged character). Furthermore, the court made it clear that potential claims against eBay or other auctioneers are limited to injunctive

relief whereas claims for information, damages etc are excluded due to the nature of the e- auctioneers’ liability. In fact, the above obligations to examination are derived from the so-called *Störerhaftung*, literally translated as the liability of disturber, designating in this case the obligation of the auction house to stop the disturbing of trade mark owners. Last but not least internet auction houses are not obliged to provide any sort of prevention against trade mark infringements should the initial offer of a forged Rolex wristwatch have only private character, and, thus, not be a trade mark infringement *per se*, according to German case law.

### **Good news for trade mark owners**

Naturally, the decision will receive approval from trade mark owners since it means that manufacturers and distributors of luxury and other goods are not merely observing the market and pointing out trade mark infringements to the online auctioneers by themselves. In particular, internet auction houses are not simply obliged to delete certain information retrospectively. Instead, trade mark owners can demand from the auctioneers that they fulfil certain obligations to examine offers preventively (especially if auction houses are not taking note of the offers prior to publication, that is if they are being put automatically on to the internet by the individual offerer).

Contrary to the opinion of the Cologne Appeal Court, the likelihood of confusion of the related trade marks will not be excluded by labelling the offered products as “replica” or “imitation”, ruled the Federal Supreme Court. According to German trade mark law, the actual sales situation (for example, a low price or explanatory hints) does not determine whether there is a likelihood of confusion. The Supreme court sees the decisive aspect in the abstract likelihood of confusing two similar or even identical signs.

This Supreme Court decision stands at the end of a long line of conflicts between e-auctioneers and owners of famous trade marks in Germany. Questions of practical interest certainly remain, in particular whether and how internet auction houses will be able to fulfil their obligation to examination in the future: which points of reference are to be used for detecting suspicious offers of clear infringements? In this context, the Supreme Court is citing low prices or hints to imitations in an exemplary manner. It is predictable that the internet auctioneers will defend themselves with the argument that they – just as any individual eBay user – have only simple word filters at their disposal which cannot discern between originals and forgeries but only react to certain keywords. For this reason, a further control by hand would have to follow – which would, from their point of view, be economically unacceptable.

Be that as it may, from a brand owner’s point of view, the Supreme Court ruling is an encouraging step towards more protection against product piracy. The possibilities to stop the distribution of pirated goods by the intervention of the criminal prosecution authorities seem helpful as far as they are being used as flanking means, such as for getting information about the offerers who often operate under

false addresses or behind straw men. There is, however, a danger in cases of marginal economic importance that the public prosecution will refer the suing parties (injured persons or trade mark owners) to the courts for private action. Especially in such cases, the Supreme Court decision promises a clear step forward to the benefit of trade mark owners.

### **Charged with suspense**

As German law had in the past already obliged online-based enterprises to employ software filters to keep their platforms clean of sexually abusive and racist content, the requirement to take out forgeries does not seem to be new in principle. Seen in context with another ongoing suit against eBay.de, in which a bidder is claiming the right to return a regularly acquired but allegedly imperfect piece of jewellery, the fundamentals of the e-auctioning business in Germany seem threatened – with potential repercussions in other European jurisdictions.

The German Supreme Court's decision could, by the way, also become relevant in cases of other clear infringements of examined IP rights, for example in a clear case of patent infringement. In this respect, too, the situation remains charged with suspense.

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