

LEGAL AND PRIVACY

EU high court to rule on whether Amazon liable for listing, stocking and delivering infringing items sold by merchants on its platform

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Just over two decades ago, ecommerce platforms were on the fringe of the retail world, constituting less than 1 percent of total U.S. retail sales. Currently, ecommerce platforms have become an ever more substantial force in the economy that number is more than 13 percent, and rising rapidly.

At the heart of this new world of ecommerce are large platforms such as Amazon, Farfetch and Alibaba that largely serve as a marketplace for third-party vendors to sell their wares.

The rapid growth of ecommerce as a percentage of overall retail sales can, in part, be attributed to the special protections and accommodations that have been afforded Internet companies.

One notable factor of the regime of regulations governing the Internet is that they have protected these e-retailers from the more stringent degree of liability that traditional bricks-and-mortar retailers face.

This is to say that an ecommerce platform such as Amazon would be unlikely to face the same degree of legal liability were it found to be selling knockoff products than Walmart, if it were selling knockoffs in one of its big box stores, for instance.

Yet this special status that has been provided to online stores looks to be in danger, with some regulators, legislators and courts in the European Union and the United States looking to scale back the protections once extended to these now booming internet platforms.

Online platforms are new nerve centers of ecommerce

What is the big picture that we see when we look at online platforms and the marketplaces that they create?

The platforms have collected vast information and data about ecommerce actors and offerings. Having this information and data allows the platforms to control the marketplace. And it is these platforms, where control is most effective, which are the new nerve centers of much of ecommerce.

Despite this ability to control, platforms such as Amazon have been said to have ceded control over their sites failing to prevent the sale of thousands of banned, unsafe or mislabeled products in their marketplace. As a result, many of these sites have become hotbeds of counterfeit and grey market goods.

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

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

Louboutin v. Amazon E.U. case

On March 8, the Tribunal d'arrondissement in Luxembourg referred a trademark infringement case brought by Christian Louboutin, the owner of the famous red sole trademark, against various Amazon entities, including Amazon EU Sarl, to the Court of Justice of the European Union (CJEU) for listing, stocking and delivering infringing items for third-party sellers on the Amazon platform.

In the *Louboutin* case the court is being tasked with determining whether the E.U.'s trademark directive and regulation hold online retailers such as Amazon directly liable for trademark infringement when it lists and stocks on their online platform counterfeit goods sold by third-party vendors.

As a general matter Amazon's activities would amount to *prima facie* infringement under E.U. law.

However, things become more complicated when the accused retailer is, like Amazon, an online marketplace with the law providing less clarity over the issue of direct liability for these platforms.

The CJEU has not previously found direct liability of platform operators for infringing activities, though this could change with the *Louboutin* case.

So this is an important referral because European national litigation has not been consistent in dealing with the question of whether an online platform, such as Amazon, could be liable for direct trademark infringement for marketplace vendor sales and the CJEU has not explicitly gone as far as holding that the operators of an online platform may be directly liable for trademark infringement together with users of its services.

In examining this issue of liability we first consider Amazon's role in various steps of the sales process.

Then we review lower court rulings in the E.U. and its member states, their potential impact on the CJEU's upcoming decision, and future enforcement efforts in Europe.

We then compare that result with the law in the U.S. and examine trends in E.U. and U.S. law concerning ecommerce platforms.

Amazon's role in various steps of sale

To understand Amazon's liability for products sold on its Web site it is first necessary to establish just how involved Amazon is in the sale of items from its virtual agora.

Despite a common misperception Amazon, along with other online platforms, is not just a passive listing service where merchants sell their goods. Instead, from listings to payment, Amazon is inextricably intertwined and actively involved in nearly every step of the sales process.

Starting at the very beginning product listings Amazon does not allow its sellers to make their own listings for each product being sold.

Instead, Amazon requires all sellers who are offering the same product to share a single product detail page, or "PDP." While sellers are allowed to submit their own images and verbiage for inclusion on their PDP, the ultimate decision for what goes on public display is Amazon's.

Once a product is listed, Amazon continues to exert a degree of control over the vendors: everything from advertising services (Amazon controls various way of advertising the merchant's product, all of which generate their own merchant fees) to pricing (Amazon requires the merchant's best price) to warehousing and fulfillment

(Amazon will store the items of third-party merchants participating in the Fulfillment by Amazon program at its facilities, from where it will prepare and ship items that have been sold).

Amazon charges a fee for many of these activities, including inventory storage, picking, packing and shipping.

Amazon's control does not just end after a consumer clicks "purchase."

Both payment processing and customer service are taken care of not by the merchant, but by Amazon itself.

To top all of this off, any sale on Amazon generates a merchant referral fee of 6 percent to 20 percent.

The takeaway from all this is that, despite the veneer of independence, the totality of Amazon's activities it can be argued creates a *de facto* partnership between itself and third-party merchants.

Liability of online retailers in the European Union

This is not the **first time** that a European court has been tasked with answering such a question.

In August 2019, the Brussels Companies Court held Amazon liable in another case involving Louboutin.

While that court ruled in favor of finding Amazon directly liable for the infringing third-party advertisements displayed on the company's Web site, the decision was **partially reversed** on appeal, with the Brussels Court of Appeal finding Amazon was not liable for these advertisements.

The following year, 2020, the CJEU considered another trademark infringement question in the case of *Coty v. Amazon*.

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

As this question was 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 which are on the goods. So Amazon escaped liability.

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.

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 was not alone in asserting this argument.

The European Union's advocate-general, Campos Sanchez-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.

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 like 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.

When the case returned to Germany, the country's Supreme Court found that while Amazon was not an infringer it could still be held liable if it contributed intentionally and causally to an instance of trademark infringement.

Control equals responsibility

There is an overall theme in U.S. law that the party that can control a problem is responsible to do so. This is the case in intellectual property law as well as other areas of the law such as products liability.

Indeed, in *Bolger v. Amazon.com*, a California appellate court last year held Amazon liable as a "seller" of a defective replacement laptop battery that exploded several months later, and the customer suffered severe burns as

a result, even though technically the third-party merchant owned the battery prior to sale.

In finding Amazon liable, the *Bolger* court reasoned that Amazon exercises control over its platform, and is the party that can best make sure that products sold thereon are safe ones, notwithstanding that the third-party merchant was the owner of the defective product prior to sale.

The issue of Amazon's liability for the goods of third-parties being sold on its virtual marketplace has not been significantly addressed by U.S. courts.

But, since Amazon, and other platforms, are the nerve centers of ecommerce and have the ability to control the counterfeiting problem, it is foreseeable that U.S. law is going to press them to do so. Why is that the case, because control equals responsibility.

Given that Amazon controls the platform, it is the party that can best make sure that products sold on its platform are genuine ones.

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.

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 like 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. As noted above, Amazon is actively involved in nearly every stage of the sale process, controlling aspects of everything from the listing and pricing to warehousing and shipping to payment processing and customer service.

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.

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.

EVER SINCE THE dawn of the Internet era, the conventional wisdom has been that the Internet is special and needs to be specially protected.

Since those early days, ecommerce platforms have experienced explosive growth which, in turn, has also led to an exponential growth of sales of counterfeits and other infringements, to the consternation of brand owners.

Now that the Internet is out of its infancy it is difficult to justify special protections that are also being used to condone such infringements.

Further warranting a reexamination of the special protections given to Internet companies is the fact that while, once upon a time, these Web sites were fairly passive in their involvement in the marketing and sales of products sold on their platforms that is no longer the case.

These companies have become much more involved in controlling what is offered and how it is offered, acting as the new nerve centers of much of ecommerce.

Now that these platforms have reached a stage where they have gained both control and financial interests a withdrawal of these special protections seems only appropriate.

This could spell liability for these e-retailers as the general trend of U.S. law that parties with both control and financial interests in something are the ones that the law will hold responsible for any resulting problems seems to be asserting itself over these platforms.

While it will be informative as to the direction the E.U. court will take in the liability debate, the *Louboutin* case will not be the last word on the issue. The law in both the E.U. and the U.S. will continue to evolve to grapple with this problem.

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