

COLUMNS

## Louboutin walks away with a win against Amazon's fake footwear

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The fight against counterfeit products is a never-ending battle in the luxury goods marketplace. It is, perhaps, easier than ever for consumers to find and buy knock-off merchandise on online platforms that damages the reputation and image of a brand.

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

Recently, the Court of Justice of the European Union (CJEU), in a highly anticipated decision, ruled that Amazon may be held liable for the advertising of infringing goods that bear registered trademarks. This ruling may pave the way for meaningful change.

The decision, issued last month, was a major win for Christian Louboutin, which brought two suits for trademark infringement against Amazon in the E.U. And while not a final verdict, as discussed below, this ruling may result in sweeping changes to online marketplaces across the globe, signaling good news for brand owners in the fight against counterfeiting.

That ruling, and its impact on future enforcement efforts in Europe is reviewed below and compared with the law in the United States in an examination of trends in E.U. and U.S. law concerning ecommerce platforms.

Amazon's activities

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."

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.

However, despite a common misperception, Amazon 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.

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 that they charge through other selling outlets
- Advertising: Amazon requires that the same images be used for all vendors to illustrate the same item and controls various ways of advertising the merchant's product, all of which generate their own merchant fees
- 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.

As a general matter, if Amazon were a bricks-and-mortar store undertaking the activities under review in the referrals, it would likely amount to *prima facie* infringement under E.U. law. However, the situation becomes more complicated when the accused retailer is an online marketplace.

The *Louboutin vs. Amazon* E.U. cases

Louboutin is known for his signature red-soled high heeled shoes, which are a registered trademark in several countries. This footwear often retails for more than \$700, yet a search on Amazon.com will yield a plethora of red-soled knock-offs available for a fraction of the price.

As a result, Louboutin sued Amazon in both Belgium and Luxembourg, seeking to hold Amazon liable for the infringing use of its trademarked red soles.

Amazon argued that, like eBay or Rakuten, it could not be held liable for the use of a trademark by third-party sellers who use its online marketplace.

Louboutin, however, asked the court to attribute such use to Amazon. As I noted above, the company plays an active role in not only the display of infringing products sold by third-parties, but also the storage and shipment of the products for third-parties.

In its decision, the CJEU found that online marketplaces may, in fact, be liable for the infringing goods, whether distributed by the platform or by third-parties.

The court focused on the potential for customer confusion.

Unlike eBay, which does not post listings itself but only those of its users, Amazon operates a "hybrid" business model, selling third-party goods alongside its own. Amazon makes no distinction, the court noted, between its own listing and those of others, so a user could mistakenly think that Amazon is authorized to sell Louboutin shoes.

The CJEU did not issue a final judgment on Amazon's liability. Its role was to clarify the governing law to be used by the lower courts, stating that "the operator of an online sales website incorporating, as well as that operator's own sales offerings, an online marketplace may be regarded as itself using a [trademark] . . . if a well-informed and reasonably observant user of that site establishes a link between the services of that operator and the [mark] at issue, which is in particular the case where . . . such a user may have the impression that that operator itself is marketing, in its own name and on its own account, the goods bearing that [mark]."

The factors to consider, the court said, when determining liability include: (1) whether the online marketplace uses a uniform method of presenting the offers published on its website, displaying both the advertisements relating to goods it sells in its own name and on its own behalf and those relating to goods offered by third-party sellers on that marketplace; (2) whether it places its own logo as a renowned distributor on all those advertisements; and (3) whether it offers third-party sellers, in connection with the marketing of goods bearing the trademark at issue, additional services such as the storing and shipping of the infringing goods.

The decision returns to the lower courts in Belgium and Luxembourg to proceed with a final ruling, but the CJEU decision is now binding law across the whole of the E.U.

U.S. law

The issue of Amazon's liability for the goods of third-parties being sold on its virtual marketplace has not yet been

significantly addressed by U.S. courts, but U.S. law has many similarities to E.U. law, and the liability of ecommerce platforms is also 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 is whether Amazon's involvement in the selling process is sufficient to impose liability, *without* showing Amazon's specific knowledge.

*Advertising/offering for sale*

Using an infringing or counterfeit mark in connection with advertising or offering for sale of goods is a basis for liability.

Arguably, Amazon's listing and advertising services implicate this liability basis where the listing is infringing. Given that Amazon takes a percentage of the sale, there is an especially strong argument that Amazon is "using" the infringing or counterfeit mark to generate sales, from which it takes a cut.

*Vicarious liability*

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 as it relates to general partners, where general partners in a business are strictly liable for their partners' activities.

Although I am not aware that anyone 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 constructive partnership with its vendors, and thus is vicariously liable for its vendors' sales of infringing items.

*Shipper liability*

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

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

Given Amazon's involvement in shipping items through its fulfillment program, at some point a trademark owner may well make the argument.

THE OPEN QUESTION concerning Amazon's liability for the trademark infringement of its third-party vendors may be coming to a head.

Two *Louboutin* cases have joined together, building the pressure against Amazon and other similar online retailers. In the E.U., these cases could possibly disrupt the free pass Amazon has enjoyed so far and prove to be a catalyst for change not only in the E.U., but in the U.S. as well.

This ruling will unquestionably cause a ripple effect across many online retailers in the E.U. As a result of this decision and the expected ruling against Amazon from the lower courts, the ecommerce giant will need to adapt, and likely change its business model to differentiate between its own listings and those of third-parties to make clear to consumers where products originate.

With Louboutin's success, more brands will no doubt consider challenging Amazon in the months to come. As the battle against counterfeiting continues, this decision gifts power and leverage back to brands and trademark owners seeking to protect their marks on the digital marketplace.

*The views expressed in this article are purely the author's.*

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