

Kluwer Copyright Blog

C-494/15 – Tommy Hilfiger: No Difference between Online and Real World Marketplaces for IP Enforcement

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On 7 July 2016, the CJEU (Court of Justice of the European Union) handed down its decision in *Tommy Hilfiger* (case C-494/15). The case concerned the imposition of an injunction on Delta Center, a company that sublets sales areas in the “Prague Market Halls” (*Pražská tržnice*) to traders, after it was found that counterfeit goods were sold in the marketplace.

The requested injunction would require that Delta Center refrain from: a) renting space to persons previously found by the courts to have engaged in trademark infringement; b) include terms in their rental contracts that oblige market traders to refrain from infringement; and c) publish an apology for past infringements by third party traders.

The Questions

The relevant provision in Czech law was found to be an implementation of Article 11 of the Enforcement Directive ([Directive 2004/48](#)). As a result, a request for a preliminary ruling was submitted to the CJEU by the Czech Supreme Court (*Nejvyšší soud České republiky*).

According to Article 11 of the Enforcement Directive, Member States are obliged to ensure that the holders of intellectual property rights are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe those rights. Two questions were put before the Court:

- Is the operator of a physical marketplace an “intermediary” within the meaning of Article 11 of the Enforcement Directive?
- May the courts impose an injunctive order on such an operator under the same conditions as those set out for the operators of online marketplaces in the CJEU’s earlier *L’Oréal v eBay* (C-324/09) decision?

The Answers

Both of these questions were answered in the affirmative.

With regard to the first question, according to the CJEU, there is nothing in the Enforcement Directive that suggests that its scope is limited to electronic commerce alone. Indeed, the objective of the directive, as stated in Recital 10, is “to ensure a high, equivalent and homogeneous level of protection in the internal market”. This would be “substantially weakened” by an interpretation that

excluded the operators of physical marketplaces from the directive's reach (para. 29). Instead, the CJEU concluded that an operator may be classified as an "intermediary" for the purposes of the Enforcement Directive on the sole condition that it "provides a service capable of being used by one or more other persons in order to infringe one or more intellectual property rights" (para. 23), thus comfortably covering physical marketplaces as well.

As to the conditions that govern Article 11 injunctions, the Court recalled that, under Recital 23 of the Enforcement Directive, these should, for the most part, be left to the national law of the Member States (para. 32). Some limitations are nevertheless imposed by EU law. So, according to Article 3 of the Enforcement Directive, the relevant national provisions must be "effective and dissuasive", as well as "equitable and proportionate" (para. 33-34). They must also not be "excessively expensive" and "not create barriers to legitimate trade" (para. 34). In addition, according to the CJEU's settled case law and in particular *L'Oréal v eBay*, the intermediary may not be required to "exercise general and permanent oversight over its customers". By contrast, an intermediary may be forced to take measures that "contribute to avoiding new infringements of the same nature by the same market traders from taking place", as long as a "fair balance" is maintained between the protection of the intellectual property right and the absence of obstacles to legitimate trade. While the previous analysis of these requirements by the Court had focused on online intermediaries, there was no reason to suppose that they would be any different for physical ones.

It should be noted that these answers would apply equally in cases of copyright infringement as they do in trademark law: as the Court itself observed (para. 22), Article 8(3) of the Copyright Directive (Directive 2001/29/EC) imposes the exact same requirement of injunctive relief against intermediaries in copyright law as well.

The Consequences

What are the consequences of this decision for European intermediary liability law? While not ground-breaking in itself, the ruling sheds further light on the exact contours of the emergent applicable framework, as well as the logic that underpins it.

For one, the expansive interpretation of "intermediaries" accords well with previous CJEU case law. As the Court observes, in *LSG-Gesellschaft* (case C-557/07) it had been found that a provider which merely enables internet access for its clients must be classified as an "intermediary". *Telekabel Wien* (case C-314/12) further made it clear that it is not necessary for that purpose that a specific relationship with the users of the service be maintained by the operator (para. 23-25). An inclusive rule therefore appears to have always been the one favoured by the CJEU.

The Czech courts had raised the issue of a slippery slope: according to the High Court of Prague (*Vrchní soud v Praze*), a broad definition of "intermediaries" would lead to "absurd situations" in which even the supply of electricity or the grant of a commercial licence to a market trader would classify an operator as an intermediary. The obvious question thus becomes: what is the difference between an "intermediary" and an innocent bystander? When is a company a mere "dumb pipe" against which no injunctions can apply?

The Court blithely side-stepped the issue by declaring that there is no "need to determine" such cases in the present ruling (para. 28). At the same time, the context suggests that its answers might very well be "nothing" and "never". All would depend on whether the service provided could be

understood as satisfying the lax threshold of being “capable of being used by one or more other persons in order to infringe one or more intellectual property rights”. Instead, the ruling indicates that the more significant legal obstacles to the imposition of injunctions on such persons reside elsewhere: the pertinent question when discussing the applicability of Article 11 of the Enforcement Directive and Article 8(3) of the Copyright Directive is not who qualifies as an “intermediary”, but rather what conditions make a given injunction against such a party permissible or prohibited. In other words, quite possibly, an electricity provider used by a third party while committing infringements may well be classified by the CJEU as an “intermediary”. But – crucially – the consequences of such a qualification would most likely be severely limited, as only the weakest of injunctions against so distant a third party could hope to achieve a “fair balance”. Perhaps warnings against unlawful behaviour could be inserted into contracts with customers, but e.g. cutting off the wrongdoer’s supply of so basic a service as electricity would almost certainly be considered a disproportionate reaction to copyright infringement.

In this regard, it is also helpful to consider the complementary EU provisions on intermediary liability to be found in the E-Commerce Directive. This offers conditional immunity to intermediaries in the form of three so-called “safe harbour” provisions, which cover the supply of mere conduit, caching and hosting services. As the Court has made clear in its previous case law (see in particular *Google France* (joined cases C-236/08 and C-237/08) and *Papasavvas* (case C-291/13)), the protection of the safe harbours is only available to intermediaries that can be considered to be sufficiently “neutral”. On the basis of Recital 42 of the E-Commerce Directive, the Court has interpreted this neutrality as requiring that the services provided be “of a mere technical automatic and passive nature”, such that they do not give rise to “knowledge or control over the information which is transmitted or stored”.

What therefore ultimately emerges is a bifurcated European system that qualifies the providers of all services that are used by others in the commission of intellectual property infringements as “intermediaries”, but then separates these into two types: “neutral” and “non-neutral”. If an intermediary is “neutral” it may (provided a safe harbour applies) be exempted from liability for damages, but will still be exposed to the possibility of court-issued injunctions ordering measures to terminate or prevent an infringement – as long of course as the relevant measures satisfy the rather bewildering maze of applicable legal conditions. By contrast, if an intermediary is “non-neutral”, both liability for damages and for injunctions are, in principle, on the table. Again however, the legal limitations must be carefully considered. For one thing, damages can only be extracted if national law demands it – if a safe harbour does not apply, EU law has nothing further to say on the matter. With regard to injunctions, the aforementioned legal maze must again be navigated.

Intermediaries		
“Neutral” Intermediaries	“Non-neutral” Intermediaries	
Injunctions, where the EU conditions are satisfied	Damages, where national law requires this	Injunctions, where the EU conditions are satisfied

In any case, the more this framework begins to take concrete shape, the more it highlights the main failing of both this ruling and the Court’s previous case law on injunctions against intermediaries. If the above interpretation is to be accepted, the meat of the debate is clearly to be found in the second question posed by the Czech courts: what are the conditions governing injunctions ordered against intermediaries for the enforcement of the intellectual property rights of others? Yet if this is where things ought to get interesting, the Court’s refusal to follow through is all the more frustrating: anti-climactically, the CJEU supplies only the vaguest guidance.

In particular, as noted above, the parameters it imposes on injunctions are those set out in Article 3 of the Enforcement Directive and in its previous ruling in *L’Oréal v eBay*. Yet those two sources are not particularly informative. Article 3 overwhelms with its long list of ill-defined, often contradictory demands. *L’Oréal* is slightly more helpful. The ruling did confirm that the relevant measures may include both measures that contribute to bringing to an end actual infringements and measures seeking to prevent further infringements, while emphasising that a fair balance is in such cases required. It also went on to make two suggestions of injunctive orders that would satisfy both these limitations:

- a) the suspension of the perpetrator of the infringement in order to prevent further infringements of the same kind by the same seller in respect of the same trademarks; and
- b) the adoption of measures to make it easier to identify the intermediary’s customer-sellers (see *L’Oréal*, 141-142).

However, the Court emphasised that these possibilities are non-exhaustive (*L’Oréal*, para. 143), while neither that case nor this one offer any indication of what other “fairly balanced” options might exist.

Ultimately therefore, while in *Tommy Hilfiger* the CJEU does technically answer the referring court’s questions (yes, physical marketplaces are intermediaries and yes, the same conditions apply as those identified for online marketplaces in *L’Oréal*), it makes no real substantive offering. The unanswered questions that plague European intermediary liability persist. These concern not classifications, but substance. It is now time to start digging deeper. Courts across the EU should begin referring the real issues to the CJEU: what types of injunctions abide by the complex list of conditions the Court has offered us and what injunctions contravene them? By what standard can a

“fair balance” be gauged? Would the injunctions envisioned by the Czech courts in this case have passed muster? *That* would have been a question worth asking.

In any case, it is worth noting that, despite the fuzzy details, the Court’s red line on injunctions has always been clear. In *Tommy Hilfiger* this is once again repeated for good measure: while preventive action is certainly possible, anything that would require “general and permanent oversight” over the intermediary’s customers is incompatible with the notion of a “fair balance”. Interestingly, this also contains the answer to the bizarrely long-standing debate in Europe over so-called “stay-down” obligations: obstacles to the repetition of infringements by individually identified wrongdoers are OK, but as soon as the activities of all users are being monitored the balance is lost. General monitoring that seeks to catch any repetition of an IPR infringement by any user should thus be excluded.

With the Commission’s December 2015 [Communication on “a modern, more European copyright framework”](#) talking of the possible introduction of a “notice-and-stay-down” regime for intermediaries, this conclusion is significant: if measures that rely on general monitoring are out of the question for court-ordered injunctions, they should certainly not be envisioned for EU-initiated “notice-and-action” mechanisms. The only “stay-down” possibilities that should be contemplated are those that – much like the measures considered by the Czech courts in this case – seek to warn against infringement or prevent known infringers from persisting with their infringing ways. Let us hope that, if not the Commission, then at least the European Parliament and Council understand this important distinction.

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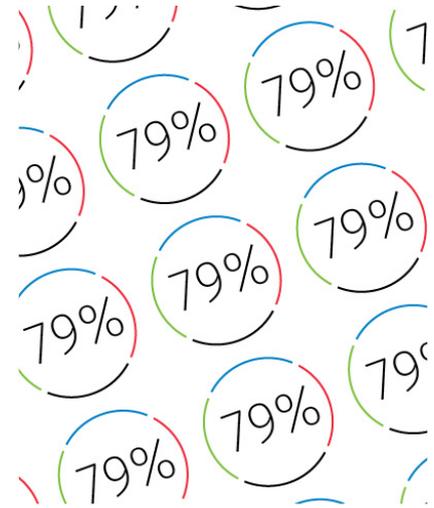
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