

Suggested citation:

Danny Friedmann, 'Sinking the safe harbour with the legal certainty of strict liability in sight' (February 2014) 9(2) JOURNAL OF INTELLECTUAL PROPERTY LAW AND PRACTICE (Oxford University Press) 148-155.

Sinking the Safe Harbour With the Legal Certainty of Strict Liability in Sight

Danny Friedmann¹

Introduction

In both the EU and U.S., there are safe harbour provisions²³ in place that should, under certain conditions, provide online service providers (OSPs)⁴ immunity in case of intellectual property infringement by third parties. However, the massive litigation cases against OSPs demonstrate that the safe harbour provisions are not effective nor efficient. By providing OSPs immunity of third party liability, safe harbour provisions contribute to a climate where the behaviour of OSPs is dominated by short term business interests, which are not conducive for the enforcement of intellectual property rights by the OSPs, nor for the legal certainty of proprietors, internet users and OSPs alike.

The prerequisites of the safe harbour provisions to remain passive and only act reactively, lead to willful blindness, although OSPs are best positioned to proactively filter infringing use of content. Therefore this article asserts that the safe harbour provisions must be substituted by strict intermediary liability. As will be pointed out below, this transition is not as dramatic as it seems.⁵

Safe harbour provisions were drafted at a moment when OSPs such as social media, still needed to be developed. They do not protect proprietors against infringement. Moreover, the protection of OSPs against liability is an illusion.

¹ Danny Friedmann, PhD Cand. (submitted August 30, 2013), Faculty of Law, Chinese University of Hong Kong. The author is grateful for comments of the anonymous referee.

² For example in the EU; Directive 2000/31/EC of the European Parliament and of the Council of June 8,

³ on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (E-Commerce Directive) and in the U.S.; Digital Millennium Copyright Act codified in 17 USC § 512, effective October 28, 1998 (DMCA).

⁴ With the online service provider (OSP) is meant an intermediary that is called an internet society service in the E-Commerce Directive and service provider in the DMCA.

⁵ *Infra* Chapter 7, this transition might not be as dramatic as one might expect.

If one extrapolates the development in filter technology one can see that advocating safe harbour provisions has become a rearguard battle and that implementation of strict liability for OSPs is ineluctable.

Chapter 1 provides the reason why the safe harbour provisions do not connect well to the current problems;

Chapter 2 demonstrates the inability of safe harbour provisions to enforce proprietors' intellectual property rights;

Chapter 3 shows why the safe harbour provisions are inadequate to provide legal immunity to OSPs;

Chapter 4 elaborates on the neutrality prerequisite for OSPs to be eligible for the exemption of liability;

Chapter 5 explicates the different schools of thought on the duty of care;

Chapter 6 deals with the different degrees of monitoring obligations;

Chapter 7 demonstrates the less than dramatic implications of the strict liability regime for OSPs.

Chapter 1 Mismatch of law and legal needs

It is not surprising that the safe harbour provisions do not match with the needs of OSPs, proprietors and internet users:⁶ the safe harbour provisions in the DMCA,⁷ Lanham Act⁷ and in the E-Commerce Directive⁸ were all drafted around the millennium at a time when electronic commerce was perceived as “embryonic and fragile”,⁹ and internet auctions and social media were just a fledgling phenomenon. Legislators on both sides of the Atlantic assumed that limiting the liability of OSPs in case of intellectual property infringements would “ensure that the efficiency of the internet [would] continue to improve and that the variety and quality of services on the internet [would] continue to

⁶ There is a “legal lag” between legislation and the legal challenges.

⁷ Exemption of secondary liability in case of copyright infringements: DMCA, *supra* note 3. ⁷ Exemption of secondary liability in case of trademark infringements: Article 32(2) Lanham Act, as codified into 15 U.S.C. § 1114(2) 2000.

⁸ Exemption of secondary liability in case of all kinds of infringements, including copyright and trademark infringements: Article 14(1) E-Commerce Directive involves hosting sites, *infra* note 25. ⁹ “[T]he embryonic state of electronic commerce, policies should be crafted with care and with due recognition of its fragile and evolving nature.” A Wyckoff & A Colecchia, ‘The Economic and Social Impact of Electronic Commerce’, OECD (1998) 12.

expand.”⁹ Soon the development of e-commerce proved to be robust and user-generated content on social media started to blossom. If one compares legislations with safe harbour provisions for secondary liability of copyright infringement with Hong Kong that does not have these yet, it is interesting to note that also in Hong Kong the foreseen problems never seem to have materialised.¹⁰

Chapter 2 Not solving the problems for proprietors

Two of the prerequisites OSPs have to comply with in order to be eligible for the safe harbour provisions work against the interests of proprietors.

The first prerequisite is that an OSP has no actual knowledge,¹¹ nor is aware of facts or circumstances that infringing activity is apparent.¹²¹³ And in case it obtains such knowledge or awareness it must expeditiously remove or disable access to such content.¹⁴ This has contributed to wilful ignorance by OSPs, which led to user-generated content that is infringing copyright and trademark rights on a massive scale¹⁴ (see Chapter 3 “Not protecting OSPs from legal conflicts”).

The second prerequisite is that OSPs should act neutrally in relation to content uploaded by third parties, for example user-generated content on social media or internet auctions. However, this is in conflict with OSPs’ desire to harness technology to further

⁹ *Viacom Int’l Inc. v YouTube, Inc.*, 718 F. Supp. 2d 514, 519 (S.D.N.Y. 2010). Quoting The Senate Committee on the Judiciary Report, S. REP. NO. 105-190 (1998) 8.

Electronic copy available at: <http://ssrn.com/abstract=2479190>

¹⁰ *Infra* note 101.

¹¹ Article 14(1)(a) E-Commerce Directive: “the provider does not have actual knowledge of illegal activity or information and, as regards claims for damages, is not aware of facts or circumstances from which the illegal activity or information is apparent.” and 17 § USC512 (c)(1)(A)(i): “does not have actual knowledge that the material or an activity using the material on the system or network is infringing.”

¹² Article 14(1)(a) E-Commerce Directive, *id.* and 17 § USC512 (c)(1)(A)(ii): “in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent.” ¹⁴ Article 14(1)(b) E-Commerce Directive, *supra* note 3: “the provider, upon obtaining such knowledge or awareness, acts expeditiously to remove or to disable access to the information.” See also Recital 46 of the Preamble to the E-Commerce Directive.

¹³ § USC512 (c)(1)(A)(iii): “upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material.”

¹⁴ The overview Google provides in its Transparency Report of the number of copyright removal requests it receives (18.7 million per month) provides an indication of the scale of problem of intellectual property infringing content OSPs face. Available at: <http://www.google.com/transparencyreport/removals/copyright/> (accessed September 23, 2013).

their entrepreneurial interests (see Chapter 4 “Neutral hosting or activist” under “Wilful blindness”).

The two prerequisites are strong disincentives for OSPs to seriously monitor for infringing content. On the one hand it would force them to expeditiously remove or disable access to infringing but popular content, which is not in their interest.¹⁵ On the other hand seriously monitoring content, although the OSPs could be best positioned to engage in this activity, would be perceived as exceeding the neutrality of merely hosting.

Jurisprudence below will show that courts narrowly interpret actual knowledge or awareness of facts or circumstances by the OSPs, while they broadly interpret the OSPs’ activities as neutral. This led to a situation whereby proprietors that have already notified OSPs about certain direct infringers or certain infringements, are forced to continue to notify OSPs about infringing content. Given the massive scale of the infringements, the proprietors’ burden to monitor and request for removals can be onerous.

Chapter 3 Not protecting OSPs from legal conflicts

Safe harbour provisions offer not only no legal certainty to proprietors, but also no safety to OSPs. One can distinguish three reasons. First they are still being sued by proprietors.¹⁶ Second, a recurring claim against OSPs that is articulated louder as technology evolves, is the accusation that they wilfully turn a blind eye towards the infringements that are happening on their servers. Third, the OSPs should unnaturally restrict themselves against activist behaviour, stifling their entrepreneurial spirit, while their neutrality is still being disputed.

The first and second reason will be elaborated below. The third reason will be dealt with in Chapter 4 “Neutral hosting or activist”.

Still being sued

Direct infringers are difficult to trace,¹⁷ or if this is possible, they might be located in a jurisdiction where it is difficult, or not economically feasible to litigate. Or when they

¹⁵ A poignant example can be found in the emails of Jawed Karim with the founders of YouTube, which include the statement of YouTube’s lead product manager that “probably 75-80% of our views come from copyrighted material” *Viacom Int’l v YouTube, Inc.*, No. 10-3270 (2d Cir.), J.A., vol. II, 47. And that “over 70%” of the most viewed/most discussed/top favorites/top rated video lists were or contained or have copyrighted material. *Viacom Int’l v YouTube, Inc.*, No. 10-3270 (2d Cir.), J.A., vol. I, 857. G Dickson, ‘Viacom v. YouTube: Second Circuit Plumbs the Depths of the DMCA Safe Harbor’ (2011) 20 NYSBA BRIGHT IDEAS 10, 10.

¹⁶ *Infra* notes 20 and 21.

¹⁷ Anonymity can exacerbate problems with tracing direct infringing users.

are in the right jurisdiction, they might have insufficient financial resources, or it might not be desirable to sue one's potential customers.¹⁸ This has meant that proprietors have filed law suits against OSPs to try to recover their damages; for example social media site YouTube, has been a regular defendant against the claim of secondary liability for copyright infringement on both sides of the Atlantic,¹⁹ and so was internet auction eBay in regard to secondary liability for trademark infringement.²⁰

Wilful blindness

OSPs can incur the risk of being accused of wilful ignorance. In the U.S. the common law doctrine of wilful blindness occurs when someone suspects wrongdoing and deliberately fails to investigate.²¹ Then again, wilful blindness is limited by *Hard Rock Café's* standard to only be able to “understand what a reasonably prudent person would understand” and not impose any care of duty that goes beyond that requirement.²² The concept “facts or circumstances” from which “illegal activity”²³ or “illegal activity or information”²⁴ becomes apparent is also called “a red flag”,²⁵ by which is meant that if

¹⁸ Filing a lawsuit against a customer or potential customer can have averse effect on the target market.

¹⁹ A U.S. example of a secondary liability claim for copyright infringement against a social media is *Viacom International, Inc. v YouTube, Inc.*, No. 07 Civ. 2103, 2010 WL 2532404 (S.D.N.Y. 2010). A European equivalent of this case, is LG Hamburg 8. Zivilkammer, 308 O 27/09 (2010), but contrary to the US case in Germany the claim was successful and YouTube was held liable for the infringing content by third parties.

²⁰ A U.S. example of a secondary liability claim for trademark infringement against an internet auction is *Tiffany Inc. v eBay, Inc.*, 576 F. Supp. 2d 463, 527 (S.D.N.Y. 2008). Examples in the EU include the French cases and the Belgian case. In France: *Hermès v eBay*, Troyes High Court (June 4, 2008), Docket No. 06/0264 and the *LV v eBay* cases, which were actually four cases (*Parfums Christian Dior et autres / eBay Inc.*, *eBay International AG*, Tribunal de commerce de Paris 1ère chambre B Jugement du 30 juin 2008. *Louis Vuitton Malletier / eBay Inc.*, *eBay International AG*, Tribunal de commerce de Paris 1ère chambre B Jugement du 30 juin 2008. *Christian Dior Couture / eBay Inc.*, *eBay International AG*, Tribunal de commerce de Paris 1ère chambre B Jugement du 30 juin 2008. In these French cases the claim against the internet auction was successful. In the comparable Belgian case *Lancôme Parfums et Beauté v eBay Int'l AG*, Tribunal de Commerce de Bruxelles, July 31, 2008, the claim was not successful.

²¹ *Hard Rock Café Licensing Corp. v Concession Services Inc. (Hard Rock Café)*, 955 F.2d 1143, 1149 (7th Cir. 1992).

²² *Id.*

²³ 17 USC § 512(c)(1)(A)(ii), *supra* note 13.

²⁴ Article 14(1)(a) E-Commerce Directive, *supra* note 12

²⁵ “In determining whether the service provider was aware of a “red flag,” the subjective awareness of the service provider of the facts or circumstances in question must be determined. However, in deciding whether those facts or circumstances constitute a “red flag”—in other words, whether infringing activity would have been apparent to a reasonable person operating under the same or similar circumstances—an objective standard should be used.” Thomas Bliley, Committee on Commerce, submitted the following report to the Committee of the Whole U.S. House of Representatives, together with additional views to accompany H.R. 2281 (1998) 53.

the OSP comes across these it must pay special attention to it and act, otherwise the exemption of intermediary liability will be lifted.

Another problem is that because of the fear to fall outside the exemption of liability some OSPs uncritically remove content after mistaken or bad faith complaints,²⁶ which can have chilling effects to creativity, and potentially render the OSPs liable for breaching the terms of service with the user.

Courts determine whether an OSP falls within the exemption of secondary liability by distinguishing the lack of enforcement of the OSP as wilful or deliberate ignorance from true ignorance. However, with ever faster evolving technology it is increasingly difficult to maintain no-science. In fact, the tipping point of omniscience has already reached spam and virus filter technologies.

Chapter 4 Neutral hosting or activist

One can observe a trend in jurisprudence of courts broadly interpreting eligibility and neutrality. First, unlike the DMCA, under the E-Commerce Directive it was not obvious to include internet reference services such as Google AdWords as an OSP, that is, under certain circumstances, eligible for liability exemption.²⁷²⁸ However, in the case of *Google France and Google*,²⁹ Advocate General Maduro opined that “[t]here is nothing in the wording of the definition of information society services to exclude its application to the provision of hyperlinks and search engines, that is to say, to Google’s search engine and AdWords.”³⁰ The CJEU in *Google France and Google* also concluded that AdWords features all of the elements of the information society service definition.³¹

²⁶ Uncritical removal of mistaken or bad faith complaints has nothing to do with filtering, which is distinguishing infringing from non-infringing material. Timothy Lee, “Warner Bros: we issued takedowns for files we never saw, didn’t own copyright to”, Ars Technica, November 10, 2011, available at: <http://arstechnica.com/tech-policy/news/2011/11/warner-admits-it-issues-takedowns-for-files-it-hasntlooked-at.ars> (accessed August 18, 2013).

²⁷ The E-commerce Directive gives three categories of internet society services, that are eligible for liability exemption: Article 12 “Mere conduit”, Article 13 “Caching” and Article 14 “Hosting” of the E-Commerce Directive. In the U.S. the DMCA has a comparable system, but has an extra category for reference services; ²⁸ USC § 512(a) Transitory Digital Network Communications; 17 USC § 512(b) System caching; 17 USC § 512(c) Information Residing on Systems or Networks At Direction of Users; 17 USC § 512(d) Information Location Tools. *Supra* note 3

²⁹ Case C-236/08 *Google France SARL and Google Inc. v Louis Vuitton Malletier SA*, Case (C-237/08) *Google France SARL v Viaticum SA and Luteciel SARL* and Case C-238/08 *Google France SARL v Centre national de recherche en relations humaines (CNRRH) SARL and Others*, Joined cases C-236 to C-239 (*Google France and Google*), Judgment of the CJEU, March 23, 2010.

³⁰ Joined cases C-236 to C-238 *Google France and Google*, Opinion of Advocate General, September 22, 2009, para. 131.

³¹ *Google France and Google*, CJEU judgment, *supra* note 29, para. 110.

The Advocate General construed Article 15(1) E-Commerce Directive,³² not only as preventing Member States from imposing on OSPs an obligation to generally monitor the information carried or hosted, or actively to verify its legality, but also as the expression of the principle that OSPs which seek to benefit from a liability exemption should remain neutral as regards the information they carry or host.³³

The Advocate General made a distinction between natural and sponsored results of Google's reference service. According to the Advocate General, natural results of the search engine are a product of automatic algorithms,³⁴ because: "Google has an interest – even a pecuniary interest – in displaying the more relevant sites to the internet user; however, it does not have an interest in bringing any specific site to the internet user's attention."³⁵ Since this is not the case with Google AdWords, the Advocate General deems AdWords not a neutral information vehicle: "Google has a direct interest in internet users clicking on the ads' links (as opposed to the natural results presented by the search engine)."³⁴ Edwards pointed out that Google's natural results are not unmanipulated, and therefore their neutrality can be questioned too.³⁵ The CJEU considered, however, that "in order to establish whether the liability of a referencing service provider may be limited under Article 14 E-Commerce Directive,³⁶ it is necessary to examine whether the role played by that service provider is neutral, in the sense that its conduct is merely technical, automatic and passive, pointing to a lack of knowledge or control of the data which it stores",³⁷ based on Recital 42 of the Preamble to the E-Commerce Directive.³⁸

³² Article 15 E-Commerce: "No general obligation to monitor (1) Member States shall not impose a general obligation on providers, when providing the services covered by Articles 12 [Mere conduit], 13 [Caching] and 14 [Hosting], to monitor the information which they transmit or store, nor a general obligation actively to seek facts or circumstances indicating illegal activity."

³³ *Google France and Google*, Opinion of the Advocate General, *supra* note 30, para. 143.

³⁴ *Id.*, para. 144. ³⁵ *Id.*

³⁴ *Id.*, para. 145.

³⁵ Lilian Edwards, "Stuck in 'Neutral'? Google, AdWords and the E-Commerce Directive Immunities", SCL The IT Community, available at: <http://www.scl.org/site.aspx?i=ed14010> (accessed August 17, 2013).

³⁶ Article 14 E-Commerce Directive, *supra* notes 12 and 13.

³⁷ *Google France and Google*, CJEU judgment, *supra* note 29, para. 114.

³⁸ *Id.*, para. 113. Recital 42 of the Preamble to the E-Commerce Directive: "The exemptions from liability established in this Directive cover only cases where the activity of the information society service provider is limited to the technical process of operating and giving access to a communication network over which information made available by third parties is transmitted or temporarily stored, for the sole purpose of making the transmission more efficient; this activity is of a mere technical, automatic and passive nature, which implies that the information society service provider has neither knowledge of nor control over the information which is transmitted or stored."

However, the CJEU held that the payment terms and general information provided by Google and which are under Google's control,³⁹ cannot deprive Google of the exemptions from liability provided for in the E-Commerce Directive.⁴² The relationship between keywords selected and the search terms entered by an internet user is not sufficient of itself to justify the view that Google has knowledge of, or control over, the data entered into its system by advertisers and stored in memory on its server.⁴³

The CJEU held that the role played by Google in the drafting of the commercial message which accompanies the advertising link or in the establishment or selection of keywords might not be neutral,⁴⁰ but leaves that decision to national courts.⁴¹

The CJEU was asked a similar question in *L'Oréal and Others*:⁴² whether eBay is neutral because eBay instructed its clients in the drafting of advertisements and monitored the contents of the listings. Advocate General Jääskinen stated that "I would find it surreal that if eBay intervenes and guides the contents of listings in its system with various technical means, it would by that fact be deprived of the protection of Article 14 regarding storage of information uploaded by the users."⁴³

The Advocate General in *L'Oréal and Others* doubted whether Recital 42 of the Preamble to the E-Commerce Directive concerns hosting services.⁴⁴ The Advocate General opined that it is not possible to sketch out parameters of a business model that would fit perfectly to the hosting exemption: instead one should focus on the type of activity, where it is clear that certain activities are exempt from liability, "all others are not and remain in the 'normal' liability regimes of the Member States, such as damages liability and criminal law liability."⁴⁵ Therefore, the Advocate General argued that the hosting exception does not exempt eBay from any potential liability it may incur in the context of its use of a paid internet referencing service.

According to the CJEU "[w]here the operator of an internet auction has provided assistance which entails, in particular, optimising the presentation of the offers for sale in question or promoting those offers, it must be considered not to have taken a neutral

³⁹ *Google France and Google*, CJEU judgment, *supra* note 29 para.

115. ⁴² *Id.*, para. 116. ⁴³ *Id.*, para. 117.

⁴⁰ *Id.*, para. 118.

⁴¹ *Id.*, para. 119.

⁴² Case C-324/09 *L'Oréal SA and Others v eBay International AG and Others*, (*L'Oréal and Others*), Judgment of CJEU, July 12, 2011.

⁴³ Case C-324/09 *L'Oréal and Others*, Opinion of the Advocate General, December 9, 2010, para. 146.

⁴⁴ *Id.*, para. 140. Recital 42 of the Preamble to the E-Commerce Directive, *supra* note 40.

⁴⁵ *Id.*, para. 149.

position between the customer-seller concerned and potential buyers but to have played an active role of such a kind as to give it knowledge of, or control over, the data relating to those offers for sale. In such cases it cannot rely on the exemption from liability referred to in Article 14(1) E-Commerce Directive.”⁴⁶ Whether this was so, the referring court has to decide for itself.⁴⁷

In *Google France and Google*⁴⁸ and in *L’Oréal and Others*,⁴⁹ the Advocates General wanted to grant an exemption of liability to the extent that the OSP’s conduct falls within the activity of hosting. The CJEU argued that internet reference service providers such as Google AdWords and eBay when they are drafting and suggesting promotional texts might not be neutral, but let this decision to the national courts.

Lessig made clear in his book *CODE*,⁵⁰ that code, or digital architecture, shapes law. But one can argue it also shapes infringements. If one assumes that the algorithms of an OSP to optimise the transactions between a third party and internet users, were merely technical, automatic and passive, but have the result that they induce infringements, the OSP has the option to fix this problem in the algorithms under their control after it becomes aware of the problem. However, the practice shows that OSPs, instead of structurally solving existent problems, seem to prefer to only remove or disable access after each single notice and takedown request,⁵¹ out of fear to fall outside the liability exemption of the safe harbour provisions.

Chapter 5 Schools of thought on duty of care

Based on Section 512(c)(1)(A)(i)-(ii) DMCA⁵² in the U.S., and Recital 46 of the Preamble to the E-Commerce Directive⁵³ and Article 14(1)(a) E-Commerce Directive⁵⁴ in the EU, OSPs with actual knowledge, or if they are aware of facts or circumstances that

⁴⁶ *L’Oréal and Others*, CJEU, *supra* note 46, para. 116. Article 14(1) E-Commerce Directive, *supra* notes 12 and 13.

⁴⁷ *Id.*, para. 117.

⁴⁸ *Supra* note 29.

⁴⁹ *Supra* note 46.

⁵⁰ L Lessig, *Code and Other Laws of Cyberspace* (1999).

⁵¹ In *Viacom Int’l v YouTube, Inc.*, *supra* note 16, ultimately the Second Circuit held that YouTube’s obligation did not go further than removing individually identified infringements. “The Football Association also cited examples of works that had been the subject of several takedown notices but that reappear on YouTube’s website with alarming regularity. That should be a red flag, it argued, telling the court that the DMCA should not merely facilitate the “endless whack-a-mole” process of takedown notices that only deal with single clips when YouTube’s own records tell it how often a particular work has been the subject of a takedown notice.” Dickson, *supra* note 16, at 12.

⁵² 17 § 512(c)(1)(A)(i) *supra* note 12 and 17 § 512(c)(1)(A)(ii) *supra* note 13.

⁵³ Recital 46 of the Preamble to the E-Commerce Directive.

⁵⁴ Article 14(1)(a) E-Commerce Directive, *supra* note 12.

infringing activity is apparent, should expeditiously remove or disable access to such information. Otherwise their exemption of intermediary liability will be lifted. These provisions are a disincentive for OSPs to monitor infringements by third parties on their servers. This is amplified by Section 512(m)(1) DMCA⁵⁵ in the U.S., and Recital 47 of the Preamble to the E-Commerce Directive⁵⁶ and Article 15 E-Commerce Directive⁶¹ in the EU that prohibit the imposition of a general obligation on OSPs to monitor the information which they store. Beside this legislation, courts made the argument that monitoring their servers is technologically impossible,⁵⁷ burdensome and too costly⁶³ for

⁵⁵ Even though an OSP is aware of pervasive intellectual property infringement, “however, flagrant and blatant”, this does not impose liability on the OSP, because it “furnishes at most a statistical estimate of a chance any particular posting is infringing (...).” *Viacom Int’l Inc. v YouTube, Inc.*, *supra* note 10. 17 USC § 512(m): “Protection of Privacy.— Nothing in this section shall be construed to condition the applicability of subsections (a) through (d) on— (1) a service provider monitoring its service or affirmatively seeking facts indicating infringing activity, except to the extent consistent with a standard technical measure complying with the provisions of subsection (i).”

⁵⁶ Recital 47 of the Preamble to the E-Commerce Directive: “Member States are prevented from imposing a monitoring obligation on service providers only with respect to obligations of a general nature; this does not concern monitoring obligations in a specific case and, in particular, does not affect orders by national authorities in accordance with national legislation.” ⁶¹ *Supra* note 32.

⁵⁷ The Court of Appeal in Leeuwarden’s statement “[t]hat a filter to compare pictures well still has to be invented” demonstrates that the court is not aware of technical possibilities already available. Interestingly, the Netherlands Organisation of Applied Scientific Research (TNO) was not able to explain that a further distinction can be made within an automatic selection of pictures of similar chairs. *Stokke v Marktplaats*, Gerechtshof Leeuwarden, 107.001.948/01, BW6296, May 22, 2012, para. 8.7.

OSPs, and would make their business models unfeasible.⁵⁸⁵⁹ In the EU, Article 3 Enforcement Directive includes these arguments for prohibiting effective enforcement.⁶⁵ However, the obligation to filter will be increased concomitant with the progress of filter technology. Therefore it is ineluctable that filter technology will bridge the gap between the safe harbour and strict liability for OSPs.

In 2012, in *Stokke v Marktplaats*,⁶⁶ the Dutch Court of Appeal in Leeuwarden weighed the pecuniary disadvantages for the proprietor Stokke of having to outsource the monitoring and notification process for infringements on the internet auction and those of the internet auction to filter in such a way that repeat infringements will be prevented. The Court of Appeal reasoned that since Stokke had to spend € 700, per year, and adaption of the internet auction's system to filter its servers, would cost a multitude of € 700, per year, that the proportionality principle of Article 3(2) Enforcement Directive,⁶⁷ would preclude that the internet auction needed to adapt its system.⁶⁰ However, the Court of Appeal seems to have forgotten that if one wants to make an economic trade-off, one should realise that not only Stokke but a multitude of other proprietors have to bear the costs of monitoring and notifying the internet auction. If this would have been taken into account, the equation would have looked different.

In the U.S., although the DMCA does not require OSPs to take affirmative action to monitor infringing material,⁶¹ monitoring consistent with a standard technical measure as stated in Section 512(i)(2) DMCA⁶² is required to be eligible for the liability

⁵⁸ Ginsburg wrote *a contrario* that “the more reliable and less burdensome the filter, the more likely courts are to favor its implementation.” JC Ginsburg, ‘Separating the Sony Sheep From the Grokster Goats: Reckoning the Future Business Plans of Copyright-Dependent Technology Entrepreneurs’(2008) 50 ARIZ. L. REV. 577, 587.

⁵⁹ “Applying this doctrine to a host provider like RICARDO or eBay, that opens a platform for an internet auction, leads to the conclusion that there can be no *ex ante* examination of any infringing content of the vendors may want to put up for sale. If the host provider was expected to screen and control any contents before it is offered on the internet, this would clearly mean the end of such a business model.” Bornkamm J, ‘E-Commerce Directive vs. IP Rights Enforcement – Legal Balance Achieved’ (2007) GRUR INT’L 642.

⁶⁵ Article 3 Directive 2004/48/EC of the European Parliament and of the Council of April 29, 2004 on the enforcement of intellectual property rights (Enforcement Directive): “Member States shall provide for the measures, procedures and remedies necessary to ensure the enforcement of the intellectual property rights covered by this Directive. (1): fair and equitable and shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays. (2) Those measures, procedures and remedies shall also be effective, proportionate and dissuasive and shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.” ⁶⁶ *Stokke v Marktplaats*, *supra* note 62 ⁶⁷ *Supra* note 65.

⁶⁰ *Stokke v Marktplaats*, *supra* note 62, para. 10.5.

⁶¹ *Viacom Int’l Inc. v YouTube, Inc.*, *supra* note 10, at 524.

⁶² 17 USC § 512(i)(2): “Definition.— As used in this subsection, the term “standard technical measures” means technical measures that are used by copyright owners to identify or protect copyrighted works and— (A) have been developed pursuant to a broad consensus of copyright owners and service providers in an open, fair, voluntary, multi-industry standards process; (B) are available to any person on reasonable and

exemption. However, such a standard for monitoring infringements does not exist.⁶³ In 2009, in *L'Oréal v eBay* Justice Arnold of the High Court of England and Wales was “not entirely clear if English law is fully compliant with the requirements of Article 11 Enforcement Directive.⁶⁴ Justice Arnold referred some questions to the CJEU for a preliminary ruling, which included the request for guidance on Article 14 ECommerce Directive as a defence for OSPs,⁷³ and on the scope of relief of which Article 11 Enforcement Directive requires National courts to grant.⁶⁵ Especially the third sentence of Article 11 Enforcement Directive⁶⁶ is relevant: “Member States shall also ensure that right holders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe an intellectual property right, without prejudice to Article 8(3) of Directive 2001/29/EC.” Judge Arnold explained that although there is a European Directive harmonising the liability of OSPs, there is none harmonising intermediary liability in case of intellectual property infringements.⁶⁷ Even though an OSP that meets the criteria of Article 14(1) E-Commerce Directive⁷⁷ so that it is exempted from liability, it can still be required to filter, based on Article 14(3) E-Commerce Directive,⁶⁸ which promulgates that Member States’ legal systems can require the service provider to terminate or prevent an infringement or establishing procedures governing the removal or disabling of access to information.

nondiscriminatory terms; and (C) do not impose substantial costs on service providers or substantial burdens on their systems or networks.”

⁶³ A ‘best available technology standard’ of filtering was suggested by Helman and Parchomovsky, but remains elusive. L Helman & G Parchomovsky, ‘The Best Available Technology Standard’(2011) 111 COLUM. L. REV. 1194.

⁶⁴ *L'Oréal S.A. and others v eBay International A.G. and others* [2009] EWHC 1094 (Ch), para. 477. Article 11 Enforcement Directive: “Injunctions: Member States shall ensure that, where a judicial decision is taken finding an infringement of an intellectual property right, the judicial authorities may issue against the infringer an injunction aimed at prohibiting the continuation of the infringement. Where provided for by national law, non-compliance with an injunction shall, where appropriate, be subject to a recurring penalty payment, with a view to ensuring compliance. Member States shall also ensure that rightholders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe an intellectual property right, without prejudice to Article 8(3) of Directive 2001/29/EC.”⁷³ *L'Oréal S.A. and others v eBay International A.G. and others* [2009] EWHC 1094 (Ch), para. 481(v).

⁶⁵ *Id.*

⁶⁶ *Supra* note 72.

⁶⁷ *L'Oréal S.A. and others v eBay International A.G. and others* [2009] EWHC 1094 (Ch), para. 1. ⁷⁷ *Supra* notes 12 and 13.

⁶⁸ *Id.*

Between 2005 and 2008 the German Federal Court of Justice⁶⁹ has demonstrated in *Internet Auction I*,⁷⁰ *II*⁷¹ and *III*⁷² that even though an OSP falls within the safe harbour against intermediary liability of § 10 Sentence 1 Telemediengesetz,⁷³ which is Germany's implementation of Article 14(1) E-Commerce Directive,⁷⁴ it can still be held liable based on so called Störerhaftung.⁷⁵ The "Störerhaftung" could be interpreted as the German implementation of the third sentence of Article 11 Enforcement Directive,⁷⁶ which prescribes that member states shall ensure that proprietors are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe intellectual property.⁷⁷ Consequence of this "interferer liability", which excludes the possibility of criminal enforcement or compensation of damages,⁷⁸ is that a preventive injunction against the intermediary can still be issued. When pointed by a rights holder to a clearly recognisable infringement, the intermediary should not only immediately stop the specific infringement, but also take fundamental precautions to safeguard that no further corresponding infringement will take place. By applying Störerhaftung based on Article 11 Enforcement Directive,⁷⁹ the Federal Court of Justice demonstrated that the safe harbour provision of Article 14(1) E-Commerce Directive⁸⁰ does not guarantee any safety for OSPs.

Chapter 6 What degrees of monitoring obligations are prescribed?

Different jurisprudence demonstrates that the prescribed degree of monitoring has led to divergent views. One can distinguish two groups of monitoring obligations: before

⁶⁹ Bundesgerichtshof (BGH), Federal Court of Justice is the highest court in the system of general, i.e. civil and criminal jurisdiction in Germany.

⁷⁰ *Internet Auction Case I* ZR 304/01 I, [2005] ETMR 25, March 11, 2004..

⁷¹ *Internet Auction II* Case I ZR 35/04, [2007] ETMR 70, April 17, 2007.

⁷² *Internet Auction III* Case I ZR 73/05 [2008] April 30, 2008.

⁷³ § 10 Sentence 1 Telemediengesetz = § 11 Satz 1 Teledienstegesetz 2001.

⁷⁴ *Supra* notes 12 and 13.

⁷⁵ Interferer liability is a specific German doctrine codified in Section 823 German Civil Code (Liability in damages) and Section 1004 German Civil Code Right (Right to satisfaction of the possessor). German Civil Code (Bürgerlichen Gesetzbuches), January 2, 2002.

⁷⁶ *Supra* note 72.

⁷⁷ *Id.*

⁷⁸ If someone, intentionally or negligently harms the property of someone else, and causality can be established to the infringement of a protected right he can be subject to an injunction. Although fault need to be proven for a compensation claim or intent in case of criminal enforcement, it is not needed for an injunction. A Rühmkorf, 'eBay on the European Playing Field: A Comparative Case Analysis of L'Oréal v eBay' (2009) 6 SCRIPTed 695.

⁷⁹ *Supra* note 72.

⁸⁰ *Supra* notes 12 and 13.

and after any notification of infringement. The latter group can be divided into the following monitoring obligations to prevent further infringements:⁸¹

- In case the identity of the infringer is known and the identity of the goods that are being infringed are known. This degree of monitoring is suggested by the Advocate General in *L'Oréal v eBay*.⁸² This seems arbitrary, since it would not address known infringers who infringe a slightly different copyright or trademark; nor would it address a repeat infringer operating under a different name.

- In case the identity of the infringer or his internet protocol address is known. This would enable to check whether the known infringer has changed his ways for the good.

- In case the kind of infringement is known. This can provide clues of how to prevent similar infringements. For example, as mentioned in the *Internet Auction* cases,⁸³ one could monitor watches that were offered as new Rolex hours, under a certain price. Or obviously keywords that Google AdWords suggested, such as “imitation” or “copy”, in combination with the trademark Louis Vuitton, as was established in *Google France and Google*.⁸⁴

However, the most effective and efficient monitoring is pre-upload filtering, which is based on comparing trademark or copyright information with information stored by rights holders in a database. Also in case of internet auctions, the authentication of products can be checked via unique identity numbers. Bornkamm clarified that the ECommerce Directive⁸⁵ prohibits the imposition of such an *ex ante* duty to monitor.⁸⁶ Justice Arnold came up with a comprehensive list of ways eBay Europe could monitor more effectively.⁹⁷ However, he also made it clear that these measures are not necessarily a legal obligation to eBay Europe.⁸⁷

⁸¹ “[O]nce a right has been infringed, the host provider may be required not only to terminate the infringement but also to prevent further infringements (ex post situation). Injunctive relief as to further infringements would therefore not be ruled out.” Bornkamm, *supra* note 64, at 643.

⁸² *L'Oréal and Others*, Opinion of the Advocate General, *supra* note 47, para. 182.

⁸³ *Supra* notes 80, 81 and 82.

⁸⁴ *Google France and Google*, *supra* note 29, para. 101.

⁸⁵ *Supra* note 3.

⁸⁶ “The directive would expressly prohibit the imposition of any duty to monitor the information stored on their site prior to the committing of the tort (ex ante situation).” Bornkamm, *supra* note 64, at 643.

⁸⁷ Arnold J, *id.*

Chapter 7 Implications of strict liability

The argument that attaching strict liability to OSPs would make their services not sustainable can be refuted by referring to several thriving industries including photo finishers,⁸⁸ book sellers, newsstands and computer software retailers,⁸⁹ that are held strictly liable for the infringing works they distribute. If one would implement a strict liability regime to OSPs one does not need to enter entirely uncharted waters: Hong Kong still lacks any safe harbour provisions for secondary liability for OSPs, and the OSPs in the Special Administrative Region seem not to have experienced any adverse effects.¹⁰¹

⁹⁷ “I am in no doubt that it would be possible for eBay Europe to do more than they currently do. For example, it would appear to be possible for eBay Europe to take some or all of the following steps, although some would be more technically challenging and costly than others: (i) filter listings before they are posted on the Site; (ii) use additional filters, including filters to detect listings of testers and other not-for-sale products and unboxed products; (iii) filter descriptions as well as titles; (iv) require sellers to disclose their names and addresses when listing items, at least when listing items in a manner which suggests that they are selling in the course of trade; (v) impose additional restrictions on the volumes of high risk products, such as fragrances and cosmetics, that can be listed at any one time; (vi) be more consistent in their policies, for example regarding sales of unboxed products; (vii) adopt policies to combat types of infringement which are not presently addressed, and in particular the sale of non-EEA goods without the consent of the trade mark owners; (viii) take greater account of negative feedback, particularly feedback concerning counterfeits; (ix) apply sanctions more rigorously; and (x) be more rigorous in suspending accounts linked to those of users whose accounts have been suspended (although it is fair to say that the evidence is that eBay Europe have recently improved their performance in this regard). Arnold J. writes in *L’Oréal S.A. and others v eBay International A.G. and others*, *supra* note 72, para. 77.

Does strict liability harm the innovativeness or creativity of OSPs, as Zittrain implied?¹⁰² Not necessarily: legal certainty about the exact boundaries of the OSPs’ conduct can lay bare enormous creative energy. OSPs would take into account the strict liability, therefore effective and efficient ways to filter against intellectual property

⁸⁸ *Olan Mills, Inc. v Linn Photo Co.*, 23 F.3d 1345 (8th Cir. 1994).

⁸⁹ Ronald H. Brown and Bruce A. Lehman, ‘Intellectual Property And The National Information Infrastructure The Report Of The Working Group On Intellectual Property Rights’(1995) USPTO, 116. ¹⁰¹ By definition a safe harbour is a provision of a statute or a regulation that specifies that certain conduct will be deemed not to violate a given rule. It is in other words an exception to the rule. Hong Kong still adheres to the rule, namely strict liability for OSPs in regard to intellectual property infringements. Despite, that there have not been any salient cases of Hong Kong OSPs being sued for intermediary liability in connection with intellectual property infringements, yet, the Special Administrative Region is considering to implement limitations to intermediary liability for copyright infringement as part of the amendment of the Copyright Ordinance; Copyright (Amendment) Bill 2011. Although the safe harbour provisions, if implemented, will be supported by a non-statutory Code of Practice for OSPs, which sets out practical guidelines and procedures, and can be changed more easily than a statute. The public has been consulted on each of the two drafts of the Code of Practice for OSPs. Consultation on Draft Code of Practice for the reference of Online Service Providers (8 August 2011 to 9 September 2011, LC Paper No. CB(1)750/1112(02). Second Public Consultation on the draft Code of Practice for Online Service Providers to Section

⁹⁰ I of the Copyright Ordinance (Cap. 528) (31 January 2012 to 2 March 2012). The progress of the Copyright (Amendment) Bill 2011 can be followed at the site of the Intellectual Property Department hong

infringements would be just another factor by which an OSP can distinguish itself in competition with other OSPs.

Strict liability would have the additional advantage that OSPs do not have to give away the personal information of their users, thereby protecting their privacy. OSPs could decide their own sanctions against infringers and repeat infringers, giving them a fee, restricting or slowing down their access, blocking their account or raising their awareness by letting them complete a tutorial.¹⁰³

OSPs are in the best position to filter. They can integrate the enforcement of intellectual property into the set up of their activities. This potentially makes the intellectual property enforcement by the OSPs the most cost-efficient. Therefore it is preferable, after a reasonable transition period, to abolish the safe harbour provisions and implement strict liability to OSPs, and increase legal certainty for all parties involved.

Kong here: http://www.ipd.gov.hk/eng/intellectual_property/copyright/copyright_2011_bill.htm (available September 23, 2013).

¹⁰² “Gated communities offer a modicum of safety and stability to residents as well as a manager to complain to when something goes wrong. But from a generative standpoint, these moated paradises can become prisons. Their confinement is less than obvious, because what they block is not escape but generative possibility: the ability of outsiders to offer code and services to users, and the corresponding opportunity of users and producers to influence the future without a regulator’s permission.” JL Zittrain, *The Future of the Internet – And How to Stop It* (Yale University Press 2008) 165.

¹⁰³ One can doubt the effectiveness of eBay’s tutorials, *L’Oréal S.A. and others v eBay International A.G. and others*, *supra* note 72: fourth defendant completed six tutorials, para. 112; fifth defendant completed four tutorials, para. 137; sixth defendant completed seven tutorials, para. 169.