Illegal products on online platforms

Why counterfeit products could become a problem for Amazon and other marketplaces.

Selected legal insight for the sporting goods and consumer goods sector.

DR. JOCHEN M. SCHAEFER · PLATFORMS / BRAND PROTECTION

> *“The wind of change is blowing - not only, but in particular into Amazon’s face - from various other directions.”*

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OPINION

Why the Offering of Illegal Products on Online Platforms Could Become a Problem for Amazon and other Marketplaces – and Why the Times of Widely Escaping from EU Competition Laws may Pretty Soon be Over By Dr. Jochen M. Schaefer, Guest article June 27, 2020

A guest article by Jochen Schäfer: Internet service providers (ISPs) and operators of marketplaces have since several years enjoyed a somewhat unique privilege in Europe (and also in other parts of the world), i.e. not to be held liable for the contents and offerings on such platforms based on their prime (defense) argument that the sheer multitude of business transactions and traffic on the World Wide Web would render it literally impossible for them to exercise any efficient control. A recent judgement by the European Court of Justice seems to reconfirm such a comfort zone, but the writing is already on the wall that the ISPs privileged position could be considerably weakened. It may even become obsolete, at least from a mid-term perspective. On April 2, 2020, the European Court of Justice (ECJ) held in its judgement (case C567/18) that Amazon is not liable for the storage of counterfeit goods as such. Coty Germany, a big supplier of luxury cosmetics that brought out the case, had once again made an attempt to fight against Amazon's practices by claiming that two Amazon companies infringed its trademark rights by storing infringing counterfeit bottles of "Davidoff Hot Water" perfume. The bottles were not sold by Amazon but by third-party sellers on its marketplace. Same as in the first, widely noticed ruling on the Coty case of Dec. 6, 2017, the dispute was first brought before the German Bundesgerichtshof (Federal Court of Justice/BGH) on points of law. The BGH asked the ECJ to interpret EU trademark regulations and to ascertain whether a company which - on behalf of a third-party seller - stores goods which infringe trademark rights while being unaware of the infringement, itself uses already that trademark. The BGH judges at the highest German civil court had in effect reached out to the ECJ to seek a clarification on a very technical issue from a legal perspective. In EU trademark law terminology, the usage of a trademark has been defined by the ECJ as "active behaviour and direct or indirect control of the act constituting the use." The Luxembourg judges held that the mere storing of products on behalf of a third-party seller would not quite fulfill the foregoing "usage" criteria as long as the commercial operator storing the goods does not pursue the aim of offering the goods for sale or putting them on the market. At a very first glance this may sound as bad news for any manufacturer/distributor of genuine branded products and for legitimate IP rights holders in general. Yet, one

should bear in mind that the ECJ solely responded to a very narrow question and scenario, where Amazon remained so to say "passive" in its commercial conduct by just storing the products for third-party sellers. In many other cases, however, such as in the course of fulfillment program services, Amazon's role (same as that of other comparable online service providers) is not confined to the storage of counterfeit products, but also involves active contributions by the Seattle ISP giant in assisting its customers to sell those products. Consequently, the Advocate General (AG) at the ECJ distinguished between two scenarios, i.e. (1) where Amazon had been merely stocking the goods on behalf of a third-party seller (in which case Amazon could not be held responsible and which were the facts the ECJ was dealing with) and (2) where Amazon is playing an active role in the selling and commercialization process. In the latter case, a suspicion of liability could indeed arise, if e.g. sellers on the platform opt for the "Fulfilment by Amazon" program, under which

Amazon companies undertake significant tasks that are typical of a seller (such as advertising and promotional activities, the refund of defective products, assistance in preparing such goods for delivery, etc.). The ECJ did not deal with scenario 2 in its April 2020 verdict, and consequently it is quite likely that the Court may well rule upon the liability issue quite differently if an ISP's role is not limited to mere warehousing services as it had been the case in the foregoing judgement. In this context, we may question the actual efficiency of the whole brand and product protection program of Amazon. Readers of this contribution who have German language skills and want to obtain more details on this topic are recommended to read the chapter on Amazon's product and brand protection issue that I covered in a very recently published book, "Amazon für Entscheider" (Amazon for DecisionMakers/ISBN-10:3658274263). Yet, the wind of change is blowing - not only, but in particular into Amazon's face - from various other directions: The top European competition authority, the EU Commission's DG Competition, most recently announced on June 11, 2020 that it has opened formal investigations into Amazon (same as into other Silicon Valley giants such as Google), to determine whether these ISPs misuse their dominant market position. The EU's top anti-trust watchdog is planning to file charges against Amazon over its treatment of third-party sellers. These investigations will primarily focus on Amazon's dual role as a direct seller while being at the same time the operator of its marketplace, where Amazon is suspected to unusually favor its own seller role by widely using a vast array of data it collects from third-party sellers. In 2018 already, Margrethe Vestager, vice-president of the European Commission and head of its DG Comp, had launched a preliminary investigation into Amazon's practices in dealing with the use of third-party merchants' data. The Commission had contacted third-party sellers and asked them detailed questions on their relationships with Amazon to find out whether the ISP misused its access to such data in an unlawful manner. Somewhat parallel to the EU competition authority's activities, investigations are also being carried out by the Federal Trade Commission in the U.S. Furthermore, it is also known to me based on verbal statements made by leading representatives of the German Cartel Office (Bundeskartellamt) that it considers this dual role of Amazon -acting simultaneously

as a kind of online department store and as a direct seller of branded products, while at the same time acting as a marketplace platform for third-party sellers offering the very same products- as misuse of a dominant position. Consequently, such conduct could serve as lawful justification for brands to ban or restrict the presence of their retail customers on the Amazon marketplace as part of a selective distribution scheme (provided that the manufacturer/brand is not itself doing direct business with Amazon). All these developments clearly demonstrate that global online traders and service providers of online platform services are not exempted from the application of national and European competition laws, or at least that the time when they have been given a sort of carte blanche are definitely over. Recent developments prove that legislators and competition authorities in Europe and elsewhere tend to view the role and commercial conduct of these global players much more critically than it had been the case in the past. New EU wide regulations such as the Digital Services Act (where the consultation phase at the EU Commission's level is still open until Sept. 8, 2020) are in the pipeline, and the Federation of the European Sporting Goods Industry/FESI, which I represent as its Legal Counsel, has strongly articulated its position by primarily addressing in particular the liability issue of ISPs in its continuous communication with European lawmakers and high-level EU Commission representatives. Certainly, the limitation and redefinition of the role of global

ISPs will not happen overnight. Amazon as well as other online operators of marketplaces are lobbying intensively in Brussels and at the national level in the EU member states with the obvious objective to prevent major adverse changes for them. Yet, the clock is ticking and the issue has even become more important since the current turbulent Covid 19 times are not only accelerating the commercial online activities at B2B and B2C level of brands and physical retailers, but have also further increased the market shares and the dominant position of Amazon and other Silicon Valley giants in numerous sectors. This will inevitably lead to a higher degree of scrutiny and monitoring by competition authorities in Europe and elsewhere. And – a potential maximum fine of 10% of the annual global turnover of a commercial operator that can be imposed by Europe's top competition law watchdog in any case of proven misuse of a dominant market position would not be considered just as pocket money, even for a company the size of Amazon…….. Dr. Jochen M. Schaefer is a lawyer with his own practice in the Munich region. Since many years he is the Legal Counsel of the World Federation of the Sporting Goods Industry (WFSGI) and of the European Sporting Goods Industry Federation (FESI). He provides legal advice to numerous reputable clients within and beyond the sporting goods sector by focusing on the areas of national and international distribution, IP and risk management, and on other operational issues. Dr. Schaefer can be reached at sj@sjlegal.de or on his cell phone at +49-15116407932.