

Supreme Court judgment in *Cartier*: costs for website-blocking orders

In the first Supreme Court case to consider website-blocking orders as a remedy for trade mark infringement, the court has decided the pivotal question of who should bear the cost of implementing these orders (*Cartier International AG and others v British Telecommunications Plc and another* [2018] UKSC 28).

While the court endorsed the availability of website-blocking orders for rights holders, it has reversed the costs position taken by the High Court and the Court of Appeal, finding that rights holders should indemnify the internet service providers (ISPs) for the reasonable costs of implementing the orders.

The dispute

The applicants in *Cartier* were three companies belonging to the Richemont Group, which design, manufacture and sell luxury branded goods, including Cartier. They sought a website-blocking order against all of the largest ISPs in the UK, on the basis of their trade mark rights, to prevent the further sale of counterfeit watches and other luxury items on a number of unauthorised websites (see box “Website-blocking orders”).

This was a ground-breaking case when the High Court granted the orders in 2014, as it was the first time that website-blocking orders had been granted against intermediaries on the basis of trade mark rights, with the court seizing jurisdiction to grant these injunctions under section 37(1) of the Senior Courts Act 1981 and Article 11 of the Intellectual Property Rights Enforcement Directive (2004/48/EC) ([2014] EWHC 3354; see News brief “Online counterfeits blocked: test case paves the way”, www.practicallaw.com/9-589-4735).

The Court of Appeal later dismissed an appeal against the granting of the order ([2016] EWCA Civ 658; see News brief “Counterfeit websites: ISPs can be forced to block access”, www.practicallaw.com/1-631-2486).

The ISPs’ appeal to the Supreme Court relates to the costs to the ISPs of implementing website-blocking orders.

Implementation costs

The five categories of implementation costs are:

- Acquiring and upgrading blocking technology, including hardware and software (category 1).
- Managing the blocking system, including customer service (category 2).
- The initial implementation of the order, which involves processing and the configuration of the ISP’s blocking systems (category 3).
- Updating the block over the lifetime of the order in response to further notifications from rights holders, which entails reconfiguring the blocking system (category 4).
- Costs and liabilities that may be incurred if the blocking malfunctions through no fault of the ISPs, for example, over-blocking due to errors in the notifications from rights holders (category 5).

These implementation costs are distinct from the costs of bringing the action, which always sit with the rights holder. The courts had placed this implementation cost burden on the ISPs in all of the previous UK cases seeking website-blocking orders, suggesting that it was correct for the ISPs to assume these costs, as the costs of implementing these orders could be regarded as a cost of carrying on that business.

The ISPs in *Cartier* did not complain about categories 1 or 2; the issue in the appeal was whether rights holders should be required to indemnify the ISPs for costs in categories 3, 4 and 5.

Supreme Court decision

Rejecting the powerful line of cases in which the courts had placed the whole implementation costs burden on the ISPs, the court held that reasonable costs in respect of categories 3, 4 and 5 should be the subject of an indemnity from the rights holder in favour of the ISP. The court’s view was that the protection of intellectual property rights is an ordinary and natural cost to the business that owns those rights, so this is where these costs should sit.

As a result, it may be difficult for ISPs to argue that rights holders should also indemnify

them in respect of categories 1 and 2 in future cases, particularly as the court said that most, if not all of the costs in categories 1 and 2 would be incurred in any event for other reasons, such as to block access to child abuse images.

Innocence of the intermediary

The court was concerned at the apparent departure from the normal principles of English law, where an innocent party should be entitled to be indemnified against the costs of taking compliance measures required by a third party. Implementation costs are a matter for English law, within the broad limits set by EU principles of effectiveness and equivalence, and the requirement that any remedy should be fair, proportionate and not unnecessarily costly. There was no reason to deviate from the principles applied in Norwich Pharmacal orders, freezing orders and other injunctions, where the innocent party is indemnified for its costs.

Under English law, the starting point when assessing costs is the intermediary’s legal innocence. The ISPs in this action (as access providers only) were innocent, as they would not incur liability for trade mark infringement under English law, even in the absence of the safe harbour provisions in the E-Commerce Directive (2000/31/EC). An ISP serving as a mere conduit has a neutral role, with no means of knowing what use is being made of its network by third parties to distribute illegal content.

In *Cartier*, the court was satisfied that the ISPs were acting as legally innocent mere conduits, but noted that different considerations would apply to intermediaries engaging in caching or hosting activities, given that these activities naturally involve a greater degree of active participation on the part of the intermediary. Therefore, this new standard on costs may not apply to cases where website-blocking orders are sought against ISPs that are more than simple access providers.

What happens now?

Now that the position is clear on costs, there may be an increase in applications seeking website-blocking orders based on trade mark rights or copyright. While enforcement costs will necessarily increase from those previously borne by rights holders in the UK, this in

Website-blocking orders

The first website-blocking order against an intermediary was granted in the case known as *Newzbin II*, where the High Court blocked access to copyright-infringing content under section 97A of the Copyright, Designs and Patents Act 1988 (*Twentieth Century Fox Film Corporation v British Telecommunications plc* [2011] EWHC 1981; www.practicallaw.com/0-507-8791).

Since then, the website-blocking injunction has developed as a remedy though UK case law and it is clearly a powerful weapon for rights holders in the enforcement of their rights against online infringers, since it navigates the inherent difficulties in tracking down the actual infringing entities and enforcing court judgments in difficult jurisdictions.

itself is unlikely to deter rights holders from bringing applications for website-blocking injunctions.

There are two reasons for this. The first is that while the rights holder must indemnify the ISP against its costs of implementing the order, the Supreme Court in *Cartier* suggested that the costs involved are likely to be modest. There is no suggestion that these costs should be at a level that is disproportionate or would impair a brand owner's ability to enforce its

trade marks. The second reason is that the website-blocking injunction remains the most powerful and effective weapon available to copyright and trade mark owners in dealing with online infringements.

While a moderate number of website-blocking orders have been granted in copyright cases in the UK since the first of its kind was granted in the case known as *Newzbin II* in 2011, the floodgates cannot be said to have opened (*Twentieth Century Fox Film Corporation v*

British Telecommunications plc [2011] EWHC 1981; www.practicallaw.com/0-507-8791). There is now a basis for seeking website-blocking orders on the basis of trade mark, or other intellectual property, rights, but it remains to be seen whether brand owners will regularly seek blocking orders as part of their online enforcement policy.

Brand owners may also start looking at other intermediaries and enforcement against third parties such as payment providers (for example, Visa or Mastercard); an enforcement tactic which is increasing in popularity in the US but has yet to be routinely used in the UK.

Once again, the UK has shown that it is at the forefront of legal developments, within the EU and beyond, in shaping novel remedies that other countries are only beginning to adopt. It is likely that the website-blocking injunction will further evolve as a remedy, through the jurisprudence of the UK courts in the future.

Joel Smith is a partner, and Sarah Burke is a senior associate, in the Intellectual Property team at Herbert Smith Freehills LLP.
