

Search Engines Searching for Trouble?

Comparing Search Engine Operator Responsibility for Competitive Keyword Advertising Under EU and US Trademark Law

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July 2011

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Based on a work at www.stefankulk.nl.

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List of Abbreviations

ECD	E-Commerce Directive
ECJ	European Court of Justice
EU	European Union
MCAD	Misleading and Comparative Advertising Directive
SERP	Search Engine Result Page
TMD	Trademark Directive
URL	Universal Resource Locator
US	United States

1. Introduction

In 2008, Google published on their official weblog that they knew the web was big, but that even their search engineers stopped in awe about just how big the web is when they found out that Google searches through a trillion (1,000,000,000,000) unique Universal Resource Locators (URLs).¹ It is hard to imagine such a gigantic amount of information. It is even harder to imagine having to search through all that information by ourselves. Luckily, we have search engines that help us on our Internet quests. As the web itself does not provide for search functionality, search engines have become an essential gateway to everything that is available on the web. Without them, the web is like a library without a cataloguing system and librarians. Given this central position, it does not surprise that many commentators have written about the legal status of search engines.²

In the eyes of entrepreneurs, a search engine is a platform to advertise products and services on. It is important for businesses to be listed in search engine results because “without much exaggeration one could say that to exist is to be indexed by a search engine.”³ The higher position in the search engine results, the better.⁴ Besides putting effort in creating a website that is indexed, ranked and listed by a search engine operator, a business owner can buy his way into the top ten results by acquiring an advertisement on the result page, often referred to as a ‘sponsored search result’.

A sponsored search result is similar to a yellow pages advertisement, however with some never before seen features. In the yellow pages a plumber can buy a colourful advertisement under the category ‘plumbing services’. When someone in need for plumbing browses to the plumbing services category in the yellow pages, he will be presented with the plumber’s relevant advertisement. Sponsored search is similar in respect of the targeting that can be

¹ Google Official Blog, 'We Knew the Web Was Big...' (2008) <<http://googleblog.blogspot.com/2008/07/we-knew-web-was-big.html>> accessed 5 April 2011.

² U Gasser, 'Regulating Search Engines: Taking Stock and Looking Ahead' [2006] 8 Yale Journal of Law and Technology 201; F Pasquale, 'Rankings, Reductionism, and Responsibility' [2006] 54 Cleveland State Law Review 115; NANM van Eijk, 'Search Engines: Seek and Ye Shall Find? The Position of Search Engines in Law' [2006] IRIS plus 2; E Goldman, 'Deregulating Relevancy in Internet Trademark Law' [2008] 54 Emory Law Journal 507; NANM van Eijk, 'Search Engines, the New Bottleneck for Content Access' in B Preissel, J Haucap and P Curwen (eds), *Telecommunication Markets, Drivers and Impediments* (Springer, London 2009).

³ LD Introna and H Nissenbaum, 'Shaping the Web: Why the Politics of Search Engines Matters' [2000] 16 The Information Society 169, 169.

⁴ N Höchstötter and D Lewandowski, 'What Users See - Structures in Search Engine Results Pages' [2009] 179 Information Sciences 1796, 1809. Eye tracking studies have shown that search engine users are drawn to the first links on a result page, see: Z Guan and E Cutrell, *An Eye Tracking Study of the Effect of Target Rank on Web Search* (ACM, 2007); B Pan and others, 'In Google We Trust: Users' Decisions on Rank, Position, and Relevance' [2007] 12 Journal of Computer-Mediated Communication 801.

done, albeit with more precision. Every search query to a search engine reveals some of a search engine user's intentions.⁵ A search for 'used cars' might indicate that the search engine user might be interested in buying a second-hand car. That information, combined with other information that the search engine operator has gathered about the user, is of great commercial value and enables advertisers to precisely target their advertisements.

Instead of paying for estimated exposure in the yellow pages, or paying per impression as is done in traditional Internet banner advertising, an advertiser pays for a sponsored search result per 'click'. He pays the search engine operator a small amount of money for every search engine user that clicks on his advertisement and that is directed to his website. The amount of money an advertiser pays is decided on a real time auction that is hosted by the search engine operator.⁶ On these auctions, advertisers bid on keywords for the highest slots in the sponsored search results.

Besides bidding on generic terms like 'coffee' and 'cars', an advertiser can bid on a keyword that is at the same time his competitor's trademark. For example, by bidding on the keyword 'Coca Cola', PepsiCo could acquire an advertisement alongside Google's search results for the phrase 'Coca Cola'. Google users are then presented with an advertisement of a competitor (PepsiCo) of the company that they might be searching products of (the Coca Cola Company).

This last type of keyword advertising, in which a competitor's trademark is used as a keyword to trigger an advertisement alongside the natural search results, has caused trademark owners to take their competitors to court for free riding on their brands. But, what is a search engine operator's responsibility in all this? Can a search engine operator be held liable too?

1.1 Research Question

Search engine operators are in between advertisers that use a competitor's trademark, search engine users that query search phrases containing trademarked terms, and the advertisers' competitors that will most likely not appreciate the keyword-triggered advertisements. Given the central position of search engine operators, the question arises if they themselves can be held directly or indirectly liable for competitive trademark use on their advertising platforms.

⁵ Battelle describes a search engine as a database of intentions: J Battelle, *The Search: How Google and its Rivals Rewrote the Rules of Business and Transformed our Culture* (Portfolio, New York 2005), 1.

⁶ For instance, if Nescafé bids 30 cents per click on the keyword 'coffee', then every time a search engine user searches for coffee, the Nescafé advertisement will be ranked depending on *inter alia* the height of Nescafé's bid in relation to other advertisers. See section 2.4 for a more in-depth analysis of search engine advertising.

Preliminary research showed that the EU and the US deal with the issue of search engine operator liability for competitive trademark use differently. This thesis aims to compare these different approaches. The main research question of this thesis is as follows:

To what extent is a search engine operator, that enables an advertiser to reserve a keyword that triggers a sponsored search result, liable under EU and US law when the reserved keyword corresponds to a trademark of the advertiser's competitor?

1.2 Outline

To answer this research question, first the phenomenon of sponsored search will be explored in chapter 2. This chapter includes a history, the economic relevance and the conceptual elements of sponsored search. Second, the significance of competitive trademark use in sponsored search and how search engine operators deal with such use is discussed in chapter 3.

Chapters 4 and 5 will deal with direct trademark liability and indirect liability of search engine operators in the EU. Chapters 6 and 7 will deal with the same issues under US law.

Finally, the two approaches to search engine operator liability will be compared in chapter 8. The EU approach to that liability will be evaluated in chapter 9.

1.3 Limitation of Subject Matter

This thesis' research question tries to set clear boundaries. Nevertheless, it is useful to also explain what this thesis is not about. Two topics in particular will not be dealt with in this work.

First, no special attention will be given to EU and US trademark law regarding well-known or famous marks because both the EU famous mark doctrine and the US dilution doctrine come with their own specific dynamics, which would lead to a thesis twice the size it is now.

Second, only keyword-triggered advertisements that do not contain a competitor's trademark in the advertisement's text will be at issue. The focus is on advertisements that show up in searches for trademarks, but that do not explicitly refer to that trademark.

1.4 Citation Style

This thesis uses the *Oxford Standard for Citation Of Legal Authorities* citation style.⁷

⁷ Available at: <<http://www.law.ox.ac.uk/publications/oscola.php>>.

2. Explaining Sponsored Search

2.1 History of Sponsored Search Results: How Keywords and Spam Are Related

Ideally, search engines are modern oracles. They provide us with everything we search for. Search engine operators, however, have been faced and are still faced with challenges that give rise to problems in maintaining or enhancing the quality of their performance.⁸ One of these problems is ‘spam’: search engine results that are deliberately manipulated by web authors in order to advance their placement in the ranking of a search engine.⁹

Before 1998, most web search engine operators employed simple keyword-based algorithms to determine the rank of web pages. In essence, these search engine operators indexed the words on a particular web page and matched these with particular search phrases. Web authors used this weakness by manipulating the content of their web pages and were thereby able to directly control their ranking in search engine results. That explains why in 1998 a search for ‘cars’ on search engine Lycos resulted in an abundance of links to pornographic web pages.¹⁰ The adult-entertainment industry had found out that by stuffing its web pages with popular but irrelevant keywords like ‘cars’, their web pages would show up in search results for popular searches that had nothing to do with the subject of their pages. It worked the other way around too. Website owners hosting innocent content stuffed their pages with keywords of obscene nature in order to show up in search results for obscene, but popular, terms such as ‘sex’.

In 1998, Bill Gross introduced a search engine that he called ‘GoTo’.¹¹ Gross saw that, because of spam, web search was no longer efficient. It made him determined to attach some kind of inherent value to the process of searching.¹² On GoTo.com, the friction of money was added into the equation when it offered webpage owners a targeted advertisement service. The advertisements on GoTo were triggered by keywords that GoTo users searched for. Advertisers could bid on these keywords and have advertisements delivered to GoTo users

⁸ RH Monika, M Rajeev and S Craig, ‘Challenges in Web Search Engines’ [2002] 32 SIGIR Forum 11.

⁹ Ibid, 13.

¹⁰ J Battelle, *The Search: How Google and its Rivals Rewrote the Rules of Business and Transformed our Culture* (Portfolio, New York 2005), 104.

¹¹ Goto.com was later renamed to Overture Services, and acquired by Yahoo!, see: <http://www.idealab.com/our_companies/show/all/overture> accessed 5 April 2011.

¹² J Battelle, *The Search: How Google and its Rivals Rewrote the Rules of Business and Transformed our Culture* (Portfolio, New York 2005), 104.

based on what these users searched for. Gross created a search engine displaying relevant search results,¹³ and as a by-product he also created the first sponsored search auction that laid the foundation for sponsored search as we know it today.¹⁴

2.2 Economic Relevance of Sponsored Search

The global Internet search advertising market is predicted to have a 37 percent compound annual growth rate, to more than \$33 billion in 2010.¹⁵ IDG has projected that from 2008 to 2011 keyword advertising would grow to be Internet advertising's dominant form.¹⁶

In 2009, Google earned \$23.6 billion, of which 97 percent (\$22.8 billion) was generated by Internet advertising.¹⁷ Of these advertising revenues, 69 percent (\$15.7 billion) was generated on Google websites. From Google's annual report it is not clear how much of its revenue was earned by sponsored search results, however, it is clear that advertising is critical as a revenue stream.

Yahoo! also primarily generates income through Internet advertising. In the first quarter of 2010, it earned a total of \$1.6 billion, of which 89 percent was generated by marketing services.¹⁸ Of Yahoo!'s total revenue, 21 percent (\$343 million) was earned by sponsored search.

In 2009, Microsoft's 'Online Services Business' earned \$3.1 billion, of which 74 percent (\$2.3 billion) was earned by online advertising.¹⁹ That year, online advertising revenue had decreased by 3 percent due to a decrease in traditional display advertising, which was partially offset by an increase in search advertising with Bing.

¹³ BJ Jansen, 'Adversarial Information Retrieval Aspects of Sponsored Search' [2006] AIRWeb 2006 Program 33. Besides putting the friction of money into the equation, another development was critical for displaying better search results: the use of hypertext that, ideally, is not controlled by website owners, see: M Marchiori, 'The Quest for Correct Information on the Web: Hyper Search Engines' [1997] 29 Computer Networks and ISDN Systems 1225, 1227. The Google search engine was the first big search engine to employ this technique, see: S Brin and L Page, 'The Anatomy of a Large-scale Hypertextual Web Search Engine' [1998] 30 Computer Networks and ISDN Systems 107.

¹⁴ DC Fain and JO Pedersen, 'Sponsored Search: A Brief History' [2006] 32 Bulletin-American Society for Information Science and Technology 12; D Laffey, 'Paid Search: The Innovation that Changed the Web' [2007] 50 Business Horizons 211; BJ Jansen and T Mullen, 'Sponsored Search: An Overview of the Concept, History, and Technology' [2008] 6 International Journal of Electronic Business 114, 199.

¹⁵ A Ghose and S Yang, 'An Empirical Analysis of Search Engine Advertising: Sponsored Search in Electronic Markets' [2009] 55 Management Science 1605.

¹⁶ IDG, 'Worldwide Spending on Internet Advertising Will Soar Past \$106 Billion in 2011, According to IDC' (2008) <<http://www.idg.com/www/pr.nsf/0/9AEAAA1FE81E832985257473004B8174?OpenDocument>> accessed 5 April 2011.

¹⁷ Google Inc., Annual Report 2009, available at: <http://investor.google.com/documents/2009_google_annual_report.html> accessed 5 April 2011.

¹⁸ Yahoo! Inc., Report on First Quarter 2010 <<http://yhoo.client.shareholder.com>> accessed 5 April 2011.

¹⁹ Microsoft Inc., Annual Report 2009 <<http://www.microsoft.com/msft/default.msp>> accessed 5 April 2011.

The economic relevance of sponsored search should not be underestimated. Advertising services provide the revenue base for all major search engines. Sponsored search in particular provides a substantial part of that revenue and it helps to pay for all valuable services search engine operators offer free of charge.

2.3 Anatomy of a Search Engine Result Page: Organic and Sponsored Results

Generally, a modern search engine displays two types of search results on its search engine result page (SERP): organic and sponsored search results. The most important difference between the two is that sponsored search results are paid for by advertisers, whereas organic search results are listed free of charge. Usually, organic search results are surrounded by sponsored search results that can be distinguished by labels such as ‘sponsored links’ (Google), ‘sponsored results’ (Yahoo!) or ‘sponsored sites’ (Microsoft Bing). The advertisements above the organic results are typically shown in a slightly coloured box. Figure 1 and 2 depict a Google and a Yahoo! SERP for a search on ‘coffee’.

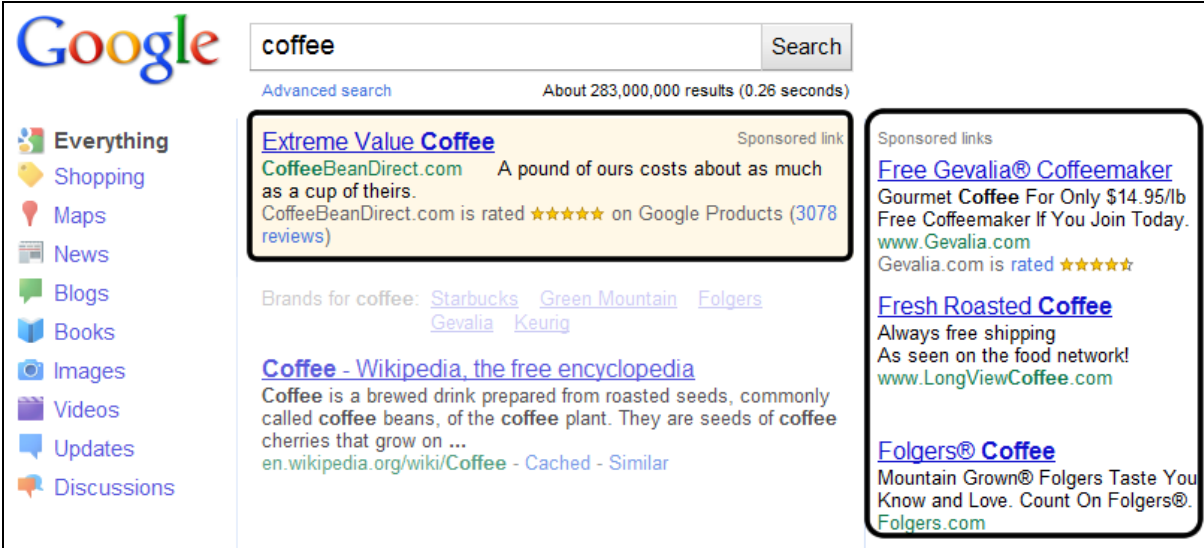


Figure 1 – Google SERP with highlighted keyword advertisements.

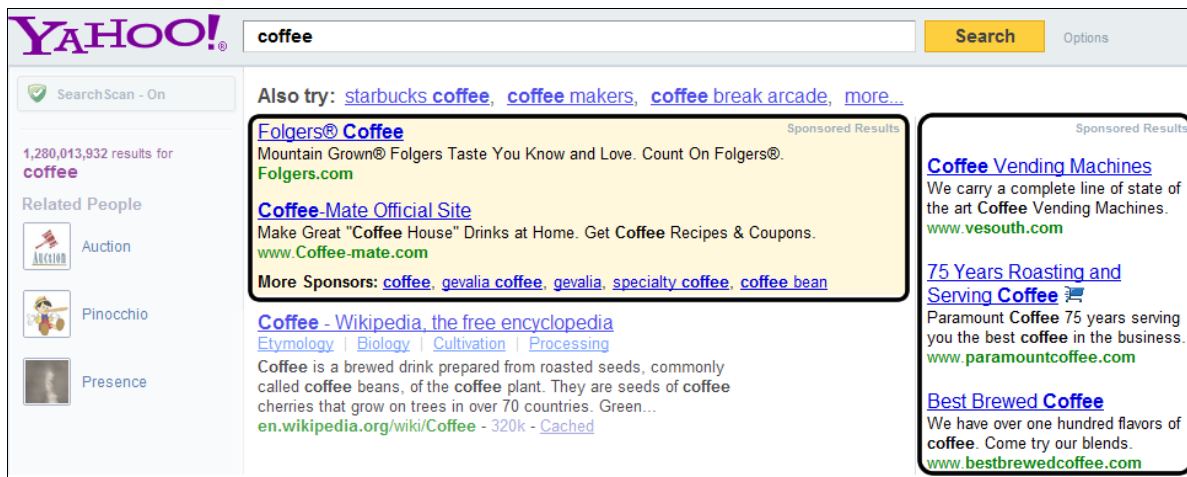


Figure 2 – Yahoo! SERP with highlighted keyword advertisements.

Research done in 2009 shows that on average about a fifth of all results on a SERP are sponsored.²⁰ With 23 percent, Google had the most sponsored results on its SERPs. On Yahoo's SERPs, the amount of advertisements was significantly lower: 10.4 percent. Microsoft comes closer to Google's advertisement density as 21.6 percent of the results on MSN Search (currently Bing) were sponsored.

2.4 Conceptual Elements of Sponsored Search

Although sponsored search has made dramatic progress ever since its inception,²¹ the conceptual elements of it have remained the same. These elements are: (1) advertiser-provided content, (2) advertiser-provided bids, (3) a search engine operator review process, (4) an application for displaying advertisements, and (5) an interface combining the first three elements.²²

1. **Advertiser-provided content.** Advertiser-provided content consists out of a set of keywords along with a title, descriptions and URL. Typically referred to as an advertisement or a sponsored result, link or site.

The figure below shows three sponsored search results for a search on 'car' in Google, Yahoo! and Bing. The advertisement's title, description, and the URL to which the

²⁰ N H6chst6tter and D Lewandowski, 'What Users See - Structures in Search Engine Results Pages' [2009] 179 Information Sciences 1796, 1806.

²¹ One can think of new ways to target advertisements other than the use of keywords, such as demographics, purchase history, or observed behaviour.

²² DC Fain and JO Pedersen, 'Sponsored Search: A Brief History' [2006] 32 Bulletin-American Society for Information Science and Technology 12 p. 12; BJ Jansen and T Mullen, 'Sponsored Search: An Overview of the Concept, History, and Technology' [2008] 6 International Journal of Electronic Business 114, 116.

advertisement is linked, are visible. The keyword triggering the advertisement ('car') is printed in bold. However, Google's sponsored result ("Jeep® Autos New York") illustrates that a keyword is not necessarily part of the title, description or URL of the advertisement. Such use is called invisible keyword use.

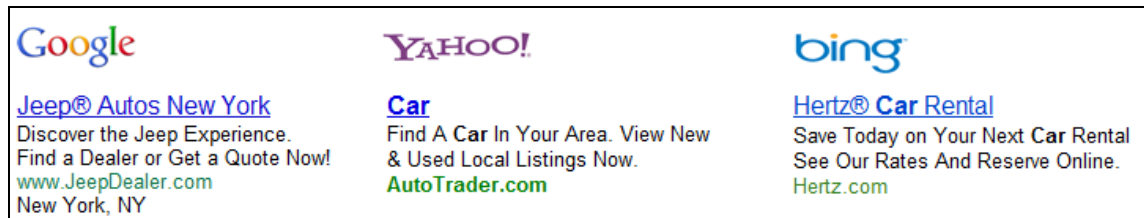


Figure 3 – Sponsored search results for a search on 'Car' in Google, Yahoo! and Bing.

The content provided by the advertiser can be influenced by search engine advertising programs. In the process of writing advertisements, search engine operators may make general editorial recommendations.²³ They may also offer automated tools that suggest additional keywords.²⁴

2. **Advertiser-provided bids.** The advertiser's bid on a specific keyword affects the placement of his advertisement. Bidding is done on a general second prize auction, where, in its simplest form, the bidder who wins a position pays the cost bid by a bidder who won the position below him.²⁵ In web advertising, three different pricing models can be distinguished: based on exposure, click-through, and outcomes (for instance: an actual purchase).²⁶ Google, Yahoo! and Bing all base their advertisements' prices on click-through: the amount of times an advertisement is clicked on.
3. **Search engine review process.** The content submitted by the advertiser is reviewed by the search engine operator to ensure that the advertisement complies with the search

²³ For instance, Yahoo recommends advertisers to "include the keyword in the title and description" of the advertisement and to "distinguish your product or service from competitors (e.g. 'official store' or 'free shipping')."

²⁴ For instance, Google offers a keyword suggestion tool that is publicly available at: <<https://adwords.google.com/select/KeywordToolExternal>>.

²⁵ B Edelman, M Ostrovsky and M Schwarz, 'Internet Advertising and the Generalized Second-Price Auction: Selling Billions of Dollars Worth of Keywords' [2007] 97 The American Economic Review 242.

²⁶ DL Hoffman and TP Novak, 'Advertising Pricing Models for the World Wide Web' in B Kahin and HR Varian (eds), *Internet Publishing and Beyond: the Economics of Digital Information and Intellectual Property* (MIT Press, Cambridge 2000).

engine operator's terms, conditions and policy. This is done either manually or automatically.²⁷

4. **Application for displaying advertisements.** The search engine operator matches user queries to the advertisement on the basis of keywords that the advertiser bid on. The advertisements are displayed on a SERP alongside the organic results. They are positioned on the basis of biddings, relevancy and other criteria.²⁸
5. **An interface combining the first three elements.** The interface provided by the search engine operator lets advertisers write their advertisements, place bids and receive updates about the status of their advertisements. Advertisers are also charged for the services purchased through this interface.

²⁷ Google combines an automated system with a manual review system called 'sweeps'.

²⁸ For instance, Google ranks advertisements based on its 'AdRank' formula, see: Google AdWords Help, 'How Are Ads Ranked?' (2010) <<http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=6111>> accessed 5 April 2011.

3. Sponsored Search and Trademarks of Others

3.1 How Trademarks of Others Can Be Used in Sponsored Search

Depending on the advertiser's purpose, three types of trademark use in sponsored search can be distinguished: associated use, competitive use, and opportunistic use.²⁹

If a trademark is used by a reseller of a certain product or service or someone who offers associated products or services, then such use is called associated use. For instance, the use of a car maintenance service that uses the BMW trademark to indicate it is specialized in maintaining BMW branded cars. When the advertiser's products are not associated to the trademarked products or services, and the advertiser is a direct competitor of the proprietor of the used trademark, then that trademark is used competitively. An example of such use is the use of the use of the COCA COLA trademark to trigger an advertisement promoting a PepsiCo soda. A trademark is used opportunistically if the advertisement's landing web page is not the trademark owner's, nor someone who provides associated products and services, or a competitor. For example, the use of the NESTLÉ trademark, covering nutrition and health products, to trigger advertisements for a law firm that is specialized in food labelling.

Besides this functional distinction, trademark use in sponsored search can be distinguished by the visibility of the used trademark. A sponsored search result consists out of a set of keywords, a title, a description and a URL. However, as we have seen, the keywords triggering an advertisement are not always visible. This is the case when PepsiCo uses the COCA COLA trademark as a keyword, without using it in the actual text of an advertisement. If, for instance, PepsiCo uses the trademark as a keyword to trigger an advertisement and it uses the trademark in the advertisement's text to explicitly compare its products with Coca Cola's products, then the COCA COLA trademark is used both visibly and invisibly by PepsiCo.

Each combination of advertiser intent and trademark visibility requires its own legal analysis. In this thesis, only the law regarding competitive trademark use that is invisible is analysed.

²⁹ BJ Jansen and MA Rosso, 'Smart Marketing or Bait & Switch: Competitors' Brands as Keywords in Online Advertising' (WICOW '10 Proceedings of the 4th workshop on Information credibility 2010). Jansen and Rosso's distinction is based on communication theory and does not necessarily correspond to the different types of trademark use that exist in a legal sense. Trademark use in the legal sense is discussed in chapter 4 of this work.

3.2 Trademark Policy of the Big Three

The three major search engine operators all have trademark policies that indicate what keywords can be used and what advertisements can be created on their advertising platforms. Search engine operator policy on trademark use differs from operator to operator, and from jurisdiction to jurisdiction. To further complicate the determination of what policy is applicable, Bing in some scenarios displays advertisements that are provided by Yahoo!'s advertising service. As a result, advertisers that want to advertise with Bing in some cases have to comply with Yahoo!'s trademark policy.³⁰

Google's global keyword advertising policy is less protective of trademarks than Yahoo!'s and Microsoft Bing's keyword advertising policies. Google has been at the forefront of defending liberal sponsored search trademark policy. In the United States, many lawsuits have been filed against Google after it changed its trademark policy and allowed advertisers to bid on keywords comprising of a competitor's trademarks in 2004.³¹ These lawsuits have nevertheless not prevented Google from allowing and defending the use of trademarks in sponsored search. In its annual report of 2005, Google explained that it is not planning to give in and that it will defend its trademark policy in order to provide their users with more useful ads and to prevent a loss of revenue, which could harm its business.³²

Google's liberal policy was extended to the United Kingdom and Ireland in May 2009 as Google felt that local business practices were consistent with it.³³ During that time, the United Kingdom and Ireland were the only two countries within the European Union in which Google allowed advertisers to use trademarks of competitors as a keyword.³⁴ This changed when Google announced that it would also allow competitive trademark use in many other countries, including several EU countries.³⁵

³⁰ See: <<http://www.searchalliance.com>>. Also see: S Lohr, 'Microsoft and Yahoo Are Linked Up. Now What?' *The New York Times* (New York July 29, 2009) <<http://www.nytimes.com/2009/07/30/technology/companies/30soft.html?ref=yahoo-microsoft-deal>> accessed 5 April 2011.

³¹ M Helft, 'Companies Object to Google Policy on Trademarks' *The New York Times* (New York May 14, 2009) <<http://www.nytimes.com/2009/05/15/technology/internet/15google.html>> accessed 5 April 2011.

³² Google Annual Report 2005, p. 26, <<http://investor.google.com/financial/2005/filings-archives.html>> accessed 5 April 2011.

³³ N Kendall, 'Google Heading for Global Trademark Storm' *The Times* (London May 8, 2009) <http://technology.timesonline.co.uk/tol/news/tech_and_web/article6250503.ece> accessed 5 April 2011.

³⁴ Google has provided a list of 193 regions in which it will not investigate the use of trademarks as keywords, see: <<https://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=144298>> accessed 5 April 2011.

³⁵ Google Inside Adwords Blog, 'Update to Canadian, UK and Ireland Ad Text Trademark Policy' (4 August 2010) <<http://adwords.blogspot.com/2010/08/update-to-canadian-uk-and-ireland-ad.html>> accessed 5 April 2011.

Microsoft explicitly states that it is a violation of its trademark policy to “purchase a competitor’s trademark as a keyword.”³⁶ This policy applies to all countries in which Microsoft is active. Yahoo is less explicit, but from its policy document on trademarks, it seems that only normative use of another’s trademark for reselling and informative purposes is allowed – competitive use is thus excluded.³⁷

3.3 Significance of Competitive Use of Trademarks as Keywords

Until recently, little empirical research has been conducted on competitive use of trademarks as keywords or as part of the text of advertisements in search engine advertising programs. In early 2010, Bernard Jansen and Mark Rosso published the results of a study on the overall value of, what they call, ‘piggybacking’ on brand names in the United States.³⁸ Jansen and Rosso selected a collection of 100 trademarks that spanned across many diverse market segments, which they queried to Google, Yahoo!, and Microsoft Live Search (currently Bing).

The empirical data regarding competitive use of trademarks in sponsored search is set out in the table below.

	Total Advertisements	Advertisements Triggered by a Competitor's Trademark	
		Total	% of Total Advertisements
Google	269	11	4.1%
Yahoo!	1278	52	4.1%
MSN	803	18	2.2%

Jansen and Rosso’s research shows that on the United States SERPs of Google and Yahoo!, 4.1 percent of the sponsored links were triggered by a keyword that is a trademark owned by a competitor of the advertising party. On the MSN SERPs there were fewer advertisements prompted by a keyword that is also a trademark belonging to a competitor. This is a surprising

³⁶ Microsoft Advertising Trademark Guidelines <<http://advertising.microsoft.com/learning-center/adexcellence/classroom-trademark-guidelines>> accessed 5 April 2011.

³⁷ Yahoo Trademark Policy <<http://searchmarketing.yahoo.com/legal/trademarks.php>> accessed 5 April 2011.

³⁸ BJ Jansen and MA Rosso, 'Smart Marketing or Bait & Switch: Competitors' Brands as Keywords in Online Advertising' (WICOW '10 Proceedings of the 4th workshop on Information credibility 2010); MA Rosso and BJ Jansen, 'Brand Names as Keywords in Sponsored Search Advertising' [2010] 27 Communications of the Association for Information Systems 6.

result, because apart from Google, the other search engines do not allow the use of a competitor's trademark for triggering advertisements.

4. Direct Liability for Trademark Infringement in the European Union

This chapter discusses whether a search engine operator is liable for trademark infringement when he allows an advertiser to use his competitor's trademark as a keyword.³⁹ This type of liability will be referred to as a direct liability. Direct liability can be defined as a responsibility arising from a party's own infringing acts, as opposed to secondary or indirect liability, which deals with responsibility of one party for directly infringing acts carried out by another party.⁴⁰

First, an introduction to EU trademark law will be given. Then the European Court of Justice's (ECJ) decision in *Google v. Louis Vuitton*,⁴¹ in which the ECJ held that search engines operators do not themselves infringe trademark rights when they allow advertisers to use their competitor's trademark as a keyword, will be analysed.

4.1 Identity Protection and Protection Against Confusing use

Article 5(1)(a) of the Trademark Directive (TMD) entitles a proprietor of a trademark to prevent all third parties from unauthorized use in the course of trade of any sign identical to his trademark in relation to goods or services, which are identical with those for which the trademark is registered. This protection is 'absolute'.⁴² When a sign is similar or identical to the trademark, and the goods or services covered by the sign are similar or identical to the goods and services covered by the trademark, then on the basis of Article 5(1)(b) TMD also a likelihood of confusion on the part of the public has to be established .

4.1.1 Use in the Course of Trade

Article 5(1) and (2) TMD require that, in order to establish trademark infringement, the sign is used in the course of trade. The TMD gives no explanation of what the phrase 'use in the

³⁹ Protection of trademarks in the EU has developed following two parallel paths. One led to the harmonization of disparate national systems by means of the Trademark Directive (Directive (EC) 08/95 of the European Parliament and of the Council, of 22 October 2008, to Approximate the Laws of the Member States Relating to Trade Marks [2008] OJ L299/25); the other one led to the creation of a community wide trademark in the Community Trademark Regulation (Council Regulation (EC) 40/94 on the Community trade mark [1993] OJ L011/1). The focus of this chapter and chapter 5 is on the Trademark Directive. Important differences between the Trademark Directive and the Community Trademark Regulation will be explained in footnotes.

⁴⁰ Whether a search engine operator can be held secondarily liable under EU law will be discussed in chapter 5 of this work.

⁴¹ Joined Cases C-236/08 to C-238/08 *Google France v Louis Vuitton* [2010] OJ C 134/2.

⁴² Recital 11 of the TMD.

course of trade' means. The ECJ explained this element for trademark infringement in *Arsenal v. Reed*.⁴³

In *Arsenal v. Reed*, the ECJ dealt with the selling of unofficial Arsenal (an English football club) merchandise products. The preliminary questions asked by the English court, *inter alia*, sought to explore whether a third party has a defence to trademark infringement on the ground that his use does not indicate trade origin. Only use of a sign in the course of trade can be prevented by a proprietor of a trademark, and the ECJ therefore first had to explain this element of trademark infringement. In its decision, the ECJ explained that a sign is used in the course of trade when it "takes place in the context of commercial activity with a view to economic advantage and not as a private matter."⁴⁴

4.1.2 Use in Relation to Goods or Services

Trademark infringement furthermore requires that the sign is used in relation to goods and services. The expression 'in relation to goods or services' relates to goods or services of third parties who use a sign identical or similar to the trademark.⁴⁵ Article 5(3) TMD provides a non-exhaustive list of types of use that can be prohibited under Article 5 TMD. For example, when a sign is affixed to the goods or the packaging thereof, it is used in relation to goods and services, and a trademark proprietor can prevent a third party from using the sign.⁴⁶ Another example of use in relation to goods and services that can be prohibited is the use of a sign in advertising.⁴⁷

In *UDV North America v. Brandtraders*, the ECJ considered trademark use by an intermediary.⁴⁸ UDV was the proprietor of the Community trademark Smirnoff Ice. Brandtraders operated a web site on which traders could anonymously place advertisements and negotiate the sale of goods. Brandtraders, in its own name but on behalf of another company, entered into a contract of sale of bottles of Smirnoff Ice with a buyer for which it used the SMIRNOFF trademark.

⁴³ Case C-206/01 *Arsenal Football Club plc v. Matthew Reed* [2002] ECR I-10273.

⁴⁴ *Ibid*, para 40. Also see: Case C-17/06 *Céline SARL v. Céline SA* [2007] ECR I- 01017, para 17; Case C-62/08 *UDV North America v. Brandtraders* [2009] ECR I-1279 para 44.

⁴⁵ Case C-63/97 *BMW v. Deenik* [1991] ECR I- 905 para 38; Case C-206/01 *Arsenal Football Club plc v. Matthew Reed* [2002] ECR I-10273 paras 28 and 29, and Case C-17/06 *Céline SARL v. Céline SA* [2007] ECR I- 01017 para 20.

⁴⁶ Article 5(3)(a) TMD.

⁴⁷ Article 5(3)(d) TMD.

⁴⁸ Case C-62/08 *UDV North America v. Brandtraders* [2009] ECR I-1279.

The difficulty in this case was that Brandtraders used the sign in the course of trade, but on behalf of a third party. Did such use amount to use in relation to goods or services identical to the goods or services for which the SMIRNOFF trademark was registered by UDV?⁴⁹ The ECJ explained that the fact that a third party uses a sign in relation to goods that are not his own goods, does not by itself mean that such use is not covered by Article 5 TMD.⁵⁰ Brandtraders was considered to have used the sign in such a way that a link was established between the sign and the goods marketed by Brandtraders. Therefore the focus should not be on whose products a sign is used for, but on the guarantee of origin that a trademark protects.

4.1.3 Use that Affects the Functions of a Trademark

In *Arsenal v. Reed*, the court explained that not every type of use can be prevented by the proprietor of a trademark. Only use that affects or is likely to affect the functions of a trademark, of which the essential is to “guarantee the identity of origin of the marked goods or services to the consumer or end user”,⁵¹ can be prohibited. Taking into account the functions of a trademark, the proprietor of a trademark “may not prohibit the use of a sign identical to the trade mark for goods identical to those for which the mark is registered if that use cannot affect his own interests as proprietor of the mark.”⁵²

Before the ECJ’s decision in *L’Oréal v. Bellure*, no other functions than the essential function of guaranteeing origin had been specified. In *L’Oréal v. Bellure*, the ECJ dealt with knock off imitation perfumes that clearly not originated from L’Oreal’s famous perfume brands, but were marketed in a way that winked at those marks.⁵³ The function of guaranteeing the identity of origin was thus not at issue. The ECJ, however, specified another function of a trademark: the function of communication, investment or advertising.⁵⁴ A trademark owner can thus under certain conditions also prohibit the use of his trademark when that use affects the function of communication, investment or advertising.

4.1.4 Likelihood of Confusion

When a sign is used in the course of trade and, because of its identity with, or similarity to, the trademark and the identity or similarity of the goods or services covered by the trademark

⁴⁹ *ibid* para 30.

⁵⁰ *ibid* para 43.

⁵¹ Case C-206/01 *Arsenal Football Club plc v. Matthew Reed* [2002] ECR I-10273 para 48.

⁵² *ibid* para 54. Also see: Case C-48/05 *Adam Opel AG v. Autec AG* [2007] ECR I- 01017 para 22.

⁵³ Case C-487/07 *L’Oréal v Bellure* [2009] ECR I-05185.

⁵⁴ *ibid* para 63.

and the sign, there exists a likelihood of confusion on the part of the public, then such use can also be prevented by the trademark holder.

The TMD contains an interpretation of the likelihood of confusion element in its recitals, which reveals the casuistic nature of this element:

The likelihood of confusion, the appreciation of which depends on numerous elements and, in particular, on the recognition of the trade mark on the market, the association which can be made with the used or registered sign, the degree of similarity between the trade mark and the sign and between the goods or services identified, should constitute the specific condition for such protection.⁵⁵

In *Lloyd Schuhfabrik v. Klijsen*, the ECJ explained that “the risk that the public might believe that the goods or services in question come from the same undertaking or, as the case may be, from economically-linked undertakings” constitutes a likelihood of confusion.⁵⁶ In *Sabel v. Puma*, the ECJ noted that likelihood of confusion must be appreciated globally, taking into account all factors relevant to the circumstances.⁵⁷ The perception of a mark in the mind of an average consumer plays a decisive role in that global appreciation.⁵⁸ The factors are interdependent, the court notes in *Canon v. Metro-Goldwyn-Mayer*, for instance: a lesser degree of similarity between the goods or services in question may be offset by a greater degree of similarity between the marks.⁵⁹

4.2 Applying EU Trademark Law to Search Engine Operators

The previous sections explored how, according to EU trademark law, trademark infringement is to be established. This section explains whether search engine operators can be held liable under those rules. As of writing there is one decision of the ECJ that deals with direct search engine operator liability for competitive and invisible trademark use in sponsored search: *Google v. Louis Vuitton*.⁶⁰

In *Google v. Louis Vuitton*, the ECJ gave a ruling on the basis of preliminary questions asked by the French *Cour de Cassation* (Supreme Court) in three different French proceedings in which the advertising parties either marketed imitations of the products of the trademark

⁵⁵ Recital 11 of the TMD.

⁵⁶ Case C-342/97 *Lloyd Schuhfabrik Meyer v Klijsen Handel* [1999] ECR I-03819 para 17.

⁵⁷ Case C-251/95 *Sabel v Puma* [1997] ECR I-06191 para 22.

⁵⁸ *ibid* para 23.

⁵⁹ Case C-39/97 *Canon Kabushiki Kaisha v Metro-Goldwyn-Mayer* [1998] ECR I-05507.

⁶⁰ Joined Cases C-236/08 to C-238/08 *Google France v Louis Vuitton* [2010] OJ C 134/2.

owner or were competitors of the trademark owner. The joint cases dealt with the responsibility of both Google and advertisers for using trademarks on Google's AdWords search engine advertising platform.

In its first set of questions, the *Cour de Cassation* asked how Article 5(a) and (b) TMD and should be interpreted in case a search engine operator uses trademarked keywords to trigger advertisements. More precisely:

[...] the Cour de cassation asks, in essence, whether Article 5(1)(a) and (b) of Directive 89/104 [TMD] [...] are to be interpreted as meaning that the proprietor of a trade mark is entitled to prohibit a third party from displaying, or arranging for the display of, on the basis of a keyword identical with, or similar to, that trade mark which that third party has, without the consent of that proprietor, selected or stored in connection with an internet referencing service, an ad for goods or services identical with, or similar to, those for which that mark is registered.⁶¹

Although the first set of questions was asked with reference to Article 5(a) and (b) TMD, the ECJ examined the questions principally from the angle of the double identity provisions in Article 5(a) TMD. The ECJ chose to do so because keywords “have the object and effect of triggering the display of advertising links to sites on which goods or services are offered which are identical with those for which those trademarks are registered.”⁶²

To answer the first set of questions, the ECJ used a three-step-test. The first step is to see if there is a use in the course of trade; the second step is to see whether that use is in relation to goods or services; and the third step tests whether such use is liable to have an adverse effect on the functions of the trademark.⁶³

With regard to the first step, the ECJ argued that it is common ground that a search engine operator carries out a commercial activity with a view to economic advantage.⁶⁴ A search engine operator operates in the course of trade because it permits advertisers to select, as keywords, signs identical with trademarks, stores those signs and displays its clients' ads on the basis thereof.⁶⁵ Although a search engine operator operates in the course of trade, this does not mean it actually uses those signs in the course of trade within the meaning of Article 5

⁶¹ Joined Cases C-236/08 to C-238/08 *Google France v Louis Vuitton* [2010] OJ C 134/2 para 43.

⁶² *ibid* para 47.

⁶³ The element of absence of consent of the trademark owner is not discussed because this element is presupposed in the referred question.

⁶⁴ Joined Cases C-236/08 to C-238/08 *Google France v Louis Vuitton* [2010] OJ C 134/2 para 53.

⁶⁵ *ibid* para 55.

TMD.⁶⁶ In other words, *operating* in the course of trade does not imply that a sign is *used* in the course of trade.

To discuss whether a search engine operator uses a trademark in the course of trade, the ECJ first noted that “use, by a third party, of a sign identical with, or similar to, the proprietor’s trade mark implies, at the very least, that that third party uses the sign in its own commercial communication.”⁶⁷ A search engine operator, however, allows its advertisers to use signs which are identical with, or similar to trademarks, without itself using those signs. In other words, search engine operators enable advertisers to use trademarks in sponsored search, and do not themselves use those trademarks in the course of trade. This conclusion was not called into question by the fact that search engine operators create the technical conditions necessary for the use of a sign, nor by the fact that advertisers pay them for such services.⁶⁸

4.3 Analysis

The ECJ’s answer is clear: search engine operators cannot be held directly liable under EU trademark law for use of trademarks on their advertising platforms. Such use does not qualify as trademark infringement under Article 5(1)(a) or (b) TMD because there is no use in the course of trade.

The ECJ’s reasoning in *Google v. Louis Vuitton* can and should be distinguished from the ECJ’s reasoning in *UDV North America v. Brandtraders* in which an intermediary (Brandtraders) did use a trademark in the course of trade.⁶⁹ In the latter case, Brandtraders acted on behalf of another party and used a trademark in its own communications, which established a link between the sign and the goods marketed by Brandtraders; whereas in the former case, Google did not act on behalf of its advertisers and did not use a trademark in its own commercial communications.

⁶⁶ *ibid* para 55 and 104.

⁶⁷ *ibid* para 56.

⁶⁸ *ibid* para 57.

⁶⁹ Case C-62/08 *UDV North America v. Brandtraders* [2009] ECR I-1279.

5. Secondary Liability for Trademark Infringement in the European Union

By arguing that Google contributed to trademark infringement by advertisers, the trademark proprietors in *Google v. Louis Vuitton* proposed a form of contributory trademark infringement. Advocate General Maduro noted that contributory liability “would be novel to most Member States, which traditionally treat these situations under liability rules; it would also be alien to the case law of the Court [the ECJ], which has so far focused on separate, individual uses.”⁷⁰

Despite contributory trademark infringement being an unwelcome expansion of EU trademark law, intermediaries can still be held liable under national rules of tort law for letting others unlawfully use trademarks on their platforms. The TMD leaves room for such secondary liability, as it does not exclude the application of national civil liability rules in disputes about trademarks.⁷¹

Secondary liability presupposes that another party is primarily liable. Therefore, before enquiring into the secondary liability of search engine operators, it is necessary to discuss whether an advertiser using a competitor’s trademark as a keyword in sponsored search himself acts in conflict with EU trademark law.

5.1 Advertiser Liability for Competitive Trademark Use in Sponsored Search

Google v. Louis Vuitton was the first case brought before the ECJ regarding an advertiser’s liability under Article 5(1)(a) TMD for the use of keywords that are identical with a competitor’s trademark for products identical with the trademark owner’s products. It is, however, not the only case concerning the advertiser’s liability for trademark use in sponsored search. Other cases in which the ECJ also dealt with competitive trademark use are *Bergspechte v. Günther Guni*,⁷² *Eis.de v. BBY Vertriebsgesellschaft*,⁷³ and *Portakabin v.*

⁷⁰ Advocate General Maduro in Joined Cases C-236/08 to C-238/08 *Google France v Louis Vuitton* [2010] OJ C 134/2 para 117. For instance, Article 2.20 of the Benelux Intellectual Property Treaty, which sets the scope of Benelux trademark law, and does not exclude general tort law liability.

⁷¹ Recital 7 of the TMD.

⁷² Case C-278/08 *Die BergSpechte Outdoor Reisen v Günther Guni* [2010] OJ C 134/3.

⁷³ Case C-91/09 *Eis.de v BBY Vertriebsgesellschaft* [2010] OJ C 234/18. This case has gotten little attention because it is a mere reconfirmation of *Google v. Louis Vuitton*. It is available in German and French only.

Primakabin.⁷⁴ All those cases – in trademark terminology – ride on the coat-tails of *Google v. Louis Vuitton*, which will serve as a guideline for discussing the advertiser’s liability.⁷⁵

To determine the advertiser’s liability under Article 5(1)(a) TMD, the ECJ in *Google v. Louis Vuitton* applied the same three-step-test that it applied to a search engine operator’s trademark use. The court first considered whether the trademark was used in the course of trade. Second, whether that use is in relation to goods or services. And third, whether such use is liable to have an adverse effect on any of the trademark’s functions.

5.1.1 Use in the Course of Trade

With regard to the first step, the court established that an advertiser choosing as a keyword a sign identical with another’s trademark, uses that sign in the context of commercial activity with a view to economic advantage.⁷⁶ Because the advertiser uses the sign to trigger an advertisement promoting his goods or services, the ECJ held that it is undisputable that the sign is used in the context of commercial activity and thus used in the course of trade.⁷⁷

5.1.2 Use in Relation to Goods or Services

The ECJ then discussed whether or not the sign was used in relation to goods. The court put itself in the position of a search engine user and argued that when a search engine user enters a trademark into a search engine, he is searching for information on or offers of the goods or services covered by that trademark. If the search engine user is not confused by the sponsored links that are shown along the natural search results, he will perceive those as advertisements for alternative products.⁷⁸ Thus, when an advertiser uses his competitor’s trademark, he does so with the aim of offering search engine users an alternative to the goods or services of the trademark holder. The fact that such use is invisible, did not change the ECJ’s view.⁷⁹

5.1.3 Use that Affects the Functions of a Trademark

After finding that keyword use amounts to use in relation to goods or services, the court examined whether such use is liable to have an adverse effect on the functions of the trademark. Those functions not only include the essential function of indicating origin (*Reed*

⁷⁴ Case C-558/08 *Portakabin v Primakabin* [2010] OJ C 234/10.

⁷⁵ There currently is one reference for a preliminary ruling before the ECJ that deals with use of trademarks with a reputation: Reference for a preliminary ruling in Case C-323/09 *Interflora v. Marks & Spencer* [2009] OJ C 282/19.

⁷⁶ Joined Cases C-236/08 to C-238/08 *Google France v Louis Vuitton* [2010] OJ C 134/2 para 50.

⁷⁷ *ibid* para 52.

⁷⁸ *ibid* para 68.

⁷⁹ *ibid* para 69.

v. Arsenal), but also its other functions, in particular that of guaranteeing the quality of the goods or services in question and those of communication, investment or advertising (*L'Oréal v. Bellure*). The court found that both functions are of relevance and tested whether keyword use has an adverse effect on the function of indicating origin and the function of advertising.⁸⁰

The function of indicating origin can be adversely affected if an advertisement “does not enable normally informed and reasonably attentive internet users, or enables them only with difficulty, to ascertain whether the goods or services referred to by the ad originate from the proprietor of the trade mark or an undertaking economically connected to it or, on the contrary, originate from a third party.”⁸¹ In *Portakabin v. Primakabin*, the ECJ used this same formula to assess whether a trademark owner can prohibit an advertiser from advertising using a keyword that is identical with or similar to his trademark.⁸²

The ECJ focused on the advertisement's visual presentation and not so much on how the advertisement was created. Because “the ad [...] appears immediately after entry of the trade mark as a search term by the internet user concerned and is displayed at a point when the trade mark is [...] also displayed on the screen, the internet user may err as to the origin of the goods or services in question.”⁸³ Trademark use is then liable to create the impression that there is a material link between the goods or services advertised and the proprietor of the trademark. Such use has an adverse effect on the function of indicating origin.⁸⁴

Also when the advertisement does not suggest an economic link, keyword advertising can have an adverse effect on the function of indicating origin:

In the case where the ad, while not suggesting the existence of an economic link, is vague to such an extent on the origin of the goods or services at issue that normally informed and reasonably attentive internet users are unable to determine, on the basis of the advertising link and the commercial message attached thereto, whether the advertiser is a third party vis-à-vis the proprietor of the trade mark or, on the contrary, economically linked to that proprietor, the conclusion must also be that there is an adverse effect on that function of the trade mark.⁸⁵

⁸⁰ *ibid* para 81.

⁸¹ *ibid* para 84.

⁸² Case C-558/08 *Portakabin v Primakabin* [2010] OJ C 234/10, para 54.

⁸³ Joined Cases C-236/08 to C-238/08 *Google France v Louis Vuitton* [2010] OJ C 134/2, para 85.

⁸⁴ *ibid* para 89.

⁸⁵ *ibid* para 90.

After concluding that keyword use can have an adverse effect on the trademark's function of indicating origin, the ECJ discussed the advertising function of a trademark.

According to the ECJ, it is plain that the use of trademarked keywords is liable to have certain repercussions on the advertising use of that mark by its owner and his commercial strategy.⁸⁶ When the trademark owner decides to acquire high ranked sponsored links himself, he has to pay a higher price per click than he would normally have to pay.⁸⁷ This, however is not enough to constitute an adverse effect on the advertising function of a trademark.⁸⁸ Moreover, the trademark holder's website usually has one of the highest positions in the natural results on a SERP, and visibility of the trademark owner's goods and services is guaranteed.⁸⁹ The ECJ therefore concluded that use of a trademarked keyword is not liable to have an adverse effect on the advertising function of the trademark.⁹⁰

5.1.4 Likelihood of Confusion

Google v. Louis Vuitton concerned the use of a keyword identical to the trademark to trigger advertisements for goods that were identical to the trademark holder's goods (Article 5(1)(a) TMD applies). In *BergSpechte v. Günther Guni*, the ECJ discussed the use of a keyword that was not identical but similar to a competitor's trademark to advertise products that were identical to the trademark owner's products (Article 5(1)(b) TMD applies). It thus had to touch upon the question whether or not competitive keyword advertising creates a likelihood of confusion.⁹¹

The ECJ left it for the national court to decide whether a likelihood of confusion existed in this particular case. It did provide the context in which the likelihood of confusion is to be assessed, which resembles the ECJ's reasoning regarding the trademark's function of indicating origin:

[...] it will be for the national court to hold whether there is a likelihood of confusion when internet users are shown, on the basis of a keyword similar to a mark, a third party's ad which does not enable normally informed and reasonably attentive internet users, or enable them only with difficulty, to ascertain whether the goods or services referred to by the ad originate from the

⁸⁶ *ibid* para 93.

⁸⁷ *ibid* para 94.

⁸⁸ *ibid* para 95.

⁸⁹ *ibid* paras 96-97.

⁹⁰ *ibid* para 98.

⁹¹ Case C-278/08 *Die BergSpechte Outdoor Reisen v Günther Guni* [2010] OJ C 134/3.

proprietor of the trade mark or an undertaking economically connected to it or, on the contrary, originate from a third party.⁹²

The above is in essence a keyword advertising specific application of the *Lloyd Schuhfabrik v. Klijsen* case in which the ECJ explained when a likelihood of confusion exists, and it affirms that the established principles for assessing this element equally apply to keyword advertising.

5.1.5 Comparative Advertising

Article 4 of the Misleading and Comparative Advertising Directive (MCAD), under certain conditions, allows explicit and implicit comparative advertising.⁹³ Recital 14 of the MCAD underlines that in order for comparative advertising to be effective, it may be required to refer to a competitor's trademark. Such a reference may however not discredit or denigrate a competitor's trademark,⁹⁴ nor should it take unfair advantage of the reputation of a trademark.⁹⁵ It furthermore should not create confusion among traders, between the advertiser and a competitor, or between the advertiser's trademarks.⁹⁶ If an advertisement does create a likelihood of confusion, then a trademark holder can prohibit such use under Article 5 TMD.⁹⁷

It can be argued that an advertiser using a competitor's trademark to trigger his advertisement, uses that trademark for a form of implicit comparative advertising as permitted by the MCAD. This argument was partly dealt with by the ECJ in *Google France v. Louis Vuitton*. Without examining whether competitive search engine advertising qualifies as a type of comparative advertising, the court noted that such a qualification does not mean that application of Article 5 TMD is excluded.⁹⁸ If a comparative advertisement establishes a link between the sign and the marked goods, then the advertisement can still be prohibited under Article 5(1)(a) or (b) TMD.⁹⁹

As a result, the question whether or not keyword advertising qualifies as comparative advertising is not as important of a question as it may seem. Article 5 TMD is paramount.

⁹² *ibid* para 39.

⁹³ Directive (EC) 08/95 of the European Parliament and of the Council, of 12 December 2006, concerning misleading and comparative advertising [2006] OJ L376/21.

⁹⁴ Article 4(d) MCAD.

⁹⁵ Article 4(f) MCAD.

⁹⁶ Article 4(h) MCAD.

⁹⁷ See with regard to Article 5(1)(a) TMD: Case C-487/07 *L'Oréal v Bellure* [2009] ECR I-05185; and with regard to Article 5(1)(b) TMD: Case C-533/06 *O2 v. Hutchison 3G* [2008] ECR I-04231.

⁹⁸ Joined Cases C-236/08 to C-238/08 *Google France v Louis Vuitton* [2010] OJ C 134/2, para 71.

⁹⁹ *ibid* para 72.

Even if competitive keyword advertising is to be qualified as comparative advertising, then the use of a trademark can be prohibited when there is a likelihood of confusion.¹⁰⁰

5.2 Advertisers are Potentially Liable and so Are Search Engine Operators

Advertisers can be held liable under Article 5(1)(a) TMD for trademark infringement when they use a competitor's trademark to trigger their advertisement if such use is liable to adversely affect a trademark's function of indicating origin. The advertising function is not liable to be adversely affected by competitive keyword advertising. Liability under Article 5(1)(b) TMD furthermore requires that competitive keyword advertising creates a likelihood of confusion.

Whether a trademark's function of indicating origin is adversely affected depends on the manner in which the advertisement is presented. If it creates the impression that there is a material link between the advertised goods or services and the proprietor of the trademark, then the advertisement infringes the trademark holder's rights. Also when 'normally informed and reasonably attentive' search engine users are unable to determine the relationship between the advertiser and the trademark holder, then the trademark's function of indicating origin can be adversely affected.

Many different factors may come into play in determining to what extent a search engine user is aware of the origin of the advertisement, and whether or not the advertised products are linked to that trademark.¹⁰¹ Some factors have to do with the advertisement's content, such as whether it is clear from the advertisement's text that the advertising party offers alternative products to the products searched for. Another factor could be the extent to which the products are related. In the case of different but related goods or services an advertisement will less likely infringe a trademark, for instance when a keyword relating to air travel triggers a car rental advertisement.¹⁰²

¹⁰⁰ See *Tempur v. The Energy + Company* case number 380445 / KG ZA 10-1425 (Rechtbank 's-Gravenhage), for an example of a case in which a Dutch court argued that the use of a trademarked keyword is necessary for creating a comparative advertisement. However, because the advertiser did not distinguish the compared products, the advertiser infringed his competitor's trademark.

¹⁰¹ Advocate General Jääskinen put it this way: "the court [ECJ] did not condemn keyword advertising using third party trade marks as such but linked the question of its permissibility to the contents of the ad displayed in the sponsored link" in Case C-323/09 *Interflora v. Marks & Spencer* [2011] (not yet published, available at <<http://curia.europa.eu>>) para 88.

¹⁰² This example was taken from Advocate General Jääskinen's conclusion in: Case C-323/09 *Interflora v. Marks & Spencer* [2011] (not yet published, available at <<http://curia.europa.eu>>) para 45

Other factors have to do with the advertisement's context, such as the position of the advertisement. Search engine users may be more likely to link advertisements that are displayed above the search results to the trademark than advertisements that are displayed alongside these results. Another factor could be the search engine user's query to a search engine.

Competitive trademark use in keyword advertising cannot, by definition, be prohibited under EU trademark law. Advertisers are potentially directly liable for trademark infringement when they use a competitor's trademark as a keyword. And, as a result, search engine operators may also be held liable under national tort law for contributing to an advertiser's trademark infringement.

5.3 Safe Harbours: Mere Conduit, Caching and Hosting

Search engine operators may be exempted from liability when they qualify as intermediary service providers in the sense of E-Commerce Directive (ECD).¹⁰³ The ECD safe harbours were created to take away disparities in EU Member States' legislation and case law concerning the liability of online intermediaries, and to prevent the impairment of the development of cross-border services.¹⁰⁴

The ECD safe harbours are available to 'information society services', which are defined in the Information Society Services Directive¹⁰⁵ and the Conditional Access Directive.¹⁰⁶ The definition covers any service normally provided for remuneration, at a distance, by means of electronic equipment for the processing and storage of data, and at the individual request of a recipient of a service.¹⁰⁷ Services that are not remunerated by those who receive them are also covered, as long as they represent some sort of economic activity.¹⁰⁸

In essence, the ECD deals with intermediary liability in four steps. First, the ECD distinguishes and defines three types of online intermediary activities: 'mere conduit' (Article 12 ECD), 'caching' (Article 13 ECD) and 'hosting' (Article 14 ECD). Second, under certain

¹⁰³ Directive (EC) 00/31 of the European Parliament and of the Council, of 8 April 2000, on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market [2000] OJ L178/1.

¹⁰⁴ Recital 40 of the ECD.

¹⁰⁵ Directive (EC) 98/34 of the European Parliament and of the Council, of 22 June 1998, laying down a procedure for the provision of information in the field of technical standards and regulations [1998] OJ L204/37.

¹⁰⁶ Directive (EC) 98/84 of the European Parliament and of the Council, of 20 November 1998, on the legal protection of services based on, or consisting of, conditional access [1998] OJ L320/54.

¹⁰⁷ Recital 17 of the ECD.

¹⁰⁸ Ibid.

conditions it provides for an exemption from liability that may arise from carrying out these intermediary activities. Third, the ECD leaves open the possibility of injunctive relief to terminate or prevent an infringement. And fourth, Article 15 ECD prohibits Member States to impose on intermediary service providers a general obligation to monitor the data that they convey.

The three types of intermediary activity (mere conduit, caching and hosting) that are exempted from liability, correspond to activities of classical physical network providers, Internet Access Providers, and Internet hosting providers. Internet Access Providers and physical network providers transmit information from one point to another without knowledge of or control over the information that is transmitted. They may use caching techniques to transmit information more efficiently.¹⁰⁹ Internet hosting providers typically store information through automated processes without knowledge or control over the information that is stored.

Recital 42 of the ECD emphasizes the passive and technological nature of intermediary activities that are exempted from liability:

The exemptions from liability [...] 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.*¹¹⁰

The liability of intermediaries that cache or act as mere conduits is limited when these intermediaries are in no way involved with the information transmitted.¹¹¹ For an Internet Access Provider to qualify as a mere conduit, it is required that the Internet Access Provider does not initiate the transmission of information, does not select the receiver of information, and does not select or modify the information.

There is a higher threshold for benefiting from Article 14 ECD's hosting exemption. In order to enjoy this exemption, a hosting provider should expeditiously act to remove or to disable access to unlawful information upon obtaining actual knowledge or awareness of illegal

¹⁰⁹ A cache is a component that improves performance by (temporarily) storing data such that future requests for that data can be served faster. On the Internet caching is used from a Internet user's browser to the ISP-level to reduce bandwidth usage, server load, and perceived lag.

¹¹⁰ Emphasis added.

¹¹¹ Recital 43 of the ECD.

activities.¹¹² Most likely, service providers obtain such knowledge through private notices alerting them of unlawful activities, since there is no duty to proactively monitor.¹¹³

The ECD does not prohibit courts to lay injunctions on intermediaries as it explicitly leaves open the possibility for a court or administrative authority to require the service provider to terminate or prevent an infringement.¹¹⁴ Article 18 ECD instructs Member States to “ensure that court actions available under national law concerning information society services’ activities allow for the rapid adoption of measures, including interim measures, designed to terminate any alleged infringement and to prevent any further impairment of the interests involved.” Regarding intellectual property, Article 9 of the Enforcement Directive¹¹⁵ instructs Member States to ensure that interlocutory injunctions may be issued against intermediaries whose services are being used by a third party to infringe an intellectual property right. On the basis of Article 15(1) ECD, injunctions may, however, never imply a general obligation to monitor the information that is transmitted or stored. The same accounts for a general obligation to actively seek facts or circumstances indicating illegal activity.

5.4 Do Safe Harbours Apply to Search Engine Operators?

Google v. Louis Vuitton is the first and only case in which the ECJ had to clarify ECD’s safe harbours. It is therefore also the only case that can shed light on the applicability of the safe harbours to search engine operators.

In *Google v. Louis Vuitton*, the ECJ first established that a search engine’s advertising service should be considered an information society service.¹¹⁶ It then went on to say that it cannot be disputed that a search engine advertising service is a hosting service in the meaning of Article 14 ECD because search engine operators store content provided by advertisers.¹¹⁷ However, for its liability to be limited, a search engine operator’s activity should be of mere technical, automatic and passive nature, and the operator should have neither knowledge of, nor control over the information that is transmitted or stored.¹¹⁸

¹¹² Recital 46 of the ECD.

¹¹³ Article 15 ECD.

¹¹⁴ Articles 12(3), 13(2) and 14(3) ECD. Also see: recital 45 of the ECD.

¹¹⁵ Directive (EC) 04/48 of the European Parliament and of the Council, of 22 April 2004, on the enforcement of intellectual property rights [2004] OJ L157/32.

¹¹⁶ Joined Cases C-236/08 to C-238/08 *Google France v Louis Vuitton* [2010] OJ C 134/2, para 110.

¹¹⁷ *ibid* para 111.

¹¹⁸ *ibid* paras 112-114.

The court noted that the neutrality that is required cannot be deprived by the mere fact that search engine operators set terms and conditions for the advertising service, nor by the fact that they are paid for their services.¹¹⁹ The same accounts for the matching of keywords with entered search terms.¹²⁰ The role that search engine operators play in drafting advertisements, including assisting with the selection of keywords, is considered relevant by the ECJ.¹²¹ To distinguish this last relevant factor (the search engine operator's role) from the earlier two arguments (search engine operators set terms and conditions, and the matching of keywords and search terms), the court used the phrase 'by contrast'. It is unclear whether the court tried to set the search engine operator's role as the most important factor, or whether it meant to completely discharge the earlier two arguments of their relevance.

The ECJ left it for the French *Cour de Cassation* to decide whether Google is neutral enough to benefit from the liability exemption. The question thus still remains: are search engine operators sufficiently neutral to be exempted from liability? In *Google v. Louis Vuitton* the ECJ did not rule out the possibility of search engine operators being hosting providers that are immune to liability. However, this does not mean they should by definition be qualified as hosting providers in the sense of the Article 14 ECD safe harbour.

5.5 Analysis

There is no definitive answer from the ECJ to the question whether search engine operators can be held secondarily liable for competitive trademark use of third parties that advertise on their platforms. National courts will have to decide whether, on the basis of general tort law or unfair competition law, a search engine operator is liable for competitive trademark use on its platform.

An important bar to the liability of search engine operators is the ECD hosting safe harbour. Search engine operators may qualify as hosting providers under that directive and be exempted from liability. However, the ECJ has not given a clear-cut answer to the question whether a search engine operator is neutral enough to benefit from the ECD's hosting safe harbour. Since the ECD does not contain provisions on how to establish liability, but only contains provisions on when liability *cannot* be established, it is therefore again up to national courts to decide on the neutrality of search engine operators.

¹¹⁹ *ibid* para 116.

¹²⁰ *ibid* para 117.

¹²¹ *ibid* para 118.

If a search engine operator is considered sufficiently neutral to benefit from the hosting provider safe harbour, it has to immediately remove infringing advertisements upon obtaining actual knowledge or awareness of the unlawfulness of an advertisement. To satisfy this requirement, a search engine can implement a notice-and-take-down system. Such a system would give a trademark owner the ability to file a complaint about certain advertisements, so that the search engine operator can remove the infringing advertisements. Provided that the search engine operator is sufficiently neutral, it can benefit from the hosting safe harbour by implementing a notice-and-take-down system.¹²²

In this light, it is remarkable that Google has indicated that it will not investigate the use of trademarks as keywords in many EU Member States, whereas Microsoft and Yahoo! do provide for a trademark complaint procedure. By not investigating, Google closes the door on a notice-and-take-down system. This can be explained by the fact that Google is at the forefront of defending liberal keyword advertising trademark policy.¹²³

¹²² Volgenant's annotation to *Google France v. Louis Vuitton* Tijdschrift voor Internetrecht 2010 96 (ECJ); Visser's annotation: Visser, 'Noot bij HvJ EU 23 maart 2010, (zaken C-236/08 t/m C-238/08), Google France' (2010) <<http://www.boek9.nl>> accessed 5 April 2011.

¹²³ See section 3.2.

6. Direct Liability for Trademark Infringement in the United States

“Two courts hear motions based on virtually identical facts. One dismisses the case for failure to state a claim. One grants summary judgement for the plaintiff. Huh? Welcome to the state of the case law in keyword cases.”¹²⁴

This chapter will first explain the relevant legal provisions to determine a search engine operator’s direct liability under United States trademark law. Secondly, US case law regarding keyword advertising and the search engine operator’s role in it is discussed. This chapter ends with an analysis that deals with the question to what extent search engine operators can be held liable for direct trademark infringement under US trademark law.

In the US, trademarks are governed by both state and federal law. Originally, state common law provided the main source of trademark protection. This changed when in 1946 the Lanham (Trademark) Act was enacted. This act contains the current federal statutes of US trademark law. State common law and statues nonetheless remain relevant as the Lanham Act only deals with trademarks used in interstate commerce. Unlike state common law, federal trademark law is a unified body of law that is applicable throughout the whole of the US.¹²⁵ This chapter will therefore only deal with federal trademark law and thus the Lanham Act.

6.1 Infringement of a Registered Trademark

The federal statutes governing registered trademark¹²⁶ infringement can be found in Section 32(1) of the Lanham Act.¹²⁷ A registered trademark is infringed when it is used in commerce

¹²⁴ JN Nafziger and JL Hernandez, 'Heads You Win, Tails You Lose: Striving to Make Sense Of Keyword Advertising Cases Post-Rescuecom' [2010] 2 *Landslide* 24.

¹²⁵ Under state common law, trademarks are protected as a part of the law of unfair competition. State statutes vary, but most states have either adopted a version of the Model Trademark Bill (INTA, 'Model State Trademark Bill' (<<http://www.inta.org>> accessed 5 April 2011), which provides for trademark registration, or the Uniform Deceptive Trade Practices Act (National Conference of Commissioners on Uniform State Laws, 'Uniform Deceptive Trade Practices Act' (<<http://www.law.upenn.edu>> accessed 5 April 2011), which does not.

¹²⁶ Section 45 of the Lanham Act defines a trademark as including “any word, name, symbol, or device, or any combination thereof (...) to identify and distinguish his or her goods (...).”

¹²⁷ 15 USC. § 1114(1).

in connection with the sale or advertising of goods or services, and when such use causes a likelihood of confusion. Section 32(1) of the Lanham Act reads:

Any person who shall, without the consent of the registrant--

(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or

(b) reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive,

shall be liable in a civil action by the registrant for the remedies hereinafter provided.

6.1.1 Use in Commerce

The first attempt to protect trademarks on a federal level was struck down in 1879 by the US Supreme Court.¹²⁸ The Supreme Court held that Congress had no power to enact such a law under the Intellectual Property Clause,¹²⁹ nor under the Commerce Clause¹³⁰ of the US Constitution. In order for Congress to stay within the boundaries that are set by the US Constitution, it had to limit its regulations to use of trademarks in interstate commerce. As a result the Lanham Act contains several references to ‘use in commerce’, *inter alia* in Lanham Act Section 32, which seems to dictate ‘use in commerce’ as an element for trademark infringement.

The phrase ‘use in commerce’ is defined in Lanham Act Section 45. It requires use that takes place in the ordinary course of trade, and it implies that the use should be visible to consumers either on the product packaging or in marketing efforts. From a purely textualist perspective, the definition in Lanham Act Section 45 governs all references to the phrase ‘use in

¹²⁸ *United States v. Steffens, United States v. Wittemean, and United States v. Johnson ("Trade-mark Cases")* [1879] 100 U.S. 82 (US Supreme Court).

¹²⁹ Article 1, Section 8, Clause 8 of the US Constitution. This clause empowers Congress “to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.”

¹³⁰ Article 1, Section 8, Clause 3 of the US Constitution. This clause “permits Congress to “regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes.” It grants limited power to regulate trademarks as it only allows Congress to regulate interstate and international trade.

commerce' in the Lanham Act, and thus the reference made in Lanham Act Section 32. This implies that actionable trademark use should be visible.

However, whether or not 'use in commerce' in the sense of Lanham Section 45 is actually an element of trademark infringement has been, and still is, the topic of a vibrant scholarly debate.

McCarthy rejects 'use in commerce' as an element of trademark infringement. He calls it a robotic statutory reading divorced from the history and meaning of trademark law.¹³¹ Dinwoodie and Janis join his side by arguing that "for several decades, the concept of consumer confusion has served as the touchstone for trademark liability."¹³² They say that the textualist approach "lacks a firm foundation in existing law, and it would be counterproductive if adopted as a meta-principle for future trademark law and policy."¹³³ McCarthy underlines that the definition of 'use in commerce' was "clearly drafted to define the types of 'uses' that are needed to qualify a mark for federal registration", not to set a bar to trademark infringement.¹³⁴

At the other side of the spectrum, Dogan and Lemley argue that trademark infringement does require use in commerce in the sense of Lanham Act Section 45. In contrast with McCarthy, Janis and Dinwoodie's arguments, they argue that the trademark use doctrine is a part of trademark law. They point out that in the pre-Internet era, trademark use has never been an issue as infringers always clearly used the mark as a visible device in marketing their own products.¹³⁵ The advent of the Internet, however, urges to re-examine the core principles of trademark law and to accept 'use in commerce' as an element of trademark infringement.¹³⁶

To illustrate the effect of not accepting 'use in commerce' as an element for trademark infringement, Dogan and Lemley sketch a world in which online intermediaries, for fear of liability, fail to use consumer-generated trademark signals at all in designing their business models. "In this world, Amazon.com would hesitate before recommending alternative, lower-

¹³¹ JT McCarthy, *McCarthy on Trademarks and Unfair Competition* (West, 2010), 23:11.

¹³² GB Dinwoodie and MD Janis, 'Confusion Over Use: Contextualism in Trademark Law' [2006] 92 Iowa Law Review 1597, 1599. Also see: GB Dinwoodie and MD Janis, 'Lessons from the Trademark Use Debate' [2006] 92 Iowa L. Rev. 1703.

¹³³ GB Dinwoodie and MD Janis, 'Confusion Over Use: Contextualism in Trademark Law' [2006] 92 Iowa Law Review 1597, 1667.

¹³⁴ JT McCarthy, *McCarthy on Trademarks and Unfair Competition* (West, 2010), 23:11.1

¹³⁵ SL Dogan and MA Lemley, 'Grounding Trademark Law through Trademark Use' [2008] 98 The Trademark Reporter 1345, 1347.

¹³⁶ *Ibid*, 1347.

cost electronics products to a consumer seeking an expensive brand."¹³⁷ And, "Disney could prevent local hotels from advertising cheaper rooms than can be found at the official Disney hotel to travelers using a search engine to plan their Disney World vacation."¹³⁸ To bring such an expansion of trademark law to an halt, emphasis should be put on trademark use when dealing with trademark infringement claims.¹³⁹

Dinwoodie and Janis object and argue that such problems can also be solved by a vibrant fair use doctrine or the creation of specific safe harbours, such as a search engine safe operator harbour to protect against trademark liability.¹⁴⁰ In their view, confusion should retain its dominant role in determining trademark infringement, and a trademark use doctrine should be rejected.

Whether or not use in commerce is an element of trademark infringement is undecided for the time being. Goldman concludes:

As this discussion illustrates, there is no ideal reading of the statute; any reading of the statute exposes drafting anomalies or creates statutory conflicts. Accordingly, it is not surprising that courts cannot agree on the definition, and their efforts are likely to be irresolute. It is likely that definitive resolution will come only from the Supreme Court or Congressional action.¹⁴¹

6.1.2 Likelihood of Confusion

The element of likelihood of confusion is at the core of both common-law trademark and federal statutory trademark infringement.¹⁴² Each of the thirteen federal circuit courts of appeal has developed its own set of factors that are applied in all likelihood of confusion inquiries.¹⁴³ Research has shown that among the different sets there is a remarkable divergence between traditional circuit court doctrine and district court decisions.¹⁴⁴

¹³⁷ Ibid, 1348.

¹³⁸ Ibid, 1348.

¹³⁹ For a similar argument see: M Barrett, 'Trademarks and Digital Technologies: "Use" on the Net' [2010] 13 Journal of Internet Law 1.

¹⁴⁰ GB Dinwoodie and MD Janis, 'Confusion Over Use: Contextualism in Trademark Law' [2006] 92 Iowa Law Review 1597, 1608.

¹⁴¹ E Goldman, 'Brand Spillovers' [2009] 22 Harvard Journal of Law & Technology 381, 416.

¹⁴² JT McCarthy, *McCarthy on Trademarks and Unfair Competition* (West, 2010), 23:11.50.

¹⁴³ Ibid, 23:19.

¹⁴⁴ B Beebe, 'An Empirical Study of the Multifactor Tests for Trademark Infringement' [2006] 94 Cal. L. Rev. 1581.

To give an impression of what such factors may entail, the factors that the Second Circuit set out in its landmark decision of *Polaroid v. Polarad Electrics* are set forth below:

1. the strength of plaintiff's mark;
2. the degree of similarity between plaintiff's and defendant's marks;
3. the proximity of the products or services;
4. the likelihood that the plaintiff will bridge the gap;
5. evidence actual of confusion;
6. the reciprocal of defendant's good faith in adopting its own mark;
7. the quality of defendant's product;
8. the sophistication of the buyers.¹⁴⁵

6.1.3 Specific Trademark Safe Harbour

Similar to online intermediaries in the EU, online intermediaries in the US are generally exempted from liability under Section 230 of the Communications Decency Act (CDA).¹⁴⁶ Section 230(c) CDA reads that "no provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider." This section is, however, not applicable to intellectual property law and thus not applicable in trademark infringement cases.¹⁴⁷

Lanham Act Sections 32(2)(A) and (B) contain a specific safe harbour that shields intermediaries of all sorts against trademark infringement and false designation of origin:

(2) [...] the remedies given to the owner of a right infringed under this chapter or to a person bringing an action under section 1125(a) or (d) [Section 43(a) or (d)] of this title shall be limited as follows:

(A) Where an infringer or violator is engaged solely in the business of printing the mark or violating matter for others and establishes that he or she was an innocent infringer or innocent violator, the owner of the right infringed or person bringing the action under section 1125(a) of this title shall be entitled as against such infringer or violator only to an injunction against future printing.

(B) Where the infringement or violation complained of is contained in or is part of paid advertising matter in a newspaper, magazine, or other similar periodical or in an electronic communication [...] the remedies [...] shall be limited to an injunction against the presentation of such advertising matter in future issues of such newspapers, magazines, or other similar periodicals or in future transmissions of such electronic communications. The

¹⁴⁵ *Polaroid Corp. v. Polarad Elects. Corp.* 287 F.2d 492 (1961) (2nd Circuit Court of Appeals). The American Law Institute in its Restatement (Third) of Unfair Competition, also distinguished a set of factor in its restatement of unfair competition law: American Law Institute, *Restatement of the Law Third, Unfair Competition* (American Law Institute Publishers, St. Paul, Minn 1995), section 21.

¹⁴⁶ 47 USC. § 230.

¹⁴⁷ Section 230(e)(2) CDA.

limitations of this subparagraph shall apply only to innocent infringers and innocent violators.

It exempts intermediaries from damages liability and liability for injunctive relief in circumstances where an injunction would interfere with the normal operation of the intermediary. Only innocent infringers, a term that is not defined in the Lanham Act, can benefit from this exemption. Legislative history shows that ‘innocent’ is intended to incorporate constitutional standards of US Supreme Court defamation cases.¹⁴⁸ This means that a publisher or broadcaster is not innocent only if it knew that the advertisement was false or infringing or proceeded to publish the advertisement with “reckless disregard” as to whether it was false or infringing or not.¹⁴⁹

6.2 Applying US Trademark Law to Search Engines Operators

There is no US Supreme Court case law on the issue of keyword advertising; not regarding the liability of advertisers, nor the liability of search engine operators. However, there are Circuit Courts of Appeal decisions that do concern the liability of search engine operators or other intermediaries that used trademarks to trigger advertisements.

Although the application of the use in commerce element in competitive keyword advertising cases has taken shape, the application of the likelihood of confusion element is all but clear.

6.2.1 Trademark Infringement: Use in Commerce

Whether or not a search engine operator that uses a trademark to trigger advertisements is liable for direct trademark infringement depends on the question whether such use is covered by Lanham Act Section 32(1).

1-800 Contacts v. Whenu.com was the first court of appeals case that dealt with a practice that is similar to search engine operator use of trademarks.¹⁵⁰ This case concerned pop-up advertisements that were triggered by the computer user’s Internet browsing behaviour. When WhenU.com’s software was installed on a computer and the computer user surfed to 1-800 Contacts’ website, a new browser window would pop up displaying an advertisement of a competitor of 1-800 Contacts.

¹⁴⁸ JT McCarthy, *McCarthy on Trademarks and Unfair Competition* (West, 2010), 25:29.

¹⁴⁹ *NBA Properties v. Entertainment Records LLC* 1999 WL 335147 (District Court Southern District of New York). The Fifth Circuit Court of Appeals rejected this analogy with defamation cases in: *Dial One of the Mid-South, Inc. v. BellSouth Telecommunications, Inc.* 269 F.3d 523 (2001) (5th Circuit Court of Appeals).

¹⁵⁰ *1-800 Contacts, Inc. v. WhenU.Com, Inc.* 414 F.3d 400 (2005) (2nd Circuit Court of Appeals).

The central issue in this case was whether WhenU.com's trademark use amounted to trademark infringement. The Second Circuit held that such use was not actionable under the Lanham Act. The court reasoned that WhenU.com did not use 1-800's trademark, because a "company's internal utilization of a trademark in a way that does not communicate it to the public is analogous to a (sic.) individual's private thoughts about a trademark."¹⁵¹ The advertisements were displayed in separate browser windows that were clearly marked as coming from WhenU.com. This marketing strategy was considered similar to the use of product placement by vendor retailers that allow one vendor to benefit from a competitor's recognition.¹⁵² A typical example of product placement occurs when a store-brand generic product is placed next to a trademarked product to induce customers to buy the often cheaper generic store-brand. WhenU.com more specifically "informed computer users who sought out a specific trademarked product about available coupons, discounts, or alternative products that may be of interest to them."¹⁵³

Whether or not a similar argument of non-use can be made by search engine operators defending their keyword advertising practices, was decided on by the Second Circuit Court in *Rescuecom v. Google*.¹⁵⁴ In this case, Rescuecom, a computer service franchising company, asserted that Google sold its RESCUECOM trademark to its competitors to trigger sponsored links that appear on Google's SERPs for a search on 'Rescuecom'. Rescuecom claimed that Google infringed its trademark by free-riding on its good will and causing confusion. It also contended that Google was luring away searchers and prevented them from reaching Rescuecom's web page.

The district court had already dismissed Rescuecom's action for failing to state a claim. It referred to the Second Circuit's decision in *1-800 contacts* and held that Google's use of the RESCUECOM trademark to trigger sponsored links, is internal use that is not within the meaning of the Lanham Act.¹⁵⁵ Google did not place the RESCUECOM mark on any goods, containers, displays, or advertisements, nor was its use visible to the public.

The Second Circuit Court came to a different interpretation of its earlier *1-800 contacts* decision and decided in favour of Rescuecom. The Second Circuit held that the current case and the *1-800* case are materially different. In *1-800* the defendants did not use, reproduce or

¹⁵¹ Ibid, 409.

¹⁵² Ibid, 411.

¹⁵³ Ibid, 411.

¹⁵⁴ *Rescuecom Corp. v. Google, Inc.* 562 F.3d 123 (2009) (2nd Circuit Court of Appeals).

¹⁵⁵ *Rescuecom Corp. v. Google, Inc.* 456 F.Supp.2d 393 (2006) (District Court Northern District of New York), 403

display the plaintiff's mark "at all".¹⁵⁶ The advertisements were triggered by an URL, not by trademarked keywords. Furthermore, the *1-800* program did not allow advertisers to request or purchase keywords to trigger their ads. In contrast, Google displayed, sold and offered the RESCUECOM trademark, and it encouraged advertisers to purchase the mark through its keyword suggestion tool. The court therefore concluded that Google made use of the RESCUECOM trademark.

Google v. Rescuecom is the latest case in a line of lower court cases in other circuits in which courts have argued that a search engine operator's use of a trademark to trigger advertisements is covered by the Lanham Act.¹⁵⁷ At least in keyword advertising cases and different from what proponents of the trademark use doctrine had hoped for, visible trademark use has not turned out to be a hard requirement for trademark infringement. After *Google v. Rescuecom*, it has become very difficult for search engine operators to assert that their invisible or internal trademark use is not a type of use that is actionable under the Lanham Act.

6.2.2 Trademark Infringement: Likelihood of Confusion

There are very few keyword advertising cases that deal with the element of likelihood of confusion. The few cases that are available also show conflicting interpretations of the likelihood of confusion element. One particular type of confusion has gained prominence in keyword advertising cases: initial interest confusion.

In *Rescuecom v. Google* the Second Circuit held that Google's use is covered by the Lanham Act and it vacated the district court decision. It was up therefore up to the district court to assess the likelihood of confusion element. Unfortunately, Rescuecom and Google settled out of court and the likelihood of confusion element was never evaluated.

In its decision, the Second Circuit noted that it had no idea whether Rescuecom could prove that Google's use of Rescuecom's trademark in its AdWords program caused a likelihood of confusion.¹⁵⁸ The court, however, did pose the central question for assessing likelihood of

¹⁵⁶ *Rescuecom Corp. v. Google, Inc.* 562 F.3d 123 (2009) (2nd Circuit Court of Appeals), 128.

¹⁵⁷ For instance: *800-JR Cigar, Inc. v. GoTo.com, Inc.* 437 F.Supp.2d 273 (2006) (District Court New Jersey), 285; and *GEICO v. Google, Inc. (I)* 330 F.Supp.2d 700 (2004) (District Court Eastern District of Virginia), 703.

¹⁵⁸ *Rescuecom Corp. v. Google, Inc.* 562 F.3d 123 (2009) (2nd Circuit Court of Appeals), 131.

confusion: whether or not it is clear from a search engine operator's presentation that the advertisement is not “the most relevant response to the search.”¹⁵⁹

In the recent lower case of *Rosetta Stone v. Google*, a Virginia district court dealt with traditional likelihood of confusion.¹⁶⁰ Rosetta Stone alleged that Google misdirected web users to websites of Rosetta Stone’s competitors by allowing those competitors to use the ROSETTA STONE trademark as a keyword to trigger sponsored links. Only three of in this case nine factors to assess the likelihood of confusion were in dispute. (1) The defendant’s intent; (2) actual confusion; and (3) the consuming public’s sophistication.¹⁶¹ After balancing these three factors, the court concluded that Google’s use did not amount to trademark infringement since its use was not likely to confuse.

With regard to Google’s intent, the district court considered Google’s role similar to that of a news paper selling advertising space. Google does not sell products itself and “any argument that Google is trying to palm off its goods as those of Rosetta Stone’s is, therefore, unfounded.”¹⁶² It would also be in conflict with Google’s business interest to confuse or mislead its users.¹⁶³

The court distinguished actual confusion about the source of the website to which the advertisement URL links to, and the advertisement itself. Rosetta Stone did prove that consumers were confused about the source of their purchase. The advertisements themselves were however clear enough for consumers to know that the displayed ads did not come from Rosetta Stone.¹⁶⁴

In dealing with the consuming public’s sophistication, the court pointed out that Rosetta Stone’s consumers are well educated costumers that are willing to invest money and energy in learning a language. These consumers would take reasonable care in purchasing a language learning package.¹⁶⁵

¹⁵⁹ Ibid, 131. After the Second Circuit remanded the case, the District Court never decided on the issue because Rescuecom decided to abandon its litigation against Google after a settlement of their dispute, see: E Goldman, 'Rescuecom Abandons Its Litigation Against Google' (2010) <http://blog.ericgoldman.org/archives/2010/03/rescuecom_aband.htm> accessed 5 April 2011.

¹⁶⁰ *Rosetta Stone, Ltd. v. Google, Inc.* 2010 WL 3063152 (2010) (District Court Eastern District of Virginia).

¹⁶¹ Ibid, 7.

¹⁶² Ibid, 7. A similar argument can be found in *Daniel Jurin v. Google, Inc.* 695 F.Supp.2d 1117 (2010) (District Court Eastern District of California), in which the court argued that Google in no way represented that it is the producer of the trademarked product.

¹⁶³ *Rosetta Stone, Ltd. v. Google, Inc.* 2010 WL 3063152 (2010) (District Court Eastern District of Virginia), 8.

¹⁶⁴ Ibid, 10

¹⁶⁵ Ibid, 11.

Initial Interest Confusion

In the US, search engine advertising meant the revival of a special type of confusion: initial interest confusion. This kind of confusion is dispelled before an actual sale occurs, but impermissibly capitalizes on the goodwill associated with a mark and is therefore actionable trademark infringement.¹⁶⁶ This doctrine is, however, not homogeneously applied by courts.

Playboy v. Netscape dealt with Netscape's search engine, which displayed advertisements when users searched for 'playboy' and 'playmate', two terms for which Playboy held trademarks.¹⁶⁷ Playboy argued that the advertisements caused initial interest confusion. The Ninth Circuit Court decided, without much explanation, that all factors to determine likelihood of confusion were in favour of Playboy and granted Playboy's motions.

The *Playboy v. Netscape* case is, however, not a typical example of modern search engine advertising. The two trademarked terms were on an over-400 terms list, to which Netscape required adult-oriented companies to link their ads. Netscape was thus leading over what keywords were used to trigger the banners. Those banners were furthermore confusingly labelled or not labelled at all. They did not contain any reference to their source.¹⁶⁸

In *Playboy v. Netscape*, Judge Berzon gave a concurring opinion:

There is a big difference between hijacking a customer to another website by making the customer think he or she is visiting the trademark holder's website (even if only briefly), which is what may be happening in this case when the banner advertisements are not labeled, and just distracting a potential customer with another choice, when it is clear that it is a choice.¹⁶⁹

One lower court in the Ninth District applied *Playboy v. Netscape* by analogy in a case in which a trademark owner sued his competitor for keyword use. In *Finance Exp. LLC v. Nowcom Corp* the district court found that an advertisement's URL does not clearly indicate the advertisement's sponsor, and that the ad therefore created initial interest confusion.¹⁷⁰

In *Hearts on Fire Company v. Blue Nile, Inc.*, a different district court took the opposite view. It focused on the transaction costs in switching to the right website after realizing the ad's true

¹⁶⁶ This doctrine was developed in *Grotrian, Helfferich, Schults., Th. Steinweg Nachf. v. Steinway & Sons* 523 F.2d 1331 (1975) (2nd Circuit Court of Appeals); *Mobil Oil Corp. v Pegasus Petroleum Corp* 818 F.2d 254 (1987) (2nd Circuit Court of Appeals). It was applied to an Internet case in: *Brookfield Communications, Inc. v. West Coast Entertainment Corp.* 174 F.3d 1036 (1999) (9th Circuit Court of Appeals).

¹⁶⁷ *Playboy Enterprises v. Netscape Communications Corp.* 354 F.3d 1020 (2004) (9th Circuit Court of Appeals).

¹⁶⁸ *Ibid*, 1030

¹⁶⁹ *Ibid*, 1035. Emphasis added.

¹⁷⁰ *Finance Exp. LLC v. Nowcom Corp* 564 F.Supp.2d 1160 (2008) (District Court Central District of California), 1177.

source. The court argued that “the choice-enhancing properties of internet advertising should not be stifled on account of fleeting confusion among competing products.”¹⁷¹ An Internet user can easily click on the back button to return to the SERP and find the sought-after brand. These added search costs are very low while comparative choice among products is greatly expanded. No initial interest confusion.

A similar argument was made in *J.G. Wentworth v. Settlement Funding*, in which the court compared search engine advertising to a menu that offers a variety of distinct products.¹⁷²

The *GEICO v. Google* case illustrates another (third) approach to applying the initial interest confusion argument. In this case, GEICO claimed that Google had violated the Lanham Act by selling GEICO's trademark as a keyword to activate advertisements, and displaying third party advertisements alongside the results of searches for ‘GEICO’.¹⁷³ In this case, the court explained that in the Internet context, initial interest confusion concerns “the distraction or diversion of a potential customer from the Web site he was initially seeking to another site, based on the user’s belief that the second site is associated with the one he originally sought.”¹⁷⁴ But, whereas in other cases initial interest confusion is assessed in the light of the traditional likelihood of confusion factors, the court in *GEICO v. Google* bypassed these factors and directly applied the initial interest doctrine.

6.2.3 Trademark Safe Harbour

There is no keyword advertising specific case law regarding the question whether search engine operators would be innocent infringers under Section 32 of the Lanham Act.

¹⁷¹ Also see: *Hearts on Fire Company, LLC v. Blue Nile, Inc.* 603 F.Supp.2d 274 (2009) (District Court Massachusetts), 287.

¹⁷² *J.G. Wentworth, S.S.C. Ltd. Partnership v. Settlement Funding LLC* 2007 WL 30115 (2007) (District Court Eastern District of Pennsylvania), 285.

¹⁷³ *GEICO v. Google, Inc. (I)* 330 F.Supp.2d 700 (2004) (District Court Eastern District of Virginia).

¹⁷⁴ *GEICO v. Google, Inc. (II)* 2005 WL 1903128 (2005) (District Court Eastern District of Virginia), 5.

The trademark safe harbour has had little practical significance as it has been applied only rarely by courts and seems to be unknown to many trademark lawyers.¹⁷⁵ With regard to the Internet, the trademark safe harbour has been applied only twice and with contrasting results.¹⁷⁶ In *Hendrickson v. eBay*, a Californian district court applied the liability exemption with regard to counterfeit goods that were sold on eBay:

eBay and Defendant Richter would be ‘innocent infringers’ within the meaning of 15 USC. § 1114(2) even if Plaintiff were to establish infringement. [...] The Court reached this ruling in part because the undisputed facts showed that eBay had no knowledge of a potential trade dress violation before Plaintiff filed suit. [...] Because eBay and Richter are “innocent infringers,” Plaintiff’s remedy is limited to an injunction against the future publication or transmission of the infringing advertisements on eBay’s website.¹⁷⁷

The online auction house did not know of any specific trademark infringements and was considered an innocent infringer. According to the court, eBay could not be required to monitor the millions of new advertisements posted on its website each day and determine, on its own, which of those advertisements infringe trademark rights. eBay’s liability was therefore limited and only specific injunctions against future advertisements could be imposed on eBay.¹⁷⁸

A New York district court took the complete opposite point of view in *Tiffany v. eBay*, which is a similar case to the *Hendrickson v. eBay* case.¹⁷⁹ In the New York case, the court argued that “despite the fact that eBay never takes physical custody of the items sold on its website, eBay nevertheless exerts sufficient control over the listings on its website such that it cannot qualify as a mere online version of a newspaper or a magazine that publishes classified ads.”¹⁸⁰

6.3 Analysis

From the discussed cases we learn that trademark use doctrine has not stopped US courts from applying a direct trademark infringement standard to search engine operators. If search engine

¹⁷⁵ MA Lemley, 'Rationalizing Internet Safe Harbors' [2007] 6 Journal on Telecommunications and High Technology Law 101, 106.

¹⁷⁶ Ignoring *Vulcan Golf, LLC v. Google Inc.* 552 F. Supp. 2d 752 (2006) (District Court Northern District of Illinois), in which the district court did not deal with Google’s argument that it was an innocent infringer in a case of domain name advertising.

¹⁷⁷ *Hendrickson v. eBay, Inc.* 165 F.Supp.2d 1082 (2001) (District Court Central District of California), 1095.

¹⁷⁸ *Ibid*, 1095.

¹⁷⁹ *Tiffany Inc. v. eBay, Inc.* 576 F.Supp.2d 463 (2008) (District Court Southern District of New York).

¹⁸⁰ *Ibid*, 507.

operators use trademarks to trigger advertisements, such use can imply liability when it causes a likelihood of confusion.

There is, however, no certain answer to the question whether search engine operator use establishes a likelihood of confusion. This uncertainty is caused by the fact that there are very few search engine advertising cases that deal with the likelihood of confusion element. Many pending keyword advertising cases are settled before district courts have the opportunity to give their verdict on the matter.

Another cause for uncertainty arises from the fact-specific nature of the likelihood of confusion element and the freedom of courts to focus on certain likelihood of confusion factors and disregard others. Moreover, the few cases that are available do not show a homogenous application of the likelihood of confusion doctrine. In particular regarding the initial interest confusion doctrine, lower courts have delivered conflicting judgements.

If, from a sponsored link or a set of sponsored links, it is clear that these links are not the most relevant responses to a search query, then under *Rescuecom v. Google* such use would not create a likelihood of confusion. One could argue that the three big search engine operators all label their blocks of advertisements with either the words 'sponsored' or 'advertisement', which clarifies the nature of the sponsored results to search engine users. In such a case, and in the words of Berzon, sponsored results are then "just distracting a potential customer with another choice."¹⁸¹ On the other end of the spectrum, plaintiffs will presumably seek to prove that consumers are confused about what the phrase 'sponsored links' means and that consumers clicking on sponsored links expect to arrive at the website of the owner of the trademark that they just queried to the search engine. Although a user can click on the browser's back button, he still has been initially confused.¹⁸²

¹⁸¹ *Playboy Enterprises v. Netscape Communications Corp.* 354 F.3d 1020 (2004) (9th Circuit Court of Appeals), 1035.

¹⁸² JT McCarthy, *McCarthy on Trademarks and Unfair Competition* (West, 2010), 25:70.25.

7. Secondary Liability for Trademark Infringement in the United States

Under certain circumstances a person other than the direct infringer can be held liable for trademark infringement.¹⁸³ The Lanham Act is silent on issues of secondary trademark liability, but courts generally recognize two types of secondary trademark liability: contributory infringement for inducing infringement or knowingly supplying the means to infringe; and vicarious liability imposed under tort agency principles. Under these two theories, search engines operators could be held liable for competitive trademark use on their advertising platforms.

7.1 Contributory Trademark Infringement

The US Supreme Court, in *Inwood Laboratories v. Ives Laboratories*, stated that contributory infringement is found when a plaintiff shows that the defendant intentionally induced another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.¹⁸⁴ This standard should not be confused with the standard for contributory copyright infringement since the standard of contributory trademark infringement is narrower.¹⁸⁵ The contributory trademark infringement standard does not just apply to manufactures of products but also covers service providers on the Internet whose services are used to engage in trademark infringement.¹⁸⁶

7.2 Vicarious Trademark Infringement

Vicarious liability for trademark infringement has been characterized by the Seventh and Ninth Circuit Court of Appeals as the responsibility of one who has an apparent or actual partnership with the infringer, one who has authority to bind another in transactions with third parties, or one who exercises joint ownership or control over the infringing product.¹⁸⁷

¹⁸³ JT McCarthy, *McCarthy on Trademarks and Unfair Competition* (West, 2010), 25:17.

¹⁸⁴ *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.* 456 U.S. 844 (1982) (US Supreme Court), 854.

¹⁸⁵ *Sony Corp. of America v. Universal City Studios, Inc.* 464 U.S. 417 (1984) (US Supreme Court), 439. Also see: M Bartholomew and J Tehranian, 'The Secret Life of Legal Doctrine: The Divergent Evolution of Secondary Liability in Trademark and Copyright Law' [2006] 21 Berkeley Technology Law Journal 1363.

¹⁸⁶ See: *Lockheed Martin Corp. v. Network Solutions, Inc.* 194 F.3d 980 (1999) (9th Circuit Court of Appeals), applying the contributory liability standard of *Inwood* to the registration of domain names.

¹⁸⁷ *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.* 955 F.2d 1143 (1992) (7th Circuit Court of Appeals), 1150; and *Perfect 10, Inc. v. Visa International Service Assistants* 494 F.3d 788 (2007) (9th Circuit Court of Appeals).

The concept of vicarious liability was first imported into trademark law by the Third Circuit Court of Appeals in *AT&T v. Winback*.¹⁸⁸ In this case, the court was faced with a claim by AT&T that the defendant, who purchased from AT&T large volume discount telephone services, used independent sales representatives to solicit small businesses to purchase smaller increments of the telephone services, who falsely informed prospective customers that defendant was affiliated with AT&T. The court held Winback responsible for the alleged misrepresentations of the independent sales representatives on the basis of vicarious trademark infringement.

7.3 Applying Contributory Trademark Infringement to Search Engine Operators

A search engine operator can be liable under the contributory trademark infringement doctrine if he intentionally induces an advertiser to infringe a trademark, or continues to supply its advertising product to an advertiser of whom it knows or has reason to know is engaging in trademark infringement.

The standard of contributory trademark infringement has been rarely applied to cases of keyword advertising. Also in general, it has been applied only rarely. The Second Circuit Court of Appeals has observed that “the limited case law leaves the law of contributory trademark infringement ill-defined.”¹⁸⁹

7.3.1 Inducement

There is only one keyword advertising case that deals with inducement: *Rosetta Stone v. Google*.¹⁹⁰ In this case, Rosette Stone argued that Google had induced advertisers to use its trademark through its keyword suggestion tool. The court held that the mere existence of a tool that assists advertisers in optimizing their advertisements does not, in itself, indicate intent to induce infringement.¹⁹¹ Google suggested keywords, but it also informed advertisers that they themselves are responsible for the selected keywords.

7.3.2 Knowledge

In *GEICO v. Google* the district court held that monitoring and controlling advertisements is sufficient to *plead* actual or constructive knowledge that is required to allege contributory

¹⁸⁸ *American Tel. & Tel. Co. v. Winback & Conserve Program* 42 F.3d 1421 (1994) (3rd Circuit Court of Appeals).

¹⁸⁹ *Tiffany, Inc. v. eBay, Inc.* 600 F.3d 93 (2010) (2nd Circuit Court of Appeals), 105.

¹⁹⁰ *Rosetta Stone, Ltd. v. Google, Inc.* 2010 WL 3063152 (2010) (District Court Eastern District of Virginia), 14.

¹⁹¹ *Ibid*, 14.

infringement.¹⁹² However, the question whether or not such a claim succeeds was left open because the case was settled.¹⁹³

According to the Second Circuit Court of Appeals, the knowledge that is required for establishing contributory liability under *Inwood* has to be specific. In *Tiffany v. eBay*, Tiffany sued eBay, an online auction house, for listing fake and counterfeit Tiffany items on its website along with genuine items.¹⁹⁴ While eBay knew as a general matter that counterfeit Tiffany items were listed and sold on the eBay website, the court concluded that without more this knowledge is insufficient to trigger liability under *Inwood*.¹⁹⁵ Contemporary knowledge of particular listings and individual infringers is necessary to trigger contributory liability.¹⁹⁶

In *Rosetta Stone v. Google*, Rosetta Stone had argued that Google was liable for contributory trademark infringement because it allowed advertisers to create advertisements for counterfeit Rosetta Stone products.¹⁹⁷ The district court applied *Tiffany v. eBay* and argued in favour of Google regarding Rosetta Stone's claim for contributory trademark infringement. According to the court, the only thing Google could do was to expressly prohibit advertisements for counterfeit goods and to take down those advertisements when it learns of their existence. The court also took into account that Google worked closely with law enforcement and brand owners to combat advertisements for counterfeit goods.¹⁹⁸

Although *Rosetta Stone v. Google* and *Tiffany v. eBay* both deal with advertisements for counterfeit goods, one can induce from those cases that contributory liability requires knowledge of a specific infringing advertisement. Thus, a search engine operator can only be held liable for contributory trademark infringement if he is made aware of a specific infringing advertisement.

7.4 Applying Vicarious Trademark Infringement to Search Engine Operators

Search engine operators are unlikely to be held responsible for vicarious trademark infringement when they allow advertisers to select keywords to trigger confusing

¹⁹² *GEICO v. Google, Inc. (I)* 330 F.Supp.2d 700 (2004) (District Court Eastern District of Virginia), 705.

¹⁹³ E Goldman, 'GEICO and Google Settle' (2005) <http://blog.ericgoldman.org/archives/2005/09/geico_and_googl.htm> accessed 5 April 2011.

¹⁹⁴ *Tiffany, Inc. v. eBay, Inc.* 600 F.3d 93 (2010) (2nd Circuit Court of Appeals).

¹⁹⁵ *Ibid*, 110.

¹⁹⁶ *Ibid*, 107.

¹⁹⁷ *Rosetta Stone, Ltd. v. Google, Inc.* 2010 WL 3063152 (2010) (District Court Eastern District of Virginia), 13.

¹⁹⁸ *Ibid*, 14.

advertisements. Vicarious trademark infringement requires a close connection between the infringer and the third party that is vicariously liable, of which the *AT&T* case is a good example. Search engine operators have no ‘apparent or actual partnership’ with advertisers, nor do they have ‘authority to bind’ advertisers ‘in transactions with third parties’.

7.5 Analysis

In theory, search engine operators can be held liable for indirect trademark infringement. The doctrines of secondary liability for trademark infringement are not yet fully developed, which makes it difficult to draw any definite conclusions.

The Rosetta stone case shows how the contributory trademark infringement doctrine can be applied to search engine operators. The fact that it is the only case, and the fact that it was decided by a lower court, do not give the arguments made in that case any authority.

The doctrine of vicarious liability has not been applied by courts in keyword cases yet. It is, however, unlikely that trademark owners will find courts on their sides when they sue search engine operators for confusing advertisements.

The specific trademark safe harbour, discussed in section 6.1.3 of this work, has not (yet) been applied to cases of contributory or vicarious trademark infringement.

8. Comparison

8.1 Trademark Use

The most important difference between the EU and US approach towards search engine operator liability for competitive keyword advertising, is that search engine operators cannot be held directly liable in the EU, whereas in the US they can. This difference stems from a fundamental distinction between the two trademark law systems. In the EU, use is a hard requirement for direct trademark infringement. In the US, use is not a hard requirement. Dinwoodie has characterized the US trademark system as a ‘contextual’ system in which confusion is the touchstone, not use.¹⁹⁹

The question of use has long divided U.S Courts. The *Rescuecom* decision, however, seems to be the final blow to proponents of the trademark use doctrine. After the *Rescuecom* decision, Dogan wrote that “in the Second Circuit, at least, the trademark use requirement for infringement is all but dead.”²⁰⁰ Barrett has called the *Rescuecom* decision an about-face, moving away from the *WhenU* decision and other district court decisions based on that decision.²⁰¹ She wrote that in the *Rescuecom* decision, the Second Circuit Court put emphasis on the fact that Google “traded on the value of the plaintiff’s mark as a mark” and made it the basis of a commercial transaction.²⁰²

The ECJ’s reasoning is fundamentally different from the Second Circuit’s reasoning. In the EU, after the *Google v. Louis Vuitton* decision, trademark use as a requirement for trademark infringement is vibrantly alive. In contrast with the Second Circuit, the ECJ rejected the argument that a search engine operator uses a trademark because the trademark is the basis of a commercial transaction. Permitting advertisers to select keywords, storing keywords and displaying advertisements on the basis of those keywords, is what the ECJ calls ‘operating in the course of trade’. *Operating* in the course of trade, however, does not imply that the sign is *used* in the course of trade.

¹⁹⁹ GB Dinwoodie and MD Janis, 'Confusion Over Use: Contextualism in Trademark Law' [2006] 92 Iowa Law Review 1597.

²⁰⁰ SL Dogan, 'Beyond Trademark Use' [2010] 8 Journal on Telecommunications and High Technology Law 135, 136.

²⁰¹ M Barrett, 'Trademarks and Digital Technologies: "Use" on the Net' [2010] 13 Journal of Internet Law 1, 19.

²⁰² *Ibid*, 19.

As a result, search engine operator responsibility for trademark use in sponsored search results is taken out of the context of trademark law, whereas in the US, search engine operator responsibility is and will be framed in the context of trademark law.

8.2 Likelihood of Confusion

In traditional EU trademark law there is no such thing as the US concept of initial interest confusion, which is a type of confusion at the time of a consumer's interest in a product, but that is dispelled before an actual sale occurs. According to this concept, a search engine user that is confused about the origin of the advertised products and that later, but before acquiring, finds out the actual origin of the products, is initially confused.

After the ECJ's keyword advertising decision, one could argue that EU trademark law also protects against initial interest confusion as a species of confusion that is actionable under Article 5(1)(b) TMD.²⁰³ In its confusion analysis, the ECJ focused on the moment in time when a consumer views an advertisement. It did not take into account whether or not the advertisement leads to a sale and whether or not the consumer remains confused at the time of any such sale. If, in the EU, we really are accepting initial interest confusion as a type of confusion that is actionable under Article 5(1)(b) TMD, then EU trademark law is moving closer towards US trademark law.

8.3 Secondary Liability for Trademark Infringement

The two types of secondary liability examined in this thesis are fundamentally different. Secondary liability in EU trademark sense consists out of diverging national general liability and unfair competition rules that are imposed on parties that contribute to another's trademark infringement. In contrast, US trademark law does provide for US-wide secondary liability rules.

An fundamental distinction between EU secondary liability rules and the US concept of contributory and vicarious liability is that these US concepts both are forms of trademark infringement, whereas EU secondary liability rules are outside of the realm of trademark law. A search engine operator that is secondarily liable under US law commits trademark

²⁰³ For instance: Mr. Justice Arnold in *Och-Ziff Management Europe v Och Capital* [2010] EWHC 2599 (High Court of Justice (Chancery Division)).

infringement; in the EU he is liable under general secondary liability rules, he does not commit trademark infringement.

8.4 Limiting Liability: Safe Harbours

Both legal systems provide for a safe harbour regime. The EU has a general safe harbour that applies to hosting service providers, the US has a specific safe harbour that only applies to trademark infringements. In both legal systems, safe harbours have played a limited role in keyword advertising disputes. In *Louis Vuitton v. Google*, the ECJ opened the door to applying Article 14 ECD to search engine operators. In the US, the trademark specific safe harbour of Section 32 of the Lanham Act has not yet been applied to search engine operators.

The key concept underlying the US trademark safe harbour is that of the innocent infringer, who lacks knowledge about the infringement that is taking place on his advertising platform. The EU safe harbour standard includes the element of knowledge as well, but also includes the element of control. Thus, for the applicability of the US trademark safe harbour to a search engine operator, only the question of ‘did the search engine operator know, or should it have known about the infringing advertisements on its platform?’ is important. In contrast, for the EU safe harbour to be applicable, also the question of ‘did the search engine operator have control over the infringing advertisements?’ should be asked.

That extra question could lead to different outcomes. When, for instance, a search engine operator has an automated system in place that checks advertisements for their compatibility with the operator's advertising policy, then such a system could, under EU law, indicate control and as a result the non-applicability of the safe harbour. Under US law such a system would not necessarily put an end to a safe harbour defence.

Another difference between the EU hosting safe harbour and the US trademark safe harbour is in the applicability of the safe harbour to injunctions. The EU safe harbour only applies to monetary damages. An injunction to remove a certain advertisement or to install a mechanism to filter out a certain infringing advertisement is not covered by the EU safe harbour. The US safe harbour does apply to injunctions as it only allows injunctions against future transmissions of a particular advertisement. For example, an injunction imposing the removal of all advertisements that are triggered by the COCA COLA trademark is not specific enough

and cannot be imposed in the US. In the EU, the trademark safe harbour does not prevent courts from imposing such injunctions.²⁰⁴

After the *Louis Vuitton v. Google* decision, it is up to national courts to decide whether search engine operators are in fact hosts under the safe harbour regime. Also the US trademark safe harbour and its application to Internet services is not yet fully developed. It is likely that in both systems, safe harbours will play a more dominant role in the future of search engine operator liability for competitive trademark use on search engine advertising platforms.

8.5 Schematic Overview

8.5.1 Direct Trademark Infringement

	European Union	United States
<i>Do search engine operators use trademarks?</i>	No	Yes
<i>Does search engine operator trademark use cause a likelihood of confusion?</i>	(Not an issue)	Possibly, and most likely based on initial interest confusion doctrine.
<i>Can a search engine be held liable for direct trademark infringement?</i>	No	Yes, if there is a likelihood of confusion.
<i>Is there a safe harbour that limits liability?</i>	(Not an issue)	Yes, a specific trademark safe harbour.

²⁰⁴ The question how Article 15 ECD, which prohibits a general obligation to monitor, should be interpreted is currently before the ECJ: Case C-70/10 *Scarlet v. Sabam* (Reference for a preliminary ruling from the Cour d'appel de Bruxelles) [2010] OJ C 113/20.

8.5.2 Secondary Liability for Trademark Infringement

	European Union	United States
<i>Can search engine operators be held liable under secondary liability rules?</i>	Yes, under general rules of secondary liability. These rules differ from Member State to Member State.	Yes, most likely under the concept of contributory infringement, which is a form of trademark infringement.
<i>Is there a safe harbour that limits secondary liability?</i>	Yes, whether or not the safe harbour applies is for national courts to decide. Search engine operators will have to implement a notice-and-take-down system to benefit from the EU safe harbour.	Possibly; the safe harbour has been applied rarely, which makes it hard to draw definitive conclusions. Search engine operators will also have to implement a notice-and-take-down system to benefit from this safe harbour.

9. Evaluation

This chapter evaluates the EU approach towards search engine operator liability for competitive keyword advertising. The differences and similarities between the EU and US approach towards search engine operator liability will be a source of inspiration.

The analytical framework of the ECJ keyword decisions will be the starting point of this evaluation. First, search engine operator liability for direct trademark infringement will be discussed. Then secondary liability will be evaluated, including the question whether a search engine operator can benefit from the ECD hosting safe harbour.

9.1 Trademark Use by Search Engines: ECJ Makes Right Doctrinal Decision

Gielen has argued that the EU trademark focus on use is too formalistic.²⁰⁵ He points out that we got ourselves entangled in questions that ask whether there is use, whether there is use in relation to goods or services and in relation to whose goods or services. We are no longer asking the important question: is the trademark holder harmed through confusion and blurring, or is it fair use? Gielen cites Dinwoodie and Janis' article that calls for contextualism in trademark law and a focus on likelihood of confusion. He pleads for a similar approach in EU trademark law.²⁰⁶

The grass is always greener on the other side. In the US trademark use debate, Dogan made a case for trademark use as a hard requirement for trademark infringement. In particular regarding search engine operators, she argues that if they are to be held liable, they should be liable under contributory trademark infringement theory, not under direct trademark infringement theory.²⁰⁷ She finds it hard to imagine that a search engine operator's use alone is enough to cause confusion. Advertisers primarily engage in trademark use, not search engine operators. Therefore contributory liability best fits a search engine operator's role in search engine advertising.²⁰⁸ The only problem is that contributory trademark infringement, as

²⁰⁵ CÉFM Gielen, 'Merkgebruikperikelen. Ofwel: Welk Merkinbreukcriterium Is Toepasselijk?' [2009] *Intellectuele Eigendom en Reclamerecht (IER)* 5.

²⁰⁶ GB Dinwoodie and MD Janis, 'Confusion Over Use: Contextualism in Trademark Law' [2006] *92 Iowa Law Review* 1597.

²⁰⁷ SL Dogan, 'Beyond Trademark Use' [2010] *8 Journal on Telecommunications and High Technology Law* 135, 145.

²⁰⁸ Also see: *800-JR Cigar, Inc. v. GoTo.com, Inc.* 437 F.Supp.2d 273 (2006) (District Court New Jersey), in which the district court *obiter* held that contributory infringement or indirect infringement doctrine best embraces trademark use by search engine operators.

a doctrine, has not developed enough to police search engine operator malfeasance. However, the answer to that problem should be to add heft to that doctrine, rather than distorting the standard for direct trademark infringement.²⁰⁹

In contrast to Gielen's argument and inspired by Dogan, I am of the opinion that the EU focus on trademark use regarding search engine operator liability has turned out for the better. Applying direct trademark doctrine to search engine operators and bypassing the strict use-element would distort trademark doctrine. The ECJ held that trademark use requires at the very least that the sign is used in the alleged infringer's *own* commercial communication. Advertisers themselves are primarily responsible for the advertisements they put online. Even if a search engine operator suggests a competitor's trademark as a keyword, then it is still the advertiser who primarily infringes the trademark by writing and putting online the advertisement. A search engine operator's responsibility is one that is derived from the advertiser's responsibility, and therefore search engine operator responsibility should be assessed in the context of secondary liability. Strictly applying the use-element in trademark cases, takes a search engine operator's responsibility out of trademark law context and places it in the realm of indirect liability rules.

The US *Rosetta Stone* case is an example of what can go wrong when direct trademark infringement doctrine is applied to search engines operators. To determine likelihood of confusion, the district court compared Rosetta Stone's products (language learning tools) with Google's product (search services) and concluded that any argument that Google was trying to palm off Rosetta Stone's products unfounded. What went wrong here is that the court, by applying direct trademark infringement doctrine, was diverted from the real issue: do advertisements of competitor's of Rosetta Stone confuse Google users that are searching for language learning tools?

The logical path is to ask whether an advertiser infringes a trademark by linking a competitor's trademark to his advertisements, and on the basis of secondary liability standards: whether a search engine operator's conduct contributes to that infringement. That is what the ECJ did, and it made the right doctrinal choice by doing so.

²⁰⁹ SL Dogan, 'Beyond Trademark Use' [2010] 8 Journal on Telecommunications and High Technology Law 135, 146.

9.2 Initial Interest Confusion

In its keyword advertising decisions, the ECJ focused on the moment in time when a consumer views an advertisement. It did not take into account whether or not the advertisement leads to a sale and whether or not the consumer remained confused at the time any such sale. This may be seen as welcoming initial interest confusion doctrine into the realm of EU trademark law, in particular regarding search engine advertising. If, in the EU, we really are moving closer towards initial interest confusion as a type of confusion that is actionable under the TMD,²¹⁰ then it is important to note that in the US this doctrine is a controversial subject of debate.

In the US, there is a lot of confusion about what the initial interest confusion doctrine entails and how it should be applied. Goldman writes that "courts simply have no idea how to apply the IIC [Initial Interest Confusion] doctrine."²¹¹ He proves that the Ninth Circuit Court of Appeals alone has made up new rules for applying the initial interest confusion doctrine each time it addressed initial interest confusion. In particular regarding search engine advertising, we have seen, that US courts have not homogeneously applied the initial interest confusion doctrine.²¹²

Initial interest confusion is also problematic if looked at from the perspective of the rationales behind trademark law. Malkawi writes that the initial interest confusion doctrine cuts trademark law loose from its fundamental moorings, which are protection against consumer confusion and protection of the limited property rights of the trademark holder:

Proof of likelihood of confusion is at the very core of a trademark infringement claim. Recent cases, however, have substituted a test of diverting customers and misappropriating goodwill to establish trademark infringement instead of the test of confusion and deception. By applying the "initial interest" confusion doctrine, these courts have essentially eliminated the requirement to prove likelihood of confusion in infringement actions.²¹³

In *Playboy v. Netscape*, Judge Berzon asked the Ninth Circuit Court of Appeals to consider whether it wanted to continue to apply the "insupportable rule" of initial interest confusion.²¹⁴

The ECJ seems to have implicitly imported the initial interest confusion doctrine into EU

²¹⁰ See: section 8.2 of this work.

²¹¹ E Goldman, 'Deregulating Relevancy in Internet Trademark Law' [2008] 54 Emory Law Journal 507, 565.

²¹² See: section 6.2.2 of this work.

²¹³ BH Malkawi, 'Google's Use of Rescuecom's Trademark as an Advertising Keyword and the U.S. Federal Trademarks Act' [2010] 26 Computer Law & Security Review 77, 89.

²¹⁴ *Playboy Enterprises v. Netscape Communications Corp.* 354 F.3d 1020 (2004) (9th Circuit Court of Appeals), 1036.

trademark law and, in doing so, pushed the boundaries of trademark law without a struggle. It is time to consider whether that really is the direction that EU trademark law should take.

9.3 Secondary Liability in the EU

The application of secondary liability rules requires an enquiry into the advertiser's responsibility under trademark law, because to be secondarily liable, someone else has to be primarily liable.

9.3.1 Advertiser's Use in Relation to Goods or Services

The ECJ held that an advertiser uses a trademark in relation to goods or services when he links his advertisement to his competitor's trademark. To get to that conclusion, the ECJ put itself in the position of a search engine user and argued that when search engine users query a trademark, they search for information on or offers of the goods that are covered by that trademark. The question presents itself: do search engine users always search for information or offers pertaining to the entered trademark?

Goldman, a US scholar, argues that one cannot make any legally-supportable inferences about searcher objectives based on the keywords used.²¹⁵ To demonstrate this, Goldman lists possible objectives that search engines users can have when they search for the word 'Canon', which is a trademarked term.²¹⁶ Except for Canon, Inc. products, he argues that search engine users could be searching for employment related information, investor or financial information, supplier information or news about Canon. All of these search objectives have some relation to Canon, but other searches could have nothing to do with Canon, for instance: other parties that have the word 'canon' in their trademarks, dictionary uses and place names. In other cases, searchers may use trademarks as a "proxy" for a class of goods, of which the trademarked item is just one member of the class. For instance, in the case of Canon, some consumers might use the term as a starting point for a search for cameras, copiers, or printers

Taking into account Goldman's arguments, one has to conclude that the ECJ's assumption that search engine users search for information or products pertaining to the product is problematic. The ECJ does note that a search engine user may perceive the sponsored advertisement as offering an alternative to the goods or services of the trademark proprietor, but only if "he does not immediately disregard those links as being irrelevant and does not

²¹⁵ E Goldman, 'Deregulating Relevancy in Internet Trademark Law' [2008] 54 Emory Law Journal 507, 521.

²¹⁶ Ibid, 532.

confuse them with those of the proprietor of the mark."²¹⁷ In my opinion, the ECJ too easily disregards serious proxy use of a trademark by search engine users. The court acknowledged that search engines users may perceive the sponsored links as alternatives to what they search for, but forgot about the possibility that it could be exactly what those users are searching for.

One indication that search engine users use trademarks as proxies is the fact that search engine operators display advertisements that are relevant to the search query. Search engines operators rank advertisements not solely on the basis of the advertiser provided bids, but also on relevancy. Search engines operators do so because from an economic perspective it is more rewarding to display relevant advertisements than advertisements that bring in the highest turnover per click.²¹⁸ There is research evidence indicating that even though search engine users have bias against sponsored links, search engine users do rank them just as relevant as the pages listed in the organic search results.²¹⁹ On the other hand, this could also mean that search engine users are even more likely to be confused about the origin of the advertisements.

The question whether there is a 'use in relation to goods or services' cannot be disconnected from the question of what search engine users search for when they enter a search query. When search engine users perceive the advertisements as search results that are relevant to what they are searching for, and use trademarks as a proxy to those alternatives, then in my opinion there is no use in relation to goods or services by the advertiser. It is the digital equivalent of a customer who asks a salesperson for Disney DVD's, to get to the animation movies section of a store. When, however, search engine users search for a particular trademarked product when they query a trademark, then the advertiser's use is in relation to goods or services. The ECJ only acknowledged the latter, and did not take into account the former in its considerations.

It would not be fair to trademark owners to keep competitive trademark use outside the boundaries of trademark law if only a few search engine users use the CANON trademark as a proxy in a search for cameras, while a large majority does search for CANON branded products when they query 'canon' to a search engine. It would be interesting to know the

²¹⁷ Joined Cases C-236/08 to C-238/08 *Google France v Louis Vuitton* [2010] OJ C 134/2 para 68.

²¹⁸ J Feng, HK Bhargava and DM Pennock, 'Implementing Sponsored Search in Web Search Engines: Computational Evaluation of Alternative Mechanisms' [2007] 19 *INFORMS Journal on Computing* 137.

²¹⁹ BJ Jansen, 'Adversarial Information Retrieval Aspects of Sponsored Search' [2006] *AIRWeb* 2006 Program 33.

extent to which search engines users use trademarks as proxies, but unfortunately there is no publicly available research data answering this question.²²⁰

9.3.2 Advertising Function of a Trademark

Trademark infringement requires that the functions of the trademark are adversely affected by the use of a trademark. The ECJ found that both the function of indicating origin and the function of advertising are at issue when considering keyword advertising.

According to the ECJ, keyword advertising is not liable to have an adverse effect on the advertising function of a trademark. A trademark owner might have to pay a higher price than he would normally have to pay to get an advertisement that is triggered by a search on his trademark. This, however is not enough to constitute an adverse effect on the advertising function. The ECJ took into account that the trademark holder's website usually has one of the highest positions in the natural results on a SERP and that visibility of the trademark owner's goods and services is guaranteed. Why would a trademark holder buy an advertisement if his website is already in the top results of the organic search results?

Some authors have rightly argued that the court wrongfully assumed that the trademark owner's website will usually show up on top of the list of natural results.²²¹ Engels argues that for a strong brand and wealthy company like Louis Vuitton it might be true that its website will show up as the number one result, but what about the less known brands and less wealthy companies?²²²

I concur and would like to add that having a website in the top results is not necessarily the result of a natural process. Creating a website that is in the top results requires a lot of skill in the art of search engine optimisation, which is an umbrella term for the on-page and off-page design strategies that can be used to improve a website's search engine ranking.²²³ Van Couvering compares the importance of search engine optimisation to the importance of public

²²⁰ This question touches on the holy grail of search engine science: what search engine users search for when they query search phrases. If search engine operators did do research on this question, they will probably not share what they have found. At the same time, sharing the answer to this question could help search engine operators to fight off trademark owners in competitive keyword advertising cases.

²²¹ MJ Heerma van Voss and VA Zwaan, 'Google AdWords: Het Hof Maakt Veel Duidelijk, Maar We Zijn Er Nog Niet' [2010] *Nederlands Tijdschrift voor Europees Recht* 207, 213; G Engels, 'Markenrechtliche Reichweite und wettbewerbsrechtliche Grenzen von Keyword Advertising' [2010] *MarkenR* 233, 235; J Becker, 'Google Adwords: Zoekmachineadvertentiediensten en Merkinbreuk' (2010) <<http://www.boek9.nl>> accessed 5 April 2011.

²²² G Engels, 'Markenrechtliche Reichweite und wettbewerbsrechtliche Grenzen von Keyword Advertising' [2010] *MarkenR* 233, 235.

²²³ JL Ledford, *Search Engine Optimization bible* (Wiley Publishing, Indianapolis 2007), XV.

relations in a traditional media context.²²⁴ It can be seen as twenty first century alchemy because in essence it tries to uncover and put to use the secrets behind search engine ranking. It is a process that takes time and is costly. Looked at it in that light, the term ‘organic search result’ is likely to deceive. That is maybe also what happened to the ECJ when it noted that visibility of trademark owners is guaranteed. Considering that organic search results are not free, nor guaranteed, the ECJ’s reasoning to put aside the possible negative effects on a trademark’s advertising function is unsatisfactory.

9.4 EU Safe Harbour

The rules that govern secondary liability of search engine operators consist out of diverging national general liability and unfair competition rules. As a result, there are potentially just as many approaches to establishing indirect search engine liability for keyword use in the EU, as there are EU Member States. And, even though the ECD provides for EU-wide safe harbours, it only provides rules for when intermediaries are *not* liable. The ECD does not provide rules for establishing when an intermediary like a search engine operator would be liable. Establishing a search engine operator’s secondary liability is therefore still a matter national law. This is likely to lead to diverging court decisions in various EU Member States.

The ECJ held that search engine operators can qualify as hosting service providers, but the Court did so in a negative way. The court considered that the required neutrality *cannot* be deprived by the mere fact that search engines set terms and conditions for the advertising service and the fact that they are paid for their services. Also the mere fact that keywords are matched with entered terms is *not* sufficient to *not* qualify search engine operators as a host.

What on its own does not deprive a search engine operator from its neutrality is not a very helpful factor for establishing that neutrality. It is therefore up to national courts to decide whether a search engine advertising service is neutral enough to qualify as a host under the ECD.

9.5 Need for A EU Response to Search Engine Operator Liability

Because the ECJ did not give any clear rules on how to assess whether a search engine operator can enjoy the ECD’s hosting safe harbour, national courts are left with little

²²⁴ E Van Couvering, 'New media? The Political Economy of Internet Search Engines' (The Communication Technology Policy section 2004 Conference of the International Association of Media & Communications Researchers (IAMCR), July 25-30 2004), 18.

guidance. Consequently, not only the establishment of secondary liability will differ from EU Member State to Member State, but also the application of the EU safe harbour rules, which underlines the need for a EU wide approach to keyword advertising even more.²²⁵

National courts in the EU have been divided over search engine operator responsibility for competitive trademark use on their advertising platforms before the ECJ's *Louis Vuitton v. Google France* decision. In France, courts have mainly either granted claims on the basis of direct trademark infringement or on the basis of general tort law.²²⁶ In contrast, UK courts take an opposite view and have rejected claims of direct trademark infringement and other forms of indirect liability.²²⁷ After *Louis Vuitton v. Google France*, there is no reason to assume that national courts will decide over search engine operator liability coherently.

The EU Parliament has recognized the need for an EU approach to the problem of search engine operator responsibility for sponsored search. In December 2010, the EU Parliament adopted a resolution 'on the impact of advertising on consumer behaviour'.²²⁸ The resolution calls on the European Commission to "modify the limited liability regime for information society services in order to make the sale by search engines of registered brand names as advertising keywords subject to prior authorisation from the owner of the brand name in question."²²⁹ In essence, the EU Parliament wants search engine operators to be liable when advertisers use a trademark without authorisation of a trademark owner. That implies a significantly stricter liability regime than the regime that is crafted by the ECJ.

The above citation is all that can be found about search engine operator liability in the resolution, which does not contain a single consideration regarding keyword advertising. This suggests that this call for modification is not thoroughly thought through, and may be the

²²⁵ Also see: J van Hoboken, 'Legal Space for Innovative Ordering: On the Need to Update Selection Intermediary Liability in the EU' [2009] 13 *International Journal of Communications Law & Policy* 49.

²²⁶ Trademark infringement was established in: *Google v. Meridian* (Court of Appeal of Versailles). Liability based on the common civil principle of fault (Section 1382 of the Civil Code) was established after rejecting trademark infringement in *Laurent C. vs. Google* (Court of Paris). For an overview see: L Denis-Leroy, 'Liability for Adwords Services in France. How French Case Law Maintains Pressure on Google' [2008] 9 *Computer Law Review International* (CRi) 108.

²²⁷ For instance, in *Victor Andrew Wilson v Yahoo! UK Ltd, Overture Services Ltd* [2008] E.T.M.R. 33 (High Court of Justice (Chancery Division)), the English High Court of Justice argued that a search engine user is the only one using a trademark and search engine operators are not to blame. For an overview see: J Cornthwaite, 'Adwords or Bad Words? A UK Perspective on Keywords and Trade Mark Infringement' [2009] 31 *European Intellectual Property Review* (E.I.P.R.) 347; N Shemtov, 'Mission Impossible? Search Engines' Ongoing Search for a Viable Global Keyword Policy' [2009] 13 *Journal of Internet Law* 3.

²²⁸ European Parliament, *Resolution of 15 December 2010 on the impact of advertising on consumer behaviour* (2010).

²²⁹ *Ibid.*

result of effective lobbying.²³⁰ This call for reform can therefore hardly be taken serious and a real EU initiative, that takes into account the special position of search engine operators, is still lacking.

A serious reform of search engine operator liability should take into account that search engine advertising pays for the valuable Internet search services that are offered to us for free. It would carefully balance search engine operator responsibility. It would deal with the uncertainty about the status of a search engine operator under the ECD. Any new EU initiative should once and for all make it clear whether a search engine operator can benefit from the EU safe harbour provisions when competitive keyword advertising is concerned.

²³⁰ M Schubert, 'A Fine Piece Of Lobbying – Or – Why The European Parliament Is Suddenly Concerned About Keyword Advertising and TM-Rights' (2010) <<https://austrotrabant.wordpress.com/2010/12/29/a-fine-piece-of-lobbying-or-why-the-european-parliament-is-suddenly-concerned-about-keyword-advertising-and-tm-rights/>> accessed 5 April 2011.

10. Conclusion

The EU and the US deal with the issue of search engine advertising in a fundamentally different way. Under EU trademark law, a search engine operator cannot be held liable for allowing competitive keyword advertising on its advertising platform. However, this does not mean that search engine operators cannot be held liable at all. In the EU, search engine operator responsibility for competitive keyword advertising will be framed in the context of national secondary liability rules and it is not unlikely that search engine operators will be held liable on the basis of those diverging national rules.

In the US, search engine responsibility for competitive keyword advertising is considered a trademark law issue. Although US trademark law provides for secondary liability concepts, such as contributory trademark infringement, a search engine operator is most likely to be held liable under direct trademark infringement standards.

By pushing the search engine operator's liability for keyword advertising out of the realm of direct trademark infringement, the ECJ has made a decision that is in line with the principles of EU trademark law. At the same time, it is now up to national courts to apply their own national secondary liability standards and to interpret the unclear EU safe harbour rules that could protect search engine operators from liability.

National courts are limited by what the ECJ held in its decisions that dealt with the direct liability of advertisers. However, in my opinion there are still some flaws in those decisions: the ECJ has disregarded proxy use by search engine users, the function of advertising has been put aside too easily, and the ECJ silently imported the controversial initial interest doctrine into EU trademark law.

Because of it being a type of secondary liability, search engine operator liability for competitive advertising will always be intertwined with the liability of advertisers. Nevertheless, the subject of search engine operator liability requires its own full analysis. Search engine advertising is the lifeblood of free search engine services that benefit us all. The responsibilities of search engine operators therefore need to be carefully balanced. A EU-wide approach is needed to harmonize the rules governing the responsibilities of search engine operators, and to maybe one day have a European search engine operator among the big three.

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