

**COMPARING THE TRADEMARK PROTECTIONS IN
COMPARATIVE AND KEYWORD ADVERTISING IN THE
UNITED STATES AND EUROPEAN UNION**

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ABSTRACT

This article compares United States and European Union case law on the extent of trademark protection in keyword and comparative advertising to establish that using a trademark without the trademark proprietor's consent in such advertising is treated in fundamentally different ways in the United States and European Union. In comparative advertising, when a company uses the registered trademark of a well-known competitor product to truthfully and non-deceptively describe their imitation product, rather than a unique competitor product, such use is unlawful in the European Union yet lawful in the United States. In keyword advertising, the most important difference between the European Union and United States' approach is that search engine operators in the United States are likely to be held directly liable for trademark infringement.

I. INTRODUCTION

Comparative and keyword advertising are two modern and widely used business strategies that involve trademark use by a third party without the trademark proprietor's consent.

A. Defining Comparative Advertising

In the United States (U.S.), comparative advertising is defined as “advertising that compares alternative brands on objectively measurable attributes or price, and identifies the alternative brand by

name, illustration or other distinctive information.”¹ According to the Federal Trade Commission (FTC), truthful and non-deceptive comparative advertising “is a source of important information to consumers and assists them in making rational purchase decisions.”² Moreover, the FTC recognizes that this type of advertising “encourages product improvement and innovation, and can lead to lower prices in the marketplace.”³ However, the potential negative consequences of false and confusing comparative claims led the FTC to require “clarity, and, if necessary, disclosure to avoid deception of the consumer.”⁴

In the European Union (E.U.), comparative advertising is defined as “any advertising, which explicitly or by implication identifies a competitor or goods or services offered by a competitor.”⁵ Like the FTC, the E.U., including the European Parliament and the Council of the E.U., accepts that comparative advertising, when truthful and non-deceptive, “may be a legitimate means of informing consumers of their advantage”⁶ and “can also stimulate competition between suppliers of goods and services to the consumer’s advantage.”⁷ The protection of European consumers against misleading advertising is regulated by Directive 2006/114/EC,⁸ the purpose of which is to

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1. FTC Statement of Policy Regarding Comparative Advertising, 16 C.F.R. § 14.15(b) (2014).

2. 16 C.F.R. § 14.15(c) (2012).

3. *Id.*

4. *Id.* § 14.15(b).

5. Directive 2006/114, of the European Parliament and of the Council of 12 December 2006 Concerning Misleading and Comparative Advertising, art. 2(c), 2006 O.J. (L 376), 21-27 (EC), previously Council Directive 84/450 of 10 September 1984 Relating to the Approximation of the Laws, Regulations and Administrative Provisions of the Member States Concerning Misleading Advertising, art. 2(2), 1984 O.J. (L 250), 17-20 (EEC).

6. *Id.* at recital 8.

7. *Id.* at recital 6.

8. Directive 2006/114, *supra* note 5.

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“protect *traders* against misleading advertising and the unfair consequences thereof and to lay down the conditions under which comparative advertising is permitted,” and Directive 2005/29/EC⁹ (the “Unfair Commercial Practices Directive”), the objective of which is to protect consumers from unfair business-to-consumer commercial practices.

As illustrated above, in both the U.S. and E.U., comparative advertising is lawful when it is truthful and non-deceptive. However, as discussed below, the scope of trademark protection in comparative advertising in the U.S. differs significantly from that in the E.U.

B. Defining Keyword Advertising

When an internet user performs a search, the search engine will display two sets of results. The first set, known as “natural results,” are provided on the basis of objective criteria determined by the search engine. The search engine then displays the sites that best correspond to the search terms in decreasing order of relevance.¹⁰ The second set of results are paid advertisements displayed alongside the “natural results” and are provided because the search terms the internet user entered match keywords purchased by advertisers.¹¹ These paid referencing services are offered on several search engines,¹² with Google’s AdWords being the most widely used.¹³

9. Directive 2005/29, of the European Parliament and of the Council of 11 May 2005 Concerning Unfair Business-to-Consumer Commercial Practices in the Internal Market and Amending Council Directive 84/450/EEC, Directive 97/7/EC, 98/27/EC and 2002/65/EC of the European Parliament and of the Council and Regulation (EC) No. 2006/2004 of the European Parliament and of the Council (‘Unfair Commercial Practices Directive’), 2005 O.J. (L 149), 22-39 (EC).

10. Joined Cases C-236/08, 237/08, & 238/08, *Google France S.A.R.L., Google Inc. v. Louis Vuitton Malletier SA, Google France S.A.R.L v. Viaticum SA, Luteciel S.A.R.L, Google France S.A.R.L v. Centre national de recherche en relations humaines (CNRRH) S.A.R.L and Others*, 2010 E.C.R. I-2417, I-2486, para. 22; Opinion of Advocate General Poiares Maduro in Joined Cases C-236/08, 237/08, & 238/08, *supra*, at I-2423, points 2-3.

11. Opinion of Advocate General Poiares Maduro in Joined Cases C-236/08, 237/08, & 238/08, *supra* note 10, at point 3.

12. Google has its AdWords program, Windows Live Search has its Microsoft adCenter, and Yahoo! has its Yahoo! Search Marketing Program. See Darren Meale, *The Online Advertising Free-riding Free-for-all*, 3 J. INTELL. PROP. L. & PRAC. 779, 779 (2008).

In simple terms, Google AdWords manipulates search results to artificially prioritize an advertiser's website over other search results. Advertisers purchase the keywords they want their website and AdWords advertisements to be associated with.¹⁴ The advertiser can choose from several ad formats. The most common form is a simple text ad consisting of a hyperlink headline to the advertiser's website, two short lines of descriptive text, and the URL of the advertiser's website.¹⁵ This ad is also internally linked to the purchased keywords.¹⁶ Therefore, if an internet user conducts any kind of search, the ad will automatically be displayed alongside other search results.¹⁷

AdWords account holders can adjust their ads to certain sections or web pages in the scope of Google's "content network" and can target customers using both computers and mobile devices.¹⁸ In

13. Indeed, Google holds the lion's share of the search engine market and is most often involved in litigation. See NICOLE VAN DER LAAN, *THE USE OF TRADE MARKS IN KEYWORD ADVERTISING - DEVELOPMENTS IN ECJ AND NATIONAL JURISPRUDENCE* 3 & n. 9-10 (Max Planck Institute for Intellectual Property and Competition Law Research Paper No. 12-06, 2012), available at <http://ssrn.com/abstract=2041936>.

14. *AdWords Help: What is Google AdWords?*, GOOGLE, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=6084> (last visited Dec. 3, 2013). Keyword "purchases" are not exclusive and more than one account holder may "purchase" a given keyword. See *AdWords Beginner's Guide: Keyword basics*, GOOGLE, <http://adwords.google.com/support/aw/bin/static.py?page=guide.cs&guide=21899&topic=22356> (last visited Dec. 3, 2013).

15. *AdWords Help: Ad types*, GOOGLE, <http://adwords.google.com/support/aw/bin/topic.py?hl=en&topic=16078> (last visited Dec. 3, 2013); see *AdWords Beginner's Guide: Ad basics*, GOOGLE, <http://adwords.google.com/support/aw/bin/static.py?page=guide.cs&guide=21899&topic=21903&answer=146296> (last visited Dec. 3, 2013). The hyperlink or the "destination URL" may or may not be the same as the displayed URL, although generally the destination URL is an individual webpage within the website associated with the displayed URL. *Id.*

16. *What is Google AdWords?*, *supra* note 14.

17. *Id.* AdWords account holders can set their ads to appear in the search results of other Google programs, such as Gmail. See *AdWords Help: Where will my ads appear?*, GOOGLE, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=6119> (last visited Dec. 3, 2013).

18. *Id.* The "content network" consists of websites and other online display forums, such as Gmail, which are affiliated with Google and can host AdWords ads. See *AdWords Help: What is the Google network?*, GOOGLE, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=6104> (last

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addition, account holders can manipulate the precision with which the search results match their keywords.¹⁹ They can also stipulate that particular ads be blocked from appearing in response to selected keywords.²⁰

Setting up an AdWords account only requires filling out an online registration form and inputting proper billing information.²¹ While the account holder has to pay a small, non-refundable fee upon the activation and creation of an account, creating ads and selecting keywords is free of charge.²² When an ad is set to run, the account

visited Dec. 3, 2013). AdWords account holders can use contextual targeting, in which Google's internal algorithms place the ad near website content that is similar to the ad, and placement targeting, in which the user selects specific websites where the ad will appear. See *AdWords Help: What's the difference between placement targeting and contextual targeting?*, GOOGLE, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=112267> (last visited Dec. 3, 2013).

19. *AdWords Help: What are keyword matching options?*, GOOGLE, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=6100> (last visited Dec. 3, 2013). For example, the default "broad match" option for a keyword would trigger an ad to appear next to search results including the keyword in both singular and plural forms, its synonyms, common phrases containing the keyword and "relevant variants" of the keyword. See *AdWords Help: What is broad match?*, GOOGLE, <http://adwords.google.com/support/aw/bin/answer.py?answer=6136> (last visited Dec. 3, 2013). Google does not provide its definition of "relevant variant," but judging from the example it provides of "running shoes" when the keyword is "tennis shoes," a "relevant variant" would be a linguistic alternative for the keyword. See *What are keyword matching options?*, GOOGLE, <https://support.google.com/adwords/answer/6324?hl=en>. In comparison, selecting the "exact match" option would only trigger an ad to appear next to search results that include the keyword as matched letter for letter. *Id.* Search queries that embed the keyword or keywords in a larger phrase would also be excluded. *Id.*

20. Google calls this the "negative match" option. See *What are keyword matching options?*, GOOGLE, <https://support.google.com/adwords/answer/6324?hl=en> (last visited Dec. 3, 2013).

21. *AdWords Help: When do my ads start running?*, GOOGLE, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=6112> (last visited Dec. 3, 2013). Ads can begin running as soon as these steps are completed. *Id.*

22. *AdWords Help: Is there an activation fee?*, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=162903> (last visited Dec. 3, 2013). The activation fee for most countries appears to be five dollars and there is a minimum expenditure requirement of ten dollars. See *AdWords: Account fees and payment options*, GOOGLE, <https://adwords.google.com/select/AfpoFinder?currency>

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holder chooses his or her preferred billing rate: cost-per-thousand-impressions, where fees are charged every time an internet user views the ad, or cost-per-click, where charges are triggered every time an Internet user clicks on the ad.²³ The account holder can then decide on a maximum billing rate, which is one of the two factors Google applies when determining the ad's "ranking."²⁴ The ranking helps determine where in the search results page the ad will appear. In other words, an account holder who "bids" on a keyword is competing with all other account holders who aim to take use of that keyword. Thus, the financial power of an account holder becomes a considerable factor in determining the exposure of his or her ad.²⁵

By comparison, non-sponsored links are usually displayed on the search results page according to their relevancy to the search query. Here, Google's search algorithm typically determines relevancy using non-commercial criteria such as how many other web pages link to the non-sponsored link, thus mimicking an internet user's natural search

=USD&country=US (last visited Dec. 3, 2013). Charges do not begin to accrue until after the ads start to run. See *AdWords Help: How much does AdWords cost?*, GOOGLE, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=6382> (last visited Dec. 3, 2013).

23. *AdWords Help: How do I accrue advertising costs?*, GOOGLE, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=34114> (last visited Dec. 3, 2013).

24. *AdWords Help: How are ads ranked?*, GOOGLE, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=6111> (last visited Dec. 3, 2013). The maximum billing rate may not be the same as the actual billing rate determined by Google. See *infra* note 26. In the cost-per-click plan, the account holder is charged the actual billing rate for every click, while in the cost-per-thousand-impressions plan, the account holder is charged 1/1000th the actual billing rate for every time the ad is shown. See *How do I accrue advertising costs?*, *supra* note 23. The other factor is the ad's "Quality Score," a multi-criteria scoring system that attempts to objectively evaluate how relevant or effective an ad is to the search results with which it has been previously associated. See also *AdWords Help: What is the AdWords "Quality Score" and how is it calculated?*, GOOGLE, <http://adwords.google.com/support/aw/bin/answer.py?answer=10215> (last visited Dec. 3, 2013).

25. *Id.* The user-selected "maximum billing rate" is technically a billing cap and the winning bid may not always be equal to the billing rate. See *AdWords Help: Maximum Cost-per-Click*, GOOGLE, <http://adwords.google.com/support/aw/bin/answer.py?answer=6326> (last visited Dec. 3, 2013). In the latter situation, Google only bills the account holder at a rate equal to the next-highest bid plus one cent. *Id.*

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behavior.²⁶ But, advertisers gain an advantage by using AdWords because Google's keyword-linked ads are allowed to circumvent Google's common site ranking system for non-sponsored links. While ads are still subject to ranking among themselves,²⁷ they gain priority over non-sponsored links on Google's search results pages.²⁸ And, because the ads are displayed besides search results that have been subject to the usual page ranking algorithms and often do not expressly indicate that they have been sponsored, Google's internet users may assume that the ads represent the most relevant search results. Thus, in order to attract users to click on them, the ads trade on Google's reputation for providing the most appropriate search results, while making a potentially worldwide advertising audience available at very low financial and technical cost.

II. LEGISLATIVE BACKGROUND

This section analyzes the U.S. and E.U. legal provisions concerning the scope of trademark protection in comparative or keyword advertising when the trademark is used by a third party without the consent of the trademark proprietor. Specifically, the European Court of Justice (ECJ) and U.S. courts have examined the following provisions in the case law analyzed later in this article.

A. Legislative Background in the European Union

In the E.U., the primary statutes for defining the scope of trademark protection when a third party uses the trademark without the trademark proprietor's consent in comparative or keyword

26. Sergey Brin & Lawrence Page, *The Anatomy of a Large-Scale Hypertextual Web Search Engine*, 30 *COMPUTER NETWORKS AND ISDN SYSTEMS* 107, 110 (1998), available at <http://zoo.cs.yale.edu/classes/cs426/2012/bib/brin98theanatomy.pdf>. The algorithm is intended to provide an "objective measure of [a website's] citation importance that corresponds well with people's subjective idea of importance." *Id.* at 109.

27. *How are ads ranked?*, *supra* note 24.

28. *See id.*; *see also* *Where will my ads appear?*, *supra* note 17. Consequently, the highest-ranked ads are returned ahead of even the highest-ranked non-advertisement search results. *Id.*

advertising are Directive 2008/95/EC²⁹ and Regulation (EC) 207/2009.³⁰ Please note that these statutes have repealed and replaced Directive 89/104/EEC³¹ and Regulation (EC) 40/94,³² the provisions of which are mentioned in the texts of the ECJ's judgments analyzed below, and the original provisions are included in the footnotes.

According to Article 5 (1)-(2) of Directive 2008/95/EC.³³

1. The registered trademark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:

(a) any sign which is identical with the trademark in relation to goods or services which are identical with those for which the trademark is registered;

(b) any sign where, because of its identity with, or similarity to, the trademark and the identity or similarity of the goods or services covered by the trademark and the sign, there exists a likelihood of confusion on the part of the public; the likelihood of confusion includes the likelihood of association between the sign and the trademark.

2. Any Member State may also provide that the proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade any sign which is identical with, or similar to, the trademark in relation to goods or services which are not similar to those for which the trademark is registered, where the latter has a reputation in the Member State and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trademark.

29. Directive 2008/95 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 O.J. (L 299), 25-33 (EC). Directive 2008/95 repealed and replaced First Council Directive 89/104 of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks, 1989 O.J. (L 40), 1-7 (EEC).

30. Council Regulation 207/2009 of 26 February 2009 on the Community Trade Mark, 2009 O.J. (L 78), 1-42 (EC). Council Regulation 207/2009 repealed and replaced Council Regulation 40/94 of 20 December 1993 on the Community trademark, 1994 O.J. (L 11), 1-36 (EC).

31. First Council Directive 89/104 of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks, 1989 O.J. (L 40), 1-7 (EEC).

32. Council Regulation 40/94 of 20 December 1993 on the Community Trade Mark, 1994 O.J. (L 11), 1-36 (EC).

33. First Council Directive 89/104, art. 5(1)-(2), *supra* note 31.

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According to Article 9 (1) of Regulation (EC) 207/2009:³⁴

1. A Community trademark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:

(a) any sign which is identical with the Community trademark in relation to goods or services which are identical with those for which the Community trademark is registered;

(b) any sign where, because of its identity with, or similarity to, the Community trademark and the identity or similarity of the goods or services covered by the Community trademark and the sign, there exists a likelihood of confusion on the part of the public; the likelihood of confusion includes the likelihood of association between the sign and the trademark;

(c) any sign which is identical with, or similar to, the Community trademark in relation to goods or services which are not similar to those for which the Community trademark is registered, where the latter has a reputation in the Community and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the Community trademark.

Regarding comparative advertising, the provisions of Article 4 of Directive 2006/114/EC³⁵ are also relevant. According to Article 4 of Directive 2006/114/EC:

Comparative advertising shall, as far as the comparison is concerned, be permitted when the following conditions are met:

(a) it is not misleading within the meaning of Articles 2(b), 3 and 8(1) of this Directive or Articles 6 and 7 of Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market (“Unfair Commercial Practices Directive”);

(b) it compares goods or services meeting the same needs or intended for the same purpose;

34. Council Regulation 40/94, art. 9(1), *supra* note 32.

35. Directive 2006/114 of the European Parliament and of the Council of 12 December 2006 Concerning Misleading and Comparative Advertising, art. 4, 2006 O.J. (L 376), 21-27 (EC), previously Council Directive 84/450 of 10 September 1984 Relating to the Approximation of the Laws, Regulations and Administrative Provisions of the Member States Concerning Misleading Advertising, art. 3a(1), 1984 O.J. (L 250), 17-20 (EEC).

- (c) it objectively compares one or more material, relevant, verifiable and representative features of those goods and services, which may include price;
- (d) it does not discredit or denigrate the trademarks, trade names, other distinguishing marks, goods, services, activities or circumstances of a competitor;
- (e) for products with designation of origin, it relates in each case to products with the same designation;
- (f) it does not take unfair advantage of the reputation of a trademark, trade name or other distinguishing marks of a competitor or of the designation of origin of competing products;
- (g) it does not present goods or services as imitations or replicas of goods or services bearing a protected trademark or trade name;
- (h) it does not create confusion among traders, between the advertiser and a competitor or between the advertiser's trademarks, trade names, other distinguishing marks, goods or services and those of a competitor.

Finally, Article 14 of Directive 2000/31/EC³⁶ is also relevant to keyword advertising. Article 14 of Directive 2000/31/EC states:

1. Where an information society service is provided that consists of the storage of information provided by a recipient of the service, Member States shall ensure that the service provider is not liable for the information stored at the request of a recipient of the service, on condition that:
 - (a) the provider does not have actual knowledge of illegal activity or information and, as regards claims for damages, is not aware of facts or circumstances from which the illegal activity or information is apparent; or
 - (b) the provider, upon obtaining such knowledge or awareness, acts expeditiously to remove or to disable access to the information.
2. Paragraph 1 shall not apply when the recipient of the service is acting under the authority or the control of the provider.
3. This Article shall not affect the possibility for a court or administrative authority, in accordance with Member States' legal systems, of requiring the service provider to terminate or prevent an infringement, nor does it affect the possibility for Member States of

36. Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on Certain Legal Aspects of Information Society Services, in Particular Electronic Commerce, in the Internal Market ('Directive on electronic commerce'), 2000 O.J. (L 178), 1-16 (EC).

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establishing procedures governing the removal or disabling of access to information.

B. Legislative Background in the United States

In the U.S., sections 32(1)(a), 43 and 45 of the Lanham Act of 1946 are the most relevant provisions regarding the scope of trademark protection when there is trademark infringement in comparative or keyword advertising.

According to section 32(1)(a) of the Lanham Act, any person who makes “use in commerce” of another’s registered trademark without the registrant’s consent is subject to civil liability if that use “is likely to cause confusion, or to cause mistake, or to deceive.”³⁷

Section 43 allows for civil actions against any person who uses any language in commerce, which causes confusion, mistake, misrepresentation, or deception as to the origin, sponsorship, characteristics, or qualities of his or another’s goods.³⁸

Finally, section 45 of the Lanham Act provides that “use of a trademark in commerce . . . means the bona fide use of such mark made in the ordinary course of trade, and not made merely to reserve a right in a mark.”³⁹

III. TRADEMARK PROTECTION IN COMPARATIVE ADVERTISING

A. Trademark Protection in Comparative Advertising in the European Union

1. Early Case Law in the E.U.

Directive 2006/114/EC expressly recognizes that, in order to make comparative advertising effective, it may be indispensable for a company to identify a competitor’s goods or services, making reference to a trademark of which the latter is the proprietor.⁴⁰ In this regard, Article 4 of Directive 2006/114/EC provides that comparative

37. 15 U.S.C. § 1114 (2006).

38. *Id.* § 1125(a)(1).

39. *Id.* § 1127.

40. *See* Directive 2006/114, *supra* note 5, at recital 14.

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advertising is permitted if, apart from the other conditions listed, it does not mislead,⁴¹ denigrate or take unfair advantage of the reputation of a trademark, present goods or services as imitations or replicas, or create confusion among traders. However, the Directive's provisions do not address whether comparative advertisements may infringe trademark rights even when they comply with the above conditions.

In *Toshiba Europe*,⁴² the defendant sold spare parts and consumables used in Toshiba photocopiers. It copied Toshiba's product numbers in its catalogs to identify which spare parts could be used with which Toshiba product. The ECJ was asked whether this was a comparative advertisement. The court held that the definition of comparative advertising is especially broad, such that advertising could take many different forms, and comparative advertising may identify a competitor or its goods or services "explicitly or by implication," such as by use of its product numbers.⁴³ Moreover, the court held that the use of another person's trademark may be legitimate when it is necessary to inform the public of the nature of the products or the intended purpose of the services offered.⁴⁴ Nevertheless, the court held that the use of a trademark by a third party is not permissible if it takes unfair advantage or is detrimental to the distinctive character or the reputation of the trademark.⁴⁵

In *Pippig Augenoptik*,⁴⁶ the defendant sold low cost eyeglasses and made price comparisons between its eyeglasses and Pippig's. The defendant gave examples of eyeglasses similar to Pippig's but did not disclose that its eyeglasses had different brand lenses. Pippig claimed that all of the advertisements were misleading. The ECJ held that all comparative advertising is designed to highlight the advantages of the goods or services offered by the advertiser and the message must

41. However, the advertisement may make objective comparisons with other goods or services.

42. Case C-112/99, *Toshiba Europe GmbH v. Katun Germany GmbH*, 2001 E.C.R. I-7945.

43. *Id.* at I-7985 – 86, paras. 28-31.

44. *Id.* at I-7987, para. 34.

45. *Id.* at I-7992, para. 55.

46. Case C-44/01, *Pippig Augenoptik GmbH & Co. KG v. Hartlauer Handelsgesellschaft mbH and Verlassenschaft nach dem verstorbenen Franz Josef Hartlauer*, 2003 E.C.R. I-3095.

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necessarily underline the differences between the goods or services compared by describing their main characteristics.⁴⁷ As a result, such advertising is lawful if it complies with the conditions laid down in Directive 2006/114/EC,⁴⁸ which carried out an exhaustive harmonization of comparative advertising law, precluding the application of stricter national legislation.⁴⁹

In *Siemens*,⁵⁰ the defendant manufactured and sold components compatible with Siemens products. Siemens argued that the defendant used an identification system for its products that was virtually identical to Siemens. In light of the second recital in the Preamble to Directive 97/55/EC, which states that the purpose of comparative advertising is also to benefit consumers by stimulating competition between suppliers of goods and services,⁵¹ the ECJ held that “the benefit of comparative advertising must necessarily be taken into account in determining whether an advertiser is taking unfair advantage of the reputation of the trademark of a competitor.”⁵² However, “an advertiser cannot be regarded as taking advantage of the reputation of the distinguishing marks of his competitor if effective competition is conditional upon a reference to those marks.”⁵³

In *De Landtsheer Emmanuel*,⁵⁴ a Belgian brewer’s new beer was sold in a bottle which looked like a champagne bottle, was advertised as “Champagnebier,” and used wording like “brut reserve” to suggest champagne-like characteristics. Veuve Clicquot and a trade association sued, claiming that this was misleading comparative advertising. The brewer agreed to stop use of the word

47. *Id.* at I-3144, para. 36.

48. Directive 2006/114 has repealed and replaced Council Directive 84/450. *See supra* note 5.

49. *See* Case C-44/01, Pippig Augenoptik GmbH & Co. KG v. Hartlauer Handelsgesellschaft mbH and Verlassenschaft nach dem verstorbenen Franz Josef Hartlauer, 2003 E.C.R. I-3127, I-3146, para. 44.

50. Case C-59/05, Siemens AG v. VIPA Gesellschaft für Visualisierung und Prozeßautomatisierung mbH, 2006 E.C.R. I-2147.

51. *Id.* at I-2158, para. 23.

52. *Id.* at I-2159, para. 24.

53. *Id.* at I-2157, para. 15.

54. Case C-381/05, De Landtsheer Emmanuel SA v. Comité Interprofessionnel du Vin de Champagne and Veuve Clicquot Ponsardin SA, 2007 E.C.R. I-3115.

“Champagnebier” but contested the remaining allegations. The ECJ held that such an advertisement could be relevant comparative advertising if a competitor or their goods could be identified in it, even if by implication.⁵⁵ Whether undertakings are competing undertakings depends on “a certain degree of substitutability” of their goods or services, meeting the same needs or fulfilling the same purpose.⁵⁶

2. *Subsequent Case Law in the E.U.*

The above cases did not resolve whether comparative advertising permitted under Directive 2006/114/EC⁵⁷ is compatible with Directive 2008/95/EC.⁵⁸ However, that question was addressed in *O2 Holdings v. Hutchison* and *L'Oréal v. Bellure*.

In *O2 Holdings v. Hutchison*,⁵⁹ 3G, a mobile phone service provider, launched a U.K. television advertising campaign comparing 3G's services with those of O2. 3G referred to O2 using images of bubbles. O2 claimed that 3G's use of this imagery infringed O2's registered trademarks. In response to a reference for a preliminary ruling to clarify the relationship between Directive 2008/95/EC and Directive 2006/114/EC, the ECJ held that an advertiser in a comparative advertisement is using the registered trademark for his own goods and services, and so there may be a trademark infringement.⁶⁰ However, the court held the two Directives must be interpreted consistently. Thus, a trademark proprietor cannot prevent a competitor's use of a sign similar or identical to his mark in a comparative advertisement, which satisfies all the conditions of Directive 2006/114/EC. But, when there is a likelihood of confusion, the conditions of Article 4 of Directive 2006/114/EC will not be satisfied and the comparative advertisement will fall under Article

55. *Id.* at I-3167, para. 19.

56. *Id.* at I-3169, paras. 28-29.

57. As noted above, Council Directive 2006/114 replaced Council Directive 84/450. See *supra* note 5.

58. As noted above, Directive 2008/95 replaced First Council Directive 89/104. See *supra* note 29.

59. Case C-533/06, *O2 Holdings Limited and O2 (UK) Limited v. Hutchison 3G UK Limited*, 2008 E.C.R. I-4231.

60. *Id.* at I-4267, paras. 36-37.

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5(1)(b) of Directive 2008/95/EC.⁶¹ The court did not address the question of whether trademark use in comparative advertising must be “indispensable.”⁶²

*L’Oréal v. Bellure*⁶³ is the most important judgment regarding whether the use of a registered trademark in a comparative advertisement can constitute trademark infringement.

L’Oréal is the owner of several well-known beauty product trademarks. Bellure marketed imitations of well-known fine fragrances, including imitations of L’Oréal’s perfumes. Although the names of the products were different, the Bellure perfume packaging imitated that of the L’Oréal equivalent, and the products were sold using a comparison list to equate the particular perfume to the better known equivalent.

L’Oréal sued Bellure for trademark infringement, claiming that Bellure’s similar packaging and comparison lists showing which products corresponded to which L’Oréal perfume infringed L’Oréal’s registered trademarks. As a result, L’Oréal argued that the reputations of its well-known luxury perfumes were harmed by the cheaper imitations.

The High Court of Justice of England and Wales (Chancery Division) decided that Bellure’s use of the L’Oréal trademarks in its comparison lists was not a permissible comparative advertisement and amounted to trademark infringement under Article 5(1)(a) of Directive 2008/95/EC.

L’Oréal also claimed that Bellure’s bottles and packaging took unfair advantage of its related trademark registrations for aspects of its product packaging. The court agreed in respect to some trademarks with L’Oréal.

The case ultimately came before the Court of Appeal of England and Wales (Civil Division). The court stayed the proceedings and referred some questions to the ECJ on the interplay between Directive 2008/95/EC and Directive 2006/114/EC. In particular, the Court of Appeal held that the use of a trademark in a comparative

61. *Id.* at I-4269 – 70, paras. 45-49, 51.

62. *Id.* at I-4274 – 75, paras. 70-72.

63. Case C-487/07, *L’Oréal SA, Lancôme parfums et beauté & Cie SNC and Laboratoire Garnier & Cie v Bellure NV, Malaika Investments Ltd and Starion International Ltd (L’Oréal v. Bellure)*, 2009 E.C.R. I-5185.

advertisement will not constitute trademark infringement provided that the advertisement complies with Article 4 of Directive 2006/114/EC. The Court of Appeal subsequently referred the interpretation of certain provisions of Article 4 of Directive 2006/114/EC to the ECJ.

According to Article 4 of Directive 2006/114/EC, comparative advertising is not allowed when it takes unfair advantage of the reputation of a trademark (Article 4(f) of Directive 2006/114/EC) or when it presents goods or services as imitations or replicas of goods or services bearing a protected trademark (Article 4(g) of Directive 2006/114/EC).

The ECJ held that taking unfair advantage of the distinctive character or the reputation of a well-known trademark occurs “where a third party attempts, through the use of a sign similar to the mark, to ride on the coat-tails of that mark in order to benefit from its power of attraction, its reputation and its prestige, and to exploit, without paying any financial compensation and without being required to make efforts of his own in that regard, the marketing effort expended by the proprietor of that mark in order to create and maintain the image of that mark.”⁶⁴

Further, the ECJ stated that the condition that comparative advertising must not present goods or services as imitations or replicas of goods or services bearing a protected trademark applies not only to counterfeit goods, but to any imitation or replica.⁶⁵ In addition, it applies not only to advertisements which explicitly evoke the idea of imitation or replication, but also to those which, having regard to their overall presentation and economic context, are capable of implicitly communicating such an idea to the public at which they are directed.⁶⁶

The parties did not dispute that Bellure’s comparison lists were marketing Bellure’s goods as imitations of L’Oréal’s trademarked goods. It was irrelevant in that regard that Bellure’s goods were advertised as an imitation of one of the characteristics of L’Oréal’s perfumes, namely the smell, and not the perfumes as a whole.

64. *Id.* at I-5248, paras. 49.

65. *Id.* at I-5255, paras. 73.

66. *Id.* para. 75.

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Consequently, the advertisement did not comply with Article 4(g) of Directive 2006/114/EC.⁶⁷

Moreover, the ECJ accepted that since Bellure was unlawfully marketing goods as an imitation or replica, any advantage gained through such advertising must be regarded as taking unfair advantage of the reputation of L'Oréal's trademarks.⁶⁸ It follows from the above case law, particularly *L'Oréal v. Bellure*, that a comparative advertisement permitted by Directive 2006/114/EC is not trademark infringement.

B. Trademark Protection in Comparative Advertising in the United States

In the U.S., the legality of comparative advertising was recognized more than thirty years ago in *Smith v. Chanel*, whose facts were similar to *L'Oréal v. Bellure*. *Smith v. Chanel* remains binding precedent in the U.S., with more than 600 case citations since its publication.

In *Smith v. Chanel*,⁶⁹ Smith created a fragrance called "Second Chance" as a less expensive duplicate of Chanel, Inc.'s "Chanel No. 5." Smith advertised this and other "smell-alike" perfumes in a trade journal directed to wholesale purchasers, claiming that his perfumes perfectly duplicate "the exact scent of the world's finest and most expensive perfumes and colognes at prices that will zoom sales to volumes you have never before experienced." The advertisement also contained a blank order form with a "comparison list" presenting each Smith fragrance along with the name of the well-known fragrance, which it purportedly duplicated. Below "Second Chance" appeared "(Chanel #5)." The asterisk referred to a statement at the bottom of the form reading "Registered Trade Name of Original Fragrance House."⁷⁰

Chanel claimed Smith violated U.S. trademark law. Citing 15 U.S.C. §§ 1051 et seq., the trial court held that Smith infringed on Chanel's trademarks and irreparable harm would result if the

67. *Id.* at I-5255 – I-5256, para. 76.

68. *Id.* at I-5256, para. 79.

69. *Smith v. Chanel, Inc.*, 402 F.2d 562 (9th Cir. 1968).

70. *Id.* at 563.

infringement continued.⁷¹ Furthermore, the court issued a preliminary injunction prohibiting any reference to Chanel No. 5 in the promotion or sale of Smith's "smell-alike" perfumes. The trial court reasoned that "[w]ithout regard to the truth or falsity of the statements made in defendant's advertisement and notwithstanding the fact that the plaintiff's toilet preparations are not protected by the patent laws, defendant's advertisements. . . appropriates from plaintiffs, the goodwill, reputation and commercial values inherent in [its] trademarks"⁷²

Smith appealed and the Ninth Circuit reversed the trial court's decision. First, the court took into consideration that both parties agreed that Smith had the right to copy Chanel's perfume. Second, Smith's copy was indeed equivalent to Chanel's original. Lastly, the packaging and labeling of "Second Chance" was not misleading or confusing.⁷³ The appellate court said that the principal issue was "whether one who has copied an unpatented product sold under a trademark may use the trademark in his advertising to identify the product he has copied."⁷⁴ Explicitly allowing such use, the Ninth Circuit held that a perfume manufacturer may market its perfume as a duplicate of an unpatented, trademarked perfume so long as it does not contain misrepresentations and does not create a reasonable likelihood of confusing purchasers as to the source, identity, or sponsorship of the advertiser's product.⁷⁵

C. Comparing the United States and European Union

The above cases make clear that using the registered trademark of a well-known product to describe another product that lawfully imitates the well-known one, when such use is truthful and non-deceptive, is unlawful in the European Union and lawful in the United States. This means that, although E.U. and U.S. laws are based on the same comparative advertising principles,⁷⁶ U.S. case law places a

71. Chanel, Inc. v. Smith, 151 U.S.P.Q. 685 (N.D. Cal. 1966).

72. *Id.* at 687.

73. *Smith*, 402 F.2d at 563.

74. *Id.*

75. *Id.*

76. See discussion *supra* Part I(A).

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greater emphasis on the consumer's right to information, while the E.U.'s case law emphasizes the rights of trademark proprietors when balancing trademark protection and the freedom of comparative advertising.

In particular, in the U.S., *Smith v. Chanel* demonstrates that freedom of competition, and consumer welfare prevails in the field of comparative advertising.⁷⁷ This idea is illustrated by Judge Browning's opinion in *Chanel*. Judge Browning first explained that the anti-competitive consequences of protecting the trademark owner's reputation and goodwill have little compensating benefits.⁷⁸ The consumer appeal of highly advertised trademarks, although protective of established businesses, functions as a barrier of entry for newcomers into the marketplace. In turn, high barriers of entry tend "to produce high excess profits and monopolistic output restriction" and "probably . . . high and possibly excessive costs of sales promotion."⁷⁹ Judge Browning then rebutted appellees' argument that when great resources have been invested to develop the trademark's "selling power,"⁸⁰ the competitor should be prohibited from free riding on the reputation and goodwill embodied in that trademark.⁸¹ He explained that a "large expenditure of money does not in itself create legally protectable rights. Appellees are not entitled to monopolize the public's desire for the unpatented product, even though they themselves created that desire at great effort and expense."⁸²

Comparatively, in the E.U., *L'Oréal v. Bellure* makes clear that trademark infringement is likely to occur when a well-known trademark is used with the intention of "riding on the coat-tails" of the trademark's reputation.⁸³ *L'Oreal v. Bellure* is a victory for proprietors of well-known trademarks. However, it makes it

77. See also Charlotte J. Romano, *Comparative Advertising in the United States and in France*, 25 NW. J. INT'L L. & BUS. 371, 409 (2004-2005).

78. *Smith*, 402 F.2d at 566.

79. *Id.* at 566-67 (citing JOE S. BAIN, BARRIERS TO NEW COMPETITION 114-15 (1956)).

80. See Nancy S. Grieve, *Antidilution Statutes: A New Attack on Comparative Advertising*, 72 TRADEMARK REP. 178, 179 (1982).

81. *Smith*, 402 F.2d at 568.

82. *Id.*

83. See Case C-487/07, *L'Oréal v. Bellure*, [2009] E.C.R. I-5185.

significantly more difficult for new vendors to compare their products to products bearing well-known trademarks.

The divergence between the United States and European Union can be explained by the different interpretations of the anti-dilution laws adopted by the ECJ and U.S. courts. In basic terms, trademark anti-dilution laws protect a trademark proprietor's investment in the goodwill of his trademark, which has become "famous" in the U.S. or "has a reputation" in the E.U., against trademark uses exploiting or attacking the value of the trademark, even if there is no likelihood of consumer confusion. Trademark use in comparative advertising undoubtedly constitutes such an exploitative use.

Therefore, both U.S. and E.U. laws protect trademark owners against trademark dilution. However, comparative advertising is treated differently under U.S. and E.U. trademark anti-dilution provisions. In particular, according to U.S. trademark anti-dilution law:

Subject to the principles of equity, the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner's mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.⁸⁴

Further, according to the statutory definition, "[d]ilution by blurring" is an "association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark."⁸⁵ "Dilution by tarnishment" is "association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark."⁸⁶

In light of the above definitions, the blurring theory seems to endanger comparative advertising. Positive comparative advertising is usually "used to participate in the good reputation of a competitor's

84. 15 U.S.C. § 1125(c)(1) (2006).

85. *Id.* § 1125(c)(2)(B).

86. *Id.* § 1125(c)(2)(C).

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[mark].”⁸⁷ Therefore, positive comparative advertising is particularly threatened because it often creates an association in the public’s mind between the advertiser’s products and his rival’s marks.⁸⁸ Strictly applied, the blurring theory would provide competitors with a powerful weapon to prevent most of their rival’s equivalence and positive comparative claims.⁸⁹

Tarnishment theory could also be a potentially important restriction to negative and superiority comparative claims.⁹⁰ “Interpreted literally, [it] could easily be used to prevent many forms of parody in comparative advertising.”⁹¹

However, the Lanham Act, as well as U.S. courts, have limited the application of both the blurring theory and the tarnishment theory as they relate to comparative advertising. In particular, according to the Lanham Act, the use of a trademark in lawful comparative advertising is considered fair use:

(3) Exclusion. The following shall not be actionable as dilution by blurring or dilution by tarnishment under this subsection:

(A) Any fair use, including a nominative or descriptive fair use, or facilitation of such fair use, of a famous mark by another person other than as a designation of source for the person’s own goods or services, including use in connection with—

....

(i) advertising or promotion that permits consumers to compare goods or services.⁹²

Based on the above provision, comparative advertising may be invoked as a defense in dilution cases. Indeed, the above provision establishes the legality of “fair use” of another’s trademark in comparative advertising.

For example, in regard to comparative advertising and dilution by blurring, non-trademark use of a competitor’s trademark (i.e., use of

87. Theo Bodewig, *The Regulation of Comparative Advertising in the European Union*, 9 TUL. EUR. & CIV. L.F. 179, 184 (1994).

88. See Romano, *supra* note 77, at 402.

89. *Id.*

90. *Id.* at 408.

91. See Robert S. Nelson, *Unraveling the Trademark Rope: Tarnishment and Its Proper Place in the Laws of Unfair Competition*, 42 IDEA 133, 171 (2002).

92. 15 U.S.C. § 1125(c)(3)(a)(i) (2006).

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the mark in a descriptive sense for the sole purpose of identifying the competitor's product) is considered "nominative fair use."⁹³ This descriptive use limitation to the dilution theory largely exempts comparative advertising from blurring violations.⁹⁴ U.S. courts tend to allow comparative advertising where the risk of blurring is minimized.⁹⁵ In *Deere & Co. v. MTD Products, Inc.*,⁹⁶ the Second Circuit addressed "whether an advertiser may depict an altered form of a competitor's trademark to identify the competitor's product in a comparative ad."⁹⁷ The court, after noting that "[s]ellers of commercial products may wish to use a competitor's mark to identify the competitor's product in comparative advertisements," held that the distinctiveness of the plaintiff's mark was not likely to be blurred since the defendant's use posed "slight if any risk of impairing the identification of Deere's mark with its products."⁹⁸

Moreover, regarding comparative advertising and dilution by tarnishment, the Second Circuit limited tarnishment in comparative advertising by ruling that use of a trademark in comparative ads may be authorized as long as the trademark is not significantly altered.⁹⁹ Dilution by tarnishment would only occur when alterations of a mark "are made by a competitor with both an incentive to diminish the favorable attributes of the mark and an ample opportunity to promote its products in ways that make no significant alteration."¹⁰⁰

In the E.U., the term "dilution" does not appear in Directive 2008/95/EC or Regulation (EC) 207/2009. However, legal commentators consider Articles 4(4)(a) and 5(2) of Directive

93. See *Playboy Enters., Inc. v. Welles*, 279 F.3d 796, 806 (9th Cir. 2002) ("A nominative use, by definition, refers to the trademark holder's product. It does not create an improper association in consumers' minds between a new product and the trademark holder's mark.").

94. See Romano, *supra* note 77, at 403.

95. *Id.*

96. *Deere & Co. v. MTD Products, Inc.*, 41 F.3d 39 (2d Cir. 1994).

97. *Id.* at 40.

98. *Id.* at 44.

99. The court held that when a mark is used "to identify a competitive product in an informative comparative ad . . . the scope of the protection under a dilution statute must take into account the degree to which the mark is altered and the nature of the alteration." *Id.* at 45.

100. *Id.*

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2008/95/EC to be anti-dilution laws.¹⁰¹ Although optional, every pre-2004 E.U. Member State has incorporated these provisions into national law.¹⁰² In addition, Article 8(5) of Regulation (EC) 207/2009 should also be considered an anti-dilution law, as it contains a provision similar to Article 4(4)(a) of Directive 2008/95/EC.

According to Article 4(4)(a) of Directive 2008/95/EC, the national laws of the E.U. Member States may prohibit registration of a trademark, which is identical with or similar to an earlier trademark for goods or services which are not similar to those for which the earlier trademark is registered, “where the earlier trademark has a reputation in the Member State concerned and where the use of the later trademark without due cause would take unfair advantage of, or be detrimental to, the distinctive character or the repute of the earlier trademark.”¹⁰³

Moreover, pursuant to Article 5(2) of Directive 2008/95/EC, Member States may:

[P]rovide that the proprietor [of an earlier trademark] shall be entitled to prevent all third parties not having his consent from using in the course of trade any sign which is identical with, or similar to, the trademark in relation to goods or services which are not similar to those for which the trademark is registered, where the latter has a reputation in the Member State and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trademark.

101. See W.R. CORNISH & DAVID LLEWELYN, *INTELLECTUAL PROPERTY: PATENTS, COPYRIGHTS, TRADEMARKS AND ALLIED RIGHTS* §§ 17-99 (5th ed. 2003).

102. See J. Thomas McCarthy, *Dilution of a Trademark: European and United States Law Compared*, 94 TRADEMARK REP. 1163, 1163 (2004).

103. According to Article 8(5) of Regulation (EC) 207/2009: “Furthermore, upon opposition by the proprietor of an earlier trademark within the meaning of paragraph 2, the trademark applied for shall not be registered where it is identical with, or similar to, the earlier trademark and is to be registered for goods or services which are not similar to those for which the earlier trademark is registered, where, in the case of an earlier Community trademark, the trademark has a reputation in the Community and, in the case of an earlier national trademark, the trademark has a reputation in the Member State concerned and where the use without due cause of the trademark applied for would take unfair advantage of, or be detrimental to, the distinctive character or the repute of the earlier trademark.” Council Regulation 207/2009, art. 8(5), 2009 O.J. (L 78/1) 5 (EC).

In *Adidas-Salomon and Adidas Benelux*,¹⁰⁴ Advocate General Jacobs attempted to define “dilution” by examining the term’s history and purpose. In particular, he defined “dilution” as a “detriment to the distinctive character of a trademark,” and divided it into the two categories used in the United States: blurring and tarnishment. Advocate General Jacobs went on to incorporate the concept of “free riding,” stating that “the concepts of taking unfair advantage of the distinctive character or repute of the mark in contrast must be intended to encompass ‘instances where there is clear exploitation and free-riding on the coattails of a famous mark or an attempt to trade upon its reputation.’”¹⁰⁵ Here, it should be noted that the ECJ used the term “free riding” when describing Bellure’s conduct in *L’Oreal v. Bellure*.

As already noted, Article 4 of Directive 2006/114/EC provides that comparative advertising is permitted if, apart from the other conditions mentioned in that Article, it does not mislead, denigrate or take unfair advantage of the reputation of a trademark, present goods or services as imitations or replicas, or create confusion among traders.¹⁰⁶ Moreover, as the ECJ accepted in *L’Oréal v. Bellure*, the expression “take[s] unfair advantage [of the reputation of the trademark],” which is used both in Article 4(f) of Directive 2006/114/EC and in Article 5(2) of Directive 2008/95/EC, must in principle be given the same interpretation.¹⁰⁷

Based on the foregoing, in the E.U., anti-dilution laws may limit comparative advertising. Indeed, *L’Oréal v. Bellure* confirms that, in the ECJ’s view, trademark use in comparative advertising cannot be regarded as trademark use “for purely descriptive purposes,” which can be excluded from the scope of application of Article 5(1) of Directive 2008/95/EC. In particular, prior to *L’Oréal v. Bellure*, the

104. Case C-408/01, *Adidas-Salomon AG and Adidas Benelux BV v. Fitnessworld Trading Ltd*, 2003 E.C.R. I-12537.

105. Opinion of Advocate General Jacobs in Case C-408/01, *supra* 104, I-12548 – 49, points 37-40.

106. *See supra* Part III(A)(1).

107. Case C-487/07, *L’Oréal v. Bellure*, 2009 E.C.R. I-5185, I-5256, para. 77; *see also* Case C-533/06, *O2 Holdings v. Hutchison*, 2008 E.C.R. I-4231, I-4269, para. 49 (where the ECJ accepted that the term “confusion” must be interpreted in the same way under Article 5(1)(b) of Directive 89/104/EEC (now Article 5(1)(b) of Directive 2008/95/EC) and Article 3a(1)(d) of Directive 84/450/EEC (now Article 4(h) of Directive 2006/114/EC)).

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ECJ recognized that “certain uses for purely descriptive purposes are excluded from the scope of application of Article 5(1) of Directive 89/104 [now Article 5(1) of Directive 2008/95/EC], because they do not affect any of the interests which that provision is intended to protect and accordingly do not constitute ‘use’ within the meaning of that provision.”¹⁰⁸ However, the ECJ disagreed that Bellure’s trademark use in *L’Oréal v. Bellure* was “for purely describing purposes.” Instead, it found that “the word marks belonging to L’Oréal and Others are used in the comparison lists distributed by Malaika and Starion not for purely descriptive purposes, but for the purpose of advertising.”¹⁰⁹ The ECJ then argued that, in the context of comparative advertising, use of a trademark in comparison lists constitutes presenting an article as a replica, contrary to the provisions of Directive 2006/114/EC.¹¹⁰

Finally, it is interesting to note that the different legal treatment of comparative advertising under U.S. and E.U. trademark anti-dilution laws implies similarly different legal treatment of comparative advertising under U.S. and EU unfair competition laws as well. In this regard, according to U.S. legal literature, a competitor who produces low-priced substitutes for better-known name-brand items, and uses the name brand to truthfully tell consumers what has been copied, does not compete unfairly.¹¹¹ On the contrary, in the E.U., the ECJ has acknowledged that “since, under Directive 84/450 [now Directive 2006/114/EC], comparative advertising which presents the advertiser’s products as an imitation of a product bearing a trademark is inconsistent with fair competition and thus unlawful, any advantage gained by the advertiser through such advertising will have been achieved as the result of unfair competition and must, accordingly, be regarded as taking unfair advantage of the reputation of that mark.”¹¹²

108. Case C-487/07, *L’Oréal v. Bellure*, 2009 E.C.R. I-5185, I-5252, para. 61.

109. *Id.* at I-5252, para. 62.

110. Directive 2006/114, art. 4(g), *supra* note 5 (“Comparative advertising shall, as far as the comparison is concerned, be permitted when . . . it does not present goods or services as imitations or replicas of goods or services bearing a protected trademark or trade name.”)

111. J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, Vol. 4 § 25:52 (4th ed. 2011).

112. Case C-487/07, *L’Oréal v. Bellure*, 2009 E.C.R. I-5185, para. 79.

IV. TRADEMARK PROTECTION IN KEYWORD ADVERTISING

A. Trademark Protection in Keyword Advertising in the European Union

The ECJ has recently examined the interplay between keyword advertising and trademark protection in a series of cases involving Google's AdWords program. In particular, the ECJ analyzed whether optimizing online advertising by using trademarks as keywords without the authorization of the trademark proprietors is permissible in *Google France and Google*,¹¹³ *Bergspechte*,¹¹⁴ *Primakabin v. Portakabin*,¹¹⁵ *Eis.de*,¹¹⁶ *Interflora*,¹¹⁷ and *L'Oréal v. eBay*.¹¹⁸ Because the latter rulings were based on *Google France and Google*, the following analysis will focus on the *Google France and Google* judgment.

In *Google France and Google*, the ECJ had to analyze three cases concerning national trademarks registered in France, as well as a Community trademark.

More specifically, the first case dealt with the use of the Community trademark "Vuitton" and the French trademarks "Louis Vuitton" and "LV." All of these trademarks were considered to be trademarks with a reputation. Vuitton became aware that these marks were used as keywords for website advertisements offering imitation Vuitton products. The keyword ads used a combination of Vuitton's

113. Joined Cases C-236/08, 237/08, & 238/08, *Google France S.A.R.L and Google Inc. v. Louis Vuitton Malletier SA, Google France S.A.R.L v. Viaticum SA and Luteciel S.A.R.L, and Google France S.A.R.L v. Centre national de recherche en relations humaines (CNRRH) S.A.R.L and Others* [hereinafter: *Joined Cases C-236/08, 237/08, & 238/08*], 2010 E.C.R. I-2417.

114. Case C-278/08, *Die BergSpechte Outdoor Reisen und Alpenschule Edi Koblmüller GmbH v. Günther Guni and trekking.at Reisen GmbH*, 2010 E.C.R. I-2517.

115. Case C-558/08, *Portakabin Ltd and Portakabin BV v. Primakabin BV*, 2010 E.C.R. I-6963.

116. Case C-91/09, *Eis.de GmbH v. BBY Vertriebsgesellschaft mbH*, 2010 E.C.R. I-43 (summary publication).

117. Case C-323/09, *Interflora Inc. and Interflora British Unit v. Marks & Spencer plc et Flowers Direct Online Ltd*, 2011 E.C.R. I-8625.

118. Case C-324/09, *L'Oréal SA and Others v. eBay International AG and Others*, 2011 E.C.R. I-6011.

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trademarks and phrases such as “imitation” or “copy.” Vuitton then successfully sued Google for trademark infringement. Google appealed and, finally, the case came before the French Court of Cassation, which decided to stay the proceedings and referred the case to the ECJ for a preliminary ruling.¹¹⁹

The second case dealt with the use of the French trademarks “Bourse des Vols,” “Bourse des Voyages,” and “BDV,” which were registered for Viaticum’s travel-arrangement services. Viaticum’s competitors used keywords corresponding to those trademarks for online advertising on Google AdWords. Viaticum then successfully brought proceedings against Google for trademark infringement. Once again, the case came before the French Court of Cassation, which stayed the proceedings and referred questions to the ECJ for a preliminary ruling.¹²⁰

Finally, the third case concerned the use of the French trademark “Eurochallenges,” registered for, *inter alia*, matrimonial agency services by Mr Thonet, who granted CNRRH a license under that trademark. Entering terms constituting the trademark into Google’s search engine triggered links to CNRRH’s competitors under the heading “sponsored links.” Google also offered advertisers the possibility of selecting the term “Eurochallenges” as a keyword for that purpose. In contrast to the previous cases, proceedings were brought not only against Google but also against the advertisers. They were all found liable of trademark infringement. As in the previous cases, the proceedings were stayed and questions were referred to the ECJ for a preliminary ruling by the French Court of Cassation.¹²¹

The ECJ’s judgment in the above cases provided answers to four important issues: (1) whether a search engine operator itself is primarily liable for trademark infringement in keyword advertising cases under Article 5 of Directive 2008/95/EC and Article 9 of

119. Case C-236/08, *Google France S.A.R.L and Google Inc. v. Louis Vuitton Malletier SA*, 2010 E.C.R. I-2417 (first combined case).

120. Case C-237/08, *Google France S.A.R.L v. Viaticum SA and Luteciel S.A.R.L*, 2010 E.C.R. I-2417 (second combined case).

121. Case C-238/08, *Google France SARL v. Centre national de recherche en relations humaines (CNRRH) S.A.R.L and Others*, 2010 E.C.R. I-2417 (third combined case).

Regulation (EC) 207/2009;¹²² (2) whether third party advertisers are liable for trademark infringement in keyword advertising cases under the same provisions; (3) whether a search engine operator can be secondarily liable under the applicable national law in keyword advertising cases, and (4) if so, whether they can rely on the defense under Article 14 of Directive 2000/31/EC. Each of these issues is analyzed separately in the following sections.

1. Direct Liability of Search Engine Operators

The first question before the ECJ in *Google France and Google* was “whether Article 5(1)(a) and (b) of Directive 89/104 [now Article 5(1)(a) and (b) of Directive 2008/95/EC] and Article 9(1)(a) and (b) of Regulation No 40/94 [now Article 9(1)(a) and (b) of Regulation (EC) 207/2009] are to be interpreted as meaning that the proprietor of a trademark 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 trademark 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.”¹²³

The ECJ chose to examine the above question in particular in the light of the “double identity” provisions of Article 5(1)(a) of Directive 2008/95/EC and Article 9(1)(a) of Regulation (EC) 207/2009 because the use of trademarks as keywords had, in the disputes under examination, the object and effect of triggering advertising links to web sites which were offering goods or services identical to those bearing legally registered trademarks.¹²⁴

Article 5(1)(a) of Directive 2008/95/EC and Article 9(1)(a) of Regulation (EC) 207/2009 establish four conditions that must be satisfied for the trademark holder to prohibit a third party from using a sign identical to that trademark: (1) the identical sign must be used without the consent of the holder; (2) it must be used in the course of trade; (3) it must be used in relation to goods or services; and (4) such

122. See *supra* notes 29, 30, 33-34 (explaining the relationship between the old and the new provisions of E.U. trademark law.)

123. Joined Cases C-236/08, 237/08, & 238/08, *Google France, Google Inc. v. Louis Vuitton Malletier and others*, 2010 E.C.R. I-2417, I-2494, para. 43.

124. *Id.* at I-2495, para. 47.

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use must adversely affect or be liable to have an adverse effect on the functions of the trademark.¹²⁵

While stating that the condition of unauthorized trademark use was satisfied in the cases at issue,¹²⁶ the ECJ observed, with regard to the second condition, that search engine operators carry out commercial activity intended to create economic advantage.¹²⁷ A search engine operator operates in the course of trade because it permits advertisers to select keyword signs identical with trademarks, stores those signs, and displays its clients' ads on that basis.¹²⁸ However, the fact that a search engine operator is active in the course of trade does not mean that a sign is used by that operator in the course of trade within the meaning of Article 5(1)(a) of Directive 2008/95/EC and Article 9(1)(a) of Regulation (EC) 207/2009.¹²⁹ In this regard, the ECJ held that "the use, by a third party, of a sign identical with, or similar to, the proprietor's trademark implies, at the very least, that that third party uses the sign in its own commercial communication."¹³⁰ Simply put, in keyword advertising, although a search engine operator allows advertisers to use signs identical with, or similar to, trademarks, the search engine operator itself does not make use of those signs. This is despite the fact that search engine operators create the technical conditions for the use of signs in online advertising or that advertisers pay them for such services.¹³¹

It follows from the foregoing analysis that search engine operators cannot be held primarily liable under E.U. trademark law for unauthorized use of trademarks in their online advertising programs. Such use does not entail trademark infringement in the light of Article 5(1)(a) and (b) of Directive 2008/95/EC and Article 9(1)(a) and (b) of Regulation (EC) 207/2009 because there is no use in the course of trade within the meaning of those provisions.

Finally, the ECJ's position described above does not conflict with its ruling in *UDV North America Inc. v. Brandtraders NV*, where the

125. *Id.* para. 49.

126. *Id.* at I-2497, para. 54.

127. *Id.* para. 53.

128. *Id.* para. 55.

129. *Id.* at I-2497 – I2590, paras. 55, 104.

130. *Id.* at I-2497, para. 56.

131. *Id.* at I-2497 – 98, para. 57.

ECJ accepted that a defendant may violate E.U. trademark law without promoting its own image, goods, or services.¹³² In *UDV North America Inc. v. Brandtraders NV*, Brandtraders acted on behalf of another party and used a trademark in its own communications, establishing a link between the sign and the goods Brandtraders marketed. In contrast, in *Google France and Google*, Google did not act on behalf of its advertisers and did not use registered trademarks as keywords in its own commercial communications, but instead merely created the “technical conditions” for others to use them.

2. Liability of Third Party Advertisers

The second major issue the ECJ addressed in *Google France and Google* was whether third party advertisers are liable for trademark infringement in keyword advertising cases under Article 5 of Directive 2008/95/EC and Article 9 of Regulation (EC) 207/2009. The ECJ applied the same four-step test described above. In particular, the ECJ found that trademark uses without the consent of the proprietors of the trademarks had taken place.¹³³ In making this determination, the ECJ considered whether the third party advertisers’ use, within the context of keyword advertising, constituted using trademarks “in the course of trade.” The ECJ also considered whether such use is “in relation to goods or services” and whether such use has the potential to adversely affect any of the trademark’s functions.

Regarding the condition of use “in the course of trade,” the ECJ decided that, where an advertiser chooses as a keyword a sign identical to another’s trademark, that “use occurs in the context of commercial activity with a view to economic advantage.”¹³⁴ According to the ECJ, since the advertiser uses the sign to trigger an advertisement promoting his goods or services, the advertiser cannot dispute that it is used in the context of commercial activity and not as a private matter.¹³⁵

132. Case C-62/08, *UDV North America Inc. v Brandtraders NV*, 2009 E.C.R. I-1279.

133. Joined Cases C-236/08, 237/08, & 238/08, *Google France, Google Inc. v. Louis Vuitton Malletier and others*, 2010 E.C.R. I-2417, I-2497, para. 54.

134. *Id.* at I-2496, para. 50.

135. *Id.* para. 52.

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The ECJ then examined whether, in the context of keyword advertising, an advertiser's use of a sign identical with the trademark of a competitor constitutes use "in relation to goods or services."

Based on its previous decisions, the ECJ stated that in cases where signs identical with trademarks appear in ads displayed under the heading "sponsored links," those signs are used "in relation to goods and services." Such acts are similar to offering or advertising third party goods under a sign identical to a trademark, which also constitutes "use in relation to goods or services."¹³⁶

And, the ECJ made clear that using a keyword identical, or similar to, a trademark occurs "in relation to goods or services" even when the keyword does not appear in the advertising itself.¹³⁷ Since such behavior is not similar to any of the types of conduct listed under Article 5(3) of Directive 2008/95/EC and Article 9(2) of Regulation (EC) 207/2009, the ECJ held that those Articles provide only a non-exhaustive list of the kinds of use that the proprietor of a trademark may prohibit.¹³⁸ And, it should be taken into account that the above list was created before the full emergence of electronic commerce and the advertising it produced.¹³⁹

The ECJ observed that an advertiser who chooses a keyword identical to another trademark intends that internet users who type that keyword into a search engine will click not only on the trademark proprietor's displayed links, but also on that advertiser's advertising link. And, the court found that in most cases an internet user searching the name of a trademark is looking for information or offers on the goods or services covered by that trademark.¹⁴⁰ Further:

[W]hen advertising links to sites offering goods or services of competitors of the proprietor of that mark are displayed beside or above the natural results of the search, the internet user may, if he does not immediately disregard those links as being irrelevant and does not confuse them with those of the proprietor of the mark,

136. *Id.* at I-2498 – 99, paras. 61-62.

137. *Id.* at I-2499 – I-2501, paras. 65-73; Case C-278/08, *Bergspechte v. Guni*, 2010 E.C.R. I-2517, I-2528, para. 19.

138. *Joined Cases C-236/08, 237/08, & 238/08, Google France, Google Inc. v. Louis Vuitton Malletier and others*, 2010 E.C.R. I-2417, I-2499, para. 65.

139. *Id.* at I-2500, para. 66.

140. *Id.* paras. 67-68.

perceive those advertising links as offering an alternative to the goods or services of the trademark proprietor.¹⁴¹

Finally, the ECJ concluded that in a situation where:

[A] sign identical with a trademark is selected as a keyword by a competitor of the proprietor of the mark with the aim of offering internet users an alternative to the goods or services of that proprietor, there is a use of that sign in relation to the goods or services of that competitor.¹⁴²

Having found that, in the context of keyword advertising, advertisers use trademarks without the consent of the trademark proprietors in the course of trade and in relation to goods or services, the ECJ examined whether such use is liable to have an adverse effect on the functions of the trademark. These functions include not only the essential function of the trademark, which is to guarantee the identity of the origin of the marked goods or services to the consumer or end user by enabling him to distinguish the goods or services in question from others which have another origin,¹⁴³ but also its other functions, in particular guaranteeing the quality of the goods or services in question, and promoting communication, investment, or advertising.¹⁴⁴ In the ECJ's view, in the cases under consideration, the relevant functions were the origin and advertising functions.¹⁴⁵

To determine whether using a trademark in keywords generating "sponsored link" advertisements impairs or may impair the trademark's function as an "indicator of origin," the ECJ stated that the national court must make the determination on a case-by-case basis.¹⁴⁶ However, the court mentioned two scenarios where optimizing online advertising by unauthorized use of trademarks as keywords adversely affects that function. The first occurs when the ad suggests an economic link between the third party advertiser and the

141. *Id.* para. 68.

142. *Id.* para. 69.

143. Also known as "the function of indicating origin" or "origin function."

144. Joined Cases C-236/08, 237/08, & 238/08, *Google France, Google Inc. v. Louis Vuitton Malletier and others*, 2010 E.C.R. I-2417, I-2502-04, paras. 77, 82.

145. *Id.* at I-2503, para. 81.

146. *Id.* at I-2505, para. 88.

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proprietor of the trademark. The second occurs when the ad's vagueness makes normally informed and reasonably attentive internet users unable to determine the origin of the relevant goods or services.¹⁴⁷ In other words, a third party advertiser using a trademark as a keyword in online advertising ought to exclude any economic link between him and the proprietor of the trademark in such a way that a normally informed and reasonably attentive internet user understands that the advertiser is a third party vis-à-vis the proprietor of the trademark.

As mentioned above, *Google France and Google* concerns the legality, in light of Article 5(1)(a) of Directive 2008/95/EC and Article 9(1)(a) of Regulation (EC) 207/2009, of using keywords identical to trademarks to trigger advertisements for goods identical to those of the trademark proprietors. In the *Bergspechte* case,¹⁴⁸ the ECJ examined, under Article 5(1)(b) of Directive 2008/95/EC,¹⁴⁹ the use of keywords similar to trademarks to advertise goods that are identical to those of the trademark proprietor. Thus, it focused on whether keyword advertising gives rise to a likelihood of confusion. The ECJ left it for the national court to decide whether a likelihood of confusion existed in that case.

However, the court also gave some instruction. In particular, according to the *Bergspechte* judgment:

[I]t 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 proprietor of the

147. *Id.* at I-2505 – 06, I-2508 – 09, paras. 89-90, 99; *see also* Case C-558/08, *Portakabin, Ltd. v. Primakabin BV*, 2010 E.C.R. I-6963, I-6987, para. 54; Case C-324/09, *L'Oréal SA v. eBay Int'l AG*, 2011 E.C.R. I-6011, I-6112 – 13, para. 94; Case C-323/09, *Interflora, Inc. v. Marks & Spencer*, 2011 E.C.R. I-8625, I-8683 – 84, paras. 47-51.

148. Case C-278/08, *BergSpechte v. Guni*, 2010 E.C.R. I-2517.

149. *See* Council Regulation 207/2009, *supra* note 30, art. 9(1)(b) (regarding Community trademarks).

trademark or an undertaking economically connected to it or, on the contrary, originate from a third party.¹⁵⁰

With regard to the advertising function, the ECJ was more precise. The ECJ observed that the use of a trademark as a keyword by a third party online advertiser is likely to adversely affect the trademark proprietor's own advertising and therefore may have an adverse effect on the advertising function of the trademark. Most importantly, the use of a trademark by a third party advertiser might interfere with a keyword advertising campaign run by the proprietor and subsequently increase the proprietor's costs in order to achieve the same level of promotional performance.¹⁵¹

Despite this, the results listed by the search engine are also able to compensate for adverse effects on the advertising function caused by third parties' keyword advertising campaigns.¹⁵² As the advertising homepage of the proprietor will usually appear in one of the highest positions on the list of search results, the proprietor will benefit from free advertising placed by the search engine operator.¹⁵³ In light of these considerations, keyword advertising in a referencing service such as Google's AdWords is not liable to have an adverse effect on the advertising function of the trademark.¹⁵⁴

The legality of preventing trademark use in keyword advertising is subject to the provisions of Articles 6 and 7 of Directive 2008/95/EC (regarding national trademarks)¹⁵⁵ and Articles 12 and 13 of Regulation (EC) 207/2009 (regarding Community trademarks).¹⁵⁶ This position has been explicitly confirmed by the ECJ under Articles 6 and 7 of Directive 2008/95/EC in *Primakabin v. Portakabin*.

According to Article 6(1) of Directive 2008/95/EC:

150. Case C-278/08, *BergSpechte v. Guni*, 2010 E.C.R. I-2517, I-2533, para. 39; Case C-558/08, *Primakabin v. Portakabin*, 2010 E.C.R. I-6963, I-6987, para. 52.

151. Joined Cases C-236/08, 237/08, & 238/08, *Google France, Google Inc. v. Louis Vuitton Malletier and others*, 2010 E.C.R. I-2417, I-2506 – 07, para. 94.

152. *Id.* at I-2507, para. 96.

153. *Id.* at I-2507 – 08, para. 97.

154. *Id.* at I-2508, para. 98; Case C-278/08, *BergSpechte v. Guni*, 2010 E.C.R. I-2517, I-2532, para. 33.

155. First Council Directive 89/104, art. 6-7, *supra* note 31.

156. Council Regulation 40/94, art. 12-13, *supra* note 32.

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1. The trademark shall not entitle the proprietor to prohibit a third party from using, in the course of trade,
 - (a) his own name or address;
 - (b) indications concerning the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of goods or of rendering of the service, or other characteristics of goods or services;
 - (c) the trademark where it is necessary to indicate the intended purpose of a product or service, in particular as accessories or spare parts; provided he uses them in accordance with honest practices in industrial or commercial matters.¹⁵⁷

The ECJ ruled that an advertiser cannot, as a rule, rely on the above provision in keyword advertising in order to avoid the trademark use being liable to be prohibited under Article 5 of Directive 2008/95/EC. However, it did not exclude the possibility of the national court considering, in the light of the particular circumstances of a case involving keyword advertising, that the above provision is applicable in that case.¹⁵⁸ In particular, the ECJ, after considering its previous case-law concerning Article 6(1) of Directive 2008/95/EC, ruled in *Primakabin v. Portakabin* that:

Article 6 of Directive 89/104 [now Article 6 of Directive 2008/95/EC] must be interpreted as meaning that, where use by advertisers of signs identical with, or similar to, trademarks as keywords for an internet referencing service is liable to be prohibited pursuant to Article 5 of that directive [now Article 5 of Directive 2008/95/EC], those advertisers cannot, in general, rely on the exception provided for in Article 6(1) in order to avoid such a prohibition. It is, however, for the national court to determine, in the light of the particular circumstances of the case, whether or not there was, in fact, a use, within the terms of Article 6(1), which could be regarded as having been made in accordance with honest practices in industrial or commercial matters.¹⁵⁹

Article 7 of Directive 2008/95/EC states:

157. See Council Regulation 207/2009, *supra* note 30, art. 12(1) (regarding Community trademarks).

158. Case C-558/08, *Primakabin v. Portakabin*, 2010 E.C.R. I-6963, I-6988 – 93, para. 56-72.

159. *Id.* I-6993, para. 72.

1. The trademark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trademark by the proprietor or with his consent.

2. Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.¹⁶⁰

In *Primakabin v. Portakabin*, the ECJ also held that the rule that a trademark proprietor cannot, in principle, oppose the use of their trademark by a third party in relation to trade-marked goods which have been put on the market in the European Economic Area by the trademark proprietor or with his consent applies also in keyword advertising cases.¹⁶¹ In particular, the ECJ, based on its previous case-law concerning Article 7 of 2008/95/EC, accepted that:

Article 7 of Directive 89/104/EC [now Article 7 2008/95/EC] must be interpreted as meaning that a trademark proprietor is not entitled to prohibit an advertiser from advertising – on the basis of a sign identical with, or similar to, that trademark, which that advertiser chose as a keyword for an internet referencing service without the consent of that proprietor – the resale of goods manufactured and placed on the market in the European Economic Area by that proprietor or with his consent, unless there is a legitimate reason, within the meaning of Article 7(2), which justifies him opposing that advertising, such as use of that sign which gives the impression that the reseller and the trademark proprietor are economically linked or use which is seriously detrimental to the reputation of the mark.

The national court, which must assess whether or not there is such a legitimate reason in the case before it:

– cannot find that the ad gives the impression that the reseller and the trademark proprietor are economically linked, or that the ad is seriously detrimental to the reputation of that mark, merely on the basis that an advertiser uses another person’s trademark with

160. See Council Regulation 207/2009, *supra* note 30, art. 13 (regarding Community trademarks).

161. Case C-558/08, *Primakabin v. Portakabin*, 2010 E.C.R. I-6963, I-6993 – 7000, paras. 73-93.

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additional wording indicating that the goods in question are being resold, such as ‘used’ or ‘second-hand’;

– is obliged to find that there is such a legitimate reason where the reseller, without the consent of the proprietor of the trademark which it uses in the context of advertising for its resale activities, has removed reference to that trademark from the goods, manufactured and placed on the market by that proprietor, and replaced it with a label bearing the reseller’s name, thereby concealing the trademark; and

– is obliged to find that a specialist reseller of second-hand goods under another person’s trademark cannot be prohibited from using that mark to advertise to the public its resale activities which include, in addition to the sale of second-hand goods under that mark, the sale of other second-hand goods, unless the sale of those other goods, in the light of their volume, their presentation or their poor quality, risks seriously damaging the image which the proprietor has succeeded in creating for its mark.¹⁶²

In *Interflora*, the ECJ also considered whether Article 5(2) of Directive 2008/95/EC and Article 9(1)(c) of Regulation (EC) 207/2009 protect a well-known trademark¹⁶³ when it is used as a keyword in keyword advertising without the trademark proprietor’s consent. That provision is intended to prevent harm to the distinctive character of a trademark (“dilution”), to its reputation (“tarnishment”), and unfair advantage being taken of its reputation (“free riding”).

In particular, the court in *Interflora*, after considering the trademark’s functions, accepted that the use of a well-known trademark as a keyword can dilute the distinctiveness of the trademark by turning it into a generic term. The court also found that the use of a well-known trademark as a keyword can constitute an unfair advantage, if a reasonably well-informed consumer would be incapable of identifying that the goods or services offered did not originate from the trademark proprietor.

More specifically, in relation to dilution, the ECJ held that selecting a sign identical or similar to a trademark with a reputation as a keyword will not automatically result in damage to that mark’s distinctive character. The dilution test that should be used in keyword advertising is whether a reasonably well-informed consumer will be

162. *Id.* paras. 92-93.

163. Also known as a “trademark with a reputation.”

able to identify that the goods or services offered did not originate from the trademark proprietor, but from a competitor. If this is the case, in the national court's view, then the use of the well-known trademark as a keyword will not dilute the distinctiveness of the trademark but merely draw consumers' attention to the existence of an alternative product or service—something the ECJ deemed fair competition.¹⁶⁴

As for free riding, the ECJ observed that the use of a well-known trademark as a keyword will generally fall within the ambit of fair competition as long as it does not adversely affect the functions of the trademark, or cause dilution or tarnishment. According to the ECJ, as long as the sponsored link is within the ambit of "fair competition," the advertiser's use is not without "due cause" and will not result in free riding.¹⁶⁵

It follows from the foregoing analysis that an advertiser can be held directly liable under Article 5(1)(a) of Directive 2008/95/EC or Article 9(1)(a) of Regulation (EC) 207/2009 for trademark infringement in keyword advertising cases when they use a trademark as a keyword to trigger their advertisement in a way that impairs or may impair the trademark's essential function to indicate origin. There is an adverse effect on this origin function when the ad suggests that there is an economic link between the third party advertiser and the proprietor of the trademark or when the ad is so vague on the origin of the relevant goods or services that normally informed and reasonably attentive internet users are unable to determine whether the goods or services originate from the third party advertiser or the proprietor of the trademark, or, in other words, whether such an economic link exists or not. Liability under Article 5(1)(b) of Directive 2008/95/EC or Article 9(1)(b) of Regulation (EC) 207/2009 requires that competitive keyword advertising creates a likelihood of confusion. The advertising function of the trademark is not likely to be adversely affected by such advertising.

Articles 6 and 7 of Directive 2008/95/EC and Articles 12 and 13 of Regulation (EC) 207/2009 are also applicable in keyword advertising cases, although an advertiser cannot, as a rule, rely on

164. Case C-323/09, *Interflora, Inc. v. Marks & Spencer*, 2011 E.C.R. I-8625, I-8692–94, paras. 76-83.

165. *Id.* at I-8694–96, paras. 84-92.

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Article 6(1) of Directive 2008/95/EC or Article 12(1) of Regulation (EC) 207/2009 in keyword advertising in order to avoid the trademark use being liable to be prohibited under Article 5 of Directive 2008/95/EC or Article 9 of Regulation (EC) 207/2009. Finally, the use of a trademark with a reputation as a keyword can, under Article 5(2) of Directive 2008/95/EC or Article 9(1)(c) of Regulation (EC) 207/2009, dilute the distinctiveness of the trademark by turning it into a generic term or constitute an unfair advantage if a reasonably well-informed consumer would not be able to tell the origin of the goods or services offered.

3. *Secondary Liability of Search Engine Operators*

According to the foregoing analysis, online advertisers who use a competitor's trademark as a keyword are potentially directly liable for trademark infringement. This means that search engine operators may also be held liable under the applicable national law for contributing to trademark infringements by such advertisers.¹⁶⁶ However, that secondary liability may be limited under Article 14 of Directive 2000/31/EC.

In *Google France and Google*, the ECJ established that a search engine operator's advertising service is considered an information society service.¹⁶⁷ Additionally, the court held that a search engine operator's advertising service is a "hosting service" within the meaning of Article 14 of Directive 2000/31/EC because search engine operators store content provided by advertisers.¹⁶⁸ However, in order to limit liability for the search engine operator under that Article, its conduct must be of "a mere technical, automatic and passive nature, and the operator must have neither knowledge of, nor control over the information that is transmitted or stored."¹⁶⁹

Further, according to the ECJ, the mere fact that the search engine operator's advertising service is subject to payment, that the search engine operator sets the payment terms, or that it provides general information to its clients, cannot have the effect of depriving the

166. *Cf.* Joined Cases C-236/08, 237/08, & 238/08, *Google France, Google Inc. v. Louis Vuitton Malletier and others*, 2010 E.C.R. I-2417, I-2511, para.107.

167. *See id.* at I-2512, para.110.

168. *Id.* para. 111.

169. *Id.* at I-2512 – 13, paras. 112-114.

search engine operator of Directive 2000/31's exemptions from liability.¹⁷⁰ Moreover, the concordance between the keyword selected and the search term entered by an internet user is not sufficient in itself to justify the view that the search engine operator has knowledge of, or control over, the data entered into its system by advertisers and stored in memory on its server.¹⁷¹ However, the role played by the search engine operator in drafting the commercial message, which accompanies the advertising link, or in the establishment or selection of keywords, is relevant.¹⁷²

The ECJ left it for the national court to decide whether the search engine operator is neutral enough to benefit from the defense provided for in Article 14 of Directive 2000/31/EC. Thus, in *Google France and Google*, the ECJ declined to rule out the possibility of search engine operators being "hosting providers" that could benefit from Article 14 of Directive 2000/31/EC in keyword advertising cases.

The national courts will, therefore, have to decide, on a case-by-case basis, whether search engine operators can be held secondarily liable under the applicable tort or unfair competition laws for third party advertisers' use of well-known trademarks as keywords. Article 14 of Directive 2000/31/EC may limit the liability of search engine operators if they are sufficiently neutral. However, Article 14 of Directive 2000/31/EC will not apply where the search engine operator is aware of the unlawful activities and fails expeditiously to remove or disable access to the data.¹⁷³ It remains unclear what would amount to

170. *Id.* at I-2513, para. 116.

171. *Id.* para. 117.

172. *Id.* at I-2514, para. 118. In *L'Oréal v. eBay*, the ECJ provided some clarifications on the above assessments. It stated that the mere fact that the operator of an online marketplace (1) offers products for sale on its server, (2) sets the terms of its service, (3) is paid for that service, and (4) provides general information to its customers cannot have the effect of denying it the exemptions from liability provided for by Directive 2000/31. In contrast, its role is considered active if the operator has provided assistance which specifically entails optimizing the presentation of the sale offers in question or promoting those offers. See Case C-324/09, *L'Oréal v. eBay*, 2011 E.C.R. I-6011, I-6118 – 19, paras. 115-116.

173. In this regard, in *L'Oréal v. eBay*, the ECJ held that "it is sufficient, in order for the provider of an information society service to be denied entitlement to the exemption from liability provided for in Article 14 of Directive 2000/31, for it to have been aware of facts or circumstances on the basis of which a diligent economic

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an appropriate course of action by the search engine operator in that situation, because there is no guidance provided by Article 14 of Directive 2000/31/EC or the *Google France and Google* judgment.

B. Trademark Protection in Keyword Advertising in the United States

In the United States, the U.S. Supreme Court has not ruled on the legality of using trademarks as keywords in keyword advertising without the consent of the trademark proprietors. However, some federal circuit courts have ruled on the liability of search engine operators, or other intermediaries, that have used trademarks as keywords to trigger advertisements.

1. Direct Liability of Search Engine Operators

U.S. courts have generally held that in order to find trademark infringement under section 32(1) of the Lanham Act,¹⁷⁴ the following conditions must be met: (1) the trademark must be valid; (2) the accused infringer must have used the trademark in commerce and in

operator should have identified the illegality in question and acted in accordance with Article 14(1)(b) of Directive 2000/31.

Moreover, if the rules set out in Article 14(1)(a) of Directive 2000/31 are not to be rendered redundant, they must be interpreted as covering every situation in which the provider concerned becomes aware, in one way or another, of such facts or circumstances.

The situations thus covered include, in particular, that in which the operator of an online marketplace uncovers, as the result of an investigation undertaken on its own initiative, an illegal activity or illegal information, as well as a situation in which the operator is notified of the existence of such an activity or such information. In the second case, although such a notification admittedly cannot automatically preclude the exemption from liability provided for in Article 14 of Directive 2000/31, given that notifications of allegedly illegal activities or information may turn out to be insufficiently precise or inadequately substantiated, the fact remains that such notification represents, as a general rule, a factor of which the national court must take account when determining, in the light of the information so transmitted to the operator, whether the latter was actually aware of facts or circumstances on the basis of which a diligent economic operator should have identified the illegality.

See Case C-324/09, *L'Oréal v. eBay*, 2011 E.C.R. I-6011, I-6120, paras.120-122.

174. 15 U.S.C. § 1114(1) (2006).

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connection with the sale or advertising of goods or services; (3) without authorization; and (4) this unauthorized use is likely to cause confusion.¹⁷⁵ The controversy over trademark infringement via keyword advertising in U.S. case law has mostly centered on the second and fourth elements.

Whether a search engine operator that uses a trademark to display advertisements is directly liable for trademark infringement depends on whether such use is covered by Section 32(1) of the Lanham Act of 1946. In *1-800 Contacts*,¹⁷⁶ defendant WhenU created a program that delivered “contextually relevant advertising” to computer users by employing an internal directory of website addresses, search terms, and keyword algorithms. When the program recognized a term typed into a web browser, it randomly selected an advertisement from a corresponding product or service category and displayed an advertisement for a similar product or service in a separate “pop-up” window. The advertiser for the similar product would pay WhenU for referrals. However, the advertiser had no access to WhenU’s internal directory and could not request or purchase keywords that would trigger advertisements for its products or services.

The Second Circuit had to decide whether the use of the trademark by WhenU amounted to trademark infringement. Ultimately, the court concluded that plaintiff had not shown that its trademark had been used in commerce, as defined in Section 45 of the Lanham Act, because defendant’s use of the trademark was “internal.”¹⁷⁷ Following *1-800 Contacts*, district courts in the Second

175. See *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 117 (2004); *Armstrong Paint & Varnish Works v. Nu-Enamel Corp.*, 305 U.S. 315, 324–25, 335–36 (1938). Although *Armstrong* was based on the Federal Trademark Act of 1920, the same provision was incorporated without substantial change into the Lanham Act as 15 U.S.C. § 1114(1) (1946).

176. *1-800 Contacts, Inc. v. WhenU.com*, 414 F.3d 400 (2d Cir. 2005).

177. In particular, the *1-800 Contacts* court observed that WhenU was not using the trademark in the traditional sense because it did not place the mark on any goods or services in order to pass them off as emanating from 1-800 Contacts, but used 1-800 Contacts’ website address as a website address and not as a mark. Furthermore, the court emphasized the fact that the contents of WhenU’s directory were not accessible to the computer user, the public, or even WhenU’s customers. In sum, the court compared WhenU’s “internal utilization of a trademark in a way that does not communicate it to the public” to “a[n] individual’s private thoughts about a trademark.” *1-800 Contacts, Inc.*, 414 F.3d at 408-09.

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Circuit have consistently found that the use of trademarks by either an advertiser or a search engine operator for keyword advertising did not constitute “use” in the trademark sense.¹⁷⁸

However, the Second Circuit did clarify its *1-800 Contacts* ruling in *Rescuecom*.¹⁷⁹ There, a computer service franchising company argued that Google had sold its trademark to competitors to trigger sponsored links when a person searched for “Rescuecom.” Rescuecom argued that Google infringed its trademark by free-riding on its goodwill and causing confusion to consumers. It also claimed that Google was luring away searchers and preventing them from reaching Rescuecom’s web page.

The district court dismissed Rescuecom’s action based on the holding in *1-800 Contacts*. In particular, it held that Google’s sale and suggestion of the Rescuecom trademark as a keyword to advertisers was an internal use and, therefore, it was not “use in commerce” within the meaning of the Lanham Act.¹⁸⁰ The district court reasoned that even if Google had employed the mark in a manner likely to cause confusion, the *1-800 Contacts* ruling should be interpreted to mean that Google’s actions would not constitute a “use in commerce” pursuant to the Lanham Act because the triggered advertisements did not exhibit the plaintiff’s mark.¹⁸¹

On appeal, the Second Circuit followed a different approach and distinguished the *1-800 Contacts* case from *Rescuecom* on two different grounds. First, it pointed out that, unlike Google, the defendant in *1-800 Contacts* did not use the plaintiff’s trademark at all. Rather, it used the plaintiff’s web address, which included the

178. See *S&L Vitamins, Inc. v. Australian Gold, Inc.*, 521 F. Supp. 2d 188, 200–02 (E.D.N.Y. 2007); *Merck & Co. v. Mediplan Health Consulting*, 425 F. Supp. 2d 402, 416 (S.D.N.Y. 2006); *Rescuecom Corp. v. Google, Inc.*, 456 F. Supp. 2d 393 (N.D.N.Y. 2006), vacated and remanded, 562 F.3d 123 (2d Cir. 2009). For example, in *Merck* three of the defendants had purchased the keyword ZOCOR, a registered trademark of the plaintiff, from search engines Yahoo! and Google. *Merck*, 425 F. Supp. 2d 402, 407, 415. The district court, referencing the judgment in *1-800 Contacts*, held that “[t]his internal use of the mark “Zocor” as a key word to trigger the display of sponsored links is not use of the mark in any trademark sense.” *Merck*, 425 F. Supp. 2d at 415 (citations omitted).

179. *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123 (2d Cir. 2009).

180. *Rescuecom Corp. v. Google Inc.*, 456 F. Supp. 2d 393, 403 (N.D.N.Y. 2006).

181. *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 127 (2d Cir. 2009).

trademark. Second, the court noted that the program in 1-800 Contacts, unlike Google's AdWords, did not permit advertisers to key their advertisements to specific words or trademarks. In fact, the list of keywords was not available to advertisers. Nonetheless, the court did observe that Google's AdWords program, unlike the program at issue in *1-800 Contacts*, went beyond mere internal use of the trademarks. And based on its conclusion that Google's objective was "to sell keywords to advertisers," and Google actively suggested keywords (including trademarks) to advertisers, the appellate court ultimately concluded that Google was doing more than employing a trademark internally.¹⁸²

Furthermore, the court was not persuaded by Google's claim that its AdWord's program was similar to traditional product placement, where a vendor places a generic product next to a trademarked product to obtain benefits from the trademarked product's name recognition. The court held, "It is not by reason of absence of a use of a mark in commerce that benign product placement escapes liability; it escapes liability because it is a benign practice which does not cause a likelihood of consumer confusion."¹⁸³ Accordingly, although the court concluded that Google had used the plaintiff's mark, it was careful to limit its ruling to the issue of "use," leaving for the trial court to determine whether Rescuecom could show a likelihood of confusion.¹⁸⁴

After Rescuecom, it has become very difficult for search engine operators to claim that, when they use trademarks as keywords to trigger advertisements, such use is not actionable under the Lanham Act. Additionally, courts in other circuits have adopted the view that search engine operator's use of a trademark as a keyword is "use" in the trademark sense.¹⁸⁵

U.S. courts have rarely examined the "likelihood of confusion" in keyword advertising cases, and where courts have examined the issue, there are conflicting interpretations.

182. *Id.* at 126, 129.

183. *Id.* at 130.

184. *Id.* at 131.

185. *See, e.g.,* 800-JR Cigar, Inc. v. GoTo.com, Inc., 437 F. Supp. 2d 273, 285 (D.N.J. 2006); GEICO v. Google Inc., 330 F. Supp. 2d 700, 703 (E.D.Va. 2004).

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In *Rescuecom*, the Second Circuit assessed the likelihood of confusion in a keyword advertising case. The court ruled that, in determining whether the likelihood of confusion is present, the crucial question is whether it is clear from the search engine operator's presentation that the third party's advertisement is the most relevant response to the search for the keyword which is a registered trademark.¹⁸⁶

In *Rosetta I*,¹⁸⁷ the U.S. District Court for the Eastern District of Virginia rejected the claim by Rosetta Stone that Google misdirected web users to websites of Rosetta Stone's competitors by allowing those competitors to use Rosetta Stone's trademarks as keywords to trigger sponsored links. In this case, the district court only considered the three "likelihood of confusion" factors that were in dispute: intent to confuse, actual consumer confusion, and sophistication of the consuming public.¹⁸⁸ After examining these factors, the court found that "Google's use of the Rosetta Stone marks [did] not amount to direct trademark infringement."¹⁸⁹

On the issue of Google's intent, the district court found that "Google [was] not attempting to pass off its goods or services as Rosetta Stone's."¹⁹⁰ Rebuffing one of Rosetta Stone's main contentions, the court stated that "evidence of [Google's] financial gain alone is insufficient evidence of intent" to "trade on the Rosetta Stone marks."¹⁹¹ Dealing with the issue of actual consumer confusion, the court made three findings that derailed Rosetta Stone's argument. First, the court discounted Rosetta Stone's reliance on prior case law,¹⁹² which it found distinguishable because "Rosetta Stone and Google are not direct competitors in the language-learning software market."¹⁹³ Second, the court concluded that survey evidence

186. *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 131 (2d Cir. 2009).

187. *Rosetta Stone, Ltd. v. Google, Inc.*, 730 F. Supp. 2d 531 (E.D.Va. 2010).

188. *Id.* at 540-41.

189. *Id.* at 545.

190. *Id.* at 541.

191. *Id.*

192. *See Sara Lee Corp. v. Kayser-Roth Corp.*, 81 F.3d 455, 459 (4th Cir. 1996) (resolving a protracted trademark contest between the holders of the marks "L'eggs" and "Leg Looks").

193. *Rosetta Stone, Ltd. v. Google, Inc.*, 730 F. Supp. 2d 531, 543 (E.D.Va. 2010) *aff'd in part, vacated in part, remanded*, 676 F.3d 144 (4th Cir. 2012).

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submitted by Rosetta Stone purporting to demonstrate actual consumer confusion was *de minimis*.¹⁹⁴ Finally, on the issue of consumer sophistication, the court found the relevant segment of consumers were “not the public at-large, but only potential buyers of [Rosetta Stone’s] products,” whose sophistication the court concluded to be higher than average based on the nature and price of Rosetta Stone’s product.¹⁹⁵ The court’s finding that the “expertise and sophistication” of Rosetta Stone’s potential customers tended “to demonstrate that they are able to distinguish between the Sponsored Links and organic results displayed on Google’s results page” was the determining factor in rejecting Rosetta Stone’s consumer confusion argument.¹⁹⁶

In *Rosetta II*,¹⁹⁷ the Fourth Circuit vacated the above decision, and remanded the case for trial. In regard to the “likelihood of confusion” element, the court found sufficient evidence in the record to create a question of fact as to each of the three factors in dispute.

In particular, on intent, the court noted that even though Google’s 2004 internal studies showed there was significant source confusion among internet search users when trademarks were included in paid search ads, Google still relaxed its trademark policy further in 2009 without conducting any new studies. The court concluded that a reasonable trier of fact “could find that Google intended to cause confusion in that it acted with the knowledge that confusion was very likely to result from its use of the marks.”¹⁹⁸

As for actual confusion, the Fourth Circuit rejected the district court’s conclusion that evidence of confusion about whether an item was genuine was not probative of actionable confusion and that ads conforming to Google’s policies could not be a basis for liability. The appellate court noted that consumers are not privy to Google’s policies, and that confusion as to authenticity is relevant confusion under the Lanham Act and should not have been disregarded.¹⁹⁹

194. *Id.*

195. *Id.* at 544.

196. *Id.* at 545.

197. *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144, 154-55 (4th Cir. 2012).

198. *Id.* at 156.

199. *Id.*

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The Fourth Circuit also disagreed that Rosetta Stone's evidence of actual confusion was *de minimis*. Rosetta Stone submitted evidence that it received 123 complaints from purchasers of pirated or counterfeit software they believed to be genuine. The appellate court found that this evidence was not *de minimis* and it would be reasonable to conclude that many users have been confused by an apparent relationship between Rosetta Stone and the sponsored links Google sold to counterfeiters since it relaxed its AdWords policies in 2009.²⁰⁰

With respect to Google's internal studies, the court noted that one study showed 94 percent of consumers were confused at least once when shown ads with trademarks in them. Whereas the district court found these studies inapposite because they did not involve Rosetta Stone marks, the Fourth Circuit found them probative of confusion arising from Google's trademark use and, citing evidence that two of Google's in-house trademark attorneys could not tell which sponsored links from a "Rosetta Stone" Google search results page were authorized resellers, concluded that there were triable issue of fact as to actual confusion.²⁰¹

Finally, the court of appeal criticized the district court for rejecting Rosetta Stone's survey expert on the ground that it measured whether respondent thought Rosetta Stone endorsed sponsored links and that confusion as to endorsement and confusion as to source or origin are not the same. The appellate court pointed out trademark infringement "creates a likelihood of 'confusion not only as to source, but also as to affiliation, connection or sponsorship'"²⁰² and that confusion as to endorsement was probative of the "likelihood of confusion" element.

Considering the consumer sophistication factor, the Fourth Circuit emphasized that the district court may not reach a conclusion about consumer sophistication by inference, the nature of the product, and its costs on summary judgment.²⁰³ The court found evidence from deposition testimony and from Google's internal investigations reflecting confusion as to the nature of sponsored links by "even well-

200. *Id.* at 158.

201. *Rosetta Stone Ltd.*, 676 F.3d at 154-55.

202. *Id.*

203. *Id.* at 160.

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educated, seasoned Internet consumers,” such that the factor did not favor Google as a matter of law.²⁰⁴

U.S. courts have traditionally applied a multi-factor test in determining whether the “likelihood of confusion” exists.²⁰⁵ Such factors have usually been applied to the use of a trademark as a physical identifier in order to gauge whether a consumer is likely to mistake a good or service for a trademarked good or service. Confusion is traditionally determined at the time or point of sale.²⁰⁶ AdWords, however, uses trademarks in an intangible medium, the Internet. Furthermore, trademarked terms are used for a good or service when they are typed into a search engine operator’s website and processed by that operator. The search results, ads linked to the trademarked term as a keyword and relevant non-sponsored links, are displayed together on the same results pages prior to the consumer’s purchase decision.²⁰⁷

204. *Id.*

205. Such factors include (1) the similarity of the respective parties’ marks; (2) the similarity of the parties’ marketing methods; (3) the similarity of the parties’ channels of distribution for their goods or services; (4) the level of sophistication of the prospective purchasers for the respective parties’ goods or services, and the degree of care used in purchasing such goods or services; (5) the source-designating strength of the mark sought to be protected; (6) Where the second-comer’s goods or services differ from the first-comer’s, the likelihood that prospective purchasers of the second-comer’s goods or services would expect the first-comer to have expanded its marketing or sponsorship into the second-comer’s field; (7) the extent of overlap in the parties’ geographic markets and whether the prior user is known by its mark in geographic markets in which it does not actually sell its goods or services; (8) whether the second-comer intended to copy the first-comer’s mark in order to cause confusion or deceive; and (9) the degree of actual confusion that has surfaced as a result of the two parties’ respective marks. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 21-23 (1995).

206. *See, e.g.,* *Fin. Express L.L.C. v. Nowcom Corp.*, 564 F. Supp. 2d 1160, 1177–78 (C.D. Cal. 2008); *Morningware, Inc. v. Hearthware Home Prods., Inc.*, 673 F. Supp. 2d 630, 636–37 (N.D. Ill. 2009).

207. In other words, sometimes the traditional likelihood of confusion standard does not necessarily translate well to keyword cases because consumers might only be confused into visiting a website, not into purchasing a product. That is to say, by the time some consumers click on an ad triggered by a keyword consisting of a competitor’s trademark and arrive at the website of the advertiser, some consumers likely realize that they are not visiting the website of the trademark owner.

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To deal with such situations, U.S. courts have revived and reinvented the “initial interest confusion” doctrine, which starts the confusion analysis before the point of sale.²⁰⁸ This doctrine bases infringement not on consumer confusion over what is being bought, but on what is being sought.

In *Playboy Enterprises, Inc. v. Netscape Communications Corp.*,²⁰⁹ the Ninth Circuit examined the practice of “keying” by search engine operators, in which an advertiser wishing to have his ad displayed in response to an internet search must choose among various lists of terms related to his ad provided by the search engine operator.²¹⁰ The court ruled that “keying” constitutes initial interest confusion, and thus trademark infringement, when the search engine uses trademarks in the keying lists to generate banner advertisements and such advertisements are not labeled or identified.²¹¹

The “initial interest confusion” doctrine was also applied in *Finance Exp. LLC v. Nowcom Corp.*²¹² In this case, the parties were competitors that sold software for automobile dealers.²¹³ Nowcom purchased Finance Express’s trademarks as keywords. The sponsored ad did not contain the plaintiff’s trademarks but did contain the defendant’s product name and a link to the defendant’s website. The court granted a preliminary injunction, stating that including the defendant’s URL in a small font at the bottom of the ad was not enough to prevent confusion. The court believed that defendant’s use “may initially confuse consumers,” and once the consumer arrives at

208. See Greg Lastowka, *Google’s Law*, 73 BROOK. L. REV. 1327, 1369–71 (2008). “Initial interest confusion is customer confusion that creates initial interest in a competitor’s product. Although dispelled before an actual sale occurs, initial interest confusion impermissibly capitalizes on the good will associated with a mark and is therefore actionable trademark infringement.” *Playboy Enter., Inc. v. Netscape Commc’ns Corp.*, 354 F.3d 1020, 1025 (9th Cir. 2004). Regarding internet cases, the initial internet confusion doctrine was applied first in *Brookfield Commc’ns, Inc. v. W. Coast Entm’t Corp.*, 174 F.3d 1036 (9th Cir. 1999).

209. *Playboy Enters., Inc. v. Netscape Commc’ns Corp.*, 354 F.3d 1020 (9th Cir. 2004).

210. *Id.* at 1022–23.

211. *Id.* at 1022–24.

212. *Fin. Express L.L.C. v. Nowcom Corp.*, 564 F. Supp. 2d 1160 (C.D. Cal. 2008).

213. *Id.* at 1177.

the site, “he may realize he is not at a [plaintiff]-sponsored site . . . [h]owever, he may be content to remain on [defendant’s] site.”²¹⁴

Conversely, no initial interest confusion was recognized in *J.G. Wentworth v. Settlement Funding*.²¹⁵ In that case, which concerned keyword advertising, JG Wentworth alleged Settlement Funding LLC caused initial interest confusion when it purchased the keyword “JG Wentworth” from Google AdWords for sponsored link advertisements and used JG Wentworth’s trademarks as metatags in Settlement Funding LLC’s websites.²¹⁶ The District Court for the Eastern District of Pennsylvania found that there was no likelihood of confusion, and thus no trademark infringement, because Settlement Funding LLC’s website link was “separate and distinct” from JG Wentworth’s website link, therefore eliminating potential consumers from the “opportunity to confuse defendant’s services, goods, advertisements, links or websites for those of JG Wentworth’s.”²¹⁷

In the same spirit, in *Hearts on Fire Company v. Blue Nile, Inc.*, the District Court for the District of Massachusetts accepted that, in certain situations, buying a competitor’s trademark as an advertising keyword might be allowed as “a beneficial form of comparison shopping.”²¹⁸ In addition, the court set out in dicta a list of additional non-exhaustive factors for a court to use in its likelihood of confusion analysis in keyword advertising cases: (1) the overall mechanics of web browsing and internet navigation, in which a consumer can easily reverse course; (2) the mechanics of the specific consumer search at issue; (3) the content of the search results web page that was displayed, including the content of the sponsored link itself; (4) downstream content on the defendant’s linked website likely to compound any confusion; (5) the web-savvy and sophistication of the plaintiff’s potential customers; (6) the specific context of a consumer who has deliberately searched for trade-marked goods only to find a

214. *Id.*

215. *J.G. Wentworth, S.S.C. v. Settlement Funding L.L.C.*, No. 06-0597, 2007 WL 30115, at *7 (E.D. Pa. Jan. 4, 2007).

216. *Id.* at *2.

217. *Id.* at *8.

218. *Hearts on Fire Co. v. Blue Nile, Inc.*, 603 F. Supp. 2d 274, 287 (D. Mass. 2009).

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sponsored link to a retailer of competitive goods; and, in light of the foregoing factors, (7) the duration of any resulting confusion.²¹⁹

Finally, in *GEICO v. Google*, GEICO sued Google in the Eastern District of Virginia for allegedly infringing on its GEICO trademark.²²⁰ GEICO complained of two practices: the selling of its trademarks as a keyword and the incorporating of its marks into the text of advertisements.²²¹ The court observed that “[i]n the Internet context, this term describes 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.”²²² But, whereas in other cases, initial interest confusion is assessed in light of the traditional likelihood of confusion factors, the court bypassed those factors and directly applied the initial interest confusion doctrine.

The foregoing analysis shows that the legal framework in the U.S. is far from clear. In particular, despite the fact that U.S. courts have taken slightly different approaches in resolving the issue, they generally accept that when search engine operators use trademarks as keywords to trigger advertisements, such use is a type of trademark use and is therefore actionable under the Lanham Act.²²³ However, in assessing the likelihood of confusion element, some courts have looked at the traditional likelihood of confusion factors, while other courts have considered the initial interest confusion doctrine, or simply declined to apply the doctrine in keyword advertising cases.

Some legal commentators have called for a legislative solution for search engine operators’ liability in keyword advertising.²²⁴ However,

219. *Id.* at 289.

220. *GEICO v. Google Inc.*, 330 F. Supp. 2d 700, 701 (E.D. Va. 2004).

221. *Id.* at 701-02.

222. *GEICO v. Google Inc.*, No. 1:04CV507, 2005 WL 1903128, at *5 (E.D. Va. 2005).

223. See also Jonathan Moskin, *Virtual Trademark Use: The Parallel World of Keyword Ads*, 98 TRADEMARK REP. 873, 906 (2008).

224. See Darrow & Ferrera, *The Search Engine Advertising Market: Lucrative Space or Trademark Liability?*, 17 TEX. INTELL. PROP. L.J. 223, 264–65 (2009); Eric Goldman, *Deregulating Relevancy in Internet Trademark Law*, 54 EMORY L.J. 507, 593–95 (2005); Isaiah A. Fishman, *Why Are Competitor’s Advertising Links Displayed When I Google My Product? An Analysis of Internet Search Engine Liability for Trademark Infringement*, 5 J. MARSHALL REV. INTELL. PROP. L. 431, 453–54 (2006).

it seems unlikely that federal legislation dealing with the issue will be enacted in the near future.²²⁵ Moreover, no case on the subject has been brought before the U.S. Supreme Court, which reduces the chances of a judicial resolution to the conflicting case law. Consequently, the outcome of a trademark infringement case involving keyword advertising cannot be predicted accurately, even within the circuit courts.

2. *Secondary Liability of Search Engine Operators*

In the U.S., although the Lanham Act contains no explicit language allowing for a cause of action of contributory infringement or vicarious liability, courts generally recognize two types of secondary trademark liability: (1) contributory infringement for inducing infringement or knowingly supplying the means to infringe and (2) vicarious liability imposed under tort agency principles.²²⁶

The doctrine of contributory trademark infringement was established in *Inwood Labs., Inc. v. Ives Labs., Inc.*²²⁷ According to the U.S. Supreme Court, a party which “intentionally induces 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 is contributorily responsible for any harm done as a result of the deceit.”²²⁸ The determination of contributory infringement depends upon a defendant’s intent and knowledge of the wrongful activities.²²⁹

The theory of vicarious liability for trademark infringement is based on the agency theory of *respondeat superior*. According to the

225. See Hannibal Travis, *The Future According to Google: Technology Policy From the Standpoint of America’s Fastest-Growing Technology Company*, 11 YALE J.L. & TECH. 209, 226 (2009).

226. See generally JANE COLEMAN, SECONDARY TRADEMARK INFRINGEMENT (Bureau of National Affairs 2013).

227. *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 855 (1982).

228. *Id.* at 854.

229. *David Berg & Co. v. Gatto Int’l Trading Co.*, 884 F.2d 306, 311 (7th Cir. 1989). See also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 26 (1995) (imposing liability when the actor intentionally induces a third person to engage in the infringing conduct, or the actor fails to take reasonable precautions against the occurrence of a third person’s infringing conduct in circumstances in which the infringing conduct can be reasonably anticipated).

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Seventh Circuit, that theory “requires a finding that the defendant and the infringer have an apparent or actual partnership, have authority to bind one another in transactions with third parties or exercise joint ownership or control over the infringing product.”²³⁰ Thus, liability attaches if the defendant can directly control and monitor the instrumentality used to infringe on the plaintiff’s mark.

Under the above two theories, search engine operators are likely to be held liable for trademark use on their advertising platforms. The standard of contributory trademark infringement has rarely been applied to cases involving keyword advertising.

As to intentional inducement, in *Rosetta I*,²³¹ Rosetta Stone claimed that Google’s practice of including brand names as suggested keywords “directly induce[d] advertisers to infringe on Rosetta Stone’s marks.”²³² In response to that claim, the district court observed that “the mere existence of a tool that assists advertisers in optimizing their advertisements does not, in itself, indicate intent to induce infringement.”²³³ Google suggested keywords, but it also informed the advertisers that they are responsible for the keywords selected and for ensuring that their use of the keywords does not violate any applicable laws.²³⁴ Because Google’s policy could be attributed to “good business practice” rather than intent to induce infringement, the court declined to extend contributory liability based on this theory, concluding that “[a] desire for economic gain alone does not translate into contributory trademark infringement.”²³⁵

Regarding the knowledge of ongoing infringement, some guidance is provided by the *Tiffany v. eBay* and *Rosetta II* judgments. 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.²³⁶ While eBay knew as a general matter that counterfeit Tiffany items were listed and sold on the eBay website, the

230. *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148 (7th Cir. 1992).

231. *See supra* Part IV(B)(1).

232. *Rosetta Stone, Ltd. v. Google, Inc.*, 730 F. Supp. 2d 531, 547 (E.D. Va. 2010), *aff’d in part, vacated in part, and remanded by*, 676 F.3d 144 (4th Cir. 2012).

233. *Id.*

234. *Id.* at 547-48.

235. *Id.* at 548.

236. *Tiffany, Inc. v. eBay, Inc.*, 600 F.3d 93 (2d Cir. 2010).

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court concluded that without more, this knowledge is insufficient to trigger liability on the basis of *Inwood Labs., Inc. v. Ives Labs., Inc.*²³⁷ According to the court, “for contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary.”²³⁸

Further, in *Rosetta I*, the district court concluded that Rosetta Stone had failed to show that Google knew of specific infringing activity by advertisers and failed to take remedial action. The district court was not persuaded that Rosetta Stone notified Google of almost 200 cases of sponsored links advertising counterfeit Rosetta Stone products, and that Google continued to allow those same advertisers to use the Rosetta Stone marks as keywords for other websites and in sponsored links.²³⁹ Comparing Rosetta Stone’s notice to Google with the knowledge attributed to eBay in *Tiffany v. eBay*,²⁴⁰ the district court concluded that Rosetta Stone had not met its summary judgment burden and awarded summary judgment to Google.

However, in *Rosetta II*, the Fourth Circuit found that the district court misapplied the standard of review because even if Rosetta Stone did not meet the summary judgment threshold, there still may be sufficient evidence to permit a trier of fact to find contributory infringement.²⁴¹ The Fourth Circuit wrote that “. . . granting summary judgment to Google because ‘Rosetta Stone has not met the burden of showing that summary judgment is proper as to its contributory trademark infringement claim,’” turns the issue upside down.²⁴²

Based on the above case law, search engine operators’ contributory liability for trademark infringement in keyword advertising cases requires knowledge of a specific infringing advertisement. In other words, a search engine operator can be held liable for contributory trademark infringement in a keyword

237. *Id.* at 110.

238. *Id.* at 107.

239. *Rosetta Stone, Ltd.*, 730 F. Supp. 2d at 547.

240. *Id.* at 548.

241. *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144, 168 (4th Cir. 2012).

242. *Id.*

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advertising case only if that operator has been aware of a specific infringing advertisement.

Search engine operators are unlikely to be held responsible for vicarious trademark infringement when they allow third party advertisers to use registered trademarks as keywords to trigger advertisements without the authorization of the trademark proprietors. Search engine operators have no “apparent or actual partnership” with persons using their advertising platforms. Moreover, they have no “authority to bind” such persons in transactions with third parties.

The above approach is confirmed by the Rosetta I and Rosetta II judgments. Indeed, in those cases, the courts found no evidence that Google acted jointly with any of the persons using its advertising platforms to control the counterfeit Rosetta Stone products.²⁴³

In light of the above case law, the doctrine of contributory trademark infringement can be applied to search engine operators in keyword advertising cases only if they have been aware of specific infringing advertisements. On the other hand, the theory of vicarious liability for trademark infringement is unlikely to apply to search engine operators in such cases, since those operators have no “apparent or actual partnership” with persons using their advertising platforms, nor do they have “authority to bind” such persons in transactions with third parties.

C. Comparing the United States and European Union

The preceding analysis of E.U. and U.S. case law establishes that the legal treatment of optimizing online advertising by using trademarks as keywords without the authorization of the trademark proprietors in the European Union differs from that in the United States in the following respects:

First, search engine operators cannot be held directly liable for unauthorized trademark use by third party advertisers on their advertising platforms in the E.U., whereas in the U.S. they can. In particular, the ECJ has made it clear that in keyword advertising, the advertiser uses the trademark “in the course of trade,” while the search engine operator does not. Consequently, in the E.U., only advertisers

243. See *Rosetta Stone Ltd.*, 676 F.3d at 164; *Rosetta Stone Ltd.*, 730 F. Supp. 2d at 549.

are subject to a “likelihood of confusion” analysis and, by extension, primary liability for trademark infringement. On the other hand, in the U.S., courts held that in keyword advertising, both the advertiser and the search engine operator use the trademark “in the course of trade” and, thus, are subject to a “likelihood of confusion” analysis and primary liability for trademark infringement.

Secondly, in the E.U., the “likelihood of confusion” analysis in keyword advertising cases is based on the generally accepted criteria developed by the ECJ’s case law. In other words, in the E.U., there is no such thing as “initial interest confusion doctrine.” In contrast, in the U.S., the assessment of the “likelihood of confusion” element in keyword advertising cases is based not only on traditional criteria, but also on the “initial interest confusion” doctrine. Moreover, in the E.U., the “likelihood of confusion” element is not examined under the “double identity” provisions of Article 5(1)(a) of Directive 2008/95/EC and Article 9(1)(a) of Regulation (EC) 207/2009. Whereas in the U.S., although courts vary in the degree of separation they give between the issues of use and likelihood of confusion,²⁴⁴ the “likelihood of confusion” element is always examined by courts.

Thirdly, secondary liability of search engine operators for trademark infringement in keyword advertising cases in the E.U. should be examined by national courts in light of the applicable national tort or unfair competition law. In other words, the legal basis is found in areas of law other than trademark law. In contrast, in the U.S., courts examine secondary liability of search engine operators for trademark infringement in keyword advertising cases in light of two nationwide doctrines of trademark law, the doctrine of contributory trademark infringement and the doctrine of vicarious liability for trademark infringement.

Lastly, in the E.U., secondary liability of search engine operators for trademark infringement in keyword advertising cases may be limited under the safe harbor provision of Article 14 of Directive 2000/31/EC. In the U.S., there is no safe harbor specifically for hosting providers. Moreover, the trademark safe harbor has rarely

244. See Jessica A.E. McKinney, *Rescuecom Corp. v. Google Inc.: A Conscious Analytical Shift*, 95 IOWA L. REV. 281, 296-98, 307-12 (2009).

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been applied by courts and seems to be unknown to many trademark lawyers.²⁴⁵

V. CONCLUSION

The intersection between comparative and keyword advertising and trademark protection has been an important topic in the European Union and the United States.

Although U.S. and E.U. trademark laws share some common principles and standards, the issues of comparative advertising and keyword advertising are treated in fundamentally different ways.

In this author's view, the U.S. approach to comparative advertising under trademark law is better than the ECJ's approach because the U.S. approach, while still respecting the interests of trademark proprietors, favors freedom of competition and consumer welfare much more than the ECJ's approach. On the other hand, in keyword advertising, the ECJ's approach is better because the fact that search engine operators function "in the course of trade" does not mean that they also use trademarks in the same way.

245. See Mark A. Lemley, *Rationalizing internet safe harbors*, 6 J. ON TELECOMM. & HIGH TECH. L. 101, 106 (2007). With regard to the internet, the trademark safe harbor has been applied only twice and the outcomes are largely different and conflicting. Compare *Tiffany, Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463 (S.D.N.Y. 2008) with *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082 (C.D. Cal. 2001); see also Connie D. Powell, *The eBay Trademark Exception: Restructuring the Trademark Safe Harbor for Online Marketplaces*, 28 SANTA CLARA COMPUTER & HIGH TECH. L.J. 1, 9-16 (2011).