

## REFLECTIONS REGARDING PLACE OF DAMAGE IN RELATION TO KEYWORD ADVERTISING

by

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*This paper starts out with an analysis of the Google-case (C-236/08 to C-238/08), in order to illustrate how trademarks are being used in new technical environments. In the case the ECJ is answering questions both in relation to use of trademarks on the Internet and in relation to the responsibilities among the actors involved. It is illustrated that the ECJ is showing and understanding in relation to the fact that the Internet may have to be treated with special attention being paid to the distinguishing features of the information society and that information technology occasionally demands new approaches. Moreover the Google-case is being used to illustrate a new development with an increased number of cross-border infringements, which brings up questions regarding jurisdiction and choice of law. In this context it will be discussed whether or not the time has come for vacating the absolute perception that intellectual property rights exclusively have to be treated by courts in the protecting country applying the law of the country in which the right is protected. In the paper arguments in favor of a more flexible system are highlighted and discussed.*

### KEYWORDS

*Intellectual property rights, Jurisdiction, Choice of law, Keyword advertising, Cross-border infringements*

### 1. INTRODUCTION

On March 23rd 2010 came the much awaited ECJ decision in the Google-case (C-236/08 to C-238/08). The case concerns the use of trademarks on the Internet or more specifically the practice of “keyword advertising”. This is

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an area of law that is and will be of immediate relevance since it puts focus on legal questions that appears in relation to new technology and new social patterns. The Google-case is not the only case underlining this development. During 2010 two additional cases have been decided by the ECJ, *BergSpechte* (C-278/08) and *Portakabin* (C-558/08). In addition there are cases pending before the ECJ (e.g. C-323/09 and C-324/09), which in different ways relate to the use of trademarks on the Internet.

The purpose of this paper is two folded. First I would like to present the findings in the Google-case and its followers. That includes a short presentation of the technical framework and the legal background. Secondly I would like to start a discussion in relation to the AdWords service (and similar services) since this type of technical advertising service gives rise to more questions than are actually addressed by the ECJ.

## **2. TECHNICAL FRAMEWORK AND FACTS IN THE NATIONAL COURTS**

The facts in the Google-case are, to put it simple, as follows. Google operates an Internet search engine which is widely used by the Internet community. When committing a search the search engine will display the sites which appear best to correspond to the search words chosen. This result of the search is referred to as the "natural" results. In addition, Google offers a paid referencing service called "AdWords". That service can be used by the advertisers, by means of the reservation of one or more keywords, in order to obtain a link between the keyword and the advertisement. When an Internet user is typing the keyword in the search engine the ad will appear under the heading "sponsored links", which is displayed either on the right-hand side of the screen, to the right of the natural results, or on the upper part of the screen, above the natural results.

It is possible for several advertisers to reserve the same keywords and the advertisement will be displayed, among other things, in relation to the price paid for the advertisement. AdWords makes it possible for advertisers to construct their advertisement and place it within the AdWords service without any additional support from Google. In general the whole system makes it possible to tailor advertisement that is not possible in the "real" world, something that must be regarded as an advantage for advertiser as well as consumers. If you sell computers it is rational to link your advertisement to the search word "computer" and for the user it is likely that advert-

isement for computers will be of interest if you are searching for information about computers. In other words a perfect win-win situation. However, problems may appear when advertisers are reserving keywords corresponding to the names of competitors or when pirates and plagiarists are reserving keywords corresponding to the original brands. That is the situation in the Google-case, which is actually a joint case comprising questions referred in three different national proceedings. A combining factor is that all cases concern the use of AdWords and that they all emanated from France and the Court of Cassation.

The first case (C-236/08) deals with the use of the well known trademarks "Louis Vuitton" and "LV". Both are to be considered as trademarks with a reputation. Vuitton noticed that its trademark was being used as keywords for advertisement of websites offering imitations of Vuitton's products. In deed there was advertisement in relation to Vuitton's trademarks combined with words such as imitation and copy. Vuitton brought proceeding against Google for trademark infringement and Google was found guilty by a judgment of 4 February 2005 of the Regional Court, Paris (Tribunal de Grande Instance de Paris) and subsequently by judgment of 28 June 2006 of the Court of Appeal, Paris (Cour d'appel de Paris). Google appealed that judgment to the French Court of Cassation (Cour de cassation) which decided to stay the proceedings and to refer questions to the ECJ for a preliminary ruling.

The second case (C-237/08) deals with less well known French trademarks "Bourse des Vols", "Bourse des Voyages" and "BDV", registered for travel-arrangement services by the proprietor Viaticum. In this case AdWords was used by Viaticums competitors to connect advertisement to Viaticums trademarks in order to advertise competing products. Again, proceedings were brought against Google for trademark infringement and Google was found guilty by judgment of 13 October 2003 by the Regional Court, Nanterre (Tribunal de grande instance de Nanterre). Google appealed to the Court of Appeal, Versailles (Cour d'appel de Versailles) which ruled, by judgment of 10 March 2005, that Google had acted as an accessory to infringement, and it upheld the judgment by the Regional Court. Google finally brought an appeal in cassation against the judgment of the Court of Appeal and the French Court of Cassation decided, once again, to stay the proceedings and to refer questions to the ECJ for a preliminary ruling.

The third (and last) case (C-238/08) is concerned with the French trademark “Eurochallenges”, registered for, inter alia, matrimonial agency services by the proprietor CNRRH. During 2003 it was discovered that AdWords was used by competitors to enable users to find information about competing products in relation to CNRRHs above mentioned trademarks and as a consequence actions was brought before the Regional Court, Nanterre. In contrast to previous cases proceedings were brought not only against Google but also against the advertisers, Mr Raboin and Mr Tiger. They were all found guilty of trademark infringement by judgment of 14 December 2004 of the Regional Court, Nanterre, and subsequently, on appeal, by judgment of 23 March 2006 of the Court of Appeal, Versailles. Google finally brought an appeal in cassation against the judgment of the Court of Appeal and the French Court of Cassation, as in the previously mentioned cases, stayed the proceedings and referred questions to the ECJ for a preliminary ruling.

### **3. LEGAL BACKGROUND AND QUESTIONS**

The questions referred to the ECJ relates both to the community trademark rules and to the e-commerce rules. As to the trademark rules within the community, it can first be stated that they to a large extent are harmonized by the trademark directive (First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trademarks). Furthermore it has been established a community trademark regime governed by the trade mark regulation (Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trademark).<sup>1</sup> The directive and the regulation are almost identical as to the rules governing scope of protection and infringement and I will thus treat them together in the following.

The general idea within the trademark system is that a registered trademark shall confer on the proprietor exclusive rights to prevent all third parties not having his/hers consent from using a word corresponding to the trademark in the course of trade. This right is absolute in relation to use

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<sup>1</sup> The trademark directive and the community trademark regulation have been replaced by subsequent acts. The Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate the laws of the Member States relating to trademarks (Codified version), which entered into force on 28 November 2008 and Council Regulation (EC) No 207/2009 of 26 February 2009 on the Community trademark (codified version), which entered into force on 13 April 2009. However, taking into account the time of the national proceedings, the ECJ is governing the disputes in the main proceedings in accordance with the previous acts.

which is identical with the trademark (if there is damage in relation to the trademark) but when the use is similar, although not identical, there is an additional prerequisite that there should be a likelihood of confusion if the trademark proprietor is to be able to prevent the use in question (trademark directive art 5(1)a and b and trademark regulation article 9(1)a and b). A possibility to prevent use that does not give rise to likelihood of confusion exists only in relation to trademarks with a reputation, which means notoriously well known trademarks (trademark directive article 5(2) and trademark regulation article 9(1)c).

In the context of the *Google*-case questions were referred as to the interpretation of the above mentioned trademark rules. More precisely, the French court wanted to know whether or not the provider of the AdWords service (e.g. Google) is using trademarks in the meaning of article 5(1)(a) and (b) of the trademark directive. Furthermore the French Court wanted to know if the advertisers' reservation of keywords in itself constitutes trademark infringement, in situations where the keywords are corresponding to trademarks and linked to ads where goods or services are offered for sale which reproduces or imitates the goods or services that are offered by the trademark proprietor. As regards the questions of relevance for the trademark rules the French Court finally wanted to know if the proprietor may oppose the use of AdWords under article 5(2) of the trademark directive (article 9(1)(c) of the trademark regulation).

Other questions were referred in relation to the e-commerce directive (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). The Directive provides for a harmonized set of rules in relation to information society services and the general idea is that there should be a common framework in order to provide a full function harmonized internal market. Within the e-commerce directive there is a special heading concerned with liability of intermediary service providers, chapter II, which specifies certain situations in which an intermediary may escape liability. Of relevance for the *Google*-case is the liability rule in article 14 regarding "hosting" services. This rule states that the intermediary is not liable for the information stored at the request of a recipient of the service, on condition that the provider: (a) does not have actual knowledge of illegal activity or information ... or (b) upon obtaining

such knowledge or awareness, acts expeditiously to remove or to disable access to the information.

In relation to this rule the French court wanted to know if a service (like AdWords), in the event that there is no primary trademark infringement, may be regarded as a service within the meaning of Article 14 of the e-commerce directive, so that that service provider can't incur liability before it has received knowledge of the unlawful use of the sign.

#### **4. THE ANSWERS TO THE QUESTIONS**

In its answer the ECJ was quite specific. As to the questions regarding Google's responsibility for primary infringement ECJ found that Google was not infringing trademark rights by providing the AdWords service. Google actually did not, on its own, use trademark in a way relevant for the trademark directive, by providing the AdWords service. Consequently it is not possible to hold Google responsible for primary infringement.

As to the responsibility for the advertisers ECJ came up with a less specific answer. Advertisers are in fact using the keywords that connect to a certain ad and therefore it is possible to discuss if the use may constitute infringement. In situations where the keywords corresponds directly to a protected trademark, and when the advertiser is advertising products that match those that are offered under the protected trademark, article 5(1)a of the trademark directive is applicable. In addition to use it must be shown that there is actual damage in relation to the protected trademark. In this respect the ECJ has developed a quite complicated doctrine of different trademark functions.<sup>2</sup> It is sufficient that one function is damaged by the use in question to fulfil the prerequisites for an infringement. The final decision as to damage in relation to specific trademark functions must be assessed by the national court but the ECJ provided some help in its answer by distinguishing the function of indicating origin as the most probable to be damaged by use in the AdWords context.<sup>3</sup>

After having decided that the advertiser might be held liable for infringement the last question is to what extent Google might be held liable

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<sup>2</sup> As stated in *Google*, C-236/08 to C-238/08, para. 77: "Those functions include not only the essential function of the trademark, which is to guarantee to consumers the origin of the goods or services ('the function of indicating origin'), but also its other functions, in particular that of guaranteeing the quality of the goods or services in question and those of communication, investment or advertising". See further Tritton, G. 2008, *Intellectual Property in Europe*, Sweet & Maxwell, London, pp. 255–260.

<sup>3</sup> *Google*, C-236/08 to C-238/08, paras 82–90.

for contributing to that infringement by providing the AdWords service. In this situation the e-commerce directive becomes relevant. In short the ECJ found that the AdWords service is comprised by this directive and consequently Google can allege that the rules concerned with liability of intermediary service providers are to be applied. Primarily it is relevant to discuss the applicability of article 14 (e-commerce directive) which deals with liability for hosting services. As the ECJ found that this rule may be applied in relation to AdWords, Google may escape liability for contributing to an infringement if they comply with the prerequisites in article 14. To put it simple, this implies that Google have to act upon knowledge in relation to on-going infringements but there is no actual demand in relation to the service provider to be proactive, meaning that Google does not have to actively police the information (among other things a vast number of different ads) that they host.

## 5. RELATED CASE-LAW

After the Google-case the ECJ have had the opportunity to decide two additional cases concerning AdWords (so far). Directly after the Google-case, 25 march 2010, the decision in BergSpechte was delivered (C-278/08). Nothing further was added by this case. The questions referred were similar to those in the *Google*-case and the answers directly refer to the findings in Google. Another relevant case is Portakabin (C-558/08) which was decided 8 July 2010. The factual circumstances in Portakabin are, briefly, as follows. Portakabin Ltd manufactures and supplies mobile buildings and is the proprietor of the trademark PORTAKABIN. A competing company, Primakabin, sells and leases new and second-hand mobile buildings. Apart from manufacturing and marketing its own units, Primakabin is also engaged in selling and leasing used units, including those manufactured by Portakabin. While using AdWords Primakabin connected it's advertising to, among other words, the keyword "Portakabin". In the ad new and used mobile buildings were advertised and the word Portakabin appeared as well. On 6 February 2006, Portakabin brought an action against Primakabin in Amsterdam and when the dispute finally reached the Supreme Court of the Netherlands (Hoge Raad der Nederlanden), the Supreme Court decided to stay the proceedings and to refer a number of questions to the ECJ for a preliminary ruling.

One interesting question in this case, which is new in relation to the questions asked in the *Google*-case, relates to comparative advertisement and the applicability of article 6 in the trademark directive, regarding limitation of the effects of a trademark. In certain situations the proprietor is not entitled to prohibit a third party from using a word that corresponds to a protected trademark. One such example is when it is necessary to use the trademark to indicate the intended purpose of a product or service, provided that the use is in accordance with honest practices in industrial and commercial matters. Another new question relates to the applicability of article 7 in the trademark directive and the fact that the proprietor of a trademark, as a principle rule, is not entitled to prevent the use of a trademark in relation to goods which have been put on the market within the community under the trademark by the proprietor him- or herself.

In its answers the ECJ to a large extent refers to the *Google*-case. However, as to the questions related to the resale of second-hand goods some new answers are provided. Without going into details the ECJ confirms that the general perception is that you need to use a trademark in order to inform customers as to resale of goods protected under that trademark and that you are allowed to do so as long as the goods in question have been put on the market by the proprietor of the trademark. It is in "...the interest of economic operators and consumers that the sales of second-hand goods via the internet should not be unduly restricted..."<sup>4</sup>

In summary it might be stated that the development during 2010 is both interesting and clarifying. From my, academic, point of view I find it particularly promising that there are evidence of obvious awareness in both the *Google*-case and the *Portakabin*-case as to the fact that the Internet and new technology occasionally is to be treated with special attention paid to the specific preconditions that apply in this "new" environment.<sup>5</sup>

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<sup>4</sup> Portakabin, C-558/08, para. 82.

<sup>5</sup> One example would be the aforementioned discussion about the need to up-hold a secondary market for the sale of second-hand goods via the Internet (Portakabin, C-558/08, para. 83) another example is the discussion in the *Google*-case as to whether or not the advertising function of a trademark might be damaged by the use of AdWords. The Court states that "when internet users enter the name of a trademark as a search term, the home and advertising page of the proprietor of that mark will appear in the list of the natural results, usually in one of the highest positions on that list. That display, which is, moreover, free of charge, means that the visibility to internet users of the goods or services of the proprietor of the trademark is guaranteed, irrespective of whether or not that proprietor is successful in also securing the display, in one of the highest positions, of an ad under the heading 'sponsored links'." (Google, C-236/08 to C-238/08, para. 97).



With that conclusion, which is relevant in relation to Internet and information technology in general, I now choose to focus on my second field of interest, the questions that are not asked in the *Google*-case (and its followers).

## 6. RELATED QUESTION

The development shown by the *Google*-case brings forward several general questions. To begin with it would be interesting to further investigate the preconditions for use of trademarks on the Internet. Issues in relation to this has been addressed before, for instance in WIPOs (World Intellectual Property Organization) "Joint recommendation Concerning Provisions on the Protection of Marks, and Other Industrial Property Rights in Signs, on the Internet",<sup>6</sup> but current developments in social and commercial behavior, illustrated by the *Google*-case (and others), have made it relevant to address this issue again.

Furthermore there are a number of private international law questions that might be relevant to investigate both in relation to jurisdiction and choice of law. One such example is the question of where the damage occurs when a trademark is infringed by use conducted in new technical contexts. This question is relevant when jurisdiction is to be assessed within the frames of the Brussels I Regulation (Council Regulation (EC) No 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters), which in its article 5(3) provides for jurisdiction in matters relating to torts in the place where the action took place or where damage occurred. The question may also be relevant when applicable law is to be ascertained in accordance with the Rome II Regulation (Regulation (EC) No 864/2007 of the European Parliament and of the Council of 11 July 2007 on the law applicable to non-contractual obligations).

In order to be able to apply the aforementioned regulations the infringing action must be defined and located. Those are questions touched upon by the court in the *Google*-case in relation to existing rules within the trademark directive and the trademark regulation but the specific question to what extent those actions lead to damage in relation to a trademark right and, if so, how that damage may be located and territorially demarcated is

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<sup>6</sup> See WIPO, publication No 845(E), which is available at [www.wipo.int](http://www.wipo.int).

not answered by the ECJ. This latter question is the one I would like to develop here.

## 7. WHERE DOES DAMAGE OCCUR?

Generally the question of where damage occurs in relation to intellectual property rights is answered with a standard reference to the protecting country. The belief is that damage may appear only in the country where the intellectual property right is protected, due to the fact that intellectual property rights generally are delimited to the territory of the protecting country. There is a strong presumption that this is the appropriate solution as to intellectual property rights and it is possible to find support for this line of thinking in legal writings since the amendment of the Paris- and Bern Conventions at the end of the nineteenth century.<sup>7</sup> One of the fundamental principles in those conventions is that intellectual property rights are to be handled in accordance with the law of the protection country. This principle, although not expressly private international law oriented, have been used throughout the years to support the idea that intellectual property rights shall be handled by courts situated in the protection country, applying the law of the protecting country. In other words intellectual property rights are believed to have a strong connection to one specific country, a connection that is stronger in relation to intellectual property rights than to other types of property (chattels).

I think that it is time to scrutinize this general perception as to the question of locating the damage that is the result of an on-line infringement (as illustrated by the *Google*-case). It is quite clear that the principle of “the protecting country” still exists and that it affects the decision as to where damage may occur. There is nothing wrong in that. On the contrary, this principle still indicates appropriate solutions in a majority of cases. However, there are arguments pointing in favor of a different approach as regards infringement damages, an approach in which the principle of the protecting country is not regarded as the absolute and only solution.

Why is it so that intellectual property rights are supposed to be granted special treatment in comparison to other types of property? And why are we supposed to up-hold an apprehension in relation to the territoriality of

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<sup>7</sup> The Paris Convention of March 20, 1883 and the Bern Convention of September 9, 1886. Both conventions are available in full-text at [www.wipo.int](http://www.wipo.int).

intellectual property rights that dates back to the 19th century in today's modern "cyberlaw" society?

It may be added that intellectual property rights throughout history to a large extent have been governed on a national basis in accordance with national law. The strong connection to one single country makes the control of this vulnerable right a state interest and consequently there have been voices in favor of exclusive national treatment in respect of intellectual property rights.

However, this argument is no longer valid, at least not within EU. The idea to harmonize intellectual property rights was highly prioritized within the Community from the start. There have been a vast number of legislative initiatives in this field of law. Today it is fair to say that some areas of intellectual property law are fully harmonized within the EU. That applies to trademark law and design law and partly to copyright law. The harmonization process has not been equally successful in the area of patent law but still it would be wrong to claim that there is something like national intellectual property regimes within the EU. In that context it is strange to up-hold the perception that those rights exclusively must be monitored and controlled by the protecting country. Today there is no obvious beneficiary in support for such a perception.

One example could illustrate this. It is quite common that infringement goes beyond borders and that damage occurs in more than one country. If a trademark is protected in several EU-member states there might be damage in relation to those rights in more than one country, so called parallel infringements. In situations like the described It would be expedient to be able to try all infringements related to the same trademark in one court applying one single law.

Applying the law as it is today, it is likely that it will be hard to find jurisdiction for all infringements in one court and even if that might be possible, that court would have to apply a number of different laws in relation to infringements in different protecting countries.<sup>8</sup> For all parties concerned this may be regarded as an unfavorable solution, making the procedure more complicated, time-consuming and expensive.

Of course there may be situations in which it is appropriate to apply different laws in relations to different infringements. However, I can't see why

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<sup>8</sup> As to choice of law and intellectual property rights see further Dickinson, A. 2008, *The Rome II Regulation*, Oxford University Press, pp 447–470.

this has to be an exclusive rule. If, for instance, the parties to the disputes agree that it would be expedient to apply one single law in relation to different infringements, a court should be allowed to respect such an agreement. In relation to choice of law that is not possible today, due to the fact that there are limitations as to the party autonomy.<sup>9</sup> Is there really a state interest in up-holding absolute protection that prevails over the combined interests of the parties in expedient and efficient procedures? I wouldn't agree to that and consequently I find it relevant to discuss alternatives.

Such alternative rules may be discussed under the heading of exclusive and alternative connecting factors. If the connection to one protection country is not to be regarded as an exclusive ground for jurisdiction (and choice of law) it will be possible to apply alternative solutions. Such solutions may be provided by a possibility for the parties to enter into agreement as to both jurisdiction and choice of law regarding intellectual property matters.

Within the context of the Internet it may also be relevant to discuss the need for additional domestic connecting factors, going beyond technically possible accessibility.<sup>10</sup> In such a model one could take into account: intention, commercial effect, number of times the website have actually been accessed (and so on). All in all with an ambition to establish a more flexible system when it comes to jurisdiction and choice of law; a system that is accurately accommodated to the information society.

Of course such a modified system must be well developed and thoroughly investigated. In this paper I have had no such ambition. The ambition here has been to highlight the issues in light of recent development shown by the Google-case. There may be disagreement in relation to several aspects of my conclusions but I do think that there is consensus in respect of the fact that there will be an increased number of infringements related to new technology. Google is only one initial example; several others will follow in the years to come. Quite certainly there will be reasons and possibilities to develop the discussion as to jurisdiction and choice of law further.

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<sup>9</sup> See for instance Rome II regulation article 14 and the exclusive jurisdiction rule as to registered intellectual property rights in the Brussels I regulation, article 22(4).

<sup>10</sup> This will be further developed in the forthcoming case C-509/09 in which the following question has been addressed: "does the jurisdiction of the courts of a Member State in which the operator of the website is not established require that there be a special connection between the contested content or the website and the State of the court seized (domestic connecting factor) going beyond technically possible accessibility?"