

NOTE

GOOGLE ADWORDS: TRADEMARK INFRINGER OR TRADE LIBERALIZER?

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Google is the world’s most preferred search engine, with an audience share of eighty percent of Internet users worldwide.¹ With so many people browsing its search results, Google is a natural advertising vehicle, and it has exploited this quality to become one of the most profitable

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1. Press Release, comScore, Global Search Market Draws More Than 100 Billion Searches per Month (Aug. 31, 2009), available at http://www.comscore.com/Press_Events/Press_Releases/2009/8/Global_Search_Market_Draws_More_than_100_Billion_Searches_per_Month. “Audience share” refers to the number of users who view Google-affiliated webpages.

Internet companies in U.S. history.² However, success has not come without controversy, and one of the most significant concerns Google AdWords, which displays keyword-triggered ads and sponsored links alongside non-sponsored search results. AdWords has come under attack in the United States and in the European Union (“EU”) for its role in trademark infringement on the Internet, forcing courts to confront the clash of pre-Internet trademark infringement doctrines with new technology. Courts wish to be sensitive to the claims of trademark holders, but are reluctant to harm the essential functions of Google, which has become integral to Internet structure and capability. In addition, they have struggled with trademark protection’s traditional foundation in a world of physical boundaries when the Internet has rendered such barriers largely meaningless.

In the meantime, Google AdWords has revolutionized the way consumers perceive Internet advertising and search engines. It has continued to push the boundaries of trademark law, so that in many respects the final say on what is or isn’t “done” in Internet advertising belongs not to the courts, but to Google. If this situation is to change, courts cannot simply rely on old doctrines twisted to fit new situations. Furthermore, the responsibility for creating and enforcing such rules should not rest solely on the isolated initiatives of individual courts, for territorial boundaries limit the jurisdiction of courts and Google AdWords is a creature of the borderless Internet. Tackling the trademark issues raised by AdWords will require an international perspective and coordinated efforts between the United States and the EU to promote an international solution.

Part I of this Note outlines how Google AdWords uses keywords to generate online advertisements, explains where trademarked terms can enter this process, and how Google’s legal policy approaches the use of such terms. Part II summarizes the current state of U.S. trademark law and policy with respect to keyword-triggered online ad programs, and Part III summarizes the same with respect to the EU. Part IV argues that the United States and the EU should coordinate international efforts to legitimize through legislation certain uses of trademarked terms by search engines in order to avoid inefficient balkanization of the Internet, and to protect a search engine’s capability to encourage trade liberalization.

2. CNNMoney.com, *Fortune 1000: Our annual ranking of America’s largest corporations*, May 4, 2009, http://money.cnn.com/magazines/fortune/fortune500/2009/full_list/101_200.html (Google appears at #117).

I. GOOGLE ADWORDS

A. How AdWords Works

At the most basic level, Google AdWords manipulates search results to artificially prioritize an advertiser's website over other possible results. An advertiser purchases the keywords with which he wants his website and AdWords ads to be associated.³ He can choose from several ad formats; the most common is a simple text ad that consists of a hyperlink headline to the advertiser's website, two short lines of descriptive text and the URL of the advertiser's website.⁴ This ad will now be internally linked to the purchased keywords.⁵ When someone uses a Google program that runs any kind of search, the ad will appear alongside other search results.⁶ AdWords account holders can target their ads to specific sections or websites within Google's "content network" and can target computer or mobile device users.⁷ In addition, account holders can manipulate the precision with which search results match their keywords.⁸

3. Google.com, AdWords Help: What is Google AdWords?, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=6084> (last visited Apr. 4, 2010). Keyword "purchases" are not exclusive and more than one account holder may "purchase" a given keyword. See Google.com, AdWords Beginner's Guide: Keyword basics, <http://adwords.google.com/support/aw/bin/static.py?page=guide.cs&guide=21899&topic=22356> (last visited Apr. 4, 2010).

4. Google.com, AdWords Help: Ad types, <http://adwords.google.com/support/aw/bin/topic.py?hl=en&topic=16078> (last visited Apr. 4, 2010); see Google.com, AdWords Beginner's Guide: Ad basics, <http://adwords.google.com/support/aw/bin/static.py?page=guide.cs&guide=21899&topic=21903&answer=146296> (last visited Apr. 4, 2010). 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.*

5. What is Google AdWords?, *supra* note 3.

6. *Id.* AdWords account holders can set their ads to appear in the search results of other Google programs, such as Gmail. Google.com, AdWords Help: Where will my ads appear?, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=6119> (last visited Apr. 4, 2010).

7. *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. Google.com, AdWords Help: What is the Google network?, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=6104> (last visited Apr. 4, 2010). 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. Google.com, AdWords Help: What's the difference between placement targeting and contextual targeting?, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=112267> (last visited Apr. 4, 2010).

8. Google.com, AdWords Help: What are keyword matching options?, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=6100> (last visited Apr. 4, 2010). 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.

They can also block ads from appearing in response to selected keywords.⁹

Setting up an AdWords account is as simple as registering online with the proper billing information.¹⁰ An account holder must pay a small, nonrefundable activation fee upon creating an account, but creating ads and selecting keywords are free.¹¹ After an ad is set to run, an account holder is billed by Google in one of two ways: cost-per-click, where the charge is triggered every time someone clicks on the ad, and cost-per-thousand-impressions, where the charge is triggered every time someone views the ad.¹² The account holder then decides on a maximum billing rate, which is one of two factors Google uses to determine the ad's "ranking."¹³ An ad's ranking determines where on the search results pages the ad will appear.¹⁴ In effect, an account holder "bidding" on a

Google.com, AdWords Help: What is broad match?, <http://adwords.google.com/support/aw/bin/answer.py?answer=6136> (last visited Apr. 4, 2010). 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. What are keyword matching options?, *supra*. 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.*

9. Google calls this the "negative match" option. *Id.*

10. Google.com, AdWords Help: When do my ads start running?, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=6112> (last visited Apr. 4, 2010). Ads can begin running as soon as these steps are completed. *Id.*

11. Google.com, AdWords Help: Is there an activation fee?, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=162903> (last visited Apr. 4, 2010). The activation fee for most countries appears to be \$5US, and there is a minimum expenditure requirement of \$10US. Google.com, AdWords: Account fees and payment options, <https://adwords.google.com/select/AfpoFinder?currency=USD&country=US> (last visited Apr. 4, 2010). Charges do not begin to accrue until after the ads start to run. *See* Google.com, AdWords Help: How much does AdWords cost?, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=6382> (last visited Apr. 4, 2010).

12. Google.com, AdWords Help: How do I accrue advertising costs?, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=34114> (last visited Apr. 4, 2010).

13. Google.com, AdWords Help: How are ads ranked?, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=6111> (last visited Apr. 4, 2010). The maximum billing rate may not be the same as the actual billing rate determined by Google. *See infra* note 15. 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. How do I accrue advertising costs?, *supra* note 12. The other factor is an ad's "Quality Score," a multi-criteria scoring system that attempts to objectively evaluate how relevant—or how effective—an ad is to the search results with which it has been associated in the past. Google.com, AdWords Help: What is the AdWords "Quality Score" and how is it calculated?, <http://adwords.google.com/support/aw/bin/answer.py?answer=10215> (last visited Apr. 4, 2010).

14. Google.com, AdWords Help: How do ads cycle through the search results page?, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=87402> (last visited Apr. 4, 2010).

keyword is competing for it with all other account holders who wish to use that keyword—an account holder’s financial power thus plays a significant role in determining the degree of exposure his ad will receive.¹⁵

In comparison, a non-sponsored link is typically displayed on the search results page according to its “relevancy” to the search query. Google’s search algorithm normally determines a webpage’s “relevancy” using noncommercial factors such as how many other webpages link to a webpage to mimic an Internet user’s natural search behavior.¹⁶ The value of AdWords for advertisers lies in the fact that Google allows its keyword-linked ads to circumvent Google’s usual page ranking system for non-sponsored links. Even though ads are subject to “ranking” among themselves,¹⁷ they maintain priority over non-sponsored links in Google’s search results display.¹⁸ Moreover, since the ads appear beside search results that have been subjected to the normal page ranking algorithms and often do not explicitly indicate that they are sponsored links, Google Search users may be misled to assume that the ads are the most relevant results. The ads thus trade on Google’s reputation for delivering the most appropriate search results to entice users to click on them, while making a potentially global advertising audience available at very low financial and technical cost.

B. *The Intersection of AdWords and Trademark Law*

Google AdWords’ controversy arises from its practice of allowing an account holder to select a trademarked keyword even if the account holder does not hold the rights to that trademarked term. Google does not check the trademark status of a keyword at the time of selection, but instead investigates claims of infringement only after receiving a

15. *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 Google.com, AdWords Help: Maximum Cost-per-Click (Maximum CPC), <http://adwords.google.com/support/aw/bin/answer.py?answer=6326> (last visited Apr. 4, 2010). In the latter situation, Google only bills the account holder at a rate equal to the next-highest bid plus one cent. *Id.*

16. Sergey Brin & Lawrence Page, *The Anatomy of a Large-Scale Hypertextual Search Engine*, 30 COMP. NETWORKS & ISDN SYS. 107, at 2.1.2 (1998) in SEVENTH INTERNATIONAL WORLD-WIDE WEB CONFERENCE 2.1.2 (1998), available at <http://ilpubs.stanford.edu:8090/361/>. 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 2.1.

17. How are ads ranked?, *supra* note 13.

18. See *id.*; Where will my ads appear?, *supra* note 6. Consequently, the highest-ranked ads are returned ahead of even the highest-ranked non-advertisement search results. Where will my ads appear?, *supra* note 6.

complaint.¹⁹ Furthermore, Google applies different policies to the selection of a trademark as a keyword depending on the region in which the trademark is registered.²⁰ In the United States, Google will only investigate alleged uses of trademarks in the *displayed text* of an ad; keyword uses are excluded.²¹ If an ad displayed to a U.S. audience uses a trademark in its text, Google may force the ad's owner to remove the offending term but it will not disable the use of the mark as an AdWords keyword.²² Google applies the same policy for U.S. holders to the United Kingdom and Ireland.²³ But for the rest of the EU, Google will investigate alleged uses of trademarks in ad text, keywords, or in both ad text and keywords.²⁴ Google will also require removal of trademarked terms from the keyword list of the infringing AdWords account holder.²⁵ In all countries, Google's trademark infringement investigations are limited to AdWords ads or to the keywords associated with the ads, and do not affect the internal use of trademarked terms by Google's search

19. Google.com, AdWords Help: What is Google's AdWords and AdSense trademark policy?, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=6118> (last visited Apr. 4, 2010). Complainants need not have an AdWords account. *Id.*

20. *Id.* Google does not state how it delineates "regions" of AdWords for the purpose of trademark infringement investigations, but presumably it uses the same criteria used to determine regions for ad targeting. Ad targeting regions are not necessarily the same as the corresponding "physical" region, as Google takes into account the country-specific Google portal used, language settings, geographical terms in the search query and, "when possible," the user's IP address. Google.com, AdWords Help: How does AdWords know where to show my keyword-targeted ads?, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=6401> (last visited Apr. 4, 2010). Google appears to prioritize information revealing the actual physical location of a user over other inputs. *Id.*

21. What is Google's AdWords and AdSense trademark policy?, *supra* note 19.

22. *Id.* Google's policy further differentiates between ads running inside and ads running outside of the United States. Within the United States, Google will only require removal of a trademark from ad text if the ad is using the trademark "in a manner which is competitive, critical or negative." *Id.* (follow "I see an unauthorized ad using my trademark. What is Google's trademark policy?" hyperlink). It will not require removal if the use of the trademark is by resellers or for "informational" purposes. *Id.* On the other hand, for ads running outside of the United States, Google only requires use of a trademark in ad text to trigger removal. *Id.*

23. *Id.* (follow "I see an unauthorized ad using my trademark. What is Google's trademark policy?" hyperlink), then "Regions in which we investigate use in ad text only" hyperlink).

24. *Id.* (follow "I see an unauthorized ad using my trademark. What is Google's trademark policy?" hyperlink), then "Regions in which we investigate use in both ad text and keywords" hyperlink).

25. *Id.* Google will not disable the ad from showing up alongside search results containing the trademarked term when the trademark itself is not the purchased keyword. *Id.* Such a situation occurs because the search *query* can still contain the trademark and Google's search algorithms will return results that contain the trademark and/or non-trademarked synonyms. *Id.* In other words, an AdWords account holder can purchase a non-trademarked synonym, use the default 'broad search' option and the ad will then appear whenever someone runs a search containing the trademarked term. *Id.*

algorithms.²⁶ If a trademark holder wishes its trademark to stop appearing in search results, Google instead asks the trademark holder to contact the owners of the websites appearing in the search results in order to request removal of the trademark from those sites.²⁷

It is Google's contention that, as a mere intermediary service provider, it should not be required to function as a first-instance enforcer of trademarks.²⁸ Advertisers, not Google, should have the primary responsibility for ensuring that their use of AdWords is consistent with trademark rights. Google's general policy encourages trademark holders with allegations of trademark infringement to settle their claims directly with advertisers²⁹—characterizing its own “limited investigation of reasonable complaints about the use of trademarks in ads” as a mere “courtesy to trademark owners.”³⁰

Despite its stated position, Google has been the target of lawsuits both in the United States and in the EU that allege that Google holds the primary responsibility for policing trademark infringements in AdWords and that Google has deliberately neglected this responsibility.³¹ Google has consistently resisted such lawsuits.³² It does not appear likely that Google will change its legal strategies or policies in the near future, since such a policy change would put Google in the undesirable position of acting as a first-instance enforcer of trademark rights, sharply increasing Google's monitoring costs on keyword choices.

26. *Id.* As a result, use of a trademark as a *search term* can never be disabled.

27. *Id.* Effective June 4, 2009, Google altered its trademark policy to unrestrict keywords that had been formerly restricted due to previous trademark infringement investigations in certain regions. Google.com, AdWords Help: Updates to AdWords Trademark Policy, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=143903> (last visited Apr. 4, 2010). However, the United States and all EU countries are excluded from this change.

Id.

28. *See* What is Google's AdWords and AdSense trademark policy?, *supra* note 19.

29. *Id.*; Google.com, AdWords Help: What is Google's U.S. trademark policy?, <http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=145626> (last visited Apr. 4, 2010).

30. What is Google's U.S. trademark policy?, *supra* note 29; *see* What is Google's AdWords and AdSense trademark policy?, *supra* note 19.

31. *See* discussion *infra* Part II.

32. Google has generally chosen to contest trademark infringement suits against AdWords in court rather than to settle or to modify its AdWords policies. *See infra* Part II and note 89 for discussions on pending lawsuits against Google. In fact, Google has expanded the use of trademarked terms in AdWords for U.S. users in the face of such lawsuits. Lance Whitney, *Google cleared in AdWords trademark suit*, CNET.COM, Mar. 23, 2010, http://news.cnet.com/8301-1023_3-10470136-93.html; Tom Krazit, *Google change could stir more advertiser angst*, CNET.COM, May 15, 2009, http://news.cnet.com/8301-1023_3-10242104-93.html. *See* Updates to AdWords Trademark Policy, *supra* note 27.

II. THE STATE OF TRADEMARK LAW IN THE UNITED STATES

A. U.S. Federal Trademark Jurisprudence

At the federal level, trademark law developed as part of unfair competition common law until 1946. In U.S. common law, a trademark is conceived as an *appurtenant* right as opposed to a right *in gross*, such as a copyright or a patent.³³ A trademark therefore only exists because of its use in commercial activity and would cease to exist if the commercial activity ended.³⁴

In 1946, under the Interstate Commerce Clause, Congress passed the Lanham Act to provide a framework for federal trademark law.³⁵ Due to its constitutional basis, the Lanham Act formally covers only trademarks associated with interstate commerce.³⁶ However, it did not replace the prior trademark common law, but instead incorporated it into an expansion of the legal protection afforded to trademarks.³⁷ The Lanham Act provides for federal registration of trademarks³⁸ and for a civil cause of action for trademark infringement under § 1114.³⁹ U.S. courts have generally found that, in order to find infringement under § 1114: (1) the trademark must be valid, (2) the accused infringer must have used the trademark in commerce and in connection with the sale or advertising of

33. 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:15 (4th ed. 2009).

34. *See id.* § 17:9.

35. *Id.* § 5:4; The Trademark Act of 1946 (“Lanham Act”), Pub. L. No. 79-489, 60 Stat. 427 (codified as amended at 15 U.S.C. §§ 1051–1129 (2000)). Unlike the law for patents and copyrights under the Patent and Copyright Clause, the U.S. Constitution does not expressly grant to Congress the power to legislate on the subject of trademarks. *United States v. Steffens* (The Trade-Mark Cases), 100 U.S. 82, 93–94, 96–98 (1879); *compare* U.S. CONST. art. I, § 8, cl. 3 (Interstate Commerce Clause) *with* U.S. CONST. art. I, § 8, cl. 8 (Patent and Copyright Clause).

36. *See* MCCARTHY, *supra* note 33, § 6:2. However, the limitation that a trademark be associated with “interstate commerce” currently has little power as courts have broadly interpreted the Lanham Act to cover “local” acts of infringement that nevertheless have some effect on the interstate “good will and reputation” of a trademark. *Id.* §§ 19:123, 25:56, 25:57.

37. *Id.* § 19:3.

38. 15 U.S.C. §§ 1051, 1114(1) (2006). Federal registration provides, among other benefits, holders of registered trademarks with the option of bringing infringement actions in federal court. 15 U.S.C. §§ 1072, 1114 (2006). Unregistered trademarks cannot be the basis of a federal infringement action under § 1114, but they can be the basis of an infringement action under § 1125(a). *Wal-Mart Stores, Inc. v. Samara Bros.*, 529 U.S. 205, 209 (2000); *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 768 (1992).

39. “Any person who shall, without consent of the registrant—(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive . . . shall be liable in a civil action by the registrant . . .” 15 U.S.C. § 1114(1)(a).

goods or services (3) without authorization and (4) this unauthorized use is likely to cause confusion.⁴⁰

The controversy over trademark infringement via keyword advertising in U.S. case law has mostly centered on the second and fourth infringement elements. The second element, “use in commerce,” derives from the Lanham Act’s basis on the Interstate Commerce Clause, which requires that the trademark be associated with interstate commerce in order to fall within Congress’ power to enact legislation regarding it.⁴¹ Determining when a traditional good is being “used” presents few conceptual difficulties, since the existence of a physical good can be detected without much ambiguity or difficulty. The Internet environment, however, creates special problems for determining what constitutes a “use in commerce.”

When Google’s servers process a search query containing a trademark and subsequently generate specific AdWords ads on the search results page, they are certainly “using” the trademark but the federal courts have struggled with whether or not this use is a “use *in commerce*.”⁴² A recurring conceptual difficulty across the circuits is the fact that, unlike traditional “uses,” the use of trademarked terms as keywords occurs only within Google’s servers during the processing of a search query and is therefore “invisible” to the consumer.⁴³ Courts are divided as to whether “visibility” should or should not be taken into account when determining what constitutes a “use.”⁴⁴ Another area of debate is what role the “use” of a keyword to trigger the display of ads plays in the

40. *Id.*; see *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 117 (2004); see *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).

41. *United States v. Steffens (The Trade-Mark Cases)*, 100 U.S. 82, 93–94, 96–98 (1879); MCCARTHY, *supra* note 33, § 6:2.

42. Jonathan J. Darrow & Gerald R. Ferrera, *The Search Engine Advertising Market: Lucrative Space or Trademark Liability?*, 17 TEX. INTELL. PROP. L.J. 223, 260–63 (2009); Gregory R. Shoemaker, Comment, *Don’t Blame Google: Allowing Trademark Infringement Actions Against Competitors Who Purchase Sponsored Links on Internet Search Engines Under the Initial Interest Confusion Doctrine*, 58 CATH. U. L. REV. 535, 558–60 (2009).

43. *Rescuecom Corp. v. Google, Inc.*, 562 F.3d 123, 128–31 (2d Cir. 2009); *Google, Inc. v. Am. Blind & Wallpaper Factory, Inc.*, No. C03-5340JF(RS), 2007 WL 1159950, at *2–4 (N.D. Cal. Apr. 18, 2007); *J.G. Wentworth, LP v. Settlement Funding, L.L.C.*, No. 06-0597, 2007 WL 30115, at *5–6 (E.D. Pa. Jan. 4, 2007) (criticizing a previous Second Circuit ruling for analogizing “internal” uses of trademarks as online ad triggers to “private thoughts”).

44. *E.g., Am. Blind & Wallpaper Factory*, 2007 WL 1159950, at *2–4.

purchasing process.⁴⁵ A trademarked keyword, even when purchased by a competitor, does not “appear” directly on the good or service or in associated marketing materials such as the online ad. Some courts consequently have characterized the purchase of a keyword as an independent transaction from that of the purchase of the good or service, and thus have found that keyword advertising is not a “use in commerce” with respect to the trademark.⁴⁶ Yet the use of the keyword is clearly involved in the advertising process for a good or service, and other courts have taken the view that such uses, while not traditional trademark “uses,” do bring keyword advertising within “use of commerce.”⁴⁷ But even courts that find that keyword advertising satisfies “use in commerce” have been unable to agree as to exactly what “use” it makes of trademarks and why such use(s) is actionable.⁴⁸

The fourth element of trademark infringement, “likely to cause confusion,” is likewise the subject of great variation in judicial interpretation.⁴⁹ “Likelihood of confusion” does not require actual confusion,⁵⁰ which allows for some flexibility in construction. Courts have traditionally applied a multifactor test in determining whether “likelihood of confusion” exists.⁵¹ However, such factors have usually been

45. *Rescuecom*, 562 F.3d at 129–31; *Buying for the Home, L.L.C. v. Humble Abode, L.L.C.*, 459 F. Supp. 2d 310, 323 (D.N.J. 2006); *Merck & Co. v. Mediplan Health Consulting, Inc.*, 431 F. Supp. 2d 425, 427–28 (S.D.N.Y. 2006).

46. *E.g.*, *Merck*, 431 F. Supp. 2d at 427–28 (holding keyword advertising is not “use” within meaning of Lanham Act partly because keywords are not placed on goods or associated items and are not used to indicate “source or sponsorship”).

47. *E.g.*, *Rescuecom*, 562 F.3d at 129–30, 132–34; *Hysitron Inc. v. MTS Sys. Corp.*, No. Civ. 07-01533, 2008 WL 3161969, at *3 (D. Minn. Aug. 1, 2008) (holding that “use in commerce” includes “any use of another’s mark to advertise or sell one’s own goods and services”); *800-JR Cigar, Inc. v. GoTo.com, Inc.*, 437 F. Supp. 2d 273, 285 (D.N.J. 2006); *Buying for the Home*, 459 F. Supp. 2d at 323.

48. *Rescuecom*, 562 F.3d at 132–34 (holding the “use” does not have to be associated with the trademarked goods or services, but merely “in commerce”); *Hysitron*, 2008 WL 3161969, at *3; *800-JR Cigar*, 437 F. Supp. at 285 (holding keyword advertising falls into “use in commerce” because it offers trademarked terms for sale, uses them in ranking ads and markets them as advertising tools); *Buying for the Home*, 459 F. Supp. 2d at 323 (holding keyword “use” involves promotion of services and provision of direct access to competitor’s website, both of which fell into “use in commerce”). But at least one court has found no liability for *Google’s* recommendation of keywords, albeit not in a trademark context. *Goddard v. Google, Inc.*, 640 F. Supp. 2d 1193, 1197–98 (N.D. Cal. 2009) (holding Google not liable for aiding in the creation of fraudulent ads as its keyword suggestion tool was a “neutral” tool that still leaves it up to users to decide whether or not to choose a suggested keyword).

49. Patrick Ryan Barry, Comment, *The Lanham Act’s Applicability to the Internet and Keyword Advertising: Likelihood of Confusion v. Initial Interest Confusion*, 47 DUQ. L. REV. 355, 360–68 (2009).

50. MCCARTHY, *supra* note 33, § 23:12.

51. Such factors include the similarity of trademarks in appearance, the similarity of the associated goods or services, the similarity of the conditions of sale, the reputation of a trade-

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 determined with respect to the time or point of sale.⁵² But with AdWords, the use of the trademark occurs in an intangible medium: the Internet. Furthermore, trademarked terms are used for a good or service when they are entered into Google Search by the user and processed by Google's search engine. 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 decision to make a purchase.

To deal with such situations, courts in the Ninth Circuit have revived and reinvented the “initial interest confusion” doctrine, which moves the confusion analysis to before the point of sale.⁵³ “Initial interest confusion” doctrine bases infringement not on consumer confusion over what is being bought, but on what is being sought. As applied to AdWords, the doctrine reasons that a consumer may enter a trademarked keyword with the intent of seeking the corresponding trademarked good or service, but he is distracted from clicking on the correct link to the trademark holder's website because the search results page includes links to websites selling similar goods or services. Instead the consumer is diverted from the trademark holder's site to one of these competing sites. Under the “initial interest confusion” doctrine, such diversion—while not an act of traditional infringement—amounts to the alleged infringer taking unfair advantage of the consumer goodwill built up by the trademark holder.⁵⁴ Application of the “initial interest confusion” doctrine to keyword-triggered programs like AdWords has been heavily criticized for not accurately reflecting the way consumers use search engines and for restricting search engine functions to the point of disabling them.⁵⁵

mark, the strength of the competing marks, the nature and degree of actual confusion, the length of time of concurrent mark usage without actual confusion, and the extent of potential confusion. *In re E.I. DuPont DeNemours & Co.*, 476 F.2d 1357, 1361 (C.C.P.A. 1973). The full listing provides thirteen factors to consider. *Id.*

52. See, e.g., *Fin. Express L.L.C. v. Nowcom Corp.*, 564 F. Supp. 2d 1160, 1177–78 (S.D. Cal. 2008); *Morningware, Inc. v. Hearthware Home Prods., Inc.*, 673 F. Supp. 2d 630, 636–37 (N.D. Ill. 2009). The “initial interest confusion” doctrine was originally developed in the pre-Internet era, but saw little use until trademark holders began bringing infringement suits for trademarks used as metatags, an early way for websites to boost their search rankings, and trademarks used to trigger banner and pop-up ads. Hung P. Chang, *Return to Confusion: Call for Abandonment of the Initial Interest Confusion Doctrine*, 12 INTELL. PROP. L. BULL. 131, 136–38 (2008); see, e.g., *Playboy Enters., Inc. v. Netscape Commc'ns Corp.*, 354 F.3d 1020, 1024–26 (9th Cir. 2004) (finding keyword-triggered banner ads can cause initial interest confusion); *Brookfield Commc'ns, Inc. v. West Coast Entm't Corp.*, 174 F.3d 1036, 1061–65 (9th Cir. 1999) (finding metatags can cause initial interest confusion).

53. Greg Lastowka, *Google's Law*, 73 BROOK. L. REV. 1327, 1369–71 (2008).

54. Chang, *supra* note 52, at 137.

55. Lastowka, *supra* note 53, at 1391–94.

Furthermore, not all of the circuits have adopted this doctrine.⁵⁶ In circuits still applying the traditional “likelihood of confusion” doctrine, some courts have found that AdWords satisfies the confusion requirement and some have found the opposite, further muddying the analysis.⁵⁷

The current state of U.S. trademark jurisprudence with respect to AdWords is deeply divided over several major issues. While some commentators have called for a legislative solution to these divisions,⁵⁸ it seems unlikely that federal legislation specifically addressing the AdWords issue will be enacted in the near future.⁵⁹ Nor has the U.S. Supreme Court taken up a case on the subject, which reduces the chances of a judicial resolution to the conflicting case law. As a result, the outcome of a trademark infringement case involving AdWords remains unpredictable, even within circuits.

B. U.S. Trademark Policy Goals

Early U.S. trademark law primarily viewed trademarks as identifiers of a product’s source.⁶⁰ Current federal trademark law recognizes that trademarks also function as quality guarantees for consumers and as advertising tools for producers.⁶¹ The Lanham Act expressly indicates that protection of a trademark benefits both the consumer, who suffers less

56. *Id.* at 1370; Barry, *supra* note 49, at 360–68.

57. *Compare* J.G. Wentworth, LP v. Settlement Funding, L.L.C., No. 06-0597, 2007 WL 30115, at *6–8 (E.D. Pa. Jan. 4, 2007) (granting motion to dismiss due to finding insufficient initial interest confusion and likelihood of confusion), *with* Edina Realty, Inc. v. TheMLSONline.com, No. Civ. 04-4371JRTFLN, 2006 WL 737064, at *4–6 (D. Minn. Mar. 20, 2006) (denying motion for summary judgment as issues of material facts existed under the traditional likelihood of confusion test without needing to also consider initial interest confusion).

58. Darrow & Ferrera, *supra* note 42, at 264–65; Eric Goldman, *Deregulating Relevance in Internet Trademark Law*, 54 EMORY L.J. 507, 593–95 (2005); Isaiah A. Fishman, Comment, *Why Are Competitors’ 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).

59. 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 (2008–09). A few states have enacted legislation aimed at AdWords-type cases of trademark infringement, but such legislation has been largely ineffective because most trademark infringement suits are brought in federal courts and not state courts, and because such a piecemeal approach is ineffective for regulating a global phenomenon like AdWords. Viva R. Moffat, *Regulating Search*, 22 HARV. J.L. & TECH. 475, 485, 495–96 (2009). The FTC has examined search engine ads, but only with respect to deceptive advertising concerns. *Id.* at 485.

60. MCCARTHY, *supra* note 33, § 5:2.

61. *Reddy Commc’ns v. Envtl. Action Found.*, 477 F. Supp. 936, 944 (D.D.C. 1979); MCCARTHY, *supra* note 33, §§ 3:2, 3:10 (quality guarantee function), 3:12 (the advertising function).

from confusion in identifying particular products, and the trademark holder, who does not have to worry about losing his market through deception.⁶² The former goal speaks to a growing concern for protection of consumer interests.⁶³ The latter goal reflects the fact that trademark law began as a subset of unfair competition law, and that federal trademark law analysis still focuses on the use of a trademark in a competitive environment.⁶⁴ Both goals reflect the movement of U.S. trademark law away from treating the trademark as a mere appurtenant right and towards treating it as a right in gross.⁶⁵ However, U.S. law still formally retains the appurtenant/in gross distinction,⁶⁶ so it is not always clear how much weight courts should put on the harm done to the trademark in its own right versus the harm done to the trademark's function with respect to its associated goods or services.⁶⁷ Likewise, no agreement exists on how to best balance the sometimes-conflicting interests in protecting the usefulness of search engines to consumers and in protecting the rights of trademark holders.⁶⁸

It is unclear how U.S. trademark law should prioritize its various policy goals with respect to the use of trademarks in keyword-triggered advertising. Such confusion only exacerbates the splits on legal issues, since the federal courts do not have a good sense of the overall doctrinal framework they should be developing and applying. A clearer set of goals for trademark law would aid in resolving the differing schools of thought regarding AdWords' legal status and would provide better guidance on how to adapt federal trademark law to the new challenges posed

62. 15 U.S.C. § 1127 (2006) ("The intent of this chapter is to regulate commerce within the control of Congress by making actionable the deceptive and misleading use of marks in such commerce . . . to protect persons engaged in such commerce against unfair competition; to prevent fraud and deception in such commerce by the use of reproductions, copies, counterfeits, or colorable imitations of registered marks . . .").

63. *E.g.*, *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 855 n.14 (1982); *see* McCARTHY, *supra* note 33, § 2:5.

64. *See Inwood Labs.*, 456 U.S. at 855 n.14; McCARTHY, *supra* note 33, §§ 2:7, 5:4.

65. McCARTHY, *supra* note 33, § 2:14.

66. *See id.* § 2:15 ("It is a 'fundamental error' to suppose 'that a trademark right is a right in gross or at large, like a statutory copyright or a patent for an invention, to either of which, in truth, it has little or no analogy.' " (citing *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918))).

67. *See* Lastowka, *supra* note 53, at 1362–69; J. Patrick Norris, Note, *The Sale of Internet Keywords: Trademark Infringement Actionable Under the Lanham Act?*, 2 CHARLESTON L. REV. 889, 907–09 (2008). The concept that a trademark can be harmed itself, without reference to confusion, is known as dilution. McCARTHY, *supra* note 33, § 24:67. While this Note will not explore dilution doctrine in depth, it is worth keeping dilution in mind as a major motivation for trademark holders to oppose Google AdWords.

68. *See* Darrow & Ferrera, *supra* note 42, at 237–45; Jose L. Hernandez, *A Comprehensive Solution for Trademark-Triggered Displays Online*, 13 J. TECH. L. & POL'Y 193, 199–204 (2008); Lastowka, *supra* note 53, at 1390–1409.

by technological changes. In moving towards such clarification, it may well be necessary to elevate one policy interest over the rest.

III. THE STATE OF TRADEMARK LAW IN THE EUROPEAN UNION

The EU legal system allows trademarks to be registered at the member state and at the EU level.⁶⁹ Trademark law is only partly harmonized at the EU level and harmonization is expressly limited to “those national provisions of law which most directly affect the functioning of the internal market.”⁷⁰ Harmonization does completely cover enforcement rights against infringement,⁷¹ but the application of EU law (“Community law”) is still mainly in the hands of the national courts of the EU member states.⁷² These national courts have applied the same Community law very differently, giving rise to conflicts in judicial interpretation among them.⁷³

A. Community Trademark Law

Trademark infringement under Community law can be founded on two different legislative bases.⁷⁴ The first basis is under Trademark Directive II Article 5(1), which states that:

The [trade mark holder] shall be entitled to prevent all third parties not having his consent from *using in the course of trade*:

69. Parliament & Council Directive 2008/95/EC, preamble (4)–(5), 2008 O.J. (L 299) 25, 25 [hereinafter *Trademark Directive II*], amending Council Directive 89/104/EEC, preamble, 1989 O.J. (L 40) 1 [hereinafter *Trademark Directive I*]. A trademark registered at the EU level is known as a Community trade mark and is valid in all EU member states. Trade Marks and Design Office of the European Union, What is a Community Trade Mark?, <http://oami.europa.eu/ows/rw/pages/CTM/communityTradeMark/communityTradeMark.en.do> (last visited May 23, 2010).

70. *Trademark Directive II*, *supra* note 69, preamble (4), at 25.

71. *Id.*, art. 5, at 28–29.

72. See discussion *infra* Part III.A.

73. See discussion *infra* Part III.B. Conflicts between national courts have an EU-wide effect because each national court is considered competent to interpret Community law for the whole EU, and not merely for a particular member state. Case C-106/77, *Amministrazione delle Finanze dello Stato v. Simmenthal SpA*, 1978 E.C.R. 629, ¶¶ 14–21. A national court decision on Community law thus is theoretically binding across the EU, which makes it paramount that national courts uniformly interpret Community law. *See id.* Due to this far-reaching impact, this Note will focus on national court conflicts with respect to the impact they have on Community law, and will not discuss the unharmonized portion of member state trademark law, which has no similar binding effect across EU member states.

74. *Trademark Directive II*, *supra* note 69, art. 5, at 28–29.

(a) *any sign* which is identical with the trade mark *in relation to* goods or services which are identical with those for which the trade mark is registered . . .⁷⁵

The second basis of infringement is under Trademark Directive II Article 5(2), which provides that:

Any Member State may also provide that the [trade mark holder] 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 trade mark in relation to goods or services which are not similar to those for which the trade mark 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 trade mark.*⁷⁶

Article 5(2) thus provides additional protection for a certain subset of trademarks by removing the need to prove “likelihood of confusion” with respect to such trademarks.⁷⁷

Both Article 5(1)(a) and Article 5(2) require “use” of the trademark, which the ECJ has defined as showing that an allegedly infringing sign is a representation of the trademark.⁷⁸ In other words, the sign has to act as effective shorthand for the trademark in the minds of consumers.⁷⁹ Mere “use” is insufficient for infringement; the alleged “use” also has to satisfy four “cumulative” conditions:

- (1) the use is unauthorized;
- (2) the use is “in the course of trade;”

75. *Id.* (emphasis added). Article 5(1)(b) covers situations where the sign is merely “similar” to the trademark, or where the goods or services to which the sign is attached are merely “similar” to the goods or services attached to the trademark. *Id.* at 29. Since the European Court of Justice has held that the same test largely applies to both provisions, this Note will focus on Article 5(1)(a), as it is mainly under that provision that the test was developed. See discussion *infra* Part III.B.

76. *Trademark Directive II*, *supra* note 69, art. 5, at 29 (emphasis added).

77. Case C-487/07, *L'Oréal SA v. Bellure NV*, ECJ CELEX LEXIS No. 62007J0487, ¶¶ 34–36 (June 18, 2009) [hereinafter Case C-487/07, *L'Oréal*]; see *Trademark Directive II*, *supra* note 69, art. 5, at 29. This provision provides roughly analogous protection to U.S. anti-dilution laws. Illanah Simon, *Dilution in the US, Europe, and beyond: international obligations and basic definitions*, 1 J. INTEL. PROP. L. & PRAC. 406, 409–12 (2006).

78. Case C-533/06, *O2 Holdings Ltd. v. Hutchison 3G UK Ltd.*, 2008 E.C.R. I-04231, ¶¶ 34–36 [hereinafter Case C-533/06, *O2 Holdings*]; see also Case C-487/07, *L'Oréal*, ¶ 36.

79. *E.g.*, Case C-487/07, *L'Oréal*, ¶¶ 36–37.

- (3) the use is “in respect of goods or services which are identical with, or similar to, those for which the mark is registered;”
- (4) the use “affect[s] or [is] liable to affect the essential function of the trade mark, which is to guarantee to consumers the origin of the goods or services, by reason of a likelihood of confusion on the part of the public.”⁸⁰

The first requirement, “unauthorized use,” is usually an uncontroversial determination. The second requirement, “in the course of trade,” is satisfied where the allegedly infringing sign is used in “a commercial activity with a view to economic advantage and not as a private matter.”⁸¹ The third requirement, “in relation to goods or services,” is satisfied where the sign is used in such a manner that it establishes a “link . . . between the sign . . . and the goods marketed or the services provided [by the alleged infringer].”⁸² The fourth and last requirement is satisfied when the sign is used in a way that creates a risk of consumers being confused as to the goods’ or services’ origin.⁸³ In addition, since trademarks falling under Article 5(2) do not have to show “likelihood of confusion,” claimants alleging infringement under that provision may satisfy the fourth requirement simply by showing that the infringer has taken “unfair advantage” of the trademark’s reputation.⁸⁴ The failure of one condition is sufficient to prevent a finding of infringement and removes the need to conduct an analysis under the remaining conditions.⁸⁵

B. *Community Trademark Jurisprudence*

In the EU system, judicial power is shared between the national courts and the European Court of Justice (“ECJ”).⁸⁶ National courts act

80. Case C-533/06, *O2 Holdings*, ¶ 57.

81. Case C-206/01, *Arsenal Football Club P.L.C. v. Matthew Reed*, 2002 E.C.R. I-10299, ¶ 40 [hereinafter Case C-206/01, *Arsenal Football Club*].

82. Case C-17/06, *Céline SARL v. Céline SA*, 2007 E.C.R. I-07041, ¶ 23.

83. Case C-533/06, *O2 Holdings*, ¶ 59.

84. See Case C-487/07, *L’Oréal*, ¶ 50. “Unfair advantage” occurs when an infringer benefits via association with the trademark from the trademark holder’s efforts to build and maintain the trademark’s reputation, without offering “financial compensation” to the trademark holder. *Id.*

85. See Case C-533/06, *O2 Holdings*, ¶ 57.

86. Consolidated Versions of the Treaty on the European Union and the Treaty on the Functioning of the European Union, art. 267, 2008 O.J. (C 115) 1, available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:115:0001:01:EN:HTML> [hereinafter EU Treaty]. The ECJ is divided into three bodies: the ECJ itself, the Court of First Instance (CFI) and the Civil Service Tribunal. European Navigator, Organisation and operation of the Community jurisdictions, http://www.ena.lu/organisation_operation_community_jurisdictions-2-5973 (last visited May 18, 2010). The CFI is the body that hears appeals from decisions of the Trade Marks and Design Office of the European Union, but preliminary refer-

as courts of first instance in matters concerning Community law, although they may refer cases to the ECJ when they are unsure as to how to interpret Community law or when they question the validity of Community legislation.⁸⁷ If the ECJ accepts the reference, its ruling is binding not only on the national court seeking the reference, but also on all other national courts within the EU.⁸⁸

Given the decentralized nature of trademark enforcement in the EU, it is not surprising that national courts would produce inconsistent interpretations of Community law, especially when confronting a technological advance such as Google AdWords. While British courts have found that Google AdWords' use of trademarked terms as keywords does not violate EU trademark law, French courts have repeatedly found that AdWords' uses are infringing.⁸⁹ German, Austrian and Dutch courts have also struggled to formulate a consistent approach to keyword advertising.⁹⁰ As a result, Austrian, French, German and Dutch national courts have all raised references to the ECJ for preliminary rulings on the application of Trademark Directive II to Google AdWords.⁹¹

ences from national courts on trademark infringement cases go to the ECJ; the Civil Service Tribunal plays no role in trademark law and is not considered in this Note. European NAVigator, The division of competence among the Community jurisdictions, http://www.ena.lu/division_competence_community_jurisdictions-2-5977 (last visited Apr. 4, 2010).

87. EU Treaty art. 267; Curia, Court of Justice—Jurisdiction, http://curia.europa.eu/jcms/jcms/Jo2_7024/#competences (last visited May 23, 2010). Enforcement actions for Community Trade Marks must first be brought in national courts. Trade Marks and Design Office of the European Union, Judgments of the CTM Courts, <http://oami.europa.eu/ows/rw/pages/CTM/caseLaw/judgementsCTMCourts.en.do> (last visited Apr. 4, 2010). A preliminary reference arising from such a case would be heard by the ECJ.

88. Court of Justice—Jurisdiction, *supra* note 87. With respect to issues of interpretation of Community law, national courts have some discretion on whether or not to make a reference to the ECJ and may decline to make one if they believe that the proper interpretation of Community law is already clear. Case 283/81, Srl CILFIT & Lanificio di Gavardo SpA v. Ministry of Health, 1982 E.C.R. 03415, ¶¶ 13–14, 16, 21.

89. *Wilson v. Yahoo! U.K. Ltd.*, [2008] EWHC 361, ¶¶ 64–67, 72–73, 80–83 (Ch.) (U.K.) (holding no infringing use as offering trademarked keywords for sale is not an “identical” or a “similar” service or good to that associated with the mark); *Reed Executive P.L.C. v. Reed Bus. Info. Ltd.* [2004] EWCA Civ. 159, ¶¶ 137–41, 147–53 (A.C.) (U.K.) (holding no infringing use as using trademarked terms as metatags, to trigger banner ads and as search keywords do not confuse users as to source); Noam Shemtov, *Mission Impossible? Search Engines' Ongoing Search for a Viable Global Keyword Policy*, 13 No. 3 J. INTERNET L. 3, 7–9 (2009); *Linksandlaw.com, Google's Ad Words Lawsuits Worldwide*, <http://www.linksandlaw.com/adwords-pendinglawsuits.htm> (last visited Apr. 4, 2010).

90. Shemtov, *supra* note 89, at 3, 7.

91. Brian W. Brokate & Christina L. Winsor, *When, Where, How & Who: Anticounterfeiting Enforcement in the Wake of eBay and the Struggling Economy*, in 15TH ANNUAL INSTITUTE ON INTELLECTUAL PROPERTY LAW, at 657, 667–68 (PLI Patents, Copyrights, Trademarks & Literary Prop., Course Handbook Series No. 19139, 2009); *Google's Ad Words Lawsuits Worldwide*, *supra* note 89.

On March 23, 2010, the ECJ issued its ruling on the matter.⁹² While the ECJ found that AdWords services are capable of enabling trademark infringement, it firmly refused to hold Google directly liable for infringing use by a keyword.⁹³ Instead, any liability for trademark infringement falls upon the individual AdWords account holder.⁹⁴ Google's indirect liability for the infringing actions of its AdWords account holders is also limited by other EU laws.⁹⁵ In analyzing the AdWords program, the ECJ first examined its "use" of trademarked terms under Trademark Directive II, subdivided into three specific "uses": the storage of keywords on Google servers, the display of AdWords ads based on associated keywords, and the selection of keywords.⁹⁶

The ECJ then examined whether these uses met the four cumulative conditions for infringement. After finding that the first requirement for "unauthorized use" was satisfied,⁹⁷ the ECJ turned to the "use in the course of trade" requirement.⁹⁸ It found that all three AdWords "uses" fell within that language because they were clearly connected to an AdWords user's offering of goods or services for sale online.⁹⁹ However, the ECJ did not find that these "uses" were made by Google, although Google provided the means by which they are carried out.¹⁰⁰ Instead, the unauthorized uses were carried out by third-party users: AdWords account holders. Google itself made no "use" of trademarked terms that fell within the meaning of Article 5 of Trademark Directive II.¹⁰¹ Conse-

92. Joined Cases C-236/08, C-237/08 & 238/08, *Google France SARL v. Louis Vuitton Malletier*, ECJ CELEX LEXIS No. 62008J0236 (Mar. 23, 2010) (combined references from French courts) [hereinafter *Google France*]; Case C-278/08, *Die BergSpechte Outdoor Reisen und Alpinschule Edi Koblmüller GmbH v. Günter Guni*, ECJ CELEX LEXIS No. 62008J0278 (Mar. 25, 2010) (reference from Austrian court) [hereinafter Case C-278/08, *BergSpechte*]. *BergSpechte* involves a lawsuit against an advertiser using Google AdWords and not against Google itself, and additionally appears to be meant as an adjunct ruling to *Google France*, given the numerous references in the judgment to parts of the *Google France* judgment. Case C-278/08, *BergSpechte*, ¶¶ 2, 8–13, 18–19, 21–22, 29–36. This Note chooses to focus on the *Google France* decision, as that is where the bulk of the ECJ's reasoning on AdWords and trademark infringement lies.

93. *Google France*, *supra* note 92, ¶¶ 99, 105 (no liability under Article 5(1) or Article 5(2)).

94. *Id.*

95. *Id.* ¶¶ 106–20 (discussing the applicability of an EU directive that creates safe harbors for certain Internet service provider activities).

96. *Id.* ¶ 44.

97. *Id.* ¶¶ 51–54.

98. *Id.* ¶ 50.

99. *Id.* ¶¶ 51–53.

100. *Id.* ¶¶ 55–57.

101. *Id.* ¶¶ 56–59 (“[AdWords] allows its clients to use signs which are identical with, or similar to, trade marks, without itself using those signs The fact of creating the technical

quently, Google AdWords cannot be held to be a trademark infringer under Trademark Directive II.

The “uses” AdWords enables may still support actions for trademark infringement under Article 5(1).¹⁰² The ECJ noted that the individual advertiser who uses trademarked terms in his AdWords campaigns is using those terms “in relation to goods or services,” satisfying the third requirement under Trademark Directive II.¹⁰³ An individual advertiser thus is committing trademark infringement if his AdWords use of trademarked terms causes an “adverse effect” to the function of the mark under the fourth requirement.¹⁰⁴ The ECJ identified the “relevant functions to be examined [as] the function of indicating origin and the function of advertising.”¹⁰⁵ It then specified that an AdWords ad is adversely affecting the origination function if it is misleading or is so vague that a “normally informed and reasonably attentive” Internet user cannot determine whether it has been posted by the trademark holder or by a third party.¹⁰⁶ On the other hand, the ECJ expressly found that AdWords does not harm the advertising function, even though AdWords raises the cost of purchasing a trademarked term as a keyword for a trademark holder without guaranteeing that the trademark holder’s ad will appear in the most prominent position.¹⁰⁷

At this point, it may be fruitful to compare the ECJ judgment with ECJ Advocate General Poiares Maduro’s opinion for this case.¹⁰⁸ While an Advocate General Opinion is not a binding decision of the ECJ, it often has great influence on the ECJ’s final ruling and, if the ECJ’s judgment is consistent with its recommendations, can serve to explain the reasoning

conditions necessary for the use of a sign and being paid for that service does not mean that the party offering the service itself uses the sign.”).

102. The ECJ did not address advertiser liability under Article 5(2).

103. *Google France*, *supra* note 92, ¶¶ 73–74.

104. *Id.* ¶¶ 75–79.

105. *Id.* ¶ 81.

106. *Id.* ¶¶ 87–90.

107. *Google France*, *supra* note 92, ¶¶ 93–95. The ECJ suggests that *no harm* may be done at all to the advertising function, since it finds that the trademark holder’s website is still likely to appear in the topmost *natural* search results, which are returned just under and therefore on the same initial page view as the topmost sponsored results. *Id.* ¶¶ 96–97. Since the natural results are not charged to advertisers, the ECJ argues, the trademark holder still gains valuable advertising visibility. *Id.*

108. Joined Cases C-236/08, C-237/08 & 238/08, Advocate Gen. Op., *Google France SARL v. Louis Vuitton Malletier*, ECJ CELEX 62008C0236 (Sept. 22, 2009) [hereinafter *Google France AG Opinion*]. ECJ Advocates General are not ECJ judges and do not take part in adversarial proceedings before the ECJ, but instead act to provide the judges with an independent legal opinion on a case. Curia, Court of Justice—Composition, http://curia.europa.eu/jcms/jcms/Jo2_7024/#composition (last visited Apr. 4, 2010).

behind the frequently terse language of an ECJ judgment.¹⁰⁹ In the opinion, Maduro suggested that AdWords' use of trademarked terms does even less harm to the advertising function than does comparative advertising, since comparative advertising deliberately takes advantage of a trademark's fame.¹¹⁰ In contrast, Maduro viewed AdWords' uses as "limited to conveying information" about competitors' uses of trademarked terms, since they merely show consumers where the terms are used on websites and in ads without necessarily endorsing those uses.¹¹¹ The ECJ judgment does not explicitly endorse Maduro's view, but its ruling does leave room for national courts to adopt an analysis similar to that of Maduro's. While it remains to be seen how national courts will apply the *Google France* ruling, the ECJ seems to be focusing primarily on AdWords ads for counterfeits. Ads by competitors seem to pass muster, as does the AdWords pricing model in general.

Lastly, the ECJ addressed the application of EU "information society service" safe harbors for "internet referencing service" providers.¹¹² As Google is not a user of trademarked terms, AdWords does not fall under the safe harbors for storing keywords and organizing the display of ads triggered by keywords.¹¹³ But Google may fall under the safe harbor for hosting services, provided that Google's activity with respect to AdWords is "merely technical, automatic or passive, pointing to a lack of knowledge or control of the data which it stores."¹¹⁴ As a result, even if individual AdWords users commit trademark infringement, Google may not be even indirectly liable for those infringements.¹¹⁵

In sweeping away conflicting national court rulings, *Google France* has dramatically changed the landscape of EU trademark infringement law. On the other hand, its new general rule conflicts with many of the verdicts issuing from U.S. courts. As borders increasingly become mean-

109. RENAUD DEHOUSSE, *THE EUROPEAN COURT OF JUSTICE: THE POLITICS OF JUDICIAL INTEGRATION* 9 (St. Martin's Press 1998).

110. *Google France AG Opinion*, *supra* note 108, at ¶¶ 105–07.

111. *Id.* at ¶¶ 106–07. In connection with this view, Maduro argued that most Internet users are not confused by AdWords ads and furthermore, do not use Google with an expectation of receiving an exact search result, but instead rely on the expectation that Google will return many results related to a query as an initial step in the decision-making process. *Id.* at ¶¶ 86–88, 90–91.

112. *Google France*, *supra* note 92, ¶¶ 12–21, 100.

113. *Id.* ¶¶ 104–05.

114. *Id.* ¶¶ 109–14 (holding further that merely receiving payment for hosting services, providing general information, or linking a selected keyword to a search term is not sufficient to deprive Google of the exemption, but that national courts instead must look to the role Google has in creating ad text or in the keyword selection process).

115. *Id.* ¶ 120. Google would lose this exemption if, once informed of an infringing use by an AdWords user, it failed to "act expeditiously to remove or disable access" to that use. *Id.*

ingless in e-commerce, *Google France* may prove as divisive as the fragmented national court rulings that preceded it.

C. EU Trademark Policy Goals

Although the legal traditions of the member states have influenced Community law in many ways, it is an independent body of law from the legal codes of the member states.¹¹⁶ Moreover, as the EU has completely harmonized trademark law with respect to infringement, Community law is supreme in this area.¹¹⁷

The central purpose of the European Community is to create and maintain a single European market with minimal internal barriers to trade and other economic pursuits.¹¹⁸ This context makes it only natural that the trade mark's "essential function" in Community law is to be a source identifier,¹¹⁹ since that function is the most obvious way in which a trademark encourages trade. The ECJ has also recognized that trademarks play valuable secondary functions in guaranteeing quality and in aiding "communication, innovation or advertising" efforts.¹²⁰ In the EU setting, where historically inter-state trade has been more difficult than in the United States, these two functions are especially useful in helping producers to expand into new markets and in aiding consumers confronted with a wider range of choices. At the same time, they may be used to consolidate the market share of existing producers and service providers, which would tend to decrease inter-state trade. For trademarks that have a "reputation," Community law is even more favorable to existing firms, since infringement does not require the consumer-focused element of "confusion," but only looks at the injury to the trademark's "reputation" or "character."¹²¹

116. DEHOUSSE, *supra* note 109, at 16–18, 21–28.

117. See *Trademark Directive II*, *supra* note 69, art. 5, at 28–29.

118. Treaty Establishing the European Community, preamble, 1997 O.J. (C340) 179 [hereinafter EC Treaty].

119. Case C-487/07, *L'Oréal*, ¶ 58; Case C-206/01, *Arsenal Football Club* ¶ 48. This emphasis on source identification is also repeated in the EU legislation creating Community-wide trademarks and in both versions of the Trademark Directive. Council Regulation 207/2009, preamble (2) & (8), art. 4, 2009 O.J. (L78) 1, 3 [hereinafter *Community Trademark Regulation*]; *Trademark Directive II*, *supra* note 69, preamble (11), at 26; *Trademark Directive I*, *supra* note 69, preamble, at 1.

120. Case C-487/07, *L'Oréal*, ¶ 58.

121. *Trademark Directive II*, *supra* note 69, art. 5(2), at 29. In this respect, Community law goes somewhat further than U.S. anti-dilution law in adopting the concept that a trademark has value in its own right, explicitly stating that a trademark "is to be regarded as an object of property which exists separately from the undertakings whose goods or services are designated." *Community Trademark Regulation*, *supra* note 119, preamble (11), at 2 (creating a Community-wide trademark).

The *Google France* opinion does not deviate from the above rationales,¹²² which is a pity since the ECJ has missed a valuable opportunity to address potential new functions and policies for trademarks in the Internet environment. In contrast, ECJ Advocate General Poirares Maduro's opinion for *Google France* argued that the underlying policy of all previously recognized trademark functions is "the promotion of innovation and investment."¹²³ He further stated that this interest should be balanced against other interests, in particular the Community interests in freedom of expression and freedom of commerce.¹²⁴ In the Internet setting, the specific interest in providing information to consumers should override the interests of trademark holders. Otherwise, Google's unique ability to provide information to its users, and even the Internet's general function as an information exchange, would be fatally impaired by trademark holders striving to control all possible uses of their marks.¹²⁵ Sadly, the only hint of Maduro's argument that remains in the *Google France* judgment is an observation that Google provides free and usually prominent visibility to trademark holders via its *natural* search results, and even this comment is addressing the harm to trademark holders, as opposed to the benefit of AdWords for consumers.¹²⁶

The *Google France* ruling, as favorable as it is to Google AdWords, does not seem to change the underlying Community policy on trademarks. *Google France* presented the ECJ with the opportunity to progressively adapt Community law to the changes programs like AdWords have wrought in the ways that businesses seek customers and consumers look for goods and services online. Instead the ECJ chose to simply rely on and reaffirm old doctrines that are out of step with the development of e-commerce. *Google France* could have signaled a sea-change in how Community law treats intellectual property in the Internet

122. *Google France*, *supra* note 92, ¶¶ 64–72, 76–77, 82–87, 91–97.

123. *Google France AG Opinion*, *supra* note 108, ¶ 101.

124. *Id.* ¶¶ 102–03. According to Maduro, trademarks should therefore not be viewed as "classic property rights enabling the trade mark proprietor to exclude any other use." *Id.* ¶ 103.

125. *Id.* ¶¶ 106–12 ("The internet operates without any central control, and that is perhaps the key to its growth and success: it depends on what is freely inputted into it by its different users. Keywords are one of the instruments—if not the main instrument—by means of which this information is organised and made accessible to internet users. Keywords are therefore, in themselves, content-neutral: they enable internet users to reach sites associated with such words. . . . by claiming the right to exert control over keywords which correspond to trade marks in advertising systems such as AdWords, trade mark proprietors could de facto prevent internet users from viewing other parties' ads for perfectly legitimate activities related to the trade marks. That would, for instance, affect sites dedicated to product reviews, price comparisons or sales of secondhand goods.").

126. *Google France*, *supra* note 92, ¶¶ 96–97.

context, but as it stands, it may be limited to merely harmonizing legal treatment of AdWords.

IV. A JOINT U.S.-EU SAFE HARBOR FOR KEYWORD ADVERTISING

In the United States, a judicial solution to the trademark issues presented by AdWords seems unlikely to occur in the near future. The EU, on the other hand, now has a common judicial stance on the subject. Even assuming that U.S. courts will soon come to a consensus on how to treat keyword advertising, Google AdWords would still be subject to different legal treatments on either side of the Atlantic. Such a split will prevent both the United States and the EU from effectively regulating the use of trademarked terms in AdWords. Moreover, it will harm Google's ability to promote the liberalization of international trade and to encourage global economic development. As a result, both businesses and consumers will lose out on the potential trading benefits Google provides. The United States and the EU should coordinate efforts to create a legislative safe harbor for search engine keywords against trademark infringement, with the ultimate goal of promoting an international safe harbor.

A. *The Risk of Balkanization*

When a user browses through webpages, his movements are normally not determined by his geographical location: a webpage hosted on a server in another country is usually as accessible as a webpage hosted on a server in the same country as the user.¹²⁷ Imposing geographically-based limitations on users can be done, but even with modern technology, it is very difficult to achieve complete remote control over a user's online movements.¹²⁸ As a result, an enormous amount of resources and

127. See Barry M. Leiner et al., *Histories of the Internet—A Brief History of the Internet*, INTERNET SOCIETY.ORG, <http://www.isoc.org/internet/history/brief.shtml> (last visited Apr. 4, 2010) (initial interneting concepts). The default Internet protocol for prioritizing information transmission is to only use time of arrival at a routing server to determine priority ranking. HARRY NEWTON, *NEWTON'S TELECOM DICTIONARY* 85 (15th ed., Backbeat Books 1999). Current Internet infrastructure is not generally designed to prioritize transmissions using characteristics like the geographical location of a packet's sender. See James Fallows, *The Connection Has Been Reset*, THE ATLANTIC, Mar. 2008, available at <http://www.theatlantic.com/doc/200803/chinese-firewall>; LEINER, *supra*. Changing the default protocol to take into account additional factors besides the time of arrival requires a deliberate redesign of basic Internet infrastructure. See Fallows, *supra*.

128. See Fallows, *supra* note 127. Few governments have the resources to directly supervise Internet usage, and those that do usually can manage it because Internet access is only available through a limited number of government-controlled points. See Elinor Mills,

effort is needed to segregate different parts of the Internet for the purpose of applying different legal regimes to them.

Google's internal region-specific trademark policies are an example of a private attempt to achieve such segregation.¹²⁹ As a private company, Google can enforce a much broader and more restrictive trademark policy than any one country, being limited largely by its technological capabilities. But even Google cannot completely segregate parts of the Internet for the purposes of applying different AdWords trademark policies. Technology allows a user to prevent Google from detecting the true geographical location of his Internet access point in ways that Google cannot effectively counteract.¹³⁰ An Internet user in one country, under one trademark policy, could still create an AdWords account that appeared to be in another country, governed by the trademark policy for that country, and not that of the user's own country. Although this failure may be arguably partly due to Google's own reluctance to exercise its full capabilities,¹³¹ Google's inability to infallibly apply the proper geographic trademark policy to a given user is not entirely within Google's control—since such control is only relative to how precisely Google can determine the user's geographical location.

If Google, the intuitive cheapest cost-avoider, cannot always accurately apply the trademark policy for a given region to the actual users in that region, then a state seeking to regulate trademark use by AdWords would surely be expected have even greater difficulty. A state's regula-

In post-Google China, censorship is unfazed, CNET.COM, Mar. 26, 2010, http://news.cnet.com/8301-27080_3-20001212-245.html; see Fallows, *supra* note 127. But it is difficult to maintain such control, as the popular appetite for Internet access often turns to black-market sources for additional, private Internet access. Lara Farrar, *Cashing in on Internet censorship*, CNN.COM, Feb. 19, 2010, <http://www.cnn.com/2010/TECH/02/18/internet.censorship.business/index.html?hpt=Sbin>; Brad Stone & David Barboza, *Scaling the Digital Wall in China*, N.Y. TIMES, Jan. 15, 2010, <http://www.nytimes.com/2010/01/16/technology/internet/16evade.html>.

129. See *supra* Part I.B.

130. For example, proxy servers permit an Internet user to have his Internet connection rerouted through servers in such a way so that he appears to be accessing the Internet from a different country than the one in which he sits. See Bradley Mitchell, *Proxy Servers Tutorial—About Proxy Servers: Introduction to Proxy Servers*, ABOUT.COM, <http://compnetworking.about.com/cs/proxyservers/a/proxyservers.htm> (last visited Apr. 4, 2010).

131. Google has shown that it can limit its actions to a very local geographical area when it wishes. In one U.S. trademark infringement case involving AdWords, Google search queries using the allegedly infringing keyword were found by the trademark holder to have stopped returning ads for competitors' websites coincidentally on the day that oral arguments were to be held. Frank Pasquale, *Rankings, Reductionism, and Responsibility*, 54 CLEV. ST. L. REV. 115, 137 (2006). The phenomenon appeared to be confined to that region, as searches run in other U.S. regions continued to return competitors' ads. *Id.* Google claimed it was a purely technical glitch. *Id.*

tory power is typically limited by its territorial jurisdiction.¹³² Nor can a state ensure as well as Google can that policies across regions are consistent with each other and are similarly enforced. A risk of state intervention in cyberspace is that different states will have different policies, yet no state will be able to effectively enforce its policy because it can neither prevent its users from altering their 'true' locations, nor enforce the policy against users outside of its jurisdiction who act in ways that have effects within its jurisdiction.

Private businesses in a state applying a stricter-than-average trademark policy are put at a disadvantage with respect to online marketing where they have to comply with their state's laws while competing against foreign businesses governed by more relaxed laws. Google's policy on trademark infringement complaints somewhat levels the field, since it applies not to all advertisers within a given region but to all *advertisements* running within a given region.¹³³ However, a user can easily run Google searches as if he was located in a different, more lenient country, and therefore would be able to see ads not permitted in his own country.¹³⁴ As a result, businesses who comply with a stricter trademark policy in one region are devoting their resources to support a policy that is ineffective at preventing users from seeing ads of noncompliant competitors. Of course, the above hypothesis presumes that the user has a reason to take the extra effort to pursue a workaround as opposed to the typical casual surfer.

A balkanized approach to trademark policy nevertheless carries other costs for businesses wishing to reach more than one region. They would have to set up different ads for each region that each specified a different set of keywords even if their targeting plans or the region's

132. Since trademarks are defined by consumer perception of a mark, the enforceability of a trademark is limited to the geographical area in which it is recognized by consumers as a symbol of commerce. MCCARTHY, *supra* note 33, §§ 26:27, 26:30.50, 29:1, 29:5. The expansion of personal jurisdiction in the Internet context, at least in the United States, has greatly eroded this limitation, but this development threatens to intrude into other states' regulatory regimes. *Id.* §§ 32:38, 32:45.50. It also imposes extra costs on firms, including with respect to market entry, by potentially subjecting them to overlapping regimes. *Id.* §§ 32:45.50.

133. What is Google's AdWords and AdSense trademark policy?, *supra* note 19.

134. See Mitchell, *supra* note 130. In addition, users always have the choice to access the Google.com search page or another region-specific search page instead of their region-specific Google search page. Google.com, Google Web Search Help: Trouble connecting: Google.com automatically takes me to another Google site, <http://www.google.com/support/websearch/bin/answer.py?answer=873&query=redirect&topic=0&type=f> (last visited Dec. 25, 2009). This workaround would allow users to avoid restrictions on search results, although they would still be subject to region-specific ad targeting. Mills, *supra* note 128; see How does AdWords know where to show my keyword-targeted ads?, *supra* note 20.

language did not inherently require such differences.¹³⁵ In AdWords, an ad campaign that requires advertisers to set up different ads and different sets of keywords by regions would incur more costs for advertisers than if they were able to run just a single ad with a single set of keywords for all regions.¹³⁶ Since the placement of the ad depends partly on the amount bid on an associated keyword,¹³⁷ the scarcity of desirable keywords increases the bid amount required for an ad to have an effective position on the search results page. If the trademark policy for one region allows trademarked terms to be used as keywords, then that region will have more possible keywords available. But if the region's trademark policy forbids the use of trademarked terms as keywords, then the pool of available keywords shrinks. Keywords that would normally be less desirable—for example, because they are less precise—become more expensive as businesses are forced to compete for them. A business may also be forced to bid for more keywords in order to ensure that its ads target the correct audience, since it is not allowed to use the keyword most likely to be searched by a would-be consumer.¹³⁸ Firms with limited marketing budgets may end up having to run ads in fewer regions than their supply capacity may actually be able to reach. The vision of a lone entrepreneur running a global business out of the spare bedroom becomes less achievable, undercutting one of the great values of AdWords for start-ups: its high return on low initial investment in marketing.

Region-specific trademark policies negatively affect a third group: consumers. When applied to programs like AdWords, trademark policy directly affects the degree of access a consumer has to competing providers of goods or services. A consumer may type a search query into Google using a trademarked term, but not with the intention of getting only the trademark holder's website. This expectation that a trademarked

135. For example, "soccer" is "football" to most English speakers besides Americans. Many of the European languages also use cognates to "football," such as "fútbol" in Spanish. If a firm planned to advertise soccer balls to a U.S. audience, it would likely already intend to purchase "soccer," "football" and "fútbol" as keywords in order to reach the broadest spectrum of potential consumers.

136. See *supra* Part I.A.

137. How are ads ranked?, *supra* note 13.

138. For example, take a firm who makes a laptop that directly competes with Dell laptops, and who wants to specifically target Dell customers. The obvious keyword phrase to buy is "Dell laptops," but if the firm cannot buy "Dell" as a keyword, then it can only buy "laptops." This keyword is not as precise as "Dell laptops" and will be triggered not only by those searching for Dell laptops, but also by searches run by anyone looking for any kind of laptop. The more times the ad appears, the more costly the keyword will be for the firm. In order to limit how often the ad is triggered, the firm will have to buy more keywords that are associated only with people looking for Dell laptops. If the firm could just buy "Dell" as a keyword, it would not have to buy those extra keywords.

term will generate a broad list of results does not necessarily mean that the consumer is confused; he may be searching in order to find all the direct competitors for the trademarked good or service.¹³⁹ He may not know the names of such competitors, but is deliberately using the known trademarked term to seek out the unknown competitors. Such a search goes to the very heart of why Google is an invaluable resource for navigating the Internet, as it starts with an incomplete set of information and generates a much broader results set from it. Moreover, this type of search may be more likely to accurately reflect the way consumers actually use Internet search engines.¹⁴⁰ A state with a trademark policy disallowing trademarked terms as keywords would alter which ads are returned in the search results page in a way that does not match consumer expectations. A consumer limiting his search queries to only a trademarked term may not see the ads of direct competitors. The consumer, however, would believe that his results page contains all the relevant links for his area, including links to direct competitors. He is not likely to think of running additional queries containing extra search terms, and would never discover competitors' websites. Compared to a consumer in a state with a more lenient policy, this consumer effectively has a more limited range of choices.

Furthermore, the consumer loses out again because the additional costs of complying with multiple trademark regimes may especially disadvantage out-of-state businesses,¹⁴¹ as discussed above. The number of firms able to gain the notice of the consumer decreases even more, and the consumer has even less of a chance to discover competing goods or services. In the context of the Internet, this constraint on consumer choice is even more striking since the Internet is typically seen as the global marketplace and Google, the point of access to it.¹⁴² But region-specific trademark regimes would limit the online marketplace by limiting consumers to regionally-known providers and by favoring established domestic firms over foreign ones.

139. *Google France AG Opinion*, *supra* note 108, ¶¶ 87–88, 90–91. In the United States, one author-conducted simulation involving 160 individuals aged sixteen and older found no initial interest confusion was generated by AdWords ads of competitors triggered by search queries containing a trademarked term. Jacob Jacoby & Mark Sableman, *Keyword-Based Advertising: Filling in Factual Voids* (GEICO v. Google), 97 TRADEMARK REP. 681, 719–50 (2007).

140. See sources cited *supra* note 139.

141. A similar argument would apply to new businesses within the same state: they cannot use trademarked terms as keywords, which reduces the chances of their ads reaching their target consumer. Restricting usage of trademarked terms in AdWords erects a general barrier to market entry and favors existing firms.

142. Lastowka, *supra* note 53, at 1330, 1340–41, 1399–1402.

A fragmented approach towards AdWords thus produces results that negatively affect the goals of ensuring fair competition and promoting consumer interests, which are present both in EU and in U.S. trademark law. It is true that another trademark policy goal common to both the EU and the United States is protecting existing trademark holders' investments. The EU implicitly makes protecting existing market shares an objective of its trademark law in explicitly permitting member states to grant additional protection to marks with a "reputation."¹⁴³ But the risk of different state policies towards AdWords is that states cannot effectively enforce them without intruding into other states' legal regimes. As shown above, the effects of a state's trademark policy can reach beyond its borders to out-of-state firms. If the state has a more relaxed approach to the use of trademarked terms as keywords, then foreign firms will face fewer obstacles in running AdWords ads in that state. But if the state has a stricter approach, foreign firms will be discouraged from running ads there. At the same time, users within a state cannot be completely blocked from seeing ads running under more relaxed trademark regimes, so domestic firms will still lose out. These firms may then push for more stringent enforcement by asking their state governments to pressure more liberal states to adopt more restrictive policies. This pressure creates friction among the states that wish to pursue different trademark law objectives.

The state-specific approach to trademark issues in AdWords is ineffective for achieving its immediate goal of regulating usage of trademarked terms as ad keywords, and instead imposes significant disadvantages on states, businesses, and consumers. It forces confrontations between states that wish to emphasize different trademark policy objectives. In addition, it degrades the overall quality and limits the full economic potential of the Internet. States should seriously consider these significant flaws before continuing to pursue individual action against AdWords.

B. *Google AdWords As a Vehicle of Trade Liberalization*

The drawbacks of regulating AdWords' use of trademarked terms are rooted in the tension between the territorial nature of state jurisdiction and the borderless nature of the Internet.¹⁴⁴ Ironically, the advantages that Google AdWords offers also stem from this tension. AdWords transcends territorial boundaries in a manner that makes it an extremely effective vehicle for liberalizing international trade. It especially enables those

143. *Trademark Directive II*, *supra* note 69, preamble (4), (5), (10), at 25–26.

144. *See supra* Part IV.A.

with limited initial resources to become viable competitors against globe-spanning firms. The effect of AdWords on trade and commerce thus favors protecting it against trademark holders, who seek to disable the very capabilities that make AdWords such a strong liberalizing agent.

1. A Brief Introduction to Trade Liberalization

The ability of trade to flow freely has a greater impact on the world economy than the collective gross domestic product of all states.¹⁴⁵ Trade also is a more significant factor in the domestic economy of most states than their gross domestic products.¹⁴⁶ Policies that affect the cross-territorial flow of trade consequently will have a considerable impact on the development of the global economy.

Economists now generally agree that free trade is the most economically sound policy for advancing the overall world economy.¹⁴⁷ Free trade's central principle is the *law of comparative advantage*, which holds that by opening its borders to trade, a state can specialize its production because it can import its other needs.¹⁴⁸ Production is more efficient and less costly, and producers have access to the largest market possible since they can supply their products to wherever there is demand.¹⁴⁹ Free trade also ensures that the consumer is offered the best price at the best value possible, since it allows firms from different states to compete in the same market and thus increases the quantity and the quality of consumer options.¹⁵⁰ As a result, states have also come to see free trade as generally desirable and have created institutions like the

145. The percentage of the world economy due to trade is greater than the percentage due to GDPs. JOOST PAUWELYN & ANDREW GUZMAN, INTERNATIONAL TRADE LAW 1, 4 (2009). World trade also grows faster than world GDP. World Trade Organization, *International Trade Statistics 2009*, 1, 7 (2009) [hereinafter *International Trade Statistics*], available at http://www.wto.org/english/res_e/statis_e/its2009_e/its09_toc_e.htm.

146. For most states, trade makes up a greater percentage of their economies than GDP. PAUWELYN & GUZMAN, *supra* note 145; see *International Trade Statistics*, *supra* note 145, at 2.

147. PAUWELYN & GUZMAN, *supra* note 145, at 9, 13–16; see also World Trade Organization, *World Trade Report 2008: Trade in a Globalizing World* 27 (2008) [hereinafter *World Trade Report 2008*], available at http://www.wto.org/english/res_e/publications_e/wtr08_e.htm. Free trade in its most pure form does not prevent individual dislocations from occurring, but in fact inevitably creates them. PAUWELYN & GUZMAN, *supra* note 145, at 10, 16, 22–23; see also *World Trade Report 2008*, *supra*, at 123. However, it increases overall global wealth so that the overall welfare of a population is bettered. PAUWELYN & GUZMAN, *supra* note 145, at 22–23; *World Trade Report 2008*, *supra*, at 75. Individual dislocations may still be handled, and are arguably better dealt with, through domestic non-trade policies rather than trade policies. PAUWELYN & GUZMAN, *supra* note 145.

148. PAUWELYN & GUZMAN, *supra* note 145, at 13–16.

149. See *id.* at 13–18.

150. See *id.*

World Trade Organization (WTO) to encourage a continuous progression towards free trade.¹⁵¹

2. How AdWords Liberalizes International Trade

Normally international trade policy is associated with changes in trade measures such as tariffs or quotas, which involve physical exchanges of goods or services. In contrast, AdWords is a stellar example of how technological advances in the virtual realm affect trade. As discussed above, AdWords offers advantages to firms with limited resources. It lowers the barrier of market entry, incentivizing businesses to expand their online advertising campaigns to regions where they may not have the resources to conduct more traditional marketing strategies such as television ads. AdWords also makes it much easier for consumers to find and to contact foreign firms or newly-established domestic firms. By removing these obstacles to cross-territorial trade, AdWords facilitates the free flow of international trade and commerce in a way that a state-based trade policy cannot.

Domestic state intervention mostly addresses barriers lying within a state's territorial jurisdiction. In order to address foreign trade barriers, a state can employ indirect domestic policies like subsidies, but such policies may have unintended and detrimental effects and can cause diplomatic friction, which can lead to unproductive trade wars.¹⁵² Another state strategy is to negotiate with the other state in hopes of persuading it to lower its trade barriers. However, bilateral trade agreements tend to be *preferential* agreements, where two states agree to give each other more favorable treatment than they give to the rest of the world in the hopes of preserving the status quo against states not party to the agreement.¹⁵³ But preferential agreements often lead to retaliation by disfavored third-party states, through raising trade barriers or through their own preferential agreements. Transactional costs of trade rise as a result, since a firm has to overcome a different set of trade barriers for each country.

151. World Trade Organization, *About the WTO—Statement by the Director-General*, http://www.wto.org/english/thewto_e/whatis_e/wto_dg_stat_e.htm (last visited Apr. 4, 2010).

152. World Trade Organization, *World Trade Report 2007: Six Decades of Multilateral Trade Cooperation: What Have We Learned?* 35–42 (2007), available at http://www.wto.org/english/res_e/booksp_e/anrep_e/world_trade_report07_e.pdf. See PAUWELYN & GUZMAN, *supra* note 145, at 20–26.

153. Bilateral trade negotiations, while technically binding only the parties involved, are never truly bilateral. When entering such pacts, each state will still consider the effects on non-party trading partners as it will be reluctant to let one bilateral trade agreement damage its trading position with the rest of the world, even if it strengthens its position vis-à-vis the other party to the agreement.

The WTO and bodies such as the European Community are intended to specifically address the problem of international coordination of trade policies. However, they have several drawbacks. First of all, they are state-oriented and so tend to focus on macroeconomic issues, which may leave problems of smaller dimension unaddressed.¹⁵⁴ Secondly, while they can remove legal barriers to trade, such organized bodies rarely can do anything about physical or financial barriers. Into this latter gap steps AdWords, which allows firms and consumers to form virtual marketplaces that geographical and logistical obstacles would otherwise prevent. It embodies trade liberalization's ultimate goal: a global market where a firm in any country can reach a consumer in any country.

Furthermore, AdWords achieves this effect at relatively low cost to both sides of a commercial transaction. An AdWords account can often be cheaper to set up than a traditional print- or media-based marketing campaign, while offering a potentially global reach.¹⁵⁵ In addition, only one entity, Google, is administering AdWords for any given regional area, allowing AdWords to maintain a standardized interface and infrastructure no matter where in the world the account sits or the ads run. The informational costs of determining what type of advertising can be done in each market thus are tremendously reduced. The consumer too faces lower informational costs, since he no longer has to physically search for competitors. Instead, searches can be run without much effort through Google's search engine, which collates all relevant links—commercial and non-commercial—into a single resource for the consumer to peruse.

AdWords also removes some significant costs of supporting international trade from the states. Trade policies favoring exports are often

154. The WTO only permits members, who are either states or collections of states, to use its dispute settlement mechanism for challenging a trade barrier. Agreement Establishing the World Trade Organization arts. XI–XII, Apr. 15, 1995, 33 I.L.M. 1125. In the EU, private firms and individuals may be asked to contribute their views during trade policymaking, but they have no official role in shaping EU external trade policy. STEPHEN WOOLCOCK, *Trade Policy: From Uruguay to Doha and Beyond*, in POLICY-MAKING IN THE EUROPEAN UNION 378–80, 383–86 (H. Wallace, W. Wallace & M. Pollack eds., 2005). In addition, the right of a private entity to challenge a European Community external trade measure is highly limited by strict procedural requirements. DEHOUSSE, *supra* note 109, at 26 (citing EC Treaty art. 173).

155. See references in note 11, *supra*. For example, one man reportedly spent \$6US on Google Ads to land himself a job at an advertising company. Lauren Indvik, *Man lands job with \$6 Google campaign*, CNN.COM, May 14, 2010, <http://www.cnn.com/2010/TECH/05/14/google.job/index.html>. Compare Gaebler.com, *Costs for Advertising in Newspapers*, <http://www.gaebler.com/Newspaper-Advertising-Costs.htm> (last visited May 19, 2010) (estimating full-page ad in local paper to cost at least \$1000US); Gaebler.com, *Costs of Advertising on Television*, <http://www.gaebler.com/National-TV-Spot-Ad-Costs.htm> (last visited May 19, 2010) (estimating premade TV ad spot to cost \$300US to purchase from agency and \$13-60US to run on local cable).

unpopular domestically, which is one reason why states continue to pursue protectionist policies despite the lack of economic rationale for such policies.¹⁵⁶ It can be very difficult politically for a state to promote, institute and maintain free-trade-friendly policies.¹⁵⁷ But the Google search engine and AdWords have already created an environment that favors free trade, with little intervention of any kind from national governments. Not only does the Internet structurally favor such borderless transactions,¹⁵⁸ but the Internet-using consumer has also become habituated to expect this kind of commercial forum. Moreover, Google has a strong incentive to increase AdWords' availability to as many users as possible, since it derives so much revenue from the program.¹⁵⁹ More AdWords accounts mean more competitors for a given good or service, both in terms of numbers and of geographical distribution. Increased competition will create pressure to specialize and to innovate, which leads to more efficient production and higher-quality products.

AdWords has become a private sector experiment in applying free trade policies to a truly global marketplace, and its success has shown the value in supporting such policies. It gives consumers access to the widest available range of providers of services and goods while drastically reducing the barriers to new market entry for foreign firms, all at little cost to state governments. As the economic fate of any state is directly linked to the well-being of the global economy, states therefore should be careful not to impair the ability of AdWords to promote trade liberalization.

3. Letting Trademark Holders Dictate AdWords Policy Impairs Trade Liberalization

Trademark holders challenge AdWords' use of trademarked terms as keywords because they believe that such a use wrongly appropriates the value of the trademark to third parties.¹⁶⁰ Instead they argue that a trademarked term should not be available as an AdWords keyword except

156. PAUWELYN & GUZMAN, *supra* note 145, at 17, 28–29.

157. In fact, this problem with domestic resistance is another reason behind the usefulness of bodies like the WTO, which can be used as a counterweight to domestic opposition in pushing trade policy. *See, e.g.*, Joost Pauwelyn, *New Trade Politics for the 21st Century*, 11 J. INT'L ECON. L. 559, 559–60 (2008).

158. *See supra* Part IV.A.

159. Google.com, Google Investor Relations: 2010 Financial Tables, <http://investor.google.com/financial/tables.html> (last visited May 19, 2010) (total advertising revenue of \$23 billion in 2009); Miguel Helft, *Brisk Ad Sales Spur Google in Third Quarter*, N.Y. TIMES, Oct. 15, 2009, http://www.nytimes.com/2009/10/16/technology/companies/16google.html?_r=1&hpw.

160. *See supra* Part I.B.

when authorized by the trademark holder. But restricting keyword uses in this way greatly restricts AdWords' value in facilitating trade liberalization—it manipulates Google search results so that they fail to return links to competitors of the trademark holder.

As mentioned before, consumers entering a search query containing a trademarked term are often not looking for the exact match to, for example, the trademark holder's website. Instead they not only expect to see, but also want to see search results that include links to competitors' websites. Allowing a trademark holder to forbid the use of trademarked terms as AdWords keywords decreases the likelihood that any ad but the trademark holder's ads would appear on the search results page. Consumers thus are less likely to view competitors' ads, since in order to do so they would have to run additional searches with different, non-trademarked search terms. If they never view the competitor's ads, they will have much less awareness that such competitors exist. Their knowledge of services or goods providers will be limited to firms they already know. In this context, firms with some sort of local physical presence will have a huge advantage over firms who can only afford Internet ads in that region. In this way, the trademark holder's approach to AdWords would limit consumers to local, territorially-defined markets populated with firms who have established market presence via traditional non-Internet means, undercutting the borderless quality that AdWords brings to trade.

The trademark holder does have a valid argument in defending his trademark from infringing use, but the idea of trademark infringement is rooted in the concept that it somehow harms trade and commerce.¹⁶¹ It is not clear that using a trademarked term as an AdWords keyword results in any specific harm to the trademark holder, and the possibility is open that this use actually confers benefits on the trademark holder by increasing consumer knowledge of the trademark. Consumers seeking the trademark holder's website do not seem to suffer from confusion at the appearance of other links, so it is unlikely that the trademark holder can point to lost sales due to AdWords.¹⁶² The way AdWords encourages competition by allowing easy comparisons with competitors may actually drive traffic towards a trademark holder's website. Trademark holders are not barred from also using the same trademarked term as a keyword for their ads.¹⁶³ Admittedly, the presence of other ads using that term as a keyword may drive up the amount of money a trademark

161. The various policy goals of trademark law discussed in Parts II.B and III.B, *supra*, are all rooted in the notion of encouraging trade and commerce.

162. See, e.g., Jacoby & Sableman, *supra* note 139, at 736–49.

163. See Keyword basics, *supra* note 3.

holder has to commit to ensuring an advantageous ad placement on the search results page.¹⁶⁴ But this expenditure is simply a continuing investment in the trademark, and is no different from any other marketing expense save for being made in the context of AdWords. For example, in more traditional advertising mediums such as packaging and billboard ads, trademark holders are willing to continue to spend money in order to prevent their trademarks from becoming generic and thus unprotected. But with AdWords, the trademark holder approach would reserve a trademarked term without requiring trademark holders to put forth an equivalent effort to ensure continued association with their marks in the eyes of consumers. It is not clear that this saving of cost to the rights holder outweighs the additional costs imposed on competitors and on consumers.

It is much clearer that using a trademarked term as an AdWords keyword does not create general harm. On the contrary, such use facilitates the uninterrupted flow of international trade and commerce. The balance of harms and benefits weighs much more on the side of allowing the use of trademarked terms as AdWords keywords.

C. An International Safe Harbor for AdWords

Given the strain AdWords puts on judicial interpretation of existing trademark law, a better solution would be a legislative enactment creating an explicit safe harbor. This safe harbor should be aimed not at a particular search engine, but at protecting the general *function* of keywords in search engine advertising. The interest to be preserved is not, after all, to enable Google to continue making money off of AdWords, but to lower the cost of market entry to firms and to provide the online consumer with as much information as possible. Keywords directly contribute to the *number* of options a consumer receives in his search results. Any confusion that might arise from the search results is not a matter of how many results are presented, but the manner in which they are presented, which is a separate issue. Rights holders should therefore not be permitted to bar the use of trademarked terms as keywords, either as an internal use by Google or as a selected keyword by AdWords account holders.¹⁶⁵ However, the use of trademarked terms in ad text should be excluded from the safe harbor. It is currently unclear how much this use creates confusion among Internet consumers or how much this use

164. See How are ads ranked?, *supra* note 13.

165. Requiring competitors to be more creative in picking keywords because the obvious one is trademarked would raise a barrier to market entry and reduce a consumer's access to information. See *supra* Part IV.B.3.

contributes to an Internet consumer's ability to make an informed decision between suppliers. Likely the value or damage of freely using trademarked terms in ad text will depend on the experience a consumer has with the Internet.¹⁶⁶ A blanket safe harbor for this use does not seem appropriate at the present time. Legislators should therefore limit their actions to preserving only the use of trademarked terms as keywords.

Furthermore, legislative action should not be limited to the national or even the regional level for the same reasons, illustrated earlier, that argue against continued judicial action on the matter: differences in legislative standards pose the same issues of balkanization as differences in judicial rulings. The most effective solution would be an international agreement, and at the very least, an international coordination of a solution is desirable. The protection of commerce and trade is central to United States and to EU trademark law,¹⁶⁷ so basing a legislative safe harbor for AdWords on trade considerations is consistent with the underlying policies of both legal traditions. An international trade justification would rest on generally-accepted and relatively uncontroversial bases of legislative power in both the United States and the EU, so any safe harbor legislation would be likely to withstand judicial challenges.¹⁶⁸ Since courts in both regions have issued rulings on trademark infringement liability for AdWords, they already are confronting a need to act on the issue in a way that other nations are not. Moreover, the United States and the EU are two of the most influential trading powers in the world economy,¹⁶⁹ so any action taken by them would be seen as standard-setting by other states. They also have a strong presence in international organizations such as the WTO and can use their influence in these fora to push for a uniform and global stance on safe harbors against trademark liability for AdWords.

166. As more people gain access to the Internet and become familiar with e-commerce, it should be expected that common understandings of advertiser practice will emerge, similar to the common and widespread understanding in traditional advertising that claiming your product is the best is simply boasting. Once such consumer understandings emerge, it may be necessary to revisit this issue. One commentator has noted that such concerns also may be better dealt with through false advertising, consumer protection or contributory liability laws. Stacey L. Dogan, *Beyond Trademark Use*, 8 J. TELECOMM. & HIGH-TECH. L. 135, 139–51 (2010).

167. See *supra* Parts II.B and III.B.

168. In the United States, Congress' power to legislate on trademarks is based on the Interstate Commerce Clause. See *supra* Part II.A. EU institutions have the power to legislate on trademarks based on their power to create and maintain a common economic policy, which was the original *raison d'être* of the EU and still remains one of its foundational pillars. John R. Gillingham, *The German Problem and European Integration*, in *ORIGINS AND EVOLUTION OF THE EUROPEAN UNION* 55, 78–80 (Desmond Dinan ed. 2006).

169. See PAUWELYN & GUZMAN, *supra* note 145, at 52.

The WTO in particular would be a powerful forum since it offers a dispute resolution mechanism that would permit any trademark agreement to be enforced.¹⁷⁰ Enforcement, coupled with the tendency of Internet-based programs to cross territorial boundaries, would strongly encourage widespread adoption of the same trademark policy. At the same time, working through a multilateral forum would allow for consideration of individual states' circumstances in a way that a bilateral United States-EU agreement would not, and so would reduce suspicions that these two trading powers are imposing their will on the global economy. The trade liberalization justification would also aid in counteracting this perception, since it centers on improving general welfare as opposed to benefiting a single state, or even a single Internet company.

A legislative safe harbor for search engine keywords would preserve its ability to further liberalization of international trade, while not unduly stretching domestic legal traditions. International implementation of such a safe harbor would solve the issues inherent in the current patchwork of national trademark regimes. Consequently, the United States and the EU should take the lead on formulating an international trade liberalization approach to a safe harbor.

CONCLUSION

As epitomized by Google AdWords, search engine advertising has drastically altered the landscape of online advertising, creating a truly global marketplace with the potential to advance trade liberalization far beyond any governmental or even intergovernmental action could achieve. It has simultaneously come under attack for the way in which it allows trademarked terms to be used as keywords for targeting and placing ads on its search results pages. While trademark protection has a long, varied history among states, its underlying policy concerns ultimately involve the encouragement of the free flow of trade and commerce. This common ground should provide the basis for the protection of search engine advertising's unique and effective ability to facilitate the lowering of trade barriers.

Currently the main mechanism for developing trademark law on search engine advertising is through national judicial systems, but the results have created an ineffective hodgepodge of legal regimes that both

170. *Id.* at 597. The TRIPS Agreement provides for use of the WTO dispute settlement mechanism should any disagreements arise between member states under TRIPS. Agreement on Trade-Related Aspects of Intellectual Property Rights art. 64, Apr. 15, 1994, 33 I.L.M. 1125.

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fails to regulate use of trademarked terms as keywords and that may seriously retard progress on liberalizing trade. A better solution would be a legislative safe harbor enacted on the international level, which would match search engine advertising's global reach while ensuring that it can continue to promote the free flow of trade and commerce. As major trading powers already involved in developing trademark law on search engine advertising, the United States and the EU should coordinate efforts to create this international agreement. In doing so, they will be promoting not only their own economic growth but also the overall improvement of the world economy.