Computer Law and Ethics, COSC-3325,

Lecture 7

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Reminder of the last lecture

- Intellectual Property and Changing Technology
- Copyright Law and Significant Cases
- Copying and Sharing
- Search Engines and Online Libraries
- Free-Speech Issues
- Free Software
- Issues for Software Developers

Overview of This Lecture

- Google AdWords and European Trademark Law, in particular:
  - the background about intermediation, potential liable examples, the “Louis Vuitton” Google issue, the trademark law viewpoints, the argument against Google, the new Google policy and its implications.
- Based on the paper:
  - Stefan Bechtold: Law and Technology - Google AdWords and European Trademark Law, *Communications of the ACM*, January 2011, vol. 54, no. 1

Is Google violating trademark law by operating its AdWords system?

- When the dot – com boom began in the late 1990s, many analysts and observers proclaimed the death of intermediation.
- Supply chains seemed to become shorter and shorter as new B2C companies emerged in Silicon Valley.
- These companies could deal with their customers directly over the Internet, rendering distributors, wholesalers, brokers, and agents superfluous.

Intermediation

- While some traditional middlemen have indeed become less important as Internet commerce has developed, we have not seen a general death of intermediation.
- Rather, many new intermediaries have arisen on the digital landscape over the last 15 years, such as Amazon, eBay, or Google.
- If all these companies have been successful, it is not because they have removed all barriers between producers and consumers.

Motivation for intermediaries

- They have been successful because they offer innovative services located between producers and consumers along the digital supply chain.
- The law often has a difficult time coping with new intermediaries.
- Should an Internet service provider be held liable for violations of copyright or criminal law committed by its customers?

Potential liable examples

- Is Yahoo obliged to prevent French consumers from accessing a site where Nazi memorabilia is sold?
- Can copyright holders compel peer-to-peer file sharing systems to remove copyrighted material or to screen for such material?
- Are domain name registries required to check domain name registrations for trademark violations?
- Is eBay liable for counterfeit product sales on its site?

Potential liable examples (cont.)

- To what extent should Google be allowed to offer excerpts from copyrighted books in its Google Book service without the consent of the relevant rights owners?
- Both in the U.S. and in Europe, such questions have led to countless lawsuits and legislative initiatives over the last 15 years.

Does AdWords violate the trademark law?

- One of the most debated issues in recent years has been whether Google is violating trademark law by operating its AdWords system.
- With Google AdWords, advertisers can buy advertising links in the “sponsored links” section of a Google search results page.
- When a user enters a keyword selected by the advertiser, the advertising link will appear in the upper right-hand corner of the search results page.

The "Louis Vuitton" Google issue

- In principle, the advertiser is free to select any keyword for his advertising link.
- This becomes a legal issue, however, if the advertiser chooses a keyword that has been registered as a trademark by another company.
- In 2003, the French fashion house Louis Vuitton discovered that, when French users entered "Louis Vuitton" into Google, they were shown an advertising link pointing to fake LV products.

The LV action

- While LV could have sued the product imitator, it decided to sue Google.
- From LV's perspective, Google was a very attractive target: If Google was found liable, LV would not need to sue numerous individual product imitators.
- With one lawsuit against Google, LV could stop all keyword-related trademark violations at a stroke.

The Google's view point

- Google, on the other hand, has a vital interest in avoiding being held liable in such lawsuits.
- Google's business model relies extensively on the advertisement auctioning mechanisms underlying the AdWords system.
- Of Google's $23.6 billion gross revenues in 2009, about $22.9 billion came from advertising.
- A major part of this advertising revenue is believed to come from Google AdWords.

One trademark law viewpoint

- Cases such as LV's have popped up like mushrooms over the last few years in many countries.
- From a trademark law perspective, they are not easy to resolve.
- On the one hand, it seems unfair that, by choosing third-party trademarks for keyword registrations without proper authorization, firms can benefit from the goodwill of such marks.
- It also seems problematic that Google may benefit, at least indirectly, from such behavior.

Another trademark law viewpoint

- On the other hand, trademark law does not protect trademark owners against each and every use of their registered marks by others.
- Where the Google AdWords system lies along this continuum is unclear.
- In the French lawsuit of *Louis Vuitton vs. Google, a Paris regional court* found Google guilty of infringing LV's trademark in February 2005.

The Google's appeal

- After an appeals court in Paris had upheld this decision, Google appealed to the Cour de Cassation, which is the highest French court in this area of the law.
- The court had to decide whether or not Google AdWords was in compliance with French trademark law.
- At this point in the story the European Union kicks in.

The France's trademark system

- France has had a comprehensive trademark system since 1857.
- However, in 1989, the European Union required its member states to amend their national trademark systems in order to make them compliant with the European Trademark Directive enacted that year.
- This directive did not create a unitary Europewide trademark system.

The European Trademark Directive

- Rather, it harmonized national trademark systems across countries.
- Today, if there is some disagreement about how a particular provision of national trademark law should be interpreted and whether this provision is affected by the European Trademark Directive, it is the European Court of Justice that has the last word.

The European Court of Justice

- This was the case with the French LV litigation.
- As the highest court in France could not itself decide the case, in 2008, this court referred it to the European Court of Justice, which is located in Luxembourg.
- The intellectual property community eagerly awaited the European Court of Justice's decision in this case.

The European Court of Justice (cont.)

- It was of particular importance because courts in various European countries had reached wildly different conclusions as to whether Google's AdWords system violates trademark law.
- Courts in France and Belgium, and some courts in Germany, had ruled that the AdWords system violates trademark law or unfair competition law, on the grounds that Google is using trademarks, confusing consumers, and free-riding on the goodwill of trademark owners.

The European Court of Justice (cont.)

- Courts in the U.K. and other courts in Germany have ruled the opposite, while decisions in Austria and the Netherlands have come out somewhere between these opposing viewpoints.
- Ultimately, in addition to the French Cour de Cassation, the highest courts in Austria, Germany, the Netherlands, and the U.K. have referred AdWords-related lawsuits to the European Court of Justice.

The European Court of Justice decision

- In March 2010, the European Court of Justice decided the French LV case.
- The court held that a producer of fake LV products violates trademark law if his keyword-backed advertising link creates the impression that his products are actually produced, or at least authorized by LV.
- This holding by the court was not surprising.

The European Court of Justice decision

- More surprising was the court's holding that the fake product producer would violate trademark law even if he kept his advertisement so vague that ordinary consumers would be unable to determine whether or not there was some affiliation between the producer and LV.
- What this means in practice is unclear.

The European Court of Justice decision (cont)

- While the European Court of Justice settled the relevant points of law, it did not provide a final answer as to whether the fake product producer was actually infringing trademark law.
- This depends on whether French consumers were really confused by the advertising link in question.
- As such matters of fact are not for the European Court of Justice to decide, the court referred the case back to the French courts in this regard.

What happened next?

- The court then turned to the liability of Google itself.
- The court held that Google was not using the LV trademark in its AdWords system in a manner covered by European trademark law.
- The idea behind this is simple.
- Trademark law does not entitle a trademark owner to prevent all utilization of his trademark by a third party.

Not a direct infringement

- In the view of the court, Google is merely operating a service that may enable advertisers to engage in trademark violations.
- Google does not decide which trademarks to use as keywords, but merely provides a keyword selection service.
- This is not sufficient, in the view of the court, to justify an action for direct trademark infringement.

However …

- … Google might still be liable for what lawyers call secondary infringement.
- The argument would be that, if advertisers actually infringe trademark law because they create customer confusion in the AdWords system, Google is benefiting financially from these trademark violations.

The argument against Google

- While this argument may sound convincing at first sight, the European Ecommerce Directive of 2000 restricts the liability of "information society service providers" (such as, potentially, Google) for infringing activities by third parties (the advertisers).
- Therefore, the European Court of Justice had to decide whether the safe harbor provisions of this directive shielded Google from secondary liability.

How Google select advertisements?

- The European Court of Justice held that the answer to this question depends on whether the Google AdWords system is a mere automatic and passive system, as portrayed by Google, or whether Google plays an active role in selecting and ordering advertisements.
- As in the customer confusion question, the court refrained from giving any definite answer, but rather referred the case back to the French courts.

Victory for Google AdWords?

- In the popular press, the European Court of Justice's decision in the Google AdWords case has often been portrayed as a victory for Google.
- Does victory really look like this?
- Well, it depends.
- The European Court of Justice refrained from providing a final answer as to whether keyword advertising can lead to customer confusion.

Not yet a definite answer

- Nor did it provide a comprehensive answer as to whether Google could be held liable not because of customer confusion, but because other goals of trademark protection had been violated.
- Finally, the court did not give a definite answer as to whether Google should be protected by safe harbors provisions.

The National Courts decides the details

- For most of these questions, the European Court of Justice provided some general guidelines, but left it to the national courts to rule on details which may be small, but decisive.
- Therefore, in Europe, it will ultimately be the national courts which will decide on the liability of Google for its AdWords system.
- We still lack a clear answer on how to design a keyword-backed advertisement system in a way that clearly does not violate European trademark law.

Other views not supporting Google

- This does not mean that one should feel sorry for Google which still has to operate in an area of somewhat unsettled law.
- First, Google has some experience in this regard.
- Just think of the Google Books project.
- Second, Google has been running its AdWords service in the U.S. for years, and in the U.S. the liability question is still not fully settled.

Other cases about Google

- In 2009, the Court of Appeals for the Second Circuit held that Google was using trademarks “in commerce” (as required by the Lanham Act) when operating its AdWords system, thereby taking a slightly different stance from that of the European Court of Justice.
- The impact of this decision on Google AdWords in the U.S. remains to be seen.

In the U.S., Google is not liable on such cases

- At least, courts in the U.S. will now examine more closely whether unauthorized trademark-backed advertising links in Google AdWords can really cause confusion among consumers.
- Up to now, most U.S. courts have denied Google's liability on such grounds.

Selecting trademarks by the advertisers

- Third, as a result of the decisions by the European Court of Justice relating to the AdWords system, Google revised its European AdWords trademark policy in September 2010 and limited its support for trademark owners.
- Under the new policy, advertisers are free to select trademarks when registering advertising links.

Google policy …

- However, if a trademark owner discovers that an advertiser is using his trademark without proper authorization, Google will remove the advertising link if the trademark is being used in a confusing manner, for example if it falsely implies some affiliation between the advertiser and the trademark owner.

Implications of the Google policy

- By this policy change, Google has mollified at least some trademark owners and provided a mechanism outside the court system that may resolve a substantial proportion of AdWords trademark disputes in Europe.
- Nevertheless, it is almost certain that national courts in Europe will continue to rule on the details of how the AdWords trademark policy is implemented and enforced.

The decision

- In the end, the decision by the European Court of Justice may indeed turn out to be a victory for Google.
- Whether it is a victory for the European trademark system is less clear.
- While the European Court of Justice provided some general guidelines on Google AdWords, the task of working out the little details has been left to courts in Paris, Vienna, Karlsruhe, The Hague, London and other cities.

The decision (cont)

- The danger is that national courts will continue to interpret European trademark law in different ways.
- French courts, for example, may continue to be more critical of Google AdWords in their decisions than German or U.K. courts.
- This is not exactly the idea of a trademark system which is supposed to be harmonized across Europe by the institutions of the European Union.

Summary

- Google AdWords and European Trademark Law
  - background about intermediation,
  - potential liable examples,
  - the “Louis Vuitton” Google issue,
  - trademark law viewpoints,
  - the argument against Google,
  - the new Google policy and its implications.
- The reading suggestion for this lesson is the paper:
  - Stefan Bechtold: Law and Technology - Google AdWords and European Trademark Law, *Communications of the ACM*, January 2011, vol. 54, no. 1.

Coming up next

- Hacking
- Identity Theft and Credit Card Fraud
- Scams and Forgery
- Crime Fighting Versus Privacy and Civil Liberties
- Laws That Rule the Web

- Reading suggestions: Chapter 5 of [Baase; 2008]

Thank you for your attention!

Questions?