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The Expansion of Trademark Functions with Particular Reference to Online Keywords Advertising: The European Experience

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Moh'd Ghazi Rabab'a

School of Law

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Abstract

The primary purpose of a trademark is to facilitate the communication of information between consumers and producers about their products and services to those who wish or need to buy them. The consumer needs to be able to depend on the message the mark conveys to ensure they are purchasing what will fulfil their requirements. In the modern market place, the choice appears endless, and indeed the principles of free trade espoused by the European treaties has heightened the opportunities for cross-national traders to sell their goods, and increased the options available to consumers. When this occurs, so does the availability of information which a purchaser may find the need to seek through to ascertain what he or she wants in an complex and often confusing exercise in differentiation. It is therefore in the interests of producers and customers that those who manufacture goods or provide services develop a mark which identifies their wares and helps provide feedback measured by success; consequently an exchange of information. Consumers are able to make their preferences known via choice, or otherwise, of the mark.

Modern business methods and the vast array of marketing opportunities are not only placing the role and function of the trademark at the forefront of consumer protection, but also developing the concept of the mark as an asset of considerable value in itself. This increases its vulnerability to competitive interference and the proposition that it should receive enhanced protection in law. Somewhat perversely, it has resulted in a body of legislation and jurisprudence which lacks cogency and coherence.

The purpose of this thesis, accordingly, is to examine the causes thereof by evaluating the current European trademarks protection system to ascertain the contribution they actually make to promotion of free competition and the movement of goods or services upon which that substantial market is predicated. It will examine the impact of the development of protection granted to the trademark with particular reference to the use of online keywords advertising service and focus on the effect of relatively new theories of what functions qualify to be shielded from harm from competitive others. This has expanded beyond the conventional boundaries of source ‘origin’ protection, espoused to primarily protect consumers from confusion in their choice making process. Advertising and investment functions as separate principle are recognised by the Court of Justice of the European Union, but do not appear to qualify for safeguarding in the context of the competitive free market. In fact, it will be shown that giving excessive shelter from harm to all functions which may affect the value of the trademark will limit, even jeopardise, third party competitor and consumer issues. It will inhibit the use of the e-commerce online keywords advertising service which assists third parties to promote alternative competing goods or services and so reduce consumer choice by restriction of online information. It is suggested that proper, clear defences must be guaranteed under the law so third parties may gauge their actions to avoid infringement of trademark owner rights whilst promoting their own products, and accordingly strike the necessary balance between the different competing interests of trademark owners, third parties competitors, and consumers.

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Dedication

I dedicate this thesis to my parents Mrs. Muna M. Kalifeh and Prof. Ghazi Ismael Rababah for their endless support and help. I am honoured to have you as my parents. May Allah reward you for all your good deeds and bless you.

I would like to dedicate this thesis to my beloved wife Duaa Rahmeh for her personal support and great patience at all times. My deep dedication goes also to my beloved daughters who were born during the period of writing this thesis.

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Abbreviations

EEC Treaty or TFEU - Treaty establishing the European Economic Community.

TM Directive - 'First Directive 2008/95/EC of the Council, of 21 December 1988, to Approximate the Laws of the Member States Relating to Trade Marks (Codified version).

MCAD - 'Misleading Advertising Directive (84/240) as amended by the Comparative Advertising Directive (97/55)'.

ISPs - Internet Search Engine Providers.

WWW – World Wide Web.

Chapter One
General Introduction

1.1. Background

The right to ownership of property in the form of invention or ideas, incorporating exclusive trademark rights to their exploitation, is not obvious or self-evident in itself. They require a continuous process of justification, because they are often criticised for creating negative effects on others by authorising owners of the rights to determine how resources, often of some scarcity, will be used in a manner which do not necessarily advance the needs of others or indeed the ubiquitous "public good".[1] Justification has been presented on several bases, which have taken on the conceptualisation and designation of 'theory'. In the case of trademark rights, for example, the 'economic rationale' is the theory for protection, arguing that they advance the "economic efficiency" of the market by means of reducing consumers "search costs" and provide the incentive to traders to invest in their goods or services.[2]

The academic theories of protection and indeed trademark jurisprudence do not always take such a principled approach in their justification of trademark protection. Academics and courts tend rather to concentrate first on the functions the marks perform in the advancement of trade, and then deduce therefrom the need for protection.[3] An understanding of these is a necessary precursor to a critical discussion of the use of keyword advertising and the consequent jurisprudence which arguably compromises the limitation of trademark protection. In brief, these include the principle '*origin'* function which is considered a legal objective of trademark designation, indicating the source of products which enables consumers to identify the source and distinguish the product from others which appear similar.[4] The nature of the market has associated a more expansive range of functions with the 'origin' which trademark owners argue should be protected from the incursion of keyword advertisers. These are the '*quality'* or '*guarantee'* function is promoted as an economic function; their role signifies the relative quality of products, providing consumers with positive comparative information

[1] W. Sakulin, *Trademark Protection and Freedom of Expression: An Inquiry into the Conflict between Trademark Rights and Freedom of Expression under European Law* (Kluwer Law International, 2011 at 41.
[2] W. Landes and R. Posner, 'The Economics of Trademark Law', *Trademark Reporter*, 78 (1988), 265-309.
[3] Sakulin, *Trademark Protection and Freedom of Expression: An Inquiry into the Conflict between Trademark Rights and Freedom of Expression under European Law* at 4.
[4] W. Cornish and D. Llewelyn, *Intellectual Property: Patents, Copyright, Trademarks and Allied Rights* (7th edn.; London: Sweet & Maxwell, 2010) at 655; C. Pickering, *Trade Marks in Theory and Practice* (Oxford: Hart Publishing, 1998) at 43.

concerning acquisitions, effectively promising products measure up to expectations. In addition, the *advertisement* or *investmen*t function, economic in nature, promotes a brand and the consequent development of considerable goodwill and loyalty, deserving of protection per se. Considerable investment in the fostering of these functions lead trademark owners to advance the cause for their legal protection against the modern competitor marketing practice of purchasing and using keywords which allegedly identify with the original product. [5]

There is a lack of consensus amongst academics on what should be the primary objective of a trademark, ranging from a liberal view that protection should be expanded beyond the origin function protection and cover those other possible functions, which some particular trademarks may have the capacity to perform. [6] Others adopt a more cautious approach, reluctant to accept that protection for trademarks should go beyond the conventional boundaries, limited to the origin function which protects consumers against confusion.[7] The tension between theorists is exacerbated by the fact that there is no formal definition of these functions per se, so advocates of the different theories tend to define them according to their own, sometimes dogmatic, inclinations.[8]

In Europe, the jurisprudence of the Court of Justice of the European Union (ECJ) [9] has shown that the rationale of trademark protection under law is in constant development, responding to evolution in international trading positions and conditions including the rise of the online trading as a forum for marketing and purchasing.[10] The Court has, for example, interpreted and applied the provisions of the First Trade Marks Directive (TM Directive)[11] expansively so as to address the ambiguity and vagueness of the construction of the law, a consequence of

[5] See for example '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', (joined cases -236, 237 and 238/08

[6] W. Cornish, *Intellectual Property Omnipresent, Distracting, Irrelevent* (New York: Oxford University Press 2004) at 89.

[7] Ibid.

[8] In '*L'oreal Sa & Ors V Bellure Nv & Ors* Ewca Civ 535 ', (21 May 2010) at para 30. Jacob LJ showed his resentment towards the acknowledgement of those other possible functions. He stated that he had real difficulty with these functions, particularly when divorced from the origin function, noticing that no legal reference was made to them in the legislation. Further, he said that conceptually they are vague and imperfectly defined.

[9] After the entry into force of the Treaty of Lisbon 2009 the Court's official name has become the Court of Justice of the European Union. But, because of familiarity we will use the abbreviation (ECJ).

[10] The Court of Appeal, in its decision in *L'Oréal,* was reluctant to accept that trade mark law should experience continual development. The Court had accepted, for example, the fact that trading conditions have witnessed development over time. Nevertheless, it emphasised that the boundaries of protection must be limited to the requirement of showing confusion (or deception). See '*L'oreal Sa & Ors V Bellure Nv & Ors* Civ 968 ', ([2007] EWCA) at para 161.

[11] 'First Directive 2008/95/Ec of the Council, of 21 December 1988, to Approximate the Laws of the Member States Relating to Trade Marks (Codified Version) '. [Hereinafter: TM Directive].

its original drafting.[12] It further had to ensure that the aims of the TM Directive, which the Treaty establishing the European Economic Community (EEC Treaty or TFEU) seeks to establish and maintain,[13] in promoting a system of undistorted competition and facilitate the movement of goods within the common market, are properly achieved.[14] It has clarified that the legal foundation for protecting trademarks is the protection of the "essential" origin function which fundamentally protects consumers against confusion.[15]

However, whilst the ECJ was supportive of the essential function, and even relied upon it exclusively to find trademark infringement in appropriate cases, it has shown signs of development in its jurisprudence into consideration of economic functions which directly intrude into the e-commerce market and new methods of advertising by competitors. It is evident in its development of understanding of other trademarks' functions acknowledging the legal necessity of protecting the "quality", "communication", "investment", and "advertising"[16] functions in association with the "essential function".[17] The origin function has not become less important, but establishes that the scope of the protection granted to a registered trademark has been progressively broadened and the concept of the trademark in an advanced market economy such as the EU has witnessed a critical transformation.[18]

The trademark's capacity to perform various economic functions is mainly due to its having gained recognition in the minds of consumers and its capacity to provide quality assurances, or convey lifestyle messages. A trademarked product which possesses such attributes of

[12] In '*Davidoff V Gofkid*', ((C-292/00) [2003] ETMR 534)., for example, the ECJ ruled in that the court would interpret the provisions by reference to the goals of the Directive even where this requires departing from its wording.

[13] 'Treaty Establishing the European Economic Community (Eec Treaty)', (Mar. 25, 1957). When the Treaty of Lisbon came into force in 2009 the original name of the EEC Treaty has been amended and renamed as the Treaty on the Functioning of the European Union (TFEU). In *Deutsche Grammophon*, the Court held that the primary purpose of the EEC Treaty is to unite national markets into a single market. However, such purpose "could not be attained if, under the various legal systems of the member states, nationals of those States were able to partition the market and bring about arbitrary discrimination or disguised restrictions on trade between Member States". See '*Deutsche Grammophon V Metro* ', at para 12.

[14] Article 2 of the TM Directive.

[15] '*Hoffmann-La-Roche V Centrafarm*', (C-102/77) at para 7; '*Arsenal Fc V Matthew Reed*', ((C-206/01) [2003] ETMR 227) at paras 48&50.

[16] Within the literature of trade marks the economic functions are also well-known as ancillary, extra or other functions.

[17] '*L'oréal Sa Et Al. V Bellure Nv Et Al.*', ((C-487/07) [2009] ETMR 987) at para 58; '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', (joined cases -236, 237 and 238/08); '*Interflora Inc V Marks & Spencer Plc.*', ((C-323) 2009); '*L'ore´Al Sa and Others V Ebay International Ag and Others*', ((Case C-324/09) [2011]); '*Leidseplein Beheer Bv V Red Bull Gmbh* (C-65/12)', (Feb,2014).

[18] D. Keeling, *Intellectual Property Rights in Eu Law: Free Movement and Competition Law* (I; New York: Oxford University Press, 2003) at 149-53.

desirability will influence consumer choice, increasing susceptibility to purchase at a premium over similar competing items. This accordingly grants it a modern commercial value and therefore increases its marketing power.[19] A result has been the extension of legal protection for economic functions beyond the 'essential origin' making it more difficult for others to market their competing products using modern technology due to the lack of clarity of the parameters of protection of the original to which they may be compared. This is particularly problematic when competitors purchase 'keywords' associated with the original product and its reputation in order to advertise their own goods, and gives rise to the need to examine the efficacy of trademark protections in that context.

Reputation as an attribute of trademark value is particularly important in marketing and internet trading. Consumer online shopping, for example, is often commenced by search conducted on the basis of a particular name of product.[20] While consumers may arguably have a quality-branding association between the image of a well-established brand and particular kind of products, it is likely they will use a trademarks' name as a starting point for their online shopping. Xerox, for example, is a synonym for photocopy, but they may not be specifically seeking that brand.[21] It is difficult, however, to measure the specific intention of consumers who use trademarks in their online searches. For instance, "targeted" or "navigational" searchers use mainly the name of a trademark as a keyword to find the trademark owner's website or to gain information about a certain product.[22] On other hand, "informational" or "contextual" searchers use the name of the trademark in their online search as a starting point (or source of information) for their online shopping, to seek alternative products and compare prices and reviews.[23] Familiarity has therefore become a valuable asset for businesses in the global economy so trademark owners will be understandably eager to exclusively appropriate this familiarity for their own benefit, and to

[19] P. Torremans, 'The Likelihood of Association of Trade Marks: An Assessment in the Light of the Recent Case Law of the Court of Justice', *Intellectual Property Quarterly,* 3 (1998), 295-310 at 302; A. Griffiths, *An Economic Perspective on Trade Mark Law* (Northhampton, Massachusetts: Edward Elgar Publishing, 2011) at 6.
[20] S. Tornquist and J. Hird, 'How We Shop in 2010: Habits and Motivations of Consumers', (Econsultancy Digital Matketers United, 2010), 1-81.
[21] Melanie, 'Vocabulary – Xerox, Kleenex, and Roller Blades: When Brand Names Become Regular Nouns!', (2012).
[22] E. Goldman, 'Deregulating Relevancy in Internet Trademark Law', *Emory Law Journal,* 54 (2005), 507-96 at 521-25; P. Bonewitz, 'Beyond Confusion: Reexamining Trademark Law's Goals in the World of Online Advertising', *St. John's Law Review,* 81 (4) (2007), 899-920 at 919.
[23] Ibid.

seek protection against other rivals which may make use of their 'property'.[24] Recognising the economic potential of trademarks as a justification for protection of rights is problematic in that others who seek to make use of it in their own commercial interests will face legal liability.[25] The acknowledged owner of the property right seeks to exercise control over trademark use across markets including the online market, thereby restricting competition despite there being no issue or confusion regarding the origin function.

This additional layer of trademark protection and promotion is significant in the context of internet search engine providers (ISPs) results and Google provides the prime example in its creation of the online keywords service commonly known as 'AdWords'.[26] It enables payment to be made by a commercial undertaking to purchase the trademark keyword of the owner, but not from him, to trigger advertising links to their websites. Their purpose is to promote their alternative or compatible competing goods or services. The World Wide Web (known as the Web or WWW)[27] has a massive role in the supply of information about virtually everything, with broadly free, open and uncontrolled access. Such access is potentially capable of being undermined were trademark holders are enabled to significantly control use of their property rights to mere "navigational" searches despite the fact that the provision of information is as essential to trade and the enhancement of competition. The sale of trademark keywords is arguably the lifeblood of ISPs such as Google, ensuring commercial viability and the provision of its free service, and restriction thereof limits the provision of this information and therefore inhibits choice.[28] Rival commercial entities and the owners of alternative trademark rights and ideas will face the same restriction, so competition and choice is damaged in that manner.[29] Keyword marketing provides an insight

[24] Jeremy Philips argues that many trademark owners will react angrily even when a permitted use is made of their trademarks by anyone other than themselves. Thus, they will resort to actions founded on grounds such as unfair competition or unfair marketing practices when trade mark law fails to protect their trade marks from what they consider unfair and wrongful usage. J. Phillips, *Google and the Law, Information Technology and Law Series 22* (T.M.C. ASSER Press, 2012) at 44.

[25] In '*L'oreal Sa & Ors V Bellure Nv & Ors* Ewca Civ 535 ', at para 30. Jacob LJ highlighted this consequence. He observed that recognising the advertising function, for example, is more likely to make this function vulnerable to damage whenever it is used in a promotional material by third parties.

[26] AdWords is the name of Google's advertising programme. Google is one of the most important search engines and has featured in the AdWords litigation. Therefore, in this thesis our focus will concern mainly the cases which were brought against Google.

[27] The World Wide Web is a cyberspace application that is accessed via the Internet network. For more about its history see Http://Webfoundation.Org/About/Vision/History-of-the-Web/, accessed 8 October 2014

[28] Google's Income Statement Information, for instance, shows that the company's total advertising revenues were over than $50 million in 2013, most of which generated by the AdWords program. Available at Https://Investor.Google.Com/Financial/2013/Tables.Html, accessed 28 Septemper 2014.

[29] A. Tan, 'Google Adwords: Trademark Infringer or Trade Liberalizer?', *Michigan Telecommunications and Technology Law Review*, 16 (2010), 473-509 at 504-05.

into the effect on the freedom of trade new entrants to the market face when emphasis is placed by adjudicators on the protection of trademarks' functions, particularly those deemed economic in nature with which they interact in the modern competitive environment.

It is not proposed to develop a proposal in support of WWW and ISP freedom, but this aspect of the power of the trademark rights in the modern market place need to be examined to enable an effective analysis of how European Court jurisprudence seek to protect this valuable business asset. It is indeed arguable that the law should take a stronger position and determine the priority of "navigational" or "contextual" internet searches in the context of boundaries of protection. Attempts have been made by the ECJ to address the issue in its case law, determining that for a trademark infringement to fall under Article 5 of the TM Directive, the use must be in the "course of trade".[30] This requirement provides a filter to distinguish permissible use by competitors from that which commercially infringes rights, playing a pivotal role in determining the liability of trademark infringement of ISPs and advertisers for the sale and use of the keywords service.

Prior to its definitive judgement on the use of online keywords in *Google France*, the ECJ had indicated that this condition would be satisfied by simply establishing that the party using the service was engaging in commercial activity of some kind and the use affected one of the protected functions of the trademark. As case law developed, the Court has shifted the focus to the requirement that the defendant must also be using the mark "[for] its own commercial communication".[31] Accordingly, ISPs are saved from trademark liability because they do not use those marks they sell to promote their products.[32] The rationale of this decision is subject to debate and the issue in law of whether ISPs should be treated as "using" the signs they sell for use as keywords "in the course of trade" requires examination.

The ECJ, however, had no difficulty in accepting that an advertiser who purchases the name of a trademarked product or service as keyword is using it in the "course of trade". In consequence the advertiser has a liability assessed as an infringement, primarily under

[30] '*Google France Sarl V Louis Vuitton Malletier Sa and Others* '; '*Die Bergspechte V Günter Guni*'; '*Portakabin V Primakabin*'; '*Interflora Inc V Marks & Spencer Plc.*'; '*L'oreʹAl Sa and Others V Ebay International Ag and Others*'. [hereinafter keywords cases]

[31] '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at paras 56-57.

[32] According to Article 14(1) of the EU E-Commerce Directive, nevertheless, a search engine may be legally liable if it is proved that it has not acted expeditiously after knowing about the "unlawful nature of...the data or of that advertiser's activities".

Articles 5(1)(a) and 5(2).[33] Article 5(1)(a) typically protect trademarks in cases of double identity, where there is an identical mark for identical products where this gives rise to consumer confusion, especially on matters of trade origin where this is presumed and protection is "absolute".[34]

However, where there is recognition of additional functions of the trademark which go beyond origin, the owner also enjoyed absolute protection under Article 5(1)(a).[35] Additional function protections are normally granted to trademark owners with a reputation arising from huge investment in advertising where the owner has created a brand image.[36] The EU legislates for protection of trademarks against "dilution" of reputation under Article 5(2) whilst providing a due defence cause to others who seek to use it. An attempt will be made to understand why the ECJ has taken this approach, which effectively overlaps with mechanisms provided under the TM Directive. This approach has caused some uncertainty in the application of the infringement criteria and arguably expanded the rights of trademark owners. In the context of keyword advertising disputes, the ECJ has attempted to adapt arguments in order to balance the expanded rights of trademark owners with the interests of other commercial parties and consumers in the interests of market competition. It has relied on a flexible interpretation of the Article 5(1)(a) adverse effect on a trademark functions and relied on a broad free-riding test under Article 5(2) TM Directive.

The jurisprudential interaction between the trademark functions and their claims to protection appears to have become a basis for ECJ consideration of fault in the event of advertisers who must then examine the availability of the TM Directive defences. The adoption by the Court of functions theory analysis is controversial.[37] The flexibility of the infringement criteria has

[33] See the Court's decisions in supra note 30.

[34] This envisaged under the eleventh recital in the preamble to the TM Directive which states: "The protection afforded by the registered trade mark, the function of which is in particular to guarantee the trade mark as an indication of origin, should be absolute in the case of identity between the mark and the sign and the goods or services".

[35] Although the ECJ had also identified other additional functions such as the quality and communication functions, it has only addressed so far the advertising and investment functions as the ones which might be affected in the circumstances of the case.

[36] For more about the protection of branding efforts see L. Bently *et al.*, *Trade Marks and Brands an Interdisciplinary Critique* (New York: Cambridge University Press, 2008).

[37] See M. Senftleben, 'Adapting Eu Trademark Law to New Technologies - Back to Basics?', *Constructing European intellectual property Achievemnts and New Prespectives, C. Geiger, ed., Edward Elgar Publishing,* (2011), 1-29; A. Ohly, 'Keyword Advertising or Why the Ecj's Functional Approach to Trade Mark Infringement Does Not Function', *International Review of Intellectual Property and Competition Law,* (2010), 879-81; J. Cornwell, 'Keywords, Case Law and the Court of Justice: The Need for Legislative Intervention in Modernising European Trade Mark Law', *International Review of Law, Computers & Technology,* 27:1-2

made the available defences under Articles 6 of the TM Directive less effective. This defect is evident in the new proposal for reform of the European law.[38] It is suggested a general "fair use clause" would allow some flexibility in situations not previously envisaged by the legislator, in particular with regard to new business models emerging in the WWW, stimulating competition and enhancing value. The TM Directive as presently framed only guarantees a defence against dilution under Article 5(2) if the use was done according to a "due cause". While this defence remains limited to trademarks with recognised and established reputation, the incorporation of the protection of other functions or expanding the interpretation of the protection of the origin function under Article 5(1)(a) then certainly strikes no balance, highlighting the weakness of the TM Directive in the protection of third parties competitors.[39] This study will consider the effect of keywords in the adoption of trademarks function theories by European law and the consistency with which it performs this role. Indeed, it will be argued that an opportunity appears to have been missed to adapt trademark protection and law to the advent of new technology, such as Google AdWords, with a degree of clarity, economic rationality, and the protection of wider fundamental freedoms of information and competition.

The keyword advertising issue is of considerable modern economic importance, facilitating the movement of products and technology within European market.[40] The thesis will utilise the online keywords advertising service as a testing ground to facilitate the critical analysis of the implications of European law development in the adoption of the trademarks functions theory. It is proposed herein to reflect on the policy objectives that the TM Directive has been introduced to achieve, and the determination of rights of trademark owners in to give effect to these. It is intended to assess the contention that keyword advertisers do not currently have effective defence for the nature of their activity under trademark law, providing suggested solutions to enable adaptation to the era of electronic trading. This is achievable, it is argued, through the modelling of a keyword advertising service as form of comparative advertising, enabling other commercial entities to rely on additional exceptions under the Misleading

(2013), 85-103; N. Van Der Laan, 'The Use of Trade Marks in Keyword Advertising - Developments in ECJ and National Jurisprudence', *Max Planck Institute for Intellectual Property & Competition Law,* 1 (2012), 1-50; M. Senftleben, 'Function Theory and International Exhaustion – Why It Is Wise to Confine the Double Identity Rule to Cases Affecting the Origin Function', *European Intellectual Property Review,* 36 (8) (2013), 518-24.

[38] See 'Study on the Overall Functioning of the European Trade Mark System', (Munich: Max Planck Institute for Intellectual Property and Competition Law, 2011) at para 2.252.

[39] Senftleben, 'Adapting Eu Trademark Law to New Technologies - Back to Basics?', at 23.

[40] About the economic importance of keyword advertising service see generally Tan, 'Google Adwords: Trademark Infringer or Trade Liberalizer?'

Comparative Advertising Directive (MCAD). A solution must be sought to give greater flexibility to a keyword advertiser, with a more adaptable defence to counterbalance the expansion of the trademark rights through infringement criteria which appears more flexible in its application to strengthen such benefits. This provides legislative and judicial protection for some cases of use of keywords for reference purposes and overlaps with Article 6(1) TM Directive infringement of the existing law and provides the basis for the questions and solutions to be considered in this study.

1.2. Research Questions

This thesis will seek to address the following four questions:

1. What is the rationale behind the protection of trademarks? – this will facilitate a discussion on the effects of keyword advertising on the rationale;
2. How has the ECJ understood the functions of trademarks and adjudicated upon conflicts arising there from, in order to examine what the application of the law accepts to be the real and proper rational basis of trademark protection?
3. What is the impact of adoption of trademark functions theory on the infringement criteria under Article 5 of the Trademark Directive, particularly with the advent of keyword sale and advertising?
4. What are the implications of extended trademark protection on the use of online keywords advertising services, especially in the apparent absence of a clear, adaptable defence to the third party?

The manner in which these questions will be fulfilled and the methodological approach adopted is discussed further in section 1.3 below.

1.3. Research Methodology

The purpose of this research is to determine and critically examine the progress of the law in the protection of the trademark as a tool of identification of an owner's product. As an asset of considerable value in itself, it appears somewhat under attack by competitive traders seeking their own commercial advancement.

ISPs have found considerable commercial advantage from the sale of keywords to traders, without discrimination, which are generally felt by mark owners to impinge on their

entitlements, and Google, through its 'AdWords', provides a primary example of this effect. The liability which is faced by the keyword seller will be examined, as well as defences to the third party trader, for the use of this valuable asset. Consideration will particularly be given to the effect on the trademark functions and the way they are dealt with in the context of protection of the mark by the ECJ. It is the justification of these protections by the mark owners which generally results in litigation regarding their use by another trader. Economic issues regarding value and the functioning of macro-commerce will need to be considered in the context of intra-Europe, but the primary emphasis will rely on law and academic thinking on trademark functions in the WWW era.

In an effort to explain and analyse this effect it is proposed to use a qualitative approach in the task of examining the available academic literature, books, articles, reports, European legislation, and case law to examine the problems posed by trademark protection in a treaty led environment which fosters the principles freedom of trade and expression. The whole basis of the European Community, espoused at its inception and integral to its growth, is encapsulated in its Four Freedoms; (i) Movement of Goods, (ii) Movement for Workers, (iii) Right of Establishment and Freedom to Provide Services and (iv) Movement of Capital.[41] This makes a consideration of the European experience highly pertinent in the analysis of balance of principles in trade and commerce.

The research will develop an understanding of the economic justifications for protection and the consequent effects on trade and will assess the appropriateness of limitations in the pursuit of competition. This examination of the rationale of protection and its justification seeks to provide a basis for trademark law to correspond with evolving economic and social conditions. Commentators have sought, often without a great level of coherence, to find some consistency in discussing how trademarks are to be valued for the purposes of protection and what functions they perceive to be served by their use; it is proposed to examine several of the more influential thinkers and their theories.[42]

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[41] European Policy Centre Http://Www.Europeanpolicy.Org/En/European-Policies/Single-Market.Html, accessed 8 October 2014

[42] F. Schechter, 'The Rational Basis of Trademark Protection', *Harvard Law Review*, 40 (6) (Apr 1927), 813-33; Landes and Posner, 'The Economics of Trademark Law', (; H. Rosler, 'The Rationale for European Trade Mark Protection', *European Intellectual Property Review*, 29(3) (2007), 100-07; N. Economides, 'The Economics of Trademarks', *Trademark Reporter*, 78 (1988), 523-39; J. Phillips, *Trade Mark Law: A Practical Anatomy* (New York: Oxford University Press, 2003); Cornish and Llewelyn, *Intellectual Property: Patents, Copyright, Trademarks and Allied Rights*; L. Bently and B. Sherman, *Intellectual Property Law* (3rd edn.; Oxford: Oxford University Press, 2009).

The research will seek to track and assess the development of protection under ECJ jurisprudence to identify the development an understanding of how trademark rights should and can be protected in the context of their function. This will assist in the comprehension of what the legal system in general, and courts in particular, currently accept to be the proper rational justification for trademark protection and its consequent restrictive effects on the commercial activities of others. Learned Judges differ significantly in their thinking and interpretation of the balance of principles and the extent to which the trademark will possess functions worthy of protection, thus restricting the freedom of other traders whilst holding paramount the interests of the consumer in their bewilderment at the array of information on offer on the WWW. Analysis of the jurisprudence therefore attracts critical assessment, and key cases will be introduced to highlight the anomalies of judicial thought in the justification of protection of trademark functions.

There are limitations on avowed exclusive rights of trademark owners and how these relate to the functions and justifications identified by the ECJ. An attempt will be made to assess the impact of recognition of additional economic functions on the level and scope of protection under Article 5 TM Directive, particularly 5(1)(a), and 5(2). It will also point out the inconsistencies in the criteria laid down to establish infringement. It will therefore assist understanding about the revolving protection problems of trademarks under the TM Directive, particularly in the context of online keywords advertising cases.

1.4. Limitations

During the research and writing of this thesis a proposal has been mooted for the reform of some aspects of the TM Directive and in March 2013 the European Commission presented a proposal to recast some provisions.[43] Given this has not yet been effected, the scope of this thesis will be limited to the provisions of the existing legal framework for any discussion or analysis carried out but reference will be made to those provisions in the body of the text or footnotes where prudent and relevant.

1.5. Structure

This thesis will consist of six chapters. The first introduces the study, foundation for the research and an outline the questions to be examined. It will, in summary, define the issues to

[43] European Commission, 27 March 2013, COM(2013) 161 final, 2013/0088 (COD), Proposal for a Regulation of the European Parliament and of the Council Amending Council Regulation (EC) No 207/2009 on the Community Trade Mark. This Proposal was conducted by Max-Planck Institute for Intellectual Property.

be analysed in the research and present the objectives and the reasons behind the research and its value. The background is provided to the use of keyword advertising and their relationship to the developing theories of trademark functions as adjudicated on by the ECJ

Chapter 2: The Theory of Trade Mark Protection. This will expand upon the legal definition of trademarks and the justification behind their protection. This will entail analysis of the theories regarding different functions that a trademark may perform and the cogency of their justifications in what is basically a limitation of trade. Their particular effect on European jurisprudential thought affects the methods of keyword use to avoid breach of the protections of recognised functions.

Chapter 3: Evolution of Trademarks Functions Recognition and Protection: The European Court of Justice Jurisprudence. The chapter will examine the scope of legal protection within European trademark law and its development which has witnessed a fundamental transformation since inception. This chapter will analyse the recognition by the ECJ of the ancillary functions of trademarks in the context of free market trade through examination of case law and seek to show its flexibility in the interpretation types of harm and problems through the effect they have on the trademark functions.

Chapter 4: The Impact of the Recognition of the Trademark Modern Functions on Infringement Criteria. Article 5 of the TM Directive, which regulates the rights that a trademark confers on its owner, will be examined in detail in this chapter. The ECJ has provided guidance and interpretation for the different levels of protection established therein in a substantial body of case law. There is an intrinsic vagueness arising in the boundaries of protections rather than the development of a definitive rationale for the entitlements conferred by a trademark. These problems will be identified and critically analysed. This is exacerbated by a level of confusion on the part of the third party keyword user, and indeed it will be shown that such advertisers lack an effective defence for the use of the keyword.

Chapter 5: The Impact of Trademarks Protection on Online Keyword Advertising. The Expansion of trademark functions and the protection accorded to owners thereof has the potential to limit or jeopardise the ability of others to use trademark related commerce in the context of global, internet related trade, particularly in the use of a trademark in online keyword advertising. This chapter will seek to identify methods by which the extra

protections accorded to trademarks, resulting from the expansion of their justifiable functions in case law, will damage the rights of others to use it in online keyword advertising, comparison and reviews. Suggestions will be made how the trademark law can be adapted to the new technology in developing defences against owners- which will affect a balance between competing interests of owners, competitors, consumers, and ISPs, particularly in the context of comparative advertising and exceptions arising from the Misleading Comparative Advertising Directive (MCAD) and its apparent interaction with Articles 5 and 6 of the TM Directive.

Chapter 6: Conclusion and Recommendations. It will summarise the findings of the research and seek to resolve issues which make for a more effective operation of the trademark in the context of a free and competitive online keywords market.

Chapter Two

The Theory of Trademark Protection

2.1. Introduction

The definition of the 'trademark' must be clarified to effectively consider the justifications for its protection. Theories abound proposing different roles for the mark, and thus alternative bases for shielding it from alleged misuse, particularly in the commercial sphere. Trademark law is not the result of a single event, a specific idea or a revolution. It is an outcome of the evolution of the economic requirements of those engaged in diverse trade and commerce activities, with competing interests enforced by a series of judicial decisions which have acted as a catalyst in its development. It is difficult to ascertain when the first signs or marks were used to identify the maker of an article, but their protection as a valuable right of the owner began to be recognised in the development of domestic and international trade in the 18th and 19th centuries.[44]

Trademark law is a result of the perceived need to protect signs and symbols of ownership from unauthorised interference from others who seek advantage from their use. It does not, however, provide a logical and programmed approach for a principle of such important.[45] It will be shown that the importance and strength of the trademark is at some risk from the encroachment of technological advances such as the development of online 'keyword' marketing which facilitates the offering of alternative competitive products. It has resulted, it is argued, in a somewhat confused system of judicial thinking on how they are to be shielded from illegitimate violation from competitors.[46]

It is imperative therefore, to examine how the protection is used and the functions fulfilled by a trademark in order to facilitate a critical analysis of how European jurisprudence has developed these by adopting the functions theories as a basis for sheltering the trademark from the effects of modern online keyword marketing. This necessitates the analysis of the conjoining of the underlying theory of justification with the practical significance of the

[44] The Paris Convention for the Protection of Industrial Property (1883) is considered to be the first successful attempt, at the international level, at unifying the trend towards achieving robust protection for all industrial property rights in general, and trade marks in particular.
[45] Sakulin, *Trademark Protection and Freedom of Expression: An Inquiry into the Conflict between Trademark Rights and Freedom of Expression under European Law* at 35.
[46] See Chapters 3, 4, and 5.

trademark which gives rise to the need for the support of law in the delivery of continuing social benefits.[47] It is proposed to show herein that it is vital to develop a suitable framework for achieving a balance between the rights of the owner and those of the consuming public, justification of trademark protection deriving from its value in the context of wider market principles, and necessarily limited to market promotion. This has, it will be shown, proven problematic, given the lack of clarity in the legal defences available to competitors in the context of the functions theories, for which a solution will be sought.[48] The historical evolution of trademark law, as a response to developments in trade is explored with a view to the analysis of the rationales and justification of rights and their protection. Origin, quality, and advertising functions will be considered in examining the economic rationales used to justify the protection of purposes.

2.2. Definition of Trademarks

Different perspectives are taken in the examination of the concept of trademarks, but in the legal context an emphasis is placed herein on the definition under the TM Directive, which of itself invites broad interpretations in analysis.[49] Article 2 states that:

> "A trade mark may consist of any sign capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of goods or of their packaging, provided that such signs are capable of distinguishing the goods or services of one undertaking from those of other undertakings".

Accordingly, the primary role of a 'trademark' is to identify a particular source producer, or a certain merchandise, distinguishing them from others. This gives rise to keyword concerns used by competitors which may cause confusion in identifying an origin product from that of another producer. The 11th Recital in the Preamble to the TM Directive seeks to clarify that the purpose of trademark protection is specifically to guarantee that the mark functions as an "indication of origin", thus providing consumers with sufficient information to avoid

[47] This conclusion was advocated by Laddie J. in '*Elvis Presley Trade Mark* [1997] Rpc 543'. See also Pickering, *Trade Marks in Theory and Practice* at 34.
[48] See Chapter 5.
[49] 'First Directive 2008/95/Ec of the Council, of 21 December 1988, to Approximate the Laws of the Member States Relating to Trade Marks (Codified Version) '.

confusion of particular goods or services with others. In order to satisfy this legal definition, a proposed mark must meet two requirements to facilitate registration capable of protection.[50]

2.2.1. It must be a 'sign'

This term is interpreted very broadly to adapt what constitutes a registrable trademark in the rapidly growing sphere of international commerce.[51] Article 2 seeks to provide a list of examples, albeit not exhaustive, of signs which may be protected as a trademark, including distinctive designs, letters and numerals. All signs must generally be visually perceptible, although the ECJ, in *Philips Electronics*, determined that the expression of a sign may be interpreted as meaning a trademark which is not of itself capable of being perceived visually, such as sounds and olfactory 'marks' which are consequently capable of being registered as trademarks, provided they are capable of being represented graphically. [52]

The breadth of what constitutes a 'sign' does not however mean any identifiable or associative elements may constitute a registrable trademark, thus attracting protection.[53] Any application to register a sign as a trademark, restricting the rights of others to make use of it, must not simply register the shape or design of a product branded by the proposed trademark as this is merely a property of the product itself, not a 'sign'. Conferring such exclusivity upon the owner in those circumstances would effectively grant a monopoly on the shape or design of the product, preventing other manufacturers from selling similar products with the same design, and, in short, unjustifiably restricting competition.[54] It further runs counter to the espoused purpose of trademark law by giving owner's protection in excess of that required to prevent consumer confusion. A competing product may have problems in asserting a defence to breach where similarities contribute to the confusion.

[50] It should be mentioned that the definition of trade mark is under revision. The proposal for reforming the TM Directive suggests that requirement of graphical representation should be dropped, and it is sufficient that the trade mark can be represented in way that will allow the mark to be determined.
[51] *Bently and Sherman, Intellectual Property Law.* D. Bainbridge, *Intellectual Property* (7th edn.: Longmanm: Pearson Education Limited, 2009) at 639; C. Morcom *et al., The Modern Law of Trade Marks* (3rd edn.; Butterworths: LexisNexis, 2008) at 53-54; W. Cornish and D. Llewelyn, *Intellectual Property: Patents, Copyright, Trademarks and Allied Rights* (6th edn.; London: Sweet & Maxwell, 2007) at 687.
[52] '*Sieckmann V German Patent Office*', (C-273/00).
[53] See '*Philips Electronics Nv V Remington Consumer Products Limited*', (C-299/99).
[54] '*Dyson Ltd V Registrar of Trade Marks*', (Case C-321/03).

2.2.2. Capable of Distinguishing between the Goods or Services of Different Undertakings

This is essentially the consideration of mark protection in the context the differentiating between one product or service from another, or from a potential competitor. The substantive characteristics of a trademark must be considered to discuss the way in which it performs the function of distinction, reinforcing determination of the origin of goods and services. The ECJ has asserted:

> "[T]he essential function of the trade mark is to guarantee the identity of the origin of the marked product to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the product or service from others which have another origin."[55]

The capacity of the trademark to so distinguish products and services remains problematic if it does not operate as a 'badge of origin'. In the *Elvis Presley* case the court held that a simple manuscript of the singer's name was not a sufficiently distinctive sign. Mr Justice Laddie noted that the public bought souvenirs and memorabilia simply because they were marked with the 'Elvis' name, not because they came from a particular source. This 'mark' was consequently not capable of registration per se, lacking in distinctiveness and incapable of distinguishing the marked goods of the applicant from those marketed by other undertakings.[56] Fame in itself, therefore, does not necessarily mean the acquisition of distinction, nor is the name in this context, arguably, a 'keyword'.

The objective of the 'distinctiveness' criterion is to convey an explicit or symbolic message of the source of products or services, mirroring the views of the ECJ of the importance of the origin of trade.[57] In *Hoffman-la-Roche* the Court determined that the characteristic of a guarantee of origin gives the trademark a method of attracting customers and a competitive advantage to its owner:

> "[The] guarantee of origin means that the consumer or ultimate user can be certain that a trade-marked product which is sold to him has not been subject at a previous stage of marketing to interference by a third person, without the authorisation of the proprietor of the trade mark, such as to affect the original condition of the product".[58]

[55] '*Canon Kabushiki Kaisha V Metro-Goldwyn-Mayer Inc.*', at para 28.
[56] '*Elvis Presley Trade Mark* [1997] Rpc 543'.
[57] P. Torremans and J. Holyoak, *Intellectual Property Law* (4th edn.; Oxford: Oxford University Press, 2005) at 374.
[58] '*Hoffmann-La-Roche V Centrafarm*', at para 7.

A trademark owner therefore, according to a basic interpretation of the ECJ ruling, affords a consumer the means of identifying that a product or service is under their complete control, for the purpose of engaging in undistorted competition with other undertakings. Product identification is the foundation of competitive advantage and the ECJ appears to make the presumption that competition will be distorted if the trademark owner is not enabled by law to so protect the result of its undertaking and exploit any advantage it confers.[59] It is further acknowledged by the Court that the 'trademark' is pivotal in the promotion of the principle of free market competition under the European Union trade treaties on the basis that they must "guarantee that all the products conveyed have originated under the control of a single undertaking which is responsible for their quality".[60] In the pursuit of free competition, it gives the trademark owner the right to adopt any goods or services that are produced by another as his own, so long as those products meet the specification standards of the original owner.[61]

2.3. Historical Development of Trademarks

The examination of the history of trademarks serves inter-connected purposes of first explaining the social foundation of practices involving the fixture of identification marks to goods and, secondly, helps understanding of the evolution of a framework of law governing the nature, scope, and priority of trademark functions. The changes in perception on the part of both manufacturers and consumers on the purpose and role of a significantly influences the development of the law, explaining and expanding its application and level of protection.[62]

'Marking' products to identify source has existed for "almost as long as trade itself".[63] Dating their first use is therefore somewhat of a fruitless controversy, but it was evident over five thousand years ago, commonly used for the identification of pottery and in the ownership branding of livestock.[64] The expansion of trade beyond city boundaries increased the identification of origin purpose of products whereby manufacturers would affix trademarks to their goods to identify their source of production. This would assist, for example, rather

[59] Griffiths, *An Economic Perspective on Trade Mark Law* at 1-10.
[60] '*Canon Kabushiki Kaisha V Metro-Goldwyn-Mayer Inc.*', at para 28; '*Sa Cnl-Sucal Nv V Hag Gf Ag* (*Hag Ii*)', (C-10/89 [1990] ECR I-3711) at paras 13 & 14.
[61] '*Primark Stores Ltd V Lollypop Clothing Ltd* ', ([2001] ETMR 30).
[62] J. Ammar, *Think Consumer: The Enforcement of the Trade Mark Quality Guarantee Revisited, a Legal and Economic Analysis* (Newcastle, United Kingdom: Cambridge Scholars Publishing, 2011) at 8.
[63] R. Merges *et al.*, *Intellectual Property in the New Technological Age* (3d edn., 2003) at 529.
[64] S. Diamond, 'The Historical Development of Trademarks ', *Trademark Reporter*, 73 (1983), 222-47 at 222-23; B. Paster, 'Trademarks-Their Early History', ibid.59 (1969), 551-72 at 551.

illiterate clerks in their documentation duties, or facilitate claims of ownership on shipwreck or piracy.[65] They were nevertheless considered to be a "merchant's rather than a craftsman's mark", and were yet to attain any legal significance.[66]

In the Middle Ages, the rise of craftsmen guilds brought new significance to the 'mark' and indeed municipal law compelled members of such guilds to use a production mark, facilitating the identification, in particular, of defective works which could be attributed to a craftsman. It also promoted a monopoly for a trade in a state or city, protecting the interests of the local guild against the import of foreign competition and goods, which would be seized as a result.[67] These 'regulatory' measures were enforced at national level, and within the territory of each guild membership. Trademarks where yet to provide protection for the individual craftsman, function as a quality assurance tool for privileged groups.[68]

In the modern phase of trademark development, the industrial revolution of the early 19th century brought with it rapid developments in invention, manufacturing and the concept of entrepreneurship, which flourished in the expansion of the distribution channels of world trade.[69] The importance of the trademark grew exponentially as more modern manufacturing methods resulted in large scale production, innovation and distribution in the global marketplace.[70] Producers and consumers had to cultivate new methods for the communication of information on products, particularly a tool which could encompass salient details of merchandise, with assurances of source and quality, hence the rapid evolution and importance of trademark use. In the context of a market surge in demand for products, there is a competitive need to advertise effectively to gain advantage and trade share. The trademarks importance as 'identifier of source of origin' was intensified, relating advertisement with a specific product and its manufacturer.[71] The need for the protection of trademarks consequently increased.[72] The body of judicial decisions on disputes concerning the infringement of such marks increased the importance of the courts in the application of

[65] Schechter, 'The Rational Basis of Trademark Protection', at 814.
[66] Ibid.
[67] Ibid.; Diamond, 'The Historical Development of Trademarks ', at 234; Pickering, *Trade Marks in Theory and Practice* at 37.
[68] For more see R. Bone, 'Enforcement Costs and Trademark Puzzles', *Virginia Law Review*, 90 (2004), 2100-81.
[69] D. Landes *et al.*, *The Invention of Enterprise: Entrepreneurship from Ancient Mesopotamia to Modern Times* (Princeton University Press, 2012).
[70] Ibid.
[71] Diamond, 'The Historical Development of Trademarks ', at 237-38.
[72] See D. Long, "Unitorrial' Marks and the Global Economy', *J. Marshall Reviw Intellectual Property Law*, 1 (2002), 191.

trademark law.[73] The second half of nineteenth century can arguably referred to as the 'modern era' in trademark law, which at was still in a state of some considerable lack of coherence in structure, somewhat scattered and insufficient.[74] The incentive for improvement in circumstances of expanding and rapidly changing trade and commerce came from industrialists who felt the need for stronger protection of their brand. This political pressure from the wealthy new middle class resulted in the enactment of Merchandise Marks Act 1862.[75] It was a substantial move toward trademark protection, but with some glaring shortcomings.[76]

The modern times witnessed improved means of transportation and communication. Trade did not remain confined in domestic or national territories. Unlike in the past where there was a touch of a personal relationship between the producer and the consumers, these were times when the big industrial houses expanded their horizons and started looking to sell their products at a global level. As a result, trademarks emerged as powerful indicators of origin of the products, as well as assured the customers concerning the goodwill of the producer and quality of the products. The use of trademarks increased, but so too did the disputes relating to alleged infringement. This necessitated a clarification of the rules and consistency in the application to inject some more reliable structure to the law. Academics and commentators began the first step in the process, simply organising and collating statutes and decisions of the courts.[77] At an international level, treaties and conventions regulating trademarks and the resolution of disputes were deemed necessary for effective commerce.[78]

The true significance of trademarks was not realised up until the early twentieth century, when section 3 of the Trade Marks Act 1905 gave a comprehensive definition of a 'trademark' for the first time. Section 3 states that:

> "a mark used or proposed to be used upon or in connection with goods for the purpose of indicating that they are the goods of the proprietor

[73] The first reported decision relating to trade marks protection against the imitation of the mark came in the year 1824 in *Sykes v. Sykes* (1824) 3BC 543.
[74] See 'Http://Www.Ipo.Gov.Uk/Types/Tm/T-About/T-Whatis/T-History.Htm', [Last visited 5th Sep 2014].
[75] Hansard HC vol. 167 col. 1418 (4 July 1862) [as quoted in Lionel Bently, Bently *et al.*, *Trade Marks and Brands an Interdisciplinary Critique*.
[76] A. Firth, *The Prehistory and Development of Intellectual Property Systems: Perspective on Intellectual Property* (1: Sweet & Maxwell, London, 1997) at 128-29.
[77] Bently *et al.*, *Trade Marks and Brands an Interdisciplinary Critique* at 43.
[78] For instance, the Paris Convention for the Protection of Industrial Property was signed in 1883.

> of such trade mark by virtue of manufacture, selection, certification, dealing with or offering for sale". [79]

Subsequent legislation was introduced in 1919 to provide protection from unauthorised use by others, and then amended in 1937 after parliamentary examination of the issue as commercial opportunities grew before the war. The Trade Marks Act 1938 remained in force for 50 years.[80] This dealt with the protection of marks for both goods and services, but created confusion among traders.[81] The trade marking of services, as opposed to products, had not been common, so the Mathys Committee was established in 1974 to specifically address the issue of service protection, subsequently recommending the introduction of the registration of service marks.[82] The Trade Marks (Amendment) Act 1984 followed, and into the consolidating statute, Patent, Design and Marks Act 1986.[83]

It is a measure of the importance placed by Parliament on the subject that a further review of legislation was carried out in 1990, with the introduction of White Paper titled "Reform of Trade Marks Law".[84] This led to the Trade Marks Act 1994, which is harmonised with the European Trade Marks Directive 89/104/EEC.[85] One of the major achievements of Trade Marks Act 1994 was the facilitation of registration of types of identifiable product or service marks, including three-dimensional marks, sounds and smells.[86] The owner of a reputable trademark also gained a level of protection against any use of his mark in the course of trade, which had a tendency to dilute, tarnish or take unfair advantage of his entitlement.[87] The United Kingdom also signed up to the Madrid Protocol, permitting business to obtain international registration for their trademarks.

2.4. The Rationale of Trademark Protection

The justification for trademark protection, and consequent limitations placed on competition, has attracted much debate amongst scholars and practitioners in the field of Intellectual Property (IP). The purpose of trademark protection has to be considered in the context of its

[79] Trade Marks Act 1905, section 3.
[80] Cornish and Llewelyn, *Intellectual Property: Patents, Copyright, Trademarks and Allied Rights* at 597-603.
[81] R. Annand and R. Norman, *The Trade Marks Act 1994* (London: Blackstone Press Limited, 1994) at 1-2.
[82] The Report of Sir Reginald Mathys' Committee on British Trade Mark Law and Practice (Cmnd 5601, May 1974).
[83] For more about the historical development of trademarks see J. Belson, *Certification Marks* (London, United Kingdom: Sweet & Maxwell, 2002) at 12; Bainbridge, *Intellectual Property* at 628-29.
[84] Reform of Trade Marks Law, Cm. 1203 (September 1990).
[85] Now replaced by Directive 2008/95/EC.
[86] David Bainbridge, *Intellectual Property*, (Pearson: 2012) at 692.
[87] Section 10(3), Trade Marks Act 1994.

own constraints and need for a balance of rights and interests of others in law. Identifying and defining the developing nature of the reasons for protecting trademarks gives insight into the evolution of the law, facilitating the work of courts and adjudicators to respond to the changing economic and social conditions.[88] This is particularly apt in the context of online keyword advertising, which, it will be shown, are inextricably inter-linked with economic theories of protection, and the relationship with defences to such developments in litigation based on these functions. The definition of purpose must consider the functions that trademarks have in commercial practice, combined with analysis of the economic rationales that justify such protections. It is proposed, therefore, to discuss the economic roles of trademarks and differentiate between the common functions of origin, quality and advertising of products and services.

2.4.1. Trademark Functions

Trademarks serve and perform many functions in a market. Theorists commonly iterate three functions of trademarks: origin, quality or guarantee, and advertisement or investment function. These functions are closely related to each other and their classifications are split into two groups, the legal function which is represented by the origin and the economic: the legal, and the economic theories which are represented by the quality and investment functions.[89]

2.4.1.1. The Origin function

Business must advertise to sell, survive and gain advancement, often with a promise of uniqueness of their product or service; the plethora of enterprises is endless, as is the number of opportunities to advertise in the market which make it difficult for modern consumers to make buying decisions, whether rational or emotive.[90] As a consequence, trademarks have become a primary consideration in the decision to buy.[91] The trademark complements a customer's ability to conceptualise the "abstract notion" of a product, enabling the individualisation of the product by creating a generally positive link between product and

[88] M. El-Said, 'Road from Trips-Minus to Trips to Trips-Plus: The Historical Development of Trademark Protection under the International Intellectual Property Rights Regime with Special Reference to Jordan.', (The University of Manchester, 2005) at 50.
[89] See F. Beier, 'Territoriality of Trade Mark Law and International Trade', *International Review of Industrial Property and Copyright Law*, (1970), 48-72 at 63.
[90] Cornish and Llewelyn, *Intellectual Property: Patents, Copyright, Trademarks and Allied Rights* at 655.
[91] Ibid.

mark.[92] This process typically results in identification a particular business undertaking; in short the origin function of a trademark refers to its facility to denote the source of the product or service.[93] Most modern legal systems recognise the origin function as an indicator of source in their legislation and judicial decision-making; it assists in the prevention of counterfeiting or piracy practices. [94] The European TM Directive incorporates this indispensable function in its definition of a trademark under Article 2.[95] The ECJ, in decisions such as *Arsenal FC* adopted the 'origin' purpose as an "essential function" of a trademark.[96]

The 'origin function' appears attractive in simplicity, but nevertheless gives rise to debate between academics as to its definition, purpose and elements. There is a lack of consensus about how this function should be interpreted, implemented and its relationship with other theories. It is worth recording the argument of Willem and Hertzog in detail:

> "The origin theory is by no means a single theory, however, since it is amenable to different interpretations. It may be interpreted (a) as relating to origin in the sense of a *specific* (known) business, or (b) as relating to origin in the sense of *some* (unknown) business. Sometimes these two theories are referred to as, alternatively, the *concrete* and the *abstract* theories of origin…. A further problem with regard to the origin function is the question of exactly what is to be understood by the term "origin". On the one hand, the origin may be seen as the business where the articles are manufactured; on the other hand, it may refer to the business applying the trade marks to the articles – as in the case of large retail firms having different suppliers but one standard trade mark". [97]

Friedrich-Karl Beier, on the other hand, opines the origin function is the "only" one worthy of protection under trademark law, contending that, in principle, it is sufficient to preserve the rights of the owner in a free market to relate the origin of the product to a particular

[92] S. Maniatis and A. Sanders, 'A Consumer Trade Mark: Protection Based on Origin and Quality', *European Intellectual Property Review*, 11 (1993), 406-15 at 406.
[93] Ibid.
[94] Schechter, 'The Rational Basis of Trademark Protection', at 814.
[95] See the definition of trade mark under the TM Directive above at p 3.
[96] This conclusion was held in several law cases including '*Arsenal Fc V Matthew Reed*', at para 48. See Chapter three for further details.
[97] D. Willem and R. Hertzog, *Functional Theory in Trade Mark Law* (4 B(1): University of Stellenbosch, 1981) at 11.

enterprise.[98] This is all that is required to prevent consumer confusion on the source of a product which inhibits the taking of unfair advantage of trademark goodwill by a competitor.[99] This somewhat optimistic view of the market is countered by Shanahan, who submits other, secondary roles can be attributed to the trademark function whilst maintaining the primacy of 'origin'.[100] It is in this latter context that particular difficulties arise in the certainty of a defence for competitor advertising under Article 5 litigation. The global trade environment has evolved considerably in the intervening two decades and practical considerations dictate new realities for manufacture such that the mark by itself does not necessarily determine origin. Indeed the licensing of trademarks is a profitable income stream for the owner business, permitting other manufacturers to utilise the reputation of the source to make and market products produced by them. Consumers are aware of this practice of licensing and so, Shanahan asserts, consumers do not actually expect the mark to identify a single source producer. Their primary expectation is that there is the same standard of quality for the same product associated with the same identifying mark.[101]

Modern academics, such as Rosler, take the view take the realities of business and economic practice in the new century render the origin function all but redundant as a purpose of trade marking.[102] He attributes this to the development of unity in Europe and massive growth in global trade and espouses that a trademark does not "indicate the exact origin of a product, but enables the buyers to link a product to a certain enterprise".[103] The average consumer neither knows nor cares about where the goods or services come from.[104] Denicola, submits that trademarks must now be understood not simply as an identifier of "physical source", but also as a correlating factor between the owner of the mark and the branded goods.[105] Schechter broadly agrees, observing that while the consumer does not know that exact source of a trademarked product, he determines that two products conveying the same sign come

[98] Beier, 'Territoriality of Trade Mark Law and International Trade', at 61. As cited by E. Kaseke, 'Trademark Dilution: A Comparative Analysis', Ph.D (University of South Africa, 2006) at 7.
[99] Beier, 'Territoriality of Trade Mark Law and International Trade', at 61.
[100] D. Shanahan, 'The Trademark Right: Consumer Protection or Monopoly?', *Trademark Reporter,* 72 (1982), 223-50 at 239.
[101] Ibid.
[102] Rosler, 'The Rationale for European Trade Mark Protection', at 5.
[103] Ibid.
[104] Ibid., at 5; Annand and Norman, *The Trade Marks Act 1994* at 14; Cornish and Llewelyn, *Intellectual Property: Patents, Copyright, Trademarks and Allied Rights* at 656.
[105] R. Denicola, 'Some Thoughts on the Dynamics of Federal Trademark Legislation and the Trademark Dilution Act of 1995', *Law and Contemporary Problems*, 59 (2) (Spring 1996), 75-92 at 77.

from a single source.[106] This throws emphasis onto the economic theories and their protection, which are precisely the functions keywords allegedly, and potentially, harm. The origin function still operates in the sense that as long as the owner of the trademark has the right and desire to adopt any goods or services produced by another as his own, and those products meet the owner's specifications, they effectively, in the mind of the consumer, originated under his control.[107] This is described as an "abstract origin" function.[108]

Trademarks have the potential to develop the source origin function in a manner by which the products of one manufacturer may be distinguished from those of others of the same class.[109] Product differentiation and effective competition is based on the ability of commercial enterprise to rely on the basis of identification of source in its decision-making on merchandise development.[110] The opportunity to be able to distinguish between products and their characteristics is associated in the mind of the consumer with the trademark, particularly where it involves repetitive purchases. Sakulin highlights the effectiveness of the Coca Cola trademark, and the value of prior customer experience with the product.[111] This is also an example of a product made and packaged throughout the world, and on a simple interpretation of the 'origin' function, does not have a single physical source, yet attracts considerable loyalty.

Differentiation between products and services still maintains a reliance on source, be it actual or abstract. The TM Directive recognises that distinction from others of the same class is an integral part of the definition of owner rights under Article 2 whereby the 'sign' associated with a product is "capable of distinguishing the goods or services of one undertaking from those of other undertakings". It has been noted that the Court and academics place considerable emphasis on the origin function as the primary justification for trademark protection and indicator of the source of a product or service. The importance of the origin function in the differentiation process is evident, but has developed far beyond the realm of the apparent simplicity in its terminology. Modern communications and methods of business

[106] Schechter, 'The Rational Basis of Trademark Protection', at 817.
[107] See the ECJ's decisions in '*Sa Cnl-Sucal Nv V Hag Gf Ag* (*Hag Ii*)', at paras 13-14; '*Primark Stores Ltd V Lollypop Clothing Ltd* '.
[108] Maniatis and Sanders, 'A Consumer Trade Mark: Protection Based on Origin and Quality', at 407.
[109] M. Naser, 'Re-Examining the Functions of Trademark Law', *Chicago-Kent Journal of Intellectual Property*, 8 (2008), 99-110 at 101.
[110] Sakulin, *Trademark Protection and Freedom of Expression: An Inquiry into the Conflict between Trademark Rights and Freedom of Expression under European Law* at 38.
[111] Ibid.

operation has not only facilitated trade, but introduced new practices highlighted above. The trademark has effectively become a marketable commodity of itself. This does not undermine its qualification for, or the owner's entitlement to, protection because the consumer remains entitled to the fulfilment of expectations, a guarantee.

2.4.1.2. The Quality (Guarantee) Function

Trademarks have developed as a consequence of the modern global commercial environment to perform the function of guaranteeing consumers a quality assurance in the products to which they are affixed.[112] Hanak asserts that the origin of the recognition of this function is unclear,[113] but the quality assurance theory of trademark purpose finds its roots in the 1920's article by Frank I Schechter[114] whom Hanak avers made an indispensable contribution in the field of trademark literature.[115] Schechter concluded that "The true functions of the trademark are, then, to identify a product as satisfactory and thereby to stimulate further purchases by the consuming public".[116] Despite this provenance, there is no consensus amongst trademark academics and judges as to the legal existence of the quality guarantee function. The use of a related keyword therefore has the unauthorised potential of associating the product of a competitor with this status.

It is argued that the source-origin function of trademark protection is the only justification for trademark protection in the context of balance with competition law. The quality guarantee function can only be legally acknowledged as a part of the origin purpose if binding obligations are imposed upon the trademark owner to ensure that his goods or services are of a certain quality and measure up to consumer expectations.[117] Maniatis and Sanders, for example, argue that "despite the fact that the trademark partially fulfils the role of a guarantee of quality, this function is not a legally binding warranty".[118] Their concern is that the availability of such actionable guarantees of consistency to the consumer raises the spectre of

[112] E. Hanak, 'The Quality Assurance Function of Trademarks', *Trademark Reporter*, 65 (1975), 318-35 at 318. As Diamond contends "A trademark does not necessarily guarantee good quality, what it does guarantee is consistency". S. Diamond, 'The Historical Development of Trademarks ', ibid.73 (1983), 222-47 at 246.
[113] E. Hanak, 'The Quality Assurance Function of Trademarks', ibid.65 (1975), 318-35.
[114] See Schechter, 'The Rational Basis of Trademark Protection', (Schechter is considered to be the founder of the dilution doctrine, though he mentioned this particular word only once in his article.
[115] Hanak, 'The Quality Assurance Function of Trademarks', at 318.
[116] Schechter, 'The Rational Basis of Trademark Protection', at 818.
[117] Bone opines that "A plaintiff is not required to prove that the defendant's product is of lower quality in order to obtain a remedy, and it is no defence that the defendant's product is of identical quality". Bone, 'Enforcement Costs and Trademark Puzzles', at 2137.
[118] Maniatis and Sanders, 'A Consumer Trade Mark: Protection Based on Origin and Quality', (at 407. See also A. Griffiths, 'Quality in European Trade Mark Law', *Northwestern Journal of Technology and Intellectual Property*, 11 (7) (2013), 622-40 at 630-35.

litigation arising from enforceability which should be left to market forces and loyal retention through continuing satisfaction, rather than troubling the courts: "the market is not a place for angels and the consumer demand for legislative supra-market intervention may be desirable".[119] A keyword using third party cannot, however, claim or associate his product with this 'promise'.

Beier and Krieger go further and suggest the guarantee function cannot be acknowledged in law as a warranty in the context of continuing product development which supports business efficacy: "were one to focus only on the quality function and the protection of the public against quality disappointment, the logical consequence would be that the mark owner would never be allowed to change the quality of his marked product, because then every competitor that produces goods of the same nature and quality should be allowed to use the same mark".[120] The mark would consequently lose the character of its identifying individuality, effectively becoming a standard of quality certification for all producers. This would add another layer of uncertainty to the position of competitors trying the keyword marketing of their own similar products. Brown also rejects the legitimacy of the quality guarantee function, contending that since a trademark serves as no more than the hope of an owner for repeat purchases, the term 'guarantee function' "smacks strongly of the ad-man's desire to create the illusion of a guarantee without in fact making more than the minimum warranty of merchantable quality".[121] Reasserting the primacy of origin, he describes the quality function as "a somewhat overblown attempt to escape from the strict doctrinal requirement of a known source; it should not obscure the legitimate informational value of labels pointing to an established reputation".[122] It is therefore arguable that keyword advertisers would have a simpler path of breach avoidance in the case of 'origin' as a sole basis for protection, and the 'no confusion' defence in Article 5(1) of the TM Directive easier to comply with.

An alternative school of thought relates the quality guarantee function integrally to that of the source-origin. The trademark relates origin as a sign of the quality of the goods, providing buyers with standards they may expect upon which to base a producer-consumer relationship

[119] Ibid.
[120] F. Beier and U. Krieger, 'Wirtschaftliche Bedeutung, Functionen Und Zweck Der Marke', *GRUR Int,* 3 (1976), 125-28 at 127. (*translation*). Cited by Maniatis and Sanders, 'A Consumer Trade Mark: Protection Based on Origin and Quality', at footnote 8.
[121] R. Brown, 'Advertising and the Public Interest: Legal Protection of Trade Symbols', *The Yale Law Journal* 108.7 (1999), 1619-59 at 1639-40.
[122] Ibid.

which will foster loyalty, trust and satisfaction.[123] Designating and identifying source, and guaranteeing quality of goods of services enables a trademark to facilitate interaction between informed buyers and producers about the product. Producers may guarantee that products sold or marketed are actually their own products, including those made under licence, whilst consumers are assured that subsequent purchases of the trademarked goods live up to expectations and standards; it will be the same product.[124] In the event of disappointment, remarks Hanak, "if the origin of a product is of concern to a consumer, it is only because the manufacturer's products have come be associated with a certain level of quality". [125] This argument places consumer expectations of quality as the primary function of a trademark, superseding that of source-origin.

This sense of the pre-eminence of the quality guarantee function is expanded upon by Economides, who starts with the premise that each commodity has 'observable' and 'unobservable' features.[126] The observable feature is that which consumers are able to detect in analytic form, such as an indication of size or a listing of ingredients, features recognised without difficulty or need for much thought.[127] An unobservable feature refers to the 'degree of quality' which is not so easy to identify or determine and require more subtle examination and testing. Goods which look identical in all characteristics prima facie share one observable feature, the trademark.[128] In any market, whether local or international, vendors have an advantage over consumers in level of knowledge in the realm of the 'unobservable' features of a product, described as "information asymmetry".[129] Unobservable features, by their very nature, are difficult to detect, even describe, yet play a crucial role in determining the price of a product in contrast those which can be readily seen, thus simpler to copy and counterfeit to represent as the 'same' as the original.[130]

An enhanced level of protection for trademarks may inhibit competitors, and undermine the need for constant development of products, but would encourage fair reward for innovation and incentivise the production of goods or services at a high quality level, albeit such features

[123] Naser, 'Re-Examining the Functions of Trademark Law', at 99.
[124] J. Horwitz, 'Conflicting Marks: Embracing the Consequences of the European Community and Its Unitary Trademark Regime', *Arizona Journal of International and Comparative Law*, 18 ARIZ (2001), 245-78 at 249.
[125] Hanak, 'The Quality Assurance Function of Trademarks', at 319.
[126] N. Economides, 'The Economics of Trademarks', ibid.78 (1988), 523-39 at 525-26.
[127] Ibid., at 523-39.
[128] Ibid.
[129] Ibid.
[130] Ibid.

may not be immediately unobservable at purchase.[131] Bently and Sherman assert trademarks play an indispensable role in the operation of the concept of "experience goods", informing consumers more directly of desired features where 'quality' is not readily apparent or capable of being adjudged through mere inspection.[132] The result is that trademarks will provide commercial incentives for manufactures to develop and maintain products with consistent quality, variety and standards.[133] The concept of the unobservable feature inherent in a product promote the trademark as a tool of identification of quality, directly resultant from the investment of time, money and invention of the manufacturer in the product and mark; to recall Hanak, a consumer who is interested in the origin of a product is only so inclined because the source manufacturer is associated with goods of the quality anticipated.[134] Cornish and Llewelyn observe that the quality of a product may be integrally bound up with the source in a particular way, for example the use of particular ingredients for food and beverages, or specialist replacement parts for vehicles; this accommodates a quality issue with source.[135]

In summary, the argument of the significance of the quality guarantee purpose remains. Academics such as Maniatis, Sanders, Brown, Beier and Krieger deny the existence in law of 'quality' as a function worthy of protection, a feature which should be left to the vagaries of the market rather than litigation. This places considerable trust in the effectiveness of the market to regulate itself and protect those who enhance its operation by innovation and care. It arguably facilitates the intervention of competition by counterfeiting, which is in the interests of no-one save those who profit from the invention of another. Although this kind of risk is not eliminated by the assertions of Hanak, Economedes, Bently and Sherman, amongst others, their promulgation of the quality function as a separate and indeed superior justification for protection holds logic in its association with both reputation and the relatively modern concept of product licensing. The courts have begun to recognise and consider quality as a salient feature of the trademark which requires protection. Trademarks can no longer simply designate origin because the world of manufacture and trade has fundamentally changed by the encouragement of competition and methods of advertising. It promises a guaranteed quality from the owner of the identifying mark, perhaps regardless of

[131] Economides, 'The Economics of Trademarks', at 526.
[132] Bently and Sherman, *Intellectual Property Law* at 718.
[133] Ibid.
[134] See Hanak, 'The Quality Assurance Function of Trademarks', at 319.
[135] Cornish and Llewelyn, *Intellectual Property: Patents, Copyright, Trademarks and Allied Rights* at 621.

whom it is actually made by. Consistent 'quality' standards are products of the modern system of commerce in both goods and services where competition permeates all areas of business, and those who achieve a reputation for what they provide the consumer are increasingly recognised as differentiating their output from others, utilising a recognisable marks for which they are entitled to claim protection. It is that mark which provides them with an effective method of attracting new business by utilising modern methods of instant communication through advertising.

2.4.1.3. The Advertisement-Investment Function

It can be argued that the origin and quality functions logically develop the trademark into use as an advertising instrument, inviting the consumer to purchase into the "cachet" or "aura" of the product bearing the sign.[136] A sense of uniqueness of character is the result of extensive and expensive efforts of the proprietor in promotion of the mark and goods or services it signifies.[137] The owner seeks to directly associate their mark with a particular product in the mind of the consumer, creating a public impression or symbol of the unique characteristic of his particular products.[138] European jurisprudence, it will be seen has recognised such functions as worthy of protection in circumstances where they are put at risk, or benefit appropriated by competitive advertisers.[139]

Recognition of advertising as a separate function in the range of justifications for legal protection allows the trademark to be the most effective method for the creation and perpetuation of goodwill in itself, independent of that of the product or its maker.[140] Schecter describes this independent acquisition of goodwill as occurring by the "imprinting on the public mind an anonymous and impersonal guaranty of satisfaction [thereby] creating a desire for further satisfaction" of the products to which the mark is affixed; simply, "the mark actually sells the goods".[141] The use of modern, advanced communications and advertising techniques has enabled producers to promote their goods to a much wider, potentially global group of purchasers. In pursuit of that end, the trademark is considered an effective selling

[136] See P. Fletcher, 'Joint Registration of Trademarks and the Economic Value of a Trademark System', *University of Miami Law Review*, 36 (1981-1982), 297-335 at 321; D. Kitchin *et al.*, *Kerly's Law of Trade Marks and Trade Names* (14 edn.; London: Sweet & Maxwell Ltd, 2005) at 9; ibid.
[137] Fletcher, 'Joint Registration of Trademarks and the Economic Value of a Trademark System',
[138] Schechter, 'The Rational Basis of Trademark Protection', at 829.
[139] See Chapter 3.
[140] Maniatis and Sanders, 'A Consumer Trade Mark: Protection Based on Origin and Quality', at 408; Schechter, 'The Rational Basis of Trademark Protection', at 819.
[141] Schechter, 'The Rational Basis of Trademark Protection', at 819.

point, functioning as a conduit through which the seller communicates the value and high quality of the product. Brown calls it a "commercial magnet" [142] for stimulating further sales of the product and creates and retains custom.[143] Gielen is more dramatically descriptive, asserting the character of the trademark has been transformed from mere existence on the rational and physical plane to that of the emotional and psychological.[144]

The mark enables consumers to identify the product in their exercise of choice, and it (eventually) simplifies promotion and advertising by manufacturers and retailers to promote their goods or services. This approach essentially functions as a means of identification and communication, "the trademark is a messenger".[145] It is a separate entity, rather than simply a representation of the origin of a product or service, whether by territory or source business; facilitates the licensing and franchising function of commercial practices. Coca-Cola, in its red can incorporating distinctive lettering, provides a good example of the breadth of manufacturing, advertising and distribution options available to the originator of the product to exploit the product through the recognition of its mark, produced by decades of effective advertising. The trademark becomes independent as a means of communicating information through its advertising function from the product itself, regardless of the origin of what is being sold, but dependent on the consistency and quality which invite loyalty and repeated purchase.

The communication aspect of the advertising function of a trademark nevertheless plays an important role for the benefit of producers and consumers. For producers, it may help in relating their new products to the existing product that buyers recognise from the shelves of the stores. The advertising function, for example, facilitates comparison and by doing so potentially undermines loyalty to other brands.[146] This raises questions of whether this particular effect of the advertisement is therefore worthy of protection by the law, given the prejudice it must necessarily cause for competitors. The developing of a psychological attraction of consumers by the use of the mark and comparison process is particularly

[142] See Brown, 'Advertising and the Public Interest: Legal Protection of Trade Symbols', at 1619.
[143] B. Rutherford, 'Misappropriation of the Advertising Value of Trade Marks, Trade Names and Service Marks', *South African Mercantile Law Journal,* 151 (1990), 151-63 at 151-52.
[144] C. Gielen, 'Harmonisation of Trade Mark Law in Europe: The First Trade Mark Harmonisation Directive of the European Council', *European Intellectual Property Review,* 14 No 8 (1992), 262-69 at 264.
[145] Ibid.
[146] See S. Maniatis and A. Sanders, 'A Consumer Trade Mark: Protection Based on Origin and Quality', Ibid.11 (1993), 406-15 at 409.

important for producers of a new brand and the competition to prove quality or lifestyle advantage over existing products. Huge expenditure is invested in product launch, and the trademark owner has an in-built advantage in its use for communicating a reputation already built. The mark is a "short cut" to market by affiliation. In the world of e-commerce in particular, online advertising has been a method used by competitors to seek an elevated publicity platform for their products by the use of trademark related keywords. Probity in testing, and accuracy are demanded in the subsequent court adjudications.

Competitors, in the event of limited protection of marks via the advertising function route, use the legal freedom of comparison to link or even affiliate their products with those of an existing brand on which that trademark owner has spent a fortune developing the distinctiveness of quality and reputation. The manufacturer of a new fizzy drink needs only to refer and compare to one of the leading brands, declaring via comparative advertising that his new product is as good as the market leaders, conveying the message that taste, function or any of the range of emotional values of the new product are available elsewhere.[147] The defences in Article 5, it will be noted, are likely to permit such comparisons where confusion on the 'origin' function does not result.

Phillips avers a communication purpose of the advertising function is the 'lifestyle statement' often achieved through large-scale investment which would include the sponsoring of sports teams and events, and utilising the endorsement of prominent celebrities.[148] Meenaghan points out by way of example that "Pepsi as a brand is regarded as having achieved associations of entertainment, freshness and youth through its sponsorship, endorsement, youth lifestyle and entertainment marketing approach".[149] Vast sums are paid to sports teams to facilitate publicity and the attraction of new custom through trademark representation on sportswear. Such marketing activities aim to make the image of the brand more attractive to consumers and create the profitable element of association between consumers and the

[147] B. Mills, 'Comparative Advertising- Should It Be Allowed in the United Kingdom?', *Trademark Reportor*, 86 (1996), 174-202 at 178. The author contends that "the manufacturers of leading brands wish to prevent use of their valuable trademarks by third parties in DC advertisements in order to prevent the third party from taking advantage of (or a "free ride" on the back of) their investment and success in communicating product values to consumers".
[148] See Phillips, *Trade Mark Law: A Practical Anatomy* at 27.
[149] 'The Role of Advertising in Brand Image Development', *Journal of Product & Brand Management*, 4 (4) (1995), 23-34 at 28.

advertised brand through other parties.[150] However, a fashion trademark is a lifestyle choice dependent on the whim of the consumer, a "toy" to play with when the thought arises, argues Phillips.[151] The trademark functions in this context as more than a mere indicator of the origin or quality of the goods, empowering buyers to purchase products which say something about themselves, a declaration that "this is the sort of person I am".[152] Individual consumers "purchase branded goods for the purpose of demonstrating to others that they are consumers of the particular good" and in such cases, the marks themselves become communicative symbols, a function potentially worthy of the protection of the law. Pfeffer calls this the 'expressive use' of trademarks.[153]

Advertising therefore represents a most potent sales instrument, imprinting the trademark with human-like emotive attachment rather than mechanistic performance.[154] This stimulates the mark owner to spend a large amount of money on advertising on what is the basic single purpose of the promotion of goods and services to maximise profits. It is worth noting that some trademarks have no lifestyle connotation, such as Boeing, Hewlett Packard or Nestle.[155] Nevertheless, the ambition of a trademark owner usually extends beyond the simple pursuit of profit, and, for example, the proprietor of a fashion trademark will seek to add value to the mark to place the brand in the lifestyle context.[156] This increases the value of the brand by consumer recognition as a desired social signal; the product does not just perform functionally, but makes social statements on behalf of the consumer.[157] "Salience" is the word used in marketing to describe the potential that some trademarks have to hook the consumer, and draw attention to their products.[158] This "cognitive availability" inherent in the mark, coupled with the attractiveness of its image is as much a result of astute advertising as reputation. The salience of the mark must therefore be at risk of dilution from unauthorised signs in the argument of 'affiliation' of competitor products with the origin through

[150] For more see Grimes *et al.*, 'The Protection of Merchandising Properties ', *Trademark Reporter,* 69 (1979), 431-59.
[151] Phillips, *Trade Mark Law: A Practical Anatomy* at 27.
[152] Ibid.; D. Klerman, 'The Expressive Function of Trademarks', (unpublished article on file with author, February 2, 1998), 1-15 at 1.
[153] R. Pfeffer, 'Who's Fooling Whom: An Economic Analysis of Expressive Trademark Use', *Wake Forest Intellectual Property Law Journal,* 6 (2006), 69-108 at 72.
[154] Meenaghan, 'The Role of Advertising in Brand Image Development', at 31.
[155] According to Phillips such brands are so universal in their market application that they convey no lifestyle. See Phillips, *Trade Mark Law: A Practical Anatomy* at 28.
[156] Meenaghan, 'The Role of Advertising in Brand Image Development', at 31.
[157] Ibid., at 32.
[158] See A. Ehrenberg *et al.*, 'Differentiation or Salience', *Journal of Advertising Research,* 37 (1997), 7-14; G. Ramello, 'What's in a Sign? Trademark Law and Economic Theory', *Journal of Economic Surveys,* 20 (4) (2006), 547-65 at 556-59.

comparison. This need not actually mislead the consumer on the essential origin of the competitive product, or indeed any economic link to the original, but is still potentially able to take advantage of its "availability heuristic", the immediate association of the competitor with the attributes of the original.[159] The advertising function of the trademark therefore becomes an essential part of the mark and product themselves, and as such should attract appropriate legal protection, particularly when a constituent thereof, namely an online keyword, is used in the advertising by another.

Significant amounts of money and time are expended in marketing and advertising investment not merely to place the symbol or name onto the product, but in order to identify the mark owner as the source of the quality purchase which so delights the consumer. The aim is to create an image in the minds of consumers and to be associated with the product when consumers are considering their purchase.[160] Investment in the promotion of a product is a value worth protecting in itself, regardless of whether or not it can misrepresent issues of origin or quality.[161] Dawson indeed observes that large numbers of businesses now consider their brands and the trademark which represents them to be their most valuable asset, with owners of marks seeking legal protection of these 'commodities' to reflect the value and to secure advertising investment. [162] The investment function of trademarks is therefore significant in terms of its price value as an intangible intellectual property asset. An annual survey of the world's most valuable brands, conducted by Brand Finance Global 500 for example, values Apple Company at USD $104,680 million, even before product sale profit.[163] It encapsulates the brand per se as an investment instrument of considerable importance to a domicile national economy, thus encouraging a desire to protect the interests of such a prominent income producer, including its trademarks.

Advertising embodies two aspects, (a) communication and (b) investment. The analysis of Gotting is worthy of consideration in detail; "A well-known trade mark embodies the

[159] See, for example, C. Jolls *et al.*, 'A Behavioural Approach to Law and Economics', *Stanford Law Review*, 50 (1998), 1471-550; T. Gilovich *et al.*, *Heuristics and Biases: The Psychology of Intuitive Judgment* (Cambridge: Cambridge University Press, 2002).
[160] For more see in general D. Pickton and A. Broderick, *Integrated Marketing Communications* (1st edn.; Essex: Person Education Ltd, 2001) at 22-45.
[161] See Cornish and Llewelyn, *Intellectual Property: Patents, Copyright, Trademarks and Allied Rights* at 620.
[162] N. Dawson, 'Trade Mark Law and the Creation and Preservation of Well-Known Brands', *Northern Ireland Legal Quarterly* 49, No 4 (1998), 343-62 at 344.
[163] D. Haigh, 'The Annual Report on the World's Most Valuable Brands', (Brand Finance Global 500, 2014). Available at http://brandirectory.com/league_tables/table/global-500-2014. (Last visited 30 Aug 2014).

goodwill, meaning the appreciation that the company with its performance in the market place has gained among the consumers. It is an image carrier and as such not only represents the products or services but the company as a whole".[164] This is facilitated by the vast growth in methods of mass communication, where even social media interactions can serve as a marketing tool, as well as electronic website affiliations and advertisements which are difficult to avoid. Gotting becomes more robust in his assessment of the importance of the trademark in advertising and reputation building; "without an attractive trade mark even the best product remains a white elephant. Immediate product-related performance competition has been replaced increasingly by advertising competition. In view of the limited absorption capacity of the consumer it must, first of all, attract attention and establish itself in his consciousness through a recognition effect. With an attractive trademark, an information channel can be created between the seller and the buyer into which the most variable advertising messages can be fed".[165] An image is created in the mind of the consumer to attract attention to a particular product through the development of "brand equity", distinctiveness, perceived quality, selling power and uniqueness.[166] Where the brand symbol or mark fails to achieve this association, it will, according to Picton and Broderick exist in name only, without brand equity.[167]

2.4.1.4. Discussion of the Legal and Economic Functions

In the commercial argument for a wide protection of trademark functions, the source origin function remains significant as both a legal and market function. They perform other functions, such as that of the guarantee to consumers of a certain degree of consistency in quality of the product or service, or a symbol which attracts attention to a particular commodity, independent of quality but which possesses advertising value. Some academic commentators resist protection being accorded to these latter functions in the competitive, free market economy. [168] Beier, albeit writing in 1970 before the global communications revolution, designates quality and advertising functions as "economic" rather than "legal".[169]

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[164] H.Gotting, 'Protection of Well Known Unregistered Marks in Europe and the United States', *International Review of Intellectual Property and Competition Law*, 31 (4) (2000), 389-407 at 390.
[165] Ibid.
[166] Pickton and Broderick, *Integrated Marketing Communications* at 34-42. See in general F. Mostert, 'Trademark Dilution and Confusion of Sponsorship in United States, German and English Law', *International Review of Industrial Property and Copyright Law*, 17 (1986), 80-95 at 86.
[167] Pickton and Broderick, *Integrated Marketing Communications* at 34-42.
[168] I. Simon, 'How Does "Essential Function" Doctrine Drive European Mark Trade Law?', *International Review of Intellectual Property and Competition Law*, 36 (4) (2005), 401-20.
[169] Beier, 'Territoriality of Trade Mark Law and International Trade', at 63. See also Simon, 'How Does "Essential Function" Doctrine Drive European Mark Trade Law?',

He contends they have no legal basis under trademark law since they are derived from consumer knowledge of the identity of the origin of the products.[170] It will be shown the ECJ has been willing to accept legal protection for economic functions, although arguably without providing significant precedent conditions which prove problematic in the planning of third party advertising which will not lead to a litigious stage in the life of the competitor.

A fundamental change in view is apparent in the evolution of today's trademark law from its base beginnings. Beier, writing this time in 1995, acknowledged that trademark law has witnessed a fundamental conversion in the past three decades.[171] He notes the trademark is maintained by the formal act of registration after a "development period" of three to five years, facilitating legal protection for its use in the marketplace, subject to regular renewal. A well-known, established mark now represents a potent advertising and marketing instrument, freely assignable, often licensed and frequently attracting others to illegitimately appropriate its value to themselves, thus requiring sanction. Beier accepts that where a trademark gains progressing popularity amongst traders in a market, the more its owner will be successful in developing it into an advertising tool, making it a licensing commodity of itself beyond issues of similarity of goods, and therefore it must be enforceable against imitation; "without relinquishing its traditional function as an indication of commercial origin and its related quality function, trademark protection has ventured into new dimensions in recent years".[172]

The Eleventh Recital of the Preamble to the TM Directive states the purpose of protection "is in particular to guarantee the trademark as an indication of origin", and Box implies this is a recognition of other functions of the trademark which must subsequently qualify for consideration for protection.[173] Nevertheless, ancillary functions as such remain vague and therefore unable to serve the purpose of establishing a more general prohibition on competitors to make reference to a protected trademark.[174] Jurists such as Jacob LJ, in *L'Oreal*, it is noted have less enthusiasm about what is effectively a separation of these functions from protection of the essential origin. The basis of such objection is that they have

[170] Beier, 'Territoriality of Trade Mark Law and International Trade', at 64.
[171] F. Beier, 'The Development of Trademark Law in the Last Twenty-Five Years', *International Review of Intellectual Property and Competition Law,* 26(6) (1995), 769-81.
[172] Ibid.
[173] J. Box, 'Tresor, Miracle, Anais-Anais, Noa-Noa (Case Comment)', Ibid.41(4) (2010), 485-93 at 487.
[174] See for example, 'Significant 2009 Case Law on the Community Trade Mark from the Court of Justice of the European Union and the General Court', *Journal of Intellectual Property Law & Practice,* 5 (5) (306-26 at 323.

an inherent lack of clarity in definition which makes enforceability problematic.[175] Concerns are expressed that in the context of a free market, proprietors of brands will have the opportunity to rely on a "potentially endless list of functions".[176] Meale and Smith propound that the elevation of the trademark beyond its conventional "badge of origin origins, perhaps recognizing the extent to which the 'brand' has become far more than simply a maker's mark".[177]

Nevertheless, any trademark, effectively promoted, may acquire considerable value and therefore entitlement to legal protection, as a result of origin, quality and advertising functions, leaving it vulnerable to exploitation by rivals, especially due to the intangibility of its effects on a product. Klieger argues "taken together, these functions of trademarks as product, source, and quality identifiers, and as vessels for the development of brand personas, elevate trademarks above physical assets and other forms of intellectual property as the most valuable assets of many companies. Put simply, a trademark is that which makes tomorrow's business something more than an accident".[178] Interference therefore has the potential to deprive the mark owner of customer loyalty without the expense of acquisition of rights, and damage interests with sub-standard copies which undermine the trademark reputation.[179] It is as such arguably worthy of protection, albeit achieved through avoidable litigation were there greater clarity in available defences to assist competitors with their publicity planning.

2.4.2. Economic Justification for Trademarks Protection

The function of the economic roles of the trademark and their pivotal role in trade and commercial marketing gives rise to the need to identify the economic context which enables justification to be argued for their protection. It will help to establish, in contribution to the aim of this study, a basis for arguing the attachment of liability to ISPs and advertisers in providing or using online keyword advertising services. It will be noted in Chapter 5 that there is a tendency to rationalise liability from the economic perspective of trademark law.

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[175] '*L'oreal Sa & Ors V Bellure Nv & Ors* Ewca Civ 535 ', at para 30.

[176] D. Meale and J. Smith, 'Enforcing a Trade Mark When Nobody's Confused: Where the Law Stands after L'ore´Al and Intel', *Journal of Intellectual Property Law & Practice*, 5 (2) (2010), 96-104 at 99.

[177] Ibid.

[178] R. Klieger, 'Trademark Dilution: The Whitling Away of the Rational Basis for Trademark Protection', *University of Pittsburgh Law Review*, 58/ (1997), 789-866 at 790-91.

[179] Horwitz, 'Conflicting Marks: Embracing the Consequences of the European Community and Its Unitary Trademark Regime', at 249.

Theories abound on moral and ethical grounds, enforced by the prevention of a competitor seeking unjust enrichment by the taking of unfair advantage.[180] The economic 'cost and benefit' analysis appears the most practically sound basis, which views trademark rights as tools which organise and facilitate communication within the marketplace.[181] The welfare economic assessment aims at the enhancement of the consumer experience and satisfaction, so it follows that the operation of the economic rationale has to be related to a normative public policy which advances this core aim.[182] In the world of general economics, based on the greatest benefit for the greatest number principle of utilitarianism, decisions and rules all economic decisions have an inherent value where they provide for these aims, be they in the process of protection and its balance with competitive trade; that goal is the justification upon which protection of the economic functions is predicated.[183]

This kind of outlook on the reasons behind the need for the competitive balance of interests incorporates a welfare consideration which in the occasional brutality of commerce strikes an interesting way of considering protection issues; essentially, the basis for intervention in a free market to protect trademarks, termed 'pareto optimality', is justified only where a party is made better off, but not at the expense of another.[184] The Chicago School of Economics is at the forefront of this form of utilitarian balance of interests, applying a system of benefits and cost analysis where intellectual property rights seek protection.[185] The rights of trademark owners are viewed as veritable engines of economic and market efficiency, reducing search costs of consumers whilst enhancing benefits and incentives to traders to invest in the qualities of their goods or services, particularly were they to derive benefit from their investment and marketing.

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[180] See Bently and Sherman, *Intellectual Property Law* at 715-21.

[181] W. Landes and R. Posner, *The Economic Structure of Intellectual Property Law* (Cambridge, MA: The Belknap Press of Harvard University Press, 2003); Landes and Posner, 'The Economics of Trademark Law',; Ramello, 'What's in a Sign? Trademark Law and Economic Theory'; Economides, 'The Economics of Trademarks', (

[182] J. Hirshleifer, *Price Theory and Applications* (London, Sydney: Prentice-Hall, Inc, 1988) at 460.

[183] Sakulin, *Trademark Protection and Freedom of Expression: An Inquiry into the Conflict between Trademark Rights and Freedom of Expression under European Law*.

[184] V. Pareto, *Manuale D'economia Politica* (Milan: Società Editrice Libraria, 1906). As cited by Sakulin, *Trademark Protection and Freedom of Expression: An Inquiry into the Conflict between Trademark Rights and Freedom of Expression under European Law* at 44.

[185] Landes and Posner, 'The Economics of Trademark Law', (at 265-309; N. Economides, 'The Economics of Trademarks', ibid. (523-39. See also S. Dogan and M. Lemley, 'A Search-Costs Theory of Limiting Doctrines in Trademark Law', *The Trademark Reporter*, 97 (6) (2007), 1223-51.

The reduction of consumer search costs is seen as a remedy for the problem of market "information asymmetry", or imbalance between participants, by directing attention to the value of trademarks for consumer.[186] The dynamic benefit rationale, on the other hand, appears not so direct in the protection of consumer interests, and "views trademark rights as a means to counteract the market failure connected to free-riding, thereby focussing on the appropriate remuneration of producers and traders".[187] The potential risk posed by keyword marketing becomes a central tenet of litigation on mark protection in the context of economic based theories.

The underlying concern of search cost theory is that investigating the particulars of every potential purchase, such as quality and reputation, would require consumers to surrender a fair amount of their costly time. However, when product information can be abstracted through the convenient identifiable trademark upon which they can place their reliance and effectively communicate with manufacturers; they will be better informed and a more competitive market is promoted.[188] Simply put, a consumer receives a recommendation from a friend to by Brand X, and to save time in examining and trying other products of the same ilk, does so; the convenient reference to the trademark for the thing saves time, effort and, so, money. Landes and Posner succinctly state that a trademark conveys the information to the consumer in a way that the consumer says to himself, "I need not investigate the attributes of the brand I am about to purchase because the trademark is a shorthand way of telling me that the attributes are the same as that of the brand I enjoyed earlier".[189] It provides a rationale for the protection of source identification and distinguishing of the product from others. The reliability of a trademark advances the cost-benefit analysis as a significant aid in improving the information situation of consumers. Lack of reliability is indeed expensive and undermines the trademark significance in the 'search-costs' theory.[190] They ought to be a readily available, extremely efficient, and reliable source and summary of information, an indicator of the source of products and services, facilitating the differentiation of products and services from other suppliers, the product distinction function. Consumers attach

[186] See the discussion of the "information asymmetry" by Economides above. See also M. Mckenna, 'A Consumer Decision-Making Theory of Trademark Law', *Virginia Law Review*, 98 (2012), 67-141 at 73-77.
[187] Ramello, 'What's in a Sign? Trademark Law and Economic Theory', at 556-59.
[188] S. Dogan and M. Lemley, 'Trademarks and Consumer Search Costs on the Internet', *Houston Law Review*, 41 (2004), 777-838 at 786-88.
[189] Landes and Posner, *The Economic Structure of Intellectual Property Law* at 167.
[190] Landes and Posner, 'The Economics of Trademark Law', at 269-73; Dogan and Lemley, 'Trademarks and Consumer Search Costs on the Internet', at 786-88.

experience characteristics to goods, generally from prior use.[191] Shanahan simply points out that when a customer orders 7UP he does not expect to get sarsaparilla; it is a descriptive function, but also indicates that its formulation and quality are associated to a particular organization.[192]

From the perspective of the right holder, trademark protection enhances their 'dynamic benefit' through the incentivising of premium quality practises in production.[193] This requires extensive effort and investment for "the value of a trademark in facilitating purchasing decisions depends on the information or reputation that mark conveys about the producer of particular branded product".[194] Consumer recognition of reputation from quality assurance, or the conveyance of lifestyle messages, will increase sales and subsequently profit, given willingness to purchase the trademarked product at a higher price than other identical or similar competing items. It grants the trademark its "modern commercial value" and thereby increases its "marketing power".[195] Duplication of another's trademark is much less, largely revolving around printing and packaging, and this incentive to the imitator, should regulation by the law be limited, may indeed be more tempting than the efforts of the trademark owner. This free-riding competitor will accumulate the benefit, at less cost, at least in the short term by such copying of the more reputable, quality brand if not inhibited by the law, based on an erroneous consumer presumption of identity. It can diminish or destroy the 'information capital' carried by the mark, and extinguish the incentive to invest not just in its reputation, but quality of the product.[196] Protection of the trademark enables the right holder to recoup investment in name and quality, fostering competition and improvement, and enhance consumer welfare and interest in the provision of a variety of reliable quality goods.[197]

Whilst economic efficiency of the market is enhanced by focusing on the rightful monetary reward to producers and traders for their investment in other areas of intellectual property rights, such as patent or copyrights, on trademarks the purpose is not the creation of trademarks or new words; those protections of rights are awarded for the purpose of

[191] Economides, 'The Economics of Trademarks', at 528.
[192] D. Shanahan, 'The Trademark Right: Consumer Protection or Monopoly?', ibid.72 (1982), 223-50 at 240.
[193] W. Landes and R. Posner, 'The Economics of Trademark Law', ibid.78 (1988), 265-309 at 270.
[194] Ibid.
[195] Torremans, 'The Likelihood of Association of Trade Marks: An Assessment in the Light of the Recent Case Law of the Court of Justice', (at 302; Griffiths, *An Economic Perspective on Trade Mark Law* at 6.
[196] Landes and Posner, 'The Economics of Trademark Law', at 270.
[197] Ibid., at 267-73.

identifying goods or service so that the efficient economic competition is enhanced and secured.[198] The economic justification is therefore limited to the origin and quality functions, with the efficiency of the market safeguarded where such protection is to prevent consumers' confusion.[199] The 'search costs', and 'dynamic benefit' rationales both justify the protection for the origin and the quality functions against confusion. Lack of clarity of defences available to competitors however causes difficulties in planning of marketing methods to avoid the risk of violation, especially when trademark owners seek to induct economic theories and functions into either origin or quality.

Legal protection and enforcement of trademark rights is not cost free, for they bestow on owners the potential for the creation of exclusive rights or monopolies.[200] In this context, monopoly can be defined as the right to exclude others from the use of a specific symbol as a trademark, a highly controversial cost of exclusion of others.[201] Anti-competitive measures resulting from a wide scope of protection requires a kind of fine tuning of the agreed purpose of trademark protection in the context of other market principles. Exclusive rights over generic words, commonly used in trade, such as 'high quality', would seriously hinder the ability of a third party to compete in the market, simply because his registered mark cannot use that description; consumers would be uninformed about the attributes of his goods. The cost of protection must be also weighed against the interests of third parties, for example in the making of reference to the owner's mark to describe compatibility of spare parts or maintenance services.[202] This would be a negative effect to the interests of third parties, despite no increase in the searching costs or economic loss to the right holder, so efficiency benefits of trademark rights in reduction of search costs have to be set off against the costs that owners' have the potential to impose on third parties and on whole society; economic welfare principles should adopt trademark rights only as long as their benefits exceed their protection costs.[203]

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[198] Sakulin, *Trademark Protection and Freedom of Expression: An Inquiry into the Conflict between Trademark Rights and Freedom of Expression under European Law* at 48; Bently and Sherman, *Intellectual Property Law* at 915.
[199] Sakulin, *Trademark Protection and Freedom of Expression: An Inquiry into the Conflict between Trademark Rights and Freedom of Expression under European Law*.
[200] Landes and Posner, 'The Economics of Trademark Law', at 273-75.
[201] C. Pickering, Trade Marks in Theory and Practice (Oxford: Hart Publishing, 1998), at 74
[202] This is envisaged under Article 6 of the TM Directive. See Chapter four of this thesis.
[203] Sakulin, *Trademark Protection and Freedom of Expression: An Inquiry into the Conflict between Trademark Rights and Freedom of Expression under European Law* at 49.

2.4.2.1. Protection of the Advertising Function - Goodwill

The utility of economic rationales is a justification for the protection of the origin and quality functions of a trademark, but do not provide clarity which similarly supports the same for the advertising function. Whilst protection for the origin or quality functions serves the interests of consumers and the community as a whole, the advertising function concerns primarily the benefits its owner. It is arguably embodied goodwill of the mark, thus effectively becoming a consumable product in itself; consumers may buy products not merely because of premium quality but also because of the signal message or the lifestyle it delivers. Economides asserts "[i]n perception advertising a desired mental image is added to the physical commodity. The consumer buys the advertised mental image together with the physical commodity, and in his mind the commodity bought contains both. "The perceived features are consumed like all other features of the commodity".[204] Trademarks have potentially become commodities that are separate from the physical product, so protection of the advertising function will be of concern not only the interests of the owner of the mark as a guarantee of goodwill, but also to its consumers. This does not appear to fit the pattern of the trademark protection and law, so the argument that advertising function and goodwill should gain protection as a psychological commodity cannot be justified.[205] This makes economic justification of the advertising function difficult to support and indeed it is arguable that this and the embodied goodwill produce negative effects on the economic freedom and efficiency of the market and on the interests of the community generally. Ramello observes that "a more subtle effect occurring in international trade that because of the asymmetrical distribution of trademarks in favour of richer nations, the effects of brand loyalty on consumers can to a certain extent be leveraged to transfer market power acquired elsewhere, thereby distorting the development of local industry sectors".[206] They are at least generally recognised in three different forms of infringement protection, namely detriment to the distinctive character by "blurring", reputation of the mark by "tarnishment", or taking unfair advantage of its appealing image in "free-riding". Protection has not yet been directly afforded, certainly on the basis of the economic efficiency of the market, where their enhancement and costs do not outweigh the interests of the community.

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[204] Economides, 'The Economics of Trademarks', at 533.

[205] See Sakulin, *Trademark Protection and Freedom of Expression: An Inquiry into the Conflict between Trademark Rights and Freedom of Expression under European Law* at 53; R. Bone, 'Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law', *Boston University Law Review*, 86 (2006), 547-622.

[206] Ramello, 'What's in a Sign? Trademark Law and Economic Theory', (at 558; E. Baroncelli *et al.*, 'The Global Distribution of Trademarks: Some Stylised Facts', *The World Economy*, 28 (6) (2005), 765–82.

2.4.2.2 Advertising Function and the Economic Efficiency Rationale

Harm caused by 'dilution' or "blurring" to the distinctive character of a brand will occur when the ability of the brand to identify the goods or services for which it is registered is weakened or undermined, a dispersion of the identity of the famous brand and its hold on the public mind by a rival mark, albeit perhaps used on different products and inducing no consumer confusion.[207] Consumers, for example, are unlikely to be misled by a chocolate calling itself 'Rolls Royce Bar', or its producer "Rolls-Royce Food Ltd"; however, multi uses will make the words generic as opposed to a reflection of exclusivity and luxury of the car manufacturer. This blurring, dispersion or "whittling away" of the distinctiveness of the trademark may take time before the negative effect is tangible or even noticeable, a "death by a thousand cuts".[208] This is not to suggest that an action for dilution should not be taken early, when harmful first use and the dispersion of the distinctive identity of the mark is very distant although the future effect may be difficult to identify.[209]

A related problem is 'economic justification' proving that 'blurring' might increase the search costs to consumers, and recourse is made to the argument of a mental, "internal" search cost on consumers; their difficulty is not the identification of the sources of the original marked product and the interloper, but in retrieving the mark from memory in the first place due to multiple associations.[210] The consumer has to sort out the meaning and significance between the original and an unrelated, non-confusing similar mark slowing "processing time".[211] This is a rather selective process of thought from the supporters of the dilution process, relying on empirical evidence "drawn selectively from disparate, loosely related fields to justify dilution law".[212] The evidence conflicts on the effects of word frequency on memory; it may indeed actually improve recognition, but basically the theory of cognitive blurring is somewhat inconclusive.[213] Cognitive science reveals disputes on the

[207] See the ECJ's decision at '*Intel Corporation Inc. V Cpm United Kingdom Limited* ', ((C-252/07) [2009] ETMR 233) at para 29.
[208] The ECJ accepted this claim in its decision in *Intel* case. See Chapter four of this thesis.
[209] Sakulin, *Trademark Protection and Freedom of Expression: An Inquiry into the Conflict between Trademark Rights and Freedom of Expression under European Law* at 50.
[210] See Landes and Posner, *The Economic Structure of Intellectual Property Law* at 206-09; R. Tushnet, 'Gone in Sixty Milliseconds: Trademark Law and Cognitive Science', *Texas Law Review*, 86 (2008), 507-68 at 519.
[211] M. Morrin and J. Jacoby, 'Trademark Dilution: Empirical Measures for an Elusive Concept', *Journal of Public Policy & Marketing,* 19 (2) (2000), 265-76 at 267.
[212] Tushnet, 'Gone in Sixty Milliseconds: Trademark Law and Cognitive Science', at 528.
[213] Ibid.

mode of measurement of actual consumer reactions and the argument it effectively distorts the measurement, thus making it unreliable.[214]

'Tarnishment' has been defined as a harm caused when a third party uses an identical or similar sign to the well-known trademark in relation to goods or services which possess a characteristic or a quality which in some sense is liable to impair the image of the reputed mark.[215] The search cost theory does not appear to provide justification for additional protection from this harm; the user of a mark which tarnishes the image of a reputable other will only increase such cost "if those associations are patently untrue, confusing, or misleading and if they have a causal effect on later purchasing decisions".[216] Unrelated inferior goods which become associated with a mark provide misleading communications for the resultant, inconvenienced, consumer, influencing their perception quality of the original trademarked goods.[217] The utility of a prohibition of indirect confusion which leads to a misleading impression of origin or source may be used to alleviate this harm, and thus the protection of a 'tarnishment' concept may not be required.[218] Truthful criticism or commentary, however, which has a negative impact on the reputation of a mark can positively reduce search costs in the provision of facts pertinent to the ultimate decision to purchase.[219]

A third theory of 'dilution' is basically 'free riding' on the efforts and expense incurred by another in the building of the reputation of their mark, to which the third party competitor attaches its very similar colours. Utilising the 'Rolls-Royce' example above, there can be little argument of confusion and increase of search cost between chocolate bars and luxury cars. Consumers continue to associate the 'Rolls-Royce' mark exclusively, or at least overwhelmingly, with the motor company; there is no discernible blurring or tarnishment. There is little doubt, however, that the food company has adopted the name for the positive, luxury connotations created by the car manufacturer; if the chocolate is of negligible quality,

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[214] Ibid.
[215] '*L'oréal Sa Et Al. V Bellure Nv Et Al.*', at para 40.
[216] Landes and Posner, *The Economic Structure of Intellectual Property Law* at 206-07.
[217] D. Klerman, 'Trademark Dilution, Search Costs, and Naked Licensing', *Fordham Law Review,* 74 (4) (2006), 1795-73 at 1769-70.
[218] Sakulin, *Trademark Protection and Freedom of Expression: An Inquiry into the Conflict between Trademark Rights and Freedom of Expression under European Law* at 51. For more about tarnishment protection see I. Fhima, *Trade Mark Dilution in Europe and the United States* (United States: Oxford University Press, 2011) at 159-88.
[219] Sakulin, *Trademark Protection and Freedom of Expression: An Inquiry into the Conflict between Trademark Rights and Freedom of Expression under European Law* at 51.

this may find an association in the mind of the consumer which reflects on the quality of the original trademark name, heavily invested in through innovation and development of the car company. It is arguable therefore that the food company should not be able to take advantage of that without consent. This kind of 'free-riding' on another's original mark, reputation and goodwill, without their consent or compensation, is asserted to be the 'essence of dilution'.[220] Nevertheless, if the user who seeks appropriation of the benefits of such reputation, as it must expect from the simple desire to use the mark, but does not evidently harm the original by the increase in consumer search costs, it is arguable that there are social benefits to market competition; this of course pre-supposes no tarnishing or some other injury caused to the original.[221] Indeed, free exploitation of the advertising value can result in a greater diversity of products offered whilst maintaining the incentive to the original mark owner to continue to invest and improve in quality in the competitive commercial environment.[222] It may be questioned therefore whether protection of the advertising function in the absence of clearly identifiable harm to the original mark owner undermines the dynamic benefit rationale.

Landes and Posner, influential proponents of the Chicago School and the dilution theory of protection, doubt that advantage gained by a third party through free-riding on the reputation of a mark would cause economic harm to the right holder where there is no consumer confusion.[223] In the Rolls-Royce example, the chocolate maker gains associative advantage without compensating the original right holder but not cause harm to the prestigious value of the car manufacturer. Two cogent economic objections militate against conferring legal protection for the free-riding notion, termed the "pure dilution case".[224] The first is that the number of prestigious names is enormous; it is practically not possible for owners of prestigious trademarks could obtain considerable "licenses fees" from third parties to legitimatise their advantages from riding freely on the reputation. Such fees would be driven to zero by high competition among the owners and "if the name is being used in an unrelated market, virtually every prestigious name will be [a] substitute for every other in that market".[225] The second concern propounded by Landes and Posner is that protection of their

[220] See D. Franklyn, 'Debunking Dilution Doctrine: Toward a Coherent Theory of the Anti-Free-Rider Principle in American Trademark Law', *Hastings Law Journal,* 56 (2004), 117-68.
[221] Klerman, 'Trademark Dilution, Search Costs, and Naked Licensing', at 1760.
[222] Sakulin, *Trademark Protection and Freedom of Expression: An Inquiry into the Conflict between Trademark Rights and Freedom of Expression under European Law* at 52.
[223] Landes and Posner, *The Economic Structure of Intellectual Property Law* at 207-08.
[224] Ibid., at 208.
[225] Ibid.

signs against consumer confusion will result in their attachment to any brand other than their own. If legislation prohibiting dilution is broadly construed to allow mark owners to forbid non deceptive uses or the threat of rendering the mark generic, "the social benefits of genericness, in reduced consumer search costs and enhanced competition, are reduced or postponed".[226]

'Whittling away' the distinctive character and reputation of a mark logically means harm to the interests of its owner. It will hinder the 'dynamic benefit' rationale. Simply, protection against such blurring can be economically justified but is not automatic. The owner of the mark alleged to have been harmed has to prove that the use of the later sign would be damaging and there is a "serious risk" of such harm is occurring so that his mark will become a generic word. 'Tarnishment' too has considerable scope for damage to the 'dynamic benefits' of the owner where it is associated with the mark on inferior goods; this however must specifically identify the particular harm and will only include those uses where damage of a certainty, rather than mere perception.

Ultimately, however, in the absence of economic rationales, if protection was to be granted, for there would be little other purpose in 'recognition' of the function, expectation needs to be carefully managed by limitations which will not undermine the general economic free market principles.

2.5. Conclusion

The analysis of the rationales for trademark rights has been undertaken through examining their main functions, described in theory to justify protection and interpret their scope, particularly those recognised of origin, quality, and advertising; each function plays a supporting role for the mark in the market. There is however a lack of consensus amongst IP commentators on what should be the primary objective and function of a trademark which attracts the need for protection by the law. The more cautious approach is a reluctance to accept that protection should go beyond the conventional boundaries of the origin function, protecting consumers against confusion whilst facilitating the development of competitive trade and rivalry. A more liberal approach expands the range of protectable functions to incorporate those which particular marks have the capacity to perform, especially in terms of quality and reputation. The problem lies in reconciling this controversy, and perhaps it is

[226] Ibid.

possible to identify such issues as advertising, quality and protection of investment as being related to the source, rather than separate entities. Assessment of the entitlement to protection would return to an effective essential origin umbrella which shields associated, but constituent aspects on a case-by-case analysis; so, for example, quality is dealt with as a constituent of the origin function in circumstances which justify such a finding. It will be noted in subsequent chapters that this debate impinges upon both the entitlement of the original owner to know what is protectable in terms of their investment. The third party should also be able to measure the extent to which their products may enjoy association and comparison in a competitive market without the expense of litigation.

The capability of performance of a particular function is not a good enough reason per se to grant what would effectively be exclusivity to the use of a mark. It is the economic search cost and dynamic benefit theory which results in savings for the consumer's valuable time and incentives to improve and excel which require a measure of encouragement by protection. Searching costs for products cannot be achieved unless consumers are protected against similar confusing uses of a mark by others, a major economic rationale related closely to the origin, quality guarantee and subsequent advertising functions. The efficiency of the market will thereby be safeguarded and the dynamic benefits of trademark owners will be promoted because they will reap the benefits of the investments in the quality and advertising of their products. Essentially, therefore, protection of the origin function against confusion is sufficient guarantee to the protection of the relevant affected interests under quality and advertising functions. Nevertheless, in the absence of economic rationales, if protection was to be afforded, for there would be little other purpose in 'recognition' of the function, expectation needs to be carefully managed by limitations which will not undermine the general economic free market principles.

Examination of how the protection is applied in the context of the various functions fulfilled by a trademark will assist in the development of a more critical analysis of how European jurisprudence has adopted the functions theories for enforcing trademark owner rights. This consequently would help into establish the basis for any further argument in regard of the level of protection that should be awarded to trademarks particularly in the case of use trademarks as keywords in online advertising services. Theoretical, commercial justifications for protection may now be considered in the context of European jurisprudence under the TM Directives.

Chapter Three

Evolution of Trademarks Functions Recognition and Protection: Jurisprudence of the European Court of Justice

3.1. Introduction

There is academic controversy about the appropriateness of recognition of functions worthy of legislative safeguarding as an area of intellectual property rather than mere market based battle for supremacy. The cautious academic approach shows reluctance to accept protection for trademarks beyond the conventional boundaries of protecting consumers from confusion of origin. The more liberal expansionist view broadens the range of function protections of trademarks as a guarantee of quality or in the protection of advertising and investment.

This apparent division of opinion, between protection and freedom, is shared by the European judiciary in their interpretation of trademark law and the need to define the scope of protection granted by legislation, particularly defining its boundaries under the TM Directive.[227] Academic theory is significant only in so far as it is supported by legal authority. The ECJ must of course follow the law and interpret the legislative provision therein with regard to the developing commercial context of trade, and indeed subsequent treaties which strengthen the concept of freedom of trade within the European Community.[228]

The jurisprudence of the ECJ is limited in the soundness of a framework which should provide a level of certainty to interpretation of the extent and effect of legislation because, in a rapidly changing market, it is noted that trademark law is continuously evolving.[229] In the development of an increasingly competitive global market, fuelled by technology which facilitates comparison and the offer of alternative products, there in inevitable conflict

[227] 'First Directive 2008/95/Ec of the Council, of 21 December 1988, to Approximate the Laws of the Member States Relating to Trade Marks (Codified Version) '.

[228] This has to be balanced with the principle of free and equal opportunity to trade espoused in the Treaty on the Functioning of the European Union (TFEU), and those which followed. This Treaty was known before as the 'Treaty Establishing the European Economic Community (Eec Treaty)'.

[229] The Court of Appeal, in its decision in *L'Oréal*, was reluctant to accept that trademark law should experience continual development. The Court had accepted, for example, the fact that trading conditions have witnessed development over time. Nevertheless, it emphasised that the boundaries of protection must be limited to the requirement of showing deception, since embracing a tort of `unfair competition`, which requires no misrepresentation, raises major difficulties once a line needs to be drawn between that which is fair and that which is not. See '*L'oreal Sa & Ors V Bellure Nv & Ors* Civ 968 ', at para 161.

between trademark owners and relatively new entrants to what they perceive is their trading domain. Herein lies the basis of conceptual rivalry between protection of marks and the encouragement of competition.

Developments in the expanding case law portfolio necessarily start with prevention from consumer confusion, and so the origin function remains important, but as a result of significant rapid changes in modern business practice, other, ancillary, economic functions have been recognised as appropriate for protections.[230] *L'Oréal* was a landmark decision in the development of such function protection, where the ECJ in its judgement recognised "quality", "communication", "investment", and "advertising" functions as worthy of protection in addition to that of origin of the products.[231] This was a significant decision in terms of its application in a competitive market, where other manufacturers claim entitlement to free trade, so it need to be examined what the application of the law accepts to be the real and proper rational basis of trademark protection. This proposes to consider the extent to which the ECJ has recognised, and indeed sought to protect the trademark's functions, essentially economic, and the restrictions its view has had on promoting a system of undistorted competition. It arguably exceeds the legal protection necessary, causing detriment to competitor interests.[232]

It is here the interaction of function theories has a profound effect on the way the online keyword advertising service is viewed by the Court as potential violations of the protections. The ECJ has been cautious in its approach to protecting the modern trademark functions whilst it adopts, on a case by case basis a flexible interpretation of what kinds of harm threaten them. Jurisprudence does however indicate a reinforcement of protection of the trademark, imposing obligations on keyword advertisers aimed at preventing consumer confusion. The ECJ, it is noted, takes a somewhat broader view of the kind of third party action which potentially compromises the essential function, making it more important for competitors to be able to identify defences as part of the marketing planning for their own products; this study will seek to clarify this legitimate aim.

[230] In this chapter the terms "ancillary" "additional" "extra" will be used to substitute using the terms "quality" "communication", "investment", and "advertising" functions unless the context requires otherwise.

[231] Ibid., at paras 57-58.

[232] See also Chapter 4

In order to facilitate this, decisions need to be explored for what are effectively quite recent developments in trademark case law, and the focus on three major themes: (i) the clarification of the origin function and its evolution as evidenced in the application of law rather than theory; (ii) the apparent acceptance by the ECJ that trademarks often have other roles apart from designation of the origin of products; (iii) the clear and explicit recognition of the other, ancillary functions of the trademark. This will then give some insight into the reason for the extension of protection and how this may strike no balance between the trademark owners and third parties competitors, particularly in the context of *L'Oréal* case. Examination is to be undertaken of the online keywords litigation to ascertain the specific functions considered by the ECJ, the liability triggered by the respondent's method of trade; this will be indicative of the flexibility of interpretation of harm which can unlawfully and adversely affect trademark functions.

3.2. Legal Framework of the TM Directive

This chapter concerns the infringement provisions of the Article 5 TM Directive, which provides as follows:

> 1. The registered trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:
>
> (a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered;
> (b) any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the sign, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trade mark.
>
> 2. Any Member State may also provide that the proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade any sign which is identical with, or similar to, the 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.
>
> 3. The following, inter alia, may be prohibited under paragraphs l and 2:
> .....
> (d) using the sign on business papers and in advertising.

Article 6(1)(b) of the Trade Mark Directive is also relevant here, since it places a limitation on the proprietor's rights conferred under Article 5, by providing that:

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

3.3. 'Refinement' of the effect of the 'Origin Function' by the Court

'Origin' is the primary function which attracts protection under the TM Directive, and is thus necessary to determine how it is understood in the context of ECJ jurisprudence in decision-making which seeks to ensure customer confusion is avoided by competitors. It will help define the limits upon the court's interpretations harm to the essential origin function. This will effectively enable consideration of the adequacy of available defences in the case of online keywords advertising service.

It is proposed to assess the interpretation of what had been recognised first as the 'common origin' doctrine and its role in trademark protection. A somewhat confusing and ineffective concept, it will be evident that the court was not enthusiastic about its effect on principles of undistorted competition and the adequacy of protection for marks. The 'common origin' doctrine was superseded by more targeted the origin function test for the grant of protection and consequent restriction on free business practice, namely the protection against consumer confusion. 'Origin', it will be noted, has opened a gateway for association with other perceived functions seeking the umbrella of its protection, which are not such a direct element of the concept. These include 'quality', 'investment' and 'advertising', considered in this study to result in potential limitation, and perhaps even punishment of competitors who seek comparison of their product or service with those of the original trademark owner. The

pursuit of a balance begins with consideration of the level of protection afforded by the growth of protective functions.

3.2.1. The Doctrine of Common Origin: *Sirena v Eda and Hag I*

At the time of its inception in the early 1970s, the ECJ, according to Jehoram showed an alarming lack of understanding of even the first recognised function of trade mark law, namely the origin function.[233] The Court was less willing to grant legal support and protection to national trademarks than it did to other forms of intellectual property rights.[234] Patented inventions or copyrighted works were believed to encourage private innovation and creativity and thus worthy of the safety from illegitimate use by others granted by the law, yet trademarks appeared relegated to the lower order industrial property rights, meriting no special protection.[235] Advocate General Dutheillet de Lamothe, in his opinion on *Sirena v Eda*, observed that both from an economic and human perspective, the interests protected by patent legislation were worth greater respect than those protected by trademarks;

> "From the human point of view, the debt which society owes to the 'inventor' of the name 'Prep Good Morning' is certainly not of the same nature, to say the least, as that which humanity owes to the discoverer of penicillin".[236]

The Court judgement echoed such differentiation of the value of particular rights;

> "a trademark right is distinguishable in this context from other rights of industrial and commercial property in as much as the interests protected by the latter are usually more important and merit a higher degree of protection than the interests protected by an ordinary trademark".[237]

The ECJ was essentially limiting the application of trademark law to a restricted interpretation of its function. In *Sirena*, the Court adjudicated for the first time on an alleged infringement of an internationally used trademark.[238] The mark had originally been owned by

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[233] H. Jehoram, 'The Ideal-Standard Judgment: An Unheeded Warning', *Intellectual Property Quarterly*, 1 (1999), 114-23 at 114-16.

[234] M. Jarvis, *The Application of Ec Law by National Courts* (The Free Movement of Goods; New York: Oxford University Press, 1998) at 313-25.

[235] Keeling, *Intellectual Property Rights in Eu Law: Free Movement and Competition Law* at 153.

[236] '*Sirena V Eda*', at 87.

[237] Ibid., at 78.

[238] Ibid.

an American company which sold and transferred all rights associated therewith to a different, unrelated company. The ownership of the trade mark was split between two different European countries and the legitimate Italian owner, Sirena, sought to prohibit the import into Italy of goods bearing the same trademark from the unrelated German owner of the same mark. The ECJ ruled inter alia that Article 85 EEC Treaty 1957, prohibiting agreements which restricted or distorted common, free market trade[239] could be raised as defence in an action brought by the legitimate owner of a trade mark prohibiting the infringing imports.[240] Thus, Article 85, incorporated now in the Lisbon Treaty of 2009 at Article 101, would apply to the assignment of the trade mark herein. Both owners of the trademark, therefore, could continue their use of the same mark in Italy without either being excluded from the market. Neither could enforce exclusive rights against the other in any territory within the EEC to prohibit the marketing of goods bearing the same lawfully acquired trade mark.

The ECJ attracted more controversy by the application of similar logic in 1974 in *Van Zuylen v Hag* ("*Hag I*").[241] As in the *Sirena* case, the ECJ treated the same trademark, under different ownership, in different territories of the EEC as being liable to singular treatment on the basis of the so called doctrine of `common origin`.[242] Where a trademark is (i) owned in different Member States, (ii) by two unrelated companies, (iii) where ownership is derived from a sale, assignment or transfer of all rights associated with that mark (iv) from the same undertaking, then neither owner could invoke trademark rights to restrict or prevent the importation of products lawfully marketed under the same mark by the other owner. This doctrine of `common origin`, however, was the subject of much legal and academic criticism, and these adjudications were out of step with the most basic, accepted purpose of a trade mark, the 'origin' function.

3.2.2. The Abandonment of the Common Origin Function

The grant of legal protection to trademarks benefits both owners and consumers but the application of a simple `common origin` doctrine as postulated in the *Sirena* and *Hag I*

[239] Articles 85 and 86 are now incorporated in the Lisbon Treaty (2009), the Treaty on the Functioning of the European Union (TFEU), Articles 101 E.C. and 102 E.C.

[240] '*Sirena V Eda*', at para 11.

[241] '*Van Zuylen Frères V Hag, Ag* (*Hag I*)'.

[242] See in general W. Rothnie, 'Hag Ii: Putting the Common Origin Doctrine to Sleep', *European Intellectual Property Review*, 13(1) (1991), 24-31; Keeling, *Intellectual Property Rights in Eu Law: Free Movement and Competition Law* at 154-56; Jarvis, *The Application of Ec Law by National Courts* at 314-15.

judgements would undermine and harm such interests.[243] The essential function of a trademark is to distinguish the goods or services of one undertaker from those of another and to prevent confusion in the minds of consumers. The *Hag I* 'common origin' application however means identical marks for identical goods, used by unrelated owners in the same territory triggers uncertainty; neither owner may attain or protect goodwill by ensuring that the mark is only affixed to products which promote a level of quality that he can ensure. Consumers who rely on trademarks as a symbol of consistency and guarantee will also suffer in circumstances of some bewilderment of choice. In *Hag I,* purchasers risk being essentially misled, quite lawfully, to buying coffee with packaging indicating its source as Germany in the belief its quality was what they had come to expect from the Belgian producer.[244] This misunderstanding, endorsed by the Court in its application of the `common origin` doctrine, could have been avoided if the ECJ had developed a test through which the Court could circumscribe "the right which must necessarily be given to the trademark owner to ensure the exercising of the function of a trade mark".[245] Herein, Wong envisages a more effective balancing test between owner right to, and restriction on, the manufacture of goods which protect the interests of consumers.

The ECJ had in fact developed such a test in 1970, in '*Deutsche Grammophon v Metro.*[246] This came to be known as the `specific subject matter` and which has since played a significant role in its jurisprudence and indeed received consideration in *Hag 1*.[247] The Court did not however, argues Torre, make any concerted attempt to specify or precisely define what it meant by `specific subject matter` in trademark protection.[248] The ECJ had a

[243] J. Davis, 'To Protect or Serve? European Trade Mark Law and the Decline of the Public Interest', *European Intellectual Property Review,* 25(4) (2003), 180-87 at 186.

[244] A. Monaco, 'The Role of Consent and Consumer Protection in Reconciling Articles 30 and 36 in Hag I and Hag Ii', *Fordham International Law Journal,* 15 (1991-1992), 207-17 at 211; Keeling, *Intellectual Property Rights in Eu Law: Free Movement and Competition Law* at 154.

[245] T. Wong, 'Exceptions to the Free Movement of Parallel Imports: Does Article 30 of the Treaty of Rome Protect Trade Mark Rights Beyond Their Specific Subject Matter?', *European Intellectual Property Review,* 22(12) (2000), 585-95 at 587. also Keeling, *Intellectual Property Rights in Eu Law: Free Movement and Competition Law* at 154.
See in general F. Castillo De La Torre, 'Trade Marks and Free Movement of Pharmaceuticals in the European Community: To Partition or Not to Partition the Market', *European Intellectual Property Review,* 19(6) (1997), 304-14.

[246] '*Deutsche Grammophon V Metro* '.

[247] '*Hoffmann-La-Roche V Centrafarm*'; '*Centrafarm V Winthrop*'; '*Terrapin V Terranova*'; ibid.; '*Centrafarm V American Home Products (Ahp)*'; '*Iht Internationale Heiztechnik V Ideal Standard* ', (Case 9/93 [1994] ECR I-2789); ibid.; '*Sa Cnl-Sucal Nv V Hag Gf Ag* (*Hag II*)'.

[248] Torre, 'Trade Marks and Free Movement of Pharmaceuticals in the European Community: To Partition or Not to Partition the Market', at 305; K. Banks and G. Marenco, 'Intellectual Property and the Community Rules

somewhat inauspicious start in the enforcement of the `common origin` doctrine of protection, taking "a somewhat timid and formalistic approach towards those rights".[249] The process of protection was a slow process and indicative of the apparent lack of comprehension and confusion over trademark rights. This was not improved until its judgment in *Sa Cnl-Sucal NV v Hag GF AG* (*Hag II*).[250] This was an effective rejection of the `common origin` of *Hag I* in 1974.[251]

Keeling hints this was the beginning of a "rehabilitation process" for trademark protection.[252] Just a few months after its adjudication in *Hag I*, the ECJ took a new, more refined position on the definition of the specific subject matter of trademarks in *Centrafarm v. Winthrop*. This is:

> "the guarantee that the owner of the trademark has the exclusive right to use that trademark, for the purpose of putting products protected by the trademark into circulation for the first time, and is therefore intended to protect him against competitors wishing to take advantage of the status and reputation of the trademark by selling products illegally bearing that trademark".[253]

The appearance of clarity however rather obscures the finding of a solution to the problem of more than one lawful trademark owner producing the same products, a case of 'parallel' trademark rights. In *Centrafarm*, the plaintiff attempted to invoke his trademark rights in order to prevent the import into the Netherlands of goods which had been marketed in the United Kingdom and legitimately bore the same trademark. It was unsuccessful, and the Court applied a trademark `exhaustion principle` which was further developed in *Terrapin* two years later.[254] Briefly, the ECJ held in that case that a protected trademark proprietor could not prevent the competitive importation of legitimately marked and marketed goods by another supplier trading lawfully and with the consent of the rights owner in its own member home state. *Centrafarm* could not therefore block the resale process of goods in the Netherlands market when it had endorsed the use of its trademark in another member state,

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on Free Movement: Discrimination Unearthed', *European Law Review*, 15(3) (1990), 224-56 at 230; Keeling, *Intellectual Property Rights in Eu Law: Free Movement and Competition Law* at 154.

[249] Torre, 'Trade Marks and Free Movement of Pharmaceuticals in the European Community: To Partition or Not to Partition the Market', (at 305.

[250] '*Sa Cnl-Sucal Nv V Hag Gf Ag* (*Hag I*)'.

[251] '*Van Zuylen Frères V Hag, Ag* (*Hag I*)'.

[252] See in general Keeling, *Intellectual Property Rights in Eu Law: Free Movement and Competition Law* at 155.

[253] '*Centrafarm V Winthrop*', at para 8.

[254] See '*Terrapin V Terranova*'.

the UK. The Court recognised the parallel sale of products bearing the same trademark by competitors taking advantage of the reputation of that mark was legal when endorsed by the owner, as in *Hag I*.[255] Keeling somewhat cynically suggest the *Centrafarm* decision was due to the fact that the ECJ was not quite ready to divert from its decision in *Hag I* three months earlier to reach a perhaps more just application of the protections afforded by the law.[256]

As noted, in 1976, the ECJ delivered its judgment in *Terrapin v Terranova*.[257] The Court had indicated that the primary essential function of surety of origin was undermined by sale of rights to use a mark, and so protection rights were compromised. The ECJ unequivocally stated, for the first time, that the `basic function` of the trademark, was "to guarantee to consumers that the product has the same origin".[258] The recognition of this principle lay in the fact that the Court had eventually arrived at a definitive view of how the rights of trademarks owners should be protected through an appreciation of the significance of the origin function. This serves effectively as relatively simple guidance to competitors in the market of similar products on what they need to take account of in order to avoid litigation based on consumer confusion.

This basic function would now play a role in the ECJ jurisprudence on the issue of protection, undergoing development, evolution and refinement in application, with the term 'essential' replacing 'basic' as a description of the nature of the function in *Hoffmann-la-Roche v Centrafarm;* this terminology remains a central tenet of the law to this day.[259] Definitively put:

> "Regard must be [had] to the essential function of the trade mark, which is to guarantee the identity of the origin of the trade-marked product to the consumer or ultimate user, by enabling him without any possibility of confusion to distinguish that product from products which have another origin".[260]

[255] Banks and Marenco, 'Intellectual Property and the Community Rules on Free Movement: Discrimination Unearthed', at 231-32.

[256] Keeling, *Intellectual Property Rights in Eu Law: Free Movement and Competition Law* at 155.

[257] '*Terrapin V Terranova*'.

[258] Ibid., at para 6.

[259] See for example '*Arsenal Fc V Matthew Reed*', at para 48 and 50; ibid.; '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at para76; '*Interflora Inc V Marks & Spencer Plc.*', at para 37.

[260] '*Hoffmann-La-Roche V Centrafarm*', at para 7; Ibid.

This statement signals the fact the Court had finally developed a comprehensive understanding of the origin function and its proper role in the protection of rights and interests of the owner, as balanced with those of competitors. It suggests awareness that its judgments in *Sirena* and *Hag I* were flawed.[261]

The ECJ must reconcile protection of trademark, and the restrictions on competitors they impose, with the free movement of goods. It seeks to do this utilising the origin function while upholding the exhaustion principle.[262] Where there is a conflict between entitlements, the Court asserts that Article 36 of the EEC treaty permits exceptions to the free movement of goods only if such exceptions are justified for the purpose of safeguarding the rights that constitute the specific subject matter of intellectual property rights.[263] The trademark provides a simple guarantee that a proprietor is able to make use of the exclusive right to use a particular symbol as first to register and introduce products bearing the mark onto the market. The protection provided by the law is against a rival or competitor who may attempt to benefit from the reputation the trademark owners company or product by unlawfully manufacturing and selling products with the same mark attached.[264] The ECJ has associated the principles of protection for a specific subject or product with the essential function of a trademark. This stresses that for a trademark to perform its essential function there must be unitary control over the quality of all goods branded with that mark.

Since the late 1970's, the ECJ adopted the principle of the origin function and its features in form of an interdependent 'specific subject matter' and 'essential function'. This has enabled the Court to all but abandon its rather negative opinion of trademarks adopted in earlier decisions in *Sirean* and *Hag I*. In a further development of the application of the origin function, the ECJ delivered its decision in *Hag II* in 1990, seeking clarity in the controversy surrounding the conflict of protection of trademarks and the free movement of goods. The

[261] See in general A. Gagliardi, 'Trade Mark Assignments under E.C. Law', *European Intellectual Property Review*, 20(10) (1998), 371-78.

[262] See its judgment in '*Sirena V Eda*'.

[263] G. Hotaling, 'Ideal Standard V. Iht: In the European Union, Must a Company Surrender Its National Trademark Rights When It Assigns Its Trademark', *Fordham International Law Journal*, 19 (1995), 1178-254.

[264] G. Metaxas-Marangidis, 'Hag Ii: A New Taste from the Old Label', *European Law Review*, 16(2) (1991), 128-35; K. Banks and G. Marenco, 'Intellectual Property and the Community Rules on Free Movement: Discrimination Unearthed', ibid.15(3) (1990), 224-56; Wong, 'Exceptions to the Free Movement of Parallel Imports: Does Article 30 of the Treaty of Rome Protect Trade Mark Rights Beyond Their Specific Subject Matter?', (; U. Loewenheim, 'Intellectual Property before the European Court of Justice', *International Review of Intellectual Property and Competition Law*, 26(6) (1995), 829-50.

Court showed a greater level of sympathy and support for the value of trademarks, meriting the same higher degree of protection previously reserved for intellectual property rights.[265] It emphasised that trademarks rights constitute an essential element in the system of undistorted competition which the EEC Treaty seeks to promote. The owner of a trademark must be able to keep his consumers satisfied and loyal by virtue of the quality of his goods, something which can only be achieved by distinctive signs which enable recognition of their products. The trademark must be allowed to "offer a guarantee that all goods bearing it have been produced under the control of a single undertaking which is accountable for their quality".[266] The Court held that Article 30 of the EEC treaty would not prevent two unrelated owners of the same trademark from exercising their exclusive rights in their different territories. They could not then exclude each from marketing or importing into the territory of the other. It nevertheless ought to be recalled that prohibitions and restrictions on imports may be justifiable under Article 36 of the Treaty for the purpose of protecting the essential function of their trademark.[267] On this point the Court was concerned that the essential function could be jeopardised were the owner unable to retain and exert control over his product under national legislation, and oppose dilution of his empowerment to protect his interests by opposing competitive imports bearing the same mark. It would be a recipe for consumer confusion on the identity of the source of their purchase. The nationally based proprietor-manufacturer could not guarantee the product apparently bearing his mark, yet for which he is not accountable.[268] Simply, the origin function is the primary purpose of trademarking, and any such mark should be indicative as such. Where it does not guarantee that all goods which bear it have been manufactured under the control of a single undertaking, according to the ECJ, it will not qualify for protection as a trademark.

Although the ECJ has shown some flexibility in the development and scope of the 'origin function' and its importance, it has still been criticised for many years behind the times in the

[265] While the ECJ's endorsement of the opinion of the Advocate General Dutheillet de Lamothe in *Sirena v Eda* was a matter of much criticism, the lucid and bold opinion which was delivered in *Hag II* by the Advocate General Francis Jacobs and adopted by the ECJ has been well received. He commented that "Like patents, trademarks find their justification in a harmonious dovetailing between public and private interests. Whereas patents reward the creativity of the inventor and thus stimulate scientific progress, trademarks reward the manufacturer who consistently produces high-quality goods and they thus stimulate economic progress. Without trademark protection there would be little incentive for manufacturers to develop new products or to maintain the quality of existing ones".

[266] '*Sa Cnl-Sucal Nv V Hag Gf Ag* (*Hag II*)', at para 13.

[267] Ibid., at para 11-15.

[268] Ibid., at 16.

rapidly changing commercial market and the investment in the mark as inherently valuable per se. Keeling avers that just at the moment recognition of the 'origin function' by the Court becomes established in case law, the inclination towards recognition of the non-origin function of trademarks continues, with ancillary functions relating to new free market requirements, communications development and conditions of successful trading are gaining recognition as factors worthy of protection.[269]

3.4. The ECJ and the Wider Framework of Recognition of the Functions of Trademarks

ECJ jurisprudence tended to suggest that the Court limited the protection of the law to the trademark essential, origin function, yet demonstrated the scope of that purpose showed flexibility in application. Davis suggests the Court was somewhat timidly refining the view which saw trademarks as an indicator of origin, acknowledging the developing importance of the quality and advertising functions.[270] The expansion of ECJ protection needs to be analysed to demonstrate the capacity of existing legal principles to adapt the requirements of a changing economy, here, particularly, on the recognition of issues of quality and advertising, and limitation on the desire of competitors to take advantage of the investment and reputation of trademark owners. This process introduces complications for competitors in the marketing planning of their own, similar, products, even before the advent of expansive e-marketing and inception of the keyword phenomenon which introduced greater complexity to the litigious arguments of alleged association with an origin mark.

3.4.1. Trademarks act as a Guarantee of Quality

The Court in *Bristol Myers* held that for a trademark to be able to perform the essential function, it must constitute a guarantee that all products to which it is affixed have been produced "under the control of a single undertaking to which responsibility for their quality may be attributed".[271] In *IHT v Ideal Standard*, the principle that trademarks had capacity to perform roles other than denoting the source of products was recognised and promoted.[272] The trademark performs different functions at the same time, a guarantee of quality as well as an indicator of origin.[273] As a valuable commodity per se, the trademark possesses a retail

[269] Keeling, *Intellectual Property Rights in Eu Law: Free Movement and Competition Law* at 157.

[270] Davis, 'To Protect or Serve? European Trade Mark Law and the Decline of the Public Interest',

[271] Bristol Myers Squibb v Paranova AS Case 427/93

[272] '*Iht Internationale Heiztechnik V Ideal Standard* '.

[273].'*Bristol Myers V Paranova*', at para 43. The ECJ confirmed such point before in Hag II case, see above.

value to the origin owner in terms of the licensing of its use to other companies. This potentially dilutes the 'essential origin' principle, and authorises its association with products for which issues of quality and reputation have to be paramount in order to protect the origin mark as well as regulate competition. In the *Ideal Standard* case, the American Standard group was a manufacturer of heating equipment and sanitary ware, and holder of the Ideal Standard trademark. It had international subsidiaries in various countries, including France and Germany. It sold its Ideal Standard mark in France to a different unrelated company, maintaining ownership of the trademark in Germany. The new French owner of the trademark in that country began to sell and market his products in Germany where the Ideal Standard was being used by the German subsidiary, still owned by the parent company. American Standard and its German subsidiary contested the French imports as trademark infringements. Proceedings were commenced by the German company in its domestic courts, but the national jurisdiction required guidance from the ECJ about the application of Articles 30 and 36 of the 1957 Treaty on the balance of free trade principles and their restriction. Two unrelated companies, which normally operated in different EC countries, were using an identical trademark in the same territory.[274] The question referred to the Court was complex in its expression and is quoted in full:

> "Does it constitute an unlawful restriction of intra-Community trade, within the meaning of Articles 30 and 36 of the EEC Treaty, for an undertaking carrying on business in Member State A which is a subsidiary of a manufacturer of heating systems based in Member State B to be prohibited from using as a trade mark the name 'Ideal Standard' on the grounds of risk of confusion with a mark having the same origin, where the name 'Ideal Standard' is lawfully used by the manufacturer in its home country by virtue of a trade mark registered there which it has acquired by means of a legal transaction and which was originally the property of a company affiliated to the undertaking which is opposing, in Member State A, the importation of goods marked 'Ideal Standard' ?"

The starting point for the ECJ was its reasoning in *Hag II*, namely that the scope of the exclusive trademark rights of the owner must be considered with regard to the essential

[274] For more analysis about the Ideal Standard case see in general: Hotaling, 'Ideal Standard V. Iht: In the European Union, Must a Company Surrender Its National Trademark Rights When It Assigns Its Trademark', (; Gagliardi, 'Trade Mark Assignments under E.C. Law', (; Jehoram, 'The Ideal-Standard Judgment: An Unheeded Warning', (; G. Tritton, 'Articles 30 and 36 and Intellectual Property: Is the Jurisprudence of the Ecj Now of an Ideal Standard?', *European Intellectual Property Review,* 16(10) (1994), 422-28; M. Jarvis, 'The Ideal Standard in Court of Justice Case Law?', *European Law Review,* 20(2) (1995), 195-202.

function of the trademark, guaranteeing source of the marked goods. Applying the free movement principle would undermine the essential function of the trademark because consumers would lack certainty about the origin of the marked products. At the same time the trademark holder could be held accountable for the quality of products for which he was in no way responsible.[275] Thus, the Court determined the free movement of goods principle was of less legal impact than certainty of origin and quality accorded to the consumer by the essential function of the trademark. It gave the trademark holder the power of control over production and quality of goods associated with his brand.

In the *Ideal Standard* case the ECJ considered the right of the trademark holder to have control over the quality of goods served as a principle for resisting abuse or infringement by another, different in effect from substantive management of the process of production. It emphasised that the "decisive factor is the possibility of control over the quality of goods, not the actual exercise of that control".[276] The trademark may provide a legal guarantee of unitary ownership control over the quality of marked products, but does not promise the authority has been exercised to achieve a particular standard of quality or maintain consistency. Responsibility on the part of the trademark owner is only of significance if he is able to exercise control over the quality of the goods, accountable only for the situations he permits to arise.[277]

Two situations were considered and compared by the Court; assignment of the trademark, and licensing arrangements. They observed that in the case of a trademark being divided or sold off in part, exhaustion of the owners' rights occurs only if the two owners of the mark are either economically linked or belong to the same company, for example, operating franchises. 'Economic link' describes a number of relationships, such as products distributed by the same undertaking, by a licensee, a parent company, a subsidiary of the same group, or by an exclusive distributor.[278] A proprietor licensor is expected be able to exercise control over the quality of the goods produced by the licensee through inclusion of clauses in the agreement which require the licensee to comply with requisite standards and making the processes available for verification of such compliance. As a result, national trademark law

[275] '*Iht Internationale Heiztechnik V Ideal Standard* ', at para 45.

[276] Ibid., at para 38.

[277] Tritton, 'Articles 30 and 36 and Intellectual Property: Is the Jurisprudence of the Ecj Now of an Ideal Standard?', at 6.

[278] '*Iht Internationale Heiztechnik V Ideal Standard* ', at para 34.

must not allow the licensor to oppose importation of the licensee's products into a territory on the basis of poor quality it should have been capable of monitoring; that would breach the limitations on free trade set out in Articles 30 and 36 of the EEC treaty. The Court basically asserts therein that if a licensor tolerates poor quality work and product from its licensee when the agreement facilitates supervisory authority, it must bear the consequences of this choice. It has the potential to entrench functions of quality and reputation requirements as either associative or additional protections from other companies not authorised by the origin owner.

With an assignment of rights, in whole or in part, the Court considers there to be no 'economic link' between the assignor and the assignee because the transfer of authority to use the mark is total within the limits of the agreement. Assignment leads to the loss of authority on the part of the now former owner to control the quality of the products marketed by the assignee, even though they bear its trademark.[279] The potential loss of control means the source owner, and assignor, of the mark may become associated with products of low quality, and subsequent loss of trademark value; the ability to protect goodwill is lost by assignment.[280] The principle of exhaustion of ownership rights and ability to restrict trade from those entitled to use the mark is a result of licensing; the source owner cannot restrict trade in products or services from the licence owner over which it has some control. Assignment however preserves the trademark rights of the proprietor and enables opposition to such an otherwise lawful competitor which may damage the economic well-being of the original owner. The ECJ concluded that assigning a trademark would lead to the existence of separate sources within a single territory. In order to protect the essential function of the trademark, it is necessary to enable the owner of the mark to benefit from national trademark laws and prohibit imports of the assignee's products into his territory and limit the effect of the assignment to a particular territory.[281]

The ECJ, by this assessment of entitlement to protection, has connected the quality function with that of origin. A trademark effectively performs not only the source-origin function by indicating where the goods or services come from, but is also a sign of the quality of the

[279] Ibid., at para 41.

[280] See in general Hotaling, 'Ideal Standard V. Iht: In the European Union, Must a Company Surrender Its National Trademark Rights When It Assigns Its Trademark', at 1242-43.

[281] '*Iht Internationale Heiztechnik V Ideal Standard* ', at para 53.

product. By guaranteeing quality in the sense of its economic value, and identifying its source, trademarks serve to ensure both producers and consumers are sufficiently informed about the product. Producers can be certain that what is marketed or sold in its name is actually its own output; consumers receive assurance that purchases of a trademarked product will meet their expectations at the time of purchase and be the same on future deals. In this respect Laddie J, in *Glaxo*, noted that "In each case the mark is a sign to the customer, both that the goods are goods of a particular source (whether he knows or cares what that source is) and that the proprietor of the mark holds himself out as responsible for those goods and their quality. This representation of responsibility for quality is inseparable from the mark's function as an indicator of source".[282] This can be interpreted as an incorporation of the function of quality into the overall concept of essential origin, suggestive of a contention that protection of the source alone is an umbrella for other issues which need not be considered separately. However, he goes on to say that, where a trademark owner has the ability to raise or lower the quality of his goods, then the mark does not guarantee the quality of the products; "rather it indicates that the goods are of the standard which the proprietor is content to distribute under his banner".[283]

The ECJ in the *Ideal Standard* case give a clear indication that principles of origin and guarantee of quality are not the same although making a distinction between these functions of the trademark can be problematic.[284] The taking of an excessively narrow view of the origin function should be avoided whilst a new emphasis is placed on other functions of trademarks. The ECJ clearly acknowledged the fact that mark could, and should, act as a guarantee of quality as well as an indicator of origin; this serves the interests of both owners and consumers. It is however safe to conclude that, although the Court was willing to recognise the ancillary functions of a trademark were gaining more appreciation, it sought to avoid criticism by resisting the grant under interpretation of the law of a wider form of protection than necessary for a trademark to perform its essential function. The quality function only justifies prohibition of third parties using signs liable to impair the guarantee of origin of the goods. In contrast, Rosler cogently argues that according to the modern implementation of the origin theory, the sign does not indicate the exact source of a product,

[282] '*Glaxo Group Ltd V Dowelhurst Ltd*', at 540-41.
[283] Ibid.
[284] Davis, 'To Protect or Serve? European Trade Mark Law and the Decline of the Public Interest', at 4.

merely enabling consumers and end users to connect a product with a certain firm.[285] It is however of practical relevance whether the guarantee of origin function is pre-eminent in the mind of the judiciary because all other ancillary functions derive from this essential function. Separation between the quality function and the origin function is therefore irrelevant from the standpoint of the consumer who takes no interest in the source save insofar as the source gives a quality guarantee.

3.4.2. The Advertising Function

Advertising is perhaps the primary method by which reputation for quality is built for the origin mark and therefore effectively manoeuvres into the arena of arguably protectable functions which competitors must account for in their marketing planning, or litigation. In November 1997, the ECJ delivered its judgement in the *Parfums Christian Dior* v *Evora*.[286] The Court brought to the fore attention on another function which was performed by a trademark which potentially qualified for protection, namely advertising. Dior France (Dior SA) is a world renowned manufacturer of fragrances and cosmetic products, a prestigious market brand sold generally at high prices. It has international subsidiaries in various countries, including the Netherlands. Dior Netherlands (Dior BV) was appointed as an exclusive representative to distribute Dior products in the Netherlands using a selective distribution system in which the products are sold only to particular specified retailers. They, in turn, were obliged to sell them exclusively to consumers, not resell to other retailers, unless they too had undergone the Dior selection process for their products Evora ran a chain of chemist shops under the name of its subsidiary Kruidvat; it was not authorised to resell Dior products, but obtained such perfumes through unauthorised parallel imports. The legitimacy of selling those products was somewhat surprisingly not in issue in the main proceeding.[287]

In a Christmas promotion, *Evora*, via its *Kruidvat* subsidiary, advertised for sale Dior perfumes bearing its own trademarks. In the course of this sale, it depicted the packaging and bottles of some of those products in advertising leaflets, and in response, believing such

[285] H. Rosler, 'The Rationale for European Trade Mark Protection', *European Intellectual Property Review,* 29(3) (2007), 100-07 at 5

[286] '*Parfums Christian Dior Sa V Evora Bv*', ((C-337/95) [1997] E.C.R. I-6013). There are other cases in which the ECJ has in effect recognised that trademarks perform an "advertising" function that is distinct from their traditional function, namely the origin function. In '*Bristol Myers V Paranova*'; '*O2* V *Hutchison 3g*', ((C-533/06) [2008] ETMR 853).

[287] It can be submitted that Dior was only concerned about protecting its prestige and image through restricting certain forms of advertising. Dior tended to show that the aura of its mark will be impaired if consumers mentally associate it with an inappropriate presentation.

advertisements detracted from the luxurious and prestigious image of the Dior marks, Dior France and Dior Netherlands brought proceedings for trademark infringement. [288] They sought an order for Evora to desist from making use of Dior picture trademarks and from publication or reproduction of images of its products in catalogues, brochures, advertisements and otherwise. The Supreme Court of the Netherlands stayed proceedings, pending advice from the ECJ as follows;

> 'Can there be said to be `legitimate reasons` within the meaning of Article 7(2)[289] of the Directive, for the trade mark owner to prevent the use by a third party of the trade mark where, as a result of the way in which the reseller uses the mark to advertise the goods, the `mental condition` of the goods - that is to say, their allure, prestigious image and aura of luxury resulting from the manner in which the trade mark proprietor has chosen to present and advertise the goods using his trade mark rights- is altered or impaired?'[290]

The ECJ decided that the scope of the legitimate reasons for prevention of trade in goods under Article 7(2) is not limited to the physical impairment of them per se, but also includes damage to the reputation of the mark. The proprietor company of a trademark who markets a product either by itself or with its consent, has a legitimate interest in any issue related to the specific product; this appears to include opposition to the commercial use of its goods where the reseller acted unfairly, advertising those products in a manner which could damage the reputation of the trademark.[291] Nonetheless, the Court held that a balance must be struck between such legitimate interests to protect reputation and the reseller's interest to market the goods using forms of advertisements which are customary in that sector of trade. A trademark owner may not therefore rely on Article 7(2) to oppose use of the mark by an unapproved reseller who habitually markets articles of a similar kind but not necessarily of the same quality, and uses for trademarked products the methods of advertising which are accepted in his trade sector. This is so even if the methods are not the same as those forms of advertisements used by the proprietor or his selected representatives. The exception is where

[288] Hereinafter `Dior`.

[289] According to Article 7 (2) of the Directive, the proprietor of the trade mark shall be entitled to oppose further commercialization of his goods, especially where the condition of the goods is changed or impaired after they have been put on the market.

[290] '*Parfums Christian Dior Sa V Evora Bv*', at para 14.

[291] Ibid., at para 43.

it can be proved that in the specific circumstances of the case, the use of the trademark in the reseller's advertising seriously harms the reputation of the mark.[292]

The Court, when considering the reputation of the Dior marks, was considering more than just its reputation for being associated with products of premium quality. It paid judicial attention to Dior advertising feature and reputation, `mental characteristics` and it `luxurious and prestigious image` which the manufacturer asserted accounts for part of the overall quality of its products, its `aura`.[293] In summary, the ECJ appears to conclude that the scope of trademark protection may be wider than the conventional view based on narrow definitions of specific subject matter and essential function. Its adherence to the 'origin function' does not mean that other factors worthy of protection under the TM Directive do not exist, should therefore be acknowledged where their value and importance to trade is demonstrable and prevention of harm is necessary. This lack of certainty in what function provide legally enforceable protections, either on their own or by association with the essential origin, causes problems, it will be noted, for competitors in determining their defences to alleged breaches.

The guidelines for the protection-free trade balance propounded in the ECJ judgements, however, lack clarity. The Court holds it is not appropriate to protect against harm to reputation where a reseller merely uses methods of advertising which are different from those used by the trademark owner or his selected distributers. Yet it also accepts that the `mental characteristic` or the 'image` of a mark can be damaged where an advertising leaflet is distributed by a reseller presenting the mark in a context which may significantly detract from the `aura` which the proprietor has succeeded in creating around the trademark, often at considerable expense. The Court avers this can be unacceptable and prohibited in law, but here are no suggested contexts where this might be the case. The legal recognition of an `aura` which surrounds the trademark is acknowledged, but its proprietor will have difficulty demonstrating the true impact of inadequate or inappropriate presentation on the mark.[294] Nevertheless the ECJ has chosen to strike a careful balance between the competing interests

[292] Ibid., at para 44-48.

[293] B. Trimmer, 'The Power of Attraction: Do Trade Marks Have an "Image" Problem in the English Courts?', *European Intellectual Property Review*, 31(4) (2009), 195-201 at 1-2. For more about the `aura` of trademarks see A. Griffiths and J. Tarawneh, 'The Economic Case for Protecting the "Auras" of Prestigious Brands: The "Public Goods" Dimension of Trade Mark Law', *Workshop in Law & Economics* (University of Bologna, 2010).

[294] See A. Ohly, 'Trade Marks and Parallel Importation - Recent Developments in European Law', *International Review of Intellectual Property and Competition Law*, 30(5) (1999), 512-30; B. Isaac, *Brand Protection Matters* (London: Sweet & Maxwell Limited, 2000) at 60.

of the owner to protect the value of his mark's reputation and reseller's entitlement to market and sell their goods. These interests appear to contrast, even conflict, yet share the important characteristic that they both have the potential to protect the interests of consumers. The ECJ has, it appears, generally achieved the maintenance of balance in a context of competition of interests.

It is however arguable by advocates of unrestricted free trade that recognition of wide forms of function protection enables trademark owners to tighten a grip on the market, pursuing a monopoly over the use of their marks which undermines the interests of consumers and third party traders. Nonetheless, even though the Court has recognised the advertising function, for example, as capable of protection, it remains difficult for the trademark owner to demonstrate sufficient harm to justify limitation on competition, as in *Dior*. Given that the number of marks with valuable images is growing exponentially, the question of how long the ECJ can maintain its cautious approach towards balancing the competing interests without 'taking sides' remains live.[295] It is safe to conclude there is evidence of a gradual development of ECJ case law which tends to emphasise there is no established rationale for the sole protection of the 'origin function' of products to the exclusion of the importance of other functions of trademarks. The ECJ judgment in *Arsenal FC v Matthew Reed* and develop the framework of protection further.[296]

3.5. Protection of 'Other Functions'

The Court has developed greater sophistication in the protection framework accorded to trademarks and the apparent recognition of the value of functions associated with this important symbol of the manufacturer. The simple 'origin' function has been joined by ancillary purposes relating to the marketing of the product. It is now acknowledged that in modern commerce, trademarks have several 'functions'. The *Arsenal* case was the first occasion in which the ECJ adopted this conclusion. However, in many subsequent judgments, the Court kept iterating that trademarks are having more than one function.[297] It was the clarity of definition of such functions and the way they should be understood and protected that was uncertain.

[295] See J. Davis, 'The Value of a Reputation', *Cambridge Law Journal*, 57(1) (1998), 38-42.

[296] '*Arsenal Fc V Matthew Reed*'; '*Adam Opel V Autec*', ((C-48/05)[2007] ETMR 500).

[297] See for example: '*Anheuser-Busch Inc. V Budějovický Budvar, Národní Podnik*', (C-245/02 [2004] ECR I-10989); '*Adam Opel V Autec*'; '*Celine V Celine*'.

The *Arsenal* Case is indicative of the development of both the views of the national UK courts and Europe in the evolution of factors relating to trademarks and their protection. In 1989 Arsenal Football Club registered a number of trademarks including the words 'Arsenal' and 'Arsenal Gunners', and the cannon and shield emblems. The Club was to use those marks on its own products such as outer wear, sports clothing and footwear, or have them made and supplied by its network of selected manufacturers and retailers. The club participated in commercial and promotional activities by exploiting those marks to sell souvenirs and memorabilia, and sought to protect its interests against rival companies who attempted to unofficially sell merchandise bearing its trademarks. This included the defendant, Reed, who traded in football souvenirs and memorabilia, selling very similar products to those sold by the club's official outlets, including scarves and other clothing. The only difference between Reed's merchandise and the Arsenal official products was the official tag which clearly declared that the items originated from Arsenal Football Club or a company acting with its authorisation. Reed displayed a warning sign on his stall to the effect that "The word or logo(s) on the goods offered for sale, are used solely to adorn the product and does not imply or indicate any affiliation or relationship with the manufacturers or distributors of any other product, only goods with official Arsenal merchandise tags are official Arsenal merchandise.'[298]

The issue then came before the ECJ on referral, Arsenal asserting the actions of Reed put its trademark interests at risk. The European Court remained faithful to its view that in a free competitive market, the essential function, that of 'origin', was the primary protection mechanism for consumers and a guarantee of the quality of the product. As its starting point, the ECJ had to determine the necessity for a trademark owner to seek to prohibit the use of its mark by another under Article 5(1)(a) of the TM Directive. This entitlement would arise in course of trade of goods identical to those for which the mark is registered. The Court had to decide whether the right under such prohibition presupposes the existence of a specific interest in which the proprietor as owner of the trademark and in the course of its use by a third party, that must affect or be liable to impinge negatively upon one of the "functions" of the mark.[299]

[298] Ibid., at para 17

[299] '*Arsenal Fc V Matthew Reed*', at para 42.

The Court held that a trademark must be protected against rivals desiring of unfair advantage of the status and reputation of a mark by the sale of products which illegally bear it. The right to exclusivity of use under Article 5(1)(a) is to ensure the mark owner is able to protect his `specific interests` and ensure fulfilment of the recognised functions of the trademark of origin and quality.[300] In order to balance this with rights to compete in the market, protection is limited to those cases where the use of the sign by a third party adversely affects or is liable to jeopardise the functions of the trademark, in particular its essential function.[301]

In 2002, the Advocate General, Ruiz-Jarabo Colomer, delivered a bold opinion on the trademark functions issue;

> With that unfailing purpose of distinguishing between the goods and services of various undertakings, distinctive signs may indicate provenance as well as quality, the reputation or the renown of the producer or the provider, while trademarks may also be used for advertising purposes in order to inform and persuade the consumer.[302]

These functions had the potential to make the trademark particularly distinctive, with the result that consumers would be able to distinguish between similar products. As such, use of any of these trademark functions by another would constitute a type that the owner of the trademark should be allowed to prevent by others in the course of trade.[303] Marks have the capacity to be valuable far beyond the classic function of informing customers who produces the goods, so limitation of their purpose or role to mere proof of origin would be 'simplistic reductionism'.[304] A trademark can 'acquire a life of its own' or in certain cases becomes 'a way of seeing life' and such importance should be reflected in the protection granted.[305]

The need for such protection, and its consequent restriction on competition, obliged the ECJ to determine that where a sign is not liable to affect proprietor interests in and the function of

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[300] Ibid., at para 50. In this respect, the Court submitted that the 10th (now 11) recital of the preamble to the Directive that the protection absolute nature of protection in Article 5(1)(a)

[301] Ibid., at 51-52.

[302] Ibid., at para 42-43.

[303] See in general Davis, 'To Protect or Serve? European Trade Mark Law and the Decline of the Public Interest', (at 5; M. Maniatis, 'Whither European Trade Mark Law? Arsenal and Davidoff: The Creative Disorder Stage', *Marquette Intellectual Property Law Review*, 7 (2003), 99-147.

[304] '*Arsenal Fc V Matthew Reed*', at para 46.

[305] See G. Davies, 'Of Rules and Referees: Arsenal Football Club Plc V Matthew Reed', *European Law Review*, 28(3) (2003), 408-17.

the mark, the owner is not able to exercise exclusive rights and therefore such use could not be prevented. In effect, the Court held that the use of the trademark for purely descriptive purposes, as opposed to origin and quality, constitutes no trademark infringement, justifying this on the grounds that such use does not affect proprietor interest in the value of the mark, and therefore does not fall within the concept of use within the meaning of Article 5(1).[306] The Advocate General observed, however, that a trademark can send more than one message at the same time, and each message is autonomous. Distinctive marks are able to signal simultaneously, for example, the origins, reputation of proprietors or the quality of the goods they represent.

The function goes far beyond the role as an indicator of source so unprotected use means there are no safeguards to prevent consumers obtaining marked goods or services where if they perceive the sign as 'an emblem of prestige or a guarantee of quality' if not actual origin. They may buy goods which bear the sign because of the sense of prestige or quality it is believed to offer rather than because of what it says about the producer of the goods. The Advocate General supported the contention that a broader view of the functions of trademarks should be adopted and saw no reason to protect only the origin function while giving no safeguard to the other forms of trademark function.[307] If it was to be so limited to 'origin' indication, those who use another's mark would be enabled to claim it was not meant to indicate this or to confuse consumers on quality and reputation associations, and so did not infringe the owner's rights.[308] This would be a charter for the actions of the forthright copyist, with all the advantage of the owner's public exposure, but none of the obligation. Article 5(1)(a) of the Directive must be interpreted as meaning that the owner of a registered mark has the right to prohibit third parties from using, in relation to the same goods or services, symbols identical to those of whom the trademark is registered, which are capable misleading, not only in terms of the origin function, but also the ancillary functions; quality or reputation.[309]

[306] In this respect, the Court gave *Hölterhoff* case as an example, where the circumstances of the case had implied that the use of the sign was for purely descriptive purposes and as a result constituted no trade mark infringement. '*Arsenal Fc V Matthew Reed*', at 53-55.

[307] Ibid., at para 47.

[308] Ibid., at para 50.

[309] Ibid., at para 49.

Reed's use of the word `Arsenal` and the other secondary markings, on his merchandise was deemed by the ECJ to be in a commercial context with a view to economic advantage; it was not for purely descriptive purposes. Their use was liable to create 'the impression that there is a material link' in the course of trade between Reed's goods and the Arsenal trademarks.[310] The fact that Reed displayed on his stall a warning sign stating that the goods were not official Arsenal FC products had no effect on this conclusion. Some consumers might fail to notice the sign until after their purchase from Reed, products they may believe from the insignia originated from Arsenal or were produced under authorisation. They were not associated with the trademark and were not produced under the control of its proprietor. The use of the trade mark insignia by the defendant was therefore liable to affect the guarantee of origin, the essential function of the mark. It amounted to the type of use that the proprietor of the trade mark is entitled to prevent in accordance with Article 5(1) of the Directive. In light of the facts outlined, the ECJ held that even where the sign was used as a badge of allegiance, loyalty or affiliation to the proprietor of the mark, this did not affect the determination as long as there was a finding that the unauthorised use of the sign was liable to affect the guarantee of origin of the goods.[311] Advocate General Colomer essentially observed that a wider form of protection for trademarks should be acknowledged. The definition and purpose of use should not be limited to the badge of origin function of old, but should more effectively encompass any commercial exploitation of the mark that allows consumers to differentiate between products and select one product over another.[312] The origin function no longer appears to be the only, or indeed primary, function of a trademark, and other purposes require emphasis and protection.

The findings of the ECJ and views of the Advocate General prima facie coincide, although arrived at by different methods of analysis; the use by an unauthorised third party of sign must not affect or impair the functions of the trademark, or be deemed an infringement. In an assessment of proper and protectable functions, the Advocate General adheres to the broad interpretation of purpose, contending that distinctive signs can embody broad meanings beyond and independent of the traditional origin function. A distinctive sign can gain inherent value as indicative of quality, reputation or a way of viewing life. When a competitor

[310] Ibid., at para 56.

[311] Ibid., at para 57-62.

[312] See in general S. Hidaka *et al.*, 'A Sign of the Times, a Review of the Key Trade Mark Decisions of the European Court of Justice and Their Impact Upon National Trade Mark Jurisprudence in the Eu', *The Trade Mark Reporter*, 94 (5) (September-October 2004), 1105-53.

commercially exploits the sign, the protection granted to a registered trademark should encompass those values reserved exclusively for the owner of the mark. The ECJ adopted a narrower scope, concluding that the primary function of trademarks is to guarantee for consumers or ultimate users the origin of the products, and protection must develop from that base, whilst recognising the associative value of other functions.[313] This acknowledgement that trademarks have `functions` which go beyond the classic 'origin' purpose implies there is a wider of protection afforded by Article 5(1)(a) which, in particular, aims to ensure that the trademark can perform its essential function, guaranteeing the origin of goods or services.[314] The judgment of the ECJ in *Arsenal* certainly marks a significant turning point in the jurisprudence of trademark protection, favouring the interests of proprietors over competitor advocates of a free market which seeks advantage from the efforts of another. ECJ guidance is more strongly supportive of a broad interpretation of the extent of protection that granted to trademark owners under the Directive provisions. Further clarification was provided in *L'Oréal*, an attempt to identify and provide how such functions should be implemented and protected.

3.6. Recognition of the Ancillary Functions of a Trademark

The fruits of the long development of recognition of the value of the various functions of a trademark in modern commerce did not really start to emerge with sufficient clarity until the Court handed down its judgement in *L'Oréal* in 2007.[315] Simply, protection exists for the wider functions of a trademark and expands through ECJ adjudications to encompass that developing range of associated functions where damage is proved to the changing nature of the origin concept. *L'Oreal* broadened the scope of protection and set the new boundaries of ECJ interpretation. It is however argued in this study that the expansion of the protected functions of trademark into economic areas, which need not result in customer confusion, have inhibited the comparative marketing activities of those seeking a share in the market. It is said that imitation is the sincerest form of flattery, but evidently not where profit is concerned, even where there is no threat to the 'origin'. This does not necessarily imply the

[313] See earlier cases where the ECJ has recognised other possible functions that a trademark may fulfil in which they are distinct from the origin function –the essential function: '*Parfums Christian Dior Sa V Evora Bv*'; '*O2* V *Hutchison 3g*'.

[314] See A. Griffiths, 'The Trade Mark Monopoly: An Analysis of the Core Zone of Absolute Protection under Art.5.1(a)', *Intellectual Property Quarterly*, /3 (2007), 312-49 at 320-21; B. Trimmer, 'An Increasingly Uneasy Relationship - the English Courts and the European Court of Justice in Trade Mark Disputes', *European Intellectual Property Review*, 30(3) (2008), 87-92 at 89.

[315] '*L'oréal Sa Et Al. V Bellure Nv Et Al.*', at para 51.

relegation in importance of the 'origin', but reflects the manner in which economic theories of protection come expand its meaning and effect.

3.6.1. The *L'Oréal* Decision as a Landmark Case in the Evolving Recognition of Trade Mark Function Protection

The L'Oréal Group is one of the world's largest cosmetics and perfume companies. The defendants, Bellure, were manufacturers and distributors of a range of fragrances marketed as smell-alikes and look-alikes of popular L'Oréal brands. Perfumes sold by Bellure imitated the smells and packaging, similar in appearance to those of the original brand. This was clearly intended to represent to customers a sense of equality for their fragrances with the more expensive and well-known L'Oréal fragrances; the purpose, clearly, was to facilitate the sales of Bellure products, with comparison lists prepared to demonstrate to retailers and customers which L'Oréal fragrance was imitated by particular Bellure products. Carty calls this 'copycat' trading, the mirroring of fake products and their marketing with those they are said to represent.[316]

L'Oréal objected to these activities and sought to prevent the sale of the imitation fragrances, its trademark infringement argument based on various registered word marks, bottles and packaging. The comparison lists were said to constitute an infringement of the rights pertaining to its word and figurative marks under Article 5(1)(a). Given that the defendants were using imitated bottles and packaging to sell the perfumes, L'Oréal claimed this constituted an infringement under Article 5(2), the taking of unfair advantage of, or causing detriment to, the distinctive character or reputation of their trade marks. The Court of Appeal in England and Wales referred questions of infringement to the ECJ, enquiring whether the proprietor of a registered trademark may prevent a third party from using, in comparative advertising, a sign that is identical to its protected mark on identical goods. It was accepted that consumer confusion was not a significant issue and the activity did not otherwise harm the essential function of the mark denoting the source of the goods or services.[317] The second question asked whether the proprietor of a well-known mark can oppose the use of his sign,

[316] H. Carty, 'The Common Law and the Quest for the Ip Effect', *Intellectual Property Quarterly*, 3 (2007), 237-66 at 237-42.

[317] '*L'oréal Sa Et Al. V Bellure Nv Et Al.*', at para 51.

under Article 5(1)(a), where that use does not tarnish or dilute the mark and its reputation, but "nonetheless plays a significant role in the promotion of the defendant's goods".[318]

The ECJ applied its conventional test of exploring the purpose of trade mark protection. A trademark owner may invoke its rights to prevent a third party use of the sign where it is seen to impair the `functions` of the trademark; there was nothing new in this methodology. The Court went on to emphasise that trademarks may indeed perform more than one function, so all needed to be examined. In its reasoning, the determination was that protection for `functions` is not limited to the `essential function`, the guarantee to consumers or ultimate users of the source of the products. The Court, in an unprecedented finding, extended protection to the other functions of a mark, specifically that of "guaranteeing the quality of the goods or services in question and those of communication, investment or advertising".[319] This was a departure from the special status accorded to the essential function of a trademark.[320] That function is compromised when consumers or ultimate users are confused about the origin of goods or services. Although the ECJ made frequent references to the essential function in its judgements, prior to *L'Oréal* it was not specifically laid down what other possible 'functions' of a trademark might be protected.[321] Clarity of the protectable functions had previously been somewhat obscure prior to *L'Oréal*. The detrimental effect to the essential function by the actions of another has been at the core of the European jurisprudence on the interpretation of Article 5(1)(a) for a long time, but Meale and Smith aver that the ECJ has deviated from this.[322] In the context of Article 5(1)(a), the essential function is not the only function which a trademark can perform. Other functions include the "quality" and the "advertising" functions.

The ECJ described 'other' functions using the same terminology of Advocate General Jacobs in the Dior case, namely that they are derivatives of the origin function.[323] However, the court

[318] Ibid.

[319] Ibid., at para 57-58.

[320] See earlier in this chapter where the ECJ showed its fidelity to the origin function and held that this is the primary function of trademarks.

[321] See earlier cases where the ECJ recognised other possible functions that a trademark may fulfil which are distinct from the essential function: '*Parfums Christian Dior Sa V Evora Bv*'; '*O2* V *Hutchison 3g*'.

[322] See Meale and Smith, 'Enforcing a Trade Mark When Nobody's Confused: Where the Law Stands after L'ore´Al and Intel', (at 98; D. Gangjee and R. Burrell, 'Because You're Worth It: L'oréal and the Prohibition on Free Riding', *Modern Law Review*, 73 (2) (2010), 282-304 at 285-86.

[323] '*Parfums Christian Dior Sa V Evora Bv*', at para 42. The AG in the *Arsenal FC* case adopted also the same terminology. See '*Arsenal Fc V Matthew Reed*', at para 43. Meale and Smith, in this regard, argue that the ECJ

found that the activity of the defendant was liable to affect the 'advertising function' somewhat independently of the origin factor, and this constituted prima facie infringement under 5(1)(a). It was a broad interpretation of Article 5(1)(a) moving from the source as denoting function to encompass more widely the circumstances in which a trademark proprietor with a reputation can invoke his exclusive trademark rights. The ECJ finding appears to be based simply on the fact that the defendant used the trademark in promotional material, although a defence could have been invoked under the Misleading Comparative Advertising Directive (MCAD),[324] that infringement of the trademark was not the intention.

Advocate General Mengozzi avoided an exhaustive description of what functions of a trademark could be protected under Article 5(1)(a) and furthermore observed that no harm was being done to any of the functions in this case. His was a somewhat narrow construction of Article 5(1)(a) and therefore has to be interpreted as meaning the owner of a trademark is not entitled to prevent comparative advertising. This applies even where a defendant uses an identical sign on identical products for which the trademark is registered, as long as such use is not liable to damage the essential or other functions of the mark. Logically, this is so even if such use permits the defendant to benefit from the power of attraction of that mark or take advantage of the mark's reputation. [325] Comparison lists would therefore be lawful since they cause no damage to any of the functions of the mark per se. Obtaining a commercial advantage from the power of attraction of a trademark is not an actual form of damage of itself, an opinion which runs contrary to the view of the Court. The discomfort of Jacob LJ has been noted with regard to protection of ancillary functions, given there is legislative reference only to that of the origin, but it is possible to consider these as actual constituents of that origin, dependent on the circumstances of each case.[326] Should this be the considered view, it to a significant extent, it is suggested, negates the rather individualistic arguments of the academics who alight on such derivatives as individual functions in themselves.[327] L'Oreal establishes the idea that brands perform several functions, and denoting the source of

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was, perhaps, influenced by the opinions of the AGs in these cases. Nevertheless, the ECJ paid no attention, for example, to the AG's reservations in the Dior case, when he saw the other functions as "merely derivatives of the origin function" and therefore the circumstances for protecting reputable trademarks should not be "construed too widely", they added. See Meale and Smith, 'Enforcing a Trade Mark When Nobody's Confused: Where the Law Stands after L'ore´Al and Intel', (at 98.

[324] 'Misleading Advertising Directive (84/240) as Amended by the Comparative Advertising Directive (97/55)'.

[325] '*L'oréal Sa Et Al. V Bellure Nv Et Al.*', at para 59, 60 & 61.

[326] See Chapter Two.

[327] Box, 'Tresor, Miracle, Anais-Anais, Noa-Noa (Case Comment)', (at 487; Meale and Smith, 'Enforcing a Trade Mark When Nobody's Confused: Where the Law Stands after L'ore´Al and Intel', (at 99.

goods or services is merely one of many; it is a legal device which performs the function of distinctiveness and the case gives an understanding of the relationship between trademarks and brands.

The ECJ significantly altered the application of the law, with judicial recognition of the quality and advertising functions involving its effective amendment. National courts must now pay regard to all functions of trademarks, not just to the origin function, in their adjudication on protection. This has a profound effect on the nature of competition. Simply, if protection is afforded to a greater range of trademark functions beyond the traditional 'origin' this strengthens the power of the trademark owner to achieve competitive advantage in the market which is not capable of support by freedom of trade principles. It is pertinent to note at this stage that the European Commission is to introduce measures to harmonise the way that national courts apply the principles of trademark protection in the context of a competitive trade environment. The courts of the various member states tend to apply their own principles to litigation. The purpose of the revised system, introduced in March 2013, is 'upgrading, streamlining, and modernising the current legislation in order to make the trademark registration systems all over the Union more accessible and efficient for businesses in terms of lower costs and complexity, increased speed, greater predictability and legal security.'[328] The integration of such a legal process with the application of the theories of trademark functions remains somewhat elusive, however, and it remains to be seen how a solution is to be developed which maintains the competition principle in the operation of protections, even in the absence of customer confusion.[329] The adoption of additional functions and their connection with methods of competitor advertising may now be considered in dealing with their effect on keyword litigation.

All functions of trademarks are now deemed worthy of equal protection when it comes to safeguarding quality or advertising, whether or not there is consumer confusion or harm under the essential function. Deviation from narrow definitions of the specific subject matter and essential function of trademarks in the conventional tests were in essence developed in order to achieve the goals of the TM Directive. Transformation of legal acknowledgement into the realm of broader definitions has the potential of creating a hierarchy of values which

[328] Trade Marks including Community Trade Mark: Revision of the Trade Mark System 27 March 2013 accessed at http://ec.europa.eu/growth/industry/intellectual-property/industrial-property/tm/index_en.htm on 30 March 2015.
[329] See Max-Planck, 'Study on the Overall Functioning of the European Trade Mark System'.

obfuscate the need to address goals which the Court has striven to foster and maintain for a long time. *L'Oréal* was however a landmark decision in the development of trademark functions. It has paved the way for the ECJ to rely on it as a precedent in future cases and perhaps elaborate more on the issue of trademark functions. The world of commerce has changed exponentially in the past decade with the development of online trading and *L'Oreal* has proved of valued in the determination of actions arising from advertising programmes.[330] This particularly involves the potential liability of internet search providers to owners of registered trademarks, for infringements by merchants who make use of their services for trade, not forgetting the liability of the merchants themselves who boost their own commercial interests at the possible expense of others through the purchase of 'AdWords' or 'keyword' search priority.

Keyword advertising has caused some instability in determining the boundaries between safeguarding the rights of trademark owners, and promoting competition between traders and service providers. In the 'AdWords cases', claims of infringement through the operations of internet search providers, the ECJ had paid particular attention to the protection of trademark functions.[331] Reference was made by the Court to the protection of the same functions adopted in *L'Oréal*, but has only specifically addressed the advertising and investment functions in its decisions to date. Further guidance to national courts, and potential litigants, has been given concerning commercial practices that may affect the mark functions. The key judgments are *Google France* and *Interflora* in 2011. The guidance provided by the ECJ on the protection of particular functions remains quite limited, and as has been evident in the evolution of principles of protection and protect-ability, a larger body of case law is awaited for clarification.

3.6.2. ECJ Decisions after *L'Oréal* – The Advent of Online Keyword Advertising

Recognition of a wider range of trademark functions eligible for protection in the *L'Oréal* case can be considered a significant win for brand owners.[332] However, the battle against rivals who wish to take advantage of an appealing image and reputation of highly recognisable trademarks of others did not stop with this judgment. With the emergence of e-

[330] See for example the ECJ's judgments in '*Google France Sarl V Louis Vuitton Malletier Sa and Others* '; '*Die Bergspechte V Günter Guni*'; '*Portakabin V Primakabin*'; '*Interflora Inc V Marks & Spencer Plc.*'; '*L'oreʹAl Sa and Others V Ebay International Ag and Others*'.

[331] In this chapter the terms "AdWords cases" will be used to substitute referring collectively to the names of these cases unless the context requires otherwise.

[332] The effect of such recognition will be discussed in greater detail in chapter Four.

commerce competitors, including merchants in counterfeit products, have found new ways to market their products and compete with the owners of super brands. The new competition however was much more sophisticated in its use of comparative advertising techniques. The use of an online advertising service meant they could link their product or service in a variety of ways with the names of trademarks of those super brands for the purposes of enhancing their trade. With the massive increase in information and number of rivals already available on the internet network, it is not made simple for legitimate traders to effectively guide consumers to the links of their websites, and thereby inform them of the quality goods or services they deliver. Results relevant to a keyword, known as a 'natural result' reveal a bounty of links to alternative sources. Natural (or organic) search results are those "listings on search engine results pages that appear because of their relevance to the search terms".[333]

Internet search engine providers (ISPs), however have created an online advertising product by which traders may overcome such obstacle. Google, for example, provides a paid referencing service called 'AdWords', and as such has featured in the keyword litigation.[334] This service enables any commercial undertaking to purchase one or more particular keywords pertinent to their business, known as 'AdWords', to use in their advertisements so that when internet users perform a search using one or more of these, the advertisements for their site and product are triggered and displayed beside or above the 'natural results,' under the heading 'sponsored links'. The service enables third parties to choose the name of any trademark as a keyword to trigger such links despite the lack of commercial connection to the trademark proprietor. They can then promote their alternative competing goods or services without the need or expense acquiring the trademark owner's consent or licence, much to the displeasure of the leading manufacturers and traders. This, it is argued in litigation, dilutes the protections expected of mark registration by their owners and take advantage of reputation in the consumer's online search enquiry, even when confusion is not a provable result.

In *Google France* and *Interflora*, the ECJ considered the problems associated with the keywords service and sought an answer to the problem raised by the infringement allegations which balance the right to advertise in a free market operating in a barely controllable e-

[333] Http://En.Wikipedia.Org/Wiki/Organic_Search Visited 16 September 2014,
[334] There are other search engines which provide the paid referencing service. However, our focus will concern mainly the cases which were brought against Google.

commerce environment. The question of where liability lay was central to the resolution, (i) the operator of the internet search service, (ii) the advertiser and (iii) both, where search engine keyword were utilised without authorisation from the proprietor of the trademark. These issues will be analysed in considerably more detail in Chapter five, but it is necessary to use the decisions to broadly discuss the ECJ evolution by case law of trademark functions protection herein.

The *Google France* case in 2008 involved a conjoining of three claimants pursuing similar issues, namely the objection to their trademarks being used as keywords which triggered the display of advertisement links to third party websites offering competing or indeed counterfeit products. Louis Vuitton, Viaticum and Luteciel were companies of world renown and sought protection for their output and reputations. The French national judiciary found Google liable for trademark infringement. The respondent sought clarification on a case stated application to the ECJ, supported by the French Court of Cessation, on the issue of the liability of sellers of keywords as well as advertisers.[335]

The focus of attention in determining liability of the advertisers however was further considered in *Interflora* case. Interflora Inc. operates a flower delivery service on a worldwide basis. The trademark identifier is 'INTERFLORA', registered nationally in the UK and in the European Community. Consumers can place orders for delivery in various ways, including use of the internet, which will often commence by a keyword search. The company took action against Marks & Spencer Plc (M&S), again a prominent UK and international retailer. It too sells and delivers flowers, and thus is in direct competition with the applicant, Interflora. M&S planned carefully in their selection of keywords to attract internet browsing consumers, including 'Interflora'. Consequently, the M&S advertisement appeared under the heading "sponsored links" when 'interflora' or associated words were typed into the search engine. The claimant objected, asserting before the High Court that M&S had infringed its registered trade mark 'Interflora'. The national court referred to the ECJ for clarification on the European law of the potential liability of the advertiser, especially given the trademark enjoyed high reputation and its use was under the remit of 'double identity' cases where an identical trade mark used on identical goods or services.

[335] The liability of ISPs is further discussed in Chapter 5.

The ECJ considered the issues under Articles 5(1)(a) and 5(2) of the TM Directive and the broader ramifications will be considered later. However consideration needs to be given to the adjudication under Article 5(1)(a) to trace development of the law through adjudication. The important considerations were (i) what specific trademark functions were considered and promoted in the keywords cases, and (ii) what particular aspects of the respondent's actions were held to adversely affect the trademark, and so trigger liability. The Court found that under Article 5(1)(a), the use by a third party advertiser of a keyword registered to a claimant for the purpose of triggering advertisement links to its site was deemed to be both use in "course of trade" and in "relation to the goods or services" for which the earlier trademark was registered. This holds even where, as in the present case, the keyword is not mentioned nor does it actually appear in the advertisement itself, since such use is for the third party advertiser's site where it practices its trade.

From the *Arsenal* decision in 2002[336] onwards, the ECJ established that another relevant factor for establishing infringement under Article 5 of the TM Directive is that the use by the defendant of its own sign must affect or be liable to affect one of the protected functions of a registered trademark. In the Keywords cases, the ECJ followed this trend of interpretation, as adopted in the *L'Oréal* case, that trademarks may perform of a number of 'functions' including, but beyond, that of the essential origin function of the trademark.[337] The relevant functions to be analysed for the purposes of protection were indication of origin, advertising, and most recently in the *Interflora* case, investment.[338] An adverse effect on any of these functions would constitute trademark infringement. In considering whether there is an adverse effect on the essential function from the utility of another's keywords and trademarks it is noted that the Court was adjudicating from a base of established jurisprudence that the origin function is the primary function of trademarks. Prima facie it should be considered first in the establishment of infringement. It is arguable that in the Keywords cases the ECJ took a broader view of what kind of activity might affect a trademark's essential function.[339]

Trademark functions have grown significantly in number through the application of law to academic theory from the relatively simple protection of the source origin. Whilst the basic

[336] '*Arsenal Fc V Matthew Reed*'.
[337] As in *L'Oréal*, the ECJ identified a number of additional functions, but only addressed the "advertising function" as one that might be affected in the circumstances of the case.
[338] ' *Interflora Inc V Marks & Spencer Plc*', ((C-323/09) (ECJ (1st Chamber)) Sep 22, 2011).
[339] This issue is discussed in greater detail in Chapter 4.

premise of protection remains the justifiable prevention of customer confusion via the origin safeguard, this has of itself become broad in its effect as to be considered vague, and thus raises concerns as to the boundaries of competitive behaviour in the market. Adverse effect by use of a trademark as a keyword in an advertisement 'depends in particular on the manner in which that [advertisement] is presented'.[340] Where an advertisement does not enable normally informed and reasonably attentive internet users, or enables them only with difficulty, to determine origin, it has an adverse effect and is therefore an infringement. If it is clear that products offered for sale under that advertisement originate from the owner of the trademark or a commercial undertaking connected to it or, on the contrary, originate from a third party, it does not confuse, and the origin function is not affected. Where questions arise on the issue of origin, the owner of a trademark is entitled to prohibit the display of a competitor's advertisement.[341] The ECJ has therefore provided some guidance for national courts on assessment of harm to the essential function of a trademark. The Court seeks to ascertain the state of mind of the 'reasonably well-informed and attentive' internet users and their perception of the clarity of information on an advertising link and its commercial message. False impressions from a third party advertisement that they have a commercial link sorts to the mark proprietor's commercial network constitutes an adverse effect on the mark.[342] At the same time, the Court concluded that it would not be enough to find adverse effect on such function where "some" internet users had "difficulty" to grasp that the service provided by the third party is independent of the trademark owner.[343] It is the state of mind of a notional internet user which will guide the court on issues of confusion in the event of an alleged breach.

Assessment is left to the national court to consider, based on the circumstances of each case. This may differ where the practice and opinions of the judicature of each Member state diverges, indicating a need, recognised by the Commission for harmonisation of the rules.[344] The ECJ did advise that its view was that where the trademark owner's commercial network is composed of a large number of retailers, internet users may find it "particularly difficult" to figure out whether or not the advertising third party is part of that network. It concluded that in such a case, it is for the advertiser himself to clarify within the advertisement that it has no

[340] '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at para 83.
[341] Ibid., at paras 84&87.
[342] ' *Interflora Inc V Marks & Spencer Plc*', at para 49.
[343] Ibid., at para 50.
[344] See Chapter 5.

direct relation with original trademark owner whose sign is used as a keyword trigger.[345] This onus on the competitor seeking access to the market needs to be considered with greater clarity of the boundaries imposed by the law. It can however be argued that this broader view of what might affect the security from harm of the essential function can result in the failure to strike the optimum balance with other opposing interests such as freedom to compete.[346]

The European Court further expressed concern there may be an adverse effect on the advertising function from the keyword search process which has to be guarded against. The term 'advertising function', on the face of it, suggests a fertile ground for litigant brand and mark owners against those using their trademarks names as keywords.[347] The ECJ decision in *L'Oréal* acknowledged this as a protected function for the first time. In fact, in all judgments in the AdWords cases, including *Interflora,* the ECJ disregarded the importance of the advertising function, and decided to grant it no special protection.

The actual, original trademark owner may spend a small fortune in a bidding war to preserve and reinforce what it believes it is already entitled to through the registration process. This appears a very persuasive argument for brand owners to prove adverse effect on their trademark advertising functions, and therefore claim protection.[348] The ECJ appeared supportive, adopting the view that the use of a registered trademark, by a third party, as a keyword, for the purpose of displaying advertising messages is necessarily liable to have certain 'repercussions' on the advertising use of that mark, specifically when it is liable to adversely affect the interests of the owner in "informing and persuading consumers".[349] It determined, however, that those 'repercussions' do not of themselves constitute an adverse effect on the advertising function of the trademark.[350] The proprietor of a trademark is not, it appears, entitled to prohibit a third party from using a sign identical to its trademark, purchased in a referencing service, on the basis that such use is liable per se to have an

[345] ' *Interflora Inc V Marks & Spencer Plc*', at paras 51-53.
[346] See Chapter 5.
[347] J. Cornthwaite, 'Say It with Flowers: The Judgment of the Court of Justice of the European Union in Interflora V Marks & Spencer', *European Intellectual Property Review,* 34(2) (2012), 127-32 at 129.
[348] D. Meale, 'Interflora: The Last Word on Keyword Advertising?', *Journal of Intellectual Property Law & Practice,* 7 (1) (2012), 11-14 at 12.
[349] '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at paras 91&93. [Emphasis added]
[350] Ibid., at para 95.

adverse effect on the advertising function of that trademark.[351] It is argued however that the effect of the developing range of trademark functions is the problem with interpretation of the law, rather than the keyword advertising per se, and the difficulty these functions cause in establishing the boundaries of what is acceptable in competitive trade.

One criticism of many of the ancillary functions attributed to trademarks following *L'Oréal* is that that they are largely theoretical labels without much weight or context.[352] That said, in the *Interflora* case, the ECJ made the idea of an investment function more concrete by defining its purpose as "to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty".[353] Actions by another which adversely affect the investment function should therefore constitute a breach and activate the need for protective measures. There may be overlap between the investment and advertising functions, yet they remain distinct from each other. Acquiring or achieving a particular level of reputation for a trademark is served by not only employing the advertising function but also by utilising 'various commercial techniques'.[354] However, the Court gave no indication what those techniques may be.

It did clarify that the investment function is capable of being adversely affected in "double identity" cases where the mark of the claimant has a reputation and its use by the defendant "affects that reputation and thereby jeopardises its maintenance".[355] Nevertheless, the Court identified only two situations under which such use is not sufficient in itself to trigger liability.[356] The first arises where proprietors of that trademark are obliged to redouble their efforts to acquire or preserve a particular level of reputation, and as a result it increases their appeal to consumers or reinforcing consumer loyalty. The second is where use of an identical trademark has actually converted some consumers to buying the third party defendant's products. In terms of this study, it gives some guidance to third party competitors of the litigious line over which they must not pass in order to avoid violation of the protections afforded to the origin mark.

[351] In contrast to L'Oréal, the trademark did not appear in defendant's advertisement or promotional material. It is arguable that the ECJ therefore appears to have taken a narrow view of what can affect the advertising function.
[352] Meale, 'Interflora: The Last Word on Keyword Advertising?', at 12.
[353] ' *Interflora Inc V Marks & Spencer Plc*', at para 62.
[354] Ibid., at para 61.
[355] Ibid., at para 63.
[356] Ibid., at paras 64-65.

The ECJ has acknowledged that the investment function may be adversely affected in the circumstances identified and does not rule out the potential for brand owners to prove the required harm. It is difficult to identify any other valid bases which could be used to prove harm. The definition of the investment function limits its role to 'acquiring or preserving' the reputation of a trademark and therefore guaranteeing consumer loyalty. The only consequences which can be anticipated of using the trademark as a keyword which adversely affects the investment function are those which essentially force the owner to 'adapt' or intensify particular efforts to acquire or preserve its reputation, which is what it should be doing anyway.[357] A "repercussion" similar to that identified for the advertising function, but dismissed, or the erosion of customer loyalty as they switch to buying the products of rivals may be the result, but it is also an indication the owner must improve to avoid. The second impact is similar to the requirement identified in the *Intel* case to prove dilution, basically the consumer behavioural change requirement.[358] Such consequences are taken to be a hazard of trade in a competitive environment and expected to occur in the normal investment function of a trademark; they are not sufficient to prove harm to the investment function. It can be argued that although the ECJ has appeared to safeguard the investment function, it has not left much scope for brand owners to claim harm which can be related to this function. Instead it seems to have left a somewhat confused image of failing to grant protection to such a function whilst acknowledging and defining it as something of value, and thus worthy of protection. It is left to the national court to determine on a case-by-case basis whether or not the investment function of a trademark is adversely affected. This task has been described by at least one observer as not an "enviable" one.[359] Whilst there is an acceptance of the value of investment made by manufacturers and service providers in developing the quality and reputation of their brand the primary purpose of European and indeed global trade treaties is the freedom to compete. Finally, it can be stated that the ECJ has shown its clear support in a legal context for the primary function of a trademark to indicate origin by accepting that any interference with this function in the context of keyword advertising services is likely to

[357] This clarifies basically why the ECJ went to conclude that there might be overlap between the advertising function and the investment, emphasising that achieving a particular level of reputation for a trademark is served by not only employing the advertising function but also by utilising (unspecified) "various commercial techniques".
[358] '*Intel Corporation Inc. V Cpm United Kingdom Limited* '. This issue is discussed in greater detail in chapter four below.
[359] Cornthwaite, 'Say It with Flowers: The Judgment of the Court of Justice of the European Union in Interflora V Marks & Spencer', (at 130.

trigger liability in law for the third party advertiser. This is an example of how the broad view widens the scope of the kinds of competitor action which might affect this essential function.

On other functions however, its position remains opaque. It has decisively marginalised any potentially adverse effects arising from apparent breach of the advertising function, nor has it has provided sufficient guidance on how the investment function may be impaired; according to Meal, a case for infringement could "go either way".[360] He does however believe that a national judge at national will not allow such a function to have "too strong an effect".[361] Cornthwaite has also noted that the indication of origin and investment functions are currently the only protected functions in the AdWords litigation, albeit with lots of "ifs and buts".[362] It is therefore difficult to anticipate with any great sense of certainty whether the investment function is going be effectively protected by future interpretations and in what manner; that is a question for the passage of time and imagination of trademark users. At present the essential origin function of a trademark is the only one which appears to attract infringement findings and protection under the narrow interpretation of Article 5(1)(a) TM Directive. This does not mean the ECJ has disavowed acknowledgment of the ancillary functions of trademarks. Finding harm to the origin function where it arises remains the focus of case law, with less effort made on other functions to ascertain actionable harm. The major significance of the ancillary functions appears to be the fact of recognition and performance of their respective roles in the effectiveness of a trademark. The ECJ has kept interpreting protection for trademarks in a broad manner, as in the *L'Oreal* case, rather than adhering to a restrictive and cautious approach.

3.7. Conclusion

The appreciation of trademarks has developed from a position of somewhat disdain as mercantile symbols to essential marks which protect producers and customers in a matter of a few decades. They now share the stage as a concept of Intellectual Property, indicative of a new understanding of their value and need for protection from harm. The origin function has particularly played a pivotal role under the ECJ jurisprudence as a primary function to identify manufacturers and reassure consumers.

[360] Meale, 'Interflora: The Last Word on Keyword Advertising?', (at 13.
[361] Ibid., at 14.
[362] Cornthwaite, 'Say It with Flowers: The Judgment of the Court of Justice of the European Union in Interflora V Marks & Spencer', at 130.

The Court has not hesitated to show signs of development in the acknowledgement of the trademark's capacity to perform some other functions. In the context of the aims of this study, it is noted that the list of protectable functions which a trademark may fulfil includes those which guarantee quality of the products or services and those related to advertising, or investment; this was effectively the finding in *L'Oreal.* The ECJ did in fact give wide consideration and interpretation to the ancillary functions to assess any potential infringement. It is a significant development in the balance which must be struck by the Court. Recognition of the ancillary functions would necessarily change the contours of protection granted under Article 5 of the TM Directive and such a change would see the ECJ deviating from its narrow definitions of the specific subject matter and the essential function tests. Over-protection however would mean the ECJ abandons the balance between the different competing interests and defeats the purpose of promoting a system of undistorted competition, thus prompting much criticism of the *L'Oreal* adjudication.

Post-*L'Oreal* there was some optimism that the Court would interpret the protection for trademarks in a more restrictive manner and limit the protection to the origin function when judging on infringement. Prima face, this hope appears to have been realised in the way the ECJ approached the online keywords cases. This does not suggest the ECJ conclusions in these cases may not necessarily be interpreted as a radical departure from the *L'Oreal* expansionist approach. Besides the cautious approach to protection of new trademark functions under Article 5(1)(a) TM Directive, the Court's decision does, in parts, actually suggest protection of the mark is strengthened, such as extra steps to be taken by advertisers to inhibit consumer confusion. This flexibility in the infringement tests to accommodate the expansion of trademark functions, as will be shown in the next chapters, will lead into creating tensions in the infringement criteria and uncertainty in the law and thus lack of adequate available defences to third parties, particularly in context of online keywords advertising cases.

Chapter Four

The Impact of the Recognition of the Trademark Modern Functions on Infringement Criteria

4.1. Introduction

The importance of a trademark to a proprietor lies in its capacity to create and enforce an exclusive right, potentially a monopoly, over the use of a name and its connection with particular types of goods or services.[363] The use by an unauthorised other of the name of the trademark on what are apparently the same products would compromise the trust of the consumer in what the trademark conveys, regardless of what they may be.[364] The lack of exclusive use essentially means trademarks could not perform their functions.

Legal protection for proprietors of marks is potentially for unlimited periods of time.[365] Thus it is necessary to define narrowly the exclusive rights and protections that trademark owners enjoy in contrast to other forms of intellectual property rights.[366] This would even apply to the core right of use of an identical sign used in relation to identical goods or services (double identity).[367]

Article 5 of the European TM Directive sets the criteria for trademark infringement, classifying protection on three bases.[368] The first level of protection is defined under Article 5(1)(a). Simplicity and precision is the key as deals with straightforward trademark infringement cases where counterfeit products are made and sold by another, or there is unauthorised use of an identical mark for identical products. The purpose is to ensure exclusivity of the trademark necessary for the performance of its functions, particularly that of the essential origin' guarantee. Thus confusion about trade origin is presumed, and protection is "absolute".[369] The Article nevertheless states nothing about the nature or scope

[363] S. Maniatis and A. Sanders, 'A Consumer Trade Mark: Protection Based on Origin and Quality', ibid.11 (1993), 406-15 at 411.
[364] Ibid.
[365] *'L'ore´Al Sa and Others V Ebay International Ag and Others*'. para 30.
[366] Article 63(1) of the European Patent Convention, for instance, stipulates that patents exclusive rights are limited to a maximum of 20 years from the date of filing the application of registration.
[367] This envisaged under Article 5(1)(a) of the 'First Directive 2008/95/Ec of the Council, of 21 December 1988, to Approximate the Laws of the Member States Relating to Trade Marks (Codified Version) '. [Hereinafter the TM Directive].
[368] 'First Directive 2008/95/Ec of the Council, of 21 December 1988, to Approximate the Laws of the Member States Relating to Trade Marks (Codified Version) '.
[369] This envisaged under the eleventh recital in the preamble to the TM Directive.

of other functions protection. The availability of protection under Article 5(1)(b) is somewhat more complex in approach. The owner of a trademark must prove similarity of goods or services to the protected product, but does not need to prove that the sign is similar there is a 'likelihood of confusion or association' on the part of the public.[370] The purpose of this study is to analyse developments in trademark law and their effect on the 'origin' and other functions in the context, particularly, of the keyword method of product promotion; given this has not been a feature of Article 5(1)(b), it is not proposed to discuss or analyse this further herein.

Article 5(2) is the third shelter under the TM Directive, providing protection exclusively for marks with a reputation. This is the use without due cause of an identical sign in relation to products which are not similar to those for which the trademark is registered, taking unfair advantage of, or causing detriment to, the distinctive character or reputation of that mark. It is designed to substantially protect the modern 'commercial value' of a trademark. This protection does not mean the exclusive rights of a proprietor should be wide and all-embracing where its mark is concerned, for the law imposes limits which should balance the expectation of the free movement of products or avoidance of the distortion of competition within the European common market.

The ECJ has provided guidance and interpretation for the Article 5 protections in the continuously developing realm of trademark law, but this seems to have led to a greater degree of vagueness in determining the limitations, rather than clarity in the identification of a definitive rationale for the rights conferred, particularly for comparative and online keywords advertising. The Court has advocated in favour of additional, protectable purposes of the mark on the quality, communication, investment, and advertising, an apparent transformation from a narrow 'origin' function to a wider scope of protection; this potentially protects the efficacy of the mark capacity to perform these ancillary functions. Their specific enforcement remains in need of development themselves.

It is proposed in this chapter of the study to indicate the limitations placed on the exclusive rights of trademark owners in the context of the law and how these limits are related to the function of the mark. The impact of recognition of ancillary functions on the extent of the

[370] This approach was adopted by the ECJ in several law cases including '*Sabel Bv V. Puma Ag*', ((C-251/95) E.T.M.R. 1 1997); 'Trademarks and Consumer Search Costs on the Internet',

protection has to be examined in the context of the primary European legislation on the subject, Article 5 of the TM Directive, in particular Articles 5(1)(a) and 5(2). It will be argued that the recognition of ancillary trademark functions has broadened the scope of protection beyond the essential origin. The Court has sought to provide a more flexible interpretation of types of harm affecting the various trademark functions. This may be a tactical bypass to the formal recognition of new functions which have caused tensions and uncertainty in the infringement criteria, affecting the integrity of the law due to the lack of proper defences. In order to facilitate this investigation, attention will principally be addressed to Article 5(1)(a), examined in the context of trademark purposes other than that of the origin function; additional protection is then considered under Article 5(2) to explore the extent to which the owner of a super brand can restrict other competitors in their commercial activity, particularly in the context of online keywords advertising.

4.2. Legal Framework

The TM Directive, it will be recalled, is the primary guidance of European legislation governing harmonisation of the protection of trademarks in a market community based on the free movement of goods and free competition. It should be remembered that under 5(1), the owner of a product trademark may prevent all third parties from using its sign without consent in the course of trade, provided it is (a) identical to the mark as that registered by the owner for identical goods or services or (b) there is such a similarity of sign and product that confusion is likely to be caused to the public. States may legislate to allow a proprietor to prevent third parties using a similar or identical trademark sign, without consent, on goods which are not similar to those for which the mark is registered; this specifically relates to products of repute, liable to unauthorised exploitation or detriment to their distinctive character (Article 5(2)). It is within this context that the Court must adjudicate on the balance of competing entitlements.

4.3. Protection Under Article 5(1)(a)

The scope of protection hereunder relies on an understanding of the rationale behind trademark protection as interpreted by the Court in the fulfilment of its duties to apply legislation in a rapidly changing marketplace. New reasons and functions arise to shelter from harm this increasingly valuable business asset, diverting from the simple origin function on what may be described as the ‘core zone’ of that provision.

4.3.1. Rationale

The key principle is ensuring protection for the exclusivity of a trademark where it is required to perform the recognised necessary function, particularly that of essential 'origin'. It confers protection against blatant counterfeit cases in the traditional sense, where products bear an identical name or symbol to those used on the authentic goods, or where they have apparent differences unnoticeable by the average consumer.[371] Online trading is a potent conduit for fakery, but this is outside the scope of this study. The rationale is examined in the context of legitimate traders, using keywords 'associated' with major, similar product brands with which they seek to compete in the context of the protections afforded to the 'origin' marks. It will also apply to any products which have not been authorised as entitled to bear the trademark.[372] In these circumstances, there should be greater clarity in the ECJ jurisprudence which arises from Article 5 (1)(a) TM Directive stipulations of breach or violation of mark protections.

It is a prima facie simple provision, but raises problematic issues for establishing infringement. The ECJ has set out four cumulative conditions which must be satisfied by the trademark owner to prove infringement under this ground and empower proprietors to prevent the use of their trademarks under Article 5(1). The first is relatively easily satisfied, where the use of the mark is clearly not approved by the trademark owners. The remaining three conditions then have to be satisfied; (i) that use takes place in the course of trade, (ii) relates to goods or services which are identical or similar to those covered by the trademarks and (iii) affects or is liable to affect the essential 'origin' function of the mark and avoidance of consumer confusion.[373] There is, broadly speaking, no need to show confusion about the trade origin when a user's sign is identical to that of the claimant's original mark , used on the same goods or services for which the original mark was registered; this can generally be presumed. The identical sign of the defendant user is simply liable to affect the 'essential function' of claimant's trademark and the protection is 'absolute'.[374] It is a case of 'double identity', and the Eleventh Recital in the Preamble to the TM Directive states:

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[371] '*Ltj Diffusion Sa V Sadas Vertbaudet Sa* ', at para 54.

[372] '*Primark Stores Ltd V Lollypop Clothing Ltd* '; '*Dyson Ltd V Registrar of Trade Marks*'. This section also reinforces the system of priority in the reservation of a particular sign to use as a trade mark for particular goods or services.

[373] See for instance, '*Arsenal Fc V Matthew Reed*'; '*Celine V Celine*', at para 16.

[374] See the ECJ's guidance on this in '*Google France Sarl V Louis Vuitton Malletier Sa and Others* '; ' *Interflora Inc V Marks & Spencer Plc*'.

> The protection afforded by the registered trade mark, the function of which is in particular to guarantee the trade mark as an indication of origin, should be absolute in the case of identity between the mark and the sign and the goods or services.

The Agreement on the Trade-Related Aspects of International Property Rights (TRIPs) 1994 had incorporated this principle in Article 16; "the use of an identical sign for identical goods or services, a likelihood of confusion shall be presumed". The ECJ subsequently adjudicated in *Anheuser-Busch v Budejovicky´ Budvar*; since the European Community is party to the TRIPS Agreement, the TM Directive, under an obligation, should be interpreted, as far as possible, in light of the wording and purpose of that agreement.[375] In order to determine whether a third party infringes a registered trademark, a comparison must be made first between the registered mark and the sign used by the defendant, but the test for determining whether the signs of the two parties' are identical must be strict.[376] The ECJ held that the rivals' marks are only considered identical where the sign reproduces, without modification or addition, all the elements which constitute the owner's mark or, where viewed as whole, it contains differences so insignificant that they will go unnoticed by the average consumer.[377] 'Absolute' protection under Article 5(1)(a) should not encroach on the boundaries that belong to Article 5(1)(b) which requires creation of confusion about the essential, origin, function before infringement is found and indirectly harm the underlying goodwill.[378] The scope of Article 5(1)(a) would encompass a wide range of marks if it were to impinge on the 'similarity' jurisdiction of sub-paragraph (b), giving trademark owners absolute protection in 'non-double identity' cases. Trademark owners would enjoy more protection than is justified to protect the origin function and there is the potential consequence that fewer signs could be registered.[379] Overlap of the provisions undermines the integrity of trademark law, the goals of the Directive and interests of free trade. Owners' rights are already sufficiently sheltered under the three levels of protection and it makes no sense to obfuscate the boundaries and lead to an effective monopoly, with competition and the principles of free movement of goods or services within Europe compromised. The ECJ has therefore adopted its strict

[375] In this decision the ECJ held. '*Anheuser-Busch Inc. V Budějovický Budvar, Národní Podnik*', at para 42.
[376] '*Ltj Diffusion Sa V Sadas Vertbaudet Sa* ', at para 50.
[377] Ibid., at para 54.
[378] Ibid., at para 50.
[379] See for example B. Isaac and R. Joshi, 'What Does Identical Mean?', *European Intellectual Property Review*, 27(5) (2005), 184-87; Simon, 'How Does "Essential Function" Doctrine Drive European Mark Trade Law?', (at 411-12; Griffiths, 'The Trade Mark Monopoly: An Analysis of the Core Zone of Absolute Protection under Art.5.1(a)', at 318-19.

approach on protection of the identity condition, making it relatively simple to determine the 'identical' criteria.

All three bases of infringement under Article 5 require that the illegitimate use of a sign must be "in the course of trade". This helps define the scope of the exclusive rights granted to trademark proprietors and reserves the right of third parties and consumers to make reference to the trademarked words in non-commercial contexts; this includes social or domestic use which will not attract liability for infringement.[380] Article 5(3), however, provides a non-exhaustive range of circumstances where a trademark owner can prohibit a third party using its sign, for example, attaching the sign to the unauthorised products or packaging, selling commodities under that sign, importing or exporting the products, or using the sign on business papers and in advertising. It is worth noting that in the *Google France* judgment the ECJ confirmed the need to adapt this list in response to developments in computer technology that were probably not envisaged when the Directive was drafted; the Court decided that the use of a sign as keyword for advertising purposes is use in the course of trade even such use is different from those kinds of uses listed in Article 5(3).[381]

The issue of use in the course of trade has always been problematic in definition and controversial in effect.[382] Such controversy, as will be shown, has played a significant role in the examination of justifications for liability of ISPs and advertisers in the use of trademarks as keywords.[383] The ECJ addresses two issues; (i) what is meant by use 'in the course of trade', and (ii) must such a use be use as a trademark, that which may affect its capacity to perform a protected function, particularly that of origin.[384] Prima facie, 'use in the course of trade' appears to address commercial activity with a view to economic advantage rather than a private use. In *Arsenal FC,* Advocate General Colomer observed the key point is to examine the motivation of the unauthorised person who places the goods on the market or provides the service using the same distinctive sign without being the legitimate owner.[385]

[380] Bently and Sherman, *Intellectual Property Law* at 919.
[381] '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at paras 65&66.
[382] For more about the ECJ's case law development in this issue see P. Yap, 'Essential Function of a Trade Mark: From Bmw to O2', 31(2) (2009), 81-87.
[383] See Chapter 5.
[384] It is worth mentioning that before the UK trade Mark law (1994) (Act of 1938), the use requirement was taken to mean that the defendant's use of its sign must be for the purpose of indicating the origin of the goods or services for which its sign attached to. This also means that, on the contrary, if the defendant's use of its mark was other than to signify the origin of its goods, then there would be no infringement.
[385] '*Arsenal Fc V Matthew Reed*', at para 40.

Where the purpose of the third party is to exploit the mark commercially, this would constitute use `as a trademark` and so the proprietor is entitled to object to such use, within the limits and to the extent allowed under Article 5 of the Directive.[386] If, however, a person makes private use of a mark, such as by using the brand BMW on a key ring, he or she gains no material or economic advantage, such use cannot be objected to because it falls outside the scope of the protection afforded to the proprietor.[387] In *Google France*, however, the ECJ concluded that in constituting illegitimate 'use' the third party must adopt the sign "in its own commercial communication".[388] Google 'AdWords' does not therefore 'use' the signs it sells through the paid-for referencing service in the required sense, a commercial context to advance its own financial interests. It merely creates the "technical conditions" necessary for advertisers to use the sign, but is nevertheless used to justify exclusion of the ISP sale of keywords, without the owner's consent, from liability even where their presentation of the search results may result in consumer confusion.

Proving that the sign is commercially exploited is not sufficient on its own, however, to constitute infringement. The unauthorised use by the third party must affect or be liable to affect one of the protected functions of a registered trademark. In the *Arsenal FC* case, the ECJ considered this aspect of the 'use' requirement in the context of the rationale of Article 5(1)(a) and ruled, for the first time, that the words of the Directive requiring the defendant's unauthorised sign to be used 'in the course of trade' meant the presence of two distinct conditions before infringement would be found; 'in the course of trade' is self explanatory, and it must affect one of the trademark's functions.[389] The adjudication by the Court on the application of the owner's right to protect becomes potentially broader in this context, prohibiting "any use" of an identical sign in the course of trade, or only where:

> '…that right of prohibition presupposes the existence of a specific interest of the proprietor as trade mark proprietor, in that use of the sign in question by a third party must affect or be liable to affect one of the functions of the mark.'[390]

The latter, more restrictive, interpretation was adopted, that the exclusive right of a trademark owner must be limited to protecting its `specific interests` as proprietor, to ensure that the

[386] Ibid., at para 69.
[387] Ibid., at paras 56-64.
[388] '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at paras 56-57.
[389] '*Arsenal Fc V Matthew Reed*'.
[390] Ibid., at para 42.

mark can perform its 'functions'. The exercise of that right must therefore be reserved to situations in which the third party use of the sign jeopardises the 'functions' of the trademark, particularly the guarantee of origin of the goods or services.[391] Essentially, the aim of the 'absolute protection' under Article 5(1)(a) "is in particular to guarantee the trademark as an indication of origin".[392] This limitation is justified on the basis that restricting the 'absolute' protection to the origin function would ensure the mark will "fulfil its essential role in the system of undistorted competition which the [EEC] Treaty seeks to establish and maintain";[393] essentially, it accomplishes the balancing of the competing principles. It will also enable competing commercial undertakings to distinguish their product and "attract and retain customers by the quality of their goods or services".[394] The reference to 'functions', in the plural, has tended to revolve more particularly around the principle of protecting consumers from potential confusion, the core origin rationale. This has produced a more restrictive interpretation of Article 5 protections, as well as the fact that other functions are vague and undefined.

It has been noted that following the *L'Oréal* adjudication in 2009, the ECJ arguably changed its interpretation of rationale of Article 5(1)(a), adopting a more liberal approach.[395] It acknowledges the wider interests of proprietors, appreciating other functions of the trademark, particularly "quality and those of communication, investment or advertising functions".[396] This recognises the need for more extensive protection than that accorded merely to the essential function. The acknowledgment of the advertising function for trademarks in 'double identity' cases, for example, will certainly change the scope of protection, allowing brand owners to potentially gain a broader monopoly over the commercial use and exploitation of the brands registered by them as trademarks. In *L'Oréal* the use of a trademark in promotional material of itself impinged on the protection of the 'advertising function'. In the subsequent AdWords decisions, however, while the ECJ has effectively marginalised the availability of protective measures for the advertising function, it has not provided sufficient guidance on how the investment function may be impaired and

[391] Ibid., at para 51.
[392] Ibid., at para 50.
[393] Ibid., at para 48.
[394] Ibid., at para 47.
[395] '*L'oréal Sa Et Al. V Bellure Nv Et Al*.'.
[396] See Chapter 3 of this thesis.

thus how it should attract protection.[397] These kinds of contradiction in judicial approach raise questions about the actual existence of other bases of protection for trademarks. The breadth of Article 5(1)(a) protection appears in a state of rather confused flux. In order to analyse the impact on the core, origin zone of protection, particularly by advertising and investment functions, two sets of circumstances appear pertinent. The first is how the use of a trademark in comparative advertising, in light of the *L'Oréal* decision, affects the efficacy of the 'advertising function', utilising a working assumption that any use of a trademark in advertising or promotional materials will prima facie trigger liability; the practical effect is dealt with here, the rationale in Chapter 5. The second scenario involves the subsequent AdWords litigation, examination will then be undertaken regarding the application of *L'Oréal*. It will be apparent that these additional, ancillary functions have been implemented in a cautious manner in the establishing of boundaries by the ECJ.

4.3.2. The Effect of the Recognition of the Ancillary Functions on the 'Core Zone'

Recognition of these ancillary functions, it is suggested, has limited impact on the scope of Article 5(1)(a) protection, given exclusive rights of owners remain limited by reference to the essential function. Not any use of a trademark constitutes infringement. A third party may still be able to rely on a defence under Article 6(1) to mitigate liability, as propounded by the ECJ in *L'Oréal,* but the Court did not follow this legal route in *L'Oréal* nor AdWords litigation. The Respondent manufacturers of fragrances marketed as smell-alikes and look-alikes of popular L'Oréal brands had used comparison lists to describe which L'Oréal fragrance was imitated by each of their products, using the claimant's trademarks in promotional material in order to promote sales of their own products. The ECJ was asked to clarify whether the proprietor of a reputable mark could oppose the use of his sign in promotional material, under Article 5(1)(a) even though there was no evidence of deterioration or dilution of reputation of the mark, but "nonetheless [played] a significant role in the promotion of the defendant's goods".[398] The adjudication was that particular trademarks have the capacity to perform both quality and advertising purposes, independent functions worthy of protection themselves. It will be recalled that Advocate General Jacobs in *Hag II* asserted "although trademarks do not provide any form of legal guarantee of quality, the absence of which may have misled some to underestimate their significance, they do in

[397] '*Google France Sarl V Louis Vuitton Malletier Sa and Others* '; '*Swizzels Matlow Ltd's Trade Mark Application*'; '*Sieckmann V German Patent Office*'; ' *Interflora Inc V Marks & Spencer Plc*'. See chapter three of this thesis.
[398] '*L'oréal Sa Et Al. V Bellure Nv Et Al.*', at para 51.

economic terms provide such a guarantee, which is acted upon daily by consumers".[399] Interference with these functions will constitute a straightforward trademark infringement, regardless of whether the essential function was affected or not.

The ECJ first recognised the advertising function, determining it worthy of protection as a crucial factor in the promotion of sales or an "instrument of commercial strategy".[400] Any kind of unauthorised use of the advertising function, excluding the "purely descriptive" use is liable to cause adverse effect to a mark. In *Hölterhoff v. Freiesleben* the Court explained that `purely descriptive use` is excluded from the scope of application of Article 5(1)(a) because it is not liable to harm the interests which the provision is intended to safeguard.[401] In *L'Oreal* however, the use by the defendant of the word signs which belonged to the complainant in comparison lists was not for 'purely descriptive purposes, but for the purpose of advertising' thus adversely affecting the protected function.[402] Jacob LJ was critical of the ECJ judgement, and observed that judicial recognition and protection of the advertising function potentially makes an argument that the mark is more vulnerable to damage to reputation of the owners product by comparison advertisements by third parties, even where these are to promote their lesser quality products. He accepted the premise that owners of powerful brands generally invest large amounts of money creating and maintaining their appealing image but questioned the rather simplistic conclusion of the Court as a rationale for protection of the trademark per se. It did not imply that such potential for harm to the advertising function should therefore be stopped.

Nevertheless, one reason that explains the approach of the Court in *L'Oréal* is the recognition that the value of a trademark to its owner can be so affected or damaged, even if there is no interference with the essential function. Even though an advertisement does not mislead or

[399] '*Sa Cnl-Sucal Nv V Hag Gf Ag* (*Hag Ii*)', at para 18.
[400] '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at para 92.
[401] Nevertheless, the Court noticed that the situations described in *L'Oréal* and in *Hölterhoff* are different. '*L'oréal Sa Et Al. V Bellure Nv Et Al.*', at paras 61&62. However, Jacob LJ condemned the ECJ's finding in this regard. He argued that it was difficult to understand why the ECJ did not draw the same conclusions for the situations described in each of *L'Oréal* and *Hölterhoff* i.e. the use of the defence under Article 6(1) of the TM Directive. Jacob LJ stated that "A line is apparently to be drawn between something like a discussion between a would-be seller and his potential customer ("I can supply a diamond cut in the same shape as Spirit Sun"), which is apparently not "advertising" even though "Spirit Sun" is being used to gain a sale, and an out-and-out general purpose advertising aid such as a comparison list. I confess I do not know where that line is, but this case falls on the wrong side of it. Why? Because the Court has said so. It regards the use as affecting the communication, advertising and investment functions of the mark". *'L'oreal Sa & Ors V Bellure Nv & Ors* Ewca Civ 535 ', at paras 26&31.
[402] '*L'oréal Sa Et Al. V Bellure Nv Et Al.*', at para 62.

confuse consumers, it may still injure the intangible image or aura associated with the trademark or weakens its capacity to achieve a high level of differentiation.[403] This recognition logically leads to the conclusion that there is a need for protection for certain trademarks in a way which could be damaged by unauthorised use in advertising or promotional materials for another, lesser product. It can be assumed that the impact of recognising protection for the ancillary functions, in particular that of advertising, under Article 5(1)(a), is that the scope of this provision will broaden, affording protection beyond the traditional limitation of essential origin. Effectively it will give the owner of a trademark a greater monopoly over the use of the sign as a trademark for use in commercial activity, prohibiting others from using the same sign for the same goods, in circumstances which may affect any of the wider range of functions of the mark. 'Monopoly' is an uncomfortable, if somewhat legally logical conclusion, perhaps envisaged by the criticism of Jacobs LJ, in a context of market free trade principles. It is considered anathema in the context of stimulation of trade and the encouragement of competition that that companies are permitted to use their 'dominant position' in the market, largely in these circumstances due to the strength of trademark protection, to restrict trade.[404] The formulation of prohibitive regulations in the UK is provided for under s52 Competition Act 1998. Nevertheless, the Office of Fair Trading raises questions whether ownership of intellectual property rights constitutes 'dominance' and points out this 'depends upon the extent to which there are substitutes for the product, process or work to which the IPR applies.'[405] This UK domestic authority does not effectively assist the new competitor to the market, and in the electronic world of keyword advertising, the trademark owner may circumvent such provisions by seeking the relative safety of the European judicature.

This power of prohibition is however mitigated by Article 6(1) defences as well as those of the Directive of Misleading and Comparative Advertising (MCAD),[406] under which a defendant can make reference to a competitor's sign without violating Article 5(1)(a). In *Anheuser-Busch Inc.* the ECJ averred that a 'third party may, in principle, rely on the exception provided for in Article 6(1)(a) in order to be entitled to use a sign which is identical

[403] Griffiths and Tarawneh, 'The Economic Case for Protecting the "Auras" of Prestigious Brands: The "Public Goods" Dimension of Trade Mark Law', at 13; Griffiths, 'The Trade Mark Monopoly: An Analysis of the Core Zone of Absolute Protection under Art.5.1(a)', at 322.
[404] Office of Fair Trading 'Abuse of a Dominant Position' OFT 2004.
[405] Ibid para 4.22
[406] 'Misleading Advertising Directive (84/240) as Amended by the Comparative Advertising Directive (97/55)'. Hereinafter (MCAD).

or similar to a trademark for the purpose of indicating his trade name, even if that constitutes a use falling within the scope of Article 5(1) of that Directive which the trademark proprietor may prohibit by virtue of the exclusive rights conferred on him by that provision. It is also necessary that the use be made in accordance with honest practices in industrial or commercial matters'.[407] If the Court had limited Article 5(1)(a) to protecting the essential function, the MCAD would have little relevance in trademark law, as propounded by Jacob LJ in *O2* and *L'Oréal.*[408] The adjudication in *L'Oréal,* however, shows that even where defences are available, the defendant may find them of limited value where their conduct would otherwise constitute liability for mark infringement. The relationship and balance of MCAD defences and trademark protection will be discussed in the next chapter, but it is noted here that *L'Oreal* stimulated heated debate amongst jurists and intellectual property academics about the level of protection accorded to mark proprietors and the restrictions of trade these both imply and lead to in practice as a result of advertising function recognition.

A more strict approach was taken regarding Article 5(1)(a) limitations in the second set of circumstances detailed in the AdWords litigation. This is dealt with more fully in Chapter Five, but it is noted here that in 'double identity' cases the Court gave 'origin' more weight and priority, whilst maintaining a broader view of what can affect that essential function. This is especially so where consumers may find confusion or there is a difficulty in identifying an economic link between the products. This finding is of itself somewhat confusing and open to criticism. In principle, the criterion of showing 'likelihood of confusion' is required only under Article 5(1)(b), namely in 'non-double identity' cases. It appears to have been imported into Article 5(1)(a), which does not require any likelihood of confusion to be proved. Cornthwaite suggests the logical process of identifying the steps to prove infringement under Article 5 is confused.[409] It also gives rise to a shift in the burden of proof required of the applicant of its complaint, and respondent of its defence, introducing requirements of establishing 'economic link' or confusion. Indeed, if confusion of the consumer needs to be demonstrated by the claimant, the absolute nature of protection under same mark-same product cases under Article 5(1)(a) is undermined.

[407] '*Anheuser-Busch Inc. V Budějovický Budvar, Národní Podnik*', at paras 81&82.
[408] '*L'oreal Sa & Ors V Bellure Nv & Ors* Civ 968 '.
[409] Cornthwaite, 'Say It with Flowers: The Judgment of the Court of Justice of the European Union in Interflora V Marks & Spencer', at 129.

With regard to the ancillary functions, however, the Court decisively ruled out the advertising function for protection. It was understood that the use of a sign as a keyword to trigger AdWords advertising messages will have certain 'repercussions' for the owner on its own advertising use, they were not sufficient to adversely affect this advertising function of the trademark. The Court in *Interflora* definitively stated the role of trademark law is not "to protect [trade mark] proprietors against practices inherent in competition".[410]

In respect of the investment function, the Court defined its purpose as "to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty"; it could therefore be adversely affected in 'double identity' cases where the claimant's mark has a reputation and the defendant's use "affects that reputation and thereby jeopardises its maintenance".[411] The Court evidently considered the function to be an important element in the proceedings, but offered little substantial guidance on how it would be applied. It will be recalled that it offered two situations under which such use is not sufficient of itself to trigger liability; (i) where the consequence of that use merely obliges the proprietors of the mark to increase investment to acquire or preserve a reputation which would increase the appeal to consumers or maintain their loyalty and (ii) where use of the identical trademark has converted consumers to purchase of the defendant's products.[412] It is for the national court seized of the complaint to determine the effect of use in those circumstances. The ECJ appears not to have safeguarded the investment function here, but leaves room for proprietors to claim harm where they can prove adverse effect on bases other than those excluded. Protection of the advertising function may have been ruled out, but it can potentially be related to infringement where the investment function is harmed.

There appears a contradiction in the approach of the ECJ to Article 5(1)(a) protection in the cases of *L'Oréal* and AdWords. In *L'Oreal,* the advertising function is absolutely protected even with the availability of defences, whereas in the AdWords series of disputes brand owners are given somewhat unambiguous indications that the ancillary functions, including the advertising and the investment functions, do not, as yet, warrant protection. Nevertheless, the argument that the Article 5(1)(a) is receiving advanced, even automatic protection is not completely accurate. The third party may still utilise an existing identical trademark as a

[410] ' *Interflora Inc V Marks & Spencer Plc*', at para 57.[Emphasis added].
[411] Ibid., at paras 62-63.
[412] Ibid., at paras 64-65.

keyword to trigger the display of advertising links to its website, even where the goods or services offered are identical to those for which the original mark was registered. This will not attract liability unless the use causes harm related to the essential origin function of that original mark. Brand or mark owners may, alternatively, call upon the *L'Oréal* finding for protection, and it is asserted that the scope of Article 5(1)(a) is no longer confined to the origin function. Save in the context of AdWords, or associated similar search programmes, proprietors are able to enjoy a broad monopoly over the use of their signs in commercial activities, recognising protection for the advertising function of trademarks. Trademarks have protection from the risk of advertising under Article 5(1)(a), where identical marks are used for identical products, and this encroaches on the boundaries of Article 5(2). The value of a mark can depend not just on identifying the product, but also on the acquisition of an image, and Article 5(2) exists to offer legal protection where use of a mark with reputation takes unfair advantage of, or is detrimental to, its distinctive character or repute. In essence, this recognises the trademark as a substantial investment and entitled to greater protection where, for example, it is used by the owner to establish prestige or image, and inappropriate, unauthorised use advertising can affect that image.

The scope of the core zone of Article 5(1) has to be confined to cases where the essential function is harmed and additional protection must be sought exclusively under Article 5(2), in order to ensure the integrity of the law and the goals of the Directive are achieved. It remains unclear whether the ECJ will adopt its own findings in the AdWords cases as a uniform rule for Article 5(1)(a) protection. No protection will be accorded to the ancillary functions under such a provision, even for cases such as *L'Oréal*. The ECJ appears to have recognised that ensuring protection for the additional functions in the AdWords industry may potentially lead to a number of consequences which inhibit principles of competition, especially where this business model has proved to be one of the most successful industries in the e-commerce market.[413] The policy of the Court therefore appears to be a reversion to the principle of essential function and a balancing with principles of free competition. Yet, ECJ's broad view of the kind of activities that might affect the essential function by imposing new obligations on advertisers with regard to the prevention of consumer confusion contains elements that point towards a further strengthening of protection and as such, the opportunity of advertisers to rely on adequate defences is decreased. This will be considered further in Chapter Five.

[413] See in general Cornthwaite, 'Say It with Flowers: The Judgment of the Court of Justice of the European Union in Interflora V Marks & Spencer', at 127.

4.4. Protection under Article 5(2)

The finding of infringement under Article 5(2) facilitates protection for trademarks which have a reputation in Member States of the European Union. Articles 5(1)(a) and 5(1)(b) must be legislated into individual state national law, but they have the choice of incorporating the Article 5(2) protection into national trademark law; where a state chooses to so do, it is, of course, bound to grant it as specified by the interpretation of the Court.[414] This adds another layer of consideration for the third party planning of a marketing campaign utilising the mark –related keyword, including the anticipation of a defence to litigation, whilst strengthening the value of mark reputation as a protectable function. The protection marks three infringement situations which generally correspond to forms of 'dilution' of reputation, a concept developed in American Federal law only since the mid-1990.[415] The FDTA introduced the concept of 'tarnishment' of a reputable mark as an adjunct to dilution by 'blurring'. European jurisprudence has adopted the same terminology but the protection under Article 5(2) goes beyond the conventional dilution notion of blurring and tarnishment and seeks to prohibit a third, unfair advantage of the distinctive character or repute of the earlier mark.[416] It is arguably designed to protect the ancillary functions of a trademark which is employable for various commercial reasons such as advertising and marketing. But guidance on how they should be protected under Article 5(2) is sparse.

In this section, it is proposed to identify the principles of protection and focus on the gradual development of the case law in relation to Article 5(2) to understand how the ECJ has addressed the principle of legal protection for reputable trademarks in the context of *L'Oreal* and online keywords advertising cases. In order to facilitate this, consideration will be given to two particular types of injury, blurring and unfair advantage. (The third type of damage is 'tarnishing' of the image, but it is not necessary to examine that here; there has been negligible development by the Court on this type of image impairment.)[417]

[414] '*Adidas-Salomon V. Fitnessworld*', ((C-408/01) [2004] ETMR 129) at paras 18&20.
[415] The dilution doctrine was first adopted by American federal law through the 'Federal Trademark Dilution Act of 1995 (known as Lanham Act). However, this Act has been largely re-codified by the Trademark Dilution Revision Act of 2006 (TDRA).
[416] Form more about the protection of dilution in Europe and United States see Fhima, *Trade Mark Dilution in Europe and the United States*.
[417] In '*L'oréal Sa Et Al. V Bellure Nv Et Al*.', at para 40. the ECJ mentioned that the tarnishment harm is caused when a third party uses an identical or similar sign to the well-known trademark in relation to goods or services which possess a characteristic or a quality which in some sense is liable to impair the image of the reputed mark.

4.4.1. The Rationale of Article 5(2)

Article 5(2) specifically protects trademarks which have gained reputation, generally achieved by progress through different, identifiable stages to reach such renown, assisted on its journey by the protection of functions and the security they provide. Senftleben identifies three different stages.[418] The initial stage of development is the "sign reservation". Trademark law facilitates business organisations in the creation of an exclusive link with a distinctive, protected sign for the purpose of marketing their products.[419] This corresponds to the "subject matter" test developed by the ECJ. The second stage may be described as the "sign programming", where the trademark is associated with a consistent level of quality to assure buyers, making the sign a tool for quality identification. Then a valuable "brand image" is developed. It has been noted that as a result of the first two stages and a huge investment in time and money, the trademark image evolves into a valuable advertising or communication instrument, potentially representing to consumers a 'lifestyle' or 'aura' of the product on which it appears. The stages of development correspond largely to the principles of trademark functions.[420] Maintaining and promoting a trademark will require extensive efforts and large scale financial investment from the owner, particularly if the mark is intended for global use.[421] Whilst any trademark may acquire great value, it would be of little worth were enterprises to have no legal mechanism under which they can gain exclusivity.

The traditional test for infringement under the European TM Directive is confusion caused to the consumer from the use of allegedly identical or similar signs on identical or similar goods or services for which the source mark was registered and avoidance thereof is the aim of Articles 5(1)(a) and 5(1)(b). In the absence of consumer confusion, rivals may still damage the distinctive character and the reputation of the owner's trademark, the rationale of protection under Article 5(2). This additional shelter from harm, it is argued, enables trademark owners to protect their large expenditure in time and money, to reap the benefits of

[418] Senftleben, 'The Trademark Tower of Babel - Dilution Concepts in International, Us and Ec Trademark Law', (at 46-47.
[419] See in general chapter three of this thesis.
[420] Senftleben, 'The Trademark Tower of Babel - Dilution Concepts in International, Us and Ec Trademark Law', (at 46-47; M. Strasser, 'The Rational Basis of Trademark Protection Revisited: Putting the Dilution Doctrine into Context', *Fordham Intellectual Property, Media & Entertainment Law Journal*, 10 (2006), 378-432 at 378-90.
[421] A. Breitschaft, 'Intel, Adidas & Co - Is the Jurisprudence of the European Court of Justice on Dilution Law in Compliance with the Underlying Rationales and Fit for the Future?', *European Intellectual Property Review*, 31(10) (2009), 497-504 at 498.

their substantial investment into the particular brand represented by its trademark.[422] A unique brand image links consumers not only to the life style which the trade mark is intended to represent but also the products of the brand owner. Protection from dilution is justifiable in the view of the proprietor on the ground that they may want, and be entitled to exploit the reputation of their signs in future by increasing the range of products on which they are used,[423] or as an advertising tool in online keywords advertising. Brand owners will be concerned to maintain their distinctive brand image and its links exclusively for their products, achievable by clear connection to a specific category of products in the minds of consumers; subsequent generations of consumers may not make this obvious distinction were they to be raised in an environment full of other products bearing similar or identical trademarks of differing origin.[424] In the context of keyword advertising by competitors in the e-commerce market, the owner has heightened sensitivity to dilution by the products of third party sales. Attention will be paid to the extent the ECJ has taken these justifications into consideration, to which they have permitted protection to such dilution in the balance with principles of competition.

4.4.2. The Jurisprudence of the ECJ on 'Dilution'

It is proposed to further examine the underlying justification for dilution protection and its development under ECJ case law using examples of adjudications under Article 5(2). The analysis will identify and discuss the criteria established under this provision and serve as a platform to focus on the two principle types of injury or harm, namely 'blurring' and 'unfair advantage', also known as 'free-riding'.

4.4.2.1. Reputation - *General Motors v Yplon*

A definition of 'mark of repute' must be sought to understand the reasons for the exclusive Article 5(2) protection. The concept played a prominent part in the ECJ adjudication in the *General Motors v Yplon* case.[425] For a sign to have acquired reputation, it must have a certain degree of public recognition, said the Court; indeed the sign must be known by "a significant part of the public concerned by the products or services which it covers".[426] The ECJ adopted the "niche fame" approach which means that the reputation of a sign could be achieved

[422] Senftleben, 'The Trademark Tower of Babel - Dilution Concepts in International, Us and Ec Trademark Law', at 49.
[423] Ibid., at 68.
[424] Breitschaft, 'Intel, Adidas & Co - Is the Jurisprudence of the European Court of Justice on Dilution Law in Compliance with the Underlying Rationales and Fit for the Future?', at 499.
[425] '*General Motors Corp V Yplon Sa* '.
[426] Ibid., at para 26.

among "specialised public" consisting merely of those who purchase a particular type of merchandise.[427] The Court declined to clarify what it meant by a 'significant part' of the public, for example by way of percentage, to define what was required to make a trademark well known and of repute.[428] It did list several factors to be taken account of and considered to determine if a particular sign qualified as having the "reputation" required for protection under Article 5(2). These included the market share held by the trademarked product, the intensity, geographical extent and duration of its use, and the amount of investment made by the enterprise in promoting it.[429]

This utility of the niche approach was criticised for being too extensive and it should only be a threshold to establish prima facie application of the Article; the Claimant must also show that Defendant's sign triggers a "link" which in effect reduces the scope of the reputation. It sets a lower standard and was grounded on the fact that such an approach allows the protection against dilution for a sign to be extended to a very different market.[430] Such a mark may be only be known by a few merchants who trade in a specific sector so it can be argued that this additional protection under the Directive should apply only where the reputable trademark is more widely known and appreciated amongst the entire purchasing public, a market closely related to that of the owner's products.[431] The approach taken by the ECJ may nevertheless be seen as logical and in full compliance with Article 16(2) of the TRIPS Agreement.[432] This provides that in order to determine whether a sign is "well-known", account shall be taken of the level of the public knowledge of that mark in the relevant sector.[433] Although the niche approach appears to overly broaden the scope of Article 5(2), trademark owners still need to show good evidence of a detrimental effect either by blurring, tarnishing, or taking unfair advantage.[434] The major criticism, however, is that the decision

[427] J. Mccarthy, 'Dilution of a Trademark: European and United States Law Compared', *Trademark Reporter*, 94 (2004), 1163-81 at 1173.
[428] Ibid.
[429] '*General Motors Corp V Yplon Sa* ', at para 27.
[430] Senftleben, 'The Trademark Tower of Babel - Dilution Concepts in International, Us and Ec Trademark Law', (at 74-75; Mccarthy, 'Dilution of a Trademark: European and United States Law Compared', (at 1173-74; Breitschaft, 'Intel, Adidas & Co - Is the Jurisprudence of the European Court of Justice on Dilution Law in Compliance with the Underlying Rationales and Fit for the Future?', at 500; Mccarthy, 'Dilution of a Trademark: European and United States Law Compared',
[431] Senftleben, 'The Trademark Tower of Babel - Dilution Concepts in International, Us and Ec Trademark Law', (; Mccarthy, 'Dilution of a Trademark: European and United States Law Compared',
[432] 'Agreement on Trade-Related Aspects of Intellectual Property Rights', (1994).
[433] Perhaps this issue needs to be considered in greater details when I reform chapter 2 which deals with international framework.
[434] Breitschaft, 'Intel, Adidas & Co - Is the Jurisprudence of the European Court of Justice on Dilution Law in Compliance with the Underlying Rationales and Fit for the Future?', at 500.

appears to set a low bar for determining what signs would be eligible for protection, whilst invoking Article 5(2) simply because the brand owner provides proof of one of the qualifying harms. The application of those types of harm depends heavily on ECJ interpretation, so should any forbearance be accorded to the mark owner in the recognition of a harm, more trademark proprietors would potentially seek to enjoy this additional Directive protection. Any decision to grant the additional protection should therefore be approached with caution, to balance with free competition principles, especially when setting the applicable criteria for establishing protected reputation.

In the European context, the trademark must have "reputation" in the territory of a Member State and it is sufficient for this to be recognised in a "substantial part" of the nation; a niche approach on the territorial level. This too has led to academic criticism. McCarthy argues that if the knowledge of a mark in a particular city or political district in the Member State is sufficient to attract protection, then that entitlement must be limited to within the boundaries of that area, with no protection in other parts of that nation where the mark has acquired no significant knowledge or its reputation limited.[435] This appears a rather fanciful point of view. With a boom in e-commerce and the evolution in communication and transport networks it is hard, if not impossible, to imagine the limitation, even captivity, of reputation of the mark to one geographical area of a nation to the exclusion of others, particularly after the vast expenditure of the owner to acquire and promote the sign and products. In any case, the requirements of the TRIPS Agreement, obliging member states to accord protection for "well-known" marks, are not met by this criterion. Essentially, the limitation of exclusivity to a designated area of a state requires a territorial assessment of knowledge and repute which fails to meet the wider tests which justify protection in accordance with the obligations of the international treaties and goals of the TM Directive. The natural interpretation of the "niche fame" approach appears to enable more trademark owners to claim 'reputation' for their marks based on such a low benchmark for public knowledge and territorial specification. Much depends on ECJ interpretation of the types of harm to be protected against under Article 5(2) in assessing whether this is healthy or prudent to the integrity of the TM Directive and balance with the other important principles of trade.

[435] Mccarthy, 'Dilution of a Trademark: European and United States Law Compared', at 1174.

4.4.2.2. Application to Wider Classes of Product - *Davidoff v Gofkid*

In the *Davidoff* case, the ECJ was invited to interpret whether Article 5(2) entitles the member state to grant protection for trademarks with reputation where the sign is used for identical or similar goods; it will be borne in mind the Article expressly refers only to the use of a sign for non-similar goods or services.[436] The Court in fact went far beyond the mere word, expanded the remit in observing protection did not just attach when unauthorised marks are identical or similar, or intended to be used for non-similar goods or services, but included protection for products identical with or similar to those covered by the registered trademark. This again caused controversy amongst commentators.

Morcom argues that the provisions which define the "exclusive rights" under Article 5 of the TM Directive must remain applicable only to cases where the actual words used state they apply.[437] Article 5(1) of the TM Directive was sufficient to ensure protection in cases where the sign is used for identical or similar goods or services, and therefore Article 5(2) should be confined to those involving those which are dissimilar. Cornwell, on the other hand, asserts the ECJ approach complements the extent of protection more completely, leaving no gap in that accorded to trademarks with reputation under the TM Directive.[438] Where, for example, a reputable sign is used by an unauthorised other, for dissimilar products without causing confusion, or the likelihood of it, the mark proprietor could not seek protection under either Article 5(1) or 5(2). The ECJ effectively remedies this inconsistency; the limitation of Article 5(2) protection only to dissimilar products is somewhat capricious when the principle of avoiding confusion forms only a part of the protection of reputation, with preventing dilution clearly forming the rationale of the provision.

The approach in the *Davidoff* case appears broad, suggesting the enhancement of protection to marks with reputation, but the Court has in fact satisfied the objectives of the TM Directive. The specified grounds which constitute infringement aim to guarantee the integrity of trademark law and the goals of the Directive. Article 5(2) was essentially designed to protect exclusively trademarks with reputation, yet the maintenance of comprehensive

[436] '*Davidoff v Gofkid*'.
[437] C. Morcom, 'Extending Protection for Marks Having a Reputation: What Is the Effect of the Decision of the European Court of Justice in Davidoff V Gofkid?', 25(6) (2003), 279-82 at 281-82.
[438] J. Cornwell, 'The Davidoff V Gofkid Case Comment', *European Intellectual Property Review*, 25(11) (2003), 537-38 at 537-38; A. Breitschaft, 'Intel, Adidas & Co - Is the Jurisprudence of the European Court of Justice on Dilution Law in Compliance with the Underlying Rationales and Fit for the Future?', ibid.31(10) (2009), 497-504 at 449-500.

protection for such marks requires application of protection to similar, identical, and dissimilar goods or services. Criticism was aimed at the ECJ for the application of Article 5(1)(a) protection. It will be recalled that in *L'Oreal,* protection for the extra functions under Article 5(1)(a) recognised that a trademark which is the focus of substantial investment must be shielded from harm exclusively under Article 5(2). Effectively, Article 5(1)(a) is complemented by Article 5(2) and the role of additional protection for marks with reputation must be performed exclusively under the Article 5(2). Limiting Article 5(2) protection to harm from dissimilar products only, with a declaration that Article 5(1) provides sufficient protection in "double identity" cases, appears to hold some logic in their application, and perhaps prevents unnecessary overlapping between different levels of protection and consequent inconsistency and imbalance. Nevertheless, the complementary interaction of the provisions for marks of reputation mark and approach of the ECJ toward having a proper and rational regime for the avoidance of dilution.

4.4.2.3. Article 5(2) requires no of Likelihood of Confusion - *Adidas-Salomon v Fitnessworld*

In the *Adidas-Salomon* case, one of the most significant decisions of the ECJ on the issue of the protection of marks with reputation, the Court identified for the first time that, having established potential dilution of reputation, a "link" to the unauthorised mark was required under Article 5(2) of the Directive.[439] Adidas asserted that the marketing of fitness clothing with two stripes by the defendant had caused infringement for its registered three-strip trademark, a distinctive mark of considerable reputation. It was likely to create confusion among consumers who may associate the defendant's articles with Adidas clothing, and Fitnessworld acted unfairly by taking advantage of the Adidas reputation and impaired the exclusivity of that mark. Fitnessworld claimed the two parallel stripes were for embellishment purposes and were not used as a trademark. The national court asked the ECJ for clarification whether confusion concerning origin is a basic requirement within Article 5(2) to find infringement and their categorical response was that confusion, or the likelihood of it, is not required to bring an action for infringement under Article 5(2).

The Court declared it is sufficient for the infringing mark to have a degree of similarity to the well-established mark so as to create a "link" in the minds of the public with the earlier,

[439] '*Adidas-Salomon V. Fitnessworld*'.

registered sign.[440] The use of a sign as an embellishment is not in itself an obstacle to confer protection against dilution, unless the relevant public understands the mark to be a purely decorative aspect, creating no mental link between the two signs.[441] In Adidas however the court gave no precise explanation or guidance as to the nature of that link, merely providing that the link criteria had to be assessed in a similar manner to the confusion requirement in the context of Article 5(1)(b), considering all related factors of the circumstances of the case. However, such evidence, as Carboni supposed, need not be as "comprehensive or as persuasive" as that under Article 5(1)(b).[442] The absence of guidance and a suggestion it is merely a "lighter form of confusion" left an unsatisfactory finding, argues Breitschaft.[443] The "link" requirement therefore appears to make the scope of Article 5(2) protection broad, and potentially in conflict with free market principles, as the criterion of a mere "mental connection" between marks appears to have a low threshold.[444] Mental association can be easily achieved, particularly if the earlier sign is an invented word or unique, such as Adidas, and abbreviation of the name of the brand owner, and enjoys a high reputation. Large investments of time and money are required to create a brand and the mark which represents it, three stripes in the case of Adidas. Ingenuity and imagination are required and the Adidas brand owners are considered the origin of the three stripes mark and the reputable sportswear brand, introduced to a consumer market appreciative of its designs. Where the Adidas name or three stripes mark is displayed, a reasonably well informed consumer will immediately associate it to the Adidas Corporation, be it traditionally recognised sports apparel, or indeed any other product marketed with the stripes logo, from toothbrushes to pet clothing. The goods are produced across several market sectors, but the mark makes the link with the reputation, familiarity and uniqueness the main selling points of its products, whatever their nature.

In *Intel v. Cpm* this 'link' approach did not find favour with the UK Court of Appeal.[445] It should require something more than merely a "tenuous association" between the competing marks and it may be difficult for a mark with distinctive character not to withstand a mere

[440] Ibid., at para 31.
[441] Ibid., at para 41.
[442] A. Carboni, 'Two Stripes and You're Out! Added Protection for Trade Marks with a Reputation', *European Intellectual Property Review*, 26(5) (2004), 229-33 at 233.
[443] A. Breitschaft, 'Intel, Adidas & Co - Is the Jurisprudence of the European Court of Justice on Dilution Law in Compliance with the Underlying Rationales and Fit for the Future?', ibid.31(10) (2009), 497-504 at 500.
[444]. See '*Intel Corp Inc V Cpm United Kingdom Ltd* [2007] Ewca Civ 431', (15 May 2007) at para 29.
[445] '*Intel Corporation Inc. V Cpm United Kingdom Limited* '.

passing bringing to mind when it or a similar mark is used for dissimilar products. Such an approach would allow trademark proprietors to acquire an over inclusive protection. Intel had been able to convince the court that, where a consumer is faced with the Intel sign being used for the goods or services of another, later mark, the fact that it is a mark of some fame would be called to this person's mind would be tantamount to the existence of a link; the broad nature of the link requirement allows the relationship to be found in wide range of cases, particularly where the marks used are identical or very similar, and at least one of the symbols is unique, with a strong distinctive character. Middlemiss and Warner argue that in the case of very strong brands such as KODAK, it may be very difficult to imagine that an opponent would use the same sign on their products "without creating not only a link, but a risk of confusion".[446] Nevertheless, dilution protection is not automatic for brand or trademark owners and it is still necessary to show there is harm or a serious risk of harm that adversely affects their signs. The express language of Article 5(2) makes no reference to a 'link' concept or criterion, and, like the ECJ, gives no guidance in *Adidas* on its application.[447] More attention needs to be expended on the decision *Intel v. Cpm*.[448]

4.4.2.4. Nature of the link-*Intel v Cpm*

This decision draws the boundaries of dilution protection, particularly in the case of 'blurring' under Article 5(2) and relieved some of the uncertainties remaining after the Adidas case in respect of the link requirement.[449] It is proposed at this stage to deal only with guidance provided by the ECJ about the nature of the link.

Intel Corporation owns various trademarks incorporating of the word `INTEL` on its computer and computer-linked goods and services, and was aggrieved that in the UK, CPM sought registration of an `INTELMARK` trademark for its own marketing and telemarketing services. Intel pleaded that the use of this later mark would, without due cause, take unfair advantage of, or be detrimental to, the distinctive character or the reputation of its own marks, and that, where a mark such as its own possesses a strong distinctive and unique character, a court must accept that use of an identical or similar sign by another on virtually any of its own goods or services is liable to cause detriment through dilution to the original. It

[446] S. Middlemiss and S. Warner, 'The Protection of Marks with a Reputation: Intel V Cpm', *European Intellectual Property Review*, 31(6) (2009), 326-36 at 12.
[447] A. Breitschaft, 'Intel, Adidas & Co - Is the Jurisprudence of the European Court of Justice on Dilution Law in Compliance with the Underlying Rationales and Fit for the Future?', ibid.31(10) (497-504 at 501.
[448] '*Intel Corporation Inc. V Cpm United Kingdom Limited* '.
[449] The ECJ has maintained that the "link" criterion is a crucial condition to establish dilution under the third type of injury, namely free-riding. See its judgement in L'Oréal. See '*L'oréal Sa Et Al. V Bellure Nv Et Al.*'.

demanded that such use must be prevented at the outset, or its mark would "suffer a death by a thousand cuts".[450] Relying on its decision in Adidas, the ECJ asserted that a "link" must be established between the conflicting marks in order to enjoy the protection granted by Article 5(2), defining this as "any kind of mental association" between the competing marks and suggesting that "a mere bringing to mind of the earlier mark is enough" to there being such a link.[451] A global assessment in the determination of the existence of such a link involved investigating particular factors: the degree of similarity between the earlier and the later marks and products, the degree of distinctiveness and reputation enjoyed by the earlier mark, and the existence of the likelihood of confusion on the part of the public.[452] On the point of the degree of similarity between the conflicting marks, the Court advised that the more closely similar they are, the more likely the opponent's sign will trigger the relevant public association of the earlier mark to that reputation.[453]

When considering the nature of the products for which the conflicting marks were registered, however, the Court maintained that the fact that the competed signs are similar or even identical does not necessarily imply that a link exists. The earlier mark was essentially registered for particular goods or services, targeting a particular type of consumer and may be not known in the mind of the public for the goods or services for which the later mark was registered. This may also be indicative of the relatively low level of distinction of the complainants mark in that it would not have any significance to a customer purchasing a product of a nature completely unrelated to the mark owners business. The consumers concerned with either of the two signs may never be confronted with the other mark, "so that it will not establish any link between those marks". The Court did recognise however that the reputation of certain marks may go beyond the targeted consumers on the simple basis of type of product for which those marks were registered, and a link in the mind of the relevant section of consumers to goods for which the rival mark is registered will be established. This is potentially so even where consumers are completely different from the relevant section of the public targeted by products for which the earlier mark was registered.[454] In dealing with an assessment of the strength of the earlier mark's reputation, this was deemed to be an important element in determining whether the reputation of a mark may go beyond its

[450] '*Intel Corporation Inc. V Cpm United Kingdom Limited* ', at para 18.
[451] Ibid., at para 17.
[452] The Court held that a "global appreciation" test should also be applied to the confusion form of infringement under Article 5.1(b). See above.
[453] '*Intel Corporation Inc. V Cpm United Kingdom Limited* ', at para 44; Ibid.
[454] Ibid., at paras 45-52.

targeted consumers, and the more unique and strongly distinctive the character of the earlier mark, the more likely the use of a later identical or similar sign will call that earlier mark to mind, and thus potentially dilute it.[455] The existence of a likelihood of confusion automatically proves the establishment of a link between the competing marks, but in relying on its decision in Adidas, the Court stressed once again that the protection under Article 5(2) does not require such evidence.[456]

The ECJ has had some success in providing guidance on how the link criterion should be interpreted and applied as a requirement to grant protection under Article 5(2), a welcome development in that it ameliorates the prior understanding that the link requirement could be observed by defining it as any "mental association". Nevertheless the scenarios they cover are very broad. The ECJ considered the strength of the earlier mark's reputation as an important element to determine the existence of a link, especially when such reputation reaches a broader group of consumers than what was intentionally targeted; it also asserted that the acquisition of a strong and unique character, which implies that such a sign is well-known, does not necessarily imply that there is a link. These have an inherent potential for conflict which the ECJ left to the national courts to resolve on the 'link' issue according to the circumstances of each case. There needs to be more than a mere mental association, but not to the extent of causing confusion.

4.4.3. Types of harm under Article 5(2)

It is now proposed to examine what amounts to a detrimental effect on the distinctive character of an earlier trademark by competitors seeking to blur distinctions by the use of their own later sign or taking unfair advantage of the renown of the original, and the protection afforded under Article 5(2).

4.4.3.1. Dilution

In a clear message to owners, the ECJ declared that in order to establish the existence of a detrimental effect the first requirement is to prove the existence of a link between the conflicting marks. In *Intel*, the Court went a step further; the establishment of the link is not of itself sufficient for the owner of a trademark of reputation to claim a greater degree of protection, even though such mark is famous or unique. The owner must also adduce evidence that one of the dilution types mentioned under Article 5(2) of the Directive has

[455] Ibid., at paras 53-55.
[456] Ibid., at para 57-58.

occurred, although it does not need to show actual or present harm. It is enough to prove there is a "serious risk" of harm occurring in the future.[457]

The *Intel* case marked the introduction by the ECJ of the concept of harm by dilution, described as "whittling away" or "blurring"; the more famous or `unique` the mark was, the greater the opportunity for its owner to demonstrate injury to its distinctive character. The distinctive character of a strong brand or mark would be damaged if its capacity to identify the goods or services for which it is registered is weakened, where use by a third party effectively disperses the identity of the famous brand and its hold upon the public mind.[458] Nevertheless, the owner of a brand or mark will not succeed in its claim for detriment to its distinctive character without proof that the use of the somewhat alien, later sign would be damaging. Detriment to the owner of a unique brand or mark is only established by the owner where there is evidence that the "economic behaviour" of the average consumer of the goods or services for which its mark was registered has changed due to the use of the third party's sign or, at the very least, that there is a "serious likelihood" of such a change occurring in the future.[459]

Only vague guidance was offered by the Court of what constituted the 'economic behaviour' requirement, imprecise in its assertion of what may amount to a change of such activity by consumers which would trigger proof of dilution. It merely observed that any commercial benefit which may be gained by the owner of the later, alien mark from the distinctive character of the earlier mark is irrelevant.[460] An advantage to the proprietor of the earlier mark appears to be there is no need to show that the user of the later mark has gained some advantage from its use to prove infringement, practically a difficult burden to satisfy. If there is, however, clear evidence that the later user of the strong mark has profited from its use, the earlier owner, ironically, will not be able to use this fact to prove harm to his distinctive sign. This seems logical if the two marks are being used for different goods or services and their owners are not in competition.[461] The earlier owner, in any case, cannot attribute the success of the later trader to the fact that he has used the famous sign. There may be other factors to explain the success. Perhaps the amount of investment, quality of service, promotions and

[457] Ibid., at para 37-38.
[458] Ibid., at paras 74&76.
[459] Ibid., at para 77.
[460] Ibid., at para 78.
[461] Middlemiss and Warner, 'The Protection of Marks with a Reputation: Intel V Cpm', at 332.

low prices may be the reasons, and so dismissing as evidence of economic behavioural change the economic benefit obtained by the user of the later mark, as evidence to prove the economic behavioural change is an astute adjudication. The approach avoids unnecessary interference and confusion between the different mechanisms provided for protection under Article 5(2), particularly damage by unfair advantage which the Court has identified as a separate and independent form of harm.

The trademark owner of the powerful brand must therefore prove change in the economic behaviour of his consumers to prove dilution, simply stated, but perhaps not so easy to show. In principle, change in the economic behaviour of consumers could be construed as their reduced "willingness" to buy the products of the owner of the earlier mark, suggest Middlemiss and Warner.[462] The loyalty of consumers has been affected. This however raises the question of what sort of evidence the proprietor of a reputable mark may need to show, in order to convince the court that the third party's use of the mark has affected or is liable to affect his distinctive sign. O'Callaghan notes that perhaps the only option for owners of marks with a reputation is to introduce "survey evidence", although she argues such evidence is often expensive to produce, unreliable, and the cost of acquiring such proof is almost impossible to recover in exchange for the desired benefit.[463] Smith and Meale deploy a similar argument, observing that it might be helpful for an earlier trademark owner to rely on consumer opinion surveys as evidence of harm, but they point out that the UK Courts has found evidence derived from such a method is "notoriously unreliable".[464] In yet another potential resolution, it may be possible to prove change in economic behaviour by reliance on the fact that the quantity of goods sold under the established mark has declined; "a reduced willingness to buy might encompass greater price sensitivity on the part of consumers of goods sold under the well-known mark".[465] Consumers may, however, have become less willing to remain loyal to the relevant brand or mark in the event of any given increase in the prices of the goods, leading to smaller sales; this may prove the reputation or the distinctive character has been damaged, or perhaps just that price savvy customers are buying elsewhere. The ECJ has assisted little with its vague definition of the economic behaviour test and it is

[462] Ibid., at 328.
[463] O'callaghan, 'Intel-Ligent Way Forward? The Ecj Rules on Dilution', at 238.
[464] J. Smith and D. Meale, 'Eu: Trade Marks - Revocation - Similar Mark for Dissimilar Goods', *European Intellectual Property Review*, 31(3) (2009), N23, N24 at 3. In this regard, see the decision of the Court of Appeal in *esure Insurance Ltd v Direct Line Insurance plc* in which the Court criticized both the use of surveys and expert evidence. '*Esure Insurance Ltd V Direct Line Insurance Plc* [2008] Ewca Civ 842'.
[465] Middlemiss and Warner, 'The Protection of Marks with a Reputation: Intel V Cpm', at 332.

problematic to predict how the test will be applied in future cases. This may have been its intention, with the aim of leaving flexibility for national courts to determine whether behavioural economic change has occurred, and demonstrating dilution based on the facts of each case.[466] Criteria advice from the ECJ on what constitutes serious risk of injury in order to establish detriment is again imprecise. The UK national Court of Appeal in *Intel* held that it is significant that the injury or risk thereof must be "real and tangible" suggesting that in order to establish dilution brand and mark owners must adduce prima facie clear evidence of a risk of damage which goes beyond the hypothetical.[467] A convincing demonstration that the use of the later mark is liable to cause significant damage appears to be required, as well as choice of the type of evidence which will best prove that prospective harm.[468]

The ECJ agreed with Intel's claim that dilution should be actionable on the first use of a later mark, rather than once the impact is clear months or years later. This is obviously necessary to avoid a "death by a thousand cuts", but herein the Court had created a new obstacle for trademark owners seeking protection for the uniqueness and reputation of their signs. It can be argued that the protection against harm which might occur in the future is a benefit for proprietors of reputable marks, but this protection is subjective, rather than objective, and differs according to the circumstances of each case. It is justifiable on the basis that the proof which must be adduced by brand and mark owners must be real, not built on hypotheses, and it has been noted that from a practical point of view such proof is hard to establish. The only option for proprietors of strong brands is perhaps to wait until clear evidence has established that the economic behaviour of consumers has changed in order to demonstrate actual and present injury, that is, wait until the harm has already been done. This is an awkward conundrum for the owner, but it at least has the virtue of being potentially easier to apply in practice than the second test, namely a "serious risk" of damage.

It has been established that the rationale behind a protection from dilution regime is to protect owners against detrimental use of their mark, or something similar, which may affect their effort and investment in promotion of it reputable trademarks. Proprietors are entitled to exploit the reputation of their marks and reap its benefits and protection must be afford to prevent the dilution of this asset. Owners have some basis for their belief that their marks

[466] Ibid.
[467] '*Intel Corp Inc V Cpm United Kingdom Ltd* [2007] Ewca Civ 431', at para 37.
[468] Middlemiss and Warner, 'The Protection of Marks with a Reputation: Intel V Cpm', at 333.

with a reputation should be protected from dilution of their mark in all cases where its value is appropriated by a third party, regardless of whether there is damage or not; this was the thrust of Intel's argument before the ECJ. Intel was essentially asserting a perceived right to a `pointless monopoly` over the use of the Intel mark on similar or non-similar goods or services. The Court of Appeal recognised this strong predilection of Intel to seek such extra protection and monopoly when it held that "[a] mere possibility or assertion of damage is just too remote and would leave trademark owners in too monopolistic a position".[469] The goal for trademark law, declared the Court of Appeal, is to enhance competition; it is not there to give trademark proprietors "overreaching rights" which could hinder trade rather than improve it. The ECJ appeared to accept this, and was reluctant to introduce a doctrine of "pure misappropriation" when dealing with cases where similar marks were utilised, or the use by a third party of a mark with a well-established reputation.[470] This limitation on the protection did not, of course, please the owners of the original trademark because it meant powerful brands will not automatically enjoy the extended protection which appeared promised under Article 5(2) of the Directive. It is reiterated that reputation does not afford absolute protection unless a trademark owner can show good evidence of a change in consumers' economic behaviour or, at the very least, a serious likelihood that such a change will occur in the future. Malliaris argues that the decision of the ECJ is seen as problematic for owners of strong brands, with the potential for negative consequences, particularly the fear that EU trademark law has moved toward a "contractual approach" to damages awards where a trader must prove actual financial loss to obtain compensation for loss of reputation.[471]

The use of confusingly similar trademarks or similar signs on similar or different goods could cause damage not just to the reputation of an earlier mark and its owner but also to consumers, says Yelnik.[472] He asserts that research has shown that buyers spend on average 10 seconds to choose an article on a shelf and placing it into their baskets; since consumers therefore give up a fair amount of their time to investigate the attributes of the product they

[469] '*Intel Corp Inc V Cpm United Kingdom Ltd* [2007] Ewca Civ 431', at para 37.
[470] J. Davis, 'The European Court of Justice Considers the Trademark Dilution', *The Cambridge Law Journal*, 68 (2009), 290-92.
[471] S. Malliaris, 'Protecting Famous Trademarks: Comparative Analysis of Us and Eu Diverging Approaches - the Battle between Legislatures and the Judiciary - Who Is the Ultimate Judge?', *Chicago-Kent Journal of Intellectual Property*, 9 (2010), 45-59 at 58.
[472] A. Yelnik, 'Commercial Value of Trade Marks: Do Current Laws Provide Brands Sufficient Protection from Infringement?', *European Intellectual Property Review*, 32(5) (2010), 203-19 at 213.

are about to purchase, the use of marks which cause confusion for consumers, or harm to earlier signs, should be prevented as they are misleading with regard to their origin, quality and other characteristics such as the brand image or the life style message. The Court does not deny the fact that owners of reputable trademarks should enjoy more protection than proprietors of ordinary trademarks, but a balance must be struck between the different competing interests of brand owners, consumers, and other traders. Denicola indeed notes that any successful trademark law must aim at providing protection for all of those inconsistent interests. [473]

In this perspective the ECJ had to answer, indirectly, the question of extent the ancillary functions for trademarks, in particular that of advertising, should gain protection under Article 5(2) of the Directive, even though, at a time, such functions were not yet plainly identified. This was not explicitly addressed in its *Intel* decision, but an answer can be extracted from its approach to the protection against dilution. The Court dealt with the blurring issue with some caution and attempted to limit its boundaries when it noted that protection against impairment to the distinctive character of the earlier mark is not automatic and requires robust evidence of damage either by proving a serious risk of harm or behavioural economic change.[474] This follows the earlier approach of the ECJ when it made reference to trademarks as having "functions" in the plural, implying other purposes which are independent of the basic function and could be harmed even if a third party's use poses no threat to the origin guarantee.[475] Advocate General Sharpston, in *Intel*, stated that in the context of Article 5(2) trademarks frequently perform functions which go beyond the role of denoting the source of the goods, capable of functioning "as a communication tool, carrying a broader marketing message".[476]

If it is accepted therefore that trademarks can perform the advertising function, later acknowledged by the ECJ, then it can be said that it is vulnerable to damage when a third party uses a reputable mark on dissimilar goods or services. The distinctive character of an earlier mark may be diluted if its ability to identify the products for which it is registered by

[473] See Denicola, 'Some Thoughts on the Dynamics of Federal Trademark Legislation and the Trademark Dilution Act of 1995', (at 80.
[474] One scholar stated that "[o]ther sectors of the IP Community maintain that automatic protection was never intended and that this judgment merely clarifies the matter rather than removing a right". See O'callaghan, 'Intel-Ligent Way Forward? The Ecj Rules on Dilution', at 239.
[475] See in general chapter three and the earlier analysis of Article 5(1)(a).
[476] '*Intel Corporation Inc. V Cpm United Kingdom Limited* ', at para 13.

the owner of that mark is weakened. The use of the later mark would lead to "dispersion of the identity and hold upon the public mind of the earlier mark" and so weaken or blur the image of the mark.[477] This has the potential to jeopardise the capacity of the mark to fulfil its advertising function or to communicate clear information or particular characteristics to consumers or ultimate users.[478] The ECJ took the Intel mark advertising function into account in protecting against any dispersion of the Intel's image, but tied that protection for the advertising function to the ability of the complainant to prove change in the economic behaviour of consumers; the harm still had to be clearly demonstrated.

In the context of keywords advertising, however, the claimant in *Interflora* argued that the use of its sign, 'Interflora', would gradually persuade internet users that the word was not a trademark that identifies its services exclusively, but is rather generic, a "whittling away" of reputation. Dilution would be caused if the ability of the brand to identify the goods or services for which it is registered is weakened but the Court refused to accept that the selection of a trademark as a keyword necessarily contributes to this.[479] When the advert is clear enough so that the origin of the competing products is identifiable, the trademark distinctiveness is not blurred.[480] It can be inferred that arguing dilution will only be successful if the claimant is able to show that the origin function of his mark has adversely affected and again national courts are left find such an effect as it arises.[481] The ECJ is clearly favouring "contextual" searching herein by protecting it from claims of dilution. It still remains vague in the methodology of proving dilution to distinctiveness, given that finding harm herein to the origin function is problematic, particularly when attentive internet users are presumed to be observant and circumspect and should not so easily err on the origin of the advertised goods merely because of the use of a trademark as a keyword. The introduction of the transparency test –as to guarantee no origin confusion- under Article 5(2) has proved to be problematic in the context of short advertisements, nor is it clear why the ECJ has not incorporated the change in the "economic behaviour" of the average consumer test to find dilution, this having been adopted in earlier judgments.

[477] Ibid., at para 29.
[478] Middlemiss and Warner, 'The Protection of Marks with a Reputation: Intel V Cpm', (at 10; I. Fhima, 'The Court of Justice's Protection of the Advertising Function of Trade Marks: An (Almost) Sceptical Analysis', *Journal of Intellectual Property Law & Practice*, 6(5) (2011), 325-29 at 328.
[479] '*Interflora Inc V Marks & Spencer Plc.*', at 79.
[480] Ibid., at paras 80-81.
[481] Ibid., at para 83.

Dilution does not stand on its own as a ground for protection, being integrated with protection afforded under Article 5(1)(a). Confusion or harm to the trademark 'extra' functions is not required under Article 5(2) so is the preservation of Articles 5(1)(a) and (b) only. Otherwise, it is arguable protection of the trademarks' extra functions is unnecessary and has no weight, and it is only the protection of the origin function which guarantees the capacity of the mark to distinguish a product from others, through its associated characteristics and image. Additional protection must be claimed exclusively under Article 5(2) to maintain certainty in the law and ensure that the goals of the Directive have been properly achieved.

The ECJ seeks to balance the rights of the mark owner with the interests of free competition and better informed customers. Nevertheless, consumers are not naive enough to believe that multiple trademark appearance and use is all related back to the origin owner, but to permit mass dissemination of an image will logically reduce its distinctive effectiveness. The ECJ needs take care that in the balancing of competition interests it does not lose sight of the potential harm caused by keyword sale per se.[482]

4.4.3.2. Unfair Advantage - Free-Riding

An alternative name for this activity is parasitism, and was considered in the *L'Oréal* decision. The national court asked the ECJ whether `unfair advantage` in Article 5(2) covers cases of 'parasitism' or 'free-riding', where a defendant uses a sign similar to an established trademark with a reputation in order to obtain an advantage in the marketing of his goods or services. It does not involve "giving rise, as far as the public is concerned, to a likelihood of confusion or causing or risking causing detriment to the mark or to its proprietor".[483] As its first step, the ECJ clarified that free-riding relates to the benefit which can be drawn by a competitor as a consequence of its use of an identical or similar symbol, and unlike other types of dilution, is not substantially concerned with harm caused to the mark. It covers cases where "there is clear exploitation on the coat-tails of the mark with a reputation" by way of a transfer of the image of the mark, or the characteristics which it projects, to the goods identified by the third party's sign.[484] Indeed, a similar definition was deployed earlier in the *Mango* case by the Office for Harmonisation in the Internal Market (OHIM), responsible for registering trademarks and designs valid in all member states, which held that an advantage

[482] Laan, 'The Use of Trade Marks in Keyword Advertising - Developments in ECJ and National Jurisprudence', at 26-27.
[483] '*L'oréal Sa Et Al. V Bellure Nv Et Al.*', at para 32.
[484] Ibid., at para 42.

may be unfair because the "reward for the costs of promoting, maintaining and enhancing a particular trademark should belong to the owner of the earlier trademark in question". [485] This is a significant hazard for the origin mark owner and third-party advertisers in terms of litigation, proof of loss and defences.

L'Oréal pleaded that its exclusive trademark rights should be extended and enforced on the basis that use by the defendant in marketing what were essentially copies had taken unfair advantage of its distinctive character and reputation, and such an advantage constituted harm which should be actionable. Relying on its earlier findings in respect of dilution requirements, however, the ECJ held that a key factor is the strength of the "link" in the mind of consumers; the more immediately and strongly the defendant's sign is connected to the plaintiff's mark, the greater the likelihood of there being unfair advantage of the distinctive character or the repute of the mark or detriment to it.[486] The intention of the defendants had clearly been to create some link between their signs and L'Oréal's marks with the aim of benefiting from its prestigious or luxurious image, in order to facilitate the marketing of the imitated perfumes.[487] There had been free-riding on the "coat-tails" of L'Oréal's signs and the Court concisely declared:

> "where a third party attempts, through the use of a sign similar to a mark with a reputation, to ride on the coat-tails of that mark in order to benefit from its power of attraction, its reputation and its prestige, and to exploit, without paying any financial compensation and without being required to make efforts of his own in that regard, the marketing effort expended by the proprietor of that mark in order to create and maintain the image of that mark, the advantage resulting from such use must be considered to be an advantage that has been unfairly taken of the distinctive character or the repute of that mark". [488]

Any effort from a competitor to so obviously make a connection between his sign and earlier mark in order to ride freely on the mark's reputation will be regarded as a use within Article 5(2) and is therefore actionable and needs to be protected against.

The decision in *L'Oréal,* as is the case with most ECJ determinations, has been the source of much criticism and argument amongst judges and IP commentators. Jacob LJ of the UK

[485] '*Mango Sport Systemv Diknak* (R 308/2003-1) [2005] Etmr 5', at 19.
[486] '*L'oréal Sa Et Al. V Bellure Nv Et Al*.', at para 44.
[487] Ibid., at para 47.
[488] Ibid., at para 49.

Court of Appeal gave three cogent reasons for disagreeing with the finding of the ECJ on Article 5(2) protection and defences against adverse conclusions. He first underlined the problems caused for commercial free speech, consumer information, and consumer choice, suggesting that trademark law does not prohibit merchants from telling the truth about their goods or services where such goods or services are lawful per se. This corresponds with the benefits that the keyword service programmes provide for consumers and third party advertisers.[489] Bellure were quite open and candid that their products were no related in any commercial sense to L'Oreal. When somebody is willing to make an honest statement, Jacob LJ asserts that truth in the market place should not be diluted, particularly where the speaker's motive for telling the truth is his own commercial advantage. This right to free speech was not recognised by the ECJ in its judgment in *L'Oréal* and so the decision has compromised the desire of poorer consumers who are willing to purchase the defendants' cheap perfumes which smell similar to famous fragrances they cannot afford. They lose a little bit of pleasure: "the ability to buy a product for a euro or so which they know smells like a famous perfume".[490] Owners of prestigious brands assert injury but in reality they merely wish to hide the fact that a product sold at a very high price as an exclusive luxury item can be copied or imitated, at a much lower price although not to the same quality, criticises Jacobs, and "there is a bit of a message that the price of the real thing may be excessive and that the "luxury image" may be a bit of a delusion".[491] There is essentially, in the mind of this esteemed judge, no dilution of the expensive image of a mark where the usurper is open about his products and motives, and no need for the 'exclusivity protection' of Article 5(2).

The judgement was also a blow for freedom to trade, contended the learned judge, asserting there will be no healthy competition in some areas of trade if a trader is prohibited from saying that his products are the same as those of the prestigious, luxurious brand X but available for a cheaper price.[492] Comparison lists, particularly those used in the online market, are important to assist traders in the promotion of their products; the advantage acquired from such lists constitutes a form of free riding but should nevertheless be permissible in the interests of the free trade principle.[493] Finally, Jacob LJ argued that the *L'Oréal* decision may in fact lead the European zone to appear a less competitive marketplace

[489] See Chapter 5.
[490] *'L'oreal Sa & Ors V Bellure Nv & Ors* Ewca Civ 535 ', at para 7-14.
[491] Ibid., at para 15.
[492] Ibid., at 16-17.
[493] See Turner's opinion in this regard as cited by the Court of Appeal in its judgement. (J. Turner, *Intellectual Property and Eu Competition Law* (Oxford University Press, 2010).

and will show the region to have a more rigid trademark regime than other countries with a healthy attitude to competition law. He cites the American experience, where trademark law will not remove a legitimate product from the market just to suppress truthful advertising.[494] Trademark protection, he claims, "amounts to a pointless monopoly" and is critical of trademark owners seeking more protection than they need.[495]

In regards of the relationship between free-riding and Article 5(2), the Court has failed to definitively draw a line between permissible and impermissible free-riding, one of the criticisms of Jacobs LJ. Their position is simply that practices of the third party which constitute impermissible free-riding must be considered as unfair advantage, but darkness reigns on what may be permissible. Meale and Smith opine that "while the ECJ's conclusion largely condemns the practices of the defendants in L'Oréal, it does so without providing clear guidance as to where the line is drawn between unfair and fair advantage".[496] Their conclusion means that all forms of free riding are impermissible and unfair, a finding that may be morally acceptable but lacking in economic content, so Article 5(2) should be "read as though the word "unfair" was simply not there".[497]

Free-riding or parasitic activity is illegitimate on the ground that the free rider is exploiting the luxurious image of the powerful brand without paying `financial compensation`. It almost seems that the ECJ is encouraging advantage-takers to obtain licenses from owners of prestigious trademarks, which would no doubt be a welcome income source for them, in order to legitimatise their advantages as a result of riding freely on the `coat-tails` of the reputation. Landes and Posner alternatively contend that "licensing fees" could be driven to zero by high competition among owners of prestigious trademarks, due to the fact that the number of prestigious names is enormous. They believe that "if the name is being used in an unrelated market, virtually every prestigious name will be [a] substitute for every other in that market" such an event constitutes a cogent economic objection to not granting legal protection for the free-riding case.[498]

[494] '*L'oreal Sa & Ors V Bellure Nv & Ors* Ewca Civ 535 ', at para 20.
[495] Ibid., at para 49.
[496] Meale and Smith, 'Enforcing a Trade Mark When Nobody's Confused: Where the Law Stands after L'ore´Al and Intel', at 103.
[497] '*L'oreal Sa & Ors V Bellure Nv & Ors* Ewca Civ 535 ', at para 48.
[498] Landes and Posner, *The Economic Structure of Intellectual Property Law* at 208.

The argument that the fruits of the investments used in creating and maintaining the image of powerful brands should only be exploited by their owners has its advocates. Morcom for example, observed that allowing for a trader who deals in lawful goods to use a competitor's sign for the purpose of obtaining a major promotional advantage, thereby taking advantage of the reputation built up by the trademark owner and at the same time saving a considerable amount of effort and expense, cannot be justified by merely saying that the trader is "telling the truth" as suggested by Jacobs LJ.[499] Morcom disputes the efficacy of the opinion that recognising the free-riding case under Article 5(2) would lead to a "pointless monopoly". He said that the claimant in *L'Oreal* sought no monopoly over the products which smell similar to their own branded articles only that the defendants should not be allowed to take advantage of their efforts in creating the luxurious image of their brands through large investments in terms of both time and money. Gangjee and Burrell disagree, asserting that the prohibition of free-riding is rarely rationalised hand in itself theoretically unsound; it "runs counter to the thrust of the European trade mark law" and will hinder competition within the European marketplace.[500] Ohly observed that it is irrational to assume that brand owners will not invest in creating a luxurious image for their products if no protection is awarded against misappropriation, and as long as there is efficient protection of the essential function, consumers will find no difficulty in distinguishing high-image products from cheap imitations.[501]

The decision in *L'Oréal* is criticised for being a wide invitation to adopt a tort of unfair competition, in which a trademark owner can invoke his exclusive right even where there is an absence of confusion for consumers. Making the TM Directive broad enough to include principles of unfair competition law would not be an appropriate solution to the problems highlighted, since historical attempts to create a harmony of such laws among the European countries reveal these resulted in failure.[502] A balance between the contrasting jurisdictions embracing a law of unfair competition needs to be struck and which the EEC Treaty seeks to promote. It is noted that Europe and the USA adopt nearly the same requirements when it

[499] C. Morcom, 'L'oreal V Bellure - the Court of Appeal Reluctantly Applies the Ecj Ruling', *European Intellectual Property Review*, 32(10) (2010), 530-36 at 536.
[500] Gangjee and Burrell, 'Because You're Worth It: L'oréal and the Prohibition on Free Riding', (at 283.
[501] A. Ohly, 'The Freedom of Imitation and Its Limits - a European Perspective', *International Review of Intellectual Property and Competition Law*, 41(5) (2010), 506-24 at 518.
[502] See C. Wadlow, 'Unfair Competition in Community Law: Part 2: Harmonisation Becomes Gridlocked', *European Intellectual Property Review*, 28(9), (2006), 469-73; J. Davis, 'Why the United Kingdom Should Have a Law against Misappropriation', *Cambridge Law Journal*, 69(3) (2010), 561-81.

comes to issues of blurring and tarnishing, but free-riding is not expressly recognised as a cause of action under USA trademark law. When the Trade Mark Dilution Revision Act of 2008[503] was passed, it omitted any third type of injury such as free-riding.[504] Jacob LJ commented on this point,

> "I believe the consequence of the ECJ decision is that the EU has a more "protective" approach to trade mark law than other major trading areas or blocs. I have not of course studied in detail the laws of other countries, but my general understanding is, for instance, that countries with a healthy attitude to competition law, such as the US, would not keep a perfectly lawful product off the market by the use of trade mark law to suppress truthful advertising".[505]

It will be recalled from Chapter 2 that Landes and Posner, avid supporters of the 'dilution doctrine', posited two economic objections for the failure to confer protection. Apart from licensing fees for use of the trademark there is the need to protect consumers from potential confusion from deceptive use of the mark by others, although they accept that the acceptance of 'genericness' of products reduces costs and enhances competition. The `pure dilution case` under Article 5(2) provides a trademark with reputation with very broad protection. Any argument put before the Court on free-riding appears to result in a one-sided contest, with the earlier mark proprietor accorded essentially absolute and automatic protection apparently justified under Article 5(2) of the TM Directive. Investment in creating a trademark with a luxurious appealing image does help this time to afford extremely broad protection without the need to show good evidence of harm or deception.

Although it may be fair to state that the ECJ delivered its views based on the facts of the case as read in *L'Oreal,* and according to the legislation, it has failed to find a full solution to the problem itself. Calling merely for dismissing unfair advantage as a type of injury under Article 5(2), confining it to consumer confusion, or even crediting honesty is a setback per se due to the need to balance the competing interests. Kur and others argue that the ECJ had plainly not struck a balance between the interests of the brand owners and the consumers in *L'Oreal,* ignoring the consumer concern of receiving sufficient information that helps to

[503] 'The Lanham Act 1946, Amended by the Trademark Dilution Revision Act of 2008'.
[504] M. Bjo¨Rkenfeldt, 'The Genie Is out of the Bottle: The Ecj's Decision in L'ore´Al V Bellure', *Journal of Intellectual Property Law & Practice*, 5, No. 2 (2010), 105-10 at 106-07; Gangjee and Burrell, 'Because You're Worth It: L'oréal and the Prohibition on Free Riding', at 287.
[505] *'L'oreal Sa & Ors V Bellure Nv & Ors* Ewca Civ 535 ', at para 20.

make proper purchasing decisions. It merely favoured the interests of brand owners in preserving their exclusivity in their images.[506] Crucial questions have been left unanswered and the lack of consistency in the decision making of the Court nevertheless indicates a trend towards over-protecting brand owners at the expense of a freer competitive environment.

The ruling in *L'Oreal* on the issue of unfair advantage, or free riding, in the case of keyword advertising is of considerable importance particularly after its controversial reasoning and especially where the use of the mark takes place in promotional materials. Infringement in keyword advertising cases appears more likely in a free riding test. The AdWords service enables advertisers to purchase competitors' trademarks as keywords; the advertisers' main interest is to take advantage of the familiarity or reputation that certain trademarks have in the minds of online consumers and the fact that they may use these to start their search. In order to promote their own goods or services to these consumers, the use of another's mark is to gain such an advantage for free, save for a bid payment to the ISP. In the absence of any 'due cause', the use of a reputable mark as a keyword must be construed riding on the coat-tails of that mark and amounts to taking advantage of its power of attraction and reputation; this must be considered to be unfair.[507] In *L'Oréal v Bellure*, the ECJ determined that is likely to be the conclusion where the advantage is considered unfair if the advertised goods are offered as duplication to the trademarked products. However, where the Bellure advertisement was merely presenting its goods as alternatives to the products of the trademark owner without imitation and without thereby causing dilution, tarnishment or adversely affecting its functions, it must be concluded that such use is deemed 'due cause' for the purposes of Article 5(2). The owner of the trademark is not then entitled to prevent the use of its mark as a keyword in online advertising.[508] The Court has implemented the same formula free riding test as adopted in *L'Oréal* in subsequent keyword cases. However, the Court went on to find automatic unfair advantage where there was not a risk of causing detriment to the mark or to its proprietor. It seems that the Court have followed the Advocate General's opinion on the issue of free-riding.[509] Advocate General Jääskinen argued that finding unfair advantage should be tied to the proof of harm as to the trademark owner otherwise the protection under Article 5(2) has repercussions for other principles. An automatic unfair advantage conclusion

[506] A. Kur *et al.*, 'Sweet Smells and a Sour Taste-the Ecj's L'oréal Decision', (University of Cambridge Faculty of Law Research, 2010).
[507] '*Interflora Inc V Marks & Spencer Plc.*', at paras 84-89.
[508] Ibid., at paras 91-95.
[509] For more about this see Laan, 'The Use of Trade Marks in Keyword Advertising - Developments in ECJ and National Jurisprudence', at 28.

without clear evidence of harm will have an adverse effect on freedom of competition and hinder "Pareto optimal" outcomes.[510] Prohibiting 'free riding' would not improve the situation of the owner of the trademark, who does not in any case suffer harm or economic loss, but would undermine that of competitors and consumers. It was stressed that the *L'Oréal* case was about 'imitating' luxury products, while the goods in *Interflora* are 'normal', not replicas. To promote undistorted competition and consumer right to information about products, the Advocate General stated that the purpose of presenting a commercial alternative to the goods or services of a protected trademark, with a reputation, should count as due cause in the context of modern marketing relying on keyword advertising on the internet.[511] This conclusion is useful, as will be suggested in the next chapter, in regards of ensuring a defence for advertisers in the case of considering keyword advertising service as form of comparative advertising. It is observed that using a trademark belonging to another as a keyword arguably amounts to its exploitation and as such, unfair, but this is not a reason for protection recognised by the ECJ in competitive advertising when the opportunity for comparison dies not cause confusion. It can, however, constitute 'free-riding', but the Court has been cautious in this protection expansion in the absence of 'imitation'.

4.5. Conclusion

The aim of this part of the study was to examine how the legislative body of the European Union has tried to limit the exclusive rights of trademark owners in a balance with free market competition, and how these are related to the functions trademarks are supposed to perform. Traditionally protection was directed only at the essential, origin function and preservation of the consumer from confusion. However with the recent adjudications of the ECJ in its interpretation the "use as a trade mark" requirement against the background of the newly acknowledged functions of quality, communication, investment, and advertising, the availability of protection has stretched to cover wider interests for proprietors. It is clear this transformation to a broader view of trademark functions necessarily influences the scope of the legal protection defined under particularly Article 5 (1)(a) TM Directive.

[510] AG opinion in '*Interflora Inc V Marks & Spencer Plc.*', at para 94. Pareto optimal outcomes are situations where there are no other preferable outcomes for participants, so that all participants are equally well off and one slightly better. The Pareto principle is used in game theory and economics and results in optimal outcomes and if applied results in an optimal strategy: Philip D Straffin, *Game Theory and Strategy*, The Mathematical Association of America 1996) p.68

[511] Ibid., at paras 95-99.

Article 5(1)(a) has proved to be the most controversial ground of infringement, particularly because the ECJ has adopted two contrasting approaches to the way extra, newly recognised functions such as advertising and investment need to be protected. A broad acceptance that any interference with the advertising function, prima facie, will trigger liability, whilst later, in the AdWords cases the Court endorsed a more classical approach, awarding no protection for the advertising or investment functions and limiting the protection as to the essential function only. This original function is simpler in practice to shelter from harm, whereas the formulae for protecting the new functions are proving problematic to develop into a cogent test. Nevertheless, the ECJ has arguably taken a broader view of what kind of third party action might affect the essential function in the context of the economic theories, imposing further obligations and restrictions on advertisers to prevent perceived consumer confusion. This effectively strengthens protection of the trademark and compromises further what limited defences the competitor may seek to advance.

The precise stipulations of the ECJ in the incorporation of these extra functions in "double identity" cases remain vague and the objectives of further protection unclear in scope regarding advertising and investment issues. It is insufficient to determine that this manner of trademark use by a competitor will amount to infringement in the absence of its reputation being affected, or failure to specify a particular criteria of infringement; the defendant must be afforded the opportunity of arguing a 'due cause' defence for its use, albeit unauthorised.

Much attention has been given to Article 5(2) by the ECJ in its adjudications. The Court has established criteria for protection from dilution of the trademark of repute, but this has been no less controversial. Dilution, or blurring, under the European trademark law is not an attractive form of defence against infringement for brand or mark owners. The requirements are strict and the owners of a unique brand must adduce evidence that the "economic behaviour" of the average consumer of the marked products has changed to support their claim for protection. The chances of demonstrating such harm to the distinctive character of a trademark is, to say the least, difficult.

Unfair advantage, or harm caused by free-riding was related by the ECJ to a cause of action under Article 5(2), attracting considerable criticism, particularly from avid believers in a free trade market, in the way it interpreted this model of dilution. Unlike any other forms of infringement, the Court did not so much consider damage that may occur to the appropriated

mark, but to take account of the benefit which could be gained by a competitor due to its use of an identical or similar sign to a trademark with reputation. It is unfair when a third party uses another's sign of repute to exploit its power of attraction or prestigious, luxurious image for marketing purposes of its own products. Criticism arose primarily because the Court provided no clarification on how such an advantage may actually become fair. It justified its restrictions on free-riding on the fact that the defendant does not pay financial compensation to the claimant for the benefit gained from the power of attraction of the reputed mark, as well as not making its own required efforts in that regard. It is arguable that the Court has taken the view that every advantage is necessarily unfair. In online keywords advertising, it may be argued that 'unfair exploitation' is an inevitable result of apparently taking advantage of the reputation of the origin trademarked product; essentially, it has been noted, 'free-riding'.

It will be for the ECJ to decide how to interpret the protection under Articles 5(1)(a) and 5(2), but this simultaneously raises the questions about the extent the Court must take into account the goals of the TM Directive and the principles of the Community Treaties. It must question the extent to which a wide application of the infringement criteria strikes the required balance between the different competing interests of brand owners, third parties, and consumers in the context of principles of the Union. The substantive protections become more essential for resolution in the realm of keyword advertising, and the limitations imposed on competing traders in their use of marks belonging to an owner in the global market. Function theory protection is however unpredictable, even for the trademark owner, for both he and the unauthorised user have little basis for certainty to determine when the court will protect and impose liability, and when a defence will be available.

Chapter Five

The Impact of Trademarks Protection on Online Keyword Advertising

5.1. Introduction

It should now be evident that the principles of trademark protection have altered and developed by interpretation of European legislation by the ECJ, largely over the past thirty years.[512] It is a consequence of 'need', adaptation to a changing commercial environment. The communication and Internet revolution the exponential growth in international trade, with producers and suppliers throughout the world innovating and competing for consumers, inventing new ways of marketing and seek, perhaps stealing, advantage over their competitors. The argument that keyword advertising and product review and comparison causes potential damage to the trademark owner has been the impetus for seeking protection for the economic functions.

The importance of protection of trademarks and their development as a valuable, marketable asset per se, remains vital and perhaps they are more at risk of harm from both the ISP's and keyword users. The reaction in the European Community was the TM Directive and the case law of the ECJ which interprets its provisions to address ambiguity in the rather vague construction of the original Directive draft.[513] The fulfilment of the traditional source identification function has expanded to include other, more economic and commercial centred functions.[514] The trademark has gained recognition in the minds of consumers in the provision of quality assurance and conveyance of lifestyle, influencing discriminatory choice and a willingness to pay a premium for the 'name' over identical competing products; it grants the trademark its modern commercial value, increasing its marketing power.[515] It is

[512] See Chapters 3 and 4 above.

[513] In '*Davidoff V Gofkid*'., for example, the ECJ ruled in that the court would interpret the provisions by reference to the goals of the Directive even where this requires departing from its wording. See Chapter three & four above.

[514] In '*L'oréal Sa Et Al. V Bellure Nv Et Al*.', at para 58., the ECJ had also identified other additional functions such as the quality and communication functions. However, the Court only addressed so far the advertising and investment functions as the ones which might be affected in the circumstances of the case. See for example '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at para 1; ' *Interflora Inc V Marks & Spencer Plc*'; '*L'ore´Al Sa and Others V Ebay International Ag and Others*'.

[515] Torremans, 'The Likelihood of Association of Trade Marks: An Assessment in the Light of the Recent Case Law of the Court of Justice', (at 302; Griffiths, *An Economic Perspective on Trade Mark Law* at 6.

necessary to consider how technology may be adapted which balances and supports the interests of both owners and competitors.

Reputation of a trademark as perceived by consumers is particularly important for marketing and online sales where there is no direct physical contact or handling of a product before purchase. Online shopping generally starts with a search for a particular name or type of product and this may rely on a quality-branding association between image and product, with the likelihood that consumers will use a trademark name. "Targeted" or "navigational" searchers will largely use the name of a trademark as a keyword to find owner site or to gain information about a certain product.[516] On other hand, "informational" or "contextual" searchers will use the trademark name as a source of information to direct their online shopping in order to find other alternative products, or compare prices and reviews.[517] In either event, the familiarity of the trademark becomes a valuable asset in itself for owners operating in a lucrative global economy. They will be understandably protective of exclusivity of use of the mark and its familiarity against rivals who seek to use this 'property'. Philips indeed argues that trademark owners will react angrily even when a permitted, legitimate use is made of their marks by businesses other than themselves, and will resort to actions founded on such grounds as unfair competition or marketing practices when trademark law fails to protect their exclusive use from what they consider unfair and wrongful appropriation.[518] The law is developing to accommodate technological changes in order to strike a balance between protection and competition and it is asserted that the trademark is now ascribed such a number of safeguarded functions that they have become, it is argued, somewhat discordant with the European principle of freedom of trade. The entitlement of the mark owner to protection is not contested, but the extent to which this stifles competition needs to be resolved.

Recognition of the economic potential of a trademark as a justification for extending protection, argues Jacobs LJ, means unauthorised utility of the mark functions is likely to

[516] Goldman, 'Deregulating Relevancy in Internet Trademark Law', (at 521-25; Bonewitz, 'Beyond Confusion: Reexamining Trademark Law's Goals in the World of Online Advertising', at 919.
[517] Goldman, 'Deregulating Relevancy in Internet Trademark Law',; Bonewitz, 'Beyond Confusion: Reexamining Trademark Law's Goals in the World of Online Advertising',
[518] Phillips, *Google and the Law, Information Technology and Law Series 22* at 44.

result in third party liability, especially when used in their promotional advertising.[519] This extends the control of the trademark owner across all markets where it is used, stifling competition, without needing to prove harm to the origin function. It is nevertheless significant in use as a keyword in online advertising, particularly Google's referencing service 'AdWords'.[520] Internet search engines providers (ISPs) have the capacity to supply mass information and would be seriously undermined in its freedom to operate by trademark owners being able to control any possible use of this property by the limitation to only 'navigational' searches. Providing consumers with information is essential for trade and enhancing competition and it is certainly at least arguable that an ability to sell trademarks for use as keywords is essential to ensure the commercial viability of ISPs such as Google.[521] It was asserted that restricting online keyword advertising uses would undermine the ability of AdWords, or similar programmes, to generally provide information needed and requested by consumers on any number of subjects when accessing search engines, limit the commercial capacity of rivals to provide information about their own products and harm online competition.[522]

Trademark law, arguably, should take a lead and determine whether 'navigational' or 'contextual' searching, if either, should have priority and determine the boundaries of protection. Immediate thoughts are directed to the ECJ adjudications noted herein.[523] Article 5 TM Directive, infringement requires unauthorised use to be in the "course of trade"; it is the filter for distinguishing permissible activity from that of breach, and pivotal in determining the liability of trademark infringement by ISPs and advertisers. Prior to the *Google France* judgment, the ECJ had indicated that "use in the course of trade" would be satisfied simply by establishing that the third party was engaging in commercial activity of some kind, and its use affected one of the protected functions of the trademark.[524] The

[519] In '*L'oreal Sa & Ors V Bellure Nv & Ors* Ewca Civ 535 ', at para 30. Jacob LJ highlighted this consequence. He observed that recognising the advertising function, for example, is more likely to make this function vulnerable to damage whenever it is used in a promotional material by third parties.
[520] Google is the most important of search engines and has featured in the AdWords litigation. Therefore, in this chapter our focus will concern mainly the cases which were brought against Google.
[521] Google's Income Statement Information, for instance, shows that the company's total advertising revenues were over than $50 million in 2013, most of which generated by the AdWords program. Available at Https://Investor.Google.Com/Financial/2013/Tables.Html,
[522] Tan, 'Google Adwords: Trademark Infringer or Trade Liberalizer?', at 504-05.
[523] '*Google France Sarl V Louis Vuitton Malletier Sa and Others* '; '*Die Bergspechte V Günter Guni*'; '*Portakabin V Primakabin*'; '*Interflora Inc V Marks & Spencer Plc.*'; '*L'ore´Al Sa and Others V Ebay International Ag and Others*'.
[524] '*Arsenal Fc V Matthew Reed*', at para 51. See also '*L'oréal Sa Et Al. V Bellure Nv Et Al.*'; '*Google France Sarl V Louis Vuitton Malletier Sa and Others* '; '*Interflora Inc V Marks & Spencer Plc.*'.

Keywords litigation shifted the focus to requiring use of the mark by another "[for] its own commercial communication".[525] It has been noted that ISPs avoided liability for infringement because it was deemed their use of trademarks was not to promote their own products.[526] It is necessary, in the context of this research, to examine and analyse a basis upon which ISPs should be treated as "using" the signs they sell for use as keywords "in the course of trade", given the fact that it is a hugely profitable area of their business. Essentially, the sale of the mark related word and provision of a platform for its use contributes to the potential for violation of trademark protection, although jurisprudence find ultimate responsibility lies with its actual use.

The ECJ had no difficulty in accepting that the advertiser who purchases the name of a trademark as keyword is use in the "course of trade". From a European free trade policy perspective, the exclusion of ISPs from liability under the trademark law is important, for prior to the *Google France* judgment, the ECJ had indicated that the use requirement would be satisfied simply by establishing that the third party was engaging in commercial activity of some kind. This requirement was the main basis, or "filter", for distinguishing permissible activity from that of infringement. This would have led to the potential liability of ISPs in each case involving use of a trademark as a keyword for which they received payment for the provision thereof. They would then have to show that their "use" of the trademark did not affect any of the mark's functions. Making trademark use by the ISP part of a filter process, the ECJ relieves them of any direct responsibility for how the third parties they sell them to use the keywords. The positive effect is that this creates "certainty" in the law because it eliminates the need for 'confusion' assessment.

The liability of the advertiser has been assessed under Article 5(1)(a) and 5(2); simply, adverse effect may be caused to one of the protected functions of the mark; the origin, advertising, investment purpose. Recognition of the economic functions of trademarks has caused uncertainty in the application of the infringement criteria, as discussed in Chapter 4. In the context of keyword advertising disputes, the ECJ had attempted to resolve such problems in order to balance trademark owners' rights and the interests of third parties and consumers in a free market, relying on an flexible interpretation of the 'adverse effect'

[525] '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at paras 56-57.
[526] According to Article 14(1) of the EU E-Commerce Directive, nevertheless, a search engine may be legally liable if it is proved that it has not acted expeditiously after knowing about the "unlawful nature of...the data or of that advertiser's activities".

requirement on a trademark functions under Article 5(1)(a) and a broad free-riding test under Article 5(2). Should the ECJ have pursued its approach to the issue in *L'Oreal,* where reference to the trademark in promotional material triggered automatic liability on the basis of adverse effect on the advertising function, the interests of consumers as well as third parties would be affected; they would not be able to access the information they seek or trade freely on the internet.

Their 'creative' approach is however controversial.[527] The flexibility of the application of the infringement criteria has arguably made the available defences under Articles 6 scarce.[528] The TM Directive presently only guarantees a defence against dilution of a mark under Article 5(2) if the use was in accordance with 'due cause'. It applies only to those with reputation and incorporating general protection of a trademark's other functions under Article 5(1)(a) strikes no balance in the conflict of interests; in fact it highlights the weakness of the TM Directive.[529] It is a defect noted in the proposals for reform of the European trademark law.[530] Perhaps a general "fair use clause", adjudicated upon by the Court in the event of dispute, would allow some flexibility in circumstances not previously envisaged by the legislator, especially with new business models emerging on the Internet.[531]

It is suggested that, in consequence, the ECJ has failed to adapt trademark law to the effect of new technology, such as Keyword advertising, in a clear, economically rationalised, manner which does not encroach on fundamental freedoms of information and competition. Keyword advertising has huge economic importance in the facilitation of movement of products within European market and the policy objectives of the TM Directive must be reflected upon in the protection of the rights of the trademark owner in this developing context.[532] It is proposed to discuss how a keyword advertiser should be able to rely on a more flexible defence to counterbalance the flexible infringement criteria which protects mark owners. Modelling the

[527] See Senftleben, 'Adapting Eu Trademark Law to New Technologies - Back to Basics?', (; Ohly, 'Keyword Advertising or Why the Ecj's Functional Approach to Trade Mark Infringement Does Not Function',; Cornwell, 'Keywords, Case Law and the Court of Justice: The Need for Legislative Intervention in Modernising European Trade Mark Law', ; Laan, 'The Use of Trade Marks in Keyword Advertising - Developments in ECJ and National Jurisprudence',

[528] Consideration is only given to the defence under Article 6(1). A defence under Article 7 which deals mainly with the 'Exhaustion principle' has no direct relevance here thus will not be concerned.

[529] Senftleben, 'Adapting Eu Trademark Law to New Technologies - Back to Basics?', at 23. For more about this see Chapter four above.

[530] See 'Study on the Overall Functioning of the European Trade Mark System', at para 2.252.

[531] Ibid.

[532] About the economic importance of keyword advertising service see generally Tan, 'Google Adwords: Trademark Infringer or Trade Liberalizer?',

keyword advertising service as form of comparative advertising will enable third parties to rely on additional exceptions which cover cases of referential use and overlap with Article 6(1) of the TM Directive without violating the law.[533] The ECJ has largely ignored this legal route in its interpretations.[534]

Section one will explore the functions of the keyword advertising service and its role in promoting online trade. In the second section the research into the problems of trademark problems was introduced with an explanation of the background, followed in section three by an examination of the rationale and policy issues for protecting marks in the context of the different competitive interests at stake. Section four discusses the problem of relaxing the infringement criteria and the devised solution and a final summary will propose potential answers to the issues raised.

5.2. Keyword Advertising in the Context of Trademark law

Consideration needs to be given to the central importance of the Internet in e-commerce as a new medium for trade and competition among traders, particularly through analysis of the technical aspects of AdWords service, its key characteristics and how its programme affects the rights of trademark owners. It raises questions of the scope and efficacy of protection that can be given to trademark owners as a consequence of consumer use of keyword advertising.

5.2.1. The Importance of the Internet in E-commerce

The internet was initially founded as a military communication tool for exchanging data between decentralised computers in the 1960's.[535] It has developed into a universal, public access network, rapidly growing by the emergence of a mass of cyberspace applications such as the World Wide Web (WWW), email, and file sharing systems. This has converted the Internet from a "technological infrastructure" into a fashionable, almost essential network connecting people in different states across the world.[536] It is a medium for the exchange of information, ideas, and has progressively advanced a new way of conducting commerce.[537]

[533] 'Misleading Advertising Directive (84/240) as Amended by the Comparative Advertising Directive (97/55)'.
[534] In '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at para 71. the Court, for instance, had found that it was unnecessary to examine whether or not the keyword advertising constitutes a form of comparative advertising but noted that it might be.
[535] J. Abbate, *Inventing the Internet* (USA: Massachusetts Institute of Technology, 2000) at 182.
[536] Wipo, 'Intellectual Property on the Internet: A Survey of Issues', (2000) at para 21.
[537] Ibid.; J. Hornle, *Cross-Border Internet Dispute Resolution* (Cambridge University Press, 2009) at 20.

The Web, at last count, boasted over 975 million pages.[538] The instant availability of information in every field of interest, combined with developments in digitalisation, has allowed the Internet to become the ultimate revolutionary tool of communication.[539]

Unlike other traditional types of media such as newspapers, radio, or television, the Internet has global reach, is fast and easy to use, and generally available at a low cost. The commercial incentive of exploitation is considerable, particularly in a capitalist business model dependent on creating growth through continuous exploitation of opportunities. This objective is facilitated by providing e-businesses with access to new and foreign markets, invaluable new business opportunities, where they can market their goods and services in a cheap and fast way online.[540] It is attractive because of fewer layers of middlemen increasing costs to the trader and consumer and facilitates greater adaptation, flexibility, savings and sales.[541]

The rapid growth of e-commerce is reflected in the value that most businesses place on the opportunities offered by having a website to exploit the marketing and selling opportunities of the net. In this context, Morcom et al contend that:

> "The Internet is now a vital part of commercial life. Many traders use an Internet web page as a sole, or at least main, 'shop front' for their goods or services. We bank online, shop online, book holidays and buy houses online, even our unwanted second hand goods are disposed of online".[542]

In one survey conducted by the Statistical Office of the European Union (Eurostat), it was found that 61% of the 75% of EU households with Internet access in 2013 had used it to buy goods or services for private purposes.[543] It is striking that the Internet produces the existence of dual, parallel markets for trade in the same goods or services that co-exist in the same

[538] See Netcraft, 'May 2014 Web Server Survey' available at Http://News.Netcraft.Com, (Last visited 23 June 14)
[539] J. Ratliff and D. Rubinfeld, 'Online Advertising: Defining Relevant Markets', *Journal of Competition Law & Economics*, 6(3) (2010), 653-83.
[540] P. Soto-Acosta and A. Meroño-Cerdan, 'Evaluating Internet Technologies Business Effectiveness', *Telematics and Informatics*, 26 (2) (2009), 211-21.
[541] S. Lubbe and J. Van Heerden, *The Economic and Social Impacts of E-Commerce* (USA: Idea Group Publishing, 2003) at 35; J. Sun, 'Studies on Impact of Electronic Commerce to Modern Marketing Environment', *Business and Economic Research*, 2 (1) (2012), 1-8.
[542] C. Morcom *et al.*, *The Modern Law of Trade Marks* (2nd edn.; Ohio Butterworths, 2005) at 371.
[543] Http://Epp.Eurostat.Ec.Europa.Eu/Statistics_Explained/Index.Php/Internet_Use_Statistics-Individuals, accessed 23 June 2014

space at the same time, namely virtual, internet-based and traditional markets.[544] The Internet simply increases business opportunities and enhances competition among traders at a time when the opportunities for small enterprises to adopt e-commerce practices are growing by improved access to the technical and communication infrastructure.[545] Ease of market entry can result in a multiplicity of offerings which potentially leaves consumers perplexed. In the context of this study, the online search for a particular product is likely to encounter a host of links directing consumers to secondary web pages of rival products and services in addition to the webpage of the trademark owner which was the intended target of their primary search. There is a broader consumer choice not only because of the ability to compare prices and find substitute products, but also from the availability of product reviews, consumer and expert recommendations, and information to assist the purchase decision; it is an advanced commercial communication tool.

It is a curious anomaly that the greater the abundance of information on almost every conceivable subject, the more difficult it is to find that which is relevant, so internet users rely on ISP such as Google in order to facilitate their navigation through the vast mountain of irrelevancy. Advocate General Maduro suggests search engines have become an integral "part of our culture."[546] "To google" has become a common term for searching the WWW, in much the same way that 'Coke' is used generically as a reference to cola drinks whilst retaining the power of its registered trademarks; it underscores Google's global dominance in the Internet search engine sector.[547] Consumers use the Internet to seek desired products or services which they may eventually purchase and it is here where the contribution of ISPs in advancing the digital marketplace is particularly significant.[548] The capacity of Google and other ISPs to provide them with accurate search results and an efficient guide to the products they seek is perhaps one of the most powerful and far reaching phenomena of the Internet as

[544] B. Urrutia, 'Internet and Its Effects on Competition', *the Universidad Internacional Menendez Pelayo* (Barcelona, 2000) at 3.
[545] Ibid.

[546] Opinion of Advocate General Poiares Maduro in '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at para 1; ibid.

[547] Among all existing websites, Google was also the most popular search engine with UK users. For example, in August 2014 Google's total market share of all searches conducted by UK Internet users was 88.82 %. See Http://Theeword.Co.Uk/Info/Search_Engine_Market.Html, accessed 28 Septemper 2014; J. Turow, *Media Today: An Introduction to Mass Communication* (3rd edn.: Routledge, 2008). See also the Oxford English Dictionary at Http://Www.Oxforddictionaries.Com/Definition/English/Google?Q=Google, accessed 28 Septemper 2014

[548] J. Darrow and G. Ferrera, 'The Search Engine Advertising Market: Lucrative Space or Trademark Liability?', *Texas Intellectual Property Law Journal*, 17 (2009), 223-66 at 226.

it exists today.[549] ISPs are enhancing the development of a new forum in which products can be marketed, playing a crucial role in liberalising e-commerce and promoting competition among traders. An effect of that liberalisation, however, is the potential misuse of reputable, expensive trademarks, which are the result of considerable investment and quality care, by those without direct authority to make such an 'association' of their competitive products, with the remunerated assistance of the platform provider.

Perset avers that search engines "generate and maintain extensive databases of Internet addresses and content in an easily searchable format", which they index with complicated algorithms.[550] In this undertaking it simplifies the task of finding relevant information online.[551] In making sense for the consumer of the exponential growth of online content, web pages[552] and over a billion monthly searches,[553] search engines have to make ongoing substantial investments in the "technical development and infrastructure."[554] This involves a significant contribution to the digital economy through information retrieval.[555] In short, Spink and Zimmer concisely explain these ISPs "vastly improve our ability to research, manage and process knowledge for social, cultural and economic good."[556] Various user targets, such as consumers, entrepreneurs, advertisers, retailers, amongst others, gain value through "better matching", time saving, increased awareness, and more price transparency, allowing people to be matched, problems solved, new business models and modes of entertainment.[557]

Despite the numbers of users, sites, and amount of revenue increasing rapidly, several constraints hinder the prosperity of the commercial use of the WWW, in the context of this study, the ability of an undertaking to protect its trademark.[558] In the modern marketplace,

[549] Ibid.
[550] K. Perset, 'The Economic and Social Role of Internet Intermediaries', (OECD, 2010), 1-49 at 12.
[551] J. Strickland, 'Why Is the Google Algorithm So Important?', <http://computer.howstuffworks.com/google-algorithm.htm>, accessed 12th February 2014 ; Perset, 'The Economic and Social Role of Internet Intermediaries', at 9.
[552] In 1992 there were 160 webpages, which grew to 600,000 webpages in 1996, whilst by 2008, search engines claimed to have indexed more than "20 billion web pages": Rti International, 'Assessment of Nist's Text Retrieval Conference (Trec) Program', (National Institute of Standards and Technology, 2010), 1-137 at 36.
[553] Ibid., at 54.
[554] Perset, 'The Economic and Social Role of Internet Intermediaries', at 12.
[555] International, 'Assessment of Nist's Text Retrieval Conference (Trec) Program', at 8.
[556] A. Spink and M. Zimmer, *Web Search, Multidisciplinary Perspectives* (Springer, 2008) at 119.
[557] J. Bughin *et al.*, 'High Tech Practice, the Impact of Internet Technologies: Search', (2011), 1-58 at 22.
[558] S. Kopp and T. Suter, 'Trademark Strategies Online: Implications for Intellectual Property Protection', *Journal*, 19(1) (2000), 119-31 at 119.

notes Coble, some large businesses own between 200 and 500 corporate, product and service identities which need to be registered, maintained and defended.[559] An example would be Coca-Cola, arguably one of the best known brands in the world, a company which manufactures and distributes more than 500 sparkling and still brands in more than 200 countries.[560] A corporate presence on the WWW requires trademark owners to keep alert to new forms of trademark infringement across millions of discrete sites, in multiple languages and domains.[561] A prominent problem is the sale of someone else's trademark as a keyword, in different referencing service programs to trigger advertising links to the third party's websites which are not commercially connected to the trademark proprietors for the promotion of alternative or compatible competing goods or services. Google has named its online keywords service 'AdWords',[562] Microsoft refers to it as 'adCenter' and Yahoo as Yahoo Search Marketing (YSM).'[563] The online keywords service has raised concerns for trademark owners because it creates a multiplicity of associations and links which increase the risk of confusion, dilution or other forms of unfair trademark exploitation and in recent years has become central to the developing litigation. Online searching and shopping not only increases choice, but also the problem of "information asymmetry" because the goods or services cannot be inspected directly by the customer. It therefore increases the need for a reliable quality assurance process and establishment of trust in the manufacturer or supplier through the trademark system. It is therefore proposed to consider the use of trademarks in keyword advertising and clarify the associated rights and obligations of online advertisers using such a service. A balance must be struck between protecting trademark rights, the interests of the public and competition principles. It is necessary to examine how the online keywords service, or indeed that of a similar provider, functions and how might it affect the rights of trademark owners and where liability for breach will fall.

[559] H. Coble, *Internet Domain Name Trademark Protection: Congressional Hearing* (DIANE Publishing, 2000) at 84.
[560] Http://Www.Coca-Colacompany.Com/Brands/the-Coca-Cola-Company, accessed 25 Spetemper 2014
[561] A trademark's name, for instance, may be used in connection with obscene or other objectionable sites, or by trade competitors to divert search engine traffic, or dilute or tarnish a brand. See Wipo, 'Intellectual Property on the Internet: A Survey of Issues', at para 124.
[562] Google is one of the most important search engines and has featured in the Keywords litigation. Therefore, in this chapter our focus will concern mainly the cases which were brought against Google.
[563] J. Grappone and G. Couzin, *Search Engine Optimization an Hour a Day* (2nd edn.: Wiley Publishing Inc, 2008) at 214.

5.2.2. Online keywords Service Functions and its Importance to the Internet and Online Marketing

Search engines effectively exercise a degree of control over the presentation of web information using a constantly changing mathematical algorithm which takes into account a host of factors, such as relevance, uniqueness of webpage contents, keywords and other requirements of the searcher.[564] The most prominent businesses in a search exercise are those which are able to direct the right traffic to their webpage, reaping the benefits of WWW commerce, and this is stimulated by a broad range of activities to be carried out on its webpage, known as search engine optimization (SEO). Consumers tend to visit webs which can be found on the first page of ISPs.[565] With this in mind, businesses, in particular those less well-known traders, have to take whatever opportunities are made available to have their website links introduced among those at the top of the natural (organic) results. The keyword link alone can be rather ineffective, so ISPs created an online advertising product by which traders could overcome such obstacle and elevate web pages naturally found to the top of immediate results, for a fee. Google, for the example, which is the most important of these, featured prominently in the online keywords litigation, provides a paid referencing service called 'AdWords', enabling any commercial undertaking to purchase one or more particular keywords to use in their advertisements. When Internet users perform a search using one or more of those keywords two sets of results are typically displayed, the first being "natural" results from the main text where Google arranges them by the application of its own objective criteria premised upon the search term. A consumer will enter a search subject, perhaps 'new smart phones' into Google, and a number of results will be displayed that are related to the search terms; prominent companies like Apple, Samsung, or Sony all compete for prevalence on displayed search results to draw the attention of customers. This type of search is basically unproblematic, yielded on the basis of 'best match' criteria. Google attempts to match the search term through algorithms to arrange and sort the information on the Internet in order of relevance.[566]

It is the second set of results which has been litigious, those which appear beside or above the 'natural' results in the form of sponsored advertisements. These are the keywords sold by

[564] J. Dan Oja, *Computer Concepts 2013* (USA: Wadsworth Publishing Co. Inc, 2013) at 376.
[565] D. Hawkins *et al.*, *Consumer Behaviour, Building Marketing Strategy* (Tata McGraw-Hill, 2010) at 605.
[566] See generally D. Meale, 'The Online Advertising Free-Riding Free for All', *Journal of Intellectual Property Law and Practice*, 3 (12) (2008), 779-87 at 779-82.

Google to elevate the priority of the word purchaser.[567] A consumer may choose to enter the name of Apple's well known 'iphone'; in addition to yielding natural results for Apple, the search will yield or at least has the potential to yield results for competitors such as Samsung or Sony, perhaps as a consequence of the owners of these competing products purchasing the term 'iphone' as a keyword. The purchase of the name of a trademark does not require the consent of the mark owner, a licence or the need for a commercial link. ISPs generate the most relevant advertisements in response to a search word, and consumers are likely to consider these advertisements to be as relevant as the links displayed in the natural result.[568]

There are other identifiable purposes for using trademarks as 'keywords'. Traders may sell spare parts or accessories, or offer repair or maintenance services for trademarked products. They also have an interest in getting their adverts shown when a search is carried out for a particular mark. Trademarks may also be purchased as keywords by traders, suppliers and affiliates, which resell genuine goods, including second-hand products. They may be reserved by websites dedicated to offering descriptive information about products and services, such as review and price comparison sites.[569] The online keywords service generates website traffic to the pages of otherwise difficult to find businesses. It has a sense of immediacy for the searcher who wants to find what they want, when they want it. Online keywords service allows commercial undertakings to tailor their marketing campaigns to alert customers to their firm's offerings. Google claims that up to 80% of Internet users can be reached through its keywords service and this arguably makes advertising campaigns and the selling process simpler and more efficient.[570] Keywords campaigns are inherently flexible and ensure that businesses can exercise a high degree control.[571] It is even possible to ascertain which advertisements have been clicked on most and are therefore perhaps the more successful in attracting purchasers.[572] Keywords service also enables users to switch off an advertisement

567 Ibid.
568 Tan, 'Google Adwords: Trademark Infringer or Trade Liberalizer?', at 477.
569 See the opinion of the AG in *Google France* case at para 111.
570 G. Jones, 'The Advantages and Disadvantages of Google Adwords', <http://grahamjones.co.uk/2012/articles/internet-marketing-articles/the-advantages-and-disadvantages-of-google-adwords.html>, accessed 28 Spetemper 2014
571 Google, 'More 'Flexible' Targeting on the Google Display Network', <http://adwords.blogspot.co.uk/2012/06/more-flexible-targeting-on-google.html>, accessed 28 Septemper
572 Google, 'Comparing Analytics and Adwords Conversion Metrics', <https://support.google.com/analytics/answer/2679221?hl=en>, accessed 28 Septemper 2014

campaign at any time and to set a budget per day in order to ensure that the costs can be tailored to every budget.[573]

However the keywords service which permits traders to purchase trademarks, can affect the rights of trademark owners. For many businesses a trademark is one of their main assets, especially when it enjoys a high reputation amongst the consuming public and they tend to be rather unhappy when, even lawful use is made by someone other than themselves.[574] This is not an entirely new phenomenon, although online advertising and the use of keywords has given it a new context. Consumers use trademarks in enquiries or requests for goods or services and this makes them of considerable value to the owner. The likes of Coca Cola are involved in the vigorous policing of the use of their word. Sellers, for example, were not obliged to sell Coca Cola, but had to warn the consumer before offering an alternative. Prima facie this suggests the law has struck a balance in product and information supply, but it is arguable this still gives Coca Cola an unfair competitive advantage.

The display of competitor advertisements when a trademark word is used as a search term, it is suggested, undermines their commercial goodwill because the owner loses the exclusivity of exploiting the familiarity of the mark as an advertising or marketing resource, or prevent ISP using it as a source of profit; the brand owner loses custom, suffers economic loss, but not due to any negative impact on the brand itself.[575] Prior to the advent of the Internet, when this problem arose, the law did not grant the mark owner exclusivity. Traders were obliged to treat a consumer enquiry which was expressed in terms of a trademark as being origin-specific. This did not lead to an obligation to decline to offer alternatives, only to be clear that was what they were doing. Consumers may no longer solely associate the trademark with the proprietor, and their exposure to the products of competitors detracts from the exclusiveness of the suffering brand and opens up greater opportunity for online competition. A way to prevent this is to stop ISPs selling trademarks as keywords, which would also reduce consumer confusion by taking them straight to the website for the product requested, albeit at the expense of greater choice. This may be a result for the trademark owner, but is profoundly simplistic, if only in the belief that it would be possible. Regulating abuse of the name in this new arena is a little more achievable by targeting those who use them without authority. It is

[573] Ibid.
[574] Phillips, *Google and the Law, Information Technology and Law Series 22* at 44.
[575] G. Sheas, 'Trademarks and Keyword Banner Advertising', *Southern California Law Review*, 75 (2002), 529-58.

arguable that showing related products on a search serves much the same purpose as the face-to-face requirement of the shopkeeper advising of alternatives, although ECJ jurisprudence is not particularly sympathetic to such a view.

5.3. Competition Objectives within Trademark Law and their Application in Online Keyword Advertising

Rationalising trademark protection under the European trade law has been and remains an uneasy balancing exercise due to ongoing controversy around the scope of the rights that should be conferred by a trademark, circumscribed by the functions that are worthy of protection, and the harmony with other public policy principles such as freedom of trade and competition. Their use in keyword advertising requires a consideration of the justifications underlying their protection in order to determine its scope as well as assessing what account is to be taken of the different interests which are at stake.

5.3.1. Trademark Protection in the context of Online Keywords: Rationale and Policy

In Chapter 2 of this study, the economic rationale of trademarks and their purposes was considered in some depth concerning their relationship with the potential for violation of their protection function. It is evident that with the massive increase in the number of enterprises and methods of advertising, it has become difficult for modern, image savvy consumers to make a purchase without relying on the messages communicated by the owner's investment in their mark. Trademarks are the convenient tool by which consumers and traders can communicate quickly and concisely; they are identifiers of product source and provide buyers with information about the quality and features of merchandise. Consumers need a convenient starting point for their searches; in their decision making process they will also seek assurances of quality from a trader worthy of their confidence, and this will normally revolve around the reputable trademark. The guarantee of the quality of an article and designation its source, allows a trademark to ensure that that the purchase is based on a more equal sharing of information about the product. Producers will have assurance the products sold or marketed are actually their own, and they have control over their manufacture, while consumers know any subsequent purchase of a trademarked good will be up to their expectations, certain to be the same product.[576]

[576] Horwitz, 'Conflicting Marks: Embracing the Consequences of the European Community and Its Unitary Trademark Regime', at 249.

In economic terms, trademarks promote the "economic efficiency" of the market by means of reducing consumers "search costs", argue Landes and Posner.[577] The need to investigate attributes of every potential purchase, including quality and other required characteristics, would require consumers to give up more of their valuable time than they would otherwise wish. Where the product information can be abstracted through a convenient identifiable mark, consumers are then more likely to rely on this as a vehicle of information, a method of communicating with producers, making them both better informed and assured about the quality of the product in a more competitive market.[578] The reduction in search cost in time and money for the consumer cannot be achieved unless they are protected against the potentially confusing uses of the mark by others, a principle aim of trademark law and protection. Confusion in fact considerably increases search time whilst the consumer seeks recognition of the source of a product, rendering the value of the sign incapable of delivering the meaning it is supposed to; they become less reliable tools as vehicles of information between producers and consumers. The ECJ depicts this as the "essential function" of a trademark, to demonstrate origin and prevent consumer confusion.

In addition to origin and quality functions, a trademark may evolve into an advertising instrument, extensive efforts being made by the proprietor to promote the mark and its goods or services toward the development of a unique character.[579] This function allows the owner to associate their marks in the mind of the consuming public with their products, and to create an impression or symbol of the unique characteristic of the particular product in question.[580] The modern trademark represents to consumers the "cachet" or "aura" of the product on which it appears. Article 5(2) of the TM Directive, which ensures protection is available exclusively for marks with a reputation, goes beyond the mere protection of the origin function, shielding the modern "commercial value" of a trademark against unfair advantage or harm to the distinctive character or repute of that mark. In its adjudications under Article 5(1)(a), the ECJ has somewhat blurred the exclusivity distinction and in recognition of protection for functions such as quality, communication, and investment.[581] The rationale for protection of these rests substantially upon the theory of modern trademark use as a marketing tool, conveying a combination of different lifestyle messages and product quality

[577] Landes and Posner, 'The Economics of Trademark Law',
[578] Dogan and Lemley, 'Trademarks and Consumer Search Costs on the Internet', at 786-88.
[579] See Fletcher, 'Joint Registration of Trademarks and the Economic Value of a Trademark System', at 321; Kitchin *et al.*, *Kerly's Law of Trade Marks and Trade Names* at 9.
[580] Schechter, 'The Rational Basis of Trademark Protection', at 829.
[581] See Chapter 3 and 4 above.

assurance, economic considerations aimed at securing the investment of the owner in advertising and brand image creation associated with its trademarked product. In effect, exploitation of the owner's efforts to creating a brand image, especially where original mark is appropriated without consent in promotional material for a rival traders own products, is deemed unfair.[582] There is however, in an economic environment of free trade, a question of whether such additional legal protection goes beyond that which is necessary to protect the origin function.

Where trademarks are seen as bestowing on their owners exclusive rights for potentially unlimited periods, it has been noted there are allegations of the creation of unfair monopolies. 'Monopoly' here is defined by Pickering as the right to exclude others from the use of a specific symbol as a trademark.[583] It is a strong accusation, but without such a 'monopoly' trademarks could hardly perform any of their functions.[584] It is an expression with virtually wholly negative connotations because of the undesirable power that it confers and as such requires further investigation of its meaning and effect.[585] Ullrich argues that "industrial property rights"[586] do not 'award' a monopoly to the right holder merely exclusive rights to use of the mark.[587] Exclusive rights per se do not protect the owner against competition from substitute products and therefore do not hinder legitimate market competition.[588] The owner will have exclusive control over the capacity of its trademark to provide quality assurance and so attract consumers. This does not mean that trademark protection law has never served to implement anti-competitive measures, but makes it important to find an optimal balance between the guarantee of undistorted competition and legitimate protection of trademarks owners.[589]

[582] See '*L'oréal Sa Et Al. V Bellure Nv Et Al*.', at 41-49. Jacob LJ 's decision in '*L'oreal Sa & Ors V Bellure Nv & Ors* Ewca Civ 535 ', at para 30.
[583] C. Pickering, Trade Marks in Theory and Practice (Oxford: Hart Publishing, 1998), at 74
[584] Maniatis and Sanders, 'A Consumer Trade Mark: Protection Based on Origin and Quality', at 411.
[585] See C. Pickering, Trade Marks in Theory and Practice 74-75.
[586] Industrial property rights take a range of forms such as: patents, trademarks, industrial designs, and geographical indications. See World Intellectual Property Organisation, 'Understanding Industrial Property', 1-20.
[587] H. Ullrich, 'Patents and Know-How, Free Trade, Interenterprise Cooperation and Competition within the Internal European Market', *IIC*, 23 (1992), 583 at 603.
[588] Ibid.
[589] A. Machnicka, 'Trademark Licensing Agreements in Light of the Ec Competition Rules', *Anuario Facultad de Derecho – Universidad de Alcalá,* (2008), 189-215 at 192.

The ECJ in *Hag (II)* declared the key policy objective underlying the TM Directive is the promotion of a system of "undistorted competition".[590] In its adjudications this has served as a guiding principle for interpretation of European trademark law the ECJ had assessed and granted trademark protection in such a way that it works in harmony it, suggest Knaak, somewhat charitably, aiming at striking a balance between the interests of safeguarding trademarks and the public interests in the free use of marks in such a manner that there is no harm to competition.[591] In this balancing exercise, trademark protection must be carried out in a manner that preserves the origin function as well as subject matter, but in ensuring the free availability of signs and free movement of goods, the public interest will be maintained; this has been the crux of ECJ interpretation of the TM Directive.[592] The Advocate General in *Google France* agreed that recognition of the trademarks' economic functions substantially promotes "innovation and investment".[593] The ECJ specifically links trademark protection with promoting competition based on product quality, but that attribute includes intangible characteristics based on subjective issues such as image, leading to some of the problems of adjudication. Offering protection to facilitate these interests must always be balanced against those of the public in "freedom of expression and freedom of commerce".[594]

A fundamental principle of the European Union is to establish a single market among the Member States with the minimum of barriers to free trade and movements of products, preferably 'undistorted' by private interests.[595] The promotion of competition amongst traders, which arguably benefits the consumer, is the legitimacy of conducting comparative advertising between the products of one undertaking and its competitor, if certain conditions are met to avoid misleading the consumer or giving a false impression.[596] By their very nature, comparative advertisements enable one business to take advantage of the innovation and investment of another trademark owner by placing their product next to the more famous one to potentially promote their own. This is an obvious expression of freedoms of

[590] '*Sa Cnl-Sucal Nv V Hag Gf Ag* (*Hag Ii*)', at para 13. the ECJ emphasised that trade marks rights constitute an essential element in the system of undistorted competition which the EEC Treaty seeks to boost.
[591] R. Knaak, 'Trade Mark Protection and Undistorted Competition', *Max Planck Institute for Intellectual Property and Competition Law*, 11-12 (2009), 1-15, at 5.
[592] Ibid.
[593] AG opinion in '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at para 96.
[594] Ibid., at 102-03.
[595] 'Treaty Establishing the European Economic Community (Eec Treaty)', at preamble.
[596] 'Misleading Advertising Directive (84/240) as Amended by the Comparative Advertising Directive (97/55)'. See also the ECJ's decision in '*O2* V *Hutchison 3g*', at para 41-49.

expression and commerce.[597] It is also indicative of the fact that huge investment in creating a brand image is not immune from advertising in the context of its competitors' product promotion.[598]

It makes sense therefore that the principles of market competition and the freedom to acquire and impart information should be reflected in the interpretation of the TM Directive, particularly where there is little, if any, risk of consumer confusion, the prime justification for trademark protection. The promotion of online competition therefore demands that the public interest in freedom of information and trade is to be favoured over the interests of the trademark owners due to the methods used in seeking out customers as they search for products online.[599] The Advocate General in *Interflora* asserted that economic competition will boost consumer welfare by the potential introduction of better alternatives to existing goods, in terms of quality characteristics or price, thereby "stimulating efficiency and innovations leading to more rational allocations of the factors of production".[600] Articles 6 and 7 of the TM Directive include limitations on the effects of a trademark which would enable a third party to make reference to a competitors sign without violating its exclusive rights in order to effect a balance between the interests of trademark owners and freedom of information and competition. Comparative advertising is a case in point. In respect of keyword advertising, however, the ECJ has not chosen such a direct solution in dealing with different competing interests. It has instead adopted a 'flexible' interpretation of adverse effects on trademark functions under Article 5(1)(a) and reliance on the 'due cause' defence in Article 5(2). This approach has caused uncertainty in the law and differences in the adjudications of national courts of the EU member states.[601]

5.3.2. The Meaning of 'Undistorted Competition' in the Online Environment: Competing Interests

The use of trademarks as keywords in online advertising is one of the areas where interests of trademark owners and competition rules appear to overlap, and in the search for balance between these legitimate interests needs further examination in conjunction with the interests

[597] '*O2* V *Hutchison 3g*', at para 38-40; '*L'oréal Sa Et Al. V Bellure Nv Et Al.*', at para 68.
[598] Article 3(f) of CAD comparative advertising is not deemed per se as taking unfair advantage; in *L'Oréal and Others*, it took the existence of imitations, falling under Article 3(g) of the directive, for the Court to find that there was such an unfair advantage.
[599] Tan, 'Google Adwords: Trademark Infringer or Trade Liberalizer?', at 494.
[600] The AG opinion in ' *Interflora Inc V Marks & Spencer Plc*', at para 45.
[601] For more about this see Laan, 'The Use of Trade Marks in Keyword Advertising - Developments in ECJ and National Jurisprudence',

of advertisers. The primary issue is the legitimacy of selling the trademarks of others as keywords, although account has to be taken of the massive contribution of ISPs to the development of the new economic arena of online trading. ISPs share a strong interest in selling online advertising products, including keywords, a very substantial source of income it would be expected to vigorously defend.

The interest of ISPs centres on being a service provider, creating the technical conditions necessary for the use of a sign, rather than functioning as a first instance enforcer of trademarks, says Tan.[602] It does not serve those interests to adopt a policy where it must actively guarantee the rights of the trademark owners whenever their marks are reserved as keywords by another advertiser. It would be very costly to monitor every chosen keyword, and Google, for example, makes clear that "[a]dvertisers are responsible for the keywords that they choose to trigger ads and the text that they choose to use in those ads".[603] Google will investigate only if a trademark proprietor lodges a complaint about infringement.[604] There is, for example, no compliance check at keyword selecting.[605] When an investigation identifies trademark infringement, Google removes the mark from the sponsored advertisement or keyword which triggers it. This does not however prevent Google's algorithms still referring to the mark so it is for the proprietor to contact the webpage owner to request the removal of the term from the webpage.[606] In effect, responsibility transfers back to the owner to protect their own interests against the monolithic ISP conduit.

Advertisers certainly benefit considerably from the worldwide online keywords advertising service; in traditional media such as print it was more difficult for companies to identify the specific value of their advertisements in the attraction of customers.[607] Online keyword advertising success is possible to track by the number of consumers who click on the advertisement during their buying cycle, followed by those who actually proceed to buy.[608] This makes it possible for companies to adopt, modify and develop their keywords to increase the effectiveness of their marketing campaign, attracting a wide range of customers

[602] Tan, 'Google Adwords: Trademark Infringer or Trade Liberalizer?', at 479.
[603] Google, 'Trademark Help for Advertisers', <https://support.google.com/adwordspolicy/answer/2562645?hl=en-GB>, accessed 28 Septemper 2014
[604] Ibid.
[605] Tan, 'Google Adwords: Trademark Infringer or Trade Liberalizer?', (at 477.
[606] Ibid., at 479-87.
[607] W. Hung, 'Limiting Initial Interest Confusion Claims in Keyword Advertising', *Berkeley Technology Law Journal*, 27 (2012), 647-75 at 647.
[608] Ibid.

and sales through information from ISP monitoring of consumer online activity. The Keywords service thus enables advertisers to control their advertising budgets via cost-per-click rather than when their adverts are displayed; it facilitates more cost effective competition with wealthier leading brands. The ability to purchase the trademarks of a competitor as keywords, and use in their own advertising enables other parties to take advantage of the familiarity or reputation they have gained in the minds of online consumers to promote their own goods or services to these consumers. These are the words they are likely to use to start their searches. Relatively new traders to the market, with less well known marks can more effectively alert customers to their products, even divert traffic which would have solely gone to the trademark owner.[609] Indeed it is almost a requirement to use such terms to compete effectively on the WWW given the way online consumers search for goods and services. The courts must therefore be clear in their statements of the parameters of such promotion in balancing this form of competitive trade with the legitimate interests and protections afford to the origin owner.

Consumers are direct beneficiaries of keyword advertising, enabling them to find new or additional products, services and information about substitutes or complementary products and services which are often equally relevant to their search in addition to the natural results, thereby increasing their choice. Valuable information from sponsored links direct them to product review or price comparison sites, making them better informed about their purchasing decisions and connecting them to traders with more precision.[610] The keywords advertising service potentially drives down prices and leads to better quality products and services being offered to consumers.[611]

The keyword advertising service has not pleased some trademark owners and it is worth noting that French courts have favoured protecting them in its adjudications.[612] The trademark is one of their main assets, especially when it enjoys a high reputation among the consuming public will seek restriction when even a lawful use is made by anyone other than

[609] D. Iwanow, 'Adwords Plays If You Can't Beat Them Trademark Them', (Search Engine Journal, 2011).
[610] R. Taubner, 'Google Adwords and Canadian Trademark Law', *Canadian Journal of Law and Technology*, 7 (2009), 289-317 at 289.
[611] Kurt. Saunders, 'Confusion Is the Key: A Trademark Law Analysis of the Keyword Banner Advertising', *Fordham Law Review*, 71(2) (2002), 543-77 at 545.
[612] For example, the Tribunal de Grande Instance de Paris (Regional Court, Paris) found Google guilty of infringing Louis Vuitton's trademarks. See '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at para 31.

themselves.[613] The showing of competitor advertisements whenever a mark is used as a search term may undermine their commercial goodwill because the trademark proprietor cannot exclusively exploit the familiarity of it as an advertising or marketing resource, or prevent ISPs use it as a source of profit.[614] It has been noted that this is also the case in pre- and post-internet verbal consumer enquiries and searches. Their point of view is that any use which can negatively affect their brand, even by comparison, constitutes trademark infringement and consumer confusion is caused by the use of trademarked terms by non-associated economic operators because potential purchasers find it more difficult to ascertain the origin of the goods. Consumers associate themselves with a particular brand image, but its effect is diluted by a search which brings it into comparison with other products, so it is not the only brand being searched. It provides encouragement to look at other, rival products and services leading to blurring of the image, and less loyal customers. Competitors essentially gain an unfair advantage in the use of the image owner's reputation.[615] Lowu calls this "ambush marketing",[616] defined by Duthrie as 'the unauthorised trading off the goodwill or exposure of another...It is a form of "free-riding" where an advertiser seeks to associate itself ...without paying for the right to do so.'[617]

In an assessment of the interests of each group, owners, competitors and the consumer, it remains to be seen how an optimal balance can be struck in the online keywords advertising context. Trademark law would be expected to take a lead on this, deciding whether the "navigational" or "contextual" search should be the primary determinant method of finding information and the boundaries of protection afforded to the marks they reveal. Legal difficulties arise in these considerations, not least due to the problems of policing the WWW, and interpretation by the ECJ of the infringement criteria has not assisted clarity in approach. Perhaps it is possible to envisage how the principle of undistorted competition can be achieved in the context of online keyword advertising.

[613] Phillips, *Google and the Law, Information Technology and Law Series 22* at 44.
[614] Sheas, 'Trademarks and Keyword Banner Advertising', (at 529.
[615] See the ECJ's decisions in '*L'oréal Sa Et Al. V Bellure Nv Et Al*.'; '*Interflora Inc V Marks & Spencer Plc*.'.
[616] A. Louw, *Ambush Marketing & the Mega-Event Monopoly: How Laws Are Abused to Protect Commercial Rights to Major Sporting Events* (Springer Science & Business Media, 2012) at 94.
[617] M. Duthie, *It's Just Not Cricket: Ambushing the Ambushers in South Africa* (Freehills Patent & Trade Mark Attorneys, 2003) at 171.

5.4. Adapting the Extent of Trademark Protection in the Online Commercial Market

It is evident that the limitations on protection granted to trademarks are reducing through ECJ case law. Arguably *L'Oreal* has broadened its scope, but the online keywords cases set tighter boundaries for the availability of protection in line with trademark use in verbal enquiries for particular named products. Economic functions accorded to the marks has led to academic accusations of excessive protection to the detriment of competition, and with the exponential rise of the Internet and the opportunities for new entrants to the market, this expansionist trend has become more problematic. The current controversy is clearly around the legality of third party use of another's trademark in online advertising of its own product and the limitations which are, or should be, imposed, particularly in light of somewhat uncertainty of the infringement criteria. In the particular area of marks with reputation, the infringement criteria appear to have become relaxed, making it easier to assert trademark protection within the online context. The balance of competing interests has become rather lopsided in favour of private business over public interest in a free market, a conundrum which needs resolution. A potential solution is that online keywords be considered as a form of comparative advertising, promoting alternative commodities to the consumer whilst stimulating improvement of the trademarked products via investment, development and improvement. This incentive must be in the consumer interest, and potentially maintains the primacy of the trademarked product without the need for expanded protection from the law.

5.4.1. The Flexibility of the Infringement Eligibility Criteria: the Fundamental Basis of the Problem

The reader will recall some discussion in context of the criteria used by the ECJ to assess infringement of the rights of a trademark owner in Chapters 3 and 4 regarding protection in the advent of the keywords system. It is considered that the Court has tightened the criteria to show infringement in a more restrictive sense, although the principle in Article 5 appears to be that its use must be in the "course of trade"; the court will find consumer confusion, or its likelihood, only if the use of the trademark by the third party occurs in the context of commercial activity and affects the capacity of the mark to perform a protected function.[618] This 'use in the course of trade' requirement has no sound basis in the legal language of the European TM Directive but was intended to be a tool to delineate the scope of the exclusive rights of the trademark owner in the context of balance with competitive interests of third

[618] '*Arsenal Fc V Matthew Reed*', at para 51. See also '*L'oréal Sa Et Al. V Bellure Nv Et Al*.'; '*Google France Sarl V Louis Vuitton Malletier Sa and Others* '; '*Interflora Inc V Marks & Spencer Plc*.'.

parties and consumers. Nevertheless, in the Internet era, trademark 'use' has played a pivotal role in establishing liability for trademark infringement by advertisers and ISPs, both of which have vested interests in the sale of the names and their signs as keywords. A restrictive approach was adopted in the interpretation of this requirement, and the Court ruled that not "any use" of the original trademark is prohibited, but is to be limited to those which adversely affect the `specific interests` of trademark proprietor, primarily to ensure that the mark can perform its protected "functions".[619] In other word, not any use constitutes infringement.

Unlike other forms of intellectual property rights trademarks grant inherently exclusive rights of use to their owners. Article 63(1) of the European Patent Convention, for example, stipulates that exclusive rights accorded to patents are limited to a maximum of twenty years from the date of filing the application of registration. The Advocate General in *Phillips Electronics* stated that the motivation of mark owners to gain registration for functional shapes or shapes is to give substantial value to the products and gain benefit from the exclusive and permanent right that trademarks ensure; this in turn extends the life of other rights, such as patents and design, circumventing legislation which sought to restrict such rights to limited periods.[620] The concerns of Chronopolous will be recalled, namely the creation of a "language monopoly" upon the limited number of words available to mankind.[621] That strong monopolistic tendency has increased the necessity to more narrowly define the exclusive rights enjoyed by mark owners. The exercise in interpreting trademark rights takes place in a context of competing interests to strike the necessary balance and is equally driven by the need to protect mark owner interests in the creation of business goodwill and choice of potentially effective sign to achieve this.[622] The balance between different competing interests can only reach a reasonable equilibrium if the third parties and consuming public are able to rely on a defence under which the effects of the trademark rights can be mitigated, whilst still protecting its recognised functions. Article 6(1) of the TM Directive, incorporates a number of particular limitations on the effects of a trademark where a third party may make reference to the registered sign of a competitor without violating the right to exclusivity of the owner.

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[619] '*Arsenal Fc V Matthew Reed*'.
[620] '*Philips Electronics Nv V Remington Consumer Products Limited*'. para 30.
[621] Chronopoulos, 'Determining the Scope of Trademark Rights by Recourse to Value Judgements Related to the Effectiveness of Competition', (at 539; Kintner and Lahr, *An Intellectual Property Law Primer* at 238.
[622] Chronopoulos, 'Determining the Scope of Trademark Rights by Recourse to Value Judgements Related to the Effectiveness of Competition', at 539-40.

Confining the infringement of trademarks to specific kinds of use, and not just 'any', by the exclusion of descriptive or other referential use, is basically an attempt to stabilise concept of protecting its use.[623] The doctrine is a safety valve for avoiding undue restriction on competition attributed to the potential nature of limitless monopoly granted to the mark owner; only third party acts which interfere with consumer ability to rely on mark of the owner as a source of information are actionable.[624] It is possible to argue herein that the ECJ has tightened the 'use in the course of trade' criteria, but the rights of the trademark owner are not "gross" in scope or merely "defensive" because the aim of inhibition consumer confusion is fulfilled, and the law is not primarily concerned with the exploitation of brand "value as an enterprise's intellectual property asset".[625] This limitation on protection has long been recognised by the ECJ in adopting a narrow functional interpretation of the need for protection where the use takes place in a commercial context harm falls on the origin function.[626] The adjudications betray problems with clarity of thought on the part of the Court. In *Arsenal*, it appears to relax the requirement from the rather narrow formula it used in *BMW v Deenik*, but then tightened it up in the *Google France* case. However, what the ECJ also did in *Arsenal* was to qualify its relaxation of the use requirement in that case with an additional "adverse effect" requirement. Beier contends this was the original "intended purpose" when protection of use was first introduced.[627] It is reiterated in the 11th Recital in the Preamble to the TM Directive which clarifies that the primary purpose for trademark protection is to guarantee the mark functions as an "indication of origin". It ensures that the trademark law remains tied to its economic justification, the search cost rationale.[628] In Europe, a cautious approach was taken to trademark protection, with a reluctance to accept it should go beyond the conventional essential boundaries of safeguarding against consumers confusion. This rejects liberal opinion which asserts protection should go beyond the origin function, expanding to cover other economic functions which some marks may be able to perform.[629]

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[623] Ibid., at 540.
[624] M. Barrett, 'Internet Trademark Suits and the Demise of Trademark Use', *U.C. Davis Law Reviw*, 39 (2006), 371-457 at 388.
[625] Ibid.; Dogan and Lemley, 'Trademarks and Consumer Search Costs on the Internet', at 836; Senftleben, 'Adapting Eu Trademark Law to New Technologies - Back to Basics?', (at 138; Senftleben, 'The Trademark Tower of Babel - Dilution Concepts in International, Us and Ec Trademark Law', at 45-47.
[626] See for example its decisions in '*Arsenal Fc V Matthew Reed*'; '*Adam Opel V Autec*'.
[627] Beier, 'The Development of Trademark Law in the Last Twenty-Five Years', at 781.
[628] Dogan and Lemley, 'A Search-Costs Theory of Limiting Doctrines in Trademark Law', at 1238.
[629] See generally Chapters 2 and 3.

The meaning of use "in the course of trade" in the Directive has always been a developing area of jurisprudence, with shifting priorities and balances affecting two of the considerations of the Court in finding infringement under this requirement; (i) what is meant by use "in the course of trade", and (ii) must such a use be "use as a trademark" which may affect the trademark's capacity to perform a protected function. The literal meaning of "in the course of trade" is occurrence in commercial context, and therefore the result is automatic economic effect or benefit. This is the interpretation adopted by the Court and excludes private use with benefit limited to a personal rather than financial benefit.[630] With the emergence of the keyword advertising litigation, the Court has shifted the focus to the use of the mark by another "in its own commercial communication", activity involving the original trademark which prima facie suggests infringement.[631] The Court is more restrictive in its implementation of the 'use' requirement than appeared in *Arsenal*. The change of emphasis is a controversial issue because it has given ISPs the opportunity to escape trademark infringement where they offer for sale the trademark name of another as a keyword, as they do not use the reserved mark to sell their own advertising services; it does however bring them financial benefits.[632] They do not use the signs it sells in the required, prohibited sense, a means to sell their product. Given the profitability of the sale of online keywords, it must be considered whether ISPs should be treated as "using" the signs they sell "in the course of trade". It will help to determine how this serves online trading and whether it creates the necessary balance between the interest of trademark owners, the ISP, and free trade principles. This will be discussed below.

The interpretation of "use as a trade mark" by a third party as to the potential for damage to one of the protected functions of the mark has been equally controversial. The traditional interpretation of protection and restriction of the use of another relates to its capacity to perform the essential function exclusively yet the "multifunctional interpretation"[633] has resulted in the Court recognising that the commercial value of the sign as a marketing device

[630] '*Arsenal Fc V Matthew Reed*', at para 40.
[631] '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at paras 56-57.
[632] For more about this issue see for example, Dogan and Lemley, 'Trademarks and Consumer Search Costs on the Internet', (; Barrett, 'Internet Trademark Suits and the Demise of Trademark Use', (; M. Janis and G. Dinwoodie, 'Confusion over Use: Contextualism in Trademark Law', *Iowa Law Review*, 92 (2007), 1597-667; U. Widmaier, 'Use, Liability, and the Structure of Trademark Law', *Hofstra Law Review*, 33 (2) (2004), 603-709; M. Lemley and S. Dogan, 'Grounding Trademark Law through Trademark Use', *Iowa Law Review*, 92 (2007), 1670-701.
[633] This expression was borrowed from Chronopoulos, 'Determining the Scope of Trademark Rights by Recourse to Value Judgements Related to the Effectiveness of Competition', at 541.

is no longer solely limited to its capacity to fulfil the traditional source identification function; it includes value based on its capacity to perform other economic functions, such as advertising and investment. In the context of Article 5(1)(a), all functions of trademarks are equally protected no matter whether or not there is confusion or harm as to the essential function. In *L'Oreal,* the ECJ also identified other functions such as quality and communication functions, but only addressed the advertising and investment functions as the ones which might be affected in the circumstances of the case.[634] Case law does favour "contextual" searching, and arguably legitimately protects the interests of trademark owners in advancement of the essential function due to the relative lack of advertising priority. The online trading industry however is potentially placed at risk due to excessive mark protection by the national courts of the Member states.[635] The ECJ has attempted to mitigate the effects of guaranteeing legal protection to functions in addition to that of the essential origin with various determinations of damage which may occur, but arguably it can be difficult to prove such harm to the extra functions in practice. It is a circumstance welcomed by some, particularly strong advocates of free trade, but the approach of the Court in this regard is open to criticism. Infringement criteria flexibility, the liability of the advertiser and the potential adverse effect on the trademark's functions needs further examination.

5.4.1.1. Liability of ISPs: Should they be Liable?

The trademark use as a requirement for infringement excludes from its remit the selling of keywords by an ISP without the consent of the mark owner even where the presentation of the search results may bring consumer confusion. Janis and Dinwoodie argue that trademark law as a result will be divorced from policing online markets and therefore insufficiently regulating the marketplace.[636] The lack of liability of ISPs for trademark use in keyword advertising in trademark law needs to be examined in the context of how it is then said to promote its goals, particularly its economic justifications, and thereby fulfils the aim of the TFEU treaty to facilitate the free movement of products within the European market. Academics are divided over the functional meaning of the term "use" in the course of trade; an argument suggests that merely selling the name of a mark as a keyword is not "use" in the course of trade, that is, to indicate the source of the product, should not trigger ISPs

[634] In '*L'oréal Sa Et Al. V Bellure Nv Et Al.*', at para 58. See for example, '*Google France Sarl V Louis Vuitton Malletier Sa and Others* '; ' *Interflora Inc V Marks & Spencer Plc*'; '*L'ore´Al Sa and Others V Ebay International Ag and Others*'.

[635] For more about this issue see Laan, 'The Use of Trade Marks in Keyword Advertising - Developments in ECJ and National Jurisprudence',

[636] Janis and Dinwoodie, 'Confusion over Use: Contextualism in Trademark Law', at 1603.

liability.[637] Those with more cautious approach suggest that any time a mark is used in connection with the "sale, offering for sale, distribution, or advertising" of products is deemed to be "use" in the course of trade, and ISPs should be liable for infringement.[638] They both seek to justify their views from the economic perspective of trademark law, the economics of information.

Protection is justified on the search cost rationale, a benefit for consumers in saving of time and money, and indicator of trademark infringement liability; it is however rather problematic in application. Two kinds of consumer search costs are at issue here, that of finding the desired product, or information about it, and ascertaining the assurance of quality. Trademark law arguably should be concerned with the latter, although the two can overlap. Dogan and Lernley argue the rationale cuts "both sides of the argument" and makes the effect of the keyword advertising service hard to determine; it increases search costs for some "navigational" consumers while reducing them for the "contextual".[639] The interests of types of consumers via the Internet are different and from the point of protection of the trademark it is necessary to distinguish between the methods of online search, perhaps considering a priority of interests in economic justification.

The objective of the consumer in "targeted" or "navigational" searches, the entering of the trademark name as a keyword is primarily to find the owner's website or to gain information about a certain product.[640] The search cost for such a consumer slightly increases whenever they are confronted by the advertisements of rivals, or objectively irrelevant goods or services.[641] The "informational" or "contextual" searcher uses the name of the mark as a starting point or source of information for online shopping to find alternative products or compare prices and reviews so are less sensitive to the increase of search costs where there is a benefit to their ability to choose on product quality and variety.[642] The balance between

[637] Dogan and Lemley, 'Trademarks and Consumer Search Costs on the Internet',; Dogan and Lemley, 'A Search-Costs Theory of Limiting Doctrines in Trademark Law', (; Barrett, 'Internet Trademark Suits and the Demise of Trademark Use', (; S. Dogan, 'Trademark Remedies and Online Intermediaries', *Lewis & Clark Law Review*, 14 (2010), 467-89.
[638] Darrow and Ferrera, 'The Search Engine Advertising Market: Lucrative Space or Trademark Liability?', at 238; Janis and Dinwoodie, 'Confusion over Use: Contextualism in Trademark Law',; J. Grimmelmann, 'The Structure of Search Engine Law', ibid.93(1) 1-64.
[639] Dogan and Lemley, 'Trademarks and Consumer Search Costs on the Internet', at 795.
[640] Goldman, 'Deregulating Relevancy in Internet Trademark Law', at 521-25; Bonewitz, 'Beyond Confusion: Reexamining Trademark Law's Goals in the World of Online Advertising', at 919.
[641] Ibid.
[642] Ibid.

interests of the different searchers may extend beyond the search cost theory, because the 'non-confusing' uses of the keywords advertising service can only be rationalised on the search cost theory if the objective of the searcher is to access the web of the trademark owner or if it undermines the trademark's capacity to provide quality assurance in some other way.[643] Nevertheless, according to a concept known as "objective opaqueness" it is very hard to infer the searcher's objective whenever a consumer types a search term into a search engine.[644] Even when consumers use the name of a mark as a search keyword, the search engine provides no context by which someone can determine where the searchers want to go, so it is difficult to distinguish between the searcher who uses the term to find the website of the owner, and those who use it as a "proxy" for other class of products.[645] Goldman contends that due this "objective opaqueness" it is not possible to make any "legally-supportable inferences about searcher objectives based on the keywords used".[646]

Where preference for mark protection depends on the priority of one group over another, the law may need to adjudicate where it may harm the interests of some consumers in order to protect others, a rule which benefits consumers most.[647] The interests of consumers in maintaining the use of the keywords service are necessarily preferred by the ISP over those of targeted searchers. Although the keywords service may increase the search costs of targeted consumers, it greatly decreases those for shoppers who look for information or offers on other alternative products by permitting easier linkages which do not require individual searches. The service promotes the substantial goal of lowering the search costs by allowing undertakings to use a mark to boost consumer access to information, including information about the product sold under the name of the mark.[648] It is therefore arguable that the keywords service enhances consumer welfare through its capacity to introduce substitutes, possibly more suitable in terms of quality, characteristics or price to existing goods or services, thus promoting efficient competitive market.[649] It would be difficult for an owner to argue that the use of their trademark in keyword advertising has a negative effect on the "economic efficiency" of the market on the grounds of "search costs".

[643] Bonewitz, 'Beyond Confusion: Reexamining Trademark Law's Goals in the World of Online Advertising', at 919.
[644] Goldman, 'Deregulating Relevancy in Internet Trademark Law', at 521; Bonewitz, 'Beyond Confusion: Reexamining Trademark Law's Goals in the World of Online Advertising', at 919.
[645] Ibid at 521-525; Ibid at 919.
[646] Goldman, 'Deregulating Relevancy in Internet Trademark Law', at 521.
[647] Dogan and Lemley, 'A Search-Costs Theory of Limiting Doctrines in Trademark Law', at 1241.
[648] Dogan and Lemley, 'Trademarks and Consumer Search Costs on the Internet', at 810.
[649] See the opinion of the AG in *Interflora* case at para 45 and fn 34.

Dinwoodie and Janis however contend that permitting the selling of sponsored links actually increases the search cost for consumers as a result of information overload and is contrary to the economic rationale behind protecting trademarks.[650] The law is not designed to ensure the flow of the maximum amount of any information to consumers but to guarantee accurate and helpful information, especially where overload and reliance on dominant intermediaries may become substantial to consumer welfare.[651] Keyword advertising nevertheless provides often equally relevant messages at a time when consumers seek it, maximising the relevance of the advertisement to the typed keyword as an interest shared by all the parties of advertisers, search engine users, and ISPs.[652] Advertisers aim to alert consumers most likely to buy their goods or services and ISPs make profit only when a user views a pay per click advertisement, so have an interest in guaranteeing that those most relevant appear most conspicuously and are not obscured by irrelevant ones.[653] Keyword advertising therefore has the potential to substantially deliver accurate and helpful information and therefore lower consumer search costs.

The WWW has an integral substantial advantage in its flourishing success in that it operates without any central control and its content is freely inputted into it by its different users.[654] This however makes the amount of available information in cyberspace massive and rather unwieldy, which in the context of commerce means 'natural results' for the online search inaccurate, perhaps subjectively irrelevant and certainly time consuming to filter. This is a natural result of the "opaqueness" of the objective of the searcher, the inability of technology to ascertain it more clearly, and indeed most users do not know how the ISPs actually and technically provide those results. Simply put, "seek, and you shall find".[655] The accuracy of the ISPs natural results is further affected by metatags manipulation, where site owners add rival trademarks into computer code on their web page, a method of programming which secures higher search rankings for the site owner when a consumer enters the name of a competitor's trademark as a search term.[656] The search engine will then rank that enhanced web page higher than that of the trademark owner, perhaps even push that owner off the first

[650] Janis and Dinwoodie, 'Confusion over Use: Contextualism in Trademark Law', at 1630-31.
[651] Ibid., at 1622.
[652] Darrow and Ferrera, 'The Search Engine Advertising Market: Lucrative Space or Trademark Liability?', at 238.
[653] Ibid., at 239.
[654] See the opinion of the AG in *Google France* at para 110.
[655] Ibid. at para 1.
[656] R. Nelson Eng, 'A Likelihood of Infringement the Purchase and Sale of Trademarks as Adwords', *Albanian Law Journal Science & Technology*, 18(2) (2009), 493-540 at 497.

page of results.[657] Most users only look at the top hits for a given query so displacement will be costly for 'targeted' searchers seeking a particular mark owner. It is possible to argue that online search costs, unlike the off line world, is always slightly high and potentially confusing, but information asymmetry is greater in the online world because the purchaser cannot handle the goods. In other words, it may be hard to claim that the online search costs could constantly be driven to zero. The keywords service however is one of the tools for organising information although it is safe to say that Google, for example, has an interest in manipulating its own search results by the sale of trademarks to the highest bidder for premium hyperlink placement, rather than merely allowing site owners to manipulate search results free of charge through the improper inclusion of trademarks in metatags.[658] Search result manipulation is benefits and reduces the search costs even for targeted users and the keywords service, for example, unlike metatags manipulation, guarantees relatively neutral results for more legitimate websites. The number of users of the keywords service is increasing.[659] Web site owners are therefore relying less on metatag manipulation, or other forms of online advertising, which helps reduce the inaccuracy of the natural search results and thereby decrease cost for "targeted" searchers.

Selling keywords incorporating trademarks is important to ensure the commercial viability of ISPs which have generally gained popularity as a free of charge service. Remaining economically viable whilst fulfilling customer expectations of a free service requires a source of revenue and the obvious in context is advertising.[660] It is difficult to surf and search the WWW without seeing online advertising, in the form of visual displays on web sites or text on search engines sites.[661] The generation of income by adverts featuring price sensitive keywords is therefore crucial to survival and the free service and ISPs would not invest in making searches effective if they would not reap financial benefits.[662] Google's Income Statement Information shows its total advertising revenues were over than $50 million in 2013, most generated by the AdWords program, a model of business which has proved to be

[657] Ibid.
[658] Ibid.
[659] Google's Income Statement Information for instance, shows that the company's total advertising revenues have increased from $21 to over than $50 million between 2008 and 2013, most of which generated by the AdWords program. Https://Investor.Google.Com/Financial/2013/Tables.Html,
[660] Jonathan J. Darrow and Gerald R. Ferrera, The Search Engine Advertising Market: Lucrative Space or Trademark Liability? at 228.
[661] J. Ratliff, and D. Rubinfeld, Online Advertising: Defining Relevant Markets: Journal of Competition Law and Economics, 6(3) 2010, 653-686, at 653.
[662] Edward Wildman, Keyword advertising trademark infringement litigation: an uphill battle, *World Trademark Review* 2013, pp94-95, p.94

one of the most successful industries in the e-commerce market, a "goldmine" for operators of search engine advertising.[663]

The purpose and goal of the European Treaties (TFEU) to facilitate the movement of goods and service and promote free competition includes e-commerce, and ISPs generally play a pivotal role in their achievement, increasing business marketing opportunities and guiding consumers ever more efficiently to the products that they seek. They have the potential to liberalise trade in ways not perceivable a couple of decades ago amongst the member states of the European Union, so arguably any limitation of their activities will result in making both businesses and consumers losing out the potential trading benefits provided.[664] From a policy perspective, therefore, the apparent exclusion of ISPs from liability under the trademark law can be a welcome approach. Prior to the *Google France* judgment, the ECJ ruled that trademark infringement by unauthorised use would be satisfied simply by establishing that the third party was engaging in commercial activity of some kind, the primary "filter" to distinguish from permissible activity. This approach would have rendered ISPs potentially liable in any case involving use of a mark as a keyword and the necessity to prove the "use" did not affect any of the mark functions. The *Google France* interpretation means the ECJ relieves ISPs of any direct responsibility for how third parties use keywords; this creates "certainty" in law for the search engine, which does not need to conduct a 'confusion assessment' for many cases.[665]

Ultimately, and due to the justifications outlined, it can be argued that it is desirable for ISPs such as Google to be shielded from liability for trademark infringement; they are simply providing a platform for advertisers, rather than using protected signs 'in the course of trade'.[666] It is essentially an ECJ policy driven rationale, because in return for the income generated by the keyword sale, the ISP provides the consumer with a free resource and gives traders' access to the competitor global market thus felicitating the interests of free trade. There is a potential for consumer confusion with provision of such a flow of information, but

[663] J. Cornthwaite, 'Say it with flowers: the judgment of the Court of Justice of the European Union in Interflora v Marks & Spencer', *European Intellectual Property Review*, 34(2) (2012), 127-32 at 127.
[664] The value of the e-commerce in Europe has estimated to be the largest in the world with a total value of €246 billion for year 2012. See Http://Www.Retailgazette.Co.Uk/Articles/44043-European-Ecommerce-Market-Valued-at-198-Billion, (Last visited 7 July 2015).
[665] For more about this, see Janis and Dinwoodie, 'Confusion over Use: Contextualism in Trademark Law', at 1622; Dogan and Lemley, 'Trademarks and Consumer Search Costs on the Internet',
[666] This was the justification used by the ECJ in *Google France*.

this can hardly be described as the responsibility of the intermediary ISP. Liability must continue to lay with the providers of the information itself, namely the advertiser who actually use the keyword as description. The consumer may use the trademark as a basis or reference for a product search to which the advertiser will provide a response. If this is restricted or otherwise constrained by the protection of the mark, the consumer is arguably denied the opportunity of choice and competition principles are compromised. The aim of the law must therefore be primarily the avoidance of confusion concerning product origin arising from the consumer's method or purpose of search.

This argument becomes particularly relevant in the case of keywords which directly utilise signs into which owners have invested a great deal of reputation and money. Dr. Fhima is somewhat forthright in her summary of the commercial use by Google of trademarks in pursuit of its own business interests; selling other people's property to the highest bidder so that third party will benefit from the display in response to consumer input of the owners mark.[667] This need not be a cause of confusion to the consumer however, and will effectively shield the ISP from liability, whilst leaving the justification for use to the purchaser; [668] it also increases the profitability for the ISP by making the owner bid more.

The use of keyword advertising by competitors via the ISP services has provided some discomfort for trademark owners in the protection of their commercial interests in the product and indeed the mark as a commodity itself, and a willingness to seek redress should they feel compromised. Adoption and imitation, intended to mislead consumers, are practices which find some basis for prohibition under trades description regulations, particularly the UK Consumer Protection from Unfair Trading Regulations 2008 which implements the European Unfair Commercial Practices Directive.[669] Although these largely prohibit and sanction the way companies conduct their business, they provide some protection to product owners, not only those with protected trademarks. They seek to prevent the untruthful actions of competitors who seek to mislead vulnerable consumers about the nature and source of products, including misrepresented associations with established reputable brands. This would seem to militate against the need to extend the protected trademark functions, but it could be said that it is not such an effective or comprehensive weapon against deceptive

[667] I. Fhima, *Trademark Law and Advertising Keywords at Chapter 6 Research Handbook on Eu Internet Law* (2014).
[668] *L'Oreal v Bellure*
[669] s5 and s6 'Consumer Protection from Unfair Trading Regulations', (2008).

activity, and relies too much for enforcement on an underfunded agency with limited power. In any case, the regulations, in addition to such UK consumer protection legislation, are largely to prevent the consumer interest being compromised by the activities of unscrupulous traders rather than the companies whose product reputation they seek to take advantage of. This study, in contrast, is to find a route by which otherwise legitimate traders can compete with established producers and service providers, to establish the setting of better defined limits and protections for the corporate rivals.

The liability of ISPs is also examined in the context of the E-Commerce Directive 2000 (ECD).[670] Article 14 thereof applies to ISPs in cases where the role of the service provider is limited to merely providing the technical service for storage of data, rather than knowledge of, or control over its content.[671] They cannot therefore be held liable for data stored by the advertiser unless they have actually obtained knowledge of its unlawful nature or the advertiser activities and failed to act expeditiously to remove or to disable access to the data concerned.[672] Data relating to previous searches is used therefore to 'assist' the ISP to facilitate the demand for information based on previous search patterns or terms in the absence of illegality. This method of processing consumer 'intelligence' avoids the incurring of liability to the ISP under the Article 14 provision and arguable bears no influence on the broad nature of keyword searches in the normal activity of consumer product search. The ISP still provides an online service akin to the shop based, face-to-face request for a trademarked product and the indication of availability of others of a potentially suitable ilk.

5.4.1.2. The Liability of the Advertiser

The use by an advertiser of another's trademark name, which it has purchased as a keyword, to trigger links to its website where its own products are offered for sale, is 'use in the course of trade' within meaning of that case law. It is use in a commercial context, not a private activity, and the liability of the advertiser for breach of the protection of the mark must be assessed under Articles 5(1)(a) and 5(2), a calculation of the adverse effect that may be caused to one of the protected functions, namely origin, advertising, and investment. The practical, adverse effect of function infringement has been addressed earlier, but the rationale

[670] 'The Eu Electronic Commerce Directive 2000/31/Ec of the European Parliament and of the Council of 8 June 2000 on Certain Legal Aspects of Information Society Services, in Particular Electronic Commerce, in the Internal Market'.
[671] '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at para 120. Most importantly, see the ECJ judgement in '*L'ore´Al Sa and Others V Ebay International Ag and Others*'. where it has held that eBay is not liable for its users' insertions.
[672] Due to the limited length of this chapter the liability of ISPs under the ECD will not discussed.

justification of the use of the theories remains to be considered in the event of identifiable harm.

In respect of the origin function, the ECJ, post AdWords adjudications, reiterates confusion of origin as the principle of infringement determination, yet it arguably protects the legitimate interests of trademark owners in its examination of the way the new, online advertising process actually operates. There would be an adverse effect on the origin function where the advertisement does not enable the normally informed and reasonably attentive internet user, or makes it more difficult, to determine whether the products offered for sale under that advertisement originate from the actual owner of the mark or its affiliates, rather than the third party advertiser.[673] The test applied by the Court requires transparency in the advertisement so that the origin of the products is identifiable, not just the identity of the third party advertiser, without the need to visit its website.[674] Cornwell calls this the "novel duty of transparency", but it is criticised for placing the onus on third parties to ensure that consumers are not mislead about the origin of the products that they are promoting and therefore secure market transparency.[675] It does however seem logical and fair where the property rights of the owner are utilised, without payment to them but to the ISP. Where the protection of the mark under Article 5(1)(a) is absolute, the absence of the clear denial of a connection with the trademark owner is enough to trigger straightforward liability.

In practice, though, it is difficult to ascertain how advertisers can ensure this transparency in a short advertisement which due to technical reasons may only constitute a few words.[676] Due to the nature of the WWW, consumers are more likely to receive a massive load of information every time they conduct a search, regardless of whether or not the terms they use are trademarked or otherwise; they should not therefore expect that the returned search results to all depict the same or economically connected undertakings.[677] The ECJ seeks this through its interpretation of what is necessary to protect the origin function rather than the additional

[673] '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at paras 84&87.
[674] Ibid., at para 90. '*L'ore´Al Sa and Others V Ebay International Ag and Others*', at para 96. In the subsequent keywords cases, '*Portakabin V Primakabin*'., the ECJ repeated verbatim this test for determining likelihood of confusion under Article 5(1)(b)
[675] Cornwell, 'Keywords, Case Law and the Court of Justice: The Need for Legislative Intervention in Modernising European Trade Mark Law', (at 93. For more about the problem of unnecessary overlap between the mechanisms provided by the TM Directive see Chapter four of this thesis.
[676] Ohly, 'Keyword Advertising or Why the ECJ's Functional Approach to Trade Mark Infringement Does Not Function', (at 880.
[677] G. Psaroudakis, 'In Search of the Trade Mark Functions: Keyword Advertising in European Law', *European Intellectual Property Review*, 34(1) (2012), 33-39 at 34.

economic functions. It may also be the case that this facilitates the argument that ancillary functions are actually mere constituents of the essential origin, rather than separate entities. 'Targeted' internet users conducting a search cannot assume a commercial link with all, or even some, of the sponsored results merely because they had entered a trademarked keyword, a presumption also applicable to natural search results. They are more likely to get, for their efforts, further information from sources other than those they were seeking, including comparative references, similar or compatible goods and links to unrelated websites. Psaroudakis contends that this is more likely where the extra materials are marked as 'sponsored results' and separated from the natural results block.[678] The ECJ concludes that internet users may, in principle, be mistaken on the origin function because an advert appears immediately after the search for the trademark and it remains visible on the screen whilst the searcher considers a purchase.[679] The fact that the 'sponsored results' are separated from the natural results is not therefore sufficient to avoid adverse effect on the origin function and so advertising by another is likely to affect the consumer in making a choice.[680] Protection of the consumer against confusion should promote competition and advance the "economic efficiency" of the market, yet protecting trademark confusion must be carried out with care and balance against such apparent opposing values as freedom of information and competition, especially under Article 5(1)(a) where confusion is presumed and the protection is 'absolute'. Here the use of the trademark as a keyword may provide benefits of enhancing the availability of consumer information and trader competition without creating consumer confusion.

The category or type of Internet user who may be caused confusion, either 'targeted' or 'contextual', may assist in creating a standard to trigger advertiser liability. The ECJ instructs the national courts of the member states to accept harm to the origin function only if "reasonably well-informed and attentive users" gain a false impression from the third party advertisement that it is part of the mark proprietor's commercial network.[681] This appears to be recognition only of confusion to "attentive" users, excluding those less cautious or careless

[678] Ibid.
[679] '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at para 85.
[680] In '*Portakabin V Primakabin*', at para 37-39. the ECJ refused to comment on the fact whether the separation between the 'sponsored links' and the natural results can have different effect on the protection that granted to the trade mark owner.
[681] In ' *Interflora Inc V Marks & Spencer Plc*', at para 49. the ECJ had referred to a similar test by stating "the average consumer of the products of the toy industry, normally informed and reasonably attentive and circumspect". Nevertheless, the test here is limited to a group of relevant consumers (toy industry) while the test in keywords advertising is based upon internet users in general.

users. Landes and Posner, for example, define careful consumers as "consumers with low costs of acquiring and processing product information, (who) are not fooled".[682] In *Beta Layout*, the German Federal Supreme Court determined the attentive user to be one who understands the difference of the lists of the natural search results and those of sponsored advertisements from a search engine and notices the Internet address of the advertiser's website.[683] Careless users are likely to be confused on the origin of a product whether or not the natural results are separated from the paid adverts.

The Internet user 'standard' is that it is not clearly, or easily, defined to enable national courts to follow the same formula or interpretation and create harmonisation among the European Union member states; it depends somewhat subjectively on the point of view and understanding of individual judges.[684] Programmers who create advertisements using keywords cannot be expected to place themselves in the position of potential types of user, because the nature of their job indicates a greater level of computer operation knowledge; they have known way to assess the standard to avoid liability because theirs will be different from what the court is tended to apply, and technical limitations make it problematic, if not impossible to incorporate disclaimers.[685]

This process becomes, at its base level, a question of calculating the percentage or number of Internet users who need to be confused to consider the advert is too misleading and deemed impermissible. There are always careless consumers who will mistake the origin of a product regardless of the presentation method of the advert so the standard expounded by the ECJ is vague, lacks guidance and so introduces uncertainty in the law. This leads to differences in interpretations across the various national courts. In *BergSpechte*,[686] the Austrian Court found that the defendant is liable for trademark infringement on the basis of lack of "appropriate clarifying indications" in the actual advert although the use of the trademarks in this dispute did not appear in the advert and the name of the advertising firm was indicated in the URL,

[682] Landes and Posner, *The Economic Structure of Intellectual Property Law* at 204.
[683] 'Bgh, Grur 2009, 500 - *Beta Layout*', at paras 16-19. The AG opinion in '*L'ore´Al Sa and Others V Ebay International Ag and Others*'. had adopted similar definition.
[684] L. Jyrkkiö, 'But I Still Haven't Found What I'm Looking For: The ECJ and the Use of Competitor's Trademark in Search Engine Keyword Advertising', *Helsinki Law Review*, 1 (2011), 129-80.
[685] Ibid., at 143-55.
[686] '*Die Bergspechte V Günter Guni*', at para 12.

taking an approach of a somewhat low level of attentiveness to give rise to confusion.[687] It is possible, therefore, to identify the ECJ as favouring "contextual" searching for protection from infringement liability, and the legitimate interests of mark owners and consumers in this differentiation of users what may affect them under the essential function. It is not however keyword advertising per se which has the potential to damage the origin function; the transparency test is substantially alleviates the risk of harm. "Attentive users" are presumed to be observant and circumspect, so capable themselves to evaluate information directed to them in the market, and in any case it has been argued that being too protective to the interests of consumers will fail to strike the optimum balance with other opposing interests. The origin function is therefore affected by being given more weight and influence in the scope of the protection it is deemed to require in the context of keyword advertising.

The advertising function prima facie appears to provide a promising justification for brand owners, seeking protection of their mark, to prevent advertisers from using their names as keywords.[688] In *L'Oréal*, the ECJ acknowledged this function for the first time thereby ostensibly guaranteeing protection of it. This has not been the case because adjudications in the AdWords cases have disregarded the importance of this function, and decided not to grant it special protection.

A number of advertisers competitively bidding for the same keyword means the price of a particular trademark's name may become expensive. Indeed the original owner may be obliged to spend more money on purchasing what it already owns in order to reinforce its own advertising campaigns. This of itself appears a sound argument for asserting 'adverse effect' on its trademarks advertising functions, and claim protection.[689] This made sense to the ECJ in *Google France*, which held the use of a mark by another as a keyword is liable to have certain "repercussions" on the advertising use of that mark, specifically when it is liable to almost oblige the owner to intensify and bolster its own advertising campaign profile.[690] Those "repercussions" of use do not of themselves constitute an adverse effect on the

[687] See Jyrkkiö, 'But I Still Haven't Found What I'm Looking For: The Ecj and the Use of Competitor's Trademark in Search Engine Keyword Advertising', at 146.; Laan, 'The Use of Trade Marks in Keyword Advertising - Developments in ECJ and National Jurisprudence', at 35.
[688] Cornthwaite, 'Say It with Flowers: The Judgment of the Court of Justice of the European Union in Interflora V Marks & Spencer', (at 129.
[689] Meale, 'Interflora: The Last Word on Keyword Advertising?', at 12.
[690] '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at paras 57, 91&93. [Emphasis added]

advertising function of the trademark, thought the Court.[691] The proprietor is not entitled to prohibit a third party from using a sign identical to its trademark, in a referencing service, on the basis that such use is liable to have an adverse effect on the advertising function of that trademark.[692]

This is a judicially restrictive approach to what is deemed to affect the advertising function, and in the exclusion from the scope of protection, the ECJ bases this on the role it plays. The use by a third party of a mark does not, says the Court, prohibit the keyword purchaser from benefiting from this sign as a tool to inform consumers or convince them about the products as long as his Internet address appears within the search results. The origin trademark owner may only claim harm to is advertising function only if he is been deprived from having his website promoted. It is argued that the Court should not have examined adverse effect on the advertising function separately, with no reference to dilution. Guaranteeing protection for economic functions is to a large extent already included in the protection of the origin function.[693] The assertion by the Court that reference in an advertisement to the owner's website effectively nullifies entitlement to protection is weak; it is hard to deny that any competitor's use of a keyword has no adverse effect on the advertising function of that mark.[694] Advertising is a means to succeed in a competitive environment and a third party gains advantage from the advertising value of the trademark by use of the keyword it has purchased from an ISP. The trademark owner's advertising is supposed to imprint its theme in the minds of consumers and displace the messages of competitors, so even if its website is displayed, the plethora of competitor adverts which appear simultaneously in sponsored links is sufficient to cause harm to the advertising function, and therefore warrant mark protection.[695]

The same conclusion can be reached without the need to discuss the potential "repercussions" on the advertising function. The fact of any effect on goodwill or distinctiveness is similar,

[691] Ibid., at para 95.
[692] In contrast to *L'Oréal*, the trade mark did not appear in defendant's advertisement or promotional material. It is arguable that the ECJ therefore appears to have taken a narrow view of what can affect the advertising function.
[693] See Psaroudakis, 'In Search of the Trade Mark Functions: Keyword Advertising in European Law', (at 38; Jyrkkiö, 'But I Still Haven't Found What I'm Looking For: The Ecj and the Use of Competitor's Trademark in Search Engine Keyword Advertising', at 163; Laan, 'The Use of Trade Marks in Keyword Advertising - Developments in ECJ and National Jurisprudence', at 23.
[694] Psaroudakis, 'In Search of the Trade Mark Functions: Keyword Advertising in European Law', at 38.
[695] Ibid.

and recognises the mark as a focus of substantial investment to achieve this status. The view that examination of injury to the advertising function which goes beyond unfair advantage and is detrimental to the distinctive character or the repute of the trademark, is a potential basis of protection is misplaced in law. Additional protection can be afforded exclusively here by the Article 5(2) TM Directive to ensure the integrity of the trademark law and the goals of the Directive.[696] Perhaps the Court has recognised this danger of exceeding the interpretive capacity of the European law and need to ensure balance with competing principles when it held that the purpose of the trademark law is not "to protect [trademark] proprietors against practices inherent in competition".[697] Its prior adjudication in *L'Oréal* meant any interference with the advertising function is likely to damage it and the consequences extensive. The ECJ found that the effect of the defendant on the advertising function in *L'Oreal* unclear. The trademarks appeared in the promotional material but the advertiser would have a defence if the advert complied with the MCA Directive; the ECJ found it did not. There may have been an adverse effect on the advertising function if a trademark appears in an advert that does not comply with the MCAD which would have amounted to infringement. Keyword advertisers, for example, will face automatic liability for mark infringement and the informational competitive benefits of the advertising industry will be seriously compromised, the power of the internet in liberalising trade undermined, whilst monopoly interests in the digital marketplace are promoted. The principles of free trade will, arguably, no longer apply.

It has been pointed out above that ancillary functions may be considered theoretical labels without much weight or context.[698] In consideration of the effect of harm to the investment function, the ECJ, however, in the *Interflora* case, made much of the potential protection of an investment function, by defining its purpose as "to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty".[699] It is thereby acknowledged that the investment function may be adversely affected, but the ECJ rules out the potential for brand owners to prove the required harm in the most obvious specific cases where damage is possible; it takes some imagination to think of any others where the investment function is compromised and actionable to protect. The Court suggests there may be overlap between the advertising and investment functions; achieving a particular level of reputation for a

[696] See generally Chapter 5 above.
[697] ' *Interflora Inc V Marks & Spencer Plc*', at para 57.[Emphasis added].
[698] Meale, 'Interflora: The Last Word on Keyword Advertising?', at 12.
[699] ' *Interflora Inc V Marks & Spencer Plc*', at para 62.

trademark is served by not only employing the advertising function but also by utilising "various commercial techniques". In the *Intel* case the Claimant had to prove 'dilution', the consumer behavioural change requirement, in order to enforce protection entitlement.[700] It is a confused picture of the need to protect a principle of value, but the creation of a situation which makes 'how' difficult to ascertain. It is left, with little guidance, to the national courts on a case-by-case basis to decide.

5.4.2. Limitation the Effects of Trademark Protection - Article 6(1) Defences

The mitigation of potential liability for breach depends on the availability of defences for the use of a registered mark. The TM Directive provides a defence under Article 6(1) which include a number of limitations on the effects of a trademark rights granted under Article 5(1). It has however been noted above that the claimant still has the hurdle of proof of infringement under Article 5(1)(a) which may activate the Article 6(1) defence in other forms of advertising and product comparison. The Article 6(1)(a) defence relates to the simple disclosure of the name and address of the advertiser rather than being a more significant factor in the comparison context of the descriptions themselves. A third party however may make either 'descriptive' or 'referential' use of a registered mark under Article 6(1)(b) to facilitate a need to refer to the characteristics of their product or their geographic place names.[701]

Descriptive meanings, albeit associated with an otherwise protected mark, must be available to third parties to reduce adverse economic effects or the restriction on competition within the marketplace. It was noted in examination of the economic rationales that the consumers' search costs can be reduced if third parties are permitted to use another's sign to describe the characteristics of their products, given there is no economic loss to the trademark owner.

Referential use under Article (6)(1)(c) of the TM Directive is permitted, "where it is necessary to indicate the intended purpose of a product or service, in particular as accessories or spare parts". This is important, for example, for those producers or dealers in spare parts or traders who wish to use a comparative advertising technique which "explicitly or by

[700] '*Intel Corporation Inc. V Cpm United Kingdom Limited* '. This issue is discussed in greater detail in Chapter 4 of this thesis.
[701] See the full text of Article 6(1) above.

implication identifies a competitor or goods or services offered by a competitor".[702] Comparative advertising is supported by the MCAD where the third party satisfies the requirements of Article 4 and acts as a limitation to Article 5 TM Directive.[703] Article 4 MCAD specifies that any comparative advertising must not be misleading to consumers, does not discredit or denigrate the name of the trademark, or take unfair advantage of the reputation of a trademark; it will not present goods or services as imitations or replicas, nor will it create confusion among traders. The ECJ interprets these conditions and the criteria of infringement under Article 5 of the TM Directive in a uniform manner.[704]

Defences under Article 6 of the TM Directive are subject to a requirement that the use of a sign must be in compliance with "honest practices in industrial or commercial matters", although this potentially has a very broad meaning.[705] In a number of its decisions, the ECJ held that 'honest practice' means, in essence, "[T]he expression of a duty to act fairly in relation to the legitimate interests of the trade mark owner".[706] The ECJ went on to consider the scope of that duty, and in the *Gillette* case, indicated factors which need to be considered to determine whether the use of a sign meets the 'honest practice' requirement under Article 6(1)(c).[707] It is capable of argument that the 6(1)(b) defence is also subject to this interpretation of 'honest practice', given the requirement to give the opportunity to the advertiser to fairly and properly describe the qualities of his product. The 'honest practice' test was not complied with where the use of another's mark creates the impression that there is a commercial connection between the reseller and the mark proprietor, or where that use takes unfair advantage of the distinctive character or repute of that mark. No honest practice can be found where the reseller's mark discredits or denigrates the earlier mark or where the third party's sign presents the products that attached to as an imitation or replica of the products bearing the original trademark.[708] These findings appear, however, to be a reiteration of the Directive conditions in the terminology of prohibition.

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[702] 'Misleading Advertising Directive (84/240) as Amended by the Comparative Advertising Directive (97/55)', at Art 2.
[703] '*O2* V *Hutchison 3g*'; '*L'oréal Sa Et Al. V Bellure Nv Et Al*.', at paras 53-54.
[704] Sakulin, *Trademark Protection and Freedom of Expression: An Inquiry into the Conflict between Trademark Rights and Freedom of Expression under European Law* at 34.
[705] Article 6 of the TM Directive.
[706] '*Bmw V Deenik*', ((C- 63/97) [1999] ETMR 286) at para 61; '*Gerolsteiner Brunnen V Putsch*', at para 24.
[707] '*Gillette V La-Laboratories*', at para 42. See also its earlier judgement '*Anheuser-Busch Inc. V Budějovický Budvar, Národní Podnik*', at para 83.
[708] '*Gillette V La-Laboratories*', at para 45.

Other key factors were adopted by the court in subsequent litigation in addition to those in *Gillette*. These are to assist in determining whether competition is fairly and honestly practiced. In *Céline Sarl v Céline SA*, the Court held the extent to which the use of the third party's name may lead consumers to believe that there is a link between the third party, and whether the trademark owner or a person authorised to use the trademark must be taken into account in determining the veracity of the defence would give guidance to whether the defendant could indeed rely upon it.[709] In addition, the Court had to consider the extent to which the third party was aware its use would be considered such a link by consumers and advised that national courts seized of a dispute should consider any profit the defendant might gain from trade on the back of the primary trademark's reputation. The ECJ has emphasised that it is for the national court to exercise its discretion on the issue by carrying out an overall assessment of all the circumstances of the particular case to determine what constitutes honest practice in light of the above factors.[710] It is argued that the honest practice test is objective; this can be read to mean that the availability of defences under the TM Directive has been construed widely to correspond to the expansion of trademark owners' rights.[711] Construing the defences widely in effect facilitates the movement of products and services and freedom of trade within the European market, which is what the ECC Treaty stresses and seeks to establish and maintain. The defence under Article 6(1)(c) "[s]eeks to reconcile the fundamental interests of trade-mark protection with those of free movement of goods and freedom to provide services" and arguably applies to the descriptive and quality assertions of the advertiser relating to its products.[712]

This appears somewhat incongruous, given the 'imitation' description of the competitive products in L'Oreal. The O2 'similarity' issue of the origin mark can however amount to an infringement of Article 5(2), but the Court failed to consider the relationship of the of the MACD defence to those set out in Article 6. Nevertheless, in *Lidl v Vierzon* the CJEU did consider the issue of advertising in the context of price comparison where MCAD violation was alleged yet decided that this did not amount to unfair action;[713] it is difficult to consider

[709] '*Celine V Celine*', at para 34.
[710] '*Bmw V Deenik*'; '*Gillette V La-Laboratories*'.
[711] D. Bainbridge, *Intellectual Property* (8th edn; Edinburgh: Pearson Education Limited, 2010) at 768; Yelnik, 'Commercial Value of Trade Marks: Do Current Laws Provide Brands Sufficient Protection from Infringement?', (at 216. P. Yap, 'Honestly, Neither Celine nor Gillette Is Defensible!', ibid.30(7) (2008), 286-93 at 292-93.
[712] '*Bmw V Deenik*', at para 62. See also in general Simon, 'How Does "Essential Function" Doctrine Drive European Mark Trade Law?', at 417-18.
[713] *Lidl v Vierzon Distribution SA* 2011 C-159/09

how the simple issue of 'price' would lead to confusion of origin. A defendant may avoid liability where its advertising does not potentially mislead consumers.[714] *Belgian Electronic Sorting v Peelaers* involved the registration of a domain name similar to the advertising words of the claimant with identical signs and products (although the trademark infringement issue was not ultimately pursued).[715] In the context of comparative advertising, the defendant had clearly taken advantage of the complainant's reputation and expertise. This was deemed to be beyond any practice acceptable to the court in previous adjudications; it raised a range of methods for misleading and confusing the consumer in breach of essential function protection. Use of an identical sign requires compliance with the MCAD principles, which may obfuscate the need to progress to the Article 6 defences.

Ultimately, Article 5(2) contains a "due cause" defence against the provision of dilution protection, a limitation on owners claim for infringement, and a balance with other principles. The TM Directive does not provide a definition of this defence, but "the due cause criterion can be described as a need to use the mark so that it would be unreasonable to require the alleged infringer to stop the use".[716] This view has since been amended and expanded upon by the ECJ in *Interflora*, dealt with above.[717] The court may consider exemptions to liability where it weighs up in judgement the balance of competing principles and interests, perhaps a logical reflection of the role of a judiciary. The concept of 'due cause' and compliance with the statutory and Directive requirements appears to provide a general immunity to unauthorised third party use, but it remains subject to restriction by owners' rights, the rules of comparative advertising and other public and private interests."[718]

5.4.3. Limitations on the Defences for Advertisers

One of the primary aims of this study has been to investigate the efficacy of defences available to keyword advertisers, whether arising from the particulars of function protection or specifically provided for in legislation, regulations and jurisprudence. This examination will serve as a guide to the promotional planning of third parties, and the advancement of the

[714] Article 2 MACD.
[715] *Belgian Electronic Sorting v Peelaers* (C-657/11).
[716] A. Sanders, 'Some Frequently Asked Questions About the 1994 Uk Trade Marks Act', *European Intellectual Property Review*, 17 (2) (1995), 67-74 at 70-71.
[717] Also see *Leidesplein v Red Bull* 2014 where a 'confusingly similar' sign to that of the claimant was used by the defendant in the advertising of similar, competitive products. Reputation in issue, the court decided that 'due cause' was reflected in the timing of registration of the mark in dispute, proximity to the competing product and the economic and commercial significance of the sign deemed similar to the mark.
[718] Sanders, 'Some Frequently Asked Questions About the 1994 Uk Trade Marks Act', at 71.

principles of free competition in the event of litigation. It has been noted that the ECJ examined the scope of limitations of trademark protection provided under Article 6(1) in *Portakabin v. Primakabin* held that the use of a trademark as a keyword is not intended to provide a descriptive indication, so Article 6(1)(b) would not apply. Again, however, it is incumbent upon the national courts to assess applicability of the defence on a case-by-case basis.[719] Protection of fundamental principles of free movement of goods and of trade in the common market must logically enable a third party to rely on a defence under Article 6(1) whenever he makes a use or reference to someone's sign, dependent on the application of one of the exceptions thereunder.[720] The defence is not therefore engaged for every use of a keyword by calling it 'descriptive'. Descriptive uses of trademarks as keywords may be worthy of protection from liability and in *Gillette v. LA-Laboratories*, the ECJ found that the defendant's use of the claimant's mark, 'Gillette', was to indicate to consumers that the blades he offers are compatible with Gillette Sensor handles; this is descriptive and its use of the owner's mark would be necessary to explain what the third party goods are designed for, so will fall within the Article 6(1) defence.[721] Had it been an online keyword use of the word 'Gillette' it would still be descriptive use and defensible from liability. In comparative advertising, the user is entitled to rely on a defence under Article 6(1)(b) if its purpose was to indicate the "kind…or other attributes of the goods" and that use fulfils the 'honest practices' requirement.[722] The 'honest practice' condition of use requires clarity of the meaning and intention of the use of the keyword to attract Article 6(1) protection from liability; if the advert is vague within the meaning of Article 5(1)(a) and triggers confusion, the advertiser cannot rely on the defence.[723] The ability of an advertiser to rely on a defence is therefore coupled with the same considerations for finding infringement and somewhat confuses the contexts of each. Senftleben cogently argues that defences "must have an independent meaning different from relevant infringement criteria. Otherwise, a finding of infringement inevitably precludes the invocation of limitations and renders them meaningless".[724]

ECJ guidance on the available defences for advertisers is arguably insufficient and a solution needs to be considered, and a more effective system of ascertaining limitations and defences

[719] '*Portakabin V Primakabin*', at paras 60-61.
[720] '*Bmw V Deenik*', at para 62; '*Gillette V La-Laboratories*', at para 29.
[721] '*Gillette V La-Laboratories*'.
[722] '*O2 Holdings Ltd & Anor V Hutchison 3g Ltd* [2006] Ewca Civ 1656', at paras 56&57; '*L'oreal Sa & Ors V Bellure Nv & Ors* Civ 968 ', at para 57.
[723] '*Portakabin V Primakabin*', at para 76-72.
[724] See generally Senftleben, 'Adapting Eu Trademark Law to New Technologies - Back to Basics?', at 24.

needs to be devised. However, light needs to be shed first on the proposed recasting of the TM Directive by the European Commission before the potential solution can be discussed.

5.4.4. European Developments in Harmonisation of National Trade Mark Practices - Reform

Although the European Commission has sought to harmonise national law on the protection of trademark functions under the concept of a Community Trade Mark (CTM) rights, much of the application of the regulations has been left to domestic interpretation, especially on considerations beyond the traditional 'origin' basis. It has been noted herein that some lack of clarity exists when referrals are made to the ECJ on specific cases. The Max Planck Institute, the respected German research body, was directed to examine methods of greater integration of national trademark registries with the European Central Office for the Harmonisation of the Internal Market, and reported in 2011. In terms of the promotion of market competition, Kur, Planck and Dreier stress 'economic reality will only function … if the acquisition of trademarks remains competition-neutral … (and)… does not confer on its holder a competitive advantage …'.[725] However trademarks also contain the seeds of considerable attraction, marketed to convey lifestyle and prestige; these are considered to be "undesirable effects",[726] suggesting protection beyond identification of commercial origin to be legally objectionable.

The report determined the lack of co-operation between the individual national member and Commission trademark bodies inhibited harmonisation, despite the principle of symbiosis in the proposed methods of enforcement.[727] Ambiguity in application and interpretation have evidently become problems in establishing what functions should be protected, whilst preserving competition principles. The breadth of what constitutes a registrable, protectable mark was extended (to include, for example, audio commercial formats), but the underlying objective was the disruption and prevention of counterfeiting activity, particularly via traders using the internet to access the global market. Such activity of course takes advantage of what may be considered ancillary functions of advertising, reputation and quality, but essentially it

[725] A. Kur and T. Dreier, *European Intellectual Property Law Text, Cases and Materials* (Edward Elgar Publishing, 2013) at 157.
[726] Ibid., at 158.
[727] Commission Staff Working Paper Executive Summary of the Impact Assessment: accompanying document to the proposal for a Regulation of the European Parliament and of the Council amending Council Regulation (EC) No 207/2009 of 26 February 2009 on the Community trade mark and the Proposal for a Directive of the European Parliament and of the Council to approximate the laws of the Member States relating to trade marks. Accessed at http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52013SC0096 on 19 April 2015.

is to protect origin. This too applies in the context of the keywords marketing tool.[728] The direct use of a name or sign is indicative of the commercial origin of a product or service, and therefore is prohibited to protect the essential function. The primary issue in this case must be the prevention, or punishment of counterfeiting and sale via the medium of the internet. The Planck Report aimed to stifle expressions of association with the trademarked product and thereby prevent advantage being taken of its distinctive character, in the interests of more honest competition.

Emphasis remains placed by the EU on the commercial value of the mark in consideration of the implementation of the Planck Report, at least in part.[729] Nevertheless, on the matter of 'double identity', the adoption by a competitor of the mark of the rightful owner, the singular importance of the 'origin function' is stressed; this should simplify the law save, perhaps, in so far as other marketing activities by the owner seek to expand the effect of what constitutes the 'commercial' origin.[730] In the context of the subject of this study, comparative advertising remains subject to challenge, under Article 5 TM Directive, where it does not meet the requirements of Article 4.[731] There are no proposals to restrict the use of the keyword advertising methodology, and the law remains somewhat in harmony in any case by the enforcement of the distinction of origin principle. Senftleben asserts "to fulfil the essential origin function, trademark law offers enterprises the opportunity to establish an exclusive link with a distinctive sign … defensive protection is sufficient" in the sense that it aims at the prevention of confusion and is not primarily concerned with commercial exploitation.[732] Upon completion of the technical and technological advances necessary to provide cohesion, the proposed regulations will, it appears, return to the pre-internet principle of origin protection and inhibition of confusion.

5.5. Discussion on the Determination of the Scope of Trademark Rights in the Context of Keyword Advertising

Jurisprudence has the attributes of a developing creature, continuously growing and often changing, although in law, this tends to introduce an unfortunate lack of clarity and direction. Senftleben argues it would be naive to expect the ECJ to return to adopt a high dilution

[728] Advocate General's opinion in '*Interflora Inc V Marks & Spencer Plc.*'.
[729] Proposal for amending Council Regulation EC No 207/2009 on the Community Trademark, accessed at http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52013PC0161 on 24 April 2015.
[730] Ibid section 5.3 -2.
[731] Ibid section 5.3 re Directive 2006/114/EC.
[732] Senftleben, 'Adapting Eu Trademark Law to New Technologies - Back to Basics?', at 2.

threshold or to abandon the functions analysis, so trademark rights are likely to remain quite close to exploitation rights accorded to patents or copyrights.[733] As the scope of the of trademark protection expands, and the limits of protection become more uncertain, law must intervene to develop appropriate defences for third parties to displace potential liability in the case of use of a registered mark.[734] The current provisions of the 1989 TM Directive were first set out before the advent of the Internet and the effects of the world wide net communications revolution could not be foreseen. In Max-Planck study, it was noticed such a defect in the law, and it was suggested that proposing a general fair use clause would allow some flexibility in situations not previously envisaged by the legislator, in particular with regard to new business models emerging in the Internet.[735] Basic avoidance of user and consumer confusion was the principle upon which trademark protection was based under Article 6(1).[736]

This established defences whereby a third party could use its own name or address in the advertising of competitive products. It enabled statements concerning the attributes and attractions of its goods or services, and an indication of their intended purpose. Freedom of information and trade were protected by the law upon the basis that the consumer should be entitled to rely on the fairness and honesty of what is described: this defence is defeated, as asserted by ECJ adjudications, by the creation of confusion in the consumer. In the BMW case, the Court found in favour of the defendant garage on the basis that its use of the mark to describe the service for this make of vehicle did not infringe prohibition on the use of the sign; there was no misleading of the consumer, nor suggestion of any commercial link.[737] Whilst this is not strictly a decision based on the issue of comparative advertising, the principles of the defences remain valid, as will be further discussed, in that the source of the competitor's goods or services must not suggest commercial links to the origin mark, nor cause confusion to the consumer.

[733] Ibid., at 22.
[734] See G. Dinwoodie, 'Lewis & Clark Law School Ninth Distinguished Ip Lecture: Developing Defenses in Trademark Law', *Lewis & Clark Law Review* 1.13 (2009), 99-153. Cornwell, 'Keywords, Case Law and the Court of Justice: The Need for Legislative Intervention in Modernising European Trade Mark Law', (He suggested that the law should intervene in the USA as a result of broadening trademarks' rights).
[735] In Max-Planck, 'Study on the Overall Functioning of the European Trade Mark System', at para 2.266.
[736] See the full text of Article 6(1) in Chapter Three.
[737] '*Bmw V Deenik*'. This was an adjudication under Article 5(1)(a) 1988 Directive.

The trademark, used for purposes of reference in keyword promotional advertising requires a more sophisticated caution in its protection and limitation on the effects of other freedom principles; the 1989 TM Directive as it stands is ill-equipped with proper defences to encounter the relatively new flexibility of the infringement criteria.[738] The liability of a third party for such referential use remains subject to the functional analysis of its purpose and effect by the ECJ or national courts when harm is claimed to one of its functions. There is a guarantee of a "due cause" defence only against dilution under Article 5(2), limited to trademarks with reputation. The incorporation of the protection of other, now recognised functions under Article 5(1)(a) strikes no balance in the competing interests of the mark owner and the rights of the competitor in the same market. This however highlights the weakness of the TM Directive.[739]

In the context of keyword advertising, the ECJ evidently does not apply the limitations on protection of marks particularly effectively under Article 6(1). The Court has made the availability of a defence dependent on the requirement that the advert must be clear so that no confusion is induced to the internet users. In other word, the advert or linked site has to be clear otherwise the advertiser's use of an identical sign as a keyword will be liable to affect the essential function of the trademark. This requirement, hence, relates to establishing infringement rather than reliance on a defence and therefore allows little flexibility in the application of the existing limitations against the, somewhat more flexible, expansion of trademark ownership rights to strike an optimal balance which advances freer trade. The Court has not, yet, accepted the 'descriptive use' of keywords and the 'honest practices' requirement with applicability of the infringement criteria. In the case of keywords, the balance of rights can be struck through the Article 6(1) defences, apparently available for comparative advertising after *L'Oreal*, but the ECJ has not used this legal route for keywords. *L'Oreal* cannot be described as a definitive statement in the application of Article 6 defences, given that the adjudication of the court formulates a rather broad view of the interaction of the different applicable legislation. Indeed, whilst mention was made of this by the ECJ, it was only in the context of a broad review of the legislation as it applied to the facts rather than a basis of the adjudication. The marketing of products identical to the source in the context of comparative advertising will, it has been noted, require compliance with the

[738] See generally 'Study on the Overall Functioning of the European Trade Mark System', at para 2.252.
[739] Senftleben, 'Adapting Eu Trademark Law to New Technologies - Back to Basics?', (at 23. For more about this see Chapter 4 above.

conditions and boundaries of MCAD. The ECJ in *L'Oreal* considered MCAD as demarcating the boundaries of use which, if breached, may result in liability for infringement under Article 5(1)(a). It was presumed by the referring court that compliance with Article 4 of MACD will provide an Article 6 defence, but this is not in fact specifically stated by the court.[740]

The issue of keyword advertising should perhaps be analysed within the context of its 'comparative' counterpart, a practice largely overlooked by the ECJ and Advocate General opinions. The Court has found that it unnecessary to examine whether keyword advertising constitutes a form of comparative advertising but merely, and rather unhelpfully, noted that it might be.[741] Keyword advertising is a marketing tool of particular effect in the practice of comparative advertising and as noted the ECJ has determined its validity will be considered pursuant to its compliance with the rules of the MCAD rather than in the context of the Article 6(1) defences.[742] However, such compliance would enable third parties to rely on additional exceptions which cover reference use and overlaps with Article 6(1) of the TM Directive without compromising the law. The similarity nevertheless has to be examined before the potential solution can be supported. It will also have to be borne in mind that the practices of keyword advertising and promotion come in various form, not only the triggering of pop-up, click-on pages when the search word is entered, but also in the placement of the product or service in the order of results listing. Conceivably therefore the competitor's advertisement, using the origin sign, may be higher ranked and therefore more likely to be opened than that of the mark owner.

The MCAD defines "advertising" somewhat widely as "the making of a representation in any form in connection with a trade, business, craft or profession in order to promote the supply of goods or services…".[743] The Directive considers "comparative advertising" to be "any advertising which explicitly or by implication identifies a competitor or goods or services offered by a competitor".[744] The aim of making reference to someone's mark by the use of comparative advertising is commonly to make goods more attractive by calling attention to

[740] '*L'oréal Sa Et Al. V Bellure Nv Et Al.*', at para 28.
[741] See '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at para 71.
[742] 'Misleading Advertising Directive (84/240) as Amended by the Comparative Advertising Directive (97/55)'.
[743] Ibid., at Art. 2.
[744] Ibid., at Art 2.

differences in factors such as price, quality or characteristics.[745] Consumers will gain information about the products they are about to purchase and, as a result, they will be able to choose rationally that which is of most benefit to them, so the facility to compare aims at ensuring the diverse nature of available products in the market and thus better informed consumers.[746] The ECJ has confirmed that the advertising links triggered by the keyword advertising service and offering goods from a mark owner's competitors are perceived by consumers as advertisements for an alternative product enhance the availability of information for internet users about the online market and its diverse varieties.[747] Both marketing techniques of keywords and reference purposes draw the attention of consumers to another's product, its qualities, characteristics and price, so keywords advertising can arguably be regarded as a form of comparative advertising, whilst not directly stated as such. Mills observed that advertisements, in general, can take the form of three types: (i) those which refer solely to one brand of product and make no reference either directly or indirectly to any other competing products, (ii) those which make reference only to the characteristics of one brand of product but such reference allude indirectly to the features of a competing product, indirect comparative advertisements, and (iii) those that make clear the comparison between the characteristics of the products of one trader and the merchandise of another, direct comparative advertisements.[748] Keyword advertising can be depicted as 'semi' or 'in-direct' comparative advertising but functions in the same way as direct comparative advertising do, and as such, is a viable and legally acceptable use of the keyword; it becomes informative to the consumer in the exercise of choice.

The acceptance of the keyword advertising service as a form of 'comparative advertising' means that reserving someone's mark as keyword is acceptable; it is difficult to conceive of circumstances where an advertiser would not refer to the competitor's product without using or alluding to the latter's trademark. Recital 14 of the MCAD acknowledges that in order to create an effective comparative advertisement there may be an "indispensable" requirement for the advertiser to make reference to the competitor's sign, either explicitly or by

[745] This conclusion was confirmed by Recital 15 in the preamble of the MCAD. See in general '*Toshiba Europe Gmbh V. Katun Germany Gmbh* (Case C-112/ 99) [2001]', at para 53; Bently and Sherman, *Intellectual Property Law* at 937.
[746] Phillips, *Trade Mark Law: A Practical Anatomy* at 247.
[747] See the ECJ judgements in '*Google France Sarl V Louis Vuitton Malletier Sa and Others* '; '*Interflora Inc V Marks & Spencer Plc*.'.
[748] See T. Dornis and T. Wein, 'Trademark Rights, Comparative Advertising, and "Perfume Comparison Lists" – an Untold Story of Law and Economics', *University of Lüneburg Working Paper Series in Economics* No. 332 (2014) at 18; Mills, 'Comparative Advertising- Should It Be Allowed in the United Kingdom?', at 175.

implication. Herein internet users, or potential customers, play a role which has a potential bearing on liability from the use of the keyword. They are the people who enter the trademark name to facilitate their search, and then make the choice of what link or advertisement to click on, thus initiating the arguments between the advertiser and mark owner on issues of potential confusion and liability. In that event, for each click, the MCAD and Article 6(1) provisions are activated. Traders in the modern commercial arena will find that, in true competitive spirit, that a keyword is also "indispensable" in the context of online advertising. Classifying keyword advertising as 'indirect' or 'semi-comparative' promotion does not change the fact that the use of a mark as a keyword constitutes use within the meaning of Article 5(1)(a) for the advertiser's own goods.[749] Article 5(3)(d) provides that the owner can also prevent the use of his sign in advertisements, but in *Google France* the ECJ noted the need to adapt this in response to developments in technology that were probably not envisaged when the TM Directive was drafted.[750] This provision must therefore be encompassed within the proposal for reform of the European trademark law.[751]

The question remains of how the recognition of keyword advertising as a form of comparative advertising would enable an advertiser to rely on a flexible defence which counterbalances the expansion of the trademark ownership rights as noted above on the interrelationship between the MCAD parameters and Article 6(1) defences. The answer, at least in part, is available in Recital 15 of the Preamble and Article 4 of MCAD and Article 6(1)(b) TM Directive and that interrelationship has to be examined before the potential solution can be discussed.[752] It is worth reiterating that in the context of advertising, Article 4 MCAD requires, amongst other conditions, that there be objectivity in comparison (c), an absence of denigration (d) and avoidance of the taking of advantage of the origin mark, as well as protection of the essential function to avoid confusion. This clearly has an effect on the strategy of using keyword advertising.

[749] The same conclusion was applied on comparative advertising. See its decisions in '*O2* V *Hutchison 3g*', at paras 36-37; '*L'oréal Sa Et Al. V Bellure Nv Et Al*.', at para 53.
[750] '*Google France Sarl V Louis Vuitton Malletier Sa and Others* ', at para 66.
[751] The Max-Planck proposal for reforming the TM Directive has not mentioned such a suggestion for an amendment.
[752] In 'Study on the Overall Functioning of the European Trade Mark System', at para 2.252. it was suggested that the limitation in the TM Directive should be expanded to include even a reference to comparative advertisement and general issues of free speech.

5.5.1. The Interrelationship between the TM Directive and MCAD

The relationship between the TM Directive and the MCAD has occupied considerably the intellectual faculties of judges and commentators. The concept and practice of 'comparative advertising' must, by its very nature, conflict with the TM Directive. It necessitates the use of third party trademarks without consent of the owner, although the Directive is rather vague on whether the referential amounts to infringement. This was noted by the ECJ in its adjudication in *O2 v H3G*.[753] The Court considered the issue of whether comparative advertising, and the use of another's sign, should be considered in the context of trademark law infringement, the MCAD, or some joinder effect of the two. The court had also to consider first the essential issue of whether comparative advertising can ever constitute trademark infringement and indeed when, if at all, the former could constitute "trademark use" in infringement cases.

However, it is worth mentioning that although the *O2* case provided an opportunity to the ECJ to rule on liability under Article 5(1)(a), the Court held that there could only be liability under 5(1)(b), because the advertiser was using a similar sign, and that this meant proving a likelihood of confusion to the consumer. Confusion had to be considered in the particular circumstances of the use by the defendant of the similar mark owned by O2. It was only used to facilitate price comparison. In such a descriptive context it did not harm the essential function by confusion and would therefore not be capable of misleading the consumer as to the origin or association of the competing product. It is a defence potentially afforded by Article 6(1)(b), but in the absence of a finding of infringement under Article 5(1)(b), it was not necessary to make a determination thereon.

In accordance with Article 5, the registered trademark broadly confers upon its proprietor an exclusive right to prevent all third parties who do not have his consent from using any sign which is identical or similar to his mark in the course of their trade.[754] This applies in relation to products which are identical to those for which the trademark is registered original sign. Article 5(3)(d) specifically provides that the owner can also prevent the use of his sign in advertisements and so the use of the identical sign by an advertiser in a comparative advertisement may constitute 'use' within the meaning of Article 5. This is clearly problematic because to be an effective comparative advertisement for the third party, the

[753] *O2* V *Hutchison 3g* (C-533/06) ', ([2008] ETMR 853)
[754] See Chapter 4.

advertiser must refer to the origin competitor's product and this will involve using or alluding to the latter's trademark.[755] Recital 14 MCAD recognises that to create an effective comparative advertisement, it is likely to be "indispensable" for the advertiser to make reference to the competitor's sign.

It was necessary for the ECJ to first determine how comparative advertising could constitute infringement of the trademark under the TM Directive. This involved consideration of what inferences could be drawn between infringement issues and how comparative advertising must be conducted according to Directive requirements.[756] A default position was reached where the use by an advertiser of a mark identical or similar to the sign of a competitor in a comparative advertisement, for the purpose of identifying the latter's products, can be considered 'use' for the advertiser's own goods for the purpose of the application of Article 5. Consequently, such use may therefore be prevented.[757] It has been noted that in the case of a 'similar' rather than identical sign, the ECJ, in the *O2* case, found infringement can potentially only be found under Article 5(1)(b); consumer confusion as to the origin of the competing product must be a likelihood capable of being proved by the claimant. This would also give rise to an infringement of one the MCAD conditions. The interaction, and indeed overlap, between the legislative provisions can itself cause confusion to the defendant, who must tread carefully in advertising strategy; breach of MCAD'S other conditions will not trigger liability under 5(1)(b). In the event of the origin mark possessing a reputation capable of protection, use may fall foul of Article 5(2) but this was not raised in *O2*.

The reasoning of the Court has however given rise to criticism from academics. Ilanah Fhima, for example, asserts that when considering the apparent requirement for use of a trademark sign to activate infringement in comparative advertising, the Court actually determined that the specific use of the identical mark was not necessary to trigger the breach.[758] The decision in *Adam Opel,* required the use of the sign to be directly related to the comparative advertiser's product before an infringement would potentially arise. Rather than constitute mere critical analysis of the owners product as an exercise in comparison, the use

[755] I. Fhima (2008) 'Case Comment: Trademark infringement in comparative advertising situations' European Intellectual Property Review at 1.
[756] Ibid.
[757] '*O2* V *Hutchison 3g* (C-533/06) ', ([2008] ETMR 853) at paras 36-37; '*L'oréal Sa Et Al. V Bellure Nv Et Al*. (Case C-487/07) ', ([2009] ETMR 987) at para 53.
[758] Fhima, I (2008) 'Case Comment: Trademark infringement in comparative advertising situations' European Intellectual Property Review at 7.

of the mark must make direct reference to what the advertiser is marketing.[759] The advertiser in *Adam Opel* used the model of the claimant's cars in a manner similar to use of a trademark as an advertising feature. The ECJ therefore had to determine whether the infringement met the stipulations of Article 5(1)(a), a use 'in relation to' the advertiser's products and marketing strategy. Effectively, the use of an identical sign will trigger infringement where the products being marketed by the defendant are of the same kind. When the sign or mark is specifically utilised for the comparison of competitor's products to the origin and the third party advertiser "seeks to distinguish his goods and services by comparing their characteristics with those of competing goods and services".[760] In its simplest form, comparative advertising has the basic aim of distinguishing between the products of the mark owner and the competitor advertiser. Prima facie this appears to be a laudable objective in the balance of protection with competition, but the court must examine how the consumer will actually be affected by the advertisement. Upon finding a likelihood of confusion, there is evidence of harm to the essential function; the advertised products may be distinct, but there may arguably be a mistaken belief of economic link with the origin.

The use of the essential function in protection of the trademark has, arguably, been somewhat artfully applied by the ECJ. In *Arsenal,* trademark protection in this context was limited to the essential origin function in comparative advertising, whereas in *O2,* distinction from the competitors advertised product was deemed to qualify for broader function protection.[761] However, the justification of such a broad right for trademark owners may be regarded as inhibiting the establishment and maintenance of free and fair competition. This can be observed from Recital 2 in the preamble of the MCAD, which states that comparative advertising "can also stimulate competition between suppliers of goods and services to the consumer's advantage". Hence, inter alia, a question arose asking how to reconcile the protection of registered marks and the use of comparative advertising. In other words, does the defendant's use of a competitor's sign in promotional material amount to comparative advertising and can he or she therefore rely on a defence to avoid liability?

The competing provisions of MCAD and the TM Directive evidently have particular issues requiring assessment in comparative advertising. This is reached by the ECJ in deciding that

[759] Ibid., at 9.
[760] Ibid.
[761] I. Fhima, 'Trade Mark Infringement in Comparative Advertising Situations', *European Intellectual Property Review*, 30(10) (2008), 420-29 at 422-23.

they have to be applied so that the trademark owner is not able to prevent his mark, whether identical or simply similar where its use complies with the requirements of Article 4 MCAD.[762] If the 'use' does not meet such compliance under MCAD, the nature of the advertising becomes legally actionable and the ECJ moves onto the stage of finding, or not, as the case may be, trademark law infringement under Article 5 TM Directive. This step in the process need not involve consideration of the defences under Article 6(1) TM Directive so it appears the interaction of the Directive and MCAD, the only defence of relevance is that under Article 4 MCAD.[763]

It is argued, however, that it is more rational to apply Article 6(1)(b) to the regulation of the interaction of the Directives in terms of a defence which avoids liability for use of another's sign in comparative advertising. The preamble to Recital 15 states that the use of the sign of the competitor must be used solely to signify characteristic differences between the product of the advertiser and that of the mark owner rival. In light of this, therefore, it can be said that an advertiser is entitled to rely on a defence under Article 6(1), particularly 6(1)(b), since his use was to indicate the kind…or other attributes of the goods. However, that use must, according to Article 6(1), fulfil the 'honest practices' requirement. The English Court of Appeal, inter alia, had highlighted in the *O2* and *L'Oréal* cases that the use will be in compliance with the honest practices condition only if the advertisement satisfies the conditions that are laid down in Article 4 in the MCAD.[764] This connection between the application of the defences was not adopted by the ECJ on referral as far as the activation of Article 6 was concerned.

The efficacy of the relationship between the Directives depends on finding the appropriate balance between the interest of the consumer in comparative advertising, those of the origin owner, and the clarity of defences to allegations of trademark infringement; for reasons stated above it is arguable that the court may not need to go beyond the conditions of compliance of the advertiser with MCAD. The first step in the adjudication of the ECJ has been to ascertain

[762] See *O2* V *Hutchison 3g* (C-533/06) at para 49. This Article was 3a (1) prior to amendment. However, in this chapter the new numbering system will be followed unless the context requires otherwise.
[763] In *Lidl SNC v Vierzon Distribution SA* C-159/09 It has been noted that where the ECJ determines a trademark has been used to advertise products of the same type as the origin owner does not comply with the MCAD conditions, there will be an infringement. If the use is compliant, however, it will constitute a defence which need not require those in Article 6 to be called upon.
[764] '*O2 Holdings Ltd & Anor V Hutchison 3g Ltd* [2006] Ewca Civ 1656', at paras 56&57; '*L'oreal Sa & Ors V Bellure Nv & Ors* Civ 968 ', at para 57.

the ‘use’ by the comparative advertiser. This has effectively resulted in the default view that the third party use of an identical or similar mark comes under the provisions of Article 5, use for business purposes rather than mere comparison, and is therefore prohibited. Nevertheless, Jacob LJ, in *O2 v Hg3* asserted that the defence in “Article 6(1)(b) must surely extend to any case of comparative use. Its language is: “indications concerning the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of goods or of rendering of the service, or other characteristics of goods or services; I cannot think of any comparison which would not fall within one or more of these indications”.[765] This is perhaps a result of the reasoning of the ECJ, rendering such a need irrelevant by the application of MCAD conditions. The *O2* case provides little by way of enlightenment due to the claimants failure to prove its argument under Article 5(1)(b).The Max Planck study questions the clarity of the relationship with Article 4 MCAD, suggesting that despite “honest referential use” constituting comparative advertising there was dissatisfaction with the way it was currently applied; Article 6 TM Directive should encompass a general ‘fair use clause’ and this would include a specific reference to the concept of ‘comparative advertising and the even wider principle of free speech.[766] Available TM Directive defences are made clearer in their relationship with the requirements of Art 4 MCAD. In the keywords cases, where advertisers appear to experience a paucity of available, effective defences due to the adoption of the functions theory, further consideration must be given to such advertising where use is not deemed descriptive or merely referential.

5.6. The Relationship between the Defences under Article 6.1 TMD and the MCAD: Solution

Knaak states that metatags and keywords ‘cause no problems where they consist of descriptive or generic terms’ and it is only when they are identical to a protected trademark do problems arise with regard to ‘double identity’ issues and consumer confusion.[767] This is actionable only in the event of an adverse effect on the essential function, whilst taking account of the other function theories which have become protectable. It is certainly arguable that with the dispensing of trademark function theories, the issue of ‘double identity’

[765] *O2 Holdings Ltd & Anor V Hutchison 3g Ltd* [2006] Ewca Civ 1656', at para 55.
[766] 'Study on the Overall Functioning of the European Trade Mark System', at para 2.252.2.260.
[767] R. Knaak, 'Metatags and Keywords as Comparative Advertising', *Journal of Intellectual Property Law and Practice*, 9 No 9 (2014), 770-78 at 770.

becomes the primary issue of comparative advertising, and the fairness of competition becomes the guide to the adjudication of breach of trademark law.[768]

Recital 15 states that reference to a competitor's sign in a comparative advertisement must be made solely for the purpose of highlighting differences between the characteristics of the advertiser's product and those of its rival. This meets the function of keyword advertising even though an advertiser may not directly indicate the differences or comparisons between his goods and the products of its competitor. Consumers are deemed "reasonably well-informed and attentive users", wise enough to observe the differences between the listed results and the offered products, and "informational" searchers direct their aims toward considering differences among the offered products to gain a better deal. It will be noted that the ECJ has adopted herein the concept of the 'average internet user' to replace the prior designation of 'average consumer' as a basis of reference. Having made that point, traders using keyword or comparative advertising are entitled to rely on a defence under Article 6(1)(b), since their use was to indicate the "kind…or other attributes of the goods", despite the ECJ rejection of the argument of keyword advertising being a "descriptive use". Comparison has the potential to require product improvement on the part of the origin and competitor, and is thus of considerable value to the consumer; in the context of the economic and quality functions, it arguably strengthens their effect without undermining their importance as protected functions. The question has arisen whether the essential function is adversely affected by the use of the origin mark to trigger advertising in the internet search. If this is deemed to be the case, then it logically follows that the 'investment' function, and perhaps reputation, may also compromised. Where these effects are proved, there is a considerably more limited scope for the advertiser to rely on Article 6 or MCAD defences, with a consequential obstacle to the planning of a marketing campaign which avoids liability for trademark breach.

It will be recalled that according to Article 6(1) the 'honest practices' requirement must be fulfilled and in this means satisfying the conditions in Article 4 of MCAD.[769] The application of such a conclusion in the keyword context will help to overcome the problem created by the

[768] Ibid., at 777.
[769] This Article was 3a (1) prior to amendment. However, in this chapter the new numbering system will be followed unless the context requires otherwise .Recital 15 MCAD. See also '*O2 Holdings Ltd & Anor V Hutchison 3g Ltd* [2006] Ewca Civ 1656', at paras 56&57; '*L'oreal Sa & Ors V Bellure Nv & Ors* Civ 968 ', at para 57.

ECJ when it has associated compliance with 'honest practices' with the ensuring of clarity in the advert itself. Keyword advertisers would be considered to be acting fairly, in compliance with the 'honest practice' test if the advert meets the conditions of Article 4.[770] The way they interpreted is important because their rationale is to strike a balance between different interests affected by comparative or keyword advertising and to stimulate competition among traders. Any advertisements which might distort competition would be detrimental to competitors and have an adverse effect on consumer choice, so must be prohibited.[771] It has been noted that MCAD broadly regulates the conditions upon which depends the legal acceptability of comparative advertising, largely without the TM Directive defences in the event of compliance. The use of the keyword by the advertiser need not create confusion or indeed 'take unfair advantage' of the reputation of the trademark triggered by the consumer's search, nor diminish or discredit the mark of the origin competitor.

In consequence, the permissibility of the use of the mark by an advertiser in accordance with the Article 4 conditions should be based on an assessment of the likelihood of confusion caused to the consumer. This will rely on what the ECJ and national courts will consider to be a case by case basis, and relate to the specific terms of the of the keyword advertisement. It is important therefore for the advertiser not to create a situation where the consumer is likely to mistake the origin of the product as coming from the trademark owner or affiliate, or is vague about suggesting a business connection with the owner. Such principles incorporated in Article 4(h) Directive on Comparative Advertising regulate the acceptability of keyword use in these contexts. It is generally obvious to internet users that their product hits on a keyword search will generally not source only from the original trademark owner, and indeed should the specific sign not appear they are unlikely to attribute it to the original source or its affiliates; the risk of confusion is averted.[772]

The ECJ had also the opportunity, in *L'Oréal*, to provide its view upon another two of these conditions, namely Article 4(f) and (g). Its conclusion in this regard was heavily criticised, for example where comparatively advertised goods are promoted as imitations or replicas, not counterfeit products, must be considered unlawful according the condition under Article 4(g);

[770] See Bently and Sherman, *Intellectual Property Law* at 940; Phillips, *Trade Mark Law: A Practical Anatomy* at 252; Cornish and Llewelyn, *Intellectual Property: Patents, Copyright, Trademarks and Allied Rights* at 796-99. where it was observed that that Recital 15 confers an advertiser a "sui generis immunity" from any liability if his use of another's trademark complies with conditions set out in Article 4 of the Directive.
[771] See '*L'oréal Sa Et Al. V Bellure Nv Et Al.*', at para 68.
[772] Knaak, 'Metatags and Keywords as Comparative Advertising', at 773.

an advert must not: "present goods or services as imitations or replicas of goods or services bearing a protected trade mark or trade name". This distinction between 'imitations', on the one hand, and replicas and alternatives' on the other, is also applied by the ECJ in the context of the Article 5(2) liability.[773] Such adverts are not being used "for purely descriptive purposes, but for the purpose of advertising", the Court added.[774] Article 4(f) declares an advert must "not take unfair advantage of the reputation of a trademark, trade name or other distinguishing marks of a competitor or of the designation of origin of competing products"; the ECJ did not elaborate on this provision. Based on its findings on Article 4(g), which considered the defendants' advertisements "inconsistent with fair competition and thus unlawful", the Court in *L'Oreal* held that the advantage gained by the defendants as a result of such advertising must be considered as unfair according to the terms of 4(f).

Application of the ECJ adjudications on the keywords cases go some way to creating the necessary balance with competing interests and principles. In the *Interflora* case, Marks and Spencer, for example, did not present its products as imitations or copies of the claimant's goods. The choice of 'Interflora', as a keyword, was simply to imply a marketing message that it offers an alternative service to that of the mark owner.[775] It is difficult to argue that the condition under Article 4(g) of MCAD was not met by the defendant and so follows an opportunity to rely on the defence under Article 6(1)(b) since it is merely indicating the attributes of the competitor's goods. It could have enabled the ECJ to avoid the need to elaborate on the harm assessment to any of the trademark's functions and substantially maintain relaxing the infringement criteria. The protection under Article 5(1)(a) would be concentrated to its original purpose of protecting the essential origin function only, given the advertising function, in the context of keywords, is not harmed. Acceptance that the advert is merely offering alternative products, not imitation or counterfeit, will assist in how the condition under Article 4(f) may be interpreted; the Court has not, yet, shown when comparative advertising may be deemed taking unfair advantage of the reputation of a trademark, and thus prohibited. *Interflora* decided that simply providing alternative products within the keyword advertisement context constitute a "due cause" defence and should be permissible. The formula of the free riding test is still adopted in analysis of protection against dilution, so 'due cause' is effectively a limitation on any further extension for the

[773] *Interflora vs Marks-Spencer*.
[774] '*L'oréal Sa Et Al. V Bellure Nv Et Al.*', at para 62.
[775] See the AG Jaaskinen opinion in '*Interflora Inc V Marks & Spencer Plc.*', at paras 104-05.

trademark rights. This case, however, has proved particularly complex in its litigation progress through the English courts, and on referral to the ECJ for rulings on European law to be applied to the facts by the national court. The relevance of particular facts to specific issues of law vary with each national appeal and European reference, and a definitive result remains awaited. Prima facie however, if a claimant establishes infringement of its trademark under one of the Article 5(1)(a) or (b), or 5(2), then MCAD determines the scope of a defence that the defendant may be able to rely upon.

5.7. Conclusion

The ECJ has broadened the scope of trademark protection, in particular those with reputation. The recognition and protection of the typical economic functions of reputable marks under Article 5(1)(a) has contributed to the seemingly exponential expansion of the rights of trademark owners. The ECJ has not relied on the economic functions to regulate keyword advertising, but elaborated the origin function to do this, the underlying purpose being to strike a balance with competing market interests. There is justification in this development given that it can be considered just reward for investment, innovation and promotion and the ECJ has therefore adjudicated that an attempt to ride freely on back of a mark with such reputation is tantamount to trademark infringement. It is the appropriation of the benefit of another's expensive efforts without acknowledgement or reparation.

This is not to ignore the benefits of the principles of free trade in the European market. It is arguable that extensive protection of the efforts and economic investment are in direct competition with mark owner private entitlements to protection, so the need for a clear basis of balance is necessary, especially in the new world of commerce. It has been noted that the growth of flexibility in the infringement criteria designed to protect valuable marks has caused tension in the law, particularly in the area of available defences for the third parties. This is particularly so in the context of reference use of marks and names in promotional materials such as keywords advertising. It has been shown that third parties have little to rely on in their defence of such use to mitigate the effects of owner rights. In addressing this imbalance the Court should perhaps consider the keyword advertising service as a general form of comparative advertising between competing products and services. It would allow third party keyword advertisers to rely on defences under the MCAD as a justifiable and legitimate limitation on the expansion of trademark owners' rights. Perhaps the simplest and most enforceable method of balancing competing interests and entitlements is achievable by

an effective return to the basic principle of protection of the 'origin' by law whilst leaving other 'functions to the consumer's exercise of choice. This chapter has sought to examine the detailed and complex interaction of protected functions in the context of jurisprudential interpretation of Article 5 violations and the effects of Article 6 TM Directive and MCAD defences. The competitive advertising process made available by keyword comparison evidently enhances choice and discernment capabilities of consumers, whilst encouraging improvement and innovation from producers. The world of keyword advertising facilitates discriminating customer choice and is impossible to stop in the absence of ISP liability, unlikely to be implemented in law, and of itself, impossible to enforce. In *L'Oreal v Ebay* the ECJ found the defendant not liable for insertions of those who used it as a platform provision for advertising goods. Legislative compliance lies with the user of the keyword in how it is utilised. In a competitive trade environment, it has been shown the keyword an integral part of comparative advertising. Without its use and that of the associated origin mark it is difficult to conceive of how such a service can be provided to consumers in their search for suitable products. The ISP is a platform provider for advertising, a marketing tool rather than a producer.

Chapter Six

Conclusion and Recommendations

6.1. Summary

This thesis set out to examine the impact of the development of protection granted to trademark functions under European law, with particular reference to the use of online keyword advertising services. The focus was a consideration of the effect of the recognition of economic functions, above and beyond the traditional essential origin rationale, of a trademark in the justification of such protection. The context was the effect on the operation of other principles and freedoms of competitive trade. The principle aims of the study have been to critically analyse how the advent of keyword advertising has affected the development of protective functions and theories for trademarks in European jurisprudence, and the balance of free trade interests with the availability of defences to such litigation.

The protection of trademark rights had historically been recognised as lying within conventional boundaries, limited to protection of consumers against confusion by the prevention of harm to the source origin. It is acknowledged that the more expansive protection afforded to advertising and investment functions, as separate precepts, does not fit this proposition of trademark law and can therefore not be justified in the accepted sense of restriction of trade. It has been shown that giving too expansive a view to what might affect the protectable function of a mark, either in the legal context of origin or ancillary economic justifications, limits, or has the potential to do so, the ability of third party competitors to use the modern online keywords advertising service to promote alternative competing goods or services. In the case of consumers, an expansive interpretation damages the capacity to seek information online about such alternatives. It has been proposed herein that a proper defence must be guaranteed to the trademark under law so that third parties may have a clearer term of reference to rely upon in order to mitigate the effect of the entitlements of trademark owners. It has been argued that where limitations exist, clarity enables striking of the necessary balance with other principles, particularly the promotion of competition and facilitation of the movement of goods and services within the European market.

It has been determined that where the trademark related keyword is used for the purpose of comparative advertising, provided this satisfies the conditions discussed herein there is little

argument available to the mark owner of unfairness or infringement of the functions which have expanded to protect economic and investment concerns in most other circumstances. Protection evidently inhibits competition. Permitting the use of keywords enhances competition but this must be conducted with probity and credibility. In comparative advertising, the consumer gains without compromise to the protection of the trademark owner.

It is nevertheless clear that in the global trade environment, the law in Europe remains somewhat unclear in its focus. This is not surprising, however, because this environment changes rapidly with each technological development. In order to facilitate trade, greater clarity has to be legislated for. The ECJ can only react to case facts before it; it does not make precedent, and its adjudications, whilst giving insight into the development of its jurisprudential thinking, provides insufficient certainty for mark owners or competitors.

6.2. Main Findings

The definition of what constitutes a function of a trademark, and the context of commerce in which they serve, plays an important role in confining the rights of the owners and the limitations under which the consumer and other traders have the ability to use or refer to that mark. The essential origin function was and remains the main function; a 'trademark' which does not serve as an indication of the origin of a product on which it is attached or displayed cannot be registered and therefore can gain no legal protection. In the era of modern production methods and such practices as licensed manufacture, 'origin' carries different connotations, but must always carry the supervisory expectation amongst consumers of the 'parent' company or brand. This adds complexity to the promotion planning of those seeking entry to the market occupied by dominant brand names with international influence and huge resources to protect their interests and marks with a variety of justifications.

It is apparent that in the world of modern commerce the essential 'origin' function by which products would be identified by consumers has developed such that trademarks have the facility to perform various economic functions which serve the interests of both consumers and owners. They have been able to guarantee for consumers that a product is satisfactory for the purpose required and has a degree of consistent quality. Huge investments in advertising and promotion have led to the development of a communication function under which the trademark owner would seek to convey lifestyle messages or enjoy reputation which attracted

customers and preserved their loyalty. The most prominent question sought to be answered by this study concerned the proposition that given the relatively new variety of functions in the theoretical and legal framework of trademarks, which could actually attract the justification for protection in the competitive trade environment. This cannot simply be a question of choice by the adjudicating court, particularly when a primary aim of European law is the harmonisation of protections and the clarity this provides to both owners and competitors. Protection was thought to be applicable only to the limitations of the origin function and indeed it has been shown that even the ECJ has had some inconsistency of thought as to whether this should be extended to cover other, ancillary, economic functions.

Legal protection in the general context of international trade and for trademarks in particular, has an economic dimension. Commentators have developed multiple economic theories to justify the protection of trademarks, but the economic 'cost and benefit' analysis appears the most practically sound legal basis to advance the alternative interests of third parties and consumers. Economic justification for protection, and subsequent limitation of competition, has led the courts to consider that this should be limited to the origin function, where consumers are safeguarded against confusion as to the source of products. It has been noted however, that from legal perspective, protection to the quality function is difficult to differentiate as a separate concern from the origin function; they basically follow each other in the mind of the consumer. The ECJ however found that the quality function can and should be protected separately, but failed to provide any guidance how this function should be secured in the absence of origin considerations.[776] The quality guarantee function is vital to provide consumers with assurances about the product or service they purchase and assists the trademark owner to promote their merchandise. It is asserted as a result of the aims and analyses of this study that this rationale of protection should merely form a part in the protection of the origin function, rather than as a separate entity; simply, and without the undue complications introduced by the Court, protection of the origin function will provide the necessary protection of quality assurance.

It has been evident that of all the new rationales for protection, the advertising function has been the most difficult for the courts to justify, no doubt given that the proliferation of these methods of promotion form a significant basis of a competitive trading environment. In the

[776] '*L'oréal Sa Et Al. V Bellure Nv Et Al.*', at para 57-58. See Also Chapter 3 above.

context of keyword programming, selling and e-commerce in general, this proves contentious on issues such as association and comparison. The effect of advertising has indeed been considered a commodity in itself, serving the interests of both owners of trademark and consumers.[777] The view is taken however that such intangibility in effect cannot, in the balance of free trade market principles, justify protection on an economically sound base; the advertising itself can be described as a psychological commodity of the mark but the market effect is for the benefit of the owner rather than the consumer, in terms of promotion and creation of income. This brings the issue back to the purpose of the origin function; the primary ground for protection is to shield the consumer from confusion and thereby guarantee sufficient safeguards for the relevant affected interests under the advertising rationale. A question, somewhat rhetorical in nature, has arisen in the course of examination of the subject of the role of trademarks and justification for their protection, namely that there appears to be little point in the 'recognition' of 'economic' functions unless they qualified for some form of protective status. The expectations of all involved in the trading market have to be more carefully managed, and with greater clarity, by guidelines and limitations which do not undermine the general economic free market principles.

The significance of effect of the TM Directive has been recognised through analysis of the role of European jurisprudence in its contribution to the evolution and expansion of trademark functions by recognition and protection. Initially the principles of the European Union's Four Freedoms militated against, and rather undermined the welcome for, trademarks. Protection for other forms of intellectual property rights were believed to encourage private innovation and creativity; the trademark was however considered the newcomer, the nouveau riche relative, somewhat looked down upon, and whilst a member of the family, was considered as of lower order of industrial property rights. They merited no special protection. Their status has however been raised in the modern market, and trademarks have now become an important tool with a potent role in the creation of competition policy. The ECJ has clearly accepted that trademarks have an "essential function" in the distinguishing of the goods of one trader from those of another, then by interpretation of the TM Directive went on to recognise the need for protection of the valuable advertising and investment function of the mark. It is a significant transformation in

[777] See Chapter 2 above.

the respect accorded to the trademark as a foundation for trade.[778] The recognition of the ancillary functions would clearly led to a change in the perception of the boundaries of protection granted under Article 5 of the TM Directive and this led to the ECJ deviating from its narrow definitions of the specific subject matter and the essential function tests and adopting a broader approach. This led to significant consequences for the operation of the law and effect on trade.

It is acknowledged in the study that recognising protection for the economic functions of a trademark is controversial and has the potential to lead to an imbalance with other principles and freedoms, and stifle competition so such expansion is not desirable nor can it be easily justified. The Court has taken in its adjudications a broad interpretation of Articles 5(1)(a) and 5(2) and been criticised for thus granting greater rights to trademark owners, almost to the extent of creating a potential monopoly. This must adversely affect the interests of consumers because it limits per se the access to information and choice. The European TM Directive has brought substantial development in conjunction with Articles 5(1)(a) and 5(2), acknowledging wider protection for brand and mark owners and this has become more attractive to owners claiming protection, and therefore commercial advantage, over competitors.[779] This concern has been shown to be particularly relevant to the operation in e-commerce of the WWW, the success of which presumably owes much to it being subject to lenient, if any controls. The online keywords advertising service plays a potent role in the achievement of expansion of trade goals. As a relatively new and extremely powerful tool and forum for trade the WWW has to face proper regulation in much the same manner as off line methods of trade in order to promote competition and facilitate the movement of goods and services within the EU. As has been shown herein, jurisprudence to date has been limited, though somewhat imaginative, in the provision of definitive guidelines. It remains to be seen whether subsequent regulation reform improves the clarity of the law regarding the interaction of trademark protective functions and competitor owned keywords.

There are essentially four key players in the context of trademarks in the new free online trade market, namely owners of the marks, competitors, consumers, and ISPs. This study has examined the law and academic commentary to seek to balance what are broadly competing needs, with particular attention on the protection of trademark efficacy in the service of

[778] See Chapter 3 above.
[779] See Chapter 4 above.

consumers, without unconscionably causing deterioration of the entitlements of competition. The advent of the ISPs keywords service has clearly complicated these issues and the interpretation of boundaries. The infringement criteria for breach of a trademark owner's rights and entitlements have particularly suffered from a lack of clarity. It can be alternatively argued that the ECJ has somewhat over-protected trademarks through the recognition of the additional economic functions, yet has apparently concentrated on the essential origin function to the detriment of the economic rationales. This has resulted in a lack of consistency in jurisprudential thought and caused difficulties for competitors who suffer resultant effects of potential defences not being identified or applied effectively.[780] This is particularly evident in the relatively modern practice of comparative advertising in the context of keyword use in online trading. Questions have arisen as to whether this form of promotion impinges on the rights of the owner of the origin mark against which other products are judged by consumers. It seems a simple solution that such access to information and testing should be viewed as enhancing the consumer experience, albeit more costly in terms of time. Comparative advertising, performed with candour and controls, and with the benefit of the keyword access to information, should not therefore attract litigation, the interests of the consumer being paramount.

6.3. Recommendations

The solution to the compatibility of protection of a trademark in a context of European fundamental trade principles of freedoms of commerce are a matter for legislators for the Union, to provide sufficient guidance to the national courts to enable a uniformity of practice across the international community. Clarity and consistency must be the keywords of the law. In 2013 the European Union began a review and consultation of the operation of the Trade Mark Directive and Community Trade Regulations for the promotion of greater harmony of law and application amongst member states.[781] The outcome of this streamlining process is awaited, but given the strength of the competing freedoms and principles it is submitted that trademark law should not, and is unlikely to be expanded beyond that which it is meant to serve, namely the protection of consumers against counterfeit products and confusion as to their origin. The invitation for commentary and expression of views specifies the exercise will consider 'amending outdated provisions' suggesting a modernisation process which will

[780] See Chapter 5 above.
[781] Shareholder Consultation on the Eu Proposals for a Review of the Trade Mark Directive, (4 April 2013). http://www.djei.ie/science/ipr/trademarks_stakeholder_consultation_document.pdf accessed 11 October 2014.

take account of the e-commerce environment more directly, and the operation of new methods of marketing, including keywords.[782] The protection of other functions of trademarks, particularly those of an economic nature, should be left to the regulation and legislation governing unfair competition, another issue in the free market which the EU should consider harmonising and addressing.

It is perhaps appropriate to postulate a perhaps more revolutionary proposal at this point and argue that the 'new' economic functions, identified as separate rationales, may indeed be considered mere parts of the essential origin as it has developed in the new market conditions. Quality is thereby considered an adjunct of origin, whilst advertising and promotion have as their main purposes the paramount of the original product as the essence of reliability. In this context the consumer interest is advanced by the dependability of the origin. Indeed the concept of 'origin' has changed per se, and in the modern methods of multi-site and licensed manufacture methods, the supervisory role of the mark owner, rather than the place of production, is the principle worthy of protection. This will include the contexts of the economic rationales which directly affect the origin. On the issue of protection of investment, often substantial, in a marked product, this too forms, arguably, an integral part of promotion and improvement; the owner continues to have a vested interest in spending money to ensure their mark remains the best and most respected.

Nevertheless, to return to the more gradual development of the law as it presently stands, the vital roles of clarity and specificity have to be paramount to make the market work effectively. There is some overlapping, particularly noted between Articles 5(1)(a) and 5(2) of the TM Directive protections, which cannot be described as effective interaction and merely lead to confusion from traders as to what they are permitted to do. The current provisions of the TM Directive were promulgated before the advent of the internet and the effects it has on the modern trade market could not then have been foreseen. It is the case that the detailed research carried out in the preparation of this thesis has resulted in the author supporting the conclusion of the Max-Planck Study on the Overall Functioning of the European Trademark System. It has the inherent attribute of simplicity and clarity, a measure of any test effectively undertaken by courts, and which facilitates the balancing exercise of risk-reward litigation undertaken by Complainants and Respondents before action. A simple,

[782] Ibid.

general ‘fair use’ clause will enable protective measures for the owners of the mark to be enforced, impose obligations upon other traders whilst not unduly inhibiting free competition and protect consumers from the confusion effects of too much, or inaccurate information. As such, it will achieve the results sought by trademarks principles, and as is the nature of politics, leave everyone a little unhappy but better off in general. Moreover, it will allow flexibility in situations not previously envisaged by the legislator, in particular with regard to new business models emerging in the WWW.

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