

**Trade Mark Use in Paid Search Marketing
and Direct Liability**

**By
Sungho Mok**

**Submitted in partial fulfilment of the requirements of the Degree of
Doctor of Philosophy**

**Centre for Commercial Law Studies
Queen Mary, University of London**

April 2014

I, Sungho Mok, confirm that the research included within this thesis is my own work or that where it has been carried out in collaboration with, or supported by others, that this is duly acknowledged below and my contribution indicated. Previously published material is also acknowledged below.

I attest that I have exercised reasonable care to ensure that the work is original, and does not to the best of my knowledge break any UK law, infringe any third party's copyright or other Intellectual Property Right, or contain any confidential material.

I accept that the College has the right to use plagiarism detection software to check the electronic version of the thesis.

I confirm that this thesis has not been previously submitted for the award of a degree by this or any other university.

The copyright of this thesis rests with the author and no quotation from it or information derived from it may be published without the prior written consent of the author.

Signature:

A handwritten signature in black ink, appearing to be the name 'Sungho Mok' written in a stylized, cursive script.

Date:

Details of collaboration and publications:

Abstract

The thesis considers the scope of trade mark protection against the context of paid search marketing.

The hypothesis is that ‘fair and efficient competition’ is at the heart of the balance between interested parties and between trade mark protection and free speech. This introduces the concept of ‘a virtuous cycle in the application of trade mark law.’

The thesis suggests that ‘fair and efficient competition’ should be the ultimate purpose of trade mark law. The concept can be furthered *by protecting pro-competitive trade mark functions*: the intra-trade mark information function and the inter-trade mark differentiation function. Thus, only where third party use is likely to harm the information and differentiation functions of owners’ trade marks, users could be liable.

In a democratic society, there is an additional consideration: the balance between trade mark protection and free speech. Where third parties use trade marks in non-commercial contexts, likelihood of confusion or dilution should be the result of actual malice or calculated falsehood.

These two considerations are tested against the real world context of paid search marketing. Based on the protection of pro-competitive trade mark functions and speech restriction standards, and the relevance of actual and direct context and circumstances of paid search marketing, advertisers can be liable for their use of trade marks even when they do not include trade marks in their advertisements. Search engines, however, are not responsible for their use ‘under current practices,’ whether or not trade marks are included in advertisements.

The thesis supports that trade mark law and jurisprudence should transform the cycle that starts with the balance of interests and end with fair and efficient competition into a virtuous spiral where one feeds the other; the two are inextricably linked.

Table of Contents

Part I. Introduction and Basic Questions	10
Chapter 1: Introduction.....	10
1. Aim and Scope.....	10
2. Global Challenges of Paid Search Marketing	11
3. Outline	13
4. Methodology.....	14
Chapter 2: Mechanics and Characteristics of Paid Search Marketing.....	18
1. Mechanics.....	18
2. Characteristics	21
1) Paid Search Marketing and Domain Names	21
2) Paid Search Marketing and Metatags	22
3) Paid Search Marketing and Pop-up and Banner Advertisements.....	23
3. Employing Trade Marks in Paid Search Marketing	24
1) Advertisers' Marketing and Search Engines' Trade Mark Policies	24
(1) Brand Marketing Benefits and Search Engines' Policies	24
(2) Changes in Search Engines' Policies.....	25
2) Evaluation of Analogies.....	28
(1) Product Placement	28
(2) Sale of Embroidered Logos	30
(3) Newspaper Advertising.....	31
3) Peculiarities of Use of Trade Marks in Paid Search Marketing	33
4. Conclusion.....	35
Chapter 3: The Purpose of Trade Mark Law and Trade Mark Functions	37
1. The Purpose of Trade Mark Law	37
1) Proactive Approach of Trade Mark Law and Competition.....	37
2) Current Goals of Trade Mark Law and Their Limits	41
(1) Goals of Trade Mark Protection in the USA, the EU, and Korea	41
(2) Inadequacy of the Current Goals of Trade Mark Law	45
3) The Purpose of Trade Mark Law and Competition.....	51
(1) The Nature of Trade Mark Law.....	51

(2) Pro-competitive Characteristics of Trade Mark Protection	52
(3) Pro-competitive Characteristics of Trade Mark Protection in Case Law ..	55
(4) Internalisation of Competition in Trade Mark Law.....	57
a) Functionality and the Subject Matter of Trade Marks.....	57
b) Distinctiveness	60
c) Confusion.....	62
d) Dilution.....	63
e) Limitations of Trade Mark Rights.....	64
f) The First Sale or Exhaustion Rule	65
4) The Purpose of Trade Mark Law: Fair and Efficient Competition	66
2. Trade Mark Functions.....	69
1) Fair and Efficient Competition and Trade Mark Functions	69
2) The Current Debate	70
(1) Source Indicating Function	70
(2) Source Distinguishing Function	72
(3) Quality Guaranteeing Function	72
(4) Advertising Function	74
(5) Other Functions: the Investment and Communication Functions	75
3) Limits of Protected Trade Mark Functions in relation to Competition	76
4) Protectable Trade Mark Functions	82
(1) Information and Differentiation Functions	82
(2) Meaning and Scope of Functions	84
a) Information Function.....	84
b) Differentiation Function	88
(3) Protectable Functions and Product Markets	90
3. Conclusion.....	92
Part II. Direct Trade Mark Liability	94
Chapter 4: Trade Mark Jurisprudence with regard to Paid Search	
Marketing.....	94
1. US Federal Courts.....	94
1) Liability of Advertisers	94
2) Liability of Search Engines.....	101
2. ECJ	107
1) Liability of Advertisers	107
2) Liability of Search Engines.....	114

3. Korean Courts.....	114
4. Comparative Perspective	119
1) Liability of Advertisers	119
2) Liability of Search Engines.....	122
3) Conclusion	123
Chapter 5: Direct Liability in Paid Search Marketing	126
1. Pro-competitive Trade Mark Functions and Trade Mark Liability.....	126
2. Various Interpretations	127
1) Use of Trade Marks	127
(1) Use as Trade Marks	127
(2) Use of Trade Marks	130
(3) Functional ‘Use as Trade Marks’	131
2) Likelihood of Confusion.....	132
(1) Subject and Timing of Consumer Confusion.....	133
a) Initial Interest Confusion	133
b) Wide Initial Interest Confusion.....	134
c) Pre-sale Confusion	135
d) Narrow Concept of Pre-sale and Initial Interest Confusion	137
(2) Average Consumers and Their Level of Attention	138
a) Internet Users’ Low Default Degree of Attention	139
b) Internet Users’ Heightened Default Degree of Attention.....	140
c) Variable Degree of Consumer Care according to Products and Consumers	141
d) Internet Users’ Reasonable Attention.....	142
3) Likelihood of Dilution	142
(1) Blurring.....	143
a) High Distinctiveness or Strong Association	143
b) Separate Likelihood of Harm to Distinctiveness	146
(2) Tarnishment.....	148
a) Negative Associations	148
b) Use on Products with Negative Images.....	149
(3) Unfair Advantage	151
4) Limits of Trade Mark Rights.....	152
(1) Possible Defences.....	152
a) Classic Fair Use	152

b) Nominative Fair Use	153
c) Functional Use	155
(2) Relationship between Defences and Requirements.....	156
a) Fair Use and ‘Use of Trade Marks’	156
b) Fair Use and Likelihood of Confusion.....	157
c) Fair Use and Likelihood of Dilution	160
3. Analysis of Interpretations.....	161
1) Interpretation based on Pro-Competitive Functions.....	161
2) Use of Trade Marks	166
3) Likelihood of Confusion.....	168
(1) Subject of Confusion	169
(2) Timing of Confusion.....	174
(3) Average Consumers in Product Markets.....	176
4) Likelihood of Dilution	177
(1) Blurring	177
(2) Tarnishment.....	179
(3) Limits of Dilution.....	181
(4) Average Consumers in Product Markets.....	183
5) Limits of Trade Mark Rights.....	183
(1) Scope of Defences	184
(2) Defences and Requirements.....	185
(3) Safe Harbour	186
4. Conclusion: Liability of Advertisers and Search Engines	186
1) Relevant Context and Circumstances	186
2) Liability of Advertisers	188
(1) Use of Trade Marks	188
(2) Likelihood of Confusion.....	189
(3) Likelihood of Dilution	192
(4) Limits of Trade Mark Rights.....	194
3) Liability of Search Engines.....	195
(1) Use of Trade Marks	195
(2) Likelihood of Confusion.....	196
(3) Likelihood of Dilution	197
(4) Limits of Trade Mark Rights.....	198

Part III. Freedom of Expression.....200

Chapter 6: Freedom of Expression and Trade Mark Law200

- 1. Scope of Free Speech and Standards for Limiting Speech 200
 - 1) Constitutional Law concerning Freedom of Speech 200
 - 2) Protectability of Commercial Speech under Freedom of Expression 202
 - (1) Protection of Commercial Speech 202
 - (2) Rationale for Protection 205
 - 3) Reduced Protection of Commercial Speech 206
 - (1) Protection of Commercial and Non-commercial Speech 206
 - (2) Rationale for the Lower Protection Level 209
 - 4) Definition of Commercial Speech 211
 - 5) Standards for Limiting Expression 214
 - 6) Conclusion 217
 - (1) Protection of Commercial Speech 217
 - (2) Different Level of Protection 218
 - (3) Definition of Commercial Speech and Mixed Speech 220
 - (4) Standards for the Restriction 223
- 2. Restriction of Expression by Trade Mark Law 225
 - 1) Approaches as to the Relationship between Free Speech and Trade Mark Law 225
 - 2) Use of Trade Marks and Speech 228
 - 3) Use of Trade Marks and Commercial Speech 230
 - 4) Purpose of Trade Mark Law and Societal Interests 233
 - 5) Trade Mark Protection and Direct Furtherance of Societal Interests 237
 - 6) Remedies for Trade Mark Protection and Less Speech-Restrictive Means 238
 - 7) Conclusion 240

Chapter 7: Freedom of Expression and Direct Liability in Paid Search Marketing 241

- 1. Free Speech Restrictions and Trade Mark Liability 241
 - 1) Use in Commerce and Commercial Speech 241
 - 2) Likelihood of Confusion 244
 - (1) Use of Trade Marks as Commercial Speech 244
 - (2) Use of Trade Marks as Non-commercial Speech 245
 - 3) Likelihood of Dilution 246
 - (1) Use of Trade Marks as Commercial Speech 246
 - (2) Use of Trade Marks as Non-commercial Speech 249

4) Fair Use Defence	251
(1) Scope of a Fair Use Defence	251
(2) Fair Use and Requirements for Liability	253
5) Conclusion	254
2. Direct Liability in Paid Search Marketing	255
1) Free Speech on the Internet.....	255
2) Speech and Speakers in Paid Search Marketing	257
3) Commercial or Non-commercial Speech.....	259
4) Free Speech and Direct Trade Mark Liability.....	262
(1) Advertisers	262
a) Likelihood of Confusion.....	262
b) Likelihood of Dilution.....	264
c) Fair Use Defence.....	265
(2) Search Engines	265
a) Likelihood of Confusion.....	265
b) Likelihood of Dilution.....	267
c) Fair Use Defence.....	268
(3) Remedy	268
Part IV. Conclusion.....	270
Bibliography	278

Part I. Introduction and Basic Questions

Chapter 1: Introduction

1. Aim and Scope

The thesis will consider the scope of trade mark protection and propose ‘a virtuous cycle in the application of trade mark law.’ This will be tested against the context of paid search marketing. Paid search marketing is the appropriate testing ground because of the global challenges it introduces to the fundamentals of trade mark protection.

The thesis seeks to delineate the proper scope of trade mark protection; this requires a balance between trade mark owners, third party users, and consumers, on the one hand, and between trade mark protection and free speech values, on the other. The main hypothesis is that ‘fair and efficient competition’ plays a core role in finding a balance that can be reached through a virtuous cycle in the application of trade mark law.

The starting point, which functions as a catalyst throughout the thesis, is that the ultimate purpose of trade mark protection should be ‘fair and efficient competition.’ This leads to the distinction between non-protectable and protectable trade mark functions because only pro-competitive trade mark functions, which are worthy of protection under ‘fair and efficient competition,’ should be protected by trade mark law. At this step in the cycle, liability needs to be based on pro-competitive trade mark functions. Focused on competition in product markets on the one hand and including brand image protection on the other, the protection of these functions provides balancing and counterbalancing mechanisms in determining liability.

Turning to free speech, trade mark protection, aiming at the furtherance of fair and efficient competition by way of protecting pro-competitive trade mark functions, can coexist with free speech values. From the standpoint of standards for restricting free speech, the purpose of trade mark protection could be substantial or compelling, depending on the degree of harm to pro-competitive trade mark functions: substantial if there is a likelihood of harm and compelling if

there is an evident likelihood of harm. Here, standards for restricting free speech directly influence the interpretation of requirements for trade mark liability that hinges on whether use of trade marks is commercial or non-commercial.

Finally, the virtuous cycle could close at the point where the interpretation of requirements for and exceptions from trade mark liability, based on both pro-competitive functions and standards for limiting free speech, is applied to a specific context. Against this context, trade mark protection could promote fair and efficient competition. At the same time, it could reach a balance first between trade mark owners, third party users, and consumers and second between trade mark protection and free speech values. Attempts to advance fair and efficient competition in different contexts will initiate another iteration of the virtuous cycle, transforming the cycle into a spiral.

In this thesis, only the areas relevant to direct trade mark liability in paid search marketing provide the necessary contextual background against which the newly introduced concepts are tested. For example, post-sale confusion will not be discussed despite its importance in delineating trade mark protection. Moreover, this thesis will not deal with the indirect trade mark liability of advertisers and search engines and the liability under laws other than trade mark law. A broader analysis appeared fascinating at the start of my journey, but soon it became clear that it would be a huge challenge to try and fit it within the word limits of a PhD thesis.

2. Global Challenges of Paid Search Marketing

Paid search marketing such as Google Adwords is an online marketing method by which advertisers, who purchase keywords from search engines, can have their advertisements displayed on search engine result pages (“SERPs”) in response to search engine users’ input of the keywords into search boxes. These advertisements typically appear at the top of, or on the right side of, SERPs and are ranked by the maximum bid amounts that advertisers are willing to pay for keywords and other factors such as advertisement quality. This marketing is more cost-effective for advertisers to reach consumers than any other marketing. Advertisers make the most of this marketing by combining it with brand

marketing; they select and purchase trade marks as keywords that trigger their own brand marketing.

From the perspective of trade mark law, use of trade marks in paid search marketing raised tensions between trade mark proprietors, advertisers, search engines, and consumers in many directions. Trade mark proprietors, who had to pay search engines to ensure that their advertisements would appear at the top of paid search results like other advertisers, claimed confusion or dilution-based liability for advertisers' or search engines' use. Moreover, these tensions have spread across the world because of the global effect of the Internet. Paid search marketing cases have been before courts not only on both sides of the Atlantic but also in Asia.

These global tensions challenge the fundamentals of trade mark protection. Against trade mark owners' claims for protection, advertisers and search engines argue for their competitive interests in product markets, their contribution to consumers, or free speech values.

Courts in different jurisdictions, however, have delivered various opinions as to the scope of protection in paid search marketing mainly because of specific factual contexts, their evaluation, and related legal interpretation. First, courts' evaluation of similar facts has differed. Second and more importantly, different interpretations of essentially very similar legal provisions have led to disparate conclusions. For example, in the USA where there is no relevant jurisprudence of the Supreme Court, federal courts have diverse approaches in applying the same trade mark law to use of trade marks as keywords.

Scholars also follow diverse interpretative paths. The pendulum of trade mark law sways from trade mark owners to competitors in some markets or third party users in others; there is no equilibrium position. Locating the equilibrium becomes trickier if free speech interests are additionally considered in determining liability of advertisers and search engines.

This thesis assumes that inconsistent legal interpretations are the result of three factors: currently accepted goals of trade mark protection have not served well as a guide; trade mark functions have not been classified as protectable and non-protectable; and standards for limiting free speech have not played a key role in giving sufficient direction as to the interpretation of trade mark law. If trade

mark protection in paid search marketing is analysed through ‘a virtuous cycle in the application of trade mark law,’ it could contribute to fair and efficient competition and reach a balance between trade mark owners, advertisers, search engines, and consumers.

3. Outline

This thesis consists of four parts: introduction and basic questions (part I), direct trade mark liability (part II), freedom of expression (part III), and conclusion (part IV). Chapters 1, 2, and 3 belong to part I, and chapters 4 and 5 are included in part II. Part III has chapters 6 and 7.

After this introduction, chapter 2 elaborates on the mechanics and characteristics of paid search marketing. This will show that court decisions on similar online marketing cases and the analogy of paid search marketing to bricks-and-mortar marketing could play only a limited role in determining liability of advertisers and search engines because of the peculiarities of use of trade marks in paid search marketing, and thus suggest an analysis through a virtuous cycle in the application of trade mark law.

The ‘virtuous cycle’ concept is introduced in chapter 3. There the goals are first to show why fair and efficient competition should be the ultimate purpose of trade mark protection and second to propose the information and differentiation functions as protectable functions from the perspective of fair and efficient competition.

Part II discusses direct trade mark liability in paid search marketing on the basis of protectable trade mark functions in chapter 5, after examining relevant decisions of US federal courts, the European Court of Justice (“ECJ”), and Korean courts in chapter 4. Chapter 5 seeks to interpret requirements for and exceptions from trade mark liability from the perspective of the protection of pro-competitive functions. Then, based on this interpretation, it analyses the direct liability of advertisers and search engines, taking account of the characteristics of use of trade marks in paid search marketing.

Chapter 4 aims to show that courts have not given sufficient answers to questions about currently accepted fundamentals of trade mark protection raised

by use of trade marks in paid search marketing. Chapter 5 suggests that direct trade mark liability based on confusion or dilution should be limited to the case where the pro-competitive functions of trade marks are likely to be harmed, arguing against a trade mark use theory. It is submitted in this chapter that likelihood of confusion can arise only where consumers are misled into believing that trade mark owners control the quality or brand image of users' products. Likelihood of dilution can occur only where third party use of famous marks could lead consumers to associate famous marks with inconsistent or negative product quality or brand images. Exceptions, such as fair use, should be decided separately from requirements, such as likelihood of confusion.

Part III concerns the analysis of freedom of expression in paid search marketing. Against arguments for trade mark liability, advertisers and search engines maintain that their use of trade marks should be protected under free speech. Chapter 6 examines the protection of commercial expression under free speech, the distinction between commercial and non-commercial expression, different standards for restricting free speech, and the relationship between trade mark law and free speech. On the basis of the analysis in chapter 6, chapter 7 evaluates my interpretation in chapter 5 and additionally suggests an interpretation in the case where trade marks are used in non-commercial contexts. Then, it analyses the direct liability of advertisers and search engines, using these interpretations.

In chapter 6, I submit that bans on unauthorised use by trade mark law can be in conformity with the standards for restricting free speech insofar as the purpose of trade mark protection is interpreted as fostering fair and efficient competition by way of protecting pro-competitive trade mark functions. Chapter 7 suggests that where trade marks are used in non-commercial contexts, and thus use of marks is considered to be non-commercial, likelihood of confusion and dilution should be interpreted as meaning explicit likelihood of confusion and dilution for third party use to be banned.

Part IV offers an overall conclusion and brings together a number of specific recommendations.

4. Methodology

The thesis relies heavily on a jurisprudential analysis, conducting a comparative study of court decisions in three jurisdictions, taken prior to July 2013: the USA, the EU, and Korea.

The USA offers an abundance of trade mark jurisprudence and diverging approaches. Many cases about use of trade marks in paid search marketing have been brought before federal courts that have shown diverse attitudes towards liability of advertisers and search engines. Moreover, the US Supreme Court has generated an enlightening discussion on free speech doctrines.¹

In the EU, the convergence and unification of trade mark law has been emerging through the two pillars: the EU Trade Mark Directive and the Community Trade Mark Regulation. The Directive aimed at the convergence of EU trade mark law, and the Regulation superimposed a unified trade mark system on the national trade mark systems of member states. Against this, the ECJ has developed significant jurisprudence on trade marks and paid search marketing.

Korea is a particularly interesting jurisdiction because it offers a marriage between diverse legal traditions and a rapprochement in terms of policy approach. Some parts of the trade mark system are akin to the Lanham Act while others to EU law. For example, anti-dilution provisions in the Korean Unfair Competition Prevention and Trade Secret Protection Act (“Korean Unfair Competition Act”) are similar to those in the Lanham Act. By contrast, in the Korean Trade Mark Act, as in EU trade mark law, the taking of unfair advantage constitutes ‘a ground for refusal and invalidation.’ Under this system, the Supreme Court of Korea made a decision on a paid search marketing case recently. Given the high broadband penetration in Korea,² there will be more cases. A comparative study could suggest the direction in which Korean courts should determine the scope of trade mark protection in paid search marketing.

Following a comparative analysis approach, in chapter 2, I attempt to show the peculiarities of use of trade marks in paid search marketing by

¹ Eric Barendt, *Freedom of Speech* (2nd edn, Oxford University Press 2005) 55

² OECD Broadband Statistics Update <<http://www.oecd.org/sti/broadband/broadband-statistics-update.htm>> accessed 2 August 2013 (“The total number of wireless broadband subscriptions in the OECD area is just above 780 million. Finland (106.5), Sweden (104.8), Australia (103.4) and Korea (103.0) have over one subscriber per capita.”)

comparing it with use in similar online marketing and examining the analogy to product placement, the sale of embroidered logos, and newspaper advertising. Chapter 3 examines the limit of currently accepted purposes of trade mark protection, the nature of trade mark law, pro-competitive characteristics of trade mark protection, and the internalisation of competition in trade mark law in three jurisdictions. Then, it explores protectable trade mark functions from the perspective of ‘fair and efficient competition.’

In part II, having provided a comprehensive comparison of court decisions on use of trade marks in paid search marketing in three jurisdictions, I draw my interpretation of requirements for and exceptions from trade mark liability based on the analysis in chapter 3 and test it against the context of paid search marketing. In chapter 4, the comparison is made according to the liability of advertisers or search engines. In the case of the USA, decisions of US federal courts are examined in the absence of relevant Supreme Court jurisprudence. In chapter 5, I explore trade mark theories relevant to paid search marketing cases to reach an interpretation that can be justified by ‘fair and efficient competition through the protection of pro-competitive trade mark functions.’ Based on this interpretation, the direct liability of advertisers and search engines in the context of paid search marketing is analysed.

In Part III, having deduced standards for limiting expression, I apply them to paid search marketing cases for achieving a balance between trade mark protection and freedom of expression. Chapter 6 makes a comparative analysis of court decisions to suggest standards for restricting commercial and non-commercial expression; for this, decisions of the US Supreme Court and the Constitutional Court of Korea³ are examined. In the EU, there is convergence in the interpretation of freedom of expression, despite the existence of each EU member state’s own legal order regarding freedom of expression. Thus, I explore decisions of the European Court of Human Rights (“ECtHR”), which is the highest court in Europe in terms of human rights, including freedom of

³ The Constitutional Court of Korea was established in 1988 by the current Constitution as a result of the people’s movement for democracy in 1987. It is an independent specialised court for constitutional issues in order to fully protect fundamental rights and effectively check governmental powers. Because of the existence of the Constitutional Court separated from the Supreme Court, various constitutional issues have been dealt in this court. There are nine Justices who serve a six-year renewable term. <<http://english.court.go.kr>> accessed 23 March 2011

expression,⁴ and the ECJ, which is the highest quasi-federal court concerning EU trade mark law,⁵ rather than national courts in each EU member state in order to extract jurisprudential commonalities. Then, the general relationship between trade mark law and free speech is analysed through the application of speech restriction standards to trade mark law.

In chapter 7, I review the interpretation of requirements for and exceptions from trade mark liability from the perspective of speech restriction standards. The direct trade mark liability of advertisers and search engines is also assessed again in the light of speech restriction standards.

⁴ The European Court of Human Rights is an international court established by the European Convention on Human Rights. The EU itself is able to join the ECHR as a result of the entry into force of the Lisbon Treaty (1 December 2009) and the Protocol No.14 to the European Convention on Human Rights (1 June 2010).

⁵ The ECJ has jurisdiction to give preliminary rulings concerning the interpretation of EU law including the EU Trade Mark Directive when national courts of EU member states refer to the ECJ about the interpretation. The ECJ's judgment binds both referring courts and other national courts which have similar issues. The ECJ also has jurisdiction to decide appeals on points of law against the General Court's judgment on appeals against the Boards of Appeal's decisions relating to Community Trade Marks.

Chapter 2: Mechanics and Characteristics of Paid Search Marketing

This chapter examines how paid search marketing operates and what makes this marketing salient. It also explores how trade marks are employed in paid search marketing and compares use of trade marks in this context with that in bricks-and-mortar marketing. By linking paid search marketing with brand marketing, use of trade marks as keywords to trigger paid search results generates complicated trade mark issues.

1. Mechanics

Normally, information on the World Wide Web, stored in the form of web pages, can be accessed through internet browsers.⁶ By putting in internet browsers websites' Internet Protocol addresses ("IP addresses") or domain names, internet users can reach the sites and garner information with ease. Particularly for established brands, more than half of website visitors directly arrive at websites through inputting web addresses or following bookmarks.⁷

Users, however, cannot have access to information where they do not know the relevant IP addresses or domain names. A search engine enables searchers to find information in this situation. It is a computer programme⁸ designed to search the World Wide Web for information by only entering keywords into a search box of the engine and clicking on a 'search' button. In response to the entry, a search engine ordinarily returns two types of relevant information on a search results page ("SERP"): natural and paid results.

Natural results, also called organic or algorithmic results, are displayed "in order of relevance and popularity according to [search engines'] complex algorithms."⁹ Relevance means "the degree to which the content of the documents returned in a search matches the user's intention and terms" and can rise if queried terms "[occur] multiple times and [show] up in the title of the work

⁶ Rosetta Stone Ltd. v. Google Inc., 730 F.Supp.2d 531, 536 (E.D. Va. 2010)

⁷ Dave Chaffey and others, *Internet marketing : strategy, implementation and practice* (Dave Chaffey ed, 4th edn, Pearson Education 2009) 511

⁸ In this thesis, a search engine is also used as meaning 'a search engine provider.'

⁹ Eric Enge and others, *The Art of SEO* (O'reilly 2009) 26

or in important headlines or subheads, or if links to the page come from relevant pages and use relevant anchor text.”¹⁰ Popularity relates to “the relative importance, measured via *citation* of a given document that matches the user’s query” and can increase if the document that matches the user’s terms is referenced by other documents.¹¹ Search engines’ algorithms decide this relevance and popularity automatically.

Along with natural results, paid results or sponsored results appear at the top of or on the right side of SERPs. Like natural results, paid results are displayed when users of search engines enter search terms into search boxes.¹² Nevertheless, advertisers pay search engines just for paid results; advertisers’ maximum bid amounts and other factors such as advertisement quality rank a list of paid results that appear on screens.

Paid search marketing is a type of search engine marketing which relates to paid results. It is preferred because advertisers can promote their products to customers looking for relevant products or information. Compared to traditional advertising, advertisers can target advertising at interested consumers since advertisements are displayed only when users enter relevant keywords into search boxes.¹³

In paid search marketing or pay-per-click marketing such as Google Adwords, Yahoo! Search Marketing, Bing Search Advertising, and Naver¹⁴ Click Choice, search engines sell advertisers keywords that trigger the display of advertisements, and advertisers purchase keywords and the right to have their advertisements displayed in response to search engine users’ input of keywords.¹⁵ Moreover, search engines sell and advertisers buy the positions of advertisements in a list of paid results which correspond to advertisers’ maximum bid prices and other relevant factors.¹⁶ Some search engines recommend keywords to

¹⁰ Id. at 32

¹¹ Id.

¹² Although contextual advertising such as Google AdSense is also categorised as paid search marketing, the main model of paid search marketing is pay-per-click marketing such as Google Adwords. See Chaffey and others, *supra* note 7, at 517

¹³ Chaffey and others, *supra* note 7, at 519

¹⁴ Naver is a leading search portal in South Korea launched in 1999.

¹⁵ *Rosetta Stone Ltd. v. Google, Inc.*, 2012 WL 1155143, 2 (C.A.4(Va.))

¹⁶ For example, in Google Adwords, the Quality Score affects the positioning of advertisements. See *Interflora Inc and Interflora British Unit v. Marks and Spencer Plc and Flowers Direct Online Limited* [2013] E.T.M.R. 35, 724

advertisers via their suggestion tools. Advertisers pay search engines whenever users click on paid advertisements.¹⁷ Even though users click on natural results more than paid results, many users also click on paid results and search engines earn their profits mainly through the sale of keywords.¹⁸

Advertisers who want to use paid search marketing usually need three main steps. The first is to select keywords by referring to keyword suggestions made by search engines. The second step requires them to decide a daily budget and the maximum amount of money that they are willing to pay each time the hyperlinks in their advertisements are clicked on. Search engines such as Google and Yahoo also enable advertisers to choose the region that they wish to have their advertisements displayed. The third step is to create advertisements consisting of a heading, a promotional message, and the URL of an advertiser's website.

Keywords, when typed in by search engine users, trigger relevant paid results to appear above or to the right of organic results under the title of 'sponsored results,' 'sponsored links,' or 'ads'. Some search engines also display them below or in the middle of natural results. While paid search results are separated from natural results by, for example, a light-coloured rectangular background together with the title, they are displayed in a colour, typeface, and font size similar to those of organic results.¹⁹ The colour of rectangular background is not clear enough to be distinguished from a white background of organic results, and the title is small.

Paid results themselves do not always show their exact relationship with keywords. On the other hand, keywords, which were entered into search boxes and still remain there when paid results appear, imply that all paid results are linked to them. Moreover, some search engines indicate at the top of paid results that advertisements are 'ads related to' keywords.

In paid search marketing, the search engines' aim does not always correspond to the advertisers' aim. Search engines can earn more by selling keywords and increasing chances that searchers click on advertisements. Thus,

¹⁷ *Rosetta Stone* 2012 WL 1155143 at 2

¹⁸ Chaffey and others, *supra* note 7, at 507; Enge and others, *supra* note 9, at 2

¹⁹ *Rosetta Stone Ltd. v. Google, Inc.*, 730 F.Supp.2d 531, 537 (E.D.Va. 2010)

they need to attract more search engine users by enabling users to find the most relevant information on their websites much quicker and easier than on other search engines' websites.²⁰ This would result in search engines' investment in natural as well as paid results. On the other hand, an advertiser can boost profits when more users click on 'its' advertisement. The advertiser would seek to include whatever is necessary to draw consumer attention in its advertisement.²¹

2. Characteristics

Compared to domain names, metatags, and pop-up and banner advertisements, paid search marketing has its unique characteristics that should be considered when analysing trade mark use in this context. Thus, a distinct reasoning should be provided in assessing liability of advertisers and search engines in paid search marketing.

1) Paid Search Marketing and Domain Names

Domain names are significant for the purpose of online marketing. Good domain names can attract consumers by concisely and easily delivering information about sellers and products. By simply entering domain names into an address bar of an internet browser, internet users can easily access websites containing information that they look for.

Domain names appear to be very similar to keywords used in paid search marketing. First, advertisers can 'purchase' domain names and keywords. Second, relevant information is triggered in response to the entry of them in an address bar of a browser or in a search box of a search engine. Third, advertisers create both the content of websites triggered by domain names and advertisements generated by keywords. Fourth, trade marks can be used in both of them.

Nevertheless, there are also significant differences. First, while identical domain names cannot be owned by different entities, identical keywords can be sold to more than one advertiser. As a result, many advertisements of different

²⁰ Brad Geddes, *Advanced Google AdWords* (Wiley 2010) 15

²¹ *Id.* at 16

advertisers can be displayed on the same screen when users input the same keywords. Second, in contrast to advertisers' websites caused by domain names, search results pages are composed of various expressions belonging to different individuals or legal entities. Third, whereas domain names directly take users to advertisers' websites, keywords do not trigger these websites. They just cause advertisements to appear. Thus, the content of advertisers' websites is not directly connected to keywords.

2) Paid Search Marketing and Metatags

Metatags are invisible codes consisting of words or phrases intended to describe the content of websites.²² Most important amongst them are description and keyword metatags.²³ Description metatags indicate information about the content of websites and are often used by search engines as a description for web pages in search results.²⁴ Keyword metatags are used to encapsulate the content of websites in several keywords²⁵ or to include a list of keywords that website owners want to connect with their websites.²⁶

Use of keywords in paid search marketing is akin to use of metatags insofar as metatags trigger natural results. When internet users input search terms into search boxes, corresponding keywords trigger paid results and corresponding metatags cause natural results to appear. The font, size, and colour of natural results are almost identical with those of paid results. In contrast to domain names, both metatags and keywords do not generate advertisers' websites. Websites can be reached only when users click on links in natural or paid results.

This, however, is not always the case. Search engines such as Google do not use keyword metatags as a factor for ranking, and description metatags also do not have any influence on the ranking of natural results.²⁷ In this sense,

²² *Brookfield Commc'ns, Inc. v. West Coast Entm't Corp.*, 174 F.3d 1036, 1045 (9th Cir.1999)

²³ *Id.*

²⁴ Engé and others, *supra* note 9, at 38; Chaffey and others, *supra* note 7, at 514

²⁵ *Brookfield Commc'ns*, 174 F.3d at 1045; Chaffey and others, *supra* note 7, at 514

²⁶ Engé and others, *supra* note 9, at 37

²⁷ *Id.* at 37-38; Chaffey and others, *supra* note 7, at 514-515

metatags are very different from keywords. Metatags are regarded as affecting the order of the display of advertisements much less than keywords.²⁸

Moreover, search engines are not involved in advertisers' use of metatags which is aimed at improving the positioning of their advertisements in natural results.²⁹ They do not sell metatags to advertisers, and advertisers do not pay any money to them for metatags. Advertisers that wish to enhance the positioning of their natural results would pay search engine optimisation service companies for optimisation process including use of metatags. Search engines, though, seek to return the most relevant information to their users without being influenced by metatags irrelevant to the content of websites. Their failure to provide relevant information quickly and easily can result in a lower number of their users³⁰ and hence a decrease in their profits through selling keywords.

3) Paid Search Marketing and Pop-up and Banner Advertisements

The mechanics of pop-up and banner advertising are very similar to those of paid search marketing. In pop-up and banner advertising, the appearance of advertisements is typically the result of the entry of keywords, and advertisers pay search engine providers for the display.

There exist differences between them too. First, in some cases, search engines do not sell specified keywords to pop-up or banner advertisers,³¹ and pop-up or banner advertisements are displayed randomly or in response to the category of products that computer users search for. Advertisers sometimes pay for space for their pop-up or banner advertisements, not for keywords, and sometimes purchase a package of keywords.³²

Second, pop-up and banner advertisements can be more readily identified

²⁸ Thomas McCarthy, 4 McCarthy on Trademarks and Unfair Competition § 25:69 (4th ed.) (stating that “[a]ccording to Google’s search algorithm, the rank of a website mainly depends on the number of other sites that link or point to it.”); *see also* Standard Process, Inc. v. Banks, 554 F. Supp. 2d 866, 871 (E.D. Wis. 2008)

²⁹ Misha Gregory Macaw, Google, Inc. v. American Blind & Wallpaper Factory, Inc.: A Justification for the Use of Trademarks as Keywords to Trigger Paid Advertising Placements in Internet Search Engine Results, 32 Rutgers Computer & Tech. L.J. 1, 44 (2005)

³⁰ *Id.*

³¹ J.G. Wentworth, S.S.C. Ltd. v. Settlement Funding LLC, 2007 WL 30115, 5 (E.D.Pa. 2007) (deciding that the WhenU.com line of cases do not “involve the purchase of specified keywords.”)

³² Playboy Enterprises, Inc. v. Netscape Communications, Inc., 354 F.3d 1020 (9th Cir. 2004)

by consumers as such than paid results. Pop-up advertisements usually emerge on another SERP in the middle of the screen, blocking the display of the website that users visit. Banner advertisements, despite their appearance on the same SERP, are typically displayed in a font, size, and colour different from those of search results and involve images or animations.³³

Pop-up advertisements are more likely to cause confusion or dilution than paid results because they block others' display. They are more intrusive than paid results in that they concern "aggressive overlaying of an advertisement on top of a trademark owner's webpage."³⁴ They can hinder internet users from reading information on computer screens and trade mark owners from displaying their advertisements. Thus, for example, if a pop-up advertisement replaces a trade mark owner's advertisement and is perceived as the owner's advertisement, this could result in likelihood of confusion.

3. Employing Trade Marks in Paid Search Marketing

1) Advertisers' Marketing and Search Engines' Trade Mark Policies

(1) Brand Marketing Benefits and Search Engines' Policies

Advertisers are eager to use trade marks in paid search marketing to benefit from both online marketing and brand marketing; they can make the most of paid search marketing by combining it with the ways trade marks function. Some may argue that trade marks are used in this marketing only as an informational tool to establish a link between advertisers and potential customers.³⁵ Trade marked keywords, however, also create an association in the mind of the consumer between trade marks and advertisements. More specifically, keywords enable consumers to connect trade marks with advertisers' products or trade marks mentioned in the advertisements. The strength of the connection depends on the text of the advertisements. In this vein, some marketing scholars

³³ Macaw, *supra* note 29, at 45

³⁴ *Merck & Co., Inc. v. Mediplan Health Consulting*, 431 F.Supp.2d 425, 427 (S.D.N.Y. 2006)

³⁵ Stacey L. Dogan, *Trademark Remedies and Online Intermediaries*, 14 *Lewis & Clark L. Rev.* 467, 473 (2010)

regard branding as one advantage of paid search marketing, arguing that paid search marketing has a branding effect even where search engine users do not click on advertisements.³⁶

Meanwhile, search engines would come to allow use of trade marks as keywords unless courts find it illegal. Without displaying advertisements relevant to trade marks, they would be unable to satisfy their users who look for certain trade marks but have no idea about the corresponding IP addresses or domain names. In addition, they would be unable to sift out of the Internet the illegal use of trade marks before advertisements are displayed. Leaving aside the lack of authority, the budgetary requirements would be prohibitive.

In sum, search engines' trade mark policies along with advertisers' marketing benefits enable advertisers to use trade marks as keywords.

(2) Changes in Search Engines' Policies

Search engines hold their own trade mark policies as to whether trade marks can be purchased as keywords or whether they can be included in the text of advertisements. These policies differ from one jurisdiction to another and develop in line with court decisions or market changes.

Before 2004, Google prevented advertisers from bidding on trade marks as keywords for paid results and from using them in advertisements upon request of trade mark proprietors.³⁷ In 2004, Google made its trade mark policy in the USA and Canada less strict by allowing advertisers' purchase of trade marks as keywords.³⁸ Since then, Google has gradually aligned its policy for other countries with this: the UK and Ireland in 2008,³⁹ other European countries in 2010,⁴⁰ and Korea in 2013.⁴¹ Meanwhile, in 2009, Google adjusted its policy for

³⁶ Chaffey and others, *supra* note 7, at 519 (stating that “[t]ests have shown that there is a branding effect with PPC, even if users do not click on the ad” and that “[t]his can be useful for the launch of products or major campaigns.”)

³⁷ *Rosetta Stone Ltd. v. Google, Inc.*, 2012 WL 1155143, 2 (C.A.4(Va.))

³⁸ *Id.*

³⁹ *Interflora Inc and Interflora British Unit v. Marks and Spencer Plc and Flowers Direct Online Limited* [2013] E.T.M.R. 35, 725-726

⁴⁰ Update to Canadian, UK and Ireland ad text trademark policy <<http://adwords.blogspot.co.uk/2010/08/update-to-canadian-uk-and-ireland-ad.html>> accessed 5 December 2013

⁴¹ On 23 April 2013, Google revised its policy for China, Hong Kong, Macau, Taiwan, Australia, New Zealand, South Korea, and Brazil so as to allow the selection of trade marks as keywords.

the USA again to enable advertisers to use trade marks as part of advertisements under certain conditions⁴² and then extended the same policy to Canada, the UK, and Ireland in 2010.⁴³

Under Google's current policy, a third party's advertisement can include a trade marked term in its text if "the ad text uses the term descriptively in its ordinary meaning" or "the ad is not in reference to the goods or services corresponding to the trademarked term."⁴⁴ In the USA, Canada, the UK, and Ireland, if advertisers i) resell genuine trade marked products, ii) sell components, replacement parts, and compatible products, or iii) provide information about trade marked products on landing pages of advertisements, they can also use trade marks in their advertisements.⁴⁵ According to Google's EU and EFTA policy, advertisers can use trade marks even in their advertisements for competing products unless the combination of keywords and advertising text is not confusing.⁴⁶

Google's notice and takedown system, which it regards "as a courtesy,"⁴⁷ corresponds to this policy. In most countries including the USA and Korea, it investigates use of trade marks only in the text of advertisements in response to complaints of trade mark owners.⁴⁸ Following the investigation, it "may restrict the use of a trademark within ad text."⁴⁹ In EU and EFTA regions, however, Google, to a limited extent, examines whether keywords in combination with advertising text cause confusion as to the origin of advertised products.⁵⁰

Yahoo and Bing have also adjusted their trade mark policies. In March 2011, they changed their trade mark policies in the USA and Canada to investigate following complaints only about use of trade marks in advertising

See Updates to AdWords trademark policy <<https://support.google.com/adwordspolicy/answer/177578>> accessed 5 December 2013

⁴² *Rosetta Stone*, 2012 WL 1155143 at 3

⁴³ Update to Canadian, UK and Ireland ad text trademark policy, supra note 40

⁴⁴ AdWords Trademark Policy <https://support.google.com/adwordspolicy/answer/6118?hl=en&ref_topic=16316> accessed 5 December 2013

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ Help for trademark owners <<https://support.google.com/adwordspolicy/answer/2562124>> accessed 5 December 2013 (asserting that "[a]dvertisers are responsible for the keywords they choose to trigger their ads and the text they choose to use in those ads.")

⁴⁸ AdWords Trademark Policy, supra note 44

⁴⁹ *Id.*

⁵⁰ *Id.*

text,⁵¹ albeit stressing that “[a]dvertisers are responsible for ensuring that their ads do not violate the trademark or other intellectual property rights of others.”⁵² Their modified trade mark policies allow fair use of trade marks in advertising text: use by the reseller of genuine products, use in informational websites as to trade marked products, use in a dictionary context, and use in comparative advertising supported by independent research.⁵³

On the other hand, in the UK, Ireland, France, and Italy, advertisers cannot purchase trade marks as keywords, or use them in advertisements if the purchase or use would “infringe the trademark of any third party or otherwise be unlawful or in violation of the rights of any third party.”⁵⁴ Truthful and lawful use of trade marks can be permitted.⁵⁵ In these countries, Yahoo and Bing investigate a complaint not only about use in advertising text but also about the selection of trade marks as keywords.⁵⁶

Unlike Google, Yahoo, and Bing, Naver, a Korean leading search engine, offers basic guidelines as to use of trade marks in paid search marketing. According to its guidelines, Naver prohibits advertisers from advertising websites that cause confusion as a result of using signs similar to another person’s trade mark widely known in Korea.⁵⁷ It can also restrict use of trade marks in a heading of an advertisement at the request of trade mark owners.⁵⁸

Trade mark policies of search engines suggest their views as to trade mark liability in paid search marketing.

First, search engines emphasise that ‘advertisers’ are liable for use of trade marks as keywords or in advertisements. They recommend that trade mark owners should contact advertisers directly. They do not think that they are also responsible for the use.

⁵¹ Editorial FAQs <<http://advertising.microsoft.com/small-business/support-center/search-advertising/editorial-faq>> accessed 14 July 2012

⁵² Intellectual Property Guidelines <<http://advertise.bingads.microsoft.com/en-us/editorial-intellectual-property-guidelines>> accessed 5 December 2013

⁵³ Id.

⁵⁴ Id. The same applies to Australia, New Zealand, Hong Kong, Singapore, Indonesia, and Brazil.

⁵⁵ Id.

⁵⁶ Id.

⁵⁷ Website Registration Guidelines (Korean) <http://searchad.naver.com/AIIS20/AIIS2004_A01.nbp> accessed 5 December 2013

⁵⁸ Guidelines for advertising text (Korean) <http://searchad.naver.com/AIIS20/AIIS2004_A01.nbp> accessed 5 December 2013

Second, ‘the content of advertisers’ websites’ plays a key role in search engines’ determination on whether use of trade marks is fair or not. They do not judge it based solely on trade marks used in advertisements. Where the landing pages of advertisements, for example, are about the resale of genuine products in the USA, Google allows use of trade marks in advertising text.⁵⁹ Yahoo and Bing take a similar position.⁶⁰

Third, search engines’ policies are directly related to court positions in different jurisdictions. This also indicates how diverse national court attitudes are.

2) Evaluation of Analogies

(1) Product Placement

Trade mark use in pop-up advertisements or paid search marketing has often been compared to product placement in bricks-and-mortar businesses. Some scholars consider that search engines’ use of trade marks in pop-up advertisements is similar to ‘supermarket managers who place competitive products on the same or adjacent shelves.’⁶¹ Some others liken ‘advertisers’ use of trade marks as keywords’ to ‘generic drug producers’ placement of their drugs next to their brand-name equivalents on shelves’ and ‘search engines’ use’ to ‘drug stores’ acceptance of the placement.’⁶² US courts also analogised pop-up advertisements and paid search marketing to product placement. In *1-800 Contacts*, the US Second Circuit used a drug store analogy for search engines’ use of trade marks in pop-up advertisements.⁶³ In *Rescuecom*, the Second Circuit compared paid search marketing to product placement, stressing that Google’s use could not be likened to “benign product placement” that did not cause likelihood of consumer confusion.⁶⁴

⁵⁹ AdWords Trademark Policy, *supra* note 44

⁶⁰ Intellectual Property Guidelines, *supra* note 52

⁶¹ Uli Widmaier, *Use, Liability, and the Structure of Trademark Law*, 33 *Hofstra L. Rev.* 603, 684-685 (2004)

⁶² Stacey L. Dogan and Mark A. Lemley, *Trademarks and Consumer Search Costs on the Internet*, 41 *Hous. L. Rev.* 777, 810 (2004) (arguing that both generic drug users and drug stores are not liable.)

⁶³ *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400, 409 (2d Cir. 2005)

⁶⁴ *Rescuecom Corp. v. Google, Inc.*, 562 F. 3d 123, 130 (2d Cir. 2009)

The analogy is obvious since the characteristic features of paid search marketing are similar to those of product placement. First, just as relevant products are grouped together according to layout plans in real world businesses, all paid search results are relevant to trade marked terms entered by users. Second, just as generic products placed near products bearing famous marks can benefit from the reputation of the marks, paid advertisements triggered by famous marks used as keywords can attract the attention of internet users who search for products with the marks. Third, both product placement and paid search marketing can provide consumers with alternatives to products bearing famous marks. Consumers can obtain information about the products that are of the same kind but have different trade marks and are cheaper than their famous equivalents.

Nevertheless, the analogy of product placement cannot necessarily lead to the conclusion that advertisements triggered by trade marked keywords are always tolerable. This conclusion ignores not only the possible variety in product placement but also the peculiarities of trade mark use in paid search marketing.⁶⁵

First, not every product placement is legal. In some cases where adjacent products are not clearly labelled, consumers could be misled into thinking that the products originate from trade mark owners. For example, generic analgesics with no trade marks, which are put right next to trade marked analgesics, could cause consumer confusion as to origin. In *Rescuecom*, the Second Circuit also held that “if a retail seller were to be paid by an off-brand purveyor to arrange product display and delivery in such a way that customers seeking to purchase a famous brand would receive the off-brand, believing they had gotten the brand they were seeking, we see no reason to believe the practice would escape liability merely because it could claim the mantle of product placement.”⁶⁶

Second, while the distance between competing products and brand-name products is important in attracting consumer attention in product placement, the main attention drawing factor in paid search marketing is the ranking of advertisements in a list of paid results. Moreover, paid search marketing does not ensure that proprietors’ advertisements always appear above other advertisements

⁶⁵ Graeme Dinwoodie and Mark Janis, *Confusion over Use: Contextualism in Trademark Law*, 92 *Iowa L. Rev.* 1597, 1637 (2007) (suggesting that “[t]rademark use theorists further elide any complexity by analogizing to use of marks offline.”)

⁶⁶ *Rescuecom*, 562 F. 3d at 130

on SERPs since the ranking of proprietors' advertisements are also affected by maximum bid amounts.⁶⁷

Third, context and circumstances in product placement are less likely to show a close relationship between third parties' products and trade marks than those in paid search marketing. In supermarkets or drug stores where products are not displayed according to a trade mark relevance order, consumers would not normally believe that there is some kind of relationship between adjacent products or their trade marks, on the one hand, and famous marks, on the other. In paid search marketing, however, context and circumstances can be interpreted as suggesting that there is a link between advertisers' products or trade marks and trade marked keywords. It is search engine users that enter trade marked terms in search boxes to find relevant information. Natural results appear below, above, or to the left of paid results on SERPs according to their relevance to the trade marked terms that trigger paid search results. The trade marked terms still stay in the search boxes after search results are displayed. Despite the title of paid results and their background in a little different colour, the format of paid results is very similar to that of organic results.

Fourth, an analogy to product placement mainly concerns 'search engines' use' of trade marks as keywords. It does not sufficiently consider the fact that disputes in paid search marketing also occur between trade mark proprietors and advertisers in that the analogy does not deal with whether adjacent products bear trade marks or whether these products have advertisements that could cause consumer confusion. Thus, advertisers' use of trade marks cannot be explained sufficiently by product placement. There is something more in advertisers' use of trade marks as keywords; they purchase trade marks as keywords to trigger their advertisements on SERPs and create advertising text that may result in consumer confusion.

(2) Sale of Embroidered Logos

⁶⁷ *Rescuecom Corp. v. Google, Inc.*, 562 F. 3d 123, 131 (2d Cir. 2009) (Rescuecom alleged regarding a likelihood of confusion that "[i]f the searcher sees a different brand name as the top entry in response to the search for Rescuecom, the searcher is likely to believe mistakenly that the different name which appears is affiliated with the brand name sought in the search and will not suspect, because the fact is not adequately signaled by Google's presentation, that this is not the most relevant response to the search.")

Search engines' sale of trade marks as keywords may be analogised to the sale of embroidered logos which replicate other parties' trade marks. Both can give the impression that sellers already acquired trade mark owners' permission about their sales. Moreover, in both cases, sellers can expect that purchasers would make use of keywords or logos even though they are not able to know how purchasers would use them.

This could lead to the conclusion that search engines are liable for trade mark infringement by reason of the sale of trade marked keywords as the sale of logos infringes on trade mark rights. If consumer confusion is interpreted as including confusion as to trade mark owners' permission or the misappropriation of the owners' goodwill, then the sale of embroidered logos would result in sellers' trade mark liability. Likewise, it can be understood that search engines' sale of keywords causes consumer confusion, and thus search engines are found liable.

Search engines, however, do not sell the image files of trade marks that can be immediately used in advertisements. They actually sell i) advertising space, ii) the ranking of advertisements in a list of paid results, and iii) a link between trade marked keywords and advertisements. Moreover, they link identical keywords to various advertisements for different products by selling them to more than one advertiser. Therefore, whereas sellers of embroidered logos can expect purchasers to use them, for example, on hats or clothing, search engines can hardly expect whether and how advertisers use trade marks on or in connection with owners' products.

(3) Newspaper Advertising

Paid search marketing is perhaps more similar to newspaper advertising. First, the key role of search engines and newspaper companies is to provide users or readers with information. Newspapers contain news, current events commentary, and other information, displaying the most important information on their front page. Search engines display natural results on SERPs in the order of relevance to search terms that users seek according to their algorithms. It is not advertisements but information or natural results that attract the attention of users

of newspapers or search engine services. Thus, newspaper companies and search engines would endeavour to enhance the quality of information or natural results.

Second, the positioning of advertisements corresponds to how much advertisers pay or intend to pay for advertising. Newspaper companies charge more for easily accessible and perceptible advertisements. If advertisers pay more, their advertisements can be bigger in size or placed in more conspicuous locations such as a front page. Likewise, in paid search marketing, higher positions in a list of paid results require higher maximum bid amounts. By raising them, advertisers can make their advertisements more noticeable to consumers.

Third, it is normally advertisers that create the text of advertisements in both newspaper advertising and paid search marketing. Newspaper companies and search engines themselves do not write advertisements. They do not sell the text of advertisements. Thus, as far as advertising text is concerned, neither newspaper companies nor search engines are responsible for them.

Fourth, free speech can also be an issue in both types of advertising. Advertisers are able to claim that their advertisements are protected by freedom of expression. Newspaper companies and search engines can also insist freedom of expression about their advertising layouts.

Despite all the similarities, paid search marketing has unique contexts that cannot be found in newspaper advertising. First, only when internet users input search terms in search boxes, trade marked keywords trigger the display of advertisements. Second, natural and paid results appear on the same SERPs in response to the entry of identical keywords. Third, search engines provide natural results free of charge; profits coming from paid search results can dictate search engines' success. This could drive search engines to focus also on how to design a paid search marketing system. Unless the obvious distinction between natural results and paid results is more conducive to their revenue, search engines would not seek to help users to distinguish between them by displaying advertisements, for example, in clearly different colours.

All in all, analogies should only be used to help understand complex situations in paid search marketing. The fact that paid search marketing has a lot in common with product placement should not lead to the conclusion that both

advertisers and search engines are not liable in both contexts. Conversely, the similarities between the sale of trade marks as keywords and the sale of embroidered logos should not automatically lead to search engines' trade mark liability. Court decision as to newspaper advertising cannot be the same as that as to paid search marketing.

3) Peculiarities of Use of Trade Marks in Paid Search Marketing

Since paid search marketing itself has its unique mechanics differentiated from those of other online marketing, use of trade marks in paid search marketing holds its own peculiarities. Moreover, the combination of brand marketing and keyword marketing generates a complicated context of trade mark use.

First of all, search engines do not really sell or license trade marks to advertisers. What they sell or what advertisers purchase is i) advertising space, ii) the ranking of advertisements in a list of paid results, and iii) a link between trade marked keywords and advertisements. Trade marked keywords as such are not aimed to indicate the source or sponsorship of products. Thus, search engines' sale of trade marks as keywords to advertisers cannot be interpreted as allowing or justifying advertisers' use of trade marks in paid search marketing that causes likelihood of confusion or dilution. Moreover, this on its own cannot lead to the conclusion that search engines know or have reasons to know that advertisers would use trade marks in a way that is likely to confuse consumers or dilute trade marks.

Second, trade marks used as keywords or in advertising text are not the only trade marks employed in the context of paid search marketing. The same marks are displayed elsewhere on SERPs, and other marks also appear on SERPs. There are trade marks which were entered by computer users into search boxes and remain there. Other marks include service marks of search engines used to indicate the source of their services. Other marks such as advertisers' marks may be included in advertisements displayed on the SERPs.

Third, trade marks are employed at different stages of paid search marketing. At the stage of the sale and purchase of trade marked keywords, some search engines recommend trade marks as keywords through their keyword

suggestion tools. Considering this recommendation, advertisers select and purchase trade marks as keywords from search engines. Search engines sell trade marked keywords. As a result of the sale and purchase, trade marks are incorporated in software programmes of search engines. At the stage when search engine users input trade marks as search terms, internalised trade marks trigger relevant advertisements to appear on SERPs. Trade marks may or may not be included in the text of the advertisements, but trade marks entered by users still remain in search boxes. Search engines' service marks also appear at this stage.

Fourth, trade marks employed in paid search marketing can be categorised into what internet users can and cannot perceive. The utility of this categorisation is that only perceptible trade marks can have an influence on users. Since internet users are not involved in the sale and purchase, they cannot perceive that trade marked keywords are traded between search engines and advertisers. On the other hand, trade marks which remain in search boxes and search engines' service marks are visible and perceptible to consumers. Trade marks, which may be included in advertisements, are also perceptible. Internal use of trade marks as keywords, despite its invisibility, can be classified as perceptible use because users can recognise it based on the fact that trade marked terms trigger advertisements.

Fifth, some expressions and contexts are ascribed to advertisers while others to search engines. The purchase of trade marked keywords and advertising text are made or written by advertisers; it is advertisers that create a link between trade marked keywords and advertising text. On the other hand, the recommendation of trade marked keywords by suggestion tools, the sale of keywords, and the title, location, font, size, and colour of paid results belong to search engines. Both advertisers and search engines make internal use of trade marks and create a link between trade marks and the display of advertisements.

Sixth, the results triggered by trade marked keywords are not the advertisers' websites but their advertisements; links to the websites are only included in advertisements. Users cannot see the content of websites until they click on the links.

Finally, search engines' efforts arguably do not appear to be enough to separate paid from organic results. Search engines can distinguish between them

more clearly by, for example, highlighting paid results with different fonts, sizes, and colours. Although insufficient separation in itself does not mislead consumers as to origin, it could cause consumers to misbelieve that the relevance to trade marks corresponds to the order of paid results.

Whether these context and circumstances have direct influence on determination as to trade mark liability or indirectly contribute to it, they should not be overlooked.

4. Conclusion

Keywords used in paid search marketing are different from domain names and metatags, which also enable internet users to efficiently access online information. Thus, court decisions on use of trade marks in domain names or as metatags cannot determine trade mark liability of advertisers or search engines in paid search marketing. They are no more than references. This is also the case with court decisions as to pop-up or banner advertising.

Moreover, changes in search engines' trade mark policies have not caused trade mark disputes. In fact, search engines have adapted trade mark policies to court decisions or market changes. Therefore, their trade mark policies are unlikely to lead to search engines' trade mark liability.

Furthermore, use of trade marks as keywords is or can be analogised to product placement, the sale of embroidered logos, or newspaper advertising. These analogies may suggest possible solutions or help understand use of trade marked keywords. Nevertheless, applying the same reasoning to use of trade marks as keywords could ignore the characteristic features of paid search marketing.

Use of trade marks in paid search marketing has its unique context and circumstances. i) Search engines and advertisers do not actually sell and purchase trade marks. ii) More than one mark is employed at different stages, and certain use of marks cannot be perceived by internet users. iii) Some expressions and contexts belong to advertisers, whereas others to search engines. iv) Not all context and circumstances shall be considered in determining trade mark liability in paid search marketing. v) There are contexts that can mislead users into

believing a strong link between trade marked keywords and advertisements.

Because of these peculiarities, it is not easy to find the proper scope of trade mark protection in paid search marketing. Nevertheless, this thesis hypothesises that the assessment of direct liability in paid search marketing through a virtuous cycle in the application of trade mark law can delineate the proper scope of protection. It can reach a balance between trade mark owners, advertisers, search engines, and consumers and between trade mark protection and free speech values.

Chapter 3: The Purpose of Trade Mark Law and Trade Mark Functions

As a catalyst for finding a balance between all relevant parties and between trade mark protection and free speech, this chapter seeks a purpose of trade mark law that can both justify and delimit trade mark protection. First, it explores current limits of trade mark law and suggests fair and efficient competition as the ultimate aim. Then, it discusses the concept and protection of pro-competitive trade mark functions, exploring the means to accomplish this aim. These two approaches form the basis of the evaluation of direct trade mark liability in paid search marketing. They also relate to the restriction of free speech by trade mark law in this marketing.

1. The Purpose of Trade Mark Law

1) Proactive Approach of Trade Mark Law and Competition

Whether trade mark law should “protect whatever consumer understandings or producer goodwill develops” or whether it should “seek to shape the ways in which consumers shop and producers sell or seek to acquire rights, thus shaping how the economy functions” relates to a reactive or proactive perspective on trade mark law.⁶⁸ If the former approach is taken, it appears to be enough to consider the prevention of consumer confusion and/or the protection of goodwill as the goals of trade mark law without considering the interests of competitors or the markets themselves. In contrast, a proactive approach requires that trade mark law has to show ‘for what trade marks are protected.’

It is suggested here that trade mark law should be proactive. Trade mark law neither prevents all types of consumer confusion nor protects all types of producer goodwill. Even if there is a likelihood of confusion, third party use does not constitute trade mark infringement if it is fair. The same principle applies to trade mark dilution. In this sense, trade mark law has served to build a system in

⁶⁸ Graeme B. Dinwoodie, *Trademarks and Territory: Detaching Trademark Law from the Nation-State*, 41 *Hous. L.Rev.* 885, 889-890, 961-963 (2004); Graeme B. Dinwoodie, *Trademark Law and Social Norms*, 3-5 (2007) available at <http://www.oiprc.ox.ac.uk/papers/EJWP0207.pdf>; Dinwoodie and Janis, *supra* note 65, at 1604-1605

which trade mark owners and competitors can properly use trade marks and consumers can benefit from these uses. This should be continued; further, trade mark law should be able to indicate the direction it should follow in its application and development.⁶⁹ This should also be the function of courts in applying trade mark law to specific cases.⁷⁰

Historically in the USA, when the protection of trade marks was limited to directly competing uses, trade mark law and court decisions played the role of a guiding light. The aim was to protect producers from illegitimate diversion of business, and trade mark law was seen as part of unfair competition law.⁷¹ This goal maintained a balance between the interests of all concerned parties. For example, in *Borden Ice Cream Co.*, the US Seventh Circuit concluded that Borden's Condensed Milk Company could not prevent the Borden Ice Cream Company from using the word 'Borden' in its corporate name where the two companies were not in any competitive relationship. This decision is regarded as support of the argument that trade mark law traditionally intended to protect producers rather than consumers.⁷² However, I suggest here that the decision also shows that the purpose of trade mark law itself could delimit the scope of trade mark protection.

Even the purpose of trade mark law based on a natural property rights theory could balance the interests of trade mark owners, consumers, and competitors where trade marks were protected only in the context of competing product markets. For the compatibility with 'geographic and product market limitations' of trade mark protection, the property protected as a right under the natural rights theory shifted from the trade mark itself to the goodwill that the mark symbolised.⁷³ Thus, the goal of trade mark law—the protection of goodwill—not only presented the logical basis for trade mark protection but also

⁶⁹ Stacey L. Dogan and Mark A. Lemley, *The Merchandising Right: Fragile Theory or Fait Accompli?*, 54 *Emory L.J.* 461, 488 (2005) (arguing that "merchandising is a case in which the law should act as a norms creator, setting aspirational goals rather than responding to current consumer expectations.")

⁷⁰ Dogan and Lemley, *supra* note 62, at 784 (emphasising the significance of courts' role as norm creators with regard to trade mark use on the Internet)

⁷¹ Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 *Notre Dame L. Rev.* 1839, 1860 (2007)

⁷² *Id.* at 1870

⁷³ Robert G. Bone, *Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law*, 86 *B.U. L. Rev.* 547, 568 (2006)

offered the rationale for its limitation. In *Hanover Star Milling Co. v. Metcalf*, a conflict between a producer of Tea Rose flour and a merchant selling competing Tea Rose flour in the same market, and *Allen & Wheeler Co. v. Hanover Star Milling Co.*, a case between producers of flour sold in separate geographic markets, the US Supreme Court accepted an injunction in the first case and denied it in the second. The Court reasoned that “the trademark is treated as merely a protection for the good will, and not the subject of property except in connection with an existing business” and that “the mark, of itself, cannot travel to markets where there is no article to wear the badge and no trader to offer the article.”⁷⁴

As trade mark protection gradually expanded beyond competing product markets to related product markets and, then, even further to distant product markets, the focus of the prevention of unfair competition shifted from ‘competition’ to the concept of ‘unfairness.’⁷⁵ The concept of ‘goodwill’ and ‘likelihood of confusion,’ originally anchored in competing markets, began to expand to embrace more meanings.⁷⁶ Competition, which once set the boundary of trade mark protection, could not play the same role as it did before.

The 1905 US Federal Trademark Act⁷⁷ provided protection against use of marks on non-competing goods of “substantially the same descriptive properties” as those of the goods covered by the marks. On the ground of this provision, the Third Circuit held in *Rosenberg* that men’s hats and caps have the same descriptive properties as those of men’s suits and overcoats.⁷⁸

In spite of the Act of 1905, some courts accepted a ‘related goods theory,’ under which trade marks were afforded protection against use on related, non-competing goods. In *Aunt Jemima*, the Second Circuit found that use of a trade mark on syrup infringed the Aunt Jemima Mills Company’s trade mark on pancake batter on the grounds of likelihood of confusion as to source and the possibility that the user took the benefit of the Company’s reputation and

⁷⁴ *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 414-416 (1916)

⁷⁵ *Vogue Co. v. Thompson-Hudson Co.*, 300 F. 509 (6th Cir. 1924) (holding that “there is no fetish in the word ‘competition’” and that “[t]he invocation of equity rests more vitally upon the unfairness.”)

⁷⁶ Bone, *supra* note 73, at 574

⁷⁷ Act of Feb. 20, 1905, 33 Stat. 724, *repealed by* Trademark (Lanham) Act of 1946 § 46(a), 60 Stat. 427, 444

⁷⁸ *Rosenberg Bros. & Co. v. Elliott*, 7 F.2d 962, 966 (3d Cir. 1925)

advertisements.⁷⁹

Moreover, the introduction of sponsorship confusion and dilution further diminished the role of competition in trade mark law. With the passage of the Lanham Act of 1946, likelihood of confusion in relation to products of different descriptive properties could lead to trade mark infringement, but sponsorship confusion was not supported by all courts.⁸⁰ With the 1962 amendments, however, legislature deleted the requirement that there should be a likelihood of confusion of “purchasers as to the source or origin of such goods or services” from Section 32(1) of the Lanham Act,⁸¹ and the 1989 amendments included sponsorship confusion in 43(a)(1)(A) of the Act.⁸² As a result, use of trade marks in non-competing product markets that is likely to cause confusion as to source, sponsorship, or affiliation can constitute infringement. Anti-dilution statutes in the US states, starting with Massachusetts in 1947, and the federal anti-dilution law also prohibit use of trade marks in non-competing product markets even where there is no likelihood of confusion.

The broad concept of likelihood of confusion and trade mark dilution are also recognised in the EU. The EU Trade Mark Directive and the Community Trade Mark Regulation provide that ‘likelihood of confusion’ includes ‘likelihood of association’ between a sign and a trade mark.⁸³ Trade mark dilution constitutes infringement and a ground for refusal and invalidity. Even the taking of unfair advantage is accepted by the Directive and the Regulation as one type of dilution.

Korean law also accepts the expanded concept of likelihood of confusion⁸⁴ and trade mark dilution. Unlike the Lanham Act, the Directive, and the Regulation, the Korean Trade Mark Act does not clearly state that ‘likelihood of association’ is embraced in the concept of ‘likelihood of confusion,’ but the Supreme Court of Korea accepts this type of confusion. In a case concerning a

⁷⁹ Aunt Jemima Mills Co. v. Rigney & Co., 247 F. 407, 409-410 (2d Cir. 1917)

⁸⁰ HMH Pub. Co., Inc. v. Brincat, 504 F.2d 713, 716, n.7 (9th Cir. 1974)

⁸¹ Id.

⁸² McCarthy, *supra* note 28, § 24:6

⁸³ It is described in Canon as the perception of the existence of an economic link between infringers and trade mark proprietors. *See* Canon Kabushiki Kaisha v. Metro-Goldwyn-Mayer Inc. (C-39/97) [1999] 1 C.M.L.R. 77, 97-98

⁸⁴ Sang Jo Jong and Jun-Seok Park, *Intellectual Property* (2nd edn, Hongmun Sa 2011) (Korean) 571

service mark for banking, the Supreme Court construed likelihood of confusion as including ‘likelihood of confusion as to the existence of economic relation which can lead to a free ride on the coat-tails of the reputation of a famous mark and accordingly the attraction of consumers.’⁸⁵ The regulation of dilution in Korea is also differentiated from that in the Lanham Act, the Directive, and the Regulation. Dilution as a ground for refusal, opposition, and invalidation includes the taking of unfair advantage and does not require that trade marks have to be famous in Korea. Article 7(1)(xii) of the Korean Trade Mark Act provides that where trade marks are identical with, or similar to, a trade mark that consumers inside or outside Korea easily recognise as indicating the products of a particular person and are used for the unjust purpose of obtaining unfair advantage or damaging that person, these marks cannot be registered. This provision is considered to be the anti-dilution regulation in the Korean Trade Mark Act.⁸⁶ Articles 23(1)(i), 25(1), and 71(1)(i) state that these trade marks constitute a ground for refusal, opposition, and invalidation. By contrast, only dilution by blurring and tarnishment is prevented by the Korean Unfair Competition Act; it constitutes an ‘act of unfair competition.’

2) Current Goals of Trade Mark Law and Their Limits

(1) Goals of Trade Mark Protection in the USA, the EU, and Korea

With the extension of trade mark protection, the goals of the US trade mark law were considered to be twofold: to safeguard the goodwill of trade mark owners and to prevent the likelihood of confusion as to source, sponsorship, or affiliation.⁸⁷ In *Inwood*, where the primary issue was the contributory liability of generic drug manufacturers, the US Supreme Court stated in a footnote that the

⁸⁵ Judgment of 12 February 1991, Supreme Court, 90 Hu 1376 (The Court, however, decided that the use of a famous mark on sea mustard, kelp, or laver was not likely to confuse consumers since it was hardly believed that there existed close economic relation between products, considering the fact that it was very rare that a bank produced and sold seafood.) This could be the dilution rationale for confusion before the formal introduction of the concept of dilution.

⁸⁶ Jong and Park, *supra* note 84, at 572

⁸⁷ J. Thomas McCarthy, 1 McCarthy on Trademarks and Unfair Competition §2:2 (4th ed.) (contending that “trademark law serves to protect both consumers from deception and confusion over trade symbols *and* to protect the plaintiff’s infringed trademark as property.”)

Lanham Act protects the goodwill of trade mark owners on which they spent energy, time, and money as well as consumers' ability of distinguishing among the products of competing producers.⁸⁸ In *Park 'N Fly*, the Supreme Court also asserted that "[t]he Lanham Act provides national protection of trademarks in order to secure to the owner of the mark the goodwill of his business and to protect the ability of consumers to distinguish among competing producers."⁸⁹ The Court made similar statements in *Two Pesos*, acknowledging that trade dress protection contributes to the Lanham Act's purpose.⁹⁰

Meanwhile, the economic analysis of trade mark protection introduced by the Chicago School has offered a more persuasive explanation for trade mark doctrines,⁹¹ and its search cost theory has dominated academic discourse.⁹² According to the search cost theory, trade mark law has two directions with the focus on consumer perception. Trade mark protection enables consumers to economise on information costs, thereby enhancing 'market efficiency.' That is, producers, who have more information about the quality of products than consumers, impart this information via trade marks, and consumers spend less time and energy searching for the product that they want to purchase.⁹³ To explain the decrease in search costs, the theory presupposes that producers of trade marked products maintain product quality.⁹⁴ Consumers can then distinguish products from other products at lower costs, and trade mark proprietors have an incentive to invest money and efforts in developing strong marks.⁹⁵

Some US courts adopted the search cost theory in explaining the goals of the Lanham Act. In *Qualitex*, the US Supreme Court held that "trademark law ... reduce[s] the customer's costs of shopping and making purchasing decisions, for it quickly and easily assures a potential customer that *this* item-the item with this mark-is made by the same producer as other similarly marked items that he or she

⁸⁸ *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, n. 14 (1982)

⁸⁹ *Park 'N Fly, Inc. v. Dollar Park & Fly*, 469 U.S. 189, 198 (1985)

⁹⁰ *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 774 (1992)

⁹¹ Michael S. Mireles, Jr., *Towards Recognizing and Reconciling the Multiplicity of Values and Interests in Trademark Law*, 44 *Ind. L. Rev.* 427, 440 (2011)

⁹² Jeremy N. Sheff, *Biasing Brands*, 32 *Cardozo L. Rev.* 1245, 1249 (2011)

⁹³ *Id.* at 1250

⁹⁴ William M. Landes and Richard A. Posner, *The Economic Structure of Intellectual Property Law* (Harvard University Press 2003) 167

⁹⁵ *Id.* at 167-168

liked (or disliked) in the past” and that “[a]t the same time, the law helps assure a producer that it (and not an imitating competitor) will reap the financial, reputation-related rewards associated with a desirable product ... [and] thereby encourage[s] the production of quality products.”⁹⁶ Similar statements were made in other US court cases such as *Dastar*⁹⁷ and *Ty*.⁹⁸

In the EU, distinct national trade mark systems were harmonised by the Trade Mark Directive and a new community wide trade mark right was introduced by the Community Trade Mark Regulation. The Directive and the Regulation aim to provide a system that enables and supports a common market without national barriers. Nevertheless, there was no clear discussion of how and why trade marks should be protected. The system adopted the approach developed by the ECJ that trade mark law should safeguard trade mark functions.

In *Hag II*,⁹⁹ decided before the harmonisation process, the ECJ emphasised the importance of the essential function of indicating the origin of products in determining the scope of trade mark protection, reversing the previous decision in *Hag I* where the ECJ had given more weight to free circulation of goods.¹⁰⁰ The ECJ held that trade mark rights amount to “an essential element of the system of undistorted competition” and that the essential function of a trade mark, “which is to give the consumer or final user a guarantee of the identity of the origin of the marked product by enabling him to distinguish, without any possible confusion, that product from others of a different provenance,” should be considered in establishing the effect of trade mark rights.¹⁰¹ After the entry into force of the Trade Mark Directive, in *Philips*, the ECJ found that the aim of trade mark protection is in particular to guarantee the trade mark as an indication of origin on the ground of the tenth recital.¹⁰²

⁹⁶ *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 163-164 (1995)

⁹⁷ *Dastar Corporation v. Twentieth Century Fox Film Corporation, et al.*, 539 U.S. 23, 34 (2003)

⁹⁸ *Ty Inc. v. Perryman*, 306 F.3d 509, 510 (7th Cir. 2002)

⁹⁹ *Cnl-Sucal NV SA v. Hag GF AG* (C-10/89) [1990] 3 C.M.L.R. 571

¹⁰⁰ *Van Zuylen Freres v. Hag A.G.* (C-192/73) [1974] 2 C.M.L.R. 127 (concluding that “to prohibit trading in one member-State in a product which lawfully bears a trade mark in another member-State, for the sole reason that an identical mark, sharing the same origin, exists in the first State is incompatible with the provisions laying down the free circulation of goods within the Common Market.”)

¹⁰¹ *Cnl-Sucal NV SA*, [1990] 3 C.M.L.R. at 607-608

¹⁰² *Philips Electronics NV v. Remington Consumer Products Ltd* (C-299/99) [2002] E.T.M.R. 81, 964 (deciding that “it should be recalled to begin with that, as stated in the tenth recital in the preamble to the Directive, the purpose of the protection afforded by a trade mark is *inter alia* to

Functions of which the protection is the goal of trade mark law are not just limited to the essential function of indicating the origin of products, but also include other functions such as that of guaranteeing the quality of products or that of communication, investment, or advertising.¹⁰³ As the ECJ mentioned in *Interflora*, “both the European Union legislature – by using the words ‘in particular’ in the tenth recital to Directive 89/104 and in the seventh recital to Regulation No 40/94 – and the Court – by using since its judgment in *Arsenal Football Club* the words ‘functions of the trade mark’ – have indicated that a trade mark’s function of indicating origin is not the only function of the mark that is worthy of protection against injury by third parties.”¹⁰⁴

In Korea, before the introduction of a purpose clause into the Trade Mark Act, there was a change in the position of the Supreme Court of Korea as to the objective of the trade mark system. In the *MUGUNGHA* case of 1960, the Supreme Court held that the similarity between products and between trade marks should be determined in the light of the purpose of the trade mark system, asserting that the system aims at staving off unfair competition and hence preventing unexpected damage to traders and consumers by keeping the link between goods and their trade marks.¹⁰⁵ On the other hand, in the decision of 1970, the protection of goodwill was added as another objective of trade mark law. The Court regarded ‘the prevention of unfair competition, the safeguard of the business reputation of trade mark owners, and the protection of traders and consumers of products by maintaining the relation between trade marks and products’ as the goals of trade mark law.¹⁰⁶

The purpose of the Korean Trade Mark Act became evident when the Act provided for it in the 1973 revision,¹⁰⁷ embracing the interests of trade mark owners and excluding the prevention of unfair competition. It also incorporated ‘the development of industry which results from the protection of trade mark users’ reputation’ into the purpose clause. According to article 1, the Act aims both to ensure the maintenance of the business reputation of trade mark users by

guarantee the trade mark as an indication of origin.”)

¹⁰³ *L’Oréal SA v. Bellure NV* (C-487/07) [2009] E.T.M.R. 55, 1034

¹⁰⁴ *Interflora Inc v. Marks & Spencer Plc* (C-323/09) [2012] E.T.M.R. 1, 38

¹⁰⁵ Judgment of 17 November 1960, Supreme Court, 4292 Teuksang 4

¹⁰⁶ Judgment of 17 September 1970, Supreme Court, 70 Hu 16

¹⁰⁷ The revised Act took effect from 1 January 1974

protecting trade marks, so as to contribute to the development of industry, and to protect the interest of consumers.¹⁰⁸ Since then, the Supreme Court of Korea has not regarded ‘the prevention of unfair competition’ as the purpose of trade mark protection in most cases, stating that the trade mark system is intended to maintain the business reputation of trade mark users and to protect the interests of consumers.¹⁰⁹ Still, in a few cases, it referred to ‘the prevention of unfair competition’¹¹⁰ or ‘the maintenance of distribution order’¹¹¹ as an additional goal of the Trade Mark Act.

(2) Inadequacy of the Current Goals of Trade Mark Law

The twofold goals of trade mark law in the USA, protection of goodwill and prevention of consumer confusion, do not offer a sufficient justification for trade mark protection because in the real world the interests of proprietors and consumers do not always coincide.¹¹² Proprietors seek to prevent any type of unauthorised use of their trade marks regardless of whether the use is made in competing or non-competing product markets. On the other hand, consumers would not feel harmed when they purchase products with logos, for example, just to show their preferences for the values the logos convey. In *Boston Professional Hockey Association*, a case about the sale of embroidered patches with hockey teams’ symbols through sporting goods stores, the prevention of confusion was not sufficient to prohibit third party use; the district court denied a likelihood of confusion because a sports fan would not be likely to regard the embroidered logos as those manufactured by the hockey league and member teams, or their

¹⁰⁸ Korean Trade Mark Act, art.1

¹⁰⁹ Judgment of 24 July 2008, Supreme Court, 2006 Da 40461, 40478; Judgment of 22 February 2007, Supreme Court, 2005 Da 39099

¹¹⁰ Judgment of 25 September 1984, Supreme Court, 83 Hu 65

¹¹¹ Judgment of 30 July 1996, Supreme Court, 95 Hu 1821

¹¹² Glynn S. Lunney, Jr., *Trademarks and the Internet: The United States' Experience*, 97 *Trademark Rep.* 931, 932 (2007) (stating that “[w]hile both trademark owners and consumers share an interest in preventing material consumer confusion as to source, their interests sharply diverge when it comes to other types of confusion and the issue of competition.”); *see also* *HMH Pub. Co., Inc. v. Brincat*, 504 F.2d 713, 716 (9th Cir. 1974) (“Trademark infringement is a peculiarly complex area of the law. Its hallmarks are doctrinal confusion, conflicting results, and judicial prolixity. The source of this difficulty is that each case involves an effort to achieve three distinct objectives which, to a degree, are in conflict.”)

licensees.¹¹³ The US Fifth Circuit, however, found a likelihood of confusion, on the ground that the Dallas Cap company made exact copies of trade marks and sold them to the public, “knowing that the public would identify them as being the teams’ trademarks.” The Circuit, which could not find a likelihood of confusion in its traditional sense, drew its meaning from a proprietor’s interest by emphasising that confusion need not be as to “the source of the manufacturer of emblem itself” where the mark is “the triggering mechanism for the sale of the emblem.”¹¹⁴

Moreover, in dilution cases where a likelihood of confusion is not required, only the protection of goodwill can offer the rationale for anti-dilution. In *Playboy*, the Ninth Circuit suggested that if a cocoa producer made use of Rolls Royce for its hot chocolate, the producer would be capitalising on the investment the car company had made in its mark and consumer association of the mark with expensive cars.¹¹⁵ Thus, according to the court, the cocoa maker would harm the Rolls Royce Company by weakening “the ability of the mark to identify the mark holder’s product.”¹¹⁶ In *Thane*, the Ninth Circuit asserted that the purpose of trade mark infringement law is to ensure “that owners of trademarks can benefit from the goodwill associated with their marks and that consumers can distinguish among competing producers”¹¹⁷ while anti-dilution law is focused on “preventing junior users from appropriating or distorting the goodwill and positive associations that a famous mark has developed over the years.”¹¹⁸

Another drawback of the dual purposes is that they cannot determine the proper limits of protection because the concepts of ‘likelihood of confusion’ and ‘goodwill’ are readily extensible unless they are restricted by other superior values. In some cases, the notion of confusion was interpreted as even corresponding to the misappropriation of goodwill. In *University of Georgia Athletic Association*, a defendant used school colours and a mark similar to the

¹¹³ *Boston Professional Hockey Assoc. v. Dallas Cap & Emblem Mfg., Inc.*, 510 F.2d 1004, 1012 (5th Cir. 1975)

¹¹⁴ *Id.*

¹¹⁵ *Playboy Enterprises, Inc. v. Welles*, 279 F.3d 796, 805 (9th Cir.2002)

¹¹⁶ *Id.* at 805-806

¹¹⁷ *Thane International, Inc. v. Trek Bicycle Corp.*, 305 F.3d 894, 901 (9th Cir.2002)

¹¹⁸ *Id.* at 909

University of Georgia's bulldog mascot to sell "Battlin' Bulldog Beer." In this case, the US Eleventh Circuit found a likelihood of confusion based solely on the intent of the defendant and the similarity of design between the marks. It admitted that "the confusion stems not from the defendant's unfair competition with the plaintiff's *products*, but from the defendant's misuse of the plaintiff's reputation and good will as embodied in the plaintiff's mark."¹¹⁹ In *Smack*, the Fifth Circuit also concluded that *Smack's* use of Universities' colour schemes and other identifying indicia on T-shirts created a likelihood of confusion as to the source, affiliation, or sponsorship particularly on the ground of the overwhelming similarity of the marks and the defendant's intent to profit from the Universities' reputation.¹²⁰ The notion of confusion is so wide that it cannot delimit the scope of trade mark protection.

The scope of protection of goodwill is also flexible and extensive. The conceptual flexibility of 'goodwill', combined with the notion of 'misappropriation', creates the vast expanse of protection.¹²¹ As Lord Macnaghten asserted in a UK case, *Muller & Co's Margarine*, goodwill is "very easy to describe," but it is "very difficult to define."¹²² Some argue that goodwill is the tendency of consumers to return to a product or a producer and to repeat purchasing decisions,¹²³ or consumer's positive feelings towards a product.¹²⁴ Some define goodwill as favourable reputation or the value of a business.¹²⁵ Goodwill can be construed more broadly beyond the product for which trade marks are used. Bone calls 'positive impressions towards a firm that sells a brand' "firm goodwill," and 'positive connotation that attaches to the mark itself' "inherent goodwill."¹²⁶

¹¹⁹ *Univ. of Ga. Athletic Ass'n v. Laite*, 756 F.2d 1535, 1543, 1547 (11th Cir.1985)

¹²⁰ *Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co.*, 550 F.3d 465, 484 (5th Cir. 2008)

¹²¹ Eric Goldman, *Deregulating Relevancy in Internet Trademark Law*, 54 *Emory L.J.* 507, 554 (2005) (arguing that "[w]ith so many definitions, the goodwill misappropriation doctrine provides courts with flexibility to reach any desired conclusion.")

¹²² *Inland Revenue Comrs v. Muller & Co's Margarine Ltd* [1901] AC 217, 223

¹²³ *McCarthy*, supra note 87, § 2:18 (defining goodwill as 'buyer momentum' or 'the legal and economic recognition of buying habits' with the statement that "[i]t is a psychological fact that buyers will stick with a product or service found acceptable in the past, rather than shop around for every new purchase.")

¹²⁴ Goldman, supra note 121, at 558

¹²⁵ Bone, supra note 73, at 583-584

¹²⁶ *Id.* at 551-552

Moreover, ‘the protection’ of goodwill can also embrace two meanings: harm to goodwill and the misappropriation of goodwill.¹²⁷ If the protection of goodwill is construed as the latter, the scope of trade mark protection can expand to encompass the prevention of the free ride on the coat-tails of goodwill itself regardless of actual or probable harm. In *Promatek*, the US Seventh Circuit underscored the misappropriation of goodwill to find initial interest confusion in the use of trade marks as metatags, holding that “[w]hat is important is not the duration of the confusion, it is the misappropriation of *Promatek*’s goodwill.”¹²⁸ Because of these various and pliable concepts, the limitation of trade mark protection cannot be given from the standpoint of protection of goodwill.

The search cost theory, on the other hand, can provide consistent justifications for safeguarding trade marks from third party use. Trade marks reduce consumers’ costs of finding the products they would like to purchase¹²⁹ and confusion as to the origin of products in competing product markets increases search costs. The theory also offers grounds for preventing confusion as to sponsorship or association and dilution. When use of trade marks misleads consumers into believing that trade mark owners sponsor users, search costs could increase and hence the use should be stopped.¹³⁰ Dilution results in increasing search costs in that dilution by “blurring and tarnishment can make it somewhat more difficult for consumers to associate a famous mark with its owner,” or it “[leads] consumers to make more errors in matching brands to products and product attributes, and [increases] the time it [takes] to make correct matches.”¹³¹

Nevertheless, the search cost theory has its limits in appropriately demarcating the scope of trade mark protection because of its focus on consumer perception as to search costs¹³² and the quantitative nature of search costs. First

¹²⁷ *Id.* at 592 (distinguishing injury to goodwill from appropriation of goodwill)

¹²⁸ *Promatek Indus., Ltd. v. Equitrac Corp.*, 300 F.3d 808, 812-813 (7th Cir. 2002)

¹²⁹ Landes and Posner, *supra* note 94, at 174

¹³⁰ Mireles, *supra* note 91, at 485 (arguing that “[t]he consumer search cost theory supports finding an infringement in these circumstances”)

¹³¹ Dogan and Lemley, *supra* note 69, at 493; Daniel Klerman, *Trademark Dilution, Search Costs, and Naked Licensing*, 74 *Fordham L. Rev.* 1759, 1770 (2006) (stating that “tarnishment, like blurring, led consumers to make more errors in matching brands to products and product attributes, and increased the time it took to make correct matches”)

¹³² Mireles, *supra* note 91, at 440 (stating that “[the search cost theory] fails to provide meaningful limits to trademark law because it is based on consumer perception-which is largely

of all, trade mark protection depends on consumer perception as to whether search costs increase or not because it aims at search cost reduction made by trade marks ‘from the consumers’ perspective.’ This perception, however, can be influenced by court decisions. For example, where consumers believe that a manufacturer of T-shirts with the word Coca-Cola on them needs a license from a trade mark owner because of previous court decisions, but the manufacturer uses it without the consent of the company, the use of the word may cause an increase in search costs. On the contrary, where court decisions make consumers perceive Coca-Cola as a design of T-shirts, its use does not raise a search cost issue. Consumer perception as to search costs is influenced by court decisions, and depending on this perception, the scope of trade mark protection can fluctuate.

Moreover, although the search cost theory presupposes that producers maintain consistent product quality, it is not clear what type of consumer confusion or dilution can cause an increase in search costs. Given that search cost increase can include a tiny amount of time or energy, there is a high possibility that trade mark protection can expand disproportionately under the search cost theory. Just some seconds wasted for correctly linking a trade mark with its origin, the characteristics of products, or brand images appear to invoke trade mark liability since an aggregate cost increase might not be ignored. Only to ‘think harder’ may result in trade mark protection. In *Ty*, a case between the manufacturer of well-known beanbag stuffed animals Beanie Babies and the seller of second-hand beanbag stuffed animals including *Ty*’s Beanie Babies over the internet, Judge Posner stated that “[c]onsumers will have to think harder-incur as it were a higher imagination cost-to recognize the name as the name of the store” as a result of dilution by blurring.¹³³ The theory, however, cannot explain why other trade mark uses, which can cause similar costs, such as uses of non-famous trade marks are excluded from dilution based liability.¹³⁴ The theory also does not consider third party users’ cost of abandoning trade marks in non-competing product markets. As long as there is no consumer confusion as to

under the control of the mark owner”)

¹³³ *Ty Inc. v. Perryman*, 306 F.3d 509, 511 (7th Cir. 2002)

¹³⁴ Rebecca Tushnet, *Gone in Sixty MilliSeconds: Trademark Law and Cognitive Science*, 86 *Tex. L. Rev.* 507, 546-552 (2008); Barton Beebe, *The Continuing Debacle of U.S. Antidilution Law: Evidence from the First Year of Trademark Dilution Revision Act Case Law*, 24 *Santa Clara Computer & High Tech. L.J.* 449, 464 (2007-2008)

source or sponsorship, third party use reduces search costs in non-competing product markets. Thus, dilution based liability could lead to reduced costs in competing product markets which are less than increased search costs in non-competing product markets.

The protection of trade mark functions which is regarded as the aim of trade mark protection in the EU also cannot set reasonable limits to the reach of protection. The meaning and scope of trade mark functions are not definite without taking into account competition as a superior purpose, and hence trade mark protection can readily expand to include uses that may affect other producers' interests. The purpose of trade mark protection is an answer to the question of 'for what trade marks are protected by trade mark law,' while the functions of trade marks are responses to the question of 'what trade marks perform.'

The dual goals of the Korean Trade Mark Act also have difficulty in delimiting trade mark protection like those in the Lanham Act, but the Supreme Court of Korea seeks to demarcate trade mark protection by taking a position similar to that of the trade mark use doctrine. There still exists an issue about the scope of 'use as a trade mark.' In the twin crane design case, a dispute between the furniture manufacturer who had an exclusive license for the twin crane design mark and other furniture producers that made use of the same design on beds, the Patent Court of Korea held that the design was used as a trade mark. Its reasoning was that the use of the design was intended both to indicate the source of beds and to decorate beds, on the ground that the design was carved on headboards of beds which could readily attract the attention of traders and the public.¹³⁵ The Supreme Court of Korea, however, remanded the decision of the Patent Court, deciding that the design was not used for the purpose of indicating the origin but for purely ornamental purposes. It reasoned that other furniture makers manufactured and sold beds bearing the same designs, and that cases where furniture manufacturers used a design as a trade mark were very rare and accordingly traders or the public would not recognise it as an indication of origin.¹³⁶ By contrast, the Supreme Court of Korea concluded in the saucer case

¹³⁵ Judgment of 25 July 2003, Patent Court, 2003 Heo 1109

¹³⁶ Judgment of 28 October 2004, Supreme Court, 2003 Hu 2027

that a design on a saucer was used to indicate the origin of a saucer, not to decorate it, and therefore the use constituted ‘use as a trade mark.’¹³⁷

3) The Purpose of Trade Mark Law and Competition

(1) The Nature of Trade Mark Law

As the US Supreme Court stated in *Hanover Star Milling Co.*,¹³⁸ trade mark law is part of unfair competition law. Even after trade mark protection expanded to non-competing uses, trade mark law has been still regarded as a subset of unfair competition law, and trade mark infringement has been considered to be a species of unfair competition. Section 45 of the Lanham Act includes the protection of persons against unfair competition as part of the intent of the Act. US courts including the Supreme Court also deem trade mark infringement as a type of unfair competition.¹³⁹ The Supreme Court of Korea decided in at least one case that one purpose of trade mark law is to prevent unfair competition.¹⁴⁰

The US Supreme Court has found that “the prohibitions against trademark dilution are not the product of common-law development, and are not motivated by an interest in protecting consumers.”¹⁴¹ Nevertheless, it is suggested here that dilution can be regarded as a type of unfair competition. The ECJ appears to view the taking of unfair advantage, which is a third type of dilution that constitutes infringing use in the EU, as an act of unfair competition. In *L'Oréal*, the ECJ determined that where an advertiser’s products are indicated as imitations of *L'Oréal*’s products in comparative advertising, the advertiser’s advantage is ‘unfair’ because the advantage is the result of ‘unfair competition.’¹⁴² Moreover, in Korea, dilution by blurring and tarnishment is

¹³⁷ Judgment of 14 May 2009, Supreme Court, 2009 Hu 665

¹³⁸ *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 413 (1916)

¹³⁹ *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418, 428 (2003); *General Motors Corp. v. Keystone Automotive Industries, Inc.*, 453 F.3d 351, 353 (6th Cir. 2006); *Utah Lighthouse Ministry v. Foundation for Apologetic Information and Research*, 527 F.3d 1045, 1050 (10th Cir. 2008)

¹⁴⁰ Judgment of 25 September 1984, Supreme Court, 83 Hu 65

¹⁴¹ *Moseley*, 537 U.S. at 429

¹⁴² *L'Oréal SA v. Bellure NV (C-487/07)* [2009] E.T.M.R. 55, 1037

stipulated as ‘acts of unfair competition’ in article 1(1)(iii) of the Korean Unfair Competition Act.

(2) Pro-competitive Characteristics of Trade Mark Protection

Some argue that trade mark protection is anti-competitive while others maintain that it is pro-competitive. It is also suggested that trade mark protection can “both advance and disserve the development of an efficient and desirably competitive market.”¹⁴³ This thesis suggests that trade mark protection is basically pro-competitive. Its anti-competitive action is not because trade marks are safeguarded but because they are too expansively protected. Too strong protection of trade marks can lead to an impediment to new entrants into product markets, which results in less consumer choice.

A trade mark protection system advances competition in that it serves to meet the conditions of a perfectly competitive market. The belief that competition improves social welfare is premised on the assumption of an ideal model of perfect competition.¹⁴⁴ Its conditions are i) there are many sellers and buyers in the market, ii) the products offered by sellers are largely identical, iii) no barriers to entry and exit exist, and iv) both sellers and buyers possess a high degree of information.¹⁴⁵ A majority of real markets, however, do not satisfy one or more of the requirements for a perfectly competitive market.¹⁴⁶ Producers try to differentiate their products from those of others to maximise profits.¹⁴⁷ Consumers do not have perfect information and the information between producers and consumers is asymmetric.¹⁴⁸ In this setting, trade marks can foster efficient and fair competition by remedying asymmetric information problems, enabling sellers to compete with product quality and brand image, and promoting

¹⁴³ Glynn S. Lunney, Jr., *Trademark Monopolies*, 48 *Emory L.J.* 367, 370-371 (1999)

¹⁴⁴ Hannes Rosler, *The Rationale for European Trade Mark Protection*, *E.I.P.R.* 100, 104 (2007)

¹⁴⁵ N. Gregory Mankiw and Mark P. Taylor, *Economics* (2nd edn, Cengage Learning 2011) 288-289

¹⁴⁶ *Id.* at 356

¹⁴⁷ Nicholas S. Economides, *The Economics of Trademarks*, 78 *Trademark Rep.* 523, 527 (1988) (arguing that “the tendency of firms to produce products that are not identical is natural in an environment where firms strive to maximize profits.”)

¹⁴⁸ *Id.* at 526

free entry of newcomers into markets.¹⁴⁹

First of all, trade marks play a pivotal role in reducing information asymmetry between sellers and consumers by conveying information about the position of product quality and brand image and serving to differentiate among competitive products. Asymmetrical information leads to “markets for lemons” where poor quality products tend to drive out quality ones;¹⁵⁰ bad quality products sell at the same price as good quality products because consumers cannot tell the difference between bad and good quality.¹⁵¹ Trade marks, however, enable consumers to acquire more accurate information about product quality¹⁵² so that consumers can either punish sellers by not purchasing low product quality or reward them by repeat purchase. This makes it possible for sellers to compete fairly through use of their own marks. Moreover, as the search cost theory insists, consumers can obtain information at a lower cost.

Second, trade mark protection offers sellers an incentive to compete efficiently on the basis of product quality and brand image since the sellers are able to embed information about them into trade marks. Without trade marks, it would be almost impossible to inform consumers of the position of product quality; if there are many sellers in a market, the sellers can hardly convey the relevant information. In this situation, there is no need for sellers to invest in product quality. With trade marks, sellers can also attach an additional value to their products. Although some argue that trade mark owners earn ‘higher rents’ by generating consumers’ “price-insensitive” brand loyalty by using “superior advertising techniques,”¹⁵³ brand image can be regarded as newly added value to trade marked products resulting from trade mark owners’ investment and consumer perception, and consumers who purchase trade marked products can

¹⁴⁹ McCarthy, *supra* note 87, § 2:13 (stating that “[i]dentification of product source and quality is the essence of competition.”)

¹⁵⁰ George Akerlof, *The Market for ‘Lemons’: Quality, Certainty and the Market Mechanism*, 84 *Q.J. Econ.* 489-490 (1970)

¹⁵¹ *Id.*

¹⁵² *Id.* at 499-500 (contending that guarantees, brand-name, chains such as hotel or restaurant chains, and licensing or certification are “institutions to counteract the effects of quality uncertainty” caused by information asymmetry.)

¹⁵³ J. Shahar Dillbary, *Getting the Word Out: The Informational Function of Trademarks*, 41 *Ariz. St. L.J.* 991, 997-998 (2009) (opposing this argument) ; Jill Ann Ealy, *Utilitarianism and Trademark Protection*, 19 *J. Contemp. Legal Issues* 14, 18-19 (2010) (stating this argument and opposing argument)

enjoy the utility that both product quality and brand image provide.¹⁵⁴ Trade marks also enable sellers to differentiate their products from other products ‘at a considerably low cost,’ indicating the level of product quality and brand image.

Third, despite the argument that ‘artificial product differentiation’ created by trade marks divides one product market into several sub-markets where trade mark owners are price manipulators,¹⁵⁵ trade mark protection does not hinder newcomers from entering ‘product’ markets and competing with established businesses. Only use of identical or similar trade marks for products is prevented.¹⁵⁶ On the contrary, start-up companies can enter markets more readily by grasping the position of established companies’ product quality and brand image through established companies’ trade marks. Start-up companies can develop their marketing strategies based on the understanding of established businesses’ positions. They can strategically decide their positions of product quality in markets and the price in order for their products to be competitive. By use of their own trade marks, they can also efficiently convey information on their positions and differentiate their products from products of existing companies,¹⁵⁷ and consumers can detect the emergence of new competitors more easily. Easier market access would lead to stronger price competition.¹⁵⁸

Some proponents of the search cost theory also argue that the ultimate purpose of trade mark law is not the reduction of search costs: it is “to facilitate the functioning of a competitive marketplace.”¹⁵⁹ Trade mark law develops market competition by enabling consumers to locate products they want cheaply and quickly.¹⁶⁰ They submit that consumers will make better purchasing decisions based on quality information and accordingly their utility will be

¹⁵⁴ Economides, *supra* note 147, at 533

¹⁵⁵ Ealy, *supra* note 153, at 18-19

¹⁵⁶ Ariel Katz, *Making Sense of Nonsense: Intellectual Property, Antitrust, and Market Power*, 49 *Ariz. L. Rev.* 837, n. 199 (2007)

¹⁵⁷ William P. Kratzke, *Normative Economic Analysis of Trademark Law*, 21 *Mem. St. U. L. Rev.* 199, 218 (1991) (maintaining that advertising is the only method that new comers can attract the attention of consumers, and that product differentiation furthers competition by allowing new entrants into the market.)

¹⁵⁸ *Id.* at 217 (arguing that not only the nudge of new entry but also the possibility of entry of new competitors makes competitors endeavour to reduce their marginal costs for fear that other companies outside the market feel that they can sell products for a relatively low price.)

¹⁵⁹ Dogan and Lemley, *supra* note 69, at 467 (stating that “[w]hile the reduction of consumer search costs and the encouragement of goodwill investment represent critical intermediate objectives of the trademark system, neither of these goals is an end in itself.”)

¹⁶⁰ *Id.* at 481

enhanced. Purchasing decisions of consumers will also incentivise manufacturers to produce better quality goods or services.¹⁶¹

(3) Pro-competitive Characteristics of Trade Mark Protection in Case Law

Many courts also asserted the pro-competitive characteristics of trade mark protection. The US Supreme Court asserted in *Inwood* that “trademark infringement inhibits competition”¹⁶² and reiterated in other cases that trade mark protection promotes competition. In *Park ‘N Fly*, the Supreme Court mentioned that “[b]ecause trademarks desirably promote competition and the maintenance of product quality, Congress determined that a sound public policy requires that trademarks should receive nationally the greatest protection that can be given them”¹⁶³ and that “[n]ational protection of trademarks is desirable, Congress concluded, because trademarks foster competition and the maintenance of quality by securing to the producer the benefits of good reputation.”¹⁶⁴ In *San Francisco Arts & Athletics and Two Pesos*, the Supreme Court repeated that trade marks advance competition, citing the decision in *Park ‘N Fly*.¹⁶⁵

Also in the cases where the goals of trade mark law are based on the search cost theory, the Court asserted that trade mark protection enhances competition. In *Qualitex*, it stated that trade mark law seeks to promote competition,¹⁶⁶ holding that a green-gold colour, which acquired secondary meaning on press pads, was protectable under the Lanham Act.¹⁶⁷

Some US federal courts specifically indicated that trade mark protection is a means to achieve effective competition because of the source identification function of trade marks. In *Chanel*, a case about the advertising of a fragrance called ‘Second Chance’ as a duplicate of ‘Chanel No. 5,’ the Ninth Circuit stated that “[w]ithout some such method of product identification, informed consumer

¹⁶¹ *Id.* at 467

¹⁶² *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, n. 14 (1982)

¹⁶³ *Park ‘N Fly, Inc. v. Dollar Park & Fly*, 469 U.S. 189, 193 (1985)

¹⁶⁴ *Id.* at 198

¹⁶⁵ *San Francisco Arts & Athletics, Inc. v. United States Olympic Committee and International Olympic Committee*, 483 U.S. 522, 531 (1987); *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 774 (1992)

¹⁶⁶ *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 164 (1995)

¹⁶⁷ *Id.* at 166

choice, and hence meaningful competition in quality, could not exist.”¹⁶⁸ The court, however, warned that “protection of trade mark values other than source identification would create serious anti-competitive consequences with little compensating public benefit.”¹⁶⁹

The ECJ repeatedly stated that trade mark protection is a key factor of competition. In *Hag II*¹⁷⁰ and *Arsenal Football Club*,¹⁷¹ the ECJ found that trade mark rights constitute an essential element of the undistorted competition system where companies should attract and maintain customers by the quality of products and can do this only by “distinctive signs allowing them to be identified.”

Furthermore, the ECJ mentioned the undistorted competition system as justifications for trade mark protection and its limits. In *Libertel*, the ECJ ruled that trade mark rights and powers should be taken into account from the perspective of the system of undistorted competition.¹⁷² It also asserted in *Interflora* that although trade mark rights are an essential element in the undistorted competition system, trade mark protection does not aim to safeguard trade mark proprietors against practices inherent in competition.¹⁷³

The Supreme Court of Korea consistently concluded that where the exercise of trade mark rights deviates from the purpose or function of trade mark law and therefore disturbs fair competition and orderly trade, it constitutes an abuse of trade mark rights and hence cannot be accepted despite trade mark registration. In *Sun Microsystems*, the Court held that the defendant’s exercise of a trade mark right amounted to an abuse of rights, which impeded fair competition and orderly trade.¹⁷⁴ Its first ground was that the defendant already knew that the plaintiff would use the trade mark on software programmes before its application for trade mark registration. The fact that the defendant had not operated and did not intend to do a business in relation to use of the trade mark was the second ground. The third one was that the defendant raised infringement issues when the plaintiff’s business became brisk in spite of its knowing the

¹⁶⁸ *Smith v. Chanel, Inc.*, 402 F.2d 562, 566 (9th Cir. 1968)

¹⁶⁹ *Id.* at 566-567

¹⁷⁰ *Cnl-Sucal NV SA v. Hag GF AG* (C-10/89) [1990] 3 C.M.L.R. 571, 607-608

¹⁷¹ *Arsenal Football Club Plc v. Matthew Reed* (C-206/01) [2003] E.T.M.R. 19, 237

¹⁷² *Libertel Groep BV v. Benelux-Merkenbureau* (C-104/01) [2005] 2 C.M.L.R. 45, 1126

¹⁷³ *Interflora Inc v. Marks & Spencer Plc* (C-323/09) [2012] E.T.M.R. 1, 40-41

¹⁷⁴ Judgment of 24 July 2008, Supreme Court, 2006 Da 40461, 40478

plaintiff's use of the same trade mark from the outset, requiring a considerable amount of money for the assignment of the trade mark right.¹⁷⁵

(4) Internalisation of Competition in Trade Mark Law

As was discussed above, trade mark protection has a pro-competitive nature.¹⁷⁶ Nevertheless, in order to prevent anti-competitive results which may stem from the abuse or malfunction of trade mark systems, it is necessary to delimit trade mark protection according to the concept of 'competition.' Competition can do this because it considers not only the interests of trade mark owners, but also those of competitors, consumers, and even markets themselves. This competition approach has already been incorporated into trade mark law.¹⁷⁷

a) Functionality and the Subject Matter of Trade Marks

The functionality doctrine, which does not grant exclusive rights to functional features, is included in trade mark law and plays a significant role in delimiting trade mark protection from the perspective of competition.

In the USA, even before functionality was introduced in the Lanham Act, it was regarded as a condition for protection by the US Supreme Court,¹⁷⁸ and competition was considered in determining the existence and scope of trade mark protection. In *Qualitex*, the US Supreme Court stated that according to the functionality theory, "if [a product feature] is essential to the use or purpose of the article or if it affects the cost or quality of the article," the protection of the

¹⁷⁵ Id.

¹⁷⁶ Spyros Maniatis and Dimitris Botis, *Trade Marks in Europe: A Practical Jurisprudence* (2nd edn, Sweet & Maxwell 2010) 819 (arguing that "[f]ollowing the case law of the Court the existence of intellectual property rights, including trade marks, is not in itself anti-competitive.")

¹⁷⁷ Id. (maintaining that "a number of competition considerations have been internalised into trade mark law."); see also Rebecca Tushnet, *Trademark Law as Commercial Speech Regulation*, 58 S.C. L. Rev. 737, 743-44 (2007) (suggesting that doctrines such as descriptive fair use "exist to balance consumer protection with free competition rather than to implement First Amendment norms.")

¹⁷⁸ *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 166 (1995) (According to Professor McCarthy cited by the *Qualitex* Court, "requirements for qualification of a word or symbol as a trademark" have four parts: it should be (1) a "symbol," (2) "use[d] ... as a mark," (3) "to identify and distinguish the seller's goods from goods made or sold by others," (4) but it should not be "functional.")

feature as a trade mark “would put competitors at a significant non-reputation-related disadvantage.”¹⁷⁹ The Court further ruled that the use of a green-gold colour on press pads would be protected because the colour was not functional for press pads and the colour acted as a symbol and indicated the source of pads by acquiring the secondary meaning.¹⁸⁰ On the other hand, in *Traffix*, the Court denied trade dress protection for sign stands with a dual spring design, on the ground that the dual design offered “a unique and useful mechanism to resist the force of the wind”¹⁸¹ and thus it was functional. According to the Court, although protection for trade dress fosters competition, “the exclusive use of [a functional feature] would put competitors at a significant non-reputation-related disadvantage.”¹⁸² Functionality was internalised into the Lanham Act in 1988 as a ground for *ex parte* rejection, a ground for opposition and cancellation of registration, and a statutory defence to an incontestably registered mark,¹⁸³ followed by a 1989 amendment to section 43(a) of the Act in which the burden of proving non-functionality was imposed on the plaintiff asserting unregistered trade dress protection.¹⁸⁴

In cases before the ECJ, the notion of functionality offers “a broader interpretive framework”¹⁸⁵ on the basis of competition. It does not only relate to article 3(1)(e)(ii) of the EU Trade Mark Directive and article 7(1)(e)(ii) of the Community Trade Mark Regulation; it also has had an effect on the subject-matter and the distinctiveness of trade marks.¹⁸⁶

As to functionality in article 3(1)(e)(ii), the ECJ determined the scope of protection of ‘shapes as trade marks’ in terms of competition. In *Philips* concerning a three-headed rotary electric shaver, the ECJ found that article 3(1)(e)(ii) is intended to prevent the registration of shapes whose essential

¹⁷⁹ *Id.* at 165

¹⁸⁰ *Id.* at 166

¹⁸¹ *Traffix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23, 33 (2001)

¹⁸² *Id.* at 32

¹⁸³ *McCarthy*, *supra* note 87, § 7:63

¹⁸⁴ Section 43(a)(3) provides that “[i]n a civil action for trade dress infringement under this Act for trade dress not registered on the principal register, the person who asserts trade dress protection has the burden of proving that the matter sought to be protected is not functional.”

¹⁸⁵ *Vlotina Liakatou and Spyros Maniatis, Lego – building a European concept of functionality*, E.I.P.R. 653, 653 (2010) (arguing that “[t]he concept of functionality has also provided a broader interpretive framework.”)

¹⁸⁶ *Maniatis and Botis*, *supra* note 176, at 73

characteristics perform a technical function for competitors to freely manufacture or sell products with the same technical solutions or characteristics.¹⁸⁷ The ECJ additionally held that where the essential characteristics of a shape are regarded solely as technical, the existence of other shapes which can fulfil the same technical function does not matter in denying registration.¹⁸⁸ In *Lego*, the ECJ also held that the purport of article 7(1)(e)(ii) of the Community Trade Mark Regulation is “to prevent trade mark law granting an undertaking a monopoly on technical solutions or functional characteristics of a product.”¹⁸⁹

The notion of functionality contributes to determining whether a subject matter constitutes ‘a sign’ within the meaning of article 2 of the Directive. In *Dyson*, which relates to an application to register a transparent collecting bin of a bagless vacuum cleaner, the ECJ, unlike Advocate General Léger, did not state that the subject matter of a trade mark was a functional feature, but it ruled that the subject matter about all the conceivable shapes of a transparent bin or collection chamber was just “a mere property of the product concerned” and accordingly was not ‘a sign’ for the purpose of article 2.¹⁹⁰ The reasoning was that, in contrast to the aim of article 2, the protection of such a non-specific subject matter as a trade mark would give the holder of the mark ‘an unfair competitive advantage’ by prohibiting competitors from selling vacuum cleaners with any kind of transparent collecting bin.¹⁹¹

Functionality considerations also influenced the interpretation of the graphical representation requirement within the meaning of article 2 of the EU Trade Mark Directive.¹⁹² In *Heidelberger* concerning an application for the registration of the colours blue and yellow as a trade mark, the ECJ found that colours and combinations of colours, which are normally a mere property of the product used for attractive and ornamental purposes, may constitute a trade mark only if “it has been established that, in the context in which they are used, those

¹⁸⁷ *Philips Electronics NV v. Remington Consumer Products Ltd* (C-299/99) [2002] E.T.M.R. 81, 972

¹⁸⁸ *Id.* at 973

¹⁸⁹ *Lego Juris A/S v. Office for Harmonisation in the Internal Market, Mega Brands, Inc.* (C-48/09 P) [2010] E.T.M.R. 63, 1153

¹⁹⁰ *Dyson Ltd v. Registrar of Trade Marks* (C-321/03) [2007] Bus. L.R. 787, 811-812

¹⁹¹ *Id.* at 811

¹⁹² *Maniatis and Botis*, *supra* note 176, at 73 (stating that “[f]unctionality considerations had influenced its case law both on the graphical representation and the distinctiveness requirements.”)

colours or combinations of colours in fact represent a sign,” and “the application for registration includes a systematic arrangement associating the colours concerned in a predetermined and uniform way.”¹⁹³ Without a precise and durable graphic representation, the function of a trade mark as an indication of origin would not be guaranteed.¹⁹⁴

Distinctiveness is also linked with functional features of trade marks. In *KWS*, a case about an application for the registration of the orange colour per se as a Community trade mark, the Court of First Instance stated that consumers do not perceive a colour per se immediately as an indication of origin.¹⁹⁵ On this basis, the Court held regarding agricultural, horticultural, and forestry products that the orange colour was not distinctive because of the general use of colours for technical purposes in this sector.¹⁹⁶ Moreover, with regard to treatment installations in classes 7 and 11, it found no distinctiveness in the orange colour since the relevant public would regard it as the finish of the machinery.¹⁹⁷ The ECJ upheld the decision of the Court of First Instance.¹⁹⁸

The Korean Trade Mark Act also includes a provision about functionality. Article 7(1)(xiii) rejects the registration of trade marks that consist solely of three-dimensional shapes, colours, and combinations of colours that are essential for securing the functions of products or their packaging. According to the Korean Trade Mark Examination Guideline, examiner should consider ‘competition’ in determining whether a sign constitutes trade marks for the purpose of this article.

b) Distinctiveness

Another example of the internalisation of competition in trade mark law concerns distinctiveness. US courts, the ECJ, and Korean courts have determined the distinctiveness of trade marks, taking account of competitive interests. The

¹⁹³ Heidelberg Bauchemie GmbH (C-49/02) [2004] E.T.M.R. 99, 1314-1315

¹⁹⁴ Id. at 1313

¹⁹⁵ *KWS Saat AG v. Office for Harmonisation in the Internal Market* (C-447/02 P) [2007] IP & T 314, 320

¹⁹⁶ Id.

¹⁹⁷ Id. at 321

¹⁹⁸ Id. at 345-346

US First Circuit stated in *Boston Duck Tours* that generic terms such as car or pizza cannot be accorded trade mark protection because protection may impair the interests of both competitors and consumers;¹⁹⁹ competitors could not use generic terms to promote their products, and consumers would have to either purchase products from trade mark owners at a higher price or spend additional time and efforts finding other products.²⁰⁰ In a related vein, the US Seventh Circuit held in *Ty* that when trade marks become generic, the enforcement of trade mark rights would harm competition by preventing competitors from informing consumers that their products are the same as those of trade mark proprietors and “by rendering them in effect speechless.”²⁰¹

The ECJ decided in *Libertel*, a distinctiveness case, that “the general interest in not unduly restricting the availability of colours for the other traders” should be considered in evaluating the potential distinctiveness of a colour.²⁰² The Court added that the number of products to be registered under a mark relates to the assessment of both the distinctiveness of a colour and “whether its registration would run counter to the general interest in not unduly limiting the availability of colours for the other operators.”²⁰³

The Supreme Court of Korea also mentioned the necessity of descriptive marks for every competitor in *SANDUNIT*, stating that descriptive marks cannot be registered as trade marks because everyone would need them or like to use them in distributing products.²⁰⁴

Particularly in US courts, competition has determined whether a secondary meaning is required for the distinctiveness of trade dress. In *Two Pesos*, the US Supreme Court denied a secondary meaning requirement for a non-descriptive trade dress based on competition, finding that this requirement would adversely affect the competitive position of ‘an originator of the trade dress.’²⁰⁵ The Court reasoned that denying protection for the non-descriptive trade dress until it acquires a secondary meaning would permit other competitors to

¹⁹⁹ *Boston Duck Tours v. Super Duck Tours*, 531 F.3d 1, 14 (1st Cir. 2008)

²⁰⁰ *Id.*

²⁰¹ *Ty Inc. v. Perryman*, 306 F.3d 509, 513 (7th Cir. 2002)

²⁰² *Libertel Groep BV v. Benelux-Merkenbureau* (C-104/01) [2005] 2 C.M.L.R. 45, 1128

²⁰³ *Id.* at 1129

²⁰⁴ Judgment of 14 April 2006, Supreme Court, 2004 Hu 2246

²⁰⁵ *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 774 (1992)

misappropriate the trade dress in other markets and hinder the originator's expansion into and competition in these markets.²⁰⁶ On the other hand, the Court requires a secondary meaning for the protection of unregistered product design trade dress on the ground of competition in Wal-Mart, reasoning that product design almost always does not function as an indication of source, and that the plausible threat of a suit based on inherently distinctive design against new comers into the market would divest consumers of competitive interests "with regard to the utilitarian and esthetic purposes that product design ordinarily serves."²⁰⁷

c) Confusion

In *Anheuser-Busch*,²⁰⁸ competition was the ground for a US court's decision on likelihood of confusion. Venture Marketing manufactured T-shirts with a design, as a souvenir of Myrtle Beach, which imitated the non-verbal portion of the Budweiser label but had substantial verbal differences, and it marketed them through L & L Wings.²⁰⁹ Anheuser-Busch sued defendants for selling souvenir T-shirts, claiming trade mark infringement based on confusion. The company alleged that the T-shirt design was confusingly similar to the registered Budweiser beer trade mark which it had used on its own line of T-shirts and other apparel.²¹⁰ The Fourth Circuit found no likelihood of confusion, reasoning that the finding of likely confusion based on external factors such as the strength of trade marks, the similarity of products, sales outlets, and advertising, despite the fact that "[trade marks] are readily distinguishable," would deter competition by inhibiting the use of distinguishable trade marks for similar products.²¹¹

Some US courts also consider competitive interests in determining the presence of initial interest confusion. In *Gibson Guitar, Gibson*, the owner of a trade mark for the shape of 'Les Paul' single cutaway guitar, brought trade mark

²⁰⁶ Id. at 775

²⁰⁷ *Wal-Mart Stores, Inc. v. Samara Brothers, Inc.*, 529 U.S. 205, 212-214 (2000)

²⁰⁸ *Anheuser-Busch, Inc. v. L & L Wings, Inc.*, 962 F.2d 316 (4th Cir.1992)

²⁰⁹ Id. at 317-319

²¹⁰ Id.

²¹¹ Id. at 320

infringement action against Paul Reed Smith Guitars ('PRS'), a manufacturer of guitars the shape of which was similar to Gibson's two-dimensional trade mark.²¹² Gibson argued that consumers standing afar in a guitar store were likely to confuse PRS guitars with Gibson guitars because of their shapes and there was initial interest confusion.²¹³ Against this argument, however, the Sixth Circuit concluded that "where product shapes themselves are trademarked, such a theory would prevent competitors from producing even *dissimilar* products which might appear, from the far end of an aisle in a warehouse store, somewhat similar to a trademarked shape."²¹⁴

Moreover, courts invoked competition to support their opinion about reverse confusion. In *Banff*, the US Second Circuit found reverse confusion actionable because, without trade mark protection based on reverse confusion, "a larger company could with impunity infringe the senior mark of a smaller one," emphasising that the purpose of trade mark law is "to protect an owner's interest in its trademark by keeping the public free from confusion as to the source of goods and ensuring fair competition."²¹⁵

d) Dilution

Competition contributed to the delimitation of trade mark protection in dilution cases. In *Times Mirror Magazines*, the Third Circuit held that the trade mark 'The Sporting News' was famous in a 'niche market' and was thus entitled to protection from dilution in that market.²¹⁶ Judge Barry, however, delivering a dissenting opinion, argued that 'the threshold fame requirement' should be determined from the perspective of the maintenance of "an appropriate balance between free competition and property rights," and that *Times Mirror*, a publisher of a weekly publication titled 'The Sporting News,' did not and could not prove that it was famous.²¹⁷

²¹² *Gibson Guitar Corp. v. Paul Reed Smith Guitars, LP*, 423 F.3d 539, 543-544 (6th Cir. 2005)

²¹³ *Id.* at 552

²¹⁴ *Id.*

²¹⁵ *Banff v. Federated Department Stores*, 841 F.2d 486, 490-491 (2d Cir. 1988)

²¹⁶ *Times Mirror Magazines, Inc. v. Las Vegas Sports News, L.L.C.*, 212 F.3d 157, 165 (3d Cir. 2000)

²¹⁷ *Id.* at 170

In *Interflora*, the ECJ introduced ‘fair competition’ in the interpretation of ‘due cause’ for the purposes of article 5(2) of the Trade Mark Directive and Article 9(1)(c) of the Community Trade Mark Regulation to curb the scope of ‘the taking of unfair advantage,’ a third type of dilution in the EU.²¹⁸ It concluded that a keyword advertisement offering an alternative of trade mark owners’ products, without providing their mere imitation and causing either other types of dilution or adverse effects on trade mark functions, “falls, as a rule, within the ambit of fair competition” and “is thus not without due cause.”²¹⁹

e) Limitations of Trade Mark Rights

Defences can also be interpreted as embracing competitive interests. With respect to a fair use defence, the Sixth Circuit asserted in both *Herman Miller*²²⁰ and *Hensley*²²¹ that descriptive trade marks can confer exclusive rights on trade mark owners only in “the secondary, new, trademark meaning of the word,” but others are always capable of using “the original, descriptive primary meaning” to describe their products “in the interest of free competition.”

Nominative fair use was also construed to relate to competition. In *Toyota*, Judge Kozinski of the Ninth Circuit stated that the nominative fair use doctrine is designed to prevent harm to free speech and competition.²²² The “wholesale prohibition of nominative use in domain names” would prevent other merchants from communicating the nature of products to consumers and consumers from receiving information on products.²²³ It would enable only trade mark proprietors to have greater control over relevant markets, “to the detriment of competition and consumers.”²²⁴

In *Adidas II*, the ECJ clarified that competition is a significant factor in decisions under article 6(1)(b) of the EU Trade Mark Directive, concluding that

²¹⁸ Andrew Bailey, Trade Mark Functions and Protection for Marks with a Reputation, *Journal of Intellectual Property Law & Practice*, 2013 Vol.8 No.11, 874 (2013)

²¹⁹ *Interflora Inc v. Marks & Spencer Plc* (C-323/09) [2012] E.T.M.R. 1, 46 (internal quotation marks omitted)

²²⁰ *Herman Miller, Inc. v. Palazzetti Imports and Exports, Inc.*, 270 F.3d 298, 319 (6th Cir. 2001)

²²¹ *Hensley Mfg. v. ProPride, Inc.*, 579 F.3d 603, 612 (6th Cir. 2009)

²²² *Toyota Motor Sales, U.S.A., Inc. v. Tabari*, 610 F.3d 1171, 1180 (9th Cir. 2010)

²²³ *Id.*

²²⁴ *Id.*

the requirement of general availability, which is the general interest in not unduly restricting the availability of certain signs, cannot be considered in determining the scope of trade mark rights, “except in so far as the limitation of the effects of the trade mark defined in article 6(1)(b) of the Directive applies.”²²⁵

f) The First Sale or Exhaustion Rule

In *Sebastian Intern*, competition was suggested as a justification for the first sale rule. The Ninth Circuit asserted that the first sale doctrine “serves the legitimate purposes of trademark law” on the one hand and “preserves an area for competition by limiting the producer’s power to control the resale of its product” on the other.²²⁶

In *Viking Gas*,²²⁷ the ECJ also considered competition in interpreting article 7 of the Trade Mark Directive. *Kosan Gas*, which was an exclusive licensee for a three-dimensional trade mark—a bottle, produced and sold bottled gas to customers in composite lightweight bottles.²²⁸ *Viking Gas* sold gas to independent dealers by way of refilling *Kosan Gas*’s composite bottles with its gas, so *Kosan Gas* brought an action for trade mark infringement against *Viking Gas*.²²⁹ The ECJ asserted that to prevent other merchants, on the basis of trade mark rights, from selling gas by means of refilling bottles would result in unduly reduced competition in the market for the refilling of gas and even close off that market.²³⁰ The ECJ also stated that the prevention would push consumers to abandon initial payment for bottles in order to maintain their free choice of gas suppliers.²³¹ For these reasons, the ECJ held that the sale of bottles exhausted relevant trade mark rights and transferred the right to use the bottle freely to the purchaser.²³² It also stated that regard should be paid to “the practices in that sector,” particularly “whether consumers are accustomed to the gas bottles being

²²⁵ *Adidas AG and another v. Marca Mode CV and others* (C-102/07) [2008] Bus. L.R. 1791, 1814-1815

²²⁶ *Sebastian Intern., Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1075 (9th Cir. 1995)

²²⁷ *Viking Gas A/S v. Kosan Gas A/S* (C-46/10) [2011] E.T.M.R. 58

²²⁸ *Id.* at 1133-1134

²²⁹ *Id.*

²³⁰ *Id.* at 1139

²³¹ *Id.*

²³² *Id.*

filled by other dealers” in construing ‘legitimate reasons’ within the meaning of article 7(2) of the Directive.²³³

4) The Purpose of Trade Mark Law: Fair and Efficient Competition

Given the limits of current goals of trade mark protection, trade mark law as part of unfair competition law, the pro-competitive characteristics of trade mark protection, and the internalisation of competition into trade mark law, this thesis here argues that the purpose of trade mark law should be fair and efficient competition. It also suggests that ‘competition,’ ‘fairness,’ and ‘efficiency’ should play different roles in trade mark protection: competition should delimit the scope of trade mark protection since ‘fairness’ and ‘efficiency’ are founded on competition.

First, the justification for trade mark protection should be competition. From an economics perspective, competition means “a situation where there are rivals in production who allow the consumer to make a choice.”²³⁴ There is no competition in a monopoly where there is only one supplier because consumers have no choice.²³⁵ Where there is no competition, trade marks are not indispensable.²³⁶

From this perspective, where third party use of trade marks unduly causes the malfunction of owners’ trade marks, it would distort or reduce rational consumer choice²³⁷ even if it does not actually reduce the number of rivals. Unless third party use is prohibited, trade mark owners can hardly identify the position of product quality and brand image, and consumers cannot choose these owners’ products on the basis of the information trade marks convey. Given the

²³³ Id. at 1140

²³⁴ Mankiw and Taylor, *supra* note 145, at 288

²³⁵ Id.

²³⁶ Jessica Litman, *Breakfast with Batman: The Public Interest in the Advertising Age*, 108 *Yale L.J.* 1717, 1735 (1999) (asserting that “Ralph Brown reminded us that, in devising the rules of trade symbol law, we need to keep our eyes, first and foremost, on competition,” that “[c]ompetition, though, is the basis for the rationale underlying any protection of trade symbols, and that “[i]f we do not want to encourage producers of different products to compete with one another for consumers’ dollars, then we do not really need to protect trade symbols at all.”) This, however, does not mean that there is no need to protect a trade mark in a monopolistic market since the mark can be infringed by third party use in non-competing product markets.

²³⁷ This thesis suggests that consumer choice based on product brand image is also rational because it can give utility to consumers.

fact that consumers “live by symbols” and “purchase goods by them,”²³⁸ this use unjustifiably decreases the number of properly distinguishable trade marks essential for consumer choice. Thus, this use that unduly reduces competition should be prevented by trade mark law.

At the same time, competition should delimit the scope of trade mark protection: the application of trade mark law should not result in monopolies or oligopolies. The expansion of trade mark protection could preclude competitors from conveying information about the characteristics of their products. It could even lead to the de facto prevention of free entry of new comers into markets by making it almost impossible to promote their products. These are way beyond what trade mark law should protect.

Second, trade mark protection should aim at fairness in the competition system; speaking more accurately, it should aim at ‘fair use of trade marks’ in competitive markets. By giving every seller an equal opportunity to develop and use its own trade mark, trade mark protection should enable sellers to compete on the basis of product quality and other values. Unless this fairness in use of trade marks is disturbed, consumers can efficiently distinguish and choose between products in a way that maximises their utility. Where, for example, the competitive positions of trade mark owners are weakened by competitors’ price, product quality, or other values, trade mark law should not intervene. Trade mark law should only prevent unfair use of trade marks.

In relation to this, not all third party uses of trade marks that appear to harm the interests of trade mark owners also harm competition. For instance, use of trade marks in non-competing product markets, which causes consumer confusion as to some kind of relationship between trade mark owners and users, can be regarded as unfair and prevented. This use, however, strengthens the interests of users only against those of competitors in users’ markets which trade mark owners have never entered or planned to enter. Nevertheless, the use can hardly impair the competitiveness of trade mark owners in owners’ markets.

Third, trade mark protection should be targeted at efficient competition. Basically, trade mark protection enables sellers to efficiently indicate the position

²³⁸ *Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co.*, 316 U.S. 203, 205 (1942) (stating that “[i]f it is true that we live by symbols, it is no less true that we purchase goods by them.”)

of product quality and brand image and differentiate their products from others. As the search cost theory suggests, consumers are also able to economise on their search costs for the products they want. In this sense, efficient competition can justify trade mark protection.

Efficient competition can also delimit trade mark protection. If, for example, competitors cannot use generic terms as a result of trade mark protection, consumers could not find the products they want efficiently. This inefficiency in competing product markets should be avoided.

Efficiency, however, should not mean just the reduction in trade mark owners' costs or consumer search costs. It should be predicated on the competition system. Although one trade mark in one market or even in all markets is more efficient than numerous trade marks in terms of trade mark owners' costs and consumer search costs, this is not the aim of trade mark protection. It is suggested here that only unfair use, which could cause material inefficiency and harm competition, should be prohibited. For instance, use of trade marks on non-competing products could reduce efficiency by raising the advertising costs of trade mark owners or making consumers spend more time matching products to the owners' marks. In this case, however, there would be no need to prevent the use if consumers can still make rational choices based on the information that trade marks convey.

Fair and efficient competition as the purpose of trade mark protection is closely related to trade mark functions. The close relationship between them is quite natural since this thesis suggests fair and efficient competition as the ultimate purpose of 'trade mark' protection. Splitting markets and cartels through private agreements may not be linked with trade marks. Unfair competitive behaviour that does not relate to use of trade marks is beyond the concern of trade mark law. Trade mark law interferes in disputes caused by 'use of trade marks' which impacts 'the functions of owners' trade marks.' Nevertheless, it is not harm to all trade mark functions that can lead to trade mark protection. Protectable functions will be discussed in the next section.

Moreover, fair and efficient competition relates to both trade mark owners' and third party users' markets. These markets can be identical, competing, non-competing but related, or non-competing and unrelated with each other. The

understanding of trade mark protection particularly against non-competing use depends on whether owners' trade marks fulfil functions just in their markets or extend to non-competing product markets. In the next section, this will be also explored.

2. Trade Mark Functions

1) Fair and Efficient Competition and Trade Mark Functions

How trade mark protection promotes fair and efficient competition cannot be easily explained by the prevention of consumer confusion, the protection of goodwill, and the reduction of search costs. The prevention of consumer confusion cannot clarify the effect of trade mark protection on competition without the aid of other concepts since it relates to 'fairness' or 'proper business conduct',²³⁹ rather than 'competition', and cannot explain anti-dilution protection. While unfair use of trade marks causes consumer confusion, not all types of consumer confusion could harm fair and efficient competition. Consumer confusion as to some kind of relationship between trade mark owners and users could not affect the numbers of properly distinguishable trade marks, which are essential for consumer choice, in both trade mark owners' and users' markets. Moreover, the effect of anti-dilution protection on competition cannot be explicated by the prevention of consumer confusion since anti-dilution protection does not require confusion.

The protection of goodwill is also not suitable for elucidating the effect on competition because goodwill is a concept only about trade mark owners and 'the protection of goodwill' can be construed as 'the misappropriation of goodwill.' Harm to goodwill or loss of control over goodwill cannot explain how it affects the interests of 'competitors and consumers in owners' markets.' The misappropriation of goodwill is synonymous with unfair use and it does not always impair competition. The protection of goodwill is remote from the concept of competition.

²³⁹ Chad J. Doellinger, A New Theory of Trademarks, 111 Penn St. L. Rev. 823 (2007) (calling this "integrity" and arguing that integrity is at the core of trade mark law.)

The search cost theory emphasises ‘efficiency by reducing consumer search costs’ rather than ‘competition,’ ‘fairness,’ and ‘efficiency in competition.’ From the perspective of the search cost theory, the most efficient market can be a monopolistic market since consumers can grasp product quality at a minimum cost.²⁴⁰ One trade mark in one market, however, is far from pro-competitive; there is no competition at all. Hence, the search cost theory has its limits in describing a link between search costs and competition.

On the other hand, trade mark functions can explain how third party use is likely or unlikely to affect fair and efficient competition because of their nature: like the concept of ‘fair and efficient competition,’ they not only relate to the interests of trade mark owners but also those of competitors and consumers. Trade mark functions enable existing competitors to decide their marketing strategies and new comers to determine whether they enter markets or not. They also help consumers to make choices on their preferences or purchases. Not all functions, however, can promote fair and efficient competition.

2) The Current Debate

(1) Source Indicating Function

It is unanimously maintained that trade marks have the role of indicating the source of products. As the US Supreme Court asserted in the early twentieth century, “the primary and proper function of a trademark is to identify the origin or ownership of the article to which it is fixed.”²⁴¹

According to the traditional origin function, origin meant ‘actual and physical’ origin. In theory, assigning and licensing trade mark rights could not be permitted since they, without the transfer of the entire business of sellers or licensors, would allow use of trade marks by others who were not actual or physical source of products.²⁴²

²⁴⁰ Mark P. McKenna, A Consumer Decision-making Theory of Trademark Law, 98 Va. L. Rev. 67, 86 (2012) (stating that “consumer search costs would be reduced if we eliminated competition” and that “no one advocates monopolization of markets on search costs grounds.”)

²⁴¹ Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 412 (1916)

²⁴² MacMahan Pharmacal Co. v. Denver Chemical Mfg. Co., 113 F. 468 (8th Cir. 1901)

With the change in commerce such as mass-production of products, the emergence of licensing, and the appearance of distributors, the concept of ‘origin’ came to have a meaning of ‘a single, though anonymous source.’²⁴³ According to the modified origin function, trade marks indicate that products originate from the same but possibly anonymous source or have reached consumers through the same channel as other goods bearing identical trade marks.²⁴⁴ “[W]ho manufactured or produced products” is not important at all.²⁴⁵

The source indicating function has been mentioned in many court decisions. In *Smith*, the Ninth Circuit held that courts have “generally confined legal protection to the trademark’s source identification function for reasons grounded in the public policy favoring a free, competitive economy.”²⁴⁶ In *New Kids on the Block*, the Ninth Circuit regarded the source identification function as “the purpose of trademark” in relation to nominative fair use,²⁴⁷ and other federal courts cited this decision.²⁴⁸

The ECJ consistently emphasised that “to guarantee the identity of origin” constitutes the essential function of trade marks.²⁴⁹

In *Burberry*, the Supreme Court of Korea also decided that even the active advertising or promotion of parallel imported products through use of trade marks did not constitute trade mark infringement unless there was a likelihood of confusion as to the origin or quality of products, considering that the main functions of the trade mark were those of indicating origin and guaranteeing the

²⁴³ *Shredded Wheat Co. v. Humphrey Cornell Co.*, 250 F. 960 (2d Cir. 1918)

²⁴⁴ Frank Schechter, *The Rational Basis of Trademark Protection*, 40 *Harv. L. Rev.* 813, 816 (1927)

²⁴⁵ Marlene B. Hanson, *Protecting Trademark Good Will: The case for a Federal Standard of Misappropriation*, 81 *Trademark Rep.* 480, 483 (1991) (explaining that “the marks represented a mechanism to allow consumers to expect all goods with the same mark to come from a single source, though actual identification of the source, i.e., who manufactured or produced the product, was not necessary.”)

²⁴⁶ *Smith v. Chanel, Inc.*, 402 F.2d 562, 566 (9th Cir. 1968)

²⁴⁷ *New Kids on the Block v. News Am. Publ’g Inc.*, 971 F.2d 302, 308 (9th Cir. 1992)

²⁴⁸ *Century 21 Real Estate Corp. v. Lendingtree, Inc.*, 425 F.3d 211, 220 (3d Cir. 2005); *International Stamp Art, Inc. v. U.S. Postal Service*, 456 F.3d 1270, 1277 (11th Cir. 2006)

²⁴⁹ *Hoffmann-la Roche v. Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH* (C-102/77) [1978] 3 C.M.L.R. 217, 241; *Centrafarm BV v. American Home Products Corporation* (C-3/78) [1979] 1 C.M.L.R. 326, 343; *Cnl-Sucal NV SA v. Hag GF AG* (C-10/89) [1990] 3 C.M.L.R. 571, 608; *Arsenal Football Club Plc v. Matthew Reed* (C-206/01) [2003] E.T.M.R. 19, 238; *Adidas AG and another v. Marca Mode CV and others* (C-102/07) [2008] *Bus. L.R.* 1791, 1813; *Google France v. Louis Vuitton Malletier* (Joined Cases C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30, 554

quality of products.²⁵⁰

(2) Source Distinguishing Function

Trade marks identify the source of products and distinguish that source from other sources.²⁵¹ This function is sometimes explained as being included in the origin function in a broader sense.

The US Fourth Circuit stated in *Retail Services* that a mark cannot acquire trade mark protection unless the mark is distinctive, that is, unless it serves the traditional trade mark functions of distinguishing the applicant's goods from those of others and identifying the source of the goods.²⁵²

According to the ECJ, the function of guaranteeing the origin of products includes the function of distinguishing between sources. In *Philips*, the ECJ reiterated that “the essential function of a 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.”²⁵³ The Philips Court based the essential function on “the wording and the structure of the various provisions of the Directive concerning the grounds for refusal of registration.”²⁵⁴

The Supreme Court of Korea also considered the distinguishing function to be an important function of trade marks. It decided in the *Black Coffee* case that a title of a record could play a role as a distinctive sign as to the source of products, not just as an indication of the content of a creative work, when it enabled consumers to differentiate a work of an undertaking from others.²⁵⁵

(3) Quality Guaranteeing Function

On the back of the origin function, a new concept of trade mark function

²⁵⁰ Judgment of 24 September 2002, Supreme Court, 99 Da 42322

²⁵¹ McCarthy, *supra* note 87, §3:1

²⁵² *Retail Services, Inc. v. Freebies Publishing*, 364 F.3d 535, 538 (4th Cir. 2004) (citing *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 768, 112 S.Ct. 2753, 120 L.Ed.2d 615 (1992))

²⁵³ *Philips Electronics NV v. Remington Consumer Products Ltd (C-299/99)* [2002] E.T.M.R. 81, 964

²⁵⁴ *Id.*

²⁵⁵ Judgment of 25 January 2007, Supreme Court, 2005 Da 67223

arose in 1930s.²⁵⁶ This function acknowledges that trade marks guarantee product quality. Schechter argued in his seminal thesis that “the true functions of the trademark” are “to identify a product as satisfactory and thereby to stimulate further purchases by the consuming public.”²⁵⁷ This function is sometimes called ‘the function of indicating quality’ since trade marks cannot guarantee any quality of products but can indicate the consistent level of product quality.²⁵⁸ Trade marks signify “at least that the goods are issued as vendible goods under the aegis of the proprietor of the trademark who thus assumes responsibility for them.”²⁵⁹

Courts have commonly recognised this function. In *El Greco Leather Products*, the US Second Circuit regarded “the right to control the quality of the goods manufactured and sold under the holder’s trade mark” as “one of the most valuable and important protections afforded by the Lanham Act.”²⁶⁰ In *Nitro Leisure Products*, Judge Newman stated in his dissenting opinion that “the source theory has been broadened to include not only manufacturing source but also the source of standards of quality of goods bearing the mark” and that “a mark primarily functions to indicate a single quality control source of the goods or services.”²⁶¹

The ECJ also stated in *Emanuel* that for the essential role of a trade mark in the system of undistorted competition, it should assure consumers that all the products bearing the mark have been produced or provided under the control of a single enterprise which takes responsibility for their quality.²⁶²

Moreover, the Supreme Court of Korea stated in a resale case that trade mark law protects the quality assurance function. It decided that where a trade marked product is so processed or repaired that it cannot seem to keep its identity, the act of processing or repairing is akin to the production of a new product, and hence a use of the same trade mark on the product can impair the functions of

²⁵⁶ McCarthy, *supra* note 87, §3:10

²⁵⁷ Schechter, *supra* note 244, at 817

²⁵⁸ McCarthy, *supra* note 87, §3:10 (arguing that “to designate this as a guarantee function is somewhat misleading, for a trademark is not necessarily a guarantee or warranty in the strict legal sense.”)

²⁵⁹ S.P. Ladas, *Trademark Licensing and the Antitrust Law*, 63 TMR 245, 248 (1973)

²⁶⁰ *El Greco Leather Products Co. v. Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986)

²⁶¹ *Nitro Leisure Products, L.L.C. v. Acushnet Co.*, 341 F.3d 1356, 1367 (Fed. Cir. 2003)

²⁶² *Elizabeth Florence Emanuel v. Continental Shelf 128 Ltd* (C-259/04) [2006] E.T.M.R. 56, 773; *see also* *Philips Electronics NV v. Remington Consumer Products Ltd* (C-299/99) [2002] E.T.M.R. 81, 964

indicating origin and guaranteeing the quality of products.²⁶³

(4) Advertising Function

The advertising function is the function as an advertising tool. Trade marks are regarded as the most effective tools for sellers to develop consumer loyalty because of their capability to stimulate consumers to choose what they want, or what they have been led to believe they want.²⁶⁴ Schechter recognised this function, asserting that “today the trademark is not merely a symbol of good will but often the most effective agent for the creation of good will.”²⁶⁵ Some called this function ‘the persuasion function’ in that trade marks play a role as “a bridge between advertising and purchase” or “the vehicle of persuasion.”²⁶⁶ This function can be seen as a cumulative result of the origin and quality connotations of trade marks.²⁶⁷

Justice Frankfurter acknowledged this function in *Mishawaka*, stating that “[t]he protection of trade-marks is the law’s recognition of the psychological function of symbols” and that “[i]f another poaches upon the commercial magnetism of the symbol he has created, the owner can obtain legal redress.”²⁶⁸ Many other US courts have recognised the advertising function, citing the decision in *Mishawaka*. The Ninth Circuit mentioned “the psychological function of symbols” in *Avery Dennison Corp.* in relation to dilution,²⁶⁹ while the Fifth Circuit used the same expression in *Elvis Presley Enterprises* in the context of likelihood of confusion.²⁷⁰ In *Sport Supply Group*, however, the Fifth Circuit expressed different views, holding that “under Texas law and federal law, a mark is protected by trade mark law to the extent that it serves to distinguish a particular product, not to the extent that it entices consumers to purchase the

²⁶³ Judgment of 15 October 2009, Supreme Court, 2009 Do 3929

²⁶⁴ Hanson, *supra* note 245, at 485

²⁶⁵ Schechter, *supra* note 244, at 819

²⁶⁶ Ralph S. Brown, Jr., Advertising and the Public Interest: Legal Protection of Trade Symbols, 57 *Yale L. J.* 1165, 1189 (1948)

²⁶⁷ Spyros Maniatis, A Consumer Trade Mark: Protection Based on Origin and Quality, *E.I.P.R.* 406, 408 (1993)

²⁶⁸ *Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co.*, 316 U.S. 203, 205 (1942)

²⁶⁹ *Avery Dennison Corp. v. Sumpton*, 189 F.3d 868, 873 (9th Cir. 1999)

²⁷⁰ *Elvis Presley Enterprises, Inc. v. Capece*, 141 F.3d 188, 197-198 (5th Cir. 1998)

product.”²⁷¹ The reasoning was that “if trademark law viewed “advertising” as a trademark’s main function, a descriptive mark might receive more protection under trademark law than an arbitrary mark.”²⁷²

Meanwhile, the ECJ articulated in L’Oréal that the advertising function is protected under article 5(1) of the EU Trade Mark Directive.²⁷³ The protection of the advertising function was also mentioned by the ECJ in Interflora. The ECJ stated that a trade mark is often used as “an instrument of commercial strategy used ... for advertising purposes” and the trade mark performs the advertising function to this extent.²⁷⁴

On the other hand, there is not yet a court decision about the advertising function in Korea.

(5) Other Functions: the Investment and Communication Functions

The investment function means the function of providing trade mark owners with the incentive to make investments in product quality because consumers can trace products to trade mark owners. This function is also labelled ‘the quality encouragement function of trade marks.’²⁷⁵

US courts asserted the investment function in many cases. The First Circuit stated in *Boston Duck Tours* that “[b]ecause consumers rely heavily on trademarks when making choices, businesses also have an incentive to maintain product quality, lest they lose disappointed consumers.”²⁷⁶ The ECJ also stated in *Interflora* that the investment function occurs when trade marks are used “to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty.”²⁷⁷ In Korea, the investment function is just dealt with as one purpose of trade mark law.

Trade marks can also be used as a communication tool and this function is called the communication function. The ECJ recognises both the investment

²⁷¹ *Sport Supply Group, Inc. v. Columbia Cas. Co.*, 335 F.3d 453, n.12 (5th Cir. 2003)

²⁷² *Id.*

²⁷³ *L’Oréal SA v. Bellure NV* (C-487/07) [2009] E.T.M.R. 55, 1034

²⁷⁴ *Interflora Inc v. Marks & Spencer Plc* (C-323/09) [2012] E.T.M.R. 1, 38

²⁷⁵ *McCarthy*, supra note 87, §2:4

²⁷⁶ *Boston Duck Tours v. Super Duck Tours*, 531 F.3d 1, 12 (1st Cir. 2008)

²⁷⁷ *Interflora*, [2012] E.T.M.R. 1 at 41

and communication functions. In *L'Oréal*, the ECJ concluded that protected trade mark functions embrace not only the essential function of a trade mark but also the functions of guaranteeing the quality of the goods or services, communication, investment, and advertisement.²⁷⁸ The Court, however, admitted in *Interflora* that the investment function “may overlap with the advertising function.”²⁷⁹

The relationship of the communication function with other functions is not clear. In *L'Oréal*, Advocate General Jääskinen cast a doubt on this relationship in a footnote, opining that there is no consensus with respect to “the conceptual relationships that exist between the various functions, especially whether some (or all) of the functions can actually be seen as included in the essential function.”²⁸⁰ He suggested that “the elements of [the communication] function are to a large extent covered by the distinguishing and origin function, advertising function and the investment function.”²⁸¹

3) Limits of Protected Trade Mark Functions in relation to Competition

Trade mark functions are pro-competitive only when their scope is demarcated by competition. From the perspective of fair and efficient competition that I suggest as the purpose of trade mark law, only these functions should be protected. Currently accepted functions, however, do not map exactly onto competition.

First, the relationship between protected trade mark functions and competition is not certain. Courts in different jurisdictions have disparate understandings. US courts consider the source indicating and source distinguishing functions to be necessary for the enhancement of competition, but the advertising function to be anti-competitive in some cases. In *Smith*, the Ninth Circuit admitted the pro-competitive nature of the indication function, holding that protecting a trade mark “as a means of identifying” the trade mark owner’s products makes “effective competition” possible in a complex, impersonal marketplace by offering to consumers a tool for identifying the products that

²⁷⁸ *L'Oréal SA* [2009] E.T.M.R. 55 at 1034

²⁷⁹ *Interflora*, [2012] E.T.M.R. 1 at 41

²⁸⁰ *L'Oréal SA v. eBay International AG* (C-324/09) [2011] E.T.M.R. 52, n. 20

²⁸¹ *Id.* at n. 58

satisfy them and incentivising producers with the repetition of purchases.²⁸² It added that without the identification function of a trade mark, “informed consumer choice, and hence meaningful competition in quality, could not exist.”²⁸³ In *Calvin Klein Cosmetics*, the Eighth Circuit emphasised the importance of the source distinguishing function in competition when it found no likelihood of confusion in the use, by Lenox, of the Calvin Klein’s registered trade mark OBSESSION in comparative advertising.²⁸⁴ The court stated that “an imitator is entitled to truthfully inform the public that it believes that it has produced a product equivalent to the original and that the public may benefit through lower prices by buying the imitation.”²⁸⁵ Other US courts also found that the functions of indicating source and distinguishing between sources stem from competition in the light of the legislative history of the Lanham Act,²⁸⁶ citing the senate report.²⁸⁷

On the other hand, the Ninth Circuit asserted in *Smith* that the advertising function would make consumers choose products not by their quality and price but by “economically irrational elements,” and as a result, trade mark proprietors would not be affected by quality and price competition, and thus “the competitive system fails to perform its function of allocating available resources efficiently.”²⁸⁸ The court said that “the economically irrelevant appeal of highly publicized trademarks is thought to constitute a barrier to the entry of new competition into the market.”²⁸⁹ Other courts, however, just stated that dilution, which is closely related to the advertising function, can occur regardless of

²⁸² *Smith v. Chanel, Inc.*, 402 F.2d 562, 566 (9th Cir. 1968)

²⁸³ *Id.*

²⁸⁴ *Calvin Klein Cosmetics Corp. v. Lenox Laboratories, Inc.*, 815 F.2d 500, 503-504 (8th Cir. 1987)

²⁸⁵ *Id.* at 504

²⁸⁶ *Truck Equipment Service Co. v. Fruehauf Corp.*, 536 F.2d 1210, 1215 (8th Cir. 1976); *Rotoworks Intern. Ltd. v. Grassworks USA, LLC*, 504 F.Supp.2d 453, 462 (W.D. Arkansas 2007)

²⁸⁷ Senate Report No. 1333, 1946 U.S.Code Cong. Serv., p. 1275. (“Trade-marks, indeed, are the essence of competition, because they make possible a choice between competing articles by enabling the buyer to distinguish one from the other. Trade-marks encourage the maintenance of quality by securing to the producer the benefit of the good reputation which excellence creates. To protect trade-marks, therefore, is to protect the public from deceit, to foster fair competition, and to secure to the business community the advantages of reputation and good will by preventing their diversion from those who have created them to those who have not.”)

²⁸⁸ *Smith v. Chanel, Inc.*, 402 F.2d 562, 567 (9th Cir. 1968)

²⁸⁹ *Id.*

competition between the parties.²⁹⁰

The ECJ takes a somewhat different position as to the relationship between trade mark functions and the competition system. According to the ECJ, it appears that all trade mark functions originate from the system of undistorted competition. The source indicating and distinguishing function—the function of guaranteeing the identity of origin of products by enabling consumers, without any possibility of confusion, to distinguish products from others—is the essential function of trade marks because only distinctive signs enable producers to compete with the quality of products.²⁹¹ The quality assurance function also comes from competition in that it is a prerequisite for the essential function of trade marks in the undistorted competition system.²⁹² As regards the functions of communication, investment, and advertising, the ECJ has not explored fully their relationship with competition. On the other hand, the ECJ regarded trade mark rights as an essential element of the undistorted competition system, and at the same time, found that these functions should also be protected by trade mark law.²⁹³ This, somewhat cyclical, position appears to admit that these functions stem from competition.

In Korea, the functions of indicating source, distinguishing between sources, and guaranteeing the consistent quality of products are construed to ‘maintain’ competition, but there are no court decisions about the connection of other functions with competition. In *Rolex*, the Supreme Court of Korea asserted that trade mark law is intended to protect the goodwill of the proprietor and to ‘maintain distribution order’ by safeguarding ‘the source distinguishing function and the quality guaranteeing function,’ on the one hand, and to protect the interest of consumers by enabling them to distinguish the origin of products from others and accordingly to purchase the product with the quality that they want, on the other.²⁹⁴

²⁹⁰ *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418, 429 (2003); *Avery Dennison Corp. v. Sumpton*, 189 F.3d 868, 873 (9th Cir. 1999); *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 219 (2d Cir.1999); *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252, 264-265 (4th Cir. 2007); *Starbucks Corp. v. Wolfe’s Borough Coffee, Inc.*, 588 F.3d 97, 105 (2d Cir. 2009); *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 111 (2d Cir. 2010)

²⁹¹ *Arsenal Football Club Plc v. Matthew Reed* (C-206/01) [2003] E.T.M.R. 19, 237

²⁹² *Id.*

²⁹³ *Id.* at 237-238; *L’Oréal SA v. Bellure NV* (C-487/07) [2009] E.T.M.R. 55, 1034

²⁹⁴ Judgment of 30 July 1996, Supreme Court, 95 Hu 1821

In sum, courts have the same approach regarding the origin indicating, source distinguishing, and quality guaranteeing functions: they promote competition. As to other functions such as the advertising function, however, some US courts considered it to be anti-competitive, while the ECJ found it indirectly linked to competition.

Second, the meaning of some functions is so obscure that it is difficult to establish the exact relationship between those functions and competition. The origin function is conceived as a function of indicating ‘the same but possibly anonymous source’ or ‘sponsorship.’ These expressions, however, do not have clear-cut meanings. Given the transfer of trade mark rights, ‘the same but possibly anonymous source’ does not sufficiently define what is identical. Further, ‘sponsorship’ can expand to encompass some kind of relationship between trade mark owners and users. As a result, where consumers mistakenly believe that trade mark owners possess the share of third party users but they do not think that the owners control the quality of users’ products, users can be liable for their use. This could unduly reduce users’ competitive interests. This is also the case with the source distinguishing function.

Additionally, the advertising and communication functions are unclear. If trade mark protection is understood as protection against all uses of trade marks that could hinder proprietors’ use of trade marks as a tool of advertising or communication, that protection could lead to an unfair competitive advantage. In this sense, the ECJ restricts the scope of these functions. The ECJ found in *Parfums Christian Dior* that the advertising function is not harmed where a reseller’s advertising is “customary in his trade sector.”²⁹⁵ In *Interflora*, the ECJ also concluded that the mere fact that use of a trade mark forces a trade mark proprietor to intensify advertising does not adversely affect the mark’s advertising function because the trade mark does not aim to guarantee the proprietor against practices inherent in competition.²⁹⁶

Third, even the relationship between trade mark functions is not clear, particularly between the functions of indicating source and distinguishing between sources, on the one hand, and the quality guaranteeing function, on the

²⁹⁵ *Parfums Christian Dior SA and Another v. Evora BV* (C-337/95) [1998] E.T.M.R. 26, 27-28

²⁹⁶ *Interflora Inc v. Marks & Spencer Plc* (C-323/09) [2012] E.T.M.R. 1, 40-41

other. Some US courts have interpreted an indication of source or sponsorship as information about quality consistency. The US Seventh Circuit held in *Gorenstein* that trade marks aim at identifying products to consumers and identity means “consistency and a correlative duty to make sure that the good or service really is of consistent quality, i.e., really is the same good or service.”²⁹⁷ In *TMT North America*, the same Circuit also asserted that the usefulness of a trade mark to society stems from its function of imparting information about product quality, and that trade mark law primarily protects this information, not trade mark owners’ reputations.²⁹⁸

The Seventh Circuit put more weight on consistent quality assurance in a relatively recent case. In *XMH*, the court stated that “[i]f without notice the seller reduces the quality of his brand, the trademark becomes deceptive because its assurance of continuity of quality is no longer truthful.”²⁹⁹

The ECJ asserted in many cases including *Emanuel* that for a trade mark to fulfil its function as an indication of source in the undistorted competition system, “it must offer a guarantee that all the goods or services bearing it have been manufactured or supplied under the control of a single undertaking which is responsible for their quality.”³⁰⁰ In other cases such as *L’Oréal*, the ECJ considered harm to the quality guaranteeing function to be adverse effects on the origin function, stating that the origin function is harmed “in that the mark is denied its essential function of guaranteeing that the goods that it designates are supplied under the control of a single undertaking which is responsible for their quality.”³⁰¹

In the same vein, some courts emphasised that trade marks help to differentiate between products by the different positions of product quality. In *Nitro Leisure Products*, a case about use of a proprietor’s trade mark on refurbished golf balls, the US Federal Circuit asserted that “so long as the

²⁹⁷ *Gorenstein Enterprises, Inc. v. Quality Care-USA, Inc.*, 874 F.2d 431, 435 (7th Cir.1989)

²⁹⁸ *TMT North America, Inc. v. Magic Touch GmbH*, 124 F.3d 876, 886 (7th Cir. 1997)

²⁹⁹ *In re XMH Corp.*, 647 F.3d 690, 695-696 (7th Cir. 2011)

³⁰⁰ *Elizabeth Florence Emanuel v. Continental Shelf 128 Ltd (C-259/04)* [2006] E.T.M.R. 56, 773; *see also Arsenal Football Club Plc v. Matthew Reed (C-206/01)* [2003] E.T.M.R. 19, 237; *Alcon Inc v. Office for Harmonisation in the Internal Market (C-412/05 P)* [2007] E.T.M.R. 68, 1098; *Celine Sarl v. Celine SA (C-17/06)* [2007] E.T.M.R. 80, 1338; *Copad SA v. Christian Dior Couture SA and others (C-59/08)* [2009] Bus. L.R. 1571, 1586-1587

³⁰¹ *L’Oréal SA v. eBay International AG (C-324/09)* [2011] E.T.M.R. 52, 1032

customer is getting a product with the expected characteristics, and so long as the goodwill built up by the trademark owner is not eroded by being identified with inferior quality, the Lanham Act does not prevent the truthful use of trademarks, even if such use results in the enrichment of others.”³⁰²

As to the meaning of ‘the consistency of quality,’ the Second Circuit interpreted it as ‘the maintenance of the control of quality’ in *El Greco Leather Products*, holding that the actual quality is immaterial.³⁰³ In *Eva’s Bridal Ltd.*, a naked license case, the Seventh Circuit also stressed the importance of control over consistent quality, stating that “Safeway could not license its marks to a corner grocery store, while retaining no control over inventory, appearance, or business methods, just because every grocery store is sure to have Coca-Cola and Wheaties on the shelf.”³⁰⁴

On the other hand, some other courts deny the strong relationship between the origin indicating and distinguishing functions and the quality guaranteeing function. In merchandising cases, even if consumers did not believe that a trade mark owner controlled product quality, some US federal courts admitted that there was a likelihood of confusion as to source or sponsorship.³⁰⁵

Fourth, where a third party uses trade marks on non-competing products, whether trade mark functions are protected in trade mark owners’ markets or in users’ markets is hard to be identified. Basically, proprietors’ trade marks fulfil functions in proprietors’ product markets. Trade marks indicate the source or sponsorship of the products of ‘proprietors,’ enable ‘consumers in their markets’ to distinguish their products from others’, and guarantee the quality of their products. Trade marks are used to advertise their products and motivate them to invest money and efforts in their products.

According to some courts, however, trade marks appear to be able to perform their functions in non-competing product markets which the owners have never entered or have never shown their evident intention to enter by applying for

³⁰² *Nitro Leisure Products, L.L.C. v. Acushnet Co.*, 341 F.3d 1356, 1362 (Fed. Cir. 2003)

³⁰³ *El Greco Leather Products Co. v. Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986)

³⁰⁴ *Eva’s Bridal Ltd. and Said Ghusein v. Halanick Enterprises, Inc., and Nayef Ghusein*, 639 F.3d 788, 791 (7th Cir. 2011)

³⁰⁵ *Boston Professional Hockey Assoc. v. Dallas Cap & Emblem Mfg., Inc.*, 510 F.2d 1004, 1012 (5th Cir. 1975); *Univ. of Ga. Athletic Ass’n v. Laite*, 756 F.2d 1535, 1543, 1547 (11th Cir. 1985); *Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co.*, 550 F.3d 465, 484 (5th Cir. 2008)

registration. One example would be decisions that find trade mark infringement on the ground of the misappropriation of goodwill. These decisions focus more on the ‘unfairness’ of users’ conduct without discussing any effect on owners’ markets. In *Universal City Studios*, plaintiffs neither registered nor licensed their marks ‘Jaws One,’ ‘Jaws Two,’ and ‘Jaws Power’ for food waste disposers; in fact, they did not accept a license for garbage can liners to maintain their brand image.³⁰⁶ A district court in the Seventh Circuit, however, prevented defendants from using the trade marks for food waste disposers on the basis of likelihood of confusion as well as dilution under the Illinois Anti-Dilution Statute.³⁰⁷ The court stressed defendants’ intent to capitalise on plaintiffs’ marks in determining likelihood of confusion.³⁰⁸

In conclusion, in order to elucidate the relationship between ‘fair and efficient competition’ and protectable trade mark functions, these functions need to be reclassified with the focus on essential functions that are considered to be pro-competitive by courts. Moreover, the meaning and scope of trade mark functions should be defined from the perspective of fair and efficient competition. Additionally, whether owners’ trade marks fulfil functions beyond owners’ markets or not should be made clear.

4) Protectable Trade Mark Functions

(1) Information and Differentiation Functions

True and non-misleading information is indispensable for consumers’ free and reasonable decisions. Trade marks can convey two types of significant information for consumers’ rational choice: information on the origin, quality, and brand image of owners’ products and information on differences in origin, quality, and brand image. The former information roughly corresponds to the currently accepted functions of indicating origin and guaranteeing product quality and the latter to the source distinguishing function. The advertising and investment

³⁰⁶ *Universal City Studios, Inc. v. Montgomery Ward & Co.*, 1980 WL 30333, 1-3 (N.D. Ill. 1980)

³⁰⁷ *Id.* at 7-9

³⁰⁸ *Id.*

functions, which courts do not evidently regard as pro-competitive, are relevant to both types of information only to the extent that trade marks can connote brand image and differentiate products of one undertaking from others based on brand image. According to the above types of information, trade mark functions can be classified into two: the intra-trade mark information function and the inter-trade mark differentiation function.

It is suggested here that these functions are essential for fair and efficient competition and thus protectable by trade mark law.³⁰⁹ First, trade marks complement consumers' insufficient information, which deters consumers' informed choices, by concisely conveying information as to origin, quality, and brand image, and by readily differentiating them from those of others products. Trade marks make it possible for consumers to search for products they want to purchase at a lower cost,³¹⁰ and to trust the quality of products in markets³¹¹ through their information and differentiation functions. Consumers form a preference for certain products or buy them because the information as to source or quality tells them what they want, or because they would like to enjoy the image that trade marks carry.

Second, these functions enable trade mark owners to compete with other manufacturers or sellers more efficiently. By positioning their trade marks in markets and conveying information on the position of their marks, owners can establish effective marketing strategies. The functions also incentivise owners to 'competitively' develop or maintain the quality or brand image of their products. If they manufacture low quality products or cannot present appealing brand images, they would be punished by the drop in consumer demand. The differentiation function, together with the information function, offers consumers 'a navigation system' which can help locate the products they do or do not want.

³⁰⁹ Litman, *supra* note 236, at 1735 (stating that "[i]f what we are trying to accomplish is the promotion of competition, classic trademark rules remain well-suited to that goal," that "[p]rotecting the nondeceptive, informative, and source-designating functions of trade symbols assures that buyers who are persuaded by advertising that they want products of a particular brand can be confident that they are buying them," and that "the purveyors of that advertising will be sure that the customers they persuade to seek out their product will not be deceived into buying some competing brand.")

³¹⁰ George J. Stigler, *The Economics of Information*, 69 *J. Pol. Econ.* 213, 224 (1961) (arguing that "[r]eputation is a word which denotes the persistence of quality, and reputation commands a price (or exacts a penalty) because it economizes on search.")

³¹¹ Akerlof, *supra* note 150, at 499-500

This navigation system has become more efficient with the advancement of online technology that makes it quicker for consumers to retrieve information by using trade marked terms.

Finally, the information and differentiation functions facilitate start-up companies to set foot in new markets. Without use of trade marks, they would have to invest a considerable amount of money and efforts in exposing their products to the relevant public. With the help of trade marks, however, they can access markets more smoothly. Moreover, through market surveys or research on existing trade marks in markets, they can be more strategic in starting business. Furthermore, these functions encourage trade mark owners to advance into different product markets through brand extension. Because of established brand images, proprietors can enter these markets at a low cost by using identical trade marks. The entry of start-up companies and trade mark owners into product markets could result in more consumer choice.

(2) Meaning and Scope of Functions

a) Information Function

Trade marks are a means to concisely convey to consumers information as to the position of product quality and brand image. This intra-trade mark function includes the currently accepted source indicating and quality guaranteeing functions. It also relates to part of the advertising and investment functions to the extent that trade marks convey brand image.

US courts have mentioned trade marks' information function without embracing brand image in the scope of information. In *Smith*³¹² and *Vuitton Et Fils*,³¹³ the Ninth Circuit asserted that “the only legally relevant function of a trademark is to impart information as to the source or sponsorship of the product.” The First Circuit mentioned in *Boston Duck Tours* that trade marks “concisely impart information to consumers,” serving to identify and distinguish products

³¹² *Smith v. Chanel, Inc.*, 402 F.2d 562, 566 (9th Cir. 1968)

³¹³ *Vuitton Et Fils S.A. v. J. Young Enterprises, Inc.*, 644 F.2d 769, 776 (9th Cir. 1981)

and sources.³¹⁴ The Seventh Circuit stated that trade marks provide potential purchasers with information on the origin of products and this information “may” convey information on the “attributes and quality” of products.³¹⁵

Unlike US courts, this thesis suggests that the pro-competitive information function that deserves protection under trade mark law should be interpreted as being connected directly with the position of product quality and brand image in product markets.

Information on the origin or sponsorship of products itself has its limits in contributing to fair and efficient competition since its broad meaning could conflict with the pro-competitive information function. It cannot justify the pro-competitive nature of the information function insofar as ‘origin’ is interpreted as meaning ‘a single but anonymous source’ and ‘sponsorship’ is construed as encompassing ‘some kind of relationship between trade mark owners and users.’ ‘A single source’ can be understood to mean no other than ‘the identity or similarity between trade marks,’ whether trade marks are used in competing or non-competing product markets. ‘Some kind of relationship’ can include the case where trade mark owners do not care about the quality and brand image of users’ products.

This interpretation can broaden the scope of the information that trade marks convey, meaning that different information with different values is embedded in trade marks. This amorphous and vague information cannot make it possible for trade mark owners, competitors, and consumers to differentiate between products or to decide rationally what they wish. The information would cloud their choices of marketing strategies or preferences. It is likely that consumers’ decisions based on this information stem from their conjectures, not from their rationality or certainty. Besides, if this equivocal information is also protected by trade mark law, competitors could not use others’ trade marks even in comparative advertising³¹⁶ that is capable of delivering more accurate information to consumers required for their reasonable choice. Furthermore, the threat of litigation on the ground of ‘unpredictable information’ of trade marks

³¹⁴ *Boston Duck Tours v. Super Duck Tours*, 531 F.3d 1, 12 (1st Cir. 2008)

³¹⁵ *Top Tobacco, L.P. v. North Atlantic Operating Co., Inc.*, 509 F.3d 380, 381 (7th Cir. 2007)

³¹⁶ *Dogan and Lemley*, *supra* note 62, at 778

could even postpone the entry of other producers or distributors into new markets.³¹⁷

On the other hand, brand image should be treated as information necessary for the competition system. The allure, prestigious image, and aura of luxury surrounding products stated by the ECJ in *Parfums Christian Dior*³¹⁸ and *Copad*³¹⁹ constitute this information. Consumers' emotions towards or against branded products are as significant as other factual information for reaching reasonable decisions under the circumstances of asymmetric information.³²⁰ Positive emotions reduce the risk that consumers may fail to purchase what they want to, and consumers can enjoy those positive feelings as a result of their purchasing choice. Brand image is significant also for both trade mark owners and competitors; trade mark owners can differentiate their products from others by embedding their own brand images in their marks, and competitors can determine their marketing strategies in the light of these brand images.

Therefore, trade marks should be understood as indicating that trade mark owners 'control the position of product quality and brand image in product markets.' A trade mark signifies the message that "all goods bearing the trade mark are of an equal level of quality"³²¹ and brand image even if it does not guarantee the consistency of product quality³²² and brand image. Where consumers mistakenly believe that third party users acquire licenses from trade mark owners because of similar trade marks, but they do not believe that trade mark owners control the quality and brand image of users' products, this belief does not conflict with the information function of trade marks.

From this perspective, the information that trade marks may convey

³¹⁷ Litman, *supra* note 236, at n.77 (1999) (arguing that "litigation over trade symbols and advertising can be a powerful weapon to deploy against a commercial competitor" and that "[w]ielded with skill, it can accomplish delay in the introduction of promising new products, the abandonment of effective advertising campaigns, massive expenditures on legal counsel, and persistent impediments to securing favorable financing.")

³¹⁸ *Parfums Christian Dior SA and Another v. Evora BV* (C-337/95) [1998] E.T.M.R. 26, 39

³¹⁹ *Copad SA v. Christian Dior Couture SA and others* (C-59/08) [2009] Bus. L.R. 1571, 1587

³²⁰ Laura R. Bradford, *Emotion, Dilution, and the Trademark Consumer*, 23 *Berkely Tech. L.J.* 1227, 1234-1235 (2008)

³²¹ *Venture Tape Corp. v. McGills Glass Warehouse*, 540 F.3d 56, 60 (1st Cir. 2008); *see also* *Colt Def. LLC v. Bushmaster Firearms, Inc.*, 486 F.3d 701, 705 (1st Cir. 2007) (citing J. Thomas McCarthy, 1 *McCarthy on Trademarks and Unfair Competition* § 3:2 (2007))

³²² Maniatis, *supra* note 267, at 407 (arguing that despite the fact that the trade mark partially fulfils the role of a guarantee of quality, this function is not a legally binding warranty.)

about the specific nature of products is beyond the scope of the information function. Court decisions also show that this information is not protected by trade mark law. In *Dastar*, the US Supreme Court interpreted ‘the origin of goods’ as “the producer of the tangible goods that are offered for sale,” not “the author of any idea, concept, or communication embodied in those goods” on the grounds of both “the Act’s common-law foundations (which were *not* designed to protect originality or creativity)” and “the copyright and patent laws (which *were*).”³²³ In *Emanuel*, a case about a trade mark corresponding to the name of a designer who was historically linked with the product, the ECJ held that despite the possibility that the average consumer might mistakenly believe that the designer was currently engaged in the design of the garment, “the characteristics and the qualities of that garment remain guaranteed by the undertaking which owns the trade mark.”³²⁴ The Supreme Court of Korea also concluded in the *James Dean* case³²⁵ and the *Mozart* case³²⁶ that the name of a famous deceased person in itself does not signify the connection of products with the person.³²⁷

The scope of the information function is also limited to the extent that fair and efficient competition permits. First, only a sign which can fulfil the information function at a minimum level constitutes ‘a trade mark’ within the meaning of trade mark law. If a sign is only a property of products or is not perceivable by one of our senses, it cannot deliver information to consumers. In this sense, a colour or a shape, in every conceivable form, cannot function as a trade mark because competitors, who cannot identify the precise scope of the trade mark, could not use the colour or the shape at all, and consumers could not make choices on products based on uncertain identification. In *Heidelberger*, the ECJ asserted that “[t]he mere juxtaposition of two or more colours, without shape or contours, or a reference to two or more colours “in every conceivable form” ... does not exhibit the qualities of precision and uniformity required by Art.2 of the

³²³ *Dastar Corporation v. Twentieth Century Fox Film Corporation, et al.*, 539 U.S. 23, 37 (2003)

³²⁴ *Elizabeth Florence Emanuel v. Continental Shelf 128 Ltd* (C-259/04) [2006] E.T.M.R. 56, 773

³²⁵ Judgment of 11 July 1997, Supreme Court, 96 Hu 2173

³²⁶ Judgment of 13 February 1998, Supreme Court, 97 Hu 938

³²⁷ The Supreme Court, however, held in the signature of Picasso case that the use of the signature of Picasso as a trade mark contravened morality within the meaning of article 7(1)(iv) of the Korean Trade Mark Act since it was liable to harm the reputation of Picasso and impair the love and esteem of the family to the late Picasso. *See* Judgment of 21 April 2000, Supreme Court, 97 Hu 860, 877, 884

Directive.’³²⁸ In *Dyson*, the ECJ found that the totality of conceivable shapes of a transparent collecting bin of a vacuum cleaner was a mere property of a product and thus did not constitute a trade mark within the meaning of article 2.³²⁹

Second, the functionality doctrine, which precludes an exclusive right over functional product features, delimits the scope of the information function. Despite the de facto information function of functional features, these features are not protected as trade marks on the grounds of competition and other intellectual property systems. Protection of functional features as trade marks would lead to an unfair advantage for trade mark owners.

Third, trade marks which consist solely of generic terms or descriptive signs are regarded as not being capable of fulfilling the information function unless they acquire secondary meaning. If not, only trade mark owners can efficiently convey information on their products, deterring competitors from offering information on competitors’ products. As a result, existing competitors could not compete fairly with trade mark owners, and new comers would not enter a product market. Consumers could not purchase what they want based on sufficient information acquired at a low cost.

Finally, where trade marks directly impart misleading information, they are not protectable since this information does not help consumers to make well-informed choices. Conversely, trade marks interfere with consumers’ reasonable decisions by deteriorating information. Trade mark law prevents this anti-competitive function in relation to registration.

b) Differentiation Function

Trade marks serve to enable producers to differentiate their products from those of others and consumers to distinguish between products, to form a preference for certain trade marked products, and to make purchasing decisions, based on the information conveyed by the marks. This inter-mark function can be called ‘the differentiation function.’ The differentiation function covers the distinguishing function and part of the advertising and investment functions.

³²⁸ *Heidelberger Bauchemie GmbH* (C-49/02) [2004] E.T.M.R. 99, 1313

³²⁹ *Dyson Ltd v. Registrar of Trade Marks* (C-321/03) [2007] Bus. L.R. 787, 811-812

US courts mentioned the differentiation function in some cases without suggesting specific meanings. In the *International Order of Job's Daughters*, the Ninth Circuit stated that trade mark protection is necessary “to protect consumers against deceptive designations of the origin of goods and, conversely, to enable producers to differentiate their products from those of others,” refuting broader protection in *Boston Hockey*.

The differentiation function is not the same as the distinguishing function in that it relates also to the formation of consumer preference for certain trade marked products. According to the theory of consumer choice, consumers make choices based on two key factors: their budget constraint and preference.³³⁰ Consumer preference that usually triggers repeat purchases means consumers’ strong or habitual positive assessment or feelings, based on the utility of products, as to certain products over other products.³³¹ In this context, trade marks do not just enable consumers to distinguish between products; they also play a key role in creating consumer preference by facilitating consumers’ comparison of the product quality and brand image of one company with those of others. Trade mark owners aim at maximising their profits by creating consumer preference for their products over other products, beyond just showing that their products are different from others. After all, trade marks perform the differentiation function not only at the stage of consumers’ making purchasing decisions but also at the stage of consumers’ forming or altering preferences.

The differentiation function differentiates ‘between products’ in owners’ markets. Even though this differentiation results from the distinction between sources or sponsors, the ultimate subject of the differentiation function is not sources or sponsors, much less trade marks in and of themselves. For example, where a computer manufacturer and a shoe maker use an identical trade mark, the trade mark fixed on computers serves to differentiate between computers and the same trade mark used on shoes helps to differentiate between shoes. Use of the same trade mark neither aims at distinguishing between trade marks nor between the computer manufacturer and the shoe maker. Thus, it is not quite accurate to

³³⁰ Mankiw and Taylor, *supra* note 145, at 438-465

³³¹ Eric Goldman used the concept of “consumer goodwill.” *See* Goldman, *supra* note 121, at 558 (suggesting its definition as “a consumer’s aggregated positive feelings towards the trademark owner’s products that may facilitate subsequent transactions with the trademark owner.”)

say that trade marks perform the function of distinguishing between sources.

Like the information function, the scope of the differentiation function should be restricted by fair and efficient competition. The subject-matter of trade marks, functionality, and other provisions which delimit the scope of the information function also concern that of the differentiation function because the differentiation function is based on the information function.

(3) Protectable Functions and Product Markets

Whether the scope of protectable trade mark functions is limited to trade mark owners' markets or extends to users' product markets is significant for the justification and scope of trade mark protection, particularly in the case of non-competing use. If it is interpreted that trade marks perform their functions only in competing product markets, third party use in non-competing product markets could only indirectly affect these functions; additional explanation as to direct harm to them would be necessary. On the other hand, if it is accepted that the functions reach non-competing product markets, third party use in these markets could directly harm the functions and this harm would justify trade mark protection.

Here it is argued that trade marks convey information as to the position of product quality and brand image 'in owners' markets' and enable producers to differentiate their products from those of competitors and consumers 'in these markets' to distinguish between products. Additionally, trade mark functions can reach the markets of products that can replace owners' products. This is because product quality and brand image in owners' markets can satisfy consumers in substitute product markets by offering similar utility or satisfying similar desires. For example, trade marks for instant coffee enable roasted coffee consumers to make choices even between roasted coffee and instant coffee by conveying information on the quality and brand image of their instant coffee. Roasted coffee consumers, who believe that the trade marked instant coffee can satisfy them more than roasted coffee, will shift their preference or purchasing decision from roasted coffee to the trade marked instant coffee. Thus, roasted coffee makers would establish appropriate marketing strategies in the light of trade mark

functions in an instant coffee market.

Trade marks, however, cannot function in non-competing product markets unless trade mark owners strongly show their intent to enter these markets by, for instance, acquiring trade mark registration that is linked with subsequent use. Even where non-competing products are related to owners' products because both products are often used together in a complementary way, trade mark functions do not extend to the non-competing products because owners' products cannot be interchanged with these non-competing products. For example, the information and differentiation functions of trade marks for instant coffee would not have any impact on consumer choice between coffee syrup and instant coffee since the utility given by coffee syrup is not similar to that by instant coffee.

Also in the case of famous marks, their functions do not extend beyond competing product markets to non-competing product markets. First, the strong information and differentiation functions of famous marks in competing product markets are the result of trade mark owners' investment, but also the consequence of consumers' imbuing trade marks with images.³³² Some US courts asserted this point. In *Toyota*, the Ninth Circuit held that "[a] large expenditure of money does not in itself create legally protectable rights."³³³ Thus, trade mark functions should not expand to non-competing product markets on the ground of owners' investment. Second, the images of famous marks play a different role outside competing product markets. Famous marks do not show the position of brand image of 'owners' products' in non-competing product markets. They just connote brand images separated from 'owners' products' or function as a concept that contributes to the creation of new meanings. The connotation of brand images independent of owners' products and the creation of new words, however, do not fall within the scope of the information and differentiation functions. Third, the fact that trade marks become well-known to consumers in other markets does not mean that owners of famous marks intend to enter all other product markets in the near future or that the owners' markets are broadened to include all other

³³² Litman, *supra* note 236, at 1734 (arguing that "[t]he building of a brand that becomes its own product is a collaborative undertaking; the investment of both dollars and imagination flows both ways.")

³³³ *Toyota Motor Sales, U.S.A., Inc. v. Tabari*, 610 F.3d 1171, 1180 (9th Cir. 2010)

markets. It just indicates that famous marks perform their functions so powerfully in owners' markets that the functions in these markets are well recognised by consumers in other markets. Only where unfair use of famous marks is likely to lead to the malfunction of famous marks in owners' markets or competing product markets and thus harm to competition in these markets, the use should be prohibited.

3. Conclusion

As a starting point of a virtuous cycle in the application of trade mark law, I suggest a catalyst: the ultimate purpose of trade mark protection should be 'fair and efficient competition.' Trade mark law reaches and can reach this purpose by way of protecting pro-competitive trade mark functions; not all trade mark functions deserve protection. Thus, I submit that trade mark law aims at fostering and maintaining fair and efficient competition by means of protecting pro-competitive trade mark functions against unfair use of trade marks.

This thesis suggests that the information and differentiation functions are pro-competitive. The information function is the function of concisely conveying to consumers information as to the position of product quality and brand image. Trade marks also perform the differentiation function which enables producers to differentiate their products from those of others and consumers to distinguish between products, to form a preference for certain trade marked products, and to make purchasing decisions, based on the information conveyed by the marks.

The scope of information in the information and differentiation functions is limited to information on, or in connection with, the position of product quality and brand image. Moreover, trade marks fulfil these pro-competitive functions in owners' markets and competing product markets. This is also the case with famous trade marks. Thus, trade mark law should prevent third party use only where it is likely to impair the functions in these markets.

Protectable trade mark functions in paid search marketing are the same as those of trade marks used in offline contexts. Only pro-competitive functions can be protected against third party use of trade marks as keywords. Therefore, use of trade marks in online marketing should be protected neither less nor more than

other uses in an offline world. Trade mark liability should be examined in this vein.

In this respect, it does not appear to be desirable to introduce theories which treat trade mark use in paid search marketing in a different way from other uses in determining trade mark liability. For example, the fact that search engines enable consumers to retrieve information more quickly and easily alone should not be the rationale for not preventing third parties from using trade marks as keywords. The initial interest confusion theory, if it applies only to use of trade marks on the Internet, should not be permitted.

Beyond its role as a starting point of the virtuous cycle, fair and efficient competition plays a core part in the cycle since it also concerns free speech standards. It determines the absence or existence of substantial or compelling societal interests which is a main factor of the standards.

Part II. Direct Trade Mark Liability

Chapter 4: Trade Mark Jurisprudence with regard to Paid Search Marketing

This chapter analyses the jurisprudence of US federal courts, the ECJ, and Korean courts in relation to trade mark use in paid search marketing. The analysis is made according to regions and according to the liability of advertisers and search engines in order to explore how courts balance between the rights and interests of all relevant parties. This chapter shows that courts are split because factual contexts and their evaluation, or the interpretation of essentially very similar legal provisions are different. In the USA where there is no decision of the Supreme Court on paid search marketing cases, federal courts have disparate approaches whilst applying the same law.

1. US Federal Courts

US federal courts have not taken a common position as to the trade mark liability of advertisers and search engines: they diverge. Some courts favour trade mark protection, employing a more loose interpretation of likelihood of confusion or likelihood of dilution rather than following the trade mark use doctrine. Other courts, which do not find advertisers or search engines liable, argue for the trade mark use theory, the high degree of consumer attention, and broad defences.

1) Liability of Advertisers

Court decisions on use of trade marks in metatags or as terms to trigger pop-up or banner advertisements contribute to the understanding of their position in paid search marketing. Because of the similarity of the ‘mechanics’ behind the two types of cases, federal courts have cited these decisions in determining liability of advertisers or search engines in paid search marketing. Particularly, conducive are court decisions on use of trade marks in metatags, since many

advertisers have used trade marks both in metatags and paid search marketing³³⁴ and all these cases have occurred between trade mark owners and third party advertisers.

Federal courts that focused their analysis on the existence of likelihood of confusion did not construe the use requirement as meaning ‘use as trade marks.’ In *North American Medical*, the Eleventh Circuit ruled that Axiom’s use of North American Medical’s trade marks as metatags constituted use in commerce in connection with the sale or advertising of products under the plain meaning of the language of the Lanham Act.³³⁵ The Circuit additionally pointed out that lack of the display of trade marks is relevant in assessing the presence of likelihood of confusion, not the existence of ‘use in commerce.’³³⁶

Likewise, in *Edina Realty*, a district court in the Eighth Circuit regarded ‘the purchase of trade marked keywords’ as constituting use in commerce based on the plain meaning of the Lanham Act.³³⁷ A district court in the First Circuit also concluded in *Hearts on Fire* that an advertiser’s purchase of a trade mark as a keyword to trigger its advertisement constituted ‘use’ within the meaning of the Lanham Act on the grounds of “the Lanham Act’s language and the broader purposes of the trademark statute.”³³⁸ In particular, the court observed that the text, for instance, ‘Web search results for hearts on fire,’ prominently displayed above the search results in response to an online user’s search for the ‘hearts on fire’ trade mark, constituted ‘displays associated’ within the meaning of the Lanham Act’s definitions section.³³⁹

Some courts found ‘use in commerce,’ stressing that consumers can perceive use of trade marks as keywords. A district court in the Third Circuit held

³³⁴ *Australian Gold, Inc. v. Hatfield*, 436 F.3d 1228 (10th Cir.2006); *J.G. Wentworth, S.S.C. Ltd. v. Settlement Funding LLC*, 2007 WL 30115 (E.D.Pa.2007); *Site Pro-1, Inc v. Better Metal, LLC*, 506 F.Supp.2d 123 (E.D.N.Y. 2007); *FragranceNet.com, Inc. v. FragranceX.com, Inc.*, 493 F.Supp.2d 545 (E.D.N.Y. 2007); *S&L Vitamins Inc. v. Australian Gold Inc.*, 521 F.Supp.2d 188 (E.D.N.Y. 2007); *Designer Skin, LLC v. S&L Vitamins, Inc.*, 560 F.Supp.2d 811 (D.Ariz.2008)

³³⁵ *North American Medical Corp. v. Axiom Worldwide, Inc.*, 522 F.3d 1211, 1218-1220 (11th Cir. 2008)

³³⁶ *Id.* at 1219-1220

³³⁷ *Edina Realty, Inc. v. TheMLSOnline.com*, 80 U.S.P.Q.2d 1039, 3 (D. Minn. 2006) (In this case, Edina Realty argued for the existence of a visual element on the ground that a search term typed in by consumers remained in the tool bar above the results.); *see also Hysitron Inc. v. MTS Systems Corp.*, 2008 WL 3161969, 3 (D. Minn. 2008)

³³⁸ *Hearts on Fire Company LLC. v. Blue Nile, Inc.*, 603 F. Supp. 2d 274, 282-283 (D. Mass. 2009)

³³⁹ *Id.* at 282

in *J.G. Wentworth* that the defendant “crossed the line from internal use to use in commerce under the Lanham Act” since it created an opportunity to “reach consumers via alleged purchase and/or use of a protected trademark.”³⁴⁰ The court distinguished this case from the *WhenU.com* line of cases in that those cases did not relate to ‘the purchase’ of trade marks and concerned use of ‘domain addresses’ in the defendant’s database.³⁴¹

Moreover, the decision of the Second Circuit in *Rescuecom* caused a large majority of federal courts to regard use of trade marks in paid search marketing as constituting use in commerce. In *Network Automation*, the Ninth Circuit agreed with the Second Circuit, admitting that the Ninth Circuit had assumed previously, “without expressly deciding,” that use of trade marks as keywords is use in commerce under the Lanham Act.³⁴²

As to the interpretation of likelihood of confusion, many courts, which found advertisers liable for use of trade marks in metatags, interpreted the concept broadly by adopting an initial interest confusion theory. In *Brookfield Communications*, a case about use of a trade mark both in a metatag and a domain name, the Ninth Circuit concluded that an advertiser’s use of the trade mark in a metatag was inadmissible on the ground of the existence of initial interest confusion, comparing use of a trade mark to putting up a billboard on a highway.³⁴³ It denied likelihood of confusion because the entry of “*MovieBuff*” into a search box could bring up a list which embraced both *West Coast*’s and *Brookfield*’s websites and the domain name of *West Coast*’s website, ‘*westcoastvideo.com*,’ would not cause consumer confusion.³⁴⁴ The Circuit, however, found initial interest confusion in the sense that “*West Coast* improperly benefits from the goodwill that *Brookfield* developed in its mark.”³⁴⁵ It also stressed the stronger possibility of confusion in an online world than in an offline world in its decision about use of a trade mark in a domain name.³⁴⁶ In another

³⁴⁰ *J.G. Wentworth, S.S.C. Ltd. v. Settlement Funding LLC*, 2007 WL 30115, 6 (E.D.Pa. 2007)

³⁴¹ *Id.* at 5

³⁴² *Network Automation, Inc. v. Advanced Systems Concepts, Inc.*, 2011 WL 815806, 4 (C.A.9(Cal.))

³⁴³ *Brookfield Commc’ns, Inc. v. West Coast Entm’t Corp.*, 174 F.3d 1036, 1062-1064 (9th Cir. 1999)

³⁴⁴ *Id.* at 1062

³⁴⁵ *Id.*

³⁴⁶ *Id.* at 1057 (holding that since it takes little efforts to visit a website in the online context,

metatag case, *Promatek Industries*, the Seventh Circuit decided that the degree of consumer care could create a likelihood of initial consumer confusion, adopting the test in *Brookfield Communications*.³⁴⁷

Likelihood of confusion was also broadly construed by federal courts in determining advertisers' liability for use of trade marks as keywords. In *Australian Gold*, after assessing the presence of initial interest confusion according to the six-prong likelihood of confusion test, the Tenth Circuit concluded that consumer confusion was likely.³⁴⁸ The Circuit explained three kinds of damage to trade marks that initial interest confusion causes: "(1) the original diversion of the prospective customer's interest to a source that he or she erroneously believes is authorized; (2) the potential consequent effect of that diversion on the customer's ultimate decision whether to purchase caused by an erroneous impression that two sources of a product may be associated; and (3) the initial credibility that the would-be buyer may accord to the infringer's products-customer consideration that otherwise may be unwarranted and that may be built on the strength of the protected mark, reputation and goodwill."³⁴⁹

In some keyword cases, federal courts further expanded the scope of likely confusion by combining initial interest confusion with the so-called internet troika. In *Perfumebay.com*, the Ninth Circuit ruled that there was actionable initial interest confusion on the ground that the similarity of marks, the marketing channel utilised, and the similarity of products weighed against *Perfumebay*.³⁵⁰ In *Storus*, a district court in the Ninth Circuit also found initial interest confusion to be likely on the ground of the internet trilogy.³⁵¹

Although not limiting consumer confusion to point-of-sale confusion, some courts required more than mere diversion of consumer attention in order for confusion to be likely in metatag or keyword cases. This strictness did not mean that advertisers' use of trade marks was beyond the reach of trade mark protection. Although denying mere diversion, courts found advertisers responsible. In

internet users are more likely to be confused as to the ownership of a site than the ownership of a bricks-and-mortar store.)

³⁴⁷ *Promatek Industries, Ltd. v. Equitrac Corp.*, 300 F.3d 808, 812-813 (7th Cir. 2002)

³⁴⁸ *Australian Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1238-1240 (10th Cir. 2006)

³⁴⁹ *Id.* at 1239

³⁵⁰ *Perfumebay.com Inc. v. eBay, Inc.*, 506 F.3d 1165, 1174-1176 (9th Cir. 2007)

³⁵¹ *Storus Corp. v. Aroa Marketing, Inc.*, 2008 WL 449835, 3-5 (N.D.Ca. 2008)

Venture Tape, the First Circuit concluded that metatags and invisible background text on the website incorporating trade marks caused a likelihood of confusion, after conducting the eight part Pignons analysis.³⁵² Without mentioning initial interest confusion, the First Circuit implied that “strong circumstantial evidence of pre-sale confusion was sufficient to sustain summary judgment for the plaintiff.”³⁵³ In *Hearts on Fire*, a district court in the First Circuit also asserted that likelihood of confusion should be based on the eight-part test and “what the consumer saw on the screen and reasonably believed, given the context,” stating that “[m]ere diversion, without any hint of confusion, is not enough.”³⁵⁴

In some cases, courts, which held advertisers liable for confusion, also found them liable for dilution. In *Perfumebay.com*, the Ninth Circuit concluded that use of *Perfumebay*’s marks was likely to dilute the uniqueness of eBay’s mark, stating that “consumers [might] no longer associate the usage of the “Bay” suffix with eBay’s unique services, specifically the sale of products on an internet-based marketplace.”³⁵⁵ The Circuit, however, did not discuss sufficiently why use of *Perfumebay*’s marks could lead to this disassociation.

On the other hand, other courts deny advertisers’ liability for their use of trade marks in metatags or as keywords by following the trade mark use doctrine, strictly interpreting likelihood of confusion, admitting the higher level of consumer care, or accepting broad defences.

Courts in the Second Circuit denied advertisers’ liability on the ground that use of trade marks as metatags or keywords did not constitute ‘use’ within the meaning of the Lanham Act before the Second Circuit’ decision in *Rescuecom*.³⁵⁶ In *Merck*, a district court in the Second Circuit ruled that defendants’ purchase of the ‘ZOCOR’ marks as keywords did not constitute infringing use of trade marks because “defendants [did] not ‘place’ the ZOCOR marks on any goods or containers or displays or associated documents, nor [did] they use them in any way to indicate source or sponsorship” and that “the ZOCOR mark [was] ‘used’ only in the sense that a computer user’s search of the keyword ‘Zocor’ [would]

³⁵² *Venture Tape Corp. v. McGills Glass Warehouse*, 540 F.3d 56, 62 (1st Cir. 2008); *see also* *Pignons S.A. de Mecanique de Precision v. Polaroid Corp.*, 657 F.2d 482, 487 (1st Cir. 1981)

³⁵³ *Hearts on Fire Company LLC. v. Blue Nile, Inc.*, 603 F. Supp. 2d 274, n. 11 (D. Mass. 2009)

³⁵⁴ *Id.* at 286-289

³⁵⁵ *Perfumebay.com*, 506 F.3d at 1181

³⁵⁶ *Rescuecom Corp. v. Google, Inc.*, 562 F. 3d 123 (2d Cir. 2009)

trigger the display of sponsored links to defendants' websites."³⁵⁷ The court further asserted that this internal use was analogous to an individual's private thoughts about a trade mark, citing pop-up advertisement cases which occurred between trade mark proprietors and an online marketing company.³⁵⁸ The court also emphasised that "there [was] nothing improper with defendants' purchase of sponsored links to their websites" since Zocor products manufactured by the plaintiff Merck's Canadian affiliates was sold on defendants' websites.³⁵⁹

In Site Pro-1, a district court in the Second Circuit also held that Better Metal's use of Site Pro-1's trade mark in a metatag and as a keyword did not constitute use of trade marks within the meaning of the Lanham Act because Better Metal did not place plaintiff's SITE PRO 1® trade mark on any goods, displays, containers, or advertisements and did not use the trade mark in any way that indicated source or origin.³⁶⁰ The district court reached the same conclusion in *FragranceNet.com*, agreeing with the reasoning of the courts in *Merck* and *Site Pro-1*.³⁶¹

Moreover, the district court concluded that there was no use of trade marks even where trade marks appeared in advertisements on a SERP. In *S&L Vitamins*, S&L Vitamins made use of Australian Gold's 'Australian Gold' and 'Swedish Beauty' marks in metatags and as keywords.³⁶² S&L Vitamins also used these marks in its advertisement displayed on the website of a search engine.³⁶³ In this case, the district court held that S&L Vitamins did not use trade marks in the trade mark sense because it really sold the trade marked products on its website.³⁶⁴

Some courts, without following the trade mark use doctrine, denied advertisers' liability on the ground that consumer confusion was not likely. In *Standard Process*, a district court in the Seventh Circuit found no likelihood of confusion in Dr. Banks's use of Standard Process's trade mark in a metatag,

³⁵⁷ *Merck & Co., Inc. v. Mediplan Health Consulting, Inc.*, 425 F. Supp. 2d 402, 415-416 (S.D.N.Y. 2006)

³⁵⁸ *Id.* at 415

³⁵⁹ *Id.* at 416

³⁶⁰ *Site Pro-1, Inc v. Better Metal, LLC*, 506 F.Supp.2d 123, 127 (E.D.N.Y. 2007)

³⁶¹ *FragranceNet.com, Inc. v. FragranceX.com, Inc.*, 493 F.Supp.2d 545, 555 (E.D.N.Y. 2007)

³⁶² *S&L Vitamins Inc. v. Australian Gold Inc.*, 521 F.Supp.2d 188, 197 (E.D.N.Y. 2007)

³⁶³ *Id.* at 201

³⁶⁴ *Id.* at 201-202

reasoning that search engines no longer used metatags as indicators of relevancy in the algorithms of ranking websites and consumers could purchase unaltered SP Products on Dr. Banks's website.³⁶⁵ Interestingly, the latter reasoning was employed in S&L Vitamins to suggest that no trade mark use was made.

A district court in the Ninth Circuit also concluded in Designer Skin that S&L Vitamins' use of Designer Skin's trade mark in metatags and as keywords did not generate initial interest confusion because the use was for the purpose of describing the content of S&L Vitamins' websites.³⁶⁶ This district court considered the Tenth Circuit's finding in Australian Gold to be unpersuasive.³⁶⁷

Another court interpreted initial interest confusion narrowly to reject a plaintiff's likelihood of confusion claim, emphasising that consumers were not "taken by a search engine" to the defendant's website.³⁶⁸ In J.G. Wentworth, a district court in the Third Circuit found no likelihood of confusion in use of trade marked keywords because i) a link which was displayed in response to the entry of a trade mark was "one of many choices", ii) links were independent and distinct on SERPs, and iii) advertisements and links did not include trade marks.³⁶⁹

Moreover, in a recent keyword case, the level of consumer care together with the labelling and position of paid results played a significant role in finding no likelihood of confusion. In Network Automation, the Ninth Circuit ruled that initial interest confusion was not likely because the default degree of consumer care rose and advertisements were displayed under the separate title of 'sponsored links,' holding that the internet troika is not proper for keyword cases.³⁷⁰

Defences were interpreted more broadly among courts that did not find advertisers liable, compared to courts that held them liable. In Brookfield Communications, the Ninth Circuit did not accept a fair use defence in use of trade marks as metatags because i) the descriptive term meaning 'a motion picture enthusiast' was not 'MovieBuff' but 'Movie Buff' and ii) MovieBuff was not

³⁶⁵ Standard Process, Inc. v. Banks, 554 F. Supp. 2d 866, 871 (E.D.Wis. 2008)

³⁶⁶ Designer Skin, LLC v. S&L Vitamins, Inc., 560 F.Supp.2d 811, 819-820 (D.Ariz. 2008)

³⁶⁷ Id. at 820

³⁶⁸ J.G. Wentworth, S.S.C. Ltd. v. Settlement Funding LLC, 2007 WL 30115, 7 (E.D.Pa. 2007)

³⁶⁹ Id.

³⁷⁰ Network Automation, Inc. v. Advanced Systems Concepts, Inc., 2011 WL 815806, 7-13 (C.A.9(Cal.))

used to indicate Brookfield's products, but to describe West Coast's products and to divert consumer attention to West Coast's website.³⁷¹ The same Circuit, however, concluded in *Playboy* that Welles's inclusion of trade marked terms 'playboy' and 'playmate' in metatags was permissible fair use because these terms "accurately describe[d] the contents of Welles' website, in addition to describing Welles."³⁷²

A district court in the Ninth Circuit also applied a nominative fair use defence to a keyword case. The court held that S&L Vitamins' use of Designer Skin's trade marks in its metatags and as keywords could be defended by the nominative fair use defence to dilution-based liability, on the grounds that the use was intended to "accurately identify the contents of its websites" and satisfied the three-part test for nominative fair use.³⁷³

Similarly, in *Tiffany (NJ)*, after the decision in *Rescuecom*, the Second Circuit concluded that the use of Tiffany's mark on eBay's website and in sponsored links did not amount to direct trade mark infringement on the basis of nominative fair use, stating that "eBay used the mark to describe accurately the genuine Tiffany goods offered for sale on its website" and that "none of eBay's uses of the mark suggested that Tiffany affiliated itself with eBay or endorsed the sale of its products through eBay's website."³⁷⁴

In sum, US court decisions are split as to advertisers' liability for use of trade marks in metatags and as keywords on the basis of the different evaluation of factual contexts and the disparate interpretation of requirements for and exceptions from trade mark liability. This inconsistency cannot ensure the predictability that both trade mark owners and advertisers would desire.

2) Liability of Search Engines

Trade mark disputes in paid search marketing have also arisen between trade mark owners and search engines. Like their attitudes towards advertisers' liability in metatags and keyword cases between trade mark proprietors and

³⁷¹ *Brookfield Commc'ns, Inc. v. West Coast Entm't Corp.*, 174 F.3d 1036, 1066 (9th Cir. 1999)

³⁷² *Playboy Enterprises, Inc. v. Welles*, 279 F.3d 796, 803-804 (9th Cir. 2002)

³⁷³ *Designer Skin, LLC v. S&L Vitamins, Inc.*, 560 F.Supp.2d 811, 820-821 (D.Ariz. 2008)

³⁷⁴ *Tiffany (NJ), Inc. v. eBay Inc.*, 600 F.3d 93, 102-103 (2d Cir. 2010)

advertisers, US courts have not had a common position as to search engines' liability. While some courts regarded search engines' use as constituting actionable use or further found liability based on confusion, others did not hold search engines liable. Court positions on search engines' liability in paid search marketing are closely related to those on search engines' use of trade marks as keywords in pop-up or banner advertising.

Some federal courts found that search engines' use was actionable. In *GEICO I*, a district court in the Fourth Circuit decided that the sale of a trade mark as a keyword constituted 'use of a trade mark', taking into account the inclusion of the mark in advertisements and Google's overall control of its advertising programme.³⁷⁵ In *GEICO II*, however, the court did not find a likelihood of confusion stemming from the sale, holding that there was a likelihood of confusion only with regard to sponsored links that included GEICO's trade mark in their headings or text.³⁷⁶

In *800-JR Cigar*,³⁷⁷ a district court in the Third Circuit additionally considered the location of paid search results and search engines' recommendation of trade marks to advertisers in determining whether there was an actionable trade mark use. It held that GoTo.com made use of the JR marks by accepting bids from advertisers, ranking paid advertisers before any "natural" listings in a search results list, and recommending a keyword through the Search Term Suggestion Tool.³⁷⁸ The court, however, did not conclude whether confusion was likely on the ground that many factors were in dispute.³⁷⁹

In *Rescuecom*, the Second Circuit also regarded the recommendation as a use in commerce, holding that "Google display[ed], offer[ed], and s[old] Rescuecom's mark to Google's advertising customers when selling its advertising services" and that "Google encourage[d] the purchase of Rescuecom's mark through its Keyword Suggestion Tool."³⁸⁰ The Circuit distinguished this case from *1-800 Contacts* in that i) a search term in *1-800 Contacts* alleged to trigger pop-up advertisements was not the plaintiff's trade mark, but its website address,

³⁷⁵ *Government Employees Ins. Co. v. Google, Inc.*, 330 F.Supp.2d 700, 703-704 (E.D.Va. 2004)

³⁷⁶ *Government Employees Ins. Co. v. Google, Inc.*, 2005 WL 1903128, 7 (E.D.Va. 2005)

³⁷⁷ *800-JR Cigar, Inc. v. GoTo.com, Inc.*, 437 F.Supp.2d 273, 285 (D.N.J. 2006)

³⁷⁸ *Id.* at 285

³⁷⁹ *Id.* at 292

³⁸⁰ *Rescuecom Corp. v. Google, Inc.*, 562 F.3d 123, 129 (2d Cir. 2009)

and ii) advertisers could not request or purchase keywords from the defendant to cause their advertisements to appear.³⁸¹ Moreover, it suggested that use of a trade mark in an internal software programme could constitute trade mark use and cause confusion, commenting that the previous decisions of courts in the Second Circuit³⁸² “over-read” 1-800.³⁸³

In *Rosetta Stone*, the Fourth Circuit even regarded a search engine’s trade mark policy as its use of trade marks, concluding that summary judgment on a trade mark infringement claim was not warranted.³⁸⁴ The Circuit held that it assumed that “Google’s policy permitting advertisers to use Rosetta Stone’s marks as keywords in the AdWords program and to use Rosetta Stone’s marks in the text of advertisements constituted an unauthorized use “in commerce” and “in connection with the sale, offering for sale, distribution, or advertising of any goods or services.”³⁸⁵

Several courts further held that search engines’ use generated actionable likelihood of confusion. Regarding banner advertisements, in *Playboy*, the Ninth Circuit found a search engine liable without explicitly discussing the trade mark use issue.³⁸⁶ The court held that a majority of factors favoured likelihood of initial interest confusion and thus a genuine issue of material fact existed as to the likelihood of confusion resulting from Netscape’ use of PEI’s marks.³⁸⁷ In particular, the Circuit acknowledged that consumer care for materials with an adult-oriented and graphic nature is expected to be so low that consumers are “easily diverted from a specific product he or she is seeking if other options, particularly graphic ones, appear more quickly.”³⁸⁸

Similarly, in a keyword case, *American Blind & Wallpaper*, a district court in the Ninth Circuit ruled that Google’s sale of American Blind’s mark as a

³⁸¹ *Id.* at 128-129

³⁸² *Merck & Co., Inc. v. Mediplan Health Consulting, Inc.*, 425 F.Supp.2d 402, 415 (S.D.N.Y. 2006); *S&L Vitamins, Inc. v. Australian Gold, Inc.*, 521 F.Supp.2d 188, 199-202 (E.D.N.Y. 2007)

³⁸³ *Rescuecom*, 562 F.3d at 129-131

³⁸⁴ *Rosetta Stone Ltd. v. Google, Inc.*, 2012 WL 1155143, 4 (C.A.4(Va.))

³⁸⁵ *Id.*

³⁸⁶ *Playboy Enterprises, Inc. v. Netscape Communications, Inc.*, 354 F.3d 1020, 1024 (9th Cir. 2004) (asserting that “[n]o dispute exists regarding the other requirements set forth by the statute: PEI clearly holds the marks in question and defendants used the marks in commerce without PEI’s permission.”)

³⁸⁷ *Id.* at 1029

³⁸⁸ *Id.* at 1028

keyword in the AdWords programme constituted use in commerce for the purpose of the Lanham Act³⁸⁹ and that the sale caused a likelihood of confusion in spite of Google's argument that "actions of participants in AdWords should not be treated as actions of Google."³⁹⁰ In this case, the court presumed a low degree of consumer care without analysing the price or nature of products and regarded Google's intent to maximise profits as contributing to the existence of likelihood of confusion.³⁹¹

Moreover, courts that found search engines liable appeared to interpret defences strictly. In *Playboy*, the Ninth Circuit did not accept fair use, nominative fair use, and functional use defences, on the grounds that i) "a fair use may not be a confusing use," ii) "[Netscape] could use other words, besides PEI's marks, to trigger adult-oriented banner advertisements" and thus could not satisfy the first requirement of nominative use, and iii) "[n]othing about the marks used to identify PEI's products [wa]s a functional part of the design of those products."³⁹²

In contrast, other courts have not found search engines liable, based on the trade mark use doctrine, the functionality doctrine, and the broad interpretation of defences. District courts in the Fourth and the Sixth Circuits, and the Second Circuit³⁹³ adopted the trade mark use doctrine in a series of *WhenU.com* cases about pop-up advertisements. In *U-Haul*, a district court in the Fourth Circuit found that use of a trade mark in a pop-up advertisement was not use in commerce because i) the pop up advertisement appeared in a window, separate and distinct from the window where the U-Haul website was displayed, ii) the mere fact that "trademarks [were] simultaneously visible to a consumer" did not establish 'use,' iii) *WhenU*'s incorporation of U-Haul's URL and 'U-Haul' in the directory was only a use for the "pure machine-linking function" and *WhenU* did not sell or display the U-Haul URL or the word 'U-Haul' to computer users, and iv) the *SaveNow* programme was installed by internet users, so it did not hinder their access to U-Haul's website "in such a manner that *WhenU* [used]

³⁸⁹ *Google Inc. v. American Blind & Wallpaper*, 2007 WL 1159950, 6 (N.D. Cal. 2007)

³⁹⁰ *Id.* at 8-9

³⁹¹ *Id.* at 9

³⁹² *Playboy Enterprises*, 354 F.3d at 1029-1031

³⁹³ *U-Haul Int'l, Inc., v. WhenU.com, Inc.*, 279 F. Supp.2d 723 (E.D. Va. 2003); *Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F. Supp.2d 734 (E.D. Mich. 2003); *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400 (2d Cir. 2005)

U-Haul's trademarks."³⁹⁴ The court, however, did not address a likelihood of confusion issue.

In *Wells Fargo*, a district court in the Sixth Circuit decided that there was no use in commerce on similar grounds.³⁹⁵ It also held that the confusion requirement was not satisfied because i) users of WhenU's software SaveNow got used to receiving advertisements provided by WhenU, ii) WhenU indicated that advertisements came from it, and iii) advertisements were displayed in a separate window.³⁹⁶

By contrast, in *1-800 Contacts*, a district court in the Second Circuit held that WhenU.com used the trade mark i) by triggering the appearance of pop-up advertisements in response to users' attempt to access 1-800 Contacts' website, and ii) by involving 1-800 Contacts' URL, a version of the trade mark, in the WhenU.com directory.³⁹⁷ It also admitted both source confusion and initial interest confusion.³⁹⁸

This decision was remanded by the Second Circuit. It found that the inclusion of 1-800's website address in the directory did not constitute use in commerce since i) WhenU did not "place" 1-800's trade mark on products in order to confuse consumers as to source, ii) the input, by computer users, of the trade mark could not trigger pop-up advertisements, and iii) WhenU neither unveiled the directory nor sold specific keywords to advertisers.³⁹⁹ It asserted that "internal utilization of a trademark in a way that does not communicate it to the public" is similar to "an individual's private thoughts about a trademark."⁴⁰⁰ Moreover, the Second Circuit found that not only the internal use but also triggering pop-up advertisements was not use in commerce since i) pop-up advertisements appeared in a separate window and did not include the 1-800 trade mark, ii) they did not appear in response to 1-800's trade mark, the trade mark's appearance on 1-800's website, or the mark's similarity to 1-800's website address, and iii) WhenU did not sell keyword trade marks or otherwise

³⁹⁴ *U-Haul Int'l*, 279 F. Supp.2d at 727-729

³⁹⁵ *Wells Fargo & Co.*, 293 F. Supp.2d at 744-749

³⁹⁶ *Id.* at 749-751

³⁹⁷ *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 309 F.Supp.2d 467, 489-490 (S.D.N.Y. 2003)

³⁹⁸ *Id.* at 504

³⁹⁹ *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400, 408-409 (2d Cir. 2005)

⁴⁰⁰ *Id.* at 409

manipulate the display of advertisements.⁴⁰¹ The Court also mentioned likelihood of confusion briefly in a footnote, finding that a confusion claim was doubtful, given the fact that SaveNow users received various WhenU pop-up advertisements “in varying contexts and for a broad range of products.”⁴⁰²

In *Rescuecom*, a district court in the Second Circuit used similar reasoning, holding that there was no confusion-based or dilution-based liability on the ground of non-trade mark use.⁴⁰³ As was mentioned before, on appeal, this decision was vacated by the Second Circuit.⁴⁰⁴

After the Second Circuit’s decision in *Rescuecom*, the *Rosetta Stone* court in the Fourth Circuit raised an issue of functionality doctrine,⁴⁰⁵ which had been already addressed in *Playboy*, following the opposite direction. The court held that Google’ use did not constitute trade mark infringement since keywords had an essential indexing function by which Google identified in its databases relevant information in response to a query.⁴⁰⁶ The court even mentioned that “the keywords affect the cost and quality of Google’s AdWords program because absent third party advertisers’ ability to bid on trade marked terms as keyword triggers, Google would be required to create an alternative system for displaying paid advertisements on its website—a system which is potentially more costly and less effective in generating relevant advertisements.”⁴⁰⁷ Here the focus was on the internal functionality of the keywords for the search engine rather than the functional nature of the name itself.

Moreover, the *Rosetta Stone* court adopted the trade mark use doctrine based on a fair use defence in determining dilution-based liability, finding that Google was not responsible for trade mark dilution “[a]bsent proof that Google use[d] the *Rosetta Stone* Marks to identify its *own* goods and services.”⁴⁰⁸ The district court also denied a likelihood of confusion claim on the basis of Google’s intent, lack of proving actual confusion, and consumer sophistication.⁴⁰⁹ In

⁴⁰¹ Id. at 409-412

⁴⁰² Id. at n. 14

⁴⁰³ *Rescuecom Corp. v. Google, Inc.*, 456 F.Supp.2d 393, 400-404 (N.D.N.Y. 2006)

⁴⁰⁴ *Rescuecom Corp. v. Google, Inc.*, 562 F. 3d 123 (2d Cir. 2009)

⁴⁰⁵ *Rosetta Stone Ltd. v. Google, Inc.*, 2010 WL 3063152 (E.D.Va. 2010)

⁴⁰⁶ Id. at 546

⁴⁰⁷ Id.

⁴⁰⁸ Id. at 550-551

⁴⁰⁹ Id. at 540-545

particular, the court found that consumers were capable of distinguishing between paid search results and natural results, considering that products were expensive and consumers were well-educated.⁴¹⁰ The district court's conclusion as to the functionality doctrine, the trade mark use theory, and likelihood of confusion was remanded by the Fourth Circuit.⁴¹¹

On the whole, US courts treated search engines' liability diversely. They evaluated contexts differently and applied the different interpretation of the Lanham Act to paid search marketing cases.

2. ECJ

The ECJ has attempted to provide consistent guidance as to the liability of advertisers and search engines in paid search marketing since its first decision in the Google joined cases: it found the possibility of advertisers' liability, while denying search engines' responsibility.

Several recent cases were brought before the ECJ. Among them are the Google joined cases including *Google France v. Louis Vuitton Malletier*, *Google France v. Viaticum*, and *Google France v. CNRRH* ("Google joined cases"),⁴¹² *BergSpechte*,⁴¹³ *Portakabin*,⁴¹⁴ *L'Oréal*,⁴¹⁵ and *Interflora*.⁴¹⁶

1) Liability of Advertisers

In the Google joined cases, Advocate General Maduro distinguished advertisers' selection of keywords from the display of an advertisement because consumers in the former were advertisers while internet users constituted consumers in the latter.⁴¹⁷ Based on this distinction, the Advocate General rejected advertisers' liability on the ground that the selection was just private, not

⁴¹⁰ *Id.* at 545

⁴¹¹ *Rosetta Stone Ltd. v. Google, Inc.*, 2012 WL 1155143 (C.A.4(Va.))

⁴¹² *Google France v. Louis Vuitton Malletier* (Joined Cases C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30

⁴¹³ *Die BergSpechte Outdoor Reisen und Alpinschule Edi Koblmüller GmbH v. Günter Guni, trekking.at Reisen GmbH* (C-278/08) [2010] E.T.M.R. 33

⁴¹⁴ *Portakabin Ltd and Portakabin BV v. Primakabin BV* (C-558/08) [2010] E.T.M.R. 52

⁴¹⁵ *L'Oréal SA v. eBay International AG* (C-324/09) [2011] E.T.M.R. 52

⁴¹⁶ *Interflora Inc v. Marks & Spencer Plc* (C-323/09) [2012] E.T.M.R. 1

⁴¹⁷ *Google France*, [2010] E.T.M.R. 30 at 537-538

“a commercial activity with a view to gain.”⁴¹⁸ He also reasoned that if such selection was regarded as infringing a trade mark right, it could result in the prevention of all legitimate uses such as purely descriptive use and comparative advertising.⁴¹⁹

The ECJ, however, held in favour of trade mark proprietors, ruling that they could prohibit advertisers from advertising under article 5(1)(a) of the EU Trade Mark Directive. According to the ECJ, advertisers’ selection of keywords constituted ‘use in the course of trade’ since trade marks selected as keywords were the means to trigger the display of advertisements.⁴²⁰ The court also regarded such selection as constituting use ‘in relation to goods or services,’ on the grounds that a list of the types of use prescribed in article 5(3) of the EU Trade Mark Directive and article 9(2) of the Community Trade Mark Regulation was not exhaustive, and advertisers intended to offer their products to internet users as an alternative to trade mark proprietors’ products or sought to confuse them as to origin.⁴²¹

Moreover, the ECJ found that the selection could have an adverse effect on the function of indicating origin even where trade marks are not used in advertisements. Where the text of advertisements implies an economic link between trade mark proprietors and advertisers, “the conclusion must be that there is an adverse effect on the function of indicating origin.”⁴²² Even where advertisements, without suggesting such an economic link, are equivocal on the origin of products, the conclusion must be the same if “normally informed and reasonably attentive internet users are unable to determine, on the basis of the advertising link and the commercial message attached thereto, whether the advertiser is a third party vis-à-vis the proprietor of the trade mark or, on the contrary, economically linked to that proprietor.”⁴²³ The Court also emphasised the importance of contexts, stating that in a situation where advertisements appear in response to the entry of trade marks as keywords and at the same time the trade marked keywords remain on screens, “internet user[s] may err as to the origin of

⁴¹⁸ Id.

⁴¹⁹ Id.

⁴²⁰ Id. at 550-551

⁴²¹ Id. at 552-553

⁴²² Id. at 555

⁴²³ Id. at 556

the goods or services in question” and advertisers’ use of trade marks “is liable to create the impression that there is a material link in the course of trade between the goods or services in question and the proprietor[s] of the trade mark[s].”⁴²⁴

By contrast, the Court found that the advertising function was not likely to be adversely affected because the display of home and advertising pages of trade mark owners in a list of natural results meant the visibility of proprietors’ products, irrespective of the display in paid results.⁴²⁵ As to dilution, the ECJ stated that the taking of unfair advantage was relevant “where advertisers on the internet offer[ed] for sale, through the use of signs identical with reputable trade marks such as “Louis Vuitton” or “Vuitton,” goods which [were] imitations of the goods of the proprietor of those marks,” citing its previous decision in L’Oréal.⁴²⁶

Right after the decision in the Google joined cases,⁴²⁷ the ECJ designed a similar path on another paid search marketing case, BergSpechte. In this case, article 5(1)(b) was also discussed because the keyword ‘Edi Koblmüller’ was not identical with BergSpechte’s Austrian figurative and word mark. The ECJ concluded that there was use in the course of trade, reasoning that the selected keyword was the means to trigger the display of advertisements and that the mark was used in relation to goods or services, regardless of the inclusion of the mark in the advertisements on a SERP.⁴²⁸ The ECJ also emphasised the manner in which advertisements were displayed in determining the effect on the origin function of the mark for the purpose of article 5(1)(a). With regard to likelihood of confusion under article 5(1)(b), the ECJ made a similar decision as it did as to the effect on the function of indicating source.⁴²⁹ Unlike its decision in the Google joined cases, the ECJ did not make a judgment about a search engine’s liability since the search engine was not a party in this case.

The Portakabin case concerns the resale of used products. Primakabin sold and leased new and used mobile buildings, including used units

⁴²⁴ Id. at 555

⁴²⁵ Id. at 556-557

⁴²⁶ Id. at 557-558

⁴²⁷ The decision in the Google joined cases was made two days before the decision in BergSpechte.

⁴²⁸ Die BergSpechte Outdoor Reisen und Alpinschule Edi Koblmüller GmbH v. Günter Guni, trekking.at Reisen GmbH (C-278/08) [2010] E.T.M.R. 33, 597

⁴²⁹ Id. at 599

manufactured by Portakabin.⁴³⁰ Primakabin replaced Portakabin's trade mark fixed on used Portakabin products with its own in some instances.⁴³¹ For the purpose of marketing, Primakabin purchased from Google the keywords "portakabin", "portacabin", "portokabin" and "portocabin" which were identical with, or similar to, Portakabin's Benelux trade mark PORTAKABIN.⁴³² The heading of Primakabin's advertisement displayed on a SERP was altered from "new and used units" to "used portakabins."⁴³³ Because of Primakabin's resale of Portakabin's products, this case concerned not only article 5 but also articles 6 and 7 of the EU Trade Mark Directive.

As to article 5, the ECJ reached the same conclusion: where a third party's advertisement on a SERP suggests an economic link between the third party and the proprietor of a trade mark, or where the advertisement only shows, without suggesting an economic link, the origin of products so vaguely that normally informed and reasonably attentive internet users are unable to determine the origin, the trade mark's origin function would be likely to be adversely affected or consumer confusion would be likely.⁴³⁴

At the same time, the ECJ, in principle, did not admit defences under articles 6(1)(b) and (c) by linking the interpretation of 'honest practices' to the standard for the adverse effect on trade mark functions and likelihood of confusion. The Court found that, "in general," an advertiser's use of a trade mark as a keyword, which is liable to be prohibited in accordance with article 5, cannot be regarded as an action "in accordance with honest practices in industrial or commercial matters," and thus it cannot constitute the exception under article 6(1).⁴³⁵

Moreover, the ECJ also stated that the circumstances in which use of a trade mark as a keyword is prevented under article 5 of the Directive "correspond to a situation in which art.7(2) of that directive applies," giving guidance to the

⁴³⁰ Portakabin Ltd and Portakabin BV v. Primakabin BV (C-558/08) [2010] E.T.M.R. 52, 937

⁴³¹ Id. at 931

⁴³² Id. at 937

⁴³³ Id.

⁴³⁴ Id. at 941, 943

⁴³⁵ Id. at 944-946. In *Gerolsteiner Brunnen*, on the other hand, the ECJ stated that likelihood of confusion can coexist with honest practices. See *Gerolsteiner Brunnen GmbH & Co v. Putsch GmbH* (C-100/02) [2004] E.T.M.R. 40, 560, 564

national court as regards this case.⁴³⁶ It held that the national court cannot find a legitimate reason only because an advertiser uses another person's trade mark with additional wording such as used or second-hand, and therefore the use cannot be prohibited.⁴³⁷ Nevertheless, the ECJ suggested that the national court should find a legitimate reason within the meaning of article 7(2) where the trade mark PORTAKABIN had been eliminated from used mobile buildings and replaced with the word 'Primakabin'.⁴³⁸

The L'Oréal case is about online marketplace operator eBay's use of keywords corresponding to L'Oréal's trade marks. In this case, Advocate General Jääskinen opined that eBay's selection and purchase of L'Oréal's trade marks constituted 'use as trade marks' in that it used the trade marks to distinguish between the products that were traded on eBay's marketplace and those that were not, or to offer an alternative source of the same products bearing L'Oréal's trade marks regarding L'Oréal's distribution network.⁴³⁹ On the other hand, he stated that the use would not adversely affect the origin and advertising functions of the trade marks.⁴⁴⁰ He added that possible problems arising from market participants' conduct could not be attributed to the marketplace operator unless national law provides for indirect liability.⁴⁴¹

The ECJ, admitting the peculiarities of this case, stated that only insofar as eBay used keywords corresponding to L'Oréal's trade marks "to promote its customer-sellers' offers for sale of goods bearing those marks," the use was made for products identical with L'Oréal's products.⁴⁴² As to eBay's liability, however, the ECJ basically took the same position as that in the Google joined cases, BergSpechte, and Portakabin, finding that a trade mark proprietor can prevent an online marketplace operator from promoting products bearing a trade mark through use of the trade mark as a keyword, "where that advertising does not enable reasonably well-informed and reasonably observant internet users, or enables them only with difficulty, to ascertain whether the goods concerned

⁴³⁶ Id. at 946-950

⁴³⁷ Id.

⁴³⁸ Id.

⁴³⁹ L'Oréal SA v. eBay International AG (C-324/09) [2011] E.T.M.R. 52, 1002-1003

⁴⁴⁰ Id. at 1003-1005

⁴⁴¹ Id. at 1005

⁴⁴² Id. at 1034

originate from the proprietor of the trade mark or from an undertaking economically linked to that proprietor or, on the contrary, originate from a third party.”⁴⁴³

Advocate General Jääskinen again gave the opinion in *Interflora*, a conflict between Marks & Spencer (“M&S”) and *Interflora*.⁴⁴⁴ M&S purchased ‘interflora,’ modifications of ‘interflora’ with ‘minor errors,’ and expressions including ‘interflora’ as keywords.⁴⁴⁵ As a result internet users’ entry of one of them as a search term into the Google search engine triggered the display of M&S’s advertisement under the heading ‘sponsored links,’ but the advertisement did not contain the word ‘interflora.’⁴⁴⁶ The Advocate General suggested in this case that where an advertisement does not include a trade mark, the likelihood of an adverse effect on the origin function under article 5(1)(a) hinges on “the nature of goods and services” protected by the trade mark, considering both “the scope of protection registered for the trade mark” and “the meaning and repute the trade mark has acquired through use in the minds of the relevant sector of the public.”⁴⁴⁷ He concluded that there is an adverse effect on the origin function when a competitor’s display of an advertisement on a SERP is liable to cause consumers to believe that the competitor is “a member of the trade mark proprietor’s commercial network.”⁴⁴⁸

Advocate General Jääskinen, however, did not support a dilution-based liability for M&S under article 5(2), focusing on the content of advertisements. Dilution by blurring in the sense of degeneration was not likely to occur because the trade mark INTERFLORA was not used as a generic term in M&S’s advertisement.⁴⁴⁹ Moreover, the likelihood of tarnishment could not arise since M&S’s products did not possess a characteristic or a quality which could affect the image of INTERFLORA negatively.⁴⁵⁰ There was no dilution by free-riding because M&S’s selection of keywords suggested “a marketing message that they

⁴⁴³ Id. at 1035

⁴⁴⁴ *Interflora Inc v. Marks & Spencer Plc* (C-323/09) [2012] E.T.M.R. 1

⁴⁴⁵ Id. at 13

⁴⁴⁶ Id.

⁴⁴⁷ Id. at 16

⁴⁴⁸ Id. at 18

⁴⁴⁹ Id. at 26-27

⁴⁵⁰ Id. at 27

offer an alternative to Interflora,” which constituted ‘due cause’.⁴⁵¹

In this case, the ECJ mentioned the impact on the investment function. It found that the investment function is likely to be adversely affected “if [an advertiser’s use] substantially interferes with the proprietor’s use of its trade mark to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty.”⁴⁵² On the other hand, it stated that both the facts that “the only consequence of [the advertisers’] use is to oblige the proprietor of that trade mark to adapt its efforts to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty” and that “[the advertisers’] use may prompt some consumers to switch” from trade marked products cannot adversely affect the investment function.⁴⁵³

Moreover, the ECJ admitted the possibility of blurring in the sense of degeneration, diverging from the opinion of Advocate General Jääskinen. The Court found that blurring would be likely “if the advertising did not enable the reasonably well-informed and reasonably observant internet user to tell that the service promoted by M&S is independent from that of Interflora and if Interflora were to seek a finding that M&S has also caused detriment to the distinctive character of the INTERFLORA trade mark by contributing to turning it into a generic term.”⁴⁵⁴ As to unfair advantage, the ECJ considered the advantage acquired by third party selection of a famous mark as a keyword to be unfair because such a selection was made for the purpose of obtaining “a real advantage from the distinctive character and repute of the trade mark” “without paying any financial compensation” to the proprietor of the famous mark.⁴⁵⁵ The Court, however, held that the taking of unfair advantage could not be found where the selection was not intended to offer the imitations of the proprietor’s products, but just to provide an alternative to them.⁴⁵⁶ It reasoned that the selection constituted ‘due cause’ within the meaning of the Directive and the Regulation.⁴⁵⁷

⁴⁵¹ Id. at 28-30

⁴⁵² Id. at 41-42

⁴⁵³ Id.

⁴⁵⁴ Id. at 45

⁴⁵⁵ Id. at 45-46

⁴⁵⁶ Id. at 46

⁴⁵⁷ Id.

2) Liability of Search Engines

At both the Advocate General and the ECJ level, little discussion was made on search engines' liability, compared to the discussion on advertisers' liability.

In the Google joined cases, Advocate General Maduro distinguished between Google's permission for advertisers to select trade marks as keywords and Google's display of advertisements in response to the entry of keywords because of their differences in the timing of occurrence, target consumers, and relevant products.⁴⁵⁸ Based on this distinction, the Advocate General denied Google's responsibility for the permission because "AdWords [wa]s not identical or similar to any of the goods or services covered by the trade marks" and thus it did not amount to use 'in relation to goods or services.'⁴⁵⁹ The Advocate General also denied Google's liability for the display, on the ground that the display did not affect trade mark functions.⁴⁶⁰ The Advocate General found no adverse effect on the origin function, reasoning that internet users would assess the origin of products "on the basis of the content of the ad and by visiting the advertised sites."⁴⁶¹ Other functions were also regarded as not being adversely affected because the interests of trade mark proprietors did not outweigh consumer benefits to obtain the information that did not cause confusion.⁴⁶²

On the other hand, the ECJ did not find Google liable for both confusion and dilution, on the ground that the creation of the technical conditions necessary for use of a sign and the receipt of the payment for that service did not constitute 'use of trade marks.'⁴⁶³

3. Korean Courts

⁴⁵⁸ Google France v. Louis Vuitton Malletier (Joined Cases C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30, 521

⁴⁵⁹ Id. at 523

⁴⁶⁰ Id. at 526-531

⁴⁶¹ Id. at 527

⁴⁶² Id. at 528-531

⁴⁶³ Id. at 551, 558

Although there is only one decision of the Supreme Court of Korea as to trade mark use in paid search marketing, a number of other relevant decisions are conducive to the understanding of the Court's future position.

The Supreme Court of Korea has consistently construed 'use of trade marks' as meaning 'use as trade marks' based on the fact that only use as trade marks can infringe trade mark rights,⁴⁶⁴ or additionally that use of marks for the purpose of trade mark infringement should fall under the acts defined in article 2(1)(vi) of the Trade Mark Act.⁴⁶⁵ The Court, however, has explained neither why trade mark infringement can arise only from use as trade marks nor why article 2(1)(vi) of the Act also applies to trade mark liability.

Moreover, the notion of 'use as trade marks' has been interpreted in terms of the origin function. Trade marks should be used to indicate the origin of products. In determining this, the Court has considered factors such as the relation of marks to products, the form of their use (the location and size of marks used on products), their fame, and users' intent.⁴⁶⁶ Therefore, 'use of trade marks' hinges on the factual context in which marks are employed.

In Pachulpaksa, a case about Korean keyword domain names,⁴⁶⁷ the registrant of the Korean keyword domain name '파출박사'(pronounced 'pachulpaksa') linked this keyword to its website 'www.pachulpaksa.com' where it provided information about job opportunities;⁴⁶⁸ the entry of the keyword into the internet address bar of a web browser triggered the defendant's website.⁴⁶⁹ Against the defendant, the proprietor of the Korean service mark '파출박사'

⁴⁶⁴ Judgment of 14 February 1997, Supreme Court, 96 Do 1424; Judgment of 26 December 2000, Supreme Court, 98 Do 2743; Judgment of 11 April 2003, Supreme Court, 2002 Do 3445; Judgment of 13 June 2003, Supreme Court, 2001 Da 79068; Judgment of 7 October 2005, Supreme Court, 2004 Hu 1458; Judgment of 23 July 2009, Supreme Court, 2009 Do 310; Judgment of 29 March 2012, Supreme Court, 2010 Da 20044

⁴⁶⁵ Judgment of 12 October 2007, Supreme Court, 2007 Da 31174; Judgment of 25 August 2011, Supreme Court, 2010 Do 7088

⁴⁶⁶ Judgment of 29 March 2012, Supreme Court, 2010 Da 20044

⁴⁶⁷ A Korean keyword domain name system enables Korean speaking internet users to easily access to the websites with English domain names by entering a Korean keyword on address bar. This system called 'Native Language Internet Address Service' was devised by a Korean company 'Netpia' and can support languages of 95 countries according to Netpia.

⁴⁶⁸ Judgment of 12 October 2007, Supreme Court, 2007 Da 31174

⁴⁶⁹ Id. Korean keyword domain names in Pachulpaksa are more similar to domain names than to keywords in paid search marketing: i) the input of a keyword did not result in the display of a list of sponsored links or advertisements but the direct appearance of a website; ii) the same keyword could not be registered by more than one person or company; and iii) a search engine was not involved in use of trade marks.

(pronounced ‘pachulpaksa’) for employment agencies filed a suit, claiming that the registration and use of the Korean keyword domain name similar to the service mark amounted to ‘unfair competitive acts’ under the Korean Unfair Competition Act or an infringement on its trade mark right and hence the defendant should cancel the registration of the Korean keyword domain name.

In this case, the Seoul High Court found trade mark infringement, on the grounds that i) the keyword domain name was identical with the service mark, ii) the defendant used the keyword domain name as a service mark by providing job information on the website triggered by the Korean keyword domain name, and iii) the defendant’s service was identical with, or similar to, the service for which the service mark was registered.

This conclusion was reversed by the Supreme Court. The Court ruled that the registration and use of the Korean keyword domain name did not function as an indication of source because i) its original purpose was not to indicate source, ii) it did not appear in the internet address bar of the defendant’s website, unlike a general domain name, and iii) the defendant’s own mark was displayed on the left upper hand side of the defendant’s website, functioning as an indication of source. Similarly, the Supreme Court stated in ‘Jangsuondol’,⁴⁷⁰ and ‘Mahamall’,⁴⁷¹ cases that the determination as to whether use of a domain name constitutes use as a mark should rely on whether the domain name performs the origin and distinguishing functions in the light of the form of its use and the content of a user’s website to which it is linked.

The NHN case between an internet search engine and an online advertising company also concerns the interpretation of ‘use as trade marks.’⁴⁷² NHN Corporation operated a Korean internet portal and search engine ‘Naver,’ and Neoconsoft developed an online advertising system.⁴⁷³ According to this system, advertisements provided by Neoconsoft appeared to internet users who had downloaded the software of that system when they visited the Naver

⁴⁷⁰ Judgment of 25 September 2008, Supreme Court, 2006 Da 51577

⁴⁷¹ Judgment of 25 August 2011, Supreme Court, 2010 Do 7088

⁴⁷² Decision of 23 September 2008, Seoul High Court, 2008 Ra 618; Judgment of 22 October 2009, Seoul High Court, 2009 No 300; Decision of 25 August 2010, Supreme Court, 2008 Ma 1541; Judgment of 30 September 2010, Supreme Court, 2009 Do 12238

⁴⁷³ Id.

website.⁴⁷⁴ These advertisements were displayed on the margin of the website, blocked the display of advertisements offered by NHN, or were inserted between advertisements presented by NHN.⁴⁷⁵

The Seoul High Court construed ‘use’ as meaning ‘use in the manner that indicates origin’ on the ground that the purpose of the Korean Unfair Competition Act is to prohibit unfair competitive acts which could cause confusion as to source. Based on this interpretation, the Court held that there was no use and hence no unfair competitive act because Neoconsoft removed the possibility of confusion⁴⁷⁶ by, for example, indicating in the lower part of advertisements that ‘the content is offered by internet channel 21.’⁴⁷⁷ On the other hand, the High Court found Neoconsoft liable under the tort provision of the Civil Law, reasoning that Neoconsoft used NHN’s reputation and power of attracting consumers without NHN’s consent and would ride on the coat-tails of NHN’s long-standing efforts and investment.⁴⁷⁸ The Supreme Court found Neoconsoft’s liability of torts under article 750 of the Civil Law without determining whether there was use as a mark.⁴⁷⁹

In NHN concerning Neoconsoft’s criminal liability, the Seoul High Court denied the liability on the ground of non-trade mark use. The Court reasoned that i) Neoconsoft made use of a search engine Naver as space for advertising but it did not use NHN’s mark Naver to indicate its origin for the purpose of utilising the distinctiveness of the mark, that ii) users valued the content of information rather than suppliers of information, that iii) users, who had agreed with the installation of Neoconsoft’ software programme, generally recognised that Neoconsoft would present advertisements on the Naver’s website, and that iv) NHN itself did not have little recognition that it used the distinctiveness of its mark in doing its advertising business.⁴⁸⁰

The Supreme Court, however, reversed this decision, finding actionable

⁴⁷⁴ Id.

⁴⁷⁵ Id.

⁴⁷⁶ Decision of 23 September 2008, Seoul High Court, 2008 Ra 618

⁴⁷⁷ This is the previous name of Neoconsoft.

⁴⁷⁸ Decision of 23 September 2008, Seoul High Court, 2008 Ra 618

⁴⁷⁹ Decision of 25 August 2010, Supreme Court, 2008 Ma 1541

⁴⁸⁰ Judgment of 22 October 2009, Seoul High Court, 2009 No 300

use and likelihood of confusion.⁴⁸¹ According to the Court, the facts that Neoconsoft' advertisements did not have outlines and that there was no indication of source in the advertisements led to the conclusion that Neoconsoft used NHN's mark and generated confusion by offering Neoconsoft' advertisements in the form integrated with Naver's display.⁴⁸² This reasoning can be understood as meaning that context can show 'use as marks' even where there is no use in advertisements themselves.

In a recent paid search marketing case, the issue was whether third party use of trade marks in the title of paid search results constituted 'use as trade marks.' In VSP, the defendant purchased 'VSP' as a keyword which was identical with the Plaintiff's registered trade mark for voltage surge protectors, voltage stabilisers, and circuit breakers.⁴⁸³ Thus, when internet users input 'VSP' into a search box, the defendant's advertisement, including its title 'VSP 엔티씨' (hereinafter referred to as 'VSP NTC'), for surge protectors, voltage sag protectors, and lightening protection systems was displayed on the screen.⁴⁸⁴ The Korean Patent Court found no trade mark use, on the grounds that VSP NTC constituted only links that connect the defendant's advertisement to its website, and that VSP was not used on its website.⁴⁸⁵ The Supreme Court of Korea, however, concluded that the use of VSP NTC satisfied trade mark use requirement, reasoning that the use constituted an act of using a trade mark on advertisements under article 2(1)(vi)(c) of the Korean Trade Mark Act, and thus VSP NTC indicated the source of products.⁴⁸⁶ The finding that the use amounted to advertising was based on the text of an advertisement and the structure of paid search marketing that links an advertisement to the defendant's website.⁴⁸⁷ The Court added that the fact that VSP was not used on the defendant's website was just a situation that occurred after VSP NTC was used as a trade mark on the screen.⁴⁸⁸

⁴⁸¹ Judgment of 30 September 2010, Supreme Court, 2009 Do 12238

⁴⁸² Id.

⁴⁸³ Judgment of 24 May 2012, Supreme Court, 2010 Hu 3073

⁴⁸⁴ Id.

⁴⁸⁵ Judgment of 15 September 2010, Patent Court, 2010 Heo 3271

⁴⁸⁶ Judgment of 24 May 2012, Supreme Court, 2010 Hu 3073

⁴⁸⁷ Id.

⁴⁸⁸ Id.

Despite this decision, the position of the Court as to invisible use of trade marks is still uncertain. This case concerns only trade marks included visibly in advertisements. The Court never mentioned the invisible use of trade marks. Moreover, no keyword case between proprietors and search engines has been brought before the Supreme Court of Korea and thus the Court's precise attitude towards search engines' use cannot be predicted.

4. Comparative Perspective

1) Liability of Advertisers

In paid search marketing, some US courts have protected trade mark owners' interests rather than third party users'. They have sought to expand the scope of trade mark protection by widely recognising as actionable contexts where trade marks are used and by broadly interpreting liability requirements.

They regarded the context which computer users could not perceive as part of 'contexts in which trade marks were used.' Advertisers' purchase of trade marked keywords from search engines occurs prior to internet users' search for trade marks. Without any clear information on the purchase, computer users cannot be aware of advertisers' purchase. The users can only feel that trade marks were somehow used in search engines' programmes since the marks trigger advertisements some of which do not include the marks. Nevertheless, the purchase was considered use of trade marks in direct connection with advertisers' product market. Some courts even stressed 'the purchase' to show that consumers could perceive advertisers' use as trade marks.⁴⁸⁹ The purchase should have been deemed to be use of trade marks in a different product market that did not directly affect internet users' perception.

Moreover, courts readily accepted likelihood of confusion by introducing initial interest confusion or the internet troika in keyword cases. By admitting initial interest confusion, some courts found confusion based solely on the diversion of consumer attention. The troika resulted in the shift in the burden of

⁴⁸⁹ J.G. Wentworth, S.S.C. Ltd. v. Settlement Funding LLC, 2007 WL 30115, 6 (E.D.Pa. 2007)

proving confusion. The Ninth Circuit even combined these two in some cases.⁴⁹⁰ At the same time, this court found dilution-based liability.⁴⁹¹

On the other hand, other US courts have sought to limit the expansion of trade mark protection, by taking into account indirectly relevant contexts, strictly construing conditions for liability, and broadly interpreting defences.

First, courts held that the purchase did not satisfy the use requirement, interpreting the requirement as ‘use as trade marks.’⁴⁹² The sale of trade mark owners’ products on advertisers’ websites was also considered a factor to deny ‘use as marks.’⁴⁹³

Second, courts did not find confusion on the grounds of indirectly relevant contexts,⁴⁹⁴ the high degree of consumer care,⁴⁹⁵ or the partition between natural and paid search results.⁴⁹⁶ A district court in the Ninth Circuit denied confusion because use as keywords was intended to describe ‘the content of advertisers’ websites.’⁴⁹⁷ The Ninth Circuit, which did not find confusion, reasoned that the default degree of consumer care in online commerce was “becoming heightened” and advertisements appeared in the section labelled ‘sponsored links.’⁴⁹⁸

Third, advertisers’ intention of identifying the content of advertisers’ websites via use as keywords was also used as evidence for nominative fair use. In *Tiffany (NJ)*, the Second Circuit accepted a nominative fair use defence, on the ground that the use aimed at accurately describing products offered for sale on eBay’s website.⁴⁹⁹

Compared to US courts, the ECJ appears to have sought a balance between trade mark owners and advertisers by assessing the effect on the

⁴⁹⁰ *Perfumbay.com Inc. v. eBay, Inc.*, 506 F.3d 1165, 1174-1176 (9th Cir. 2007)

⁴⁹¹ *Id.* at 1180-1182

⁴⁹² *Merck & Co., Inc. v. Mediplan Health Consulting, Inc.*, 425 F. Supp. 2d 402, 415-416 (S.D.N.Y. 2006)

⁴⁹³ *Id.*; *S&L Vitamins Inc. v. Australian Gold Inc.*, 521 F.Supp.2d 188, 201-202 (E.D.N.Y. 2007)

⁴⁹⁴ *Designer Skin, LLC v. S&L Vitamins, Inc.*, 560 F.Supp.2d 811, 819-820 (D.Ariz. 2008)

⁴⁹⁵ *Network Automation, Inc. v. Advanced Systems Concepts, Inc.*, 2011 WL 815806, 11-12 (C.A.9(Cal.))

⁴⁹⁶ *Id.* at 13 (stressing that “[i]n the keyword advertising context the likelihood of confusion will ultimately turn on what the consumer saw on the screen and reasonably believed, given the context.”)

⁴⁹⁷ *Designer Skin*, 560 F.Supp.2d at 819-820

⁴⁹⁸ *Network Automation*, 2011 WL 815806 at 11-13

⁴⁹⁹ *Tiffany (NJ), Inc. v. eBay Inc.*, 600 F.3d 93, 102-103 (2d Cir. 2010)

essential function and consumer confusion based in principle on contexts that consumers could perceive on the screen. Even though it considered the selection and purchase to be an act of employing trade marks, it focused more on the selection than the purchase in the analysis of the use requirement. Moreover, the Court did not take into account ‘the content of advertisers’ websites’ in assessing use of marks, likelihood of confusion, and defences. Rather, it emphasised the manner in which advertisements were displayed and “the advertising link and the commercial message attached thereto” in assessing the effect on the essential function and confusion.⁵⁰⁰

Nevertheless, the balance found in the decisions of the ECJ is still uncertain. It tilts in favour of advertisers to the extent that the ECJ regards internet users as the only relevant consumers. The ECJ considered that “normally informed and reasonably attentive internet users” are relevant consumers.⁵⁰¹ This could heighten the default degree of consumer care for use of trade marks in an online world and hence help lower the likelihood of confusion.

Meanwhile, the ECJ tips the balance towards trade mark owners by broadly protecting trade mark functions in cases where trade marks and products at issue are identical (“double identity cases”) and directly connecting defences with the effect on trade mark functions and confusion. First, in double identity cases, the ECJ protected proprietors more strongly by admitting that third party use could adversely affect the investment function of trade marks, whether the trade marks were famous or not. Second, by applying the same test for the adverse effect on the origin function and confusion to the analysis of ‘honest practices,’ the ECJ did not accept fair use defences when the adverse effect or confusion had been established.⁵⁰²

The position of the Supreme Court of Korea is not yet certain. The Court could deny trade mark protection, on the ground that internal use cannot satisfy the use requirement. It could reach opposite conclusion, relying on the text of advertisements and other contexts resulting from the entry of keywords. Still, it

⁵⁰⁰ *Google France v. Louis Vuitton Malletier* (Joined Cases C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30, 555-556; *Die BergSpechte Outdoor Reisen und Alpenschule Edi Koblmüller GmbH v. Günter Guni, trekking.at Reisen GmbH* (C-278/08) [2010] E.T.M.R. 33, 599

⁵⁰¹ *Google France*, [2010] E.T.M.R. 30 at 556

⁵⁰² See supra note 435

can be suggested that the Supreme Court would not base a finding of non-use exclusively on the ground that use is invisible. And, probably, it would not consider the content of advertisers' websites to be a directly relevant context.

2) Liability of Search Engines

US courts were also split regarding search engines' liability. Some courts that accorded trade mark protection broadened the scope of search engines' use of trade marks in paid search marketing, including internal use in a software programme, the recommendation and sale of trade marked keywords,⁵⁰³ and even search engines' trade mark policy.⁵⁰⁴ In particular, the ranking of advertisements was taken into account in determining confusion.⁵⁰⁵ Internet users' degree of care was considered to be low.⁵⁰⁶ At the same time, they interpreted liability extensively but the limits of trade mark rights narrowly. Whilst accepting initial interest confusion, they did not construe the use requirement as meaning 'use as marks.'⁵⁰⁷ Likelihood of confusion was an important factor to deny a fair use defence.⁵⁰⁸

Other US courts, which did not find search engines liable, understood the scope and meaning of search engines' use in the opposite way. The recommendation of keywords and trade mark policy were not embraced in this scope. The use was considered to be for the purpose of "pure machine-linking function."⁵⁰⁹ Moreover, these courts adopted the trade mark use theory.⁵¹⁰ On the basis of this understanding and the trade mark use theory, they held that search engines' use did not meet the use requirement. This means that even if search engines actively participate in creating the text of advertisements, they would not bear trade mark liability. In this sense, these courts tilted the balance in

⁵⁰³ *Rescuecom Corp. v. Google, Inc.*, 562 F. 3d 123, 129-130 (2d Cir. 2009)

⁵⁰⁴ *Rosetta Stone Ltd. v. Google, Inc.*, 2012 WL 1155143, 4 (C.A.4(Va.))

⁵⁰⁵ *Rescuecom*, 562 F. 3d at 131

⁵⁰⁶ *Google Inc. v. American Blind & Wallpaper*, 2007 WL 1159950, 9 (N.D.Cal. 2007)

⁵⁰⁷ *Id.*

⁵⁰⁸ *Playboy Enterprises, Inc. v. Netscape Communications, Inc.*, 354 F.3d 1020, 1029-1031 (9th Cir. 2004)

⁵⁰⁹ *U-Haul Int'l, Inc., v. WhenU.com, Inc.*, 279 F. Supp.2d 723, 728 (E.D.Va. 2003)

⁵¹⁰ *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 309 F.Supp.2d 467, 489-490 (S.D.N.Y. 2003)

favour of search engines in paid search marketing cases between trade mark owners and search engines.

In *Rosetta Stone*, a district court in the Fourth Circuit also favoured search engines over trade mark owners by broadly interpreting the functional use doctrine, finding no likelihood of confusion, and following the trade mark use theory in determining dilution-based liability.⁵¹¹

The position of the ECJ is very similar to that of the US courts adopting the trade mark use theory: the ECJ favoured search engines over trade mark owners. The ECJ stated that search engines “[were] not involved in use in the course of trade” but in “creating the technical conditions necessary for [advertisers’] use.”⁵¹² Moreover, the ECJ understood search engines’ action in a passive sense. According to the ECJ, the sale of trade marked keywords was no more than an action of “being paid for” the creation of technical conditions.⁵¹³ The ECJ stressed search engines’ role “in the drafting of the commercial message which accompanie[d] the advertising link or in the establishment or selection of keywords” only in relation to the restriction of the liability of intermediary service providers set out in article 14 of Directive 2000/31 on electronic commerce.⁵¹⁴

It is not evident whether the Supreme Court of Korea would find that search engines’ use constitutes ‘use as marks.’ The ambivalence of US and European courts on this issue shows the difficulties the Court will face.

3) Conclusion

US federal courts, the ECJ, and the Supreme Court of Korea have adopted various positions as to the liability of advertisers and search engines. In the USA, some show too much favour towards trade mark protection while others the opposite. Given the fact that there is no consistency even within the same

⁵¹¹ *Rosetta Stone Ltd. v. Google, Inc.*, 2010 WL 3063152, 545-546 (E.D.Va. 2010)

⁵¹² *Google France v. Louis Vuitton Malletier* (Joined Cases C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30, 551

⁵¹³ *Id.*

⁵¹⁴ *Id.* at 559-560

circuit,⁵¹⁵ these disparate approaches among US courts are not just because the federal appeals system consists of 13 federal circuits; it is also because US jurisprudence as to use of trade marks in paid search marketing is in the process of development. Moreover, in recent keyword cases including *Tiffany*,⁵¹⁶ *College Network*,⁵¹⁷ and *Network Automation*,⁵¹⁸ federal circuits hardly found advertisers liable. Under this circumstance, the US Supreme Court would not find trade mark liability based solely on initial interest confusion or the internet troika even when it grants certiorari.

On the other hand, the balance between trade mark proprietors and advertisers in the ECJ remains unstable, although the ECJ appears to favour search engines. The ECJ favours advertisers' interests over proprietors' to the extent that it regards internet users as the only relevant consumers, whereas it supports the interests of proprietors rather than those of advertisers in that it protects broad trade mark functions in double identity cases and directly links defences with the effect on trade mark functions and confusion. In the meantime, the balance between trade mark proprietors and search engines tips towards search engines in that the ECJ emphasises the technical and passive nature of their action.

The Supreme Court of Korea, which has consistently interpreted 'use of trade marks' as 'use as trade marks,' has yet to clarify whether internal use of marks as keywords constitutes 'use as trade marks. It only decided that advertisers' use of trade marks in advertisements on SERPs amounts to use as trade marks even if trade marks are also employed as links between advertisements and websites.

This chapter showed that various balances, created by court decisions, between interested parties in paid search marketing stem from factual contexts and their different evaluation, or more importantly diverging interpretations of essentially very similar legal provisions. Thus, in order to find a balance between interested parties in this specific context, the interpretation of requirements for

⁵¹⁵ *Rescuecom Corp. v. Google, Inc.*, 562 F. 3d 123 (2d Cir. 2009); *Network Automation, Inc. v. Advanced Systems Concepts, Inc.*, 2011 WL 815806 (C.A.9(Cal.))

⁵¹⁶ *Tiffany (NJ), Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010)

⁵¹⁷ *College Network, Inc. v. Moore Educational Publishers, Inc.*, 378 Fed. Appx. 403 (5th Cir. 2010)

⁵¹⁸ *Network Automation*, 2011 WL 815806

and exceptions from trade mark liability needs to be explored based on fair and efficient competition and pro-competitive trade mark functions.

Chapter 5: Direct Liability in Paid Search Marketing

This chapter explores possible approaches as to requirements for and exceptions from trade mark liability in keyword cases. Then, as part of a virtuous cycle in applying trade mark law, I draw my own approach from the perspective of ‘fair and efficient competition by means of the protection of pro-competitive trade mark functions.’ It concludes with an analysis of the responsibility of advertisers and search engine providers.

1. Pro-competitive Trade Mark Functions and Trade Mark Liability

In chapter 3, this thesis suggested that the ultimate purpose of trade mark protection should be to promote fair and efficient competition and that trade mark law should pursue this purpose by means of protecting pro-competitive trade mark functions, the information and differentiation functions, against unfair use of trade marks.

On this basis, likely harm to pro-competitive functions should justify the prevention of third party use. Where third party use causes likelihood of confusion ‘in users’ product markets’ that could lead to harm of the information and differentiation functions of owners’ trade marks ‘in owners’ product markets,’ it should be prevented. Similarly, third party use should be prohibited when it creates likelihood of dilution that could harm these functions ‘in owners’ product markets.’ Where these functions are likely to be impaired, trade mark owners cannot efficiently compete on the basis of product quality and brand image since they cannot concisely convey information on the position of product quality and brand image that they want to deliver to consumers. Competitors cannot establish their marketing strategies based on the information that trade marks impart. Consumers cannot form or alter their preferences based on the identification of product quality and brand image; nor can they make rational purchasing decisions. Insofar as there is a probability that pro-competitive functions are damaged by third party use, this use should not be allowed.

At the same time, third party use that does not cause harm to pro-competitive functions should not be prohibited. For instance, use of others’ marks

can be permitted if it causes consumer confusion exclusively in relation to information that is beyond the scope of pro-competitive functions. There can be no likelihood of dilution by blurring or tarnishment where famous marks perform their strong functions despite the fact that third party use results in a delay or additional cognitive efforts in consumers' linking them with their owners' products.

Without the tool of 'likelihood of harm to pro-competitive trade mark functions in proprietors' product markets,' scholars and courts have adopted diverse interpretations on liability requirements and exceptions in relation to use of trade marks as keywords. These include the concepts of 'use of trade marks,' 'likelihood of confusion,' 'likelihood of dilution,' 'fair use,' 'nominative fair use,' and 'functional use.' I suggest here that they should be interpreted based on pro-competitive trade mark functions.

2. Various Interpretations

1) Use of Trade Marks

There have been heated debates on whether actionable use of trade marks should be limited to 'use as trade marks.' In the USA, the Second Circuit which had strongly argued for 'use as trade marks' changed its position in *Rescuecom*,⁵¹⁹ accepting that internal use can constitute use of trade marks. Nevertheless, there are still many in favour of so-called the trade mark use theory. Moreover, the ECJ found that a search engine's use did not constitute actionable use of trade marks, stressing the technical and passive nature of the use. Meanwhile, the Supreme Court of Korea has consistently interpreted the use requirement as meaning 'use as trade marks.'

(1) Use as Trade Marks

Proponents of the trade mark use doctrine construe 'use of trade marks' as 'use as trade marks,' on the grounds that i) requiring 'use as trade marks'

⁵¹⁹ *Rescuecom Corp. v. Google, Inc.*, 562 F. 3d 123 (2d Cir. 2009)

reduces consumer search costs by enabling consumers to access more relevant information,⁵²⁰ ii) it can eliminate threats to legitimate trade mark uses,⁵²¹ iii) it can strike and maintain a careful balance of competing interests,⁵²² iv) the confusion test is inappropriate for the settlement of modern trade mark disputes because of its circularity and reliance on facts,⁵²³ and v) the confusion test may impair competition.⁵²⁴

According to almost all commentators in favour of this doctrine, in paid search marketing, the internal use of trade marks and/or the sale of keywords do not constitute trade mark use in the context of trade mark liability.⁵²⁵ Thus, advertisers may be responsible solely for false advertising where the text of advertisements does not include owners' trade marks.⁵²⁶ Only where owners' trade marks are used in advertisements, they may assume trade mark liability.⁵²⁷ Moreover, search engines have nothing to do with direct trade mark liability. Only indirect trade mark liability concerns them.⁵²⁸ Looking at the relevant academic literature, there are several suggested rationales: i) there is no consumer

⁵²⁰ Dogan and Lemley, *supra* note 62, at 810-811

⁵²¹ Stacey L. Dogan and Mark A. Lemley, *Grounding Trademark Law through Trademark Use*, 92 *Iowa L. Rev.* 1669, 1690-1692 (2007)

⁵²² Margreth Barrett, *Internet Trademark Suits and the Demise of "Trademark Use,"* 39 *U.S. Davis L. Rev.* 371, 456-457 (2006) (hereinafter *Barret, the Demise of Trademark Use*) ; Margreth Barrett, *Trademarks and Digital Technologies: "Use" on the Net*, 13 *No. 11 J. Internet L.* 1, 20 (2010)

⁵²³ Dogan and Lemley, *supra* note 521, at 1693-1697 (emphasising the importance of this argument)

⁵²⁴ *Id.* at 1697-1698 (arguing that "[p]reventing intermediaries from communicating accurate information to consumers interested in that information, or stores or shopping malls from grouping competitive products together, does sufficient harm to a free market that we think society should be willing to tolerate even a substantial amount of confusion rather than countenance that harm.")

⁵²⁵ Dogan and Lemley, *supra* note 62, at 806-808; Barrett, *the Demise of Trademark Use*, *supra* note 522, at 454-456 (maintaining that "[a] search engine's hidden use of marks to accomplish this in the Internet context poses no threat to the effectiveness of marks to communicate to consumers information about the source, quality, or characteristics of the user's goods or services."); Widmaier, *supra* note 61, at 708 (arguing that "[t]here ought to be no liability for invisible keyword and metatag use of another's trademarks.")

⁵²⁶ Dogan and Lemley, *supra* note 62, at 821 (stressing that "[t]he appropriate cause of action in these circumstances may be a false advertising claim under Lanham Act § 43(a)(1)(B) rather than a claim for trademark infringement.")

⁵²⁷ *Id.* at 812, n. 140, and 821 (stating in a footnote that "[a]lthough the doctrine should also bar liability against advertisers who do no more than purchase keywords, courts may be more tempted to find their use a trademark use because the advertisers are using the trademark to call attention to their own products," and underscoring that "even if it is a trademark claim, it is the text of the ad, not the keyword, that causes confusion, and so it is the advertiser and not the intermediary who should be liable for that confusion.")

⁵²⁸ *Id.* at 812; Dogan, *supra* note 35, at 489

exposure to trade marks;⁵²⁹ ii) internet users do not expect that search engines return perfectly related search results;⁵³⁰ iii) consumers may input keywords to collect general information;⁵³¹ iv) other search results on the website reduce search costs by delivering information and thus promote competition;⁵³² and v) the prevention of internal use of trade marks as keywords will impair the development of search engine services.⁵³³

At least one proponent of the trade mark use theory, however, maintains that use as keywords satisfies the use requirement. The grounds are that i) consumers perceive keywords as identifying products, ii) search results are displayed by “the simple motion of a keystroke or the click of a mouse,” and iii) keywords entered by consumers remain on the websites of search engines.⁵³⁴

As regards trade mark use in pop-up advertisements, district courts in the Fourth⁵³⁵ and the Sixth⁵³⁶ Circuits and the Second Circuit⁵³⁷ adopted the trade mark use doctrine. District courts in the Second Circuit⁵³⁸ also took the same attitude towards use of trade marks in metatags and as keywords. In 2009, however, the Second Circuit changed its position in *Rescuecom*,⁵³⁹ admitting that actionable use of trade marks need not be limited to use as trade marks.

Although the ECJ did not construe ‘use of trade marks’ as meaning ‘use as trade marks,’ it found in the Google joined cases that Google’s use of trade marks did not constitute actionable use, on the ground that Google’s use was only the creation of the technical conditions necessary for the use of trade marks and the receipt of the payment for that service.⁵⁴⁰ The ECJ denied both confusion-

⁵²⁹ Barrett, *the Demise of Trademark Use*, supra note 522, at 454

⁵³⁰ Id.

⁵³¹ Goldman, supra note 121, at 583

⁵³² Dogan and Lemley, supra note 62, at 831

⁵³³ Barrett, *the Demise of Trademark Use*, supra note 522, at 455. (suggesting this argument with regard to metatags)

⁵³⁴ Macaw, supra note 29, at 47-48

⁵³⁵ *U-Haul Int'l, Inc., v. WhenU.com, Inc.*, 279 F. Supp.2d 723 (E.D.Va. 2003)

⁵³⁶ *Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F. Supp.2d 734 (E.D.Mich. 2003)

⁵³⁷ *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400 (2d Cir. 2005)

⁵³⁸ *Merck & Co., Inc. v. Mediplan Health Consulting, Inc.*, 425 F. Supp. 2d 402 (S.D.N.Y. 2006); *Hamzik v. Zale Corp.*, 2007 WL 1174863 (N.D.N.Y. 2007); *Site Pro-1, Inc v. Better Metal, LLC*, 506 F.Supp.2d 123 (E.D.N.Y. 2007); *FragranceNet.com, Inc. v. FragranceX.com, Inc.*, 493 F.Supp.2d 545 (E.D.N.Y. 2007); *S&L Vitamins Inc. v. Australian Gold Inc.*, 521 F.Supp.2d 188 (E.D.N.Y. 2007)

⁵³⁹ *Rescuecom Corp. v. Google, Inc.*, 562 F. 3d 123 (2d Cir. 2009)

⁵⁴⁰ *Google France v. Louis Vuitton Malletier* (Joined Cases C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30, 551

based and dilution-based liability on this ground.⁵⁴¹

On the other hand, the Supreme Court of Korea has interpreted ‘use of trade marks’ as ‘use of signs which indicate source of products and distinguish trade mark owners’ products from other products.’⁵⁴² In a keyword case where a trade mark is used in the title of an advertisement displayed on a SERP, the Supreme Court also stated that the use of VSP NTC satisfied the use requirement because VSP NTC was used as a trade mark which identified the source of products.⁵⁴³

(2) Use of Trade Marks

Those who argue against the trade mark use theory maintain that ‘use as trade marks’ should not be a prerequisite for trade mark liability.⁵⁴⁴ The grounds for the argument are that i) the use requirement would prevent trade mark law from controlling new fields such as keyword advertising, ii) the requirement will not boost the certainty that trade mark use theorists claim, and iii) it can interfere with the development of trade mark policy by categorising various non-infringing third party uses into non-trade mark use.⁵⁴⁵

As regards the first ground, they maintain that ‘non-use as trade marks’ can also cause likelihood of confusion even if it is admitted that use as trade marks is more likely to create consumer confusion.⁵⁴⁶ They also argue that allowing third party use of trade marks as keywords may increase search costs by generating information overload and forcing trade mark owners to purchase sponsored links keyed to their own trade marks.⁵⁴⁷ Moreover, according to them, the search cost theory which supports the trade mark use doctrine is not capable of explaining trade mark law comprehensively and prescriptively.⁵⁴⁸

Their second ground stems from the fact that the concept of ‘use as trade

⁵⁴¹ Id. at 557-558

⁵⁴² Judgment of 12 October 2007, Supreme Court, 2007 Da 31174

⁵⁴³ Judgment of 24 May 2012, Supreme Court, 2010 Hu 3073

⁵⁴⁴ Dinwoodie and Janis, *supra* note 65, at 1602-1603

⁵⁴⁵ Id. at 1606-1608

⁵⁴⁶ Id. at 1625-1628

⁵⁴⁷ Id. at 1629-1636

⁵⁴⁸ Id. at 1638-1639

marks' cannot be separated from consumer association.⁵⁴⁹

In relation to the third ground, they emphasise the significance of factual context, along with the core role of confusion and the development of defences which reflect various policies.⁵⁵⁰ Thus, according to them, the liability of advertisers and search engine providers for use of trade marks in paid search marketing hinges on the context in which trade marks are employed.⁵⁵¹

Almost all US federal courts⁵⁵² have not required use as trade marks for trade mark liability since the decision of the Second Circuit in *Rescuecom*,⁵⁵³ holding that advertisers' or search engines' use constitutes actionable use of trade marks.

(3) Functional 'Use as Trade Marks'

McKenna, like other trade mark use theorists, maintains that use as trade marks is required for trade mark liability because theoretically non-trade mark use cannot cause actionable consumer confusion under trade mark law.⁵⁵⁴ He argues that "[b]ecause the only uses that can cause source confusion are uses that in some way indicate source, the infringement provisions implicitly require trademark use in the functional sense."⁵⁵⁵

On the other hand, he puts much more emphasis on the functional meaning of 'use as trade marks.' Some proponents of the trade mark use doctrine argue that the notion of 'use as trade marks' does not rely on consumer understanding.⁵⁵⁶ Others construe the concept of 'use as trade marks'

⁵⁴⁹ Id. at 1641-1650

⁵⁵⁰ Id. at 1657-1662

⁵⁵¹ Id. at 1663

⁵⁵² In *Rosetta Stone*, a district court in the Fourth Circuit concluded that Google's use of the Rosetta Stone mark did not constitute actionable use of trade marks within the meaning of dilution-based liability. *See Rosetta Stone Ltd. v. Google, Inc.*, 730 F.Supp.2d 531, 551 (E.D.Va. 2010)

⁵⁵³ *Rescuecom Corp. v. Google, Inc.*, 562 F.3d 123 (2d Cir. 2009)

⁵⁵⁴ Mark McKenna, *Trademark Use and the Problem of Source*, 2009 U. Ill. L. Rev. 773, 800 (2009) McKenna cites McCarthy's statement, but McCarthy argues against the trade mark use theory. *See McCarthy*, supra note 28, § 23:11.50 (suggesting that use as trade marks "is not a separate element of plaintiff's case, but is only one aspect of the likelihood of confusion requirement for infringement.")

⁵⁵⁵ McKenna, supra note 554, at 797

⁵⁵⁶ Margreth Barrett, *Finding Trademark Use: The Historical Foundation for Limiting Infringement Liability to Use "in the Manner of a Mark"*, 43 Wake Forest L. Rev. 893, 963 (2008)

functionally by defining it as indicating the source or sponsorship of products,⁵⁵⁷ but they suggest that the evaluation of ‘use as trade marks’ depends on consumer perceptions “in some cases.”⁵⁵⁸ By contrast, McKenna maintains that trade mark use can be determined only in the light of consumer understanding.⁵⁵⁹ For this reason, he does not give much weight to the trade mark use requirement in limiting trade mark protection.⁵⁶⁰

According to this approach, search engines’ sale of trade marked keywords in paid search marketing does not constitute ‘use as trade marks’ because advertisers, who amount to consumers of keywords, would not believe that search engines use trade marks to indicate that trade mark proprietors are sponsors of search engine services.⁵⁶¹ Search engines’ triggering of search results is also construed as not satisfying the use requirement unless consumers perceive search results as indicating that trade mark owners sponsor search engine services.⁵⁶²

2) Likelihood of Confusion

Use of trade marks as keywords basically arises prior to the purchase of products since consumers would not make purchasing decisions solely on the basis of advertisements on SERPs. They would normally purchase products after visiting advertisers’ websites. Thus, initial interest confusion has been an issue in this context. Nevertheless, here it is suggested that initial interest confusion is not just about the timing of confusion. It is about both the subject and the timing of consumer confusion.

Consumer sophistication is also an issue in paid search marketing. Whether average consumers are limited to internet users and how much attention they would pay in searching for information through search engines are important

(emphasising that “[t]rademark use, properly defined, is an objective inquiry that does not turn on a case-by-case analysis of actual consumer understanding.”)

⁵⁵⁷ Dogan and Lemley, *supra* note 521, at 1682

⁵⁵⁸ *Id.* at 1682-1683

⁵⁵⁹ McKenna, *supra* note 554, at 816

⁵⁶⁰ *Id.* (stressing that “[t]he important point here is that, because trademark use can be determined only from the perspective of consumers, it cannot serve as a threshold requirement separable from the likelihood of confusion inquiry.”)

⁵⁶¹ *Id.* at 819

⁵⁶² *Id.* at 820-821

factors in determining likelihood of confusion.

(1) Subject and Timing of Consumer Confusion

a) Initial Interest Confusion

Initial interest confusion, usually explained as “confusion that creates initial customer interest, even though no actual sale is finally completed as a result of the confusion,”⁵⁶³ embraces two distinct meanings: i) initial interest or diversion regardless of likelihood of confusion and ii) likely confusion prior to, but not at the time of purchase of products.⁵⁶⁴ The former relates to the subject or degree of confusion and the latter the timing of confusion.

Although the concept in its original meaning was just about the timing of confusion, it has expanded to encompass both senses.⁵⁶⁵ Since the Ninth Circuit adopted the broadened initial interest confusion doctrine in *Brookfield Communications*,⁵⁶⁶ many courts have found the liability of third parties where their uses divert consumer attention but do not bring about likelihood of confusion at the point of sale. Courts have come to recognise this type of confusion as actionable not only when it dissipates prior to the time of purchase so that consumers do not purchase third parties’ products in a confused condition, but also when there exists only the diversion of consumer mind which does not reach the level of actionable likelihood of confusion.

In the same vein, use of trade marks as keywords was prevented based on initial interest confusion in some cases. In *Australian Gold*, the US Tenth Circuit found that a tanning lotion reseller’s use of a manufacturer’s mark in paid search marketing was infringing, on the ground that the use caused initial interest

⁵⁶³ McCarthy, *supra* note 28, § 23:6; on the other hand, in *Och-Ziff*, the UK High Court defined initial interest confusion as “confusion on the part of the public as to the trade origin of the goods or services in relation to which the impugned sign has been used arising from use of the sign prior to purchase of those goods or services, and in particular confusion arising from use of the sign in advertising or promotional materials.” *See Och-Ziff Management Europe Ltd v. Och Capital LLP* [2011] E.T.M.R. 1, 24

⁵⁶⁴ Jennifer E. Rothman, *Initial Interest Confusion: Standing at the Crossroads of Trademark Law*, 27 *Cardozo L. Rev.* 105, 121 (2005)

⁵⁶⁵ Dogan and Lemley, *supra* note 62, at 814-816

⁵⁶⁶ *Brookfield Commc’ns, Inc. v. West Coast Entm’t Corp.*, 174 F.3d 1036 (9th Cir. 1999)

confusion.⁵⁶⁷ The Circuit regarded initial interest confusion in the internet context as stemming from “the unauthorized use of trademarks to divert internet traffic, thereby capitalizing on a trademark holder’s goodwill.”⁵⁶⁸ Moreover, in *American Blind & Wallpaper*,⁵⁶⁹ a paid search marketing case, a district court in the Ninth Circuit found Google liable for its use of a mark on the ground of initial interest confusion.

b) Wide Initial Interest Confusion

The US Ninth Circuit widened the scope of initial interest confusion in the context of online use of trade marks by combining it with the internet troika. Calling them “the three most important *Sleekcraft* factors in evaluating a likelihood of confusion” in the internet context, the Circuit emphasised “(1) the similarity of the marks, (2) the relatedness of the goods and services, and (3) the parties’ simultaneous use of the Web as a marketing channel.”⁵⁷⁰ According to the Circuit, “[w]hen this controlling troika, or internet trinity, suggests confusion is ... likely, the other factors must weigh strongly against a likelihood of confusion to avoid the finding of infringement.”⁵⁷¹ On the other hand, “[i]f the internet trinity does not clearly indicate a likelihood of consumer confusion, a district court can conclude the infringement analysis only by balancing all the *Sleekcraft* factors within the unique context of each case.”⁵⁷²

In paid search marketing cases, likelihood of initial interest confusion was more easily found when combined with the internet troika. In *Perfumbay.com*, the Ninth Circuit found a likelihood of initial interest confusion on the ground of in-court demonstration and the troika.⁵⁷³ First, the demonstration showed that search results might lead consumers to regard

⁵⁶⁷ *Australian Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1238-1240 (10th Cir. 2006)

⁵⁶⁸ *Id.* at 1239

⁵⁶⁹ *Google Inc. v. American Blind & Wallpaper*, 2007 WL 1159950 (N.D.Cal. 2007)

⁵⁷⁰ *Interstellar Starship Servs., Ltd. v. Epix, Inc.*, 304 F.3d 936, 942 (9th Cir. 2002) (citing *GoTo.com, Inc. v. Walt Disney Co.*, 202 F.3d 1199 (9th Cir. 2000))

⁵⁷¹ *Id.* (citing *GoTo.com*, 202 F.3d and *Brookfield Commc’ns*, 174 F.3d) (internal quotation marks omitted)

⁵⁷² *Id.*

⁵⁷³ *Perfumbay.com Inc. v. eBay, Inc.*, 506 F.3d 1165, 1176 (9th Cir. 2007)

Perfumebay as “part of eBay’s web site or one of eBay’s internet stores.”⁵⁷⁴ Second, based on the facts that two trade marks were similar, both parties sold perfumes, and they utilised the Internet as a marketing and advertising tool, the troika shifted the burden of proof as to the remaining *Sleekcraft* factors from the plaintiff to the defendant. The defendant Perfumebay, however, failed to prove that the remaining *Sleekcraft* factors weighed strongly against a finding of a likelihood of confusion.⁵⁷⁵ In *Storus*, a district court in the Ninth Circuit followed this suit.⁵⁷⁶

c) Pre-sale Confusion

Against the initial interest confusion doctrine, some scholars and courts require the same subject or degree for initial interest confusion or confusion prior to purchase as that of point of sale confusion. They argue that the only difference between the two lies in their timing, suggesting the word ‘pre-sale confusion’ in lieu of ‘initial interest confusion.’ They offer several rationales for their argument: i) the recognition of initial interest confusion as a separate claim would run counter to trade mark law which requires likelihood of confusion for trade mark infringement;⁵⁷⁷ ii) “[t]rue instances of initial interest confusion may affect consumer search costs and so may provide evidence of harm under traditional principles of trademark law”;⁵⁷⁸ iii) initial interest confusion is at odds with justifications for trade mark protection;⁵⁷⁹ iv) it is in conflict with the first sale doctrine of US trade mark law in that “[b]y limiting the ability of businesses to use trademarks in metatags, domain names, and even on their websites, courts have made it very difficult to resell goods online”;⁵⁸⁰ v) the initial interest confusion doctrine increases the probability of trade mark infringement findings by ignoring the value of disclaimers and the sophistication of consumers and by

⁵⁷⁴ Id.

⁵⁷⁵ Id. at 1174-1176

⁵⁷⁶ *Storus Corp. v. Aroa Marketing, Inc.*, 2008 WL 449835 (N.D.Ca. 2008)

⁵⁷⁷ Dogan and Lemley, *supra* note 62, at 825

⁵⁷⁸ Id.

⁵⁷⁹ Rothman, *supra* note 564, at 124-139 (suggesting as the purposes of trade mark protection i) the promotion of the welfare of consumers, ii) the protection of goodwill, and iii) the promotion of fair competition)

⁵⁸⁰ Id. at 140

often recognising initial interests as the evidence of actual confusion;⁵⁸¹ vi) the doctrine collides with patent and copyright law in that it can prevent a third party from replicating products with no patent or copyright;⁵⁸² and vii) it contravenes free speech.⁵⁸³ According to the pre-sale confusion argument, mere diversion does not necessarily lead to consumer confusion.

Some keyword cases have been analysed based on pre-sale confusion. In *J.G. Wentworth*, a district court in the Third Circuit denied initial interest confusion, on the ground that there was no likelihood of confusion.⁵⁸⁴ It reasoned that “the links to defendant’s website always appear as independent and distinct links on the search result pages regardless of whether they are generated through Google’s AdWords program or search of the keyword meta tags of defendant’s website.”⁵⁸⁵ In *Hearts on Fire*, a district court in the First Circuit also elucidated the level of confusion required for actionable initial interest confusion by asserting that “[the] confusion must be more than momentary and more than a mere possibility,” and that “a genuine and substantial likelihood of confusion” should be demonstrated.⁵⁸⁶ In *Network Automation*, the Ninth Circuit, which had adopted the wide initial interest confusion approach, cast a doubt on the usefulness of the internet trinity analysis for all types of online commercial activity and found that “because the *sine qua non* of trademark infringement is consumer confusion, when we examine initial interest confusion, the owner of the mark must demonstrate likely confusion, not mere diversion.”⁵⁸⁷

The attitude of the ECJ can be understood as adopting pre-sale confusion, particularly in the context of paid search marketing, even if it has not dealt directly with the issue of initial interest confusion.⁵⁸⁸ In *BergSpechte*, the ECJ recognised that use of trade marks as keywords can cause confusion at the time

⁵⁸¹ Id. at 141-145

⁵⁸² Id. at 146

⁵⁸³ Id. at 150-159

⁵⁸⁴ *J.G. Wentworth, S.S.C. Ltd. v. Settlement Funding LLC*, 2007 WL 30115, 8 (E.D.Pa. 2007)

⁵⁸⁵ Id. at 7

⁵⁸⁶ *Hearts on Fire Company LLC. v. Blue Nile, Inc.*, 603 F. Supp. 2d 274, 287 (D.Mass. 2009)

⁵⁸⁷ *Network Automation, Inc. v. Advanced Systems Concepts, Inc.*, 2011 WL 815806, 7-8 (C.A.9(Cal.))

⁵⁸⁸ In *Och-Ziff*, the UK High Court stated that whether initial interest confusion is actionable is irrelevant to the denial of post-sale confusion and drew a conclusion that the ECJ admits initial interest confusion from the ECJ’s decisions in *O2*, *Die BergSpechte*, and *Portakabin*. See *Och-Ziff Management Europe Ltd v. Och Capital LLP* [2011] E.T.M.R. 1, 28-29

when consumers look at advertisements on SERPs without regard for the content of third parties' websites.⁵⁸⁹ It held that "it will be for the national court to hold whether there is a likelihood of confusion when internet users are shown, on the basis of a keyword similar to a mark, a third party's ad."⁵⁹⁰ The ECJ made the same statement in *Portakabin*, concluding that "a trade mark proprietor is entitled to prohibit an advertiser from advertising ... where that advertising does not enable average internet users, or enables them only with difficulty, to ascertain whether the goods or services referred to by the ad originate from the proprietor of the trade mark or from an undertaking economically linked to it or, on the contrary, originate from a third party."⁵⁹¹

The Supreme Court of Korea also appears to adopt pre-sale confusion. In *VSP*, the Court found no likelihood of confusion, on the ground that *VSP NTC* used as a title of advertising is not similar to an owner's mark 'VSP.'⁵⁹² The Court, however, considered neither whether there was a likelihood of confusion at the time of purchase nor whether consumers were diverted to a defendant's website.

d) Narrow Concept of Pre-sale and Initial Interest Confusion

Some commentators and courts seek to limit the scope of pre-sale confusion or initial interest confusion. They submit that pre-sale confusion should be applied only to cases where parties are direct competitors.⁵⁹³ The reasoning is that i) non-competitive users will not divert consumers from a trade mark holder to them, ii) temporary confusion caused by non-competitive use cannot materially affect ultimate purchasing decisions, and iii) the application of the initial interest confusion analysis to non-competitive uses generates unreasonable results by preventing informative uses such as parodies, satires, and commentaries.⁵⁹⁴ According to this argument, search engines' use of trade marks would not be

⁵⁸⁹ *Die BergSpechte Outdoor Reisen und Alpinschule Edi Koblmüller GmbH v. Günter Guni, trekking.at Reisen GmbH* (C-278/08) [2010] E.T.M.R. 33, 599

⁵⁹⁰ *Id.*

⁵⁹¹ *Portakabin Ltd and Portakabin BV v. Primakabin BV* (C-558/08) [2010] E.T.M.R. 52, 943

⁵⁹² Judgment of 24 May 2012, Supreme Court, 2010 Hu 3073

⁵⁹³ *Dogan and Lemley*, *supra* note 62, at 827-828. *See also* *Bihari v. Gross*, 119 F.Supp.2d 309, 320 (S.D.N.Y. 2000)

⁵⁹⁴ *Id.*

likely to cause pre-sale confusion because search engines are not competitors of trade mark owners in the context of paid search marketing.⁵⁹⁵

Another commentator argues that initial interest confusion should be limited to instances where third party use does not engender point-of-sale confusion, post-sale confusion, and dilution but nevertheless adversely affects consumers' decision-making ability and reduces the value of a trade mark as a source indicator.⁵⁹⁶ Sharrock reasons that initial interest confusion rarely arises "without a likelihood of point-of-sale or post-sale confusion simultaneously arising," but it is very vulnerable to its misuse.⁵⁹⁷ Sharrock, however, emphasises that initial interest confusion should not be totally abandoned because it is capable of filling a doctrinal gap that cannot be supplied by point-of-sale confusion, post-sale confusion, and dilution.⁵⁹⁸ According to her, the initial interest confusion doctrine can justify trade mark protection where initial interest confusion is dispelled "only after [a] junior user has been able to take advantage of a period of confusion to convince consumers to make a purchase," or where consumers decide to purchase a third party's products in online or offline markets instead of a trade mark holder's because of consumers' transaction costs outweighing their benefits.⁵⁹⁹

(2) Average Consumers and Their Level of Attention

The scope of actionable likelihood of confusion also depends on whose perspective is considered. Average consumers' likely confusion cannot be the same as that of sophisticated consumers or inattentive consumers. It appears that US courts, the ECJ, and Korean courts take a similar position on this point. US courts asserted that the test for likelihood of confusion is about that of "a

⁵⁹⁵ Id. at n. 211 (maintaining that "[1-800 Contacts and Playboy] might have a claim for direct initial interest confusion against other contact lens companies or other vendors of adult materials that place their ads with these intermediaries, but they should not have a claim for direct infringement against the intermediaries themselves.")

⁵⁹⁶ Lisa M. Sharrock, *Realigning the Initial Interest Confusion Doctrine with the Lanham Act*, 25 *Whittier L. Rev.* 53, 77-78 (2003)

⁵⁹⁷ Id. at 76-77

⁵⁹⁸ Id. at 75

⁵⁹⁹ Id. at 73-76

reasonably prudent consumer in the marketplace,”⁶⁰⁰ “an appreciable number of ordinarily prudent consumers of the type of product in question,”⁶⁰¹ or “an appreciable number of reasonably prudent purchasers exercising ordinary care.”⁶⁰² The ECJ held that, in assessing the global appreciation of likelihood of confusion, “the average consumer of the category of products concerned is deemed to be reasonably well-informed and reasonably observant and circumspect.”⁶⁰³ Korean courts also pointed out that the similarity between trade marks should be decided on the basis of the average degree of consumer attention unless products are traded only by relevant experts.⁶⁰⁴

Nevertheless, US federal courts, the ECJ, and Korean courts do not share a common position on the degree of consumer care in paid search marketing. This stems from the different evaluation of the ‘factual degree of consumer care.’ The real issue here, however, is the interpretation of ‘average consumers.’ Courts have normally limited ‘average consumers in paid search marketing’ to internet users.

a) Internet Users’ Low Default Degree of Attention

In some paid search marketing cases, a low default degree of consumer care was introduced by interested parties or accepted by courts. In *Edina Realty, TheMLSonline.com* claimed the high level of consumer care, on the ground that “real estate is a long-term expensive investment.”⁶⁰⁵ Against this claim, *Edina Realty* maintained the low level of care on the ground of “the effortless nature of surfing the web,” indicating a study which showed that “62 percent of consumers do not understand the difference between sponsored links and natural results.”⁶⁰⁶ On this issue, a district court in the Eighth Circuit concluded that there was “a

⁶⁰⁰ *Dreamwerks Prod. Group v. SKG Studio*, 142 F.3d 1127, 1129 (9th Cir. 1998)

⁶⁰¹ *Everett Laboratories, Inc. v. Vertical Pharmaceuticals, Inc.*, 227 Fed.Appx. 124, 127 (3d Cir. 2007)

⁶⁰² *Hearts on Fire Company LLC. v. Blue Nile, Inc.*, 603 F. Supp. 2d 274, 283 (D.Mass. 2009); *Int'l Ass'n of Machinists & Aero. Workers v. Winship Green Nursing Ctr.*, 103 F.3d 196, 201 (1st Cir. 1996)

⁶⁰³ *Lloyd Schuhfabrik Meyer & Co. GmbH v. Klijsen Handel BV (C-342/97)* [1999] 2 C.M.L.R. 1343, 1358

⁶⁰⁴ Judgment of 23 November 1999, Supreme Court, 97 Hu 2842; Judgment of 13 April 2007, Patent Court, 2006 Heo 9555

⁶⁰⁵ *Edina Realty, Inc. v. TheMLSonline.com*, 80 U.S.P.Q.2d 1039, 6 (D.Minn. 2006)

⁶⁰⁶ *Id.*

dispute of fact as to the degree of purchaser care.”⁶⁰⁷ Moreover, in *Network Automation*, a district court in the Ninth Circuit held that internet consumers exercise a low degree of care⁶⁰⁸ based on the Ninth Circuit’s decisions in *Brookfield*⁶⁰⁹ and *GoTo.com*.⁶¹⁰ In *Brookfield*, the Ninth Circuit stressed that “entering a web site takes little effort-usually one click from a linked site or a search engine’s list.”⁶¹¹ Citing this conclusion, the Circuit stated in *GoTo.com* that “[n]avigating amongst web sites involves practically no effort whatsoever.”⁶¹²

b) Internet Users’ Heightened Default Degree of Attention

In *Network Automation*, the Ninth Circuit altered its previous position as to the degree of consumer care, pointing out that its decisions in *Brookfield* and *GoTo.com* were made “more than a decade ago.”⁶¹³ It appeared to adopt “an approach that look[s] beyond the medium itself [*e.g.*, the Internet] and to the nature of the particular goods and the relevant customers [instead],”⁶¹⁴ but it also emphasised a high default degree of consumer care in an online world on the basis of its decision in *Toyota*.

In *Toyota*, the Ninth Circuit regarded an online marketplace as the relevant market and “a reasonably prudent consumer accustomed to shopping online” as a relevant consumer.⁶¹⁵ Citing this case, the Circuit emphasised in *Network Automation* that “the default degree of consumer care is becoming more heightened as the novelty of the Internet evaporates and online commerce becomes commonplace.”⁶¹⁶ Some scholars also asserted that consumer confusion becomes less likely as consumers get accustomed to new technology.⁶¹⁷

⁶⁰⁷ *Id.*

⁶⁰⁸ *Network Automation, Inc. v. Advanced Systems Concepts, Inc.*, 2011 WL 815806, 11-12 (C.A.9(Cal.))

⁶⁰⁹ *Brookfield Commc'ns, Inc. v. West Coast Entm't Corp.*, 174 F.3d 1036, 1057 (9th Cir. 1999)

⁶¹⁰ *GoTo.com, Inc. v. Walt Disney Co.*, 202 F.3d 1199, 1209 (9th Cir. 2000)

⁶¹¹ *Brookfield Commc'ns*, 174 F.3d at 1057

⁶¹² *GoTo.com*, 202 F.3d at 1209

⁶¹³ *Network Automation*, 2011 WL 815806 at 11-12

⁶¹⁴ *iCall, Inc. v. Tribair, Inc.*, 2012 WL 5878389, 12 (N.D.Cal.)

⁶¹⁵ *Toyota Motor Sales, U.S.A., Inc. v. Tabari*, 610 F.3d 1171, 1176 (9th Cir. 2010)

⁶¹⁶ *Network Automation*, 2011 WL 815806 at 11

⁶¹⁷ Rothman, *supra* note 564, at 181

On the other hand, there was an argument that consumer confusion is likely in use of trade marks as keywords despite the high default degree of consumer care. According to it, the default level is high since online users can critically look through search results and distinguish between necessary and unnecessary information.⁶¹⁸ Nevertheless, the argument suggests that use of trade marks in paid search marketing, unlike banner advertising, may cause initial interest confusion because consumers cannot easily perceive paid search results “as a form of advertising.”⁶¹⁹

c) Variable Degree of Consumer Care according to Products and Consumers

In *Network Automation*, despite its recognition of the high default level of consumer care, the Ninth Circuit stressed the nature and cost of products and the type of consumers in assessing the level of consumer care.⁶²⁰

Likewise, in *Rosetta Stone*, a district court in the Fourth Circuit admitted the high degree of consumer care, on the grounds that “*Rosetta Stone’s* products cost approximately \$259 for a single-level package and \$579 for a three-level bundle” and that “[*Rosetta Stone’s*] target market [was] comprised of well-educated consumers willing to invest money and energy in the time-intensive task of learning a language.”⁶²¹

Against this decision, however, the Fourth Circuit mentioned that the judgment of consumer care could also be based on deposition testimony and an internal Google study.⁶²² Besides, the Fourth Circuit showed the possibility that well-educated consumers could not understand the mechanics of paid search marketing, stating that “[t]he evidence also include[d] an internal Google study reflecting that even well-educated, seasoned Internet consumers [were] confused by the nature of Google’s sponsored links and [were] sometimes even unaware

⁶¹⁸ Kurt M. Saunders, *Confusion is the Key: A Trademark Law Analysis of Keyword Banner Advertising*, 71 *Fordham L. Rev.* 543, 567 (2002)

⁶¹⁹ *Id.* at 568

⁶²⁰ *Network Automation*, 2011 WL 815806 at 11

⁶²¹ *Rosetta Stone Ltd. v. Google, Inc.*, 730 F.Supp.2d 531, 545 (E.D.Va. 2010)

⁶²² *Rosetta Stone Ltd. v. Google, Inc.*, 2012 WL 1155143, 11 (C.A.4(Va.))

that sponsored links [were], in actuality, advertisements.”⁶²³

d) Internet Users’ Reasonable Attention

The ECJ has not ruled unequivocally as to average consumers’ level of attention. On the other hand, it regarded “normally informed and reasonably attentive internet users” as average consumers in the context of paid search marketing.⁶²⁴ In *Interflora*, the Court of Appeal of England and Wales construed this decision as meaning that “the average consumer has been replaced by the reasonably well-informed and reasonably observant internet user” in the particular context of paid search marketing.⁶²⁵ Thus, the degree of consumer care will not be decided from the perspective of average consumers of advertisers’ products; it will be the reasonable attention of ‘internet users’ among them.

3) Likelihood of Dilution

There are some issues about dilution. First, it is not clear when dilution by blurring is likely to arise. This concerns the interpretation of ‘impairment of distinctiveness’ in the Lanham Act, ‘detriment to distinctive character’ in EU trade mark law, and ‘damage to distinctiveness’ in the Korean Unfair Competition Act. Second, there are also different interpretations as to the scope of tarnishment. Some focus on negative associations, while others on dissonance between products. Third, unlike US and Korean law,⁶²⁶ EU law prevents taking unfair advantage of the reputation or distinctiveness of others’ trade marks as a third type of actionable dilution. Since this type of dilution may occur when there is a lack of both ‘financial compensation’ and ‘users’ own efforts,’⁶²⁷ it could tilt the balance in favour of trade mark owners without considering legitimate interests of

⁶²³ *Id.*

⁶²⁴ *Google France v. Louis Vuitton Malletier* (Joined Cases C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30, 555-556; *Die BergSpechte Outdoor Reisen und Alpinschule Edi Koblmüller GmbH v. Günter Guni, trekking.at Reisen GmbH* (C-278/08) [2010] E.T.M.R. 33, 599; *Portakabin Ltd and Portakabin BV v. Primakabin BV* (C-558/08) [2010] E.T.M.R. 52, 943

⁶²⁵ *Marks & Spencer Plc v Interflora Inc* [2013] E.T.M.R. 11, 167

⁶²⁶ In Korea, use of trade marks for the purpose of taking unfair advantage only constitutes a ground for refusal, opposition, and invalidation.

⁶²⁷ *L’Oréal SA v. Bellure NV* (C-487/07) [2009] E.T.M.R. 55, 1032

competitors and consumers.

These issues are also raised in cases of trade marks used in paid search marketing. Dilution-based liability hinges on the interpretation of the scope of blurring and tarnishment and the acceptance of dilution by unfair advantage.

(1) Blurring

Schechter argued that third party use of uniquely distinctive trade marks on related or non-related products vitiates or impairs trade marks' uniqueness or singularity and hence selling power;⁶²⁸ on the other hand, the Lanham Act, EU trade mark law, and the Korean Trade Mark Act, despite differences in legislative language and court rhetoric, commonly require 'harm to the distinctive character of famous marks' for blurring. Nevertheless, there is no consensus as to when third party use is likely to cause this harm. This is also an issue in paid search marketing cases.

a) High Distinctiveness or Strong Association

Search cost and cognitive psychology theories emphasise a delay or additional cognitive efforts in matching famous marks to owners' products. The search cost theory argues that 'more mental time and effort' in consumers' associating famous marks with particular products leads to an increase in consumer search costs that should be prevented by trade mark law.⁶²⁹ That is, third party use of famous marks will make consumers "think harder" to link the famous marks to owners' products because consumers may think about products of both trade mark owners and third party users.⁶³⁰ This theory admits blurring even where third parties utilise famous marks on "equally fine products" since this use can also incur a higher imagination cost.⁶³¹ It argues that "[e]ven if the association is completely neutral, there is a cost to the owner of the trade

⁶²⁸ Schechter, *supra* note 244, at 829-831

⁶²⁹ Landes and Posner, *supra* note 94, at 207

⁶³⁰ Ty Inc. v. Perryman, 306 F.3d 509, 511 (7th Cir. 2002)

⁶³¹ Landes and Posner, *supra* note 94, at 207

mark.”⁶³²

The cognitive psychology theory suggests that the possession of “two cognitive networks” for the same trade mark would require “additional cognitive effort to parse out just which network applied to the current circumstances” and reduce “the accuracy and, to some extent, the speed of retrieval from memory of first-user brand information.”⁶³³ They also maintain that the so-called ‘fan-effect’ supports blurring, explaining that with an increase in the number of spokes as a result of attaching to the hub additional spokes leading to other circles containing the information, for example, “an up-scale furrier,” “the speed and cognitive ease with which the individual is able to connect the hub (Tiffany) with the original information (“an up-scale retailer of silver, crystal and jewelry on New York’s Fifth Avenue”) decreases.”⁶³⁴

These theories can justify the finding of dilution by blurring based on the high distinctiveness of famous marks or a strong association between marks. A strong association between marks would make it harder for consumers to immediately connect famous marks with owners’ products and increase search costs. The cognitive psychology theory also suggests that the focus of blurring is on “an association created between plaintiff’s and defendant’s marks.”⁶³⁵ Moreover, the high distinctiveness of famous marks would result in more search costs or cognitive efforts.

Although not mentioning the search cost theory or the cognitive psychology theory, many courts have found blurring on the ground of highly distinctive famous marks or a strong association between marks. The US Trademark Dilution Revision Act of 2006 (“TDRA”) specifies six non-exhaustive factors for courts to consider in determining the existence of an actionable claim for blurring: i) the degree of similarity between a mark or trade name and a famous mark, ii) the degree of inherent or acquired distinctiveness of the famous mark, iii) the extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark, iv) the degree of recognition of the

⁶³² Id.

⁶³³ Jacob Jacoby, *The Psychological Foundations of Trademark Law: Secondary Meaning, Genericism, Fame, Confusion and Dilution*, 91 *Trademark Rep.* 1013, 1047-1048 (2001)

⁶³⁴ Id. at 1049

⁶³⁵ Id. at 1051

famous mark, v) whether the user of the mark or trade name intended to create an association with the famous mark, and vi) any actual association between the mark or trade name and the famous mark.⁶³⁶ These factors, however, only concern the strength of famous marks or association arising from the similarity between marks;⁶³⁷ no factor relates directly to harm to distinctiveness. Thus, this six-factor test appears to be premised on the assumption that where use of highly famous marks is likely to establish a strong association between marks, there could be harm to the distinctiveness of famous marks.

Despite this limit, US courts have assessed likelihood of blurring in keyword cases based on this test. In *Rosetta Stone*, a district court in the Fourth Circuit denied likelihood of blurring, on the ground that “Rosetta Stone’s brand awareness has only increased since Google revised its trademark policy in 2004.”⁶³⁸ Remanding this decision, the Fourth Circuit reasoned that the district court considered only one factor of the test for likelihood of blurring—the degree of recognition of Rosetta Stone’s mark.⁶³⁹

The EU General Court and Korean courts found blurring based mainly on highly strong famous marks. In *BOTUMAX*, the EU General Court held that there was detriment to the distinctive character of the earlier mark ‘BOTOX,’ on the ground that the word element ‘botox’ was so fanciful that use of the same or a similar element in other marks could lead to dilution by blurring.⁶⁴⁰ In *HiTIFFANY*, the Seoul District Court decided that use of HiTIFFANY for shopping centre sales damaged the distinctiveness of the famous mark ‘TIFFANY’, stressing that the mark ‘TIFFANY’ was famous throughout the world.⁶⁴¹

In a keyword case, a US court also found blurring on the ground of high strength of famous marks without relying on the multifactor test. In *Perfumebay.com*, the US Ninth Circuit concluded that “[w]ith Perfumebay’s marks, consumers may no longer associate the usage of the “Bay” suffix with

⁶³⁶ Section 43(c)(2)(b) of the Lanham Act

⁶³⁷ Ilanah Simon Fhima, *Trade Mark Dilution in Europe and the United States* (Oxford University Press 2011) 137-138

⁶³⁸ *Rosetta Stone Ltd. v. Google, Inc.*, 730 F.Supp.2d 531, 551 (E.D.Va. 2010)

⁶³⁹ *Rosetta Stone Ltd. v. Google, Inc.*, 2012 WL 1155143, 21 (C.A.4(Va.))

⁶⁴⁰ *Farmeco AE Dermokallyntika v. OHIM* (T-131/09) [2010] paras 97-101

⁶⁴¹ Decision of 7 August 2003, Seoul District Court, 2003 Ka Hab 1488

eBay’s unique services, specifically the sale of products on an internet-based marketplace,” emphasising the strength of eBay’s mark.⁶⁴²

Moreover, some courts regard ‘third party use of identical famous marks,’ which concerns a strong association between marks, as constituting circumstantial evidence of actual or likely dilution, or as creating a presumption of it. In *Moseley*, the US Supreme Court considered an identity of marks to be circumstantial evidence of actual dilution under the US Federal Trademark Dilution Act of 1995 (“FTDA”).⁶⁴³ In *Horphag*, a case about Garcia’s use of *Horphag*’s trade mark ‘Pycnogenol’ as a metatag and on Garcia’s website, the Ninth Circuit made the same statement, citing the decision of the Supreme Court in *Moseley*.⁶⁴⁴ Furthermore, in *Savin*, the Second Circuit held that an identity of marks generates “a presumption of actual dilution.”⁶⁴⁵ In *Burberry*, a case about use of the Burberry trade mark on products and as keywords, a district court in the Second Circuit stated that even likelihood of dilution can be presumed on the basis of use of identical marks.⁶⁴⁶

b) Separate Likelihood of Harm to Distinctiveness

McCarthy requires separate evidence to support probability of harm to distinctiveness,⁶⁴⁷ reading ‘to impair the distinctiveness of a famous mark’ as “to sap the strength of the famous mark.”⁶⁴⁸ He stresses that likelihood of association with famous marks cannot automatically lead to likelihood of harm to the distinctiveness and blurring should not be admitted “just by theoretical assumptions about what possibly could occur or might happen.”⁶⁴⁹ He reasons that the structure of the TDRA does not treat the association with famous marks as dilution by blurring⁶⁵⁰ and that the strength of famous marks “can cut both

⁶⁴² *Perfumebay.com Inc. v. eBay, Inc.*, 506 F.3d 1165, 1181 (9th Cir. 2007)

⁶⁴³ *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418, 434 (2003)

⁶⁴⁴ *Horphag Research, Ltd. v. Garcia*, 475 F.3d 1036 (9th Cir. 2007)

⁶⁴⁵ *Savin Corp. v. The Savin Group*, 391 F.3d 439, 452-453 (2d Cir. 2004)

⁶⁴⁶ *Burberry v. Designers Imports*, 2010 WL 199906, 7 (S.D.N.Y. 2010)

⁶⁴⁷ McCarthy, *supra* note 28, § 24:115

⁶⁴⁸ *Id.* § 24:118

⁶⁴⁹ *Id.* § 24:115

⁶⁵⁰ *Id.* § 24:116

ways on the injury question.”⁶⁵¹ Similarly, in *Miss Universe*, a district court in the Second Circuit did not find dilution by blurring, on the ground that *Miss Universe* did not offer sufficient evidence in support of its dilution by blurring claim.⁶⁵²

The ECJ also demands separate harm to distinctiveness. The Court construes ‘distinctive character’ within the meaning of blurring as a trade mark’s “ability to identify the goods or services for which it is registered and used as coming from the proprietor of that mark” and ‘detriment to this ability’ as resulting from the fact that third party use causes “dispersion of the identity and hold upon the public mind of the earlier mark.”⁶⁵³ Moreover, in order to prove blurring, the ECJ required evidence of an actual or serious likelihood of change in the economic behaviour of the average consumer of the products for which the earlier mark was registered as a result of use of the later mark.⁶⁵⁴

Against this decision, Advocate General Sharpston and the General Court took a different position. Advocate General Sharpston supported in *Intel* that a change in economic behaviour is not necessary for the detriment to be present because there are cases where consumers do not change their purchasing decisions despite the lessened distinctiveness of trade marks consequent on use of marks on unrelated products.⁶⁵⁵ Moreover, in *Environmental Manufacturing*, the General Court evidently stated that evidence of a consequential change is not necessary for the finding of dilution by blurring.⁶⁵⁶ It also pointed out that the proof that the marks’ ability to identify the source of products is weakened will establish the change in the economic behaviour of consumers “since use of the later mark leads to dispersion of the identity and hold upon the public mind of the earlier mark.”⁶⁵⁷

In the same vein, in *Interflora*, the ECJ admitted dilution by blurring

⁶⁵¹ *Id.* § 24:119

⁶⁵² *Miss Universe, L.P., LLLP v. Villegas*, 672 F. Supp. 2d 575, 595 (S.D.N.Y. 2009)

⁶⁵³ *Intel Corpn Inc v. CPM United Kingdom Ltd (C-252/07)* [2009] Bus. L.R. 1079, 1102 (stating that “[t]hat is *notably* the case when the earlier mark, which used to arouse immediate association with the goods and services for which it is registered, is no longer capable of doing so.”(emphasis added))

⁶⁵⁴ *Id.* at 1107

⁶⁵⁵ *Id.* at 1095 (giving an example of the trade mark ‘Coca-Cola.’)

⁶⁵⁶ *Environmental Manufacturing LLP v. OHIM (T-570/10)* [2012] E.T.M.R. 54, 985-986

⁶⁵⁷ *Id.* The ECJ, however, set aside the decision of the General Court. *See Environmental Manufacturing LLP v OHIM (C-383/12 P)* [2013] All ER (D) 196 (Nov), paras 34-50

based on a risk of turning famous marks into generic terms without mentioning a change in economic behaviour.⁶⁵⁸ It asserted that if the advertisement triggered by the internal use of the INTERFLORA trade mark “did not enable the reasonably well-informed and reasonably observant internet user to tell that the service promoted by M&S is independent from that of Interflora,” Interflora could argue that “the word ‘Interflora’ has come to designate, in the consumer’s mind, any flower-delivery service.”⁶⁵⁹

(2) Tarnishment

In tarnishment, US courts and those who argue for the search cost theory or the psychology-based theory focus on negative associations that third party use evokes, whether these associations stem from the nature of third parties’ products or the images of marks used on these products. At least one US court, the ECJ, and Korean courts, however, appear to put more emphasis on the nature of products in assessing tarnishment.

a) Negative Associations

In the USA, the FTDA before the TDRA did not explicitly distinguish between blurring and tarnishment. The US Supreme Court even stated in *Moseley* that the FTDA arguably did not embrace tarnishment, on the ground that while the US state statutes expressly refer to both ‘injury to business reputation’ and ‘dilution of the distinctive quality of a trade name or trade mark,’ the FTDA did not provide for ‘injury to business reputation.’⁶⁶⁰ The TDRA, on the other hand, defines tarnishment as “association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark” without providing any factors for courts to consider for it. ‘Harm to the reputation of the famous mark’ has been interpreted by US federal courts as occurring, for instance, when the famous mark is “linked to products of shoddy quality, or is

⁶⁵⁸ *Interflora Inc v. Marks & Spencer Plc* (C-323/09) [2012] E.T.M.R. 1, 45

⁶⁵⁹ *Id.*

⁶⁶⁰ *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418, 432 (2003)

portrayed in an unwholesome or unsavory context such that the public will associate the lack of quality or lack of prestige in the defendant's goods with the plaintiff's unrelated goods,"⁶⁶¹ or when the famous mark "loses its ability to serve as a wholesome identifier" of the products bearing the mark."⁶⁶² That is, negative associations that third party use of famous marks evokes in consumers' minds are considered to be "the sine qua non of tarnishment."⁶⁶³

The supporters of the search cost theory interpret tarnishment as incurring a high negative premium because of hateful or offensive associations.⁶⁶⁴ Moreover, tarnishment is regarded as "a subset of blurring" in that "it reduces the distinctness of the trademark as a signifier of the trademarked product or service."⁶⁶⁵

The cognitive psychology theory also emphasises negative associations. Unlike the search cost theory, however, it distinguishes between blurring and tarnishment in that "while blurring focuses on associations that are made, tarnishment focuses on the evaluative aspect of those associations (whether they are positive or negative, good or bad, liked or disliked)."⁶⁶⁶ It also suggests that tarnishment accords its attention to how third party use undermines the positive associations of famous marks.⁶⁶⁷

In at least one keyword case, a plaintiff's tarnishment claim was rejected because there was no negative association. In *Rosetta Stone*, a district court found no tarnishment, on the ground that there was no evidence that the five individuals who "purchased the allegedly counterfeit software had a reduced opinion of the Rosetta Stone Marks."⁶⁶⁸

b) Use on Products with Negative Images

The US Sixth Circuit put more emphasis on the nature of products on

⁶⁶¹ *Rosetta Stone Ltd. v. Google, Inc.*, 2012 WL 1155143, 18 (C.A.4(Va.)); *see also* *Hormel Foods Corp. v. Jim Henson Productions, Inc.*, 73 F.3d 497, 507 (2d Cir. 1996) and *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 588 F.3d 97, 110 (2d Cir. 2009)

⁶⁶² *Deere & Co. v. MTD Products, Inc.*, 41 F.3d 39, 43 (2d Cir. 1994); *Starbucks*, 588 F.3d at 110

⁶⁶³ *Hormel Foods*, 73 F.3d at 507

⁶⁶⁴ Landes and Posner, *supra* note 94, at 207

⁶⁶⁵ *Ty Inc. v. Perryman*, 306 F.3d 509, 511 (7th Cir. 2002)

⁶⁶⁶ Jacoby, *supra* note 633, at 1051

⁶⁶⁷ *Id.*

⁶⁶⁸ *Rosetta Stone Ltd. v. Google, Inc.*, 730 F.Supp.2d 531, 551-552 (E.D.Va. 2010)

which third parties use famous marks when assessing harm to the reputation of the marks. In *V Secret Catalogue*, the Circuit pointed out that a clear semantic association between a famous mark and a mark used on sex-related products creates “a rebuttable presumption, or at least a very strong inference,” that the use is likely to tarnish the famous mark.⁶⁶⁹ Hence, a user of the mark has to offer evidence such as expert testimony, surveys, polls, or customer testimony in order to prove that there is no probability of tarnishment.⁶⁷⁰ This decision is premised on the assumption that use of famous marks on sex-related products leads to harm to the reputation of famous marks in most cases.

In the EU, ‘detriment to the repute of the trade mark’ in EU trade mark law is regarded as the equivalent of tarnishment in the TDRA.⁶⁷¹ Nevertheless, the understanding of Advocate General Jacobs and the ECJ as to tarnishment is different from that of most US courts. In *Adidas-Salomon*,⁶⁷² Advocate General Jacobs interpreted it as arising solely from the nature of products on which third parties use famous marks. He defined it as the case where “the goods for which the infringing sign is used appeal to the public’s senses in such a way that the trade mark’s power of attraction is affected,” mentioning a Benelux case about the trade marks ‘Claeryn’ for a Dutch gin and ‘Klarein’ for a liquid detergent.⁶⁷³

The ECJ also focused on products on which third parties use famous marks. In *L’Oréal*, the Court regarded tarnishment as arising “when the goods or services for which the identical or similar sign is used by the third party may be perceived by the public in such a way that the trade mark’s power of attraction is reduced.”⁶⁷⁴ Moreover, the ECJ emphasised that “[t]he likelihood of such detriment may arise in particular from the fact that the goods or services offered by the third party possess a characteristic or a quality which is liable to have a negative impact on the image of the mark.”⁶⁷⁵

In Korea, the Seoul District Court took a similar position in

⁶⁶⁹ *V Secret Catalogue v. Victoria's Secret Stores*, 605 F.3d 382, 388-389 (6th Cir. 2010)

⁶⁷⁰ *Id.*

⁶⁷¹ *L’Oréal SA v. Bellure NV* (C-487/07) [2009] E.T.M.R. 55, 1031 (The ECJ also referred to this as “degradation”)

⁶⁷² *Adidas-Salomon AG and Another v. Fitnessworld Trading Ltd* (C-408/01) [2004] Ch. 120

⁶⁷³ *Id.* at 128-129

⁶⁷⁴ *L’Oréal*, [2009] E.T.M.R. 55 at 1031

⁶⁷⁵ *Id.*

SONYBANK.COM⁶⁷⁶ and HiTIFFANY.⁶⁷⁷ In these cases, the district court described ‘an act of doing damage to the reputation of famous marks’ within the reach of tarnishment as ‘an act of impairing good images or values of famous marks by using the marks on goods or services with negative images.’⁶⁷⁸

(3) Unfair Advantage

In contrast to US and Korean law, EU trade mark law prevents the taking of unfair advantage of the distinctive character or the repute of famous marks: it is a third type of dilution which amounts to trade mark infringement. In Korea, the taking of unfair advantage does not infringe trade mark rights, although use of trade marks for the purpose of taking unfair advantage constitutes a ground for refusal, opposition, and invalidation. According to the ECJ, dilution by the taking of unfair advantage arises, in particular, when “a transfer of the image of [a] mark or of the characteristics which it projects to the goods identified by the identical or similar sign” leads to “clear exploitation on the coat-tails of the mark with a reputation.”⁶⁷⁹ The ECJ also stressed that dilution by unfair advantage differs from other types of dilution in that the injury of unfair advantage does not lie in harm to the distinctive character or the repute but in unfair benefits of a third party, and thus the presence of injury should be assessed from the perspective of reasonably well informed and reasonably observant average consumers of products for which the later mark is registered.⁶⁸⁰ Moreover, the Court found unfair advantage when a third party did not pay for the advantage. It held that where the third party attempts “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 [a famous mark] in order to create and maintain the image of that mark,” the advantage gained from the third party use of a mark similar to the famous mark should be deemed to be

⁶⁷⁶ Judgment of 18 October 2002, Seoul District Court, 2001 Ga Hab 35469

⁶⁷⁷ Decision of 7 August 2003, Seoul District Court, 2003 Ka Hab 1488

⁶⁷⁸ Id.

⁶⁷⁹ *L'Oréal*, [2009] E.T.M.R. 55 at 1031

⁶⁸⁰ *Intel Corp'n Inc v. CPM United Kingdom Ltd (C-252/07)* [2009] Bus. L.R. 1079, 1103

unfair.⁶⁸¹

The taking of unfair advantage was an issue in some keyword cases. In the Google joined cases, the ECJ decided that unfair advantage could arise where advertisers offer for sale imitations of products bearing a famous mark on the internet.⁶⁸² In *Interflora*, the Court also stated that a competitor's selection of a famous mark as an internet keyword without payment of compensation to an owner can be construed as a use for unfair advantage unless there is any 'due cause' as referred to in EU trade mark law.⁶⁸³

4) Limits of Trade Mark Rights

Advertisers and search engines have argued for a fair use, nominative fair use, or functional use defence in paid search marketing cases. In particular, they have claimed that use of trade marks as keywords itself constitutes these defences. Courts, however, have not shown a consistent position as to whether use of trade marks in paid search marketing constitutes defences and the relationship between the use requirement, likelihood of confusion or dilution, and defences.

(1) Possible Defences

a) Classic Fair Use

Some US courts decided that advertisers' use of trade marks as metatags is classic fair use. In *Brookfield*, the US Ninth Circuit did not accept a classic fair use defence, on the ground that 'MovieBuff,' which was different from 'movie buff' "by only a single space," was not an appropriate descriptive term.⁶⁸⁴ This court, however, implied that use of a descriptive mark as a metatag can constitute fair use.⁶⁸⁵ On the other hand, in *Bihari*,⁶⁸⁶ a district court in the Second Circuit

⁶⁸¹ *L'Oréal*, [2009] E.T.M.R. 55 at 1032; *Google France v. Louis Vuitton Malletier* (Joined Cases C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30, 557-558

⁶⁸² *Google France*, [2010] E.T.M.R. 30 at 558

⁶⁸³ *Interflora Inc v. Marks & Spencer Plc* (C-323/09) [2012] E.T.M.R. 1, 45-46

⁶⁸⁴ *Brookfield Commc'ns, Inc. v. West Coast Entm't Corp.*, 174 F.3d 1036, 1066 (9th Cir. 1999)

⁶⁸⁵ *Id.* (asserting that "[t]he proper term for the "motion picture enthusiast" is "Movie Buff," which West Coast certainly *can* use.")

accepted a fair use defence even where a mark could not be classified as descriptive. The court decided that “the websites provide[d] information about Bihari Interiors and Marianne Bihari” and thus “Gross [did] not us[e] the terms “Bihari Interiors” and “Bihari” in the metatags as a mark, but rather, to fairly identify the content of his websites.”⁶⁸⁷ According to the court, use of a mark in an index or catalogue constitutes ‘use of a mark in its descriptive sense.’⁶⁸⁸ It appears that the Bihari court interpreted fair use more broadly than the Brookfield court. These cases show that a classic fair use defence can be used also in paid search marketing cases.

Unlike US courts, the ECJ denied the general idea that a descriptive fair use defence is accepted in use of trade marks as keywords. In *Portakabin*, the ECJ found that use of a trade mark as a keyword “is not intended to provide an indication of one of the characteristics of the goods or services offered by the third party in that use, with the result that that use does not come within art.6(1)(b) of Directive 89/104.”⁶⁸⁹ The Court only suggested that a contrary conclusion can be made in special circumstances by national courts.⁶⁹⁰ The Court also mentioned that the fact that the term ‘portakabin’ was not used as a generic term should be taken into account in determining whether the use constituted fair use within the meaning of article 6(1)(b).⁶⁹¹

b) Nominative Fair Use

Nominative fair use is use of trade marks to describe trade mark proprietors’ products. It is mainly discussed among US courts because a nominative fair use doctrine is developed by the US Ninth Circuit⁶⁹² and the Lanham Act includes nominative fair use as one type of a fair use defence to dilution-based liability.⁶⁹³

Some US courts suggest that advertisers’ use of trade marks as metatags

⁶⁸⁶ *Bihari v. Gross*, 119 F.Supp.2d 309 (S.D.N.Y. 2000)

⁶⁸⁷ *Id.* at 322

⁶⁸⁸ *Id.*

⁶⁸⁹ *Portakabin Ltd and Portakabin BV v. Primakabin BV* (C-558/08) [2010] E.T.M.R. 52, 944

⁶⁹⁰ *Id.*

⁶⁹¹ *Id.*

⁶⁹² *New Kids on the Block v. News Am. Publ'g, Inc.*, 971 F.2d 302, 308 (9th Cir. 1992)

⁶⁹³ Lanham Act, Sec. 43(c)(3)(A)

or keywords can constitute nominative fair use. In *Playboy*, the Ninth Circuit considered advertisers' use of a trade mark in a metatag to be nominative based on the fact that the trade mark was used to describe the content of a defendant's website.⁶⁹⁴ This decision is in contrast with the decision of the Bihari court which accepted a classic fair use defence based on a similar fact. A district court in the Fifth Circuit pointed out in *Mary Kay* that advertisers' use of trade marks in paid search marketing can be nominative fair use.⁶⁹⁵ In *Designer Skin*, a district court in the Ninth Circuit also found that the nominative fair use doctrine protected S&L Vitamins' use of *Designer Skin*'s trade marks in its metatags and as keywords from dilution-based liability since the use satisfied all three elements of a nominative fair use test.⁶⁹⁶

Search engines' use of trade marks as keywords was also considered nominative fair use. A district court in the Third Circuit noted in *800-JR Cigar* that a search engine's use of trade marks as keywords can be fair in terms of its business unless it "wrongfully participate[s] in someone else's infringing use."⁶⁹⁷ Moreover, some commentators argue that search engines' use should be regarded as nominative fair use in the nature of comparative advertising insofar as search engines take reasonable steps to clearly separate paid search results from natural results.⁶⁹⁸

In other cases, however, a nominative fair use claim was rejected because use of trade marks in metatags or as keywords did not survive the test for nominative fair use. The Ninth Circuit did not accept a nominative fair use claim in *Horphag Research*, on the grounds that "Garcia's references to Pycnogenol spawn[ed] confusion as to sponsorship and attempt[ed] to appropriate the cachet of the trademark Pycnogenol to his product."⁶⁹⁹ In *Netscape Communications*, the Ninth Circuit also found defendants' use of PEI's marks unfair because they could use other keywords to make adult-oriented banner advertisements appear and thus did not satisfy the first requirement for nominative fair use.⁷⁰⁰ In *Edina*

⁶⁹⁴ *Playboy Enterprises, Inc. v. Welles*, 279 F.3d 796, 803-804 (9th Cir. 2002)

⁶⁹⁵ *Mary Kay, Inc. v. Weber*, 601 F. Supp. 2d 839, 857 (N.D.Tex. 2009)

⁶⁹⁶ *Designer Skin, LLC v. S&L Vitamins, Inc.*, 560 F.Supp.2d 811, 820-822 (D.Ariz. 2008)

⁶⁹⁷ *800-JR Cigar, Inc. v. GoTo.com, Inc.*, 437 F.Supp.2d 273, 292-293 (D.N.J. 2006)

⁶⁹⁸ Macaw, *supra* note 29, at 55-60

⁶⁹⁹ *Horphag Research, Ltd. v. Pelligrini*, 337 F.3d 1036, 1041 (9th Cir. 2003)

⁷⁰⁰ *Playboy Enterprises, Inc. v. Netscape Communications, Inc.*, 354 F.3d 1020, 1030 (9th Cir.

Realty, a district court in the Eighth Circuit, adopting the nominative fair use test of the Third Circuit, held that use of the EDINA REALITY mark as a search term did not constitute nominative fair use because a defendant could use other terms such as Twin Cities real estate to trigger its advertisements and thus the use was not necessary to describe the defendant's service.⁷⁰¹

Some courts denied a likelihood of confusion claim based on the same factual context that could form the basis of nominative fair use. The Designer Skin court, which accepted a nominative fair use defence to dilution-based liability, did not rely on nominative fair use to protect advertisers' use from confusion-based liability. Rather, the court concluded that "S & L Vitamins' use of Designer Skin's trademarks to accurately describe the contents of its websites [did] not cause initial interest confusion."⁷⁰² A similar decision was also made in a metatag case. In Standard Process, a district court in the Seventh Circuit found no likelihood of confusion because consumers could purchase unaltered SP Products on Dr. Banks's website.⁷⁰³

On the other hand, nominative fair use is not adopted by some US courts, the ECJ, and Korean courts. The US Fourth Circuit stressed in Rosetta Stone that it did not adopt "a position about the validity of nominative fair-use doctrine as a defense to trademark infringement or whether this doctrine should formally alter our likelihood-of-confusion test in some way." The decision of the ECJ in Adam Opel⁷⁰⁴ can be construed as meaning that "there is no defence for nominative use" in that the ECJ rejected the applicability of article 6(1)(b) to Autec's use of a Opel logo on its scale models which delivered information that scale models were models of the Opel vehicles.⁷⁰⁵ There is no Korean case that adopts nominative fair use.

c) Functional Use

2004)

⁷⁰¹ Edina Realty, Inc. v. TheMLSonline.com, 80 U.S.P.Q.2d 1039, 6-7 (D.Minn. 2006)

⁷⁰² Designer Skin, LLC v. S&L Vitamins, Inc., 560 F.Supp.2d 811, 820 (D.Ariz. 2008)

⁷⁰³ Standard Process, Inc. v. Banks, 554 F. Supp. 2d 866, 871 (E.D.Wis. 2008)

⁷⁰⁴ Adam Opel AG v. Autec AG (C-48/05) [2007] E.T.M.R. 33, 521

⁷⁰⁵ Fhima, supra note 637, at 231

In some US cases,⁷⁰⁶ search engines claimed that trade marked keywords performed an essential indexing function by enabling them to identify relevant information to users and thus constituted functional use. A district court accepted this functional use claim in *Rosetta Stone* because i) keywords made it possible for Google to “identify in its databases relevant information” in response to the query of internet users, ii) they had an effect on “the cost and quality of Google’s AdWords Program,” and iii) they offered benefits to consumers from the perspective of competition.⁷⁰⁷

Amici curiae criticised the district court’s decision, arguing that the court did “an end-run around to bring back Google’s non-trademark use argument.”⁷⁰⁸ The Fourth Circuit rejected the functionality doctrine as a defence, reasoning that *Rosetta Stone*’s use of its own mark was “not essential for the functioning of its language-learning products” and the improvement in the function of Google’s Adwords programme caused by *Rosetta Stone*’s non-functional mark was irrelevant to the functionality doctrine.⁷⁰⁹ The Ninth Circuit already made a similar decision in *Netscape Communications*.⁷¹⁰

(2) Relationship between Defences and Requirements

a) Fair Use and ‘Use of Trade Marks’

As regards the relationship between a classic fair use defence and the use requirement, scholars in favour of the trade mark use doctrine regard descriptive fair use as “one category of non-trademark use that falls explicitly beyond the purview of trademark infringement law.”⁷¹¹ Critics of the trade mark use theory, however, argue that the theory renders a statutory fair use defence superfluous.⁷¹²

⁷⁰⁶ *Playboy Enterprises, Inc. v. Netscape Communications, Inc.*, 354 F.3d 1020 (9th Cir. 2004); *Rosetta Stone Ltd. v. Google, Inc.*, 730 F.Supp.2d 531 (E.D.Va. 2010); *Rosetta Stone Ltd. v. Google, Inc.*, 2012 WL 1155143 (C.A.4(Va.))

⁷⁰⁷ *Rosetta Stone*, 730 F.Supp.2d at 545-546

⁷⁰⁸ *Rosetta Stone Ltd. v. Google Inc.*, 2010 WL 4306013, 21 (C.A.4)

⁷⁰⁹ *Rosetta Stone*, 2012 WL 1155143 at 13

⁷¹⁰ *Playboy Enterprises*, 354 F.3d at 1030-1031

⁷¹¹ Dogan and Lemley, *supra* note 521, at 1685

⁷¹² Dinwoodie and Janis, *supra* note 65, at 1616-1618; Graeme Dinwoodie and Mark Janis, *Lessons from the Trademark Use Debate*, 92 Iowa L. Rev. 1703, 1708 (2007)

A district court in *Rosetta Stone*⁷¹³ is in a similar position as that of proponents of the trade mark use theory. The district court relied on fair use under the Lanham Act to endorse the conclusion that Google did not use the Rosetta Stone Marks to identify its own products and thus there was no liability for trade mark dilution.⁷¹⁴

This decision, however, was reversed by the Fourth Circuit.⁷¹⁵ The Circuit held that the district court had not analysed whether Google had used the Rosetta Stone marks in good faith, reasoning that if non-trade mark use is construed as coextensive with a fair use defence, the defence would be unnecessary.⁷¹⁶

b) Fair Use and Likelihood of Confusion

In the USA, classic fair use and likelihood of confusion are closely connected. Before the Supreme Court's decision in *KP Permanent Make-Up*, the Ninth Circuit had found that fair use cannot be recognised where there is a probability of *any* confusion.⁷¹⁷ The Ninth Circuit also asserted in *Netscape Communications* that “[a] fair use may not be a confusing use.”⁷¹⁸

Even after the US Supreme Court's decision, likelihood of confusion still plays a role in determining fair use.⁷¹⁹ The US Supreme Court held in *KP Permanent Make-Up* that “some possibility of consumer confusion must be compatible with fair use” because “the burden of proving likelihood of confusion rests with the plaintiff, and the fair use defendant has no free-standing need to show confusion unlikely.”⁷²⁰ It also stated that “the extent of any likely consumer confusion” can be relevant in the assessment of the objective fairness of using a

⁷¹³ *Rosetta Stone Ltd. v. Google, Inc.*, 730 F.Supp.2d 531 (E.D.Va. 2010)

⁷¹⁴ *Id.* at 550-551

⁷¹⁵ *Rosetta Stone Ltd. v. Google, Inc.*, 2012 WL 1155143, 19-20 (C.A.4(Va.))

⁷¹⁶ *Id.*

⁷¹⁷ *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 116 (2004)

⁷¹⁸ *Playboy Enterprises, Inc. v. Netscape Communications, Inc.*, 354 F.3d 1020, 1029 (9th Cir. 2004)

⁷¹⁹ McKenna, *supra* note 554, at 804

⁷²⁰ *KP Permanent Make-Up*, 543 U.S. at 121. McKenna interprets this decision as meaning that actionable confusion cannot be coexistent with descriptive fair use while some amount of confusion is compatible with fair use. *See* McKenna, *supra* note 554, at 804-805. *See also supra* note 435

term.⁷²¹ Based on this decision, the Ninth Circuit further asserted that “the degree of customer confusion remains a factor in evaluating fair use,” reversing again a district court’s grant of KP’s motion for summary judgment on the basis of fair use.⁷²² It held that there were genuine issues of fact, listing relevant factors the first of which was “the degree of likely confusion.”⁷²³

A broad interpretation of requirements for classic fair use could make the relationship between fair use and confusion much closer. Requirements such as non-trade mark use and good faith are closely related to the likelihood of confusion analysis.⁷²⁴ Non-trade mark use can be interpreted as a lack of likelihood of confusion.⁷²⁵ As the Ninth Circuit suggested in *Fortune Dynamic*, concurring with the Second Circuit, good faith and the intent element in the assessment of likelihood of confusion have a common issue.⁷²⁶ Thus, the broad interpretation could make the fair use test almost the same as the analysis of likelihood of confusion.

In *Portakabin*, the ECJ also counted on the presence of likelihood of confusion in determining whether use is made ‘in accordance with honest practices in industrial or commercial matters.’⁷²⁷ The ECJ held that where advertisers’ use of trade marks as keywords can be prevented by article 5(1) of the Trade Mark Directive, advertisers “cannot claim that [they] [acted] in accordance with honest practices in industrial or commercial matters, and cannot therefore validly rely on the exception provided for in art.6(1) of that directive.”⁷²⁸

In the USA, as regards the relationship between nominative fair use and likelihood of confusion, there are two different attitudes: the Ninth Circuit and the Third Circuit. The Ninth Circuit crafted the so-called nominative fair use doctrine in *New Kids on the Block*, suggesting a three part test: “[f]irst, the product or service in question must be one not readily identifiable without use of the

⁷²¹ *KP Permanent Make-Up*, 543 U.S. at 123

⁷²² *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 408 F.3d 596, 609 (9th Cir. 2005)

⁷²³ *Id.*

⁷²⁴ William McGeeveran, *Rethinking Trademark Fair Use*, 94 *Iowa L. Rev.* 49, 85-86 (2008)

⁷²⁵ *Id.*

⁷²⁶ *Fortune Dynamic, Inc. v. Victoria's Secret Stores Brand Management, Inc.*, 618 F.3d 1025, 1043 (9th Cir. 2010)

⁷²⁷ *Portakabin Ltd and Portakabin BV v. Primakabin BV* (C-558/08) [2010] E.T.M.R. 52, 945-946

⁷²⁸ *Id.*

trademark; second, only so much of the mark or marks may be used as is reasonably necessary to identify the product or service; and third, the user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder.”⁷²⁹ The third part of the test, as Dinwoodie points out, “looks very much a proxy for an assessment of likely confusion as to association, sponsorship or endorsement.”⁷³⁰

Moreover, in *Horphag Research*, the Ninth Circuit stressed that the likelihood of confusion analysis is a core in the nominative fair use test. The court asserted that “the nominative fair use defense is available only if ‘the use of the trademark does not attempt to capitalize on consumer confusion or to appropriate the cachet of one product for a different one’” because likelihood of confusion is essential in trade mark infringement.⁷³¹ The Second Circuit, which adopted a similar nominative fair use test, also stated in *Tiffany* that the doctrine of nominative fair use permits a defendant’s use of a plaintiff’s trade mark “so long as there is no likelihood of confusion.”⁷³²

Furthermore, the Ninth Circuit emphasised in *Playboy* that this three-factor test should replace the likelihood of confusion test where a defendant claims nominative fair use.⁷³³ It reasoned that because nominative fair use is normally made of marks identical with proprietors’ trade marks, the application of the likelihood of confusion test, which places its focus on the similarity of marks at issue, could lead to “the incorrect conclusion” that all nominative fair use is likely to cause confusion.⁷³⁴ Thus, under the nominative fair use doctrine adopted by the Ninth Circuit, likelihood of confusion cannot coexist with nominative fair use.

On the grounds of i) the thin difference between descriptive fair use and nominative fair use, ii) the Supreme Court’s decision on *KP Permanent* that the burden of proving likelihood of confusion should rest with a plaintiff, and iii) the

⁷²⁹ *New Kids on the Block v. News Am. Publ’g, Inc.*, 971 F.2d 302, 308 (9th Cir. 1992)

⁷³⁰ Graeme B. Dinwoodie, *Lewis & Clark Law School Ninth Distinguished IP Lecture: Developing Defenses in Trademark Law*, 13 *Lewis & Clark L. Rev.* 99, 111 (2009)

⁷³¹ *Horphag Research, Ltd. v. Pelligrini*, 337 F.3d 1036, 1041 (9th Cir. 2003)

⁷³² *Tiffany (NJ), Inc. v. eBay Inc.*, 600 F.3d 93, 102 (2d Cir. 2010)

⁷³³ *Playboy Enterprises, Inc. v. Welles*, 279 F.3d 796, 801 (9th Cir. 2002)

⁷³⁴ *Id.*

statutory framework where likelihood of confusion is a core element,⁷³⁵ the Third Circuit adopted a bifurcated approach which distinguishes the likelihood of confusion test from a nominative fair use test.⁷³⁶ In *Century 21 Real Estate*, the court pointed out that the burden of proof shifts to a defendant to show that nominative use is “nonetheless” fair, once a plaintiff proves likelihood of confusion.⁷³⁷ In this vein, the Third Circuit adopted another three-factor test different from the Ninth Circuit’ test: “(1) Is the use of the plaintiff’s mark necessary to describe both plaintiff’s product or service and defendant’s product or service? (2) Is only so much of the plaintiff’s mark used as is necessary to describe plaintiff’s products or services? (3) Does the defendant’s conduct or language reflect the true and accurate relationship between plaintiff and defendant’s products or services?”⁷³⁸ Under this test, confusion can be compatible with nominative fair use. In a keyword case, a district court in the Eighth Circuit that adopted the nominative fair use test of the Third Circuit clarified that “[f]air use can occur along with some degree of confusion.”⁷³⁹

Some are sceptical of nominative fair use as a defence because of its relationship with confusion. As regards the nominative fair use tests of both the Ninth Circuit and the Third Circuit, McKenna argues that these tests cannot be regarded as defences because they are not independent of the likelihood of confusion analysis.⁷⁴⁰ Justice Fisher, concurring in part with the decision of the Third Circuit, also opined in *Century 21 Real Estate* that three parts of the nominative fair use analysis suggested by the Third Circuit is “nothing more than an inquiry into the likelihood of confusion, specifically, whether the use is with the intent to confuse due to a presence or lack of good-faith purpose, prominence, and truthfulness.”⁷⁴¹

c) Fair Use and Likelihood of Dilution

⁷³⁵ *Century 21 Real Estate Corp. v. Lendingtree, Inc.*, 425 F.3d 211, 220-221 (3d Cir. 2005)

⁷³⁶ *Id.* at 231-232 (adopting “a bifurcated approach that tests for confusion and fairness in separate inquiries in order to distribute the burden of proof appropriately between the parties at each stage of the analysis.”)

⁷³⁷ *Id.*

⁷³⁸ *Id.*

⁷³⁹ *Edina Realty, Inc. v. TheMLSonline.com*, 80 U.S.P.Q.2d 1039, 6 (D.Minn. 2006)

⁷⁴⁰ McKenna, *supra* note 554, at 806-808

⁷⁴¹ *Century 21 Real Estate Corp. v. Lendingtree, Inc.*, 425 F.3d 211, 241 (3d Cir. 2005)

The Ninth Circuit regards nominative use as not creating likelihood of dilution. The Circuit held in *Playboy* that nominative use, which “refers to [a] trademark holder’s product,” does not cause “an improper association in consumers’ minds between a new product and the trademark holder’s mark.”⁷⁴² A district court in the Ninth Circuit also asserted in *Designer Skin* that “[n]ominative uses, by definition, do not dilute the trademarks,” citing the decision in *Playboy*.⁷⁴³

Moreover, the Second Circuit showed that likelihood of dilution can have a bearing on nominative fair use. In *Tiffany*, it concluded that eBay’s use of the Tiffany mark did not cause likelihood of dilution on the ground of nominative use.⁷⁴⁴ According to the Second Circuit, eBay used the mark “directly to advertise and identify the availability of authentic Tiffany merchandise on the eBay website” and no mark or product to blur or tarnish the Tiffany mark was found.⁷⁴⁵

On the other hand, some commentators cast doubt on whether nominative use is capable of generating likelihood of blurring, while recognising that it is likely to tarnish a famous mark.⁷⁴⁶ The reasoning is that nominative use would strengthen the distinctiveness of the famous mark while it could generate tarnishment where it is made “in the context that criticizes senior goods.”⁷⁴⁷

3. Analysis of Interpretations

1) Interpretation based on Pro-Competitive Functions

This thesis suggests that, in order for trade mark protection to reach a balance between interested parties, requirements for and exceptions from trade mark liability should be interpreted in terms of pro-competitive trade mark functions. For this, at least two main factors should be defined: i) the roles that

⁷⁴² *Playboy Enterprises, Inc. v. Welles*, 279 F.3d 796, 806 (9th Cir.2002)

⁷⁴³ *Designer Skin, LLC v. S&L Vitamins, Inc.*, 560 F.Supp.2d 811, 820-821 (D.Ariz. 2008)

⁷⁴⁴ *Tiffany (NJ), Inc. v. eBay Inc.*, 600 F.3d 93, 111-112 (2d Cir. 2010)

⁷⁴⁵ *Id.*

⁷⁴⁶ *Fhima*, supra note 637, at 226

⁷⁴⁷ *Id.*

the requirements and exceptions should take in protecting pro-competitive functions against unfair use of trade marks and ii) the scope of pro-competitive functions.

Above all, ‘use of trade marks,’ ‘likelihood of confusion,’ ‘likelihood of dilution,’ and ‘exceptions including fair use’ should play distinct roles. If they play similar roles, one would make the other redundant and in the end unnecessary. When positioned distinctively against the ‘protecting pro-competitive functions’ context, every requirement and exception would be indispensable for furthering fair and efficient competition and thus finding the balancing point.

The use requirement relates to the argument that pro-competitive functions should be protected against unfair ‘use of trade marks.’ Without use of trade marks identical with, or similar to, owners’ trade marks, pro-competitive trade mark functions could not be harmed because consumers could still identify the position of product quality and brand image ‘through owners’ trade marks.’ Advertising that does not include use of marks cannot confuse consumers as to who controls product quality and brand image (“controllers of product quality and brand image”). Neither can it be detrimental to product quality or brand image that famous marks identify.

The use requirement itself, however, has its limits in separating fair use from unfair use and thus it should not take this role. Use of trade marks may or may not cause likelihood of confusion or dilution. Therefore, the use cannot be considered fair or unfair until it is evident whether or not confusion or dilution is likely. Moreover, the use requirement cannot sift out a use that is not likely to harm pro-competitive functions. The likely harm can be seen only after it is shown that confusion or dilution leads to it. Hence, if the use requirement is interpreted as determining the destiny of liability claims, other requirements or exceptions could lose their place in protecting pro-competitive functions.

Unfairness and harm to pro-competitive functions are directly related to confusion and dilution rather than ‘use of trade marks.’ Given that the definition of ‘unfairness’ is uncertain, and that Article 10*bis*(2) of the Paris Convention defines “an act of unfair competition” as “any act of competition contrary to

honest practices in industrial or commercial matters,”⁷⁴⁸ a use that is likely to generate *any* type of confusion or dilution *may* constitute ‘an unfair act.’ In this sense, both confusion and dilution delimits the scope of ‘unfairness’ in use of trade marks.

At the same time, confusion and dilution need to be demarcated by ‘harm to pro-competitive trade mark functions.’ Not all uses that are likely to cause confusion or dilution lead to likely damage to these functions. Not all confusing or dilutive uses are anti-competitive. Nevertheless, trade mark law does not require the condition of ‘likely harm to pro-competitive functions’ for trade mark liability so that this condition cannot be interpreted as a separate requirement for trade mark liability; rather, it should serve to delineating what type of confusion and dilution generates anti-competitive and thus materially inefficient effects on product markets. In short, confusion and dilution are essentials in assessing trade mark liability. They are able to fix the boundary of use of trade marks that is ‘unfair,’ ‘anti-competitive,’ and ‘materially inefficient.’

Despite this core role of confusion and dilution, their individual ways of affecting pro-competitive functions should be understood differently. First, confusion affects consumer perception as to ‘controllers’ of product quality and brand image while dilution by blurring and tarnishment directly affects consumer perception as to ‘product quality’ or ‘product brand image.’ When use of trade marks causes consumer confusion, consumers could mistakenly believe that the product quality and brand image that the marks indicate are consistent with what owners’ marks denote and connote; even where consumers decide to change their preferences or purchasing decisions from owners’ products to other competitors’ because the quality of users’ products is low, or because experiences over users’ products give them inferior brand images, it is not dilution but confusion that causes the change in preferences or purchasing decisions.

Second, likelihood of confusion occurs in users’ product markets while likelihood of dilution by blurring and tarnishment arises in trade mark owners’ product markets. Although both confusion and dilution (blurring and tarnishment) result from use of trade marks in users’ product markets, the markets where confusion or dilution occurs are different unless user’ product markets are the

⁷⁴⁸ McCarthy, *supra* note 87, § 1:8

same as owners' product markets. For instance, where a company uses another company's trade mark for instant coffee on its coffee syrup, a use is made in a coffee syrup market and it is likely to cause confusion in this market. On the other hand, where a company uses a trade mark for instant coffee on its laundry bleaches, a use is made in a bleach market but the use could tarnish the reputation of the trade mark in an instant coffee market.

Third, and relatedly, the relationship between confusion and harm to pro-competitive functions is not the same as that between blurring or tarnishment and this harm. In the case of non-competing use, the former relationship is not as direct as the latter because pro-competitive functions concern trade mark owners' and competing product markets. This difference requires different analysis between confusion and dilution by blurring or tarnishment. Confusion arising from non-competing use needs additional explanation as to why confusion in users' markets would have adverse effects on trade mark functions in owners' product markets. Moreover, average consumers whose perspective is the standpoint in assessing likely confusion and dilution cannot be identical.

In relation to the above points, the taking of unfair advantage, a third type of actionable dilution in EU trade mark law, is divorced from dilution by blurring and tarnishment. Because it occurs in users' product markets, not in owners' product markets, it should be discussed how unfair advantage in users' markets can affect pro-competitive functions of famous marks. From the perspective of fair and efficient competition, the third type of dilution cannot be recognised as such if it can hardly explain the mechanism of its effects on the information and differentiation functions of famous marks.

Defences or exceptions from liability act as tools to properly limit trade mark protection based on internal or extraneous values of trade mark law. Exceptions such as descriptive fair use, nominative fair use, and functional use are based 'principally' on internal values of trade mark law: 'fairness,' 'competitiveness,' and 'immaterial inefficiency.' Even where use of trade marks appears to be likely to cause confusion or dilution which leads to damage to pro-competitive functions, the use should be permitted if trade mark protection brings about anti-competitive effects on product markets. Exceptions such as non-commercial expression provided for in the Lanham Act and the Korean Unfair

Competition Act stem from freedom of expression. Unlike the EU Trade Mark Directive and the Community Trade Mark Regulation, section 43(c)(3) of the Lanham Act and article 2(1)(iii) of the Korean Unfair Competition Act provide explicitly that non-commercial expression is beyond the reach of dilution-based liability.

According to the Lanham Act and the Korean Unfair Competition Act, each group of exceptions has a different position in protecting trade mark functions. Exceptions based on internal values can turn seemingly actionable confusion or dilution into non-actionable confusion or dilution. That is, they can transform ostensible likelihood of harm to possible or no harm to pro-competitive trade mark functions. In this sense, some degree of confusion or dilution can be compatible with classic fair use, nominative fair use, and functional use. On the other hand, exceptions based solely on free speech values in both laws have nothing to do with non-actionable harm to pro-competitive functions. Thus, it appears that both laws allow actionable dilution to coexist with these exceptions. As will be discussed in detail in part III, however, insofar as actionable likelihood of dilution in non-commercial context is limited to ‘explicit harm to pro-competitive functions,’ free speech values have much to do with harm to these functions and non-commercial speech exceptions are unnecessary.

In addition to the positions of requirements and exceptions, the scope of protectable trade mark functions discussed in chapter 2 is significant in interpreting them. First, pro-competitive functions only concern information as to controllers of product quality and brand image. Information on other kinds of relationship between owners and users is unclear. This vague information is likely to complicate the decision making of competitors and consumers rather than help. On the other hand, brand image is included in the information that trade marks convey for fair and efficient competition. Competitors can impregnate their trade marks with their own product brand images. Consumers can form their preference for certain products because of the utility that these brand images possess. This is important in determining the subject of confusion and the meaning and scope of dilution by blurring and tarnishment.

Second, the differentiation function not only relates to the ability of consumers to distinguish between products, but it also concerns the creation,

alteration, or removal of consumer preference. Even if third party use does not interfere with consumers' purchasing decisions, it can damage the differentiation function by unfairly changing consumer preference. The timing of confusion is a relevant issue.

Third, since the information and differentiation functions can only reach competing product markets, third party use in non-competing product markets does not affect these functions in the same way as use in competing product markets does. For example, where third parties use trade marks on competing products, confusion as to controllers of product quality is directly linked to harm to trade mark functions of owners' trade marks. Consumers in owners' product markets, who are keen to competing products, cannot distinguish between products based on the information that trade marks deliver. Trade mark owners cannot differentiate their products from competitors' through use of trade marks. On the other hand, use in non-competing product markets cannot easily justify trade mark liability. There should be likelihood of adverse effects on the information and differentiation functions of owners' trade marks in owners' product markets. This difference concerns the meaning of 'likelihood of confusion.'

In sum, requirements and exceptions, at issue in keyword cases, should be interpreted on the basis of their positions in protecting pro-competitive functions and the scope of these functions. This interpretation will conform to the purpose of trade mark protection.

2) Use of Trade Marks

Here the thesis suggests that the use requirement should not play a role beyond its capability in determining trade mark liability: it cannot distinguish between fair and unfair use and cannot decide whether adverse effects on pro-competitive trade mark functions are likely until the absence or presence of likelihood of confusion or dilution is obvious. Rather, the role should be limited to excluding the case where consumers cannot 'perceive' any use of trade marks. In this sense, 'use of trade marks' within the reach of trade mark liability should be construed as meaning use of trade marks in a manner that can be perceived by

consumers.

The trade mark use theory, which interprets ‘use of trade marks’ as ‘use as trade marks,’ has its limits in properly delimiting the scope of trade mark protection and considering the peculiarities of paid search marketing.

First, it cannot maintain a proper balance between interested parties. It is predicated on the assumption that confusion and dilution tests cannot sufficiently contribute to finding the proper scope of trade mark protection.⁷⁴⁹ Hence, it seeks to curb the expansion of trade mark protection by interpreting ‘use of trade marks’ as ‘use as trade marks.’ It further suggests that this interpretation could keep a balance by “prohibiting actions that undercut the ability of consumers to rely on marks for reliable product information, while allowing references to marks that simply enhance the flow of information to consumers and foster competition.”⁷⁵⁰ Authors who argue for the theory maintain that “[t]he appropriate cause of action ... may be a false advertising claim” rather than a trade mark infringement claim where trade marks are not used as such.⁷⁵¹

This theory, however, erects another barrier to competition by permitting use of trade marks that is likely to harm pro-competitive trade mark functions. False advertising cannot be the grounds for preventing invisible use of trade marks as keywords, which, in combination with advertisements on SERPs, could confuse consumers or dilute trade marks without using false or misleading expressions. For example, where a keyword identical with a famous mark for instant coffee triggers an advertisement for laundry bleaches and the advertisement neither include the mark nor misleading words, courts would not accept a false advertising claim. After all, the balance will tip in favour of third party users under the trade mark use theory.

Second, in paid search marketing, the trade mark use theory almost ignores the fact that trade marks are employed in software programmes. The main characteristic of paid search marketing, ‘internal use’ of trade marks as keywords that triggers advertisements, is treated as not existing in assessing trade mark

⁷⁴⁹ Dogan and Lemley, *supra* note 521, at 1693 (arguing that “the likelihood-of-confusion standard itself is both substantively and procedurally ill-suited to resolve the complex set of issues raised by today’s novel trademark claims.”)

⁷⁵⁰ Barrett, *the Demise of Trademark Use*, *supra* note 522, at 456

⁷⁵¹ Dogan and Lemley, *supra* note 62, at 821, 836

liability. Paid search marketing is equated with run-of-the-mill advertising in that advertisers can be responsible for trade mark infringement only where marks are used in advertisements. The trade mark use theory does not put much weight on the triggering effect of internal use.

These limits of the theory stem basically from the relative position of the use requirement in protecting trade mark functions. The use requirement itself cannot decide whether the use is fair or unfair, pro-competitive or anti-competitive, and materially inefficient or not. In relation to this, the theory can argue that only use as trade marks can cause actionable likelihood of confusion or dilution. This, however, is an assumption rather than a fact. Advertisers' invisible use of trade marks in paid search marketing can cause actionable likelihood of confusion or dilution. The argument also makes defences such as fair use redundant and unnecessary. It assigns roles of other requirements and defences to the use requirement. In the same vein, 'use as trade marks in a more functional sense' also does not place the use requirement on a proper position because it connects the interpretation of the use requirement with confusion more strongly than the trade mark use theory.

Therefore, the role of 'use of trade marks' should be limited to separating the use of trade marks that consumers can perceive from the use that consumers cannot because the latter use cannot cause consumer confusion or dilution at all. Consumers' perceptibility of use of trade marks, however, does not always match the visibility of trade marks. Consumers can detect use of trade marks based on context and circumstances. For example, internet users, who input a trade mark in a search box, can perceive that the mark is somehow used in a programme based on the fact that a search engine triggers relevant advertisements some of which do not include the mark. On the other hand, use of trade marks visible to some consumers may not be recognised by consumers in different contexts. For instance, internet users are unable to know whether trade marks are used on advertisers' websites until they visit those sites. In this sense, use of trade marks should be construed as meaning 'use of trade marks that consumers can perceive.'

3) Likelihood of Confusion

(1) Subject of Confusion

Trade mark law does not always provide clearly for the subject of consumer confusion. The EU Trade Mark Directive, the Community Trade Mark Regulation, and the Korean Trade Mark Act do not delineate it. In the Lanham Act, section 32(1) for registered trade marks does not have any mention about it, whereas section 43(a)(1) for unregistered trade marks provides that likelihood of confusion covers “the origin, sponsorship, or approval of [a person’s] goods, services, or commercial activities by another person.” Nevertheless, the concepts of ‘approval’ and ‘sponsorship’ can be difficult to delimit.

This thesis suggests that the subject of consumer confusion should be ‘controllers of product quality and brand image.’ First, it should be ‘about product quality and brand image’ because only likelihood of confusion that could harm the information and differentiation functions is actionable and only information on product quality and brand image falls within the scope of these functions. If use of trade marks could cause confusion as to some kind of relationship between trade mark owners and users, it is not likely that this confusion harms the functions of owners’ trade marks. Even if consumers purchase users’ products because of this relationship, this purchasing decision does not interfere with the functions.⁷⁵² consumers can detect the position of product quality and brand image through trade marks, and trade mark owners still can differentiate their products from competitors’ through their own trade marks. Competitors can establish their marketing strategies in the light of the information that the trade

⁷⁵² Lemley and McKenna argue that a trade mark owner in this case can claim infringement, but that it should prove the materiality of the confusion to consumer purchasing decisions. *See* Mark A. Lemley and Mark McKenna, Irrelevant Confusion, 62 *Stan. L. Rev.* 413, 450 (2010) (submitting that “the law should require that trademark owners claiming infringement based on confusion regarding anything other than source or responsibility for quality must demonstrate the materiality of that confusion to consumer purchasing decisions.”) *See also* Mark A. Lemley and Mark McKenna, Owning Mark(et)s, 109 *Mich. L. Rev.* 137, 188 (2010) (suggesting that “trademark plaintiffs should have to demonstrate (1) that their injury flows from confusion about the actual source of the defendant’s goods or about who is responsible for the quality of those goods, or (2) that the defendant’s use causes confusion about some other relationship that is material to consumer purchasing decisions.”) Lunney, however, submits that a third party use that causes material confusion is not actionable in some cases. *See* Lunney, *supra* note 112, at 972 (arguing that “even conduct that causes material confusion is not actionable where the harm it causes consumers is outweighed by offsetting benefits that the conduct generates, whether in the form of more effective competition or an expanded information set for consumer decision-making.”)

marks convey.

Second, consumer confusion should not be about ‘the same product quality and brand image’ but, instead, about ‘who controls’ product quality and brand image. This is because the transfer of rights, competitors’ products, market conditions, and owners’ marketing strategies can change the product quality and brand image that trade marks denote or connote. The transfer of trade mark rights to others cannot guarantee the consistency of product quality and brand image. Competitors’ products and other market conditions can alter the relative level of the quality and brand image of owners’ products. Owners may want to change quality or brand image to make their products more competitive. Rather, trade marks convey information to consumers and competitors that their product quality and brand image are controlled by trade mark owners: owners assume ultimate responsibility for product quality and brand image. Thus, third party use may mislead consumers into believing that the product quality and brand image of users’ products are ‘under the control of trade mark owners.’

Looking in detail at the meaning of confusion as to ‘controllers of product quality and brand image,’ there is a subtle difference, depending on the markets where third party use of trade marks is made. In the case of competing use, confusion means simply ‘consumers’ mistaken belief that trade mark owners control the quality and brand image of users’ products.’ Based on this incorrect information and identification, consumers form their preferences, or make purchasing decisions. As a result, trade mark owners cannot differentiate their products efficiently from competitors’ products through their trade marks because the information conveyed by third parties’ trade marks is conceived as that delivered by the owners’ marks. Obviously the information and differentiation functions are not entirely in the owners’ hands.

In double identity cases, this consumer misconception is much more likely to harm the information and differentiation functions of owners’ trade marks. The first reason is that the identity between trade marks ‘mistakenly assures’ consumers that both trade marks deliver the same information on product quality and brand image. The second is that the adverse effects of the consumer misconception on the functions of owners’ trade marks in this context are much more direct and immediate than those in use of trade marks on similar and

competing products because consumers of owners' products are the same as those of users' products. Where, for example, a coffee company B uses another company A's trade mark for coffee, consumers would 'mistakenly believe' that the company A controls the quality and brand image of B's coffee. As a result, direct and indirect experiences, whether positive or negative, from the use of B's coffee, word of mouth, or B's marketing affect consumer understanding as to the quality and brand image of A's coffee. This consumer understanding 'directly and immediately' interferes with the functions of A's trade mark since A's and B's consumers are identical. Even where the quality of B's coffee is superior to that of A's coffee, use of A's trade mark on B's coffee adversely affects the functions of A's trade mark because consumers and other competitors can hardly recognise the quality and brand image of A's coffee. The functions of A's trade mark is no more in the hand of the company A. This confusion could even lead to so-called reverse confusion.⁷⁵³ Consumers could have the misconception that B owns the trade mark and the quality and brand image of B's coffee are what the trade mark 'really' stands for.

Because of the increased likelihood of harm, some trade mark laws such as the EU Trade Mark Directive, the Community Trade Mark Regulation, and the Korean Trade Mark Act do not require likelihood of confusion for trade mark infringement in double identity cases. This, however, should not be interpreted as meaning that double identity in itself would always cause confusion-based liability. For example, many courts and commentators do not suggest that use of the identical marks as keywords for the same products always causes likelihood of confusion. Similarly, the fact that likelihood of confusion is not required in double identity cases should not lead to the conclusion that more or wide trade mark functions are protected, or that quasi-dilution-based liability is adopted. As in other cases, trade mark liability in double identity cases can arise only where the information and differentiation functions of owners' marks are likely to be harmed. At least insofar as there is no real 'likelihood of dilution' in a double identity provision, quasi-dilution-based liability should not be adopted.

⁷⁵³ McCarthy, *supra* note 28, § 23:10 (stating that "reverse confusion occurs when the junior user's advertising and promotion so swamps the senior user's reputation in the market that customers are likely to be confused into thinking that the senior user's goods are those of the junior user.")

In the context of non-competing use, ‘confusion as to controllers of product quality and brand image’ consists of two misconceptions: the misconception that trade mark owners entered users’ product markets and the misconception that trade mark owners control the quality and brand image of users’ products. The former misconception is a prerequisite for actionable likelihood of confusion in non-competing use. Without this misconception, consumers in non-competing product markets cannot be confused into believing that trade mark owners control the quality and brand image of users’ products. For instance, consumers for coffee syrup would mistakenly believe that a coffee company controls the quality of coffee syrup only when they think that the company entered a coffee syrup market. In this sense, evaluating this misconception is significant in the likelihood of confusion test.

In relation to this, courts in different jurisdictions have suggested similar, but not identical, factors in assessing similarity of products. In *Network Automation*, the US Ninth Circuit stated that “[t]he proximity of goods is measured by whether the products are: (1) complementary; (2) sold to the same class of purchasers; and (3) similar in use and function.”⁷⁵⁴ In *Canon*, the ECJ held that relevant factors “include, *inter alia*, their nature, their end users and their method of use and whether they are in competition with each other or are complementary.”⁷⁵⁵ The General Court additionally considered other factors such as the distribution channels of products.⁷⁵⁶ In *Mania*, the Supreme Court of Korea indicated that the nature, shape, and use of products, production sector, sales sector, and the scope of consumers should be considered in assessing similarity of products.⁷⁵⁷ These relevant factors directly concern consumer misconception as to the expansion of trade marks into non-competing markets.

US federal courts include some other elements, which relate to this misconception, in their likelihood of confusion tests. The Pignons factors of the First Circuit include i) “the relationship between the parties’ channels of trade,” ii) “the relationship between advertising,” and iii) “the likelihood that the prior

⁷⁵⁴ *Network Automation, Inc. v. Advanced Systems Concepts, Inc.*, 2011 WL 815806, 9 (C.A.9(Cal.))

⁷⁵⁵ *Canon Kabushiki Kaisha v. Metro-Goldwyn-Mayer Inc.* (C-39/97) [1999] 1 C.M.L.R. 77

⁷⁵⁶ *IG Communications Ltd v. OHIM* (T-301/09) [2013] E.T.M.R. 17, 294; *Lidl Stiftung & Co KG v. OHIM* (T-237/11) [2013] E.T.M.R. 21, 374

⁷⁵⁷ Judgment of 16 June 2006, Supreme Court, 2004 Hu 3225

owner will bridge the gap.”⁷⁵⁸ The Polaroid test of the Second Circuit contains “the likelihood that the prior owner will bridge the gap.”⁷⁵⁹ The Third Circuit embraces “whether the goods, though not competing, are marketed through the same channels of trade and advertised through the same media” and “other facts suggesting that the consuming public might expect the prior owner to manufacture a product in the defendant’s market, or that he is likely to expand into that market” in its Lapp factors.⁷⁶⁰ One factor of the Sleekcraft test adopted by the Ninth Circuit is “likelihood of expansion of the product lines.”⁷⁶¹

This thesis, however, suggests that ‘likelihood of expansion’ should not be considered in assessing likelihood of confusion. It is because, without the belief that trade mark owners ‘already’ entered users’ markets, consumers would not mistakenly believe that trade mark owners control the quality and brand image of users’ products.

As is the case in competing use, consumers’ mistaken belief that trade mark owners control the quality and brand image of users’ products is also necessary for actionable confusion. Even though consumers conceive that trade mark owners already expanded into users’ product markets or licensed trade marks to users, there would be no actionable confusion if consumers are not confused as to who controls the quality and brand image of users’ products. For example, consumers of coffee syrup can be misled into thinking that a coffee company owns shares of a coffee syrup company because the syrup company’s trade mark includes the same suffix used in the coffee company’s trade mark. Nevertheless, this is not sufficient to affect the functions of the coffee company’s trade mark. Consumers of coffee are still able to identify product quality and brand image via trade marks in the market for coffee. They, whether consumers of coffee syrup or not, would not think that the coffee syrup company’s trade mark indicates the quality and brand image of coffee, based merely on the misconception as to the coffee company’s ownership of shares.

Additionally, non-competing use needs an explanation as to how likelihood of consumer confusion in non-competing product markets could harm

⁷⁵⁸ Boston Duck Tours, LP v. Super Duck Tours, LLC, 531 F.3d 1, n.6 (1st Cir. 2008)

⁷⁵⁹ Polaroid Corp. v. Polarad Elecs. Corp., 287 F.2d 492, 495 (2d Cir. 1961)

⁷⁶⁰ Interpace Corp. v. Lapp, Inc., 721 F.2d 460, 463 (3d Cir. 1983)

⁷⁶¹ AMF, Inc. v. Sleekcraft Boats, 599 F.2d 341, 349 (9th Cir. 1979)

the information and differentiation functions of owners' trade marks in owners' product markets. Where consumers of users' products are confused as to both the extension of trade marks and trade mark owners' control over quality and image, consumers of owners' products, who are also consumers of users' products, would regard the quality and image indicated by users' trade marks as those by owners' marks. Similarly, consumers of owners' products, who do not constitute consumers of users' products, would do the same. First, like consumers of users' products, they are likely to be confused as to the extension of trade marks; that is, factors, which form the basis of confusion as to the entry of trade mark owners into users' product markets, affect both sets of consumers. Second, considering the proximity between markets which is close enough to cause likelihood of confusion as to the extension of trade marks, they are usually exposed directly or indirectly to consumer confusion and evaluation in users' product markets: i) confusion as to trade mark owners' control over quality and image and ii) evaluation of quality and image as a result of experiencing users' products. After all, consumers of owners' products, whether consumers of users' products or not, could not identify the quality and brand image of owners' products. Owners could not steer their trade marks in the direction where they want them to go. Thus, the pro-competitive functions of trade marks are likely to be harmed by consumer confusion in non-competing product markets.

(2) Timing of Confusion

The timing of confusion in keyword cases relates to three questions. The first question is whether confusion as to controllers of product quality and brand image prior to purchase could harm pro-competitive functions. The second is whether the fact that confusion dissipates at the time of purchase can restore damaged functions. And, relatedly, whether very short duration between the point when initial confusion occurs and the time of purchase before which initial confusion dissipates makes confusion non-actionable is the third question.

As to the first question, confusion as to controllers could harm the information and differentiation functions of trade marks, even before consumers' purchase of products, in that it could make consumers form, alter, and dispose of

their preference for owners' products based on incorrect information. It would not be likely that consumer confusion is just locked deep within consumers' minds and has no effect until consumers buy products. Where, for example, a company A's trade mark for coffee is used in newspaper advertising for another company B's coffee, A's trade mark cannot indicate the quality and brand image of A's coffee which A wants to show. It is because consumers mistakenly believe that the mark used by B in advertising also indicates the same. As a result, consumers of coffee would decide whether they maintain or change their preference for A's coffee based on confusing information. Even when B maintains the same quality and brand image as what A's mark indicates, there still exists a high possibility that A cannot use its trade mark as it wishes.

Second, the fact that confusion is debilitated or dispelled at the time of purchase does not change these effects. The impaired trade mark functions cannot be restored retroactively. Only from the point when confusion is debilitated or dispelled do trade marks start to perform their normal functions.

Third, even when the duration between initial confusion and dissipation is very short, there could be harm to trade mark functions. Some deny pre-sale confusion by use of trade marks on the Internet because of this very brief duration.⁷⁶² In *GEICO II*, a district court in the Fourth Circuit also stated that "the risk of losing customers who are initially confused is lessened on the Internet as compared, for example, to when a billboard employs initial interest confusion to entice a customer down the wrong road because a customer can retrace his steps almost instantaneously online."⁷⁶³

Consumers, however, can form, alter, and dispose of their preferences for products based solely on online advertisements without visiting the advertised websites, just as they do the same relying merely on newspaper or TV advertising. Huge amounts of information on the Internet may make it almost impossible for consumers to decide even after visiting advertisers' websites. Rather, consumers

⁷⁶² One rationale behind Rothman's argument that *de minimis* confusion should not be actionable pre-sale confusion is that "there is time for the confusion to be remedied before there is likely to be a significant impact on the consumer" and Rothman emphasises that "courts should consider a consumer's likely expenditure of time and money as a result of the pre-sale confusion" in determining *de minimis* confusion. Rothman explains that "[i]f this confusion were not *de minimis*, i.e., quickly resolved upon landing on the website, it would be actionable infringement." See Rothman, *supra* note 564, at 181-182, 187

⁷⁶³ *Government Employees Ins. Co. v. Google, Inc.*, 2005 WL 1903128, 4 (E.D. Va. 2005)

may prefer more concise information for their choices. Moreover, third party use can have an adverse influence on the trade mark functions within a very short period of time through the Internet. Thus, pre-sale confusion can also arise in paid search marketing.

(3) Average Consumers in Product Markets

In paid search marketing, the level of consumer attention has two aspects. It can affect consumer understanding as to both the similarity of trade marks and the mechanics of paid search marketing. If consumers are well-versed in the mechanics and thus think that advertisements irrelevant to trade marked keywords also appear in response to the entry of the keywords, consumers would not be easily confused as to controllers of product quality and brand image.

Basically, consumer care in paid search marketing, irrespective of whether it is about the similarity between trade marks or about the mechanics, should depend on the price and nature of users' products and the type of consumers of these products because consumer confusion arises in users' product markets. The fact that paid search marketing takes place solely in an online world cannot lead to the conclusion that relevant marketplaces are limited to online product markets. The effects on protectable trade mark functions do not vary, depending on whether the effects are generated by use of trade marks in an online or offline world. From the perspective of trade mark protection, the Internet is just a marketing channel that is broadly used by producers or distributors, not a tool to create separate product markets independent of off-line product markets.⁷⁶⁴ Therefore, relevant markets should be product markets which include online and offline markets, and relevant consumers in the context of paid search marketing should not be limited to internet users or consumers who understand well online shopping and marketing; consumer sophistication varies, depending on the category of products or consumers.⁷⁶⁵ In this vein, it cannot be said that

⁷⁶⁴ Spyros Maniatis, Trade Mark Law and Domain Names: Back to Basics?, E.I.P.R. 397, 397 (2002) (suggesting that "a shop remains a shop even when accessed by a consumer electronically; a high street remains a high street even in a virtual environment; the nature of a commercial or non commercial use of a trade mark remains the same irrespective of the medium")

⁷⁶⁵ Network Automation, Inc. v. Advanced Systems Concepts, Inc., 2011 WL 815806, 11

the default degree of consumer care is either high or low.

Consumer care about the similarity between trade marks, however, is not the same as that about the mechanics of paid search marketing. For example, consumers of luxury watches could compare the similarity of trade marks very carefully because of their price. Nevertheless, it is doubtful that they are able to understand the mechanics of paid search marketing. Even experts such as doctors, when buying medical equipment, could be misled into believing that triggered advertisements are connected with trade mark owners. A high degree of consumer care about the mechanics would be expected where products are search engine services, or consumers are experts in online marketing.

4) Likelihood of Dilution

(1) Blurring

It is suggested here that ‘harm to distinctiveness’ could arise when use of marks identical with, or similar to, famous marks is likely to make consumers of owners’ products associate famous marks with inconsistent but not negative product quality or images. It is because this association could obscure the strong position of product quality or brand image and hence harm the information and differentiation functions of famous marks. First, use of identical or similar marks on products of quality inconsistent with the quality of products bearing famous marks could gradually weaken the entrenched position of product quality that famous marks identify. Associations between famous marks and identical or similar marks and thus between famous marks and inconsistent product quality could slowly but surely make it difficult for consumers to link famous marks with the product quality that these marks indicate. For example, if a clothing manufacturer uses the mark ‘Rolex’ on its T-shirts of average quality, an association between ‘Rolex’ for watches and ‘Rolex’ for T-shirts could slowly make consumers of watches lose their belief as to the solid position of the quality of ‘Rolex’ watches. Although ‘Rolex’ for watches still can indicate the position of their product quality and serve to differentiate Rolex watches from other watches,

consumers would not have the same degree of firm belief as to this position because of the association between ‘Rolex’ and T-shirts of average quality. Consumers would not come to possess negative associations as to ‘Rolex’ watches, but they could have a much less clear perception as to Rolex’s quality position in a watch market.

Second, blurring could also occur when identical or similar marks are used on products with inconsistent images or they convey inconsistent brand images. As Anne Gundelfinger, former President of the International Trademark Association, asserted in her testimony before US Congress, third party use of Intel’s ‘PENTIUM’ mark for un-high-tech real estate brokerage services or sportswear would ‘blur and dampen’ the ‘PENTIUM’ mark’s image of ‘cutting-edge technology, premium performance, and integrity’ “even if the impairment to the PENTIUM mark takes years to manifest.”⁷⁶⁶ That is, Intel gradually could not deliver to consumers the image that it wishes to embody in PENTIUM to differentiate its products from others, and consumers could not enjoy the utility that this image offers to them. A gap between the image which Intel wants to convey and the image which consumers perceive would become too wide to be bridged because of the interference of use of the Intel mark on real estate brokerage services or sportswear.

Third, use of famous marks as generic names can cause dilution by blurring. Some US courts⁷⁶⁷ and authors⁷⁶⁸ argue against use of anti-dilution law for the purpose of preventing use as generic names, while other US courts⁷⁶⁹ and the ECJ⁷⁷⁰ do not. It is suggested here that use as generic names can harm distinctiveness by putting famous marks in danger of malfunction. The use could gradually make it ‘impossible’ for the marks to denote the position of both product quality and brand image and hence hamper the information and

⁷⁶⁶ Testimony of Anne Gundelfinger before House Subcommittee on Courts, the Internet, and Intellectual Property, Committee on House Judiciary, U.S. House of Representatives, HR 683 (Feb. 17, 2005)

⁷⁶⁷ *Ty Inc. v. Perryman*, 306 F.3d 509, 514 (7th Cir. 2002)

⁷⁶⁸ McCarthy, *supra* note 28, § 24:75

⁷⁶⁹ *Merck & Co., Inc. v. Mediplan Health Consulting, Inc.*, 425 F. Supp. 2d 402, 416-417 (S.D.N.Y. 2006); *Freecycle Network, Inc. v. Oey*, 505 F.3d 898, 906 (9th Cir. 2007) (stating that “the use of a mark in its generic sense is actionable under the Lanham Act only when such use also satisfies the elements of a specified cause of action—e.g., infringement, false designation of origin, false advertising, or dilution.”)

⁷⁷⁰ *Interflora Inc v. Marks & Spencer Plc* (C-323/09) [2012] E.T.M.R. 1, 45

differentiation functions. Since competitors have neither competitive interests nor free speech interests to use famous marks as generic names until they become generic names, this use cannot be justified from the perspective of competition or freedom of expression. Use as generic names is not the same as other blurring uses in that it could totally harm trade mark functions, but it can still be categorised into blurring because this use does not give negative impressions to consumers as to product quality and brand image.

Blurring arising from degeneration, however, should not be admitted based on conjecture or assumption. Blurring should be limited to cases where use of trade marks and its context evidently show the risk of turning famous marks into generic names. Mere use of famous marks or the triggering effect of internal use of famous marks alone should not be interpreted as causing the risk of degeneration, on the assumption that this use or effect will change famous marks into generic names in the long run. This meagre possibility of blurring is not what trade mark law prevents. It is the probability of blurring that trade mark law prohibits.

(2) Tarnishment

This thesis suggests that ‘harm to reputation’ could occur when use of marks identical with, or similar to, famous marks is likely to lead consumers to associate famous marks with negative product quality or brand images. The rationale behind this is that the association could damage the strong position of product quality or brand image and thus harm the information and differentiation functions. First, use of famous marks on poor quality products would be detrimental to the strong position of the quality of owners’ products. This use would make consumers of owners’ products call to mind poor quality whenever they think of famous marks. For example, use of ‘Rolex’ for T-shirts of very poor quality could make consumers of watches start to undervalue the quality of Rolex watches by associating ‘Rolex’ with T-shirts of poor quality; consumers could no more feel the same utility as before. At the same time, the Rolex watch company, despite its control over the functions of the ‘Rolex’ mark in a watch market, cannot deliver to consumers information on the position of the quality of ‘Rolex’

watches that it wants to.

Second, where third parties use famous marks on their products and advertise unwholesome or undesirable images, the images of famous marks could be harmed. An association between trade marks could lead consumers to conjure up images harmful to famous marks. In the above example, if a T-shirt manufacturer emphasises sexuality or cheapness in its advertising, the manufacturer's use would negatively affect the image of 'Rolex.' Consumers of watches would not feel the same degree of 'prestige' about Rolex watches. The brand image that consumers perceive becomes more and more remote from the image that owners seek to deliver to consumers.

The assessment of whether images are 'detrimental' to the positive images of famous marks is relative. Use of a famous mark in a sexual context would not harm the functions of the famous mark if the image of the famous mark conveys sexuality. To take an example, the famous mark Playboy, which has been neither used nor registered for computers, would not be tarnished just because a third company uses Playboy on its computer, emphasising sexuality in its advertising. Therefore, "a kind of rebuttable presumption, or at least a very strong inference, that a new mark used to sell sex-related products is likely to tarnish a famous mark if there is a clear semantic association between the two"⁷⁷¹ should not be adopted in determining dilution by tarnishment.

In assessing brand image, the literal meaning of trade marks is not significant; rather, brand image should be evaluated globally. In this vein, the US Second Circuit found that 'Charbucks' did not communicate an unfavourable image although the name of 'Charbucks' could indicate an over-roasted type of coffee.⁷⁷² The Circuit reasoned that the owner of 'Charbucks' mark promoted a positive image for 'Charbucks' rather than a negative meaning and marketed the Charbucks line of coffee as a product of 'very high quality.'⁷⁷³

Third, dissonance between the nature of famous mark owners' products and that of third party users' products could negatively influence the position of product quality or product brand image. The reason for this is that the

⁷⁷¹ V Secret Catalogue, Inc. v. Victoria's Secret Stores, Inc., 605 F.3d 382, 388 (6th Cir. 2010)

⁷⁷² Starbucks Corporation v. Wolfe's Borough Coffee, Inc., 588 F.3d 97, 110-111 (2d Cir. 2009)

⁷⁷³ Id.

characteristics of some products may amount to the poor quality or detrimental images of other products. For instance, if a famous mark for coffee is used on laundry bleaches, consumers of coffee could associate the famous mark with bleaches. As a result, the famous mark for coffee would not maintain its strong position in a coffee market. This kind of tarnishment is irrespective of the quality and brand image of bleaches.

(3) Limits of Dilution

Delayed responses or additional cognitive efforts in linking trade marks to owners' products alone cannot justify trade mark liability. Blurring and tarnishment generate a delay or additional cognitive efforts, but the opposite is not always the case. First, in practice, an instant association between trade marks would not interfere with the link between famous marks and products at all times. Since consumers normally depend on trade marks 'for a specific product,' what consumers have to recall is not both trade marks and products, but trade marks for the product. Thus, even if uses of a famous mark result in various kinds of products bearing the same mark, focusing on a specific product would enable consumers to readily call to mind the famous mark.⁷⁷⁴ Where, for example, a restaurant owner uses the famous mark 'Rolex' for its restaurant and another company uses the same mark for its ice cream, these uses do not make it difficult for consumers to match watches to the mark 'Rolex' in a watch shop.

Second, an association between trade marks, which causes more mental time or additional cognitive efforts, could strengthen the functions of famous marks⁷⁷⁵ by facilitating an association between famous marks and product quality or evoking positive brand images. As the US Fourth Circuit pointed out, use of famous marks in a parody would make consumers think harder, but at the same time it would strengthen the link between famous marks and products. The Circuit asserted in *Haute Diggity Dog* that "by making the famous mark an object of the parody, a successful parody might actually enhance the famous mark's

⁷⁷⁴ Klerman, *supra* note 131, at 1765; Tushnet, *supra* note 134, at 529-532

⁷⁷⁵ Tushnet, *supra* note 134, at 536-542

distinctiveness by making it an icon.”⁷⁷⁶ Where famous marks used by third parties for non-competing products convey a ‘luxury’ brand image, an association between trade marks would intensify consumers’ impressions about famous marks. For instance, the ‘Rolex’ restaurant, which is famous for its exclusive design and food, would help the Rolex mark to deliver an elegant and luxurious image of its watches.

Third, brand extension also shows that increased time and efforts do not always impair trade mark functions. In the case of brand extension, a link between famous marks and specific products may need more time because the same trade marks are used for many kinds of products. Nevertheless, the mere existence of different sorts of products bearing the same marks would not influence consumer preference for specific products.

For these reasons, the assessment of dilution should not depend solely on the amount of mental time or cognitive efforts in matching famous marks to products on which these marks were originally used. It should hinge on likelihood of harm to the information and differentiation functions of famous marks arising from obscuring or damaging the strong position of either product quality or product brand image. In the same vein, the US Second Circuit emphasised in Starbucks that blurring claim “must ultimately focus on whether an *association*, arising from the similarity between the subject marks, impairs the distinctiveness of the famous mark.”⁷⁷⁷ More mental time or extra cognitive efforts ‘may or may not’ be detrimental to pro-competitive trade mark functions.

From the same standpoint, unfair advantage of the distinctive character or the repute of marks with a reputation, a third type of dilution that constitutes infringing use in EU trade mark law, hardly explains likely harm to the functions of famous marks. Insofar as injury in this type of dilution is interpreted as unfair benefits of third parties⁷⁷⁸ and ‘unfair’ is construed as meaning ‘lack of payment to proprietors of famous marks,’⁷⁷⁹ third parties’ taking unfair advantage could not prevent consumers of proprietors’ products from determining their

⁷⁷⁶ Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC, 507 F.3d 252, 267 (4th Cir. 2007)

⁷⁷⁷ Starbucks Corporation v. Wolfe’s Borough Coffee, Inc., 588 F.3d 97, 109 (2d Cir. 2009)

⁷⁷⁸ Intel Corp’n Inc v. CPM United Kingdom Ltd (C-252/07) [2009] Bus. L.R. 1079, 1103

⁷⁷⁹ L’Oréal SA v. Bellure NV (C-487/07) [2009] E.T.M.R. 55, 1032; Google France v. Louis Vuitton Malletier (Joined Cases C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30, 557-558

preferences based on product quality or product brand image. Famous marks would still fulfil their functions properly. Therefore, dilution in the form of unfair advantage should not be accepted.

(4) Average Consumers in Product Markets

In contrast to confusion, blurring and tarnishment should be assessed from the viewpoint of average consumers of owners' products since both of them arise in owners' product markets. In *Intel*, the ECJ pointed out that dilution by blurring and tarnishment should be determined "by reference to average consumers of the goods and services for which that mark is registered, who are reasonably well informed and reasonably observant and circumspect."⁷⁸⁰

Moreover, where third parties use famous marks in an online world, average consumers of owners' products should not be limited to internet users. Where, for example, a famous mark for instant coffee is used for laundry bleaches sold exclusively in an online shop, trade mark liability should hinge on likely harm to the functions of the famous mark assessed from the perspective of average consumers of coffee. Whether third parties use famous marks in an online or offline world should not change 'average consumers of owners' products.'

Just as average consumers in the assessment of dilution are different from those in the evaluation of confusion, the degree of consumer care should also be different. In assessing consumer perception as to the similarity between trade marks and the mechanics of paid search marketing, consumer sophistication should depend on the type of consumers of owners' products and the price and nature of owners' products. In cases where products bearing famous marks are expensive, consumers could be sophisticated enough to define the scope of 'the similarity between marks' narrowly.

5) Limits of Trade Mark Rights

⁷⁸⁰ *Intel*, [2009] Bus. L.R. 1079 at 1103. On the other hand, the ECJ asserted that dilution by unfair advantage should be determined in the eyes of "average consumers of the goods or services for which the later mark is registered." This thesis, however, submits that unfair advantage should not be accepted as a type of dilution.

(1) Scope of Defences

Defences such as fair use and functional use could expand unless their underlying values do not delimit their scope. Defendants in keyword cases may insist that their use is just to describe the content of websites even where the content is not considered in assessing confusion or dilution. They may argue for functional use, interpreting the meaning of functional use as encompassing ‘use that is necessary only for the functioning of defendants’ business.’ Just as the expansion of confusion and dilution unnecessarily strengthens the competitive interests of trade mark owners, a too broad interpretation of fair use and functional use could result in the owners’ competitive disadvantage.

It is suggested here that fair use and functional use should also be based on fair and efficient competition and the scope of the information and differentiation functions. Whilst confusion and dilution claims support the fact that ‘pro-competitive’ trade mark functions are likely to be harmed, fair use and functional use defences indicate that the protection of trade marks could cause anti-competitive results. Thus, fair use and functional use should be permitted only in this case.

A fair use defence should not be accepted on the basis of facts irrelevant to anti-competitive effects that could result from the prevention of defendants’ use of owners’ marks. For example, the content of advertisers’ websites would not be adversely affected when use of trade marks as metatags is prevented. First, advertisers can still maintain the same content unless the content itself causes likelihood of confusion or dilution. Second, they can use other words as metatags to describe their websites. Thus, fair use should not be accepted only because use of trade marks is intended to describe the content of websites. Even where trade marks are used as domain names in the text of advertisements, websites that these domain names indicate should not be taken into account in assessing whether ‘the text of advertisements’ constitutes fair use; whether ‘use of trade marks as domain names’ in combination with the content of websites and products sold on the websites is fair or not is another issue.

Functional use should also concern anti-competitive effects that could stem from the prevention of defendants’ use of owners’ marks. ‘Functionality’

may not be defined solely in terms of effective competition.⁷⁸¹ Nevertheless, where third parties use trade marks on non-competing products, these marks, albeit essential to the use or purpose of the products, cannot be functional in owners' product markets. This is because preventing the use does not lead to the competitive advantage of trade mark owners at the cost of neglecting users' need to compete effectively with them. Where, for example, a guitar company uses a coffee company's guitar body shape trade mark, this mark cannot be functional in relation to coffee even if the shape is essential for the use of guitars. Functionality should not be based solely on the use or purpose of 'users' products.'

(2) Defences and Requirements

Fair use and functional use defences play a role that 'use as trade marks' cannot. The trade mark use theory is based on the assumption that only use as trade marks can cause actionable likelihood of confusion or dilution and hence 'non-use as trade marks' could not be claimed when there is actual consumer confusion. On the other hand, since fair use and functional use are not necessarily based on this assumption, defendants could counterclaim either of them in this situation.

These defences are also distinguished from confusion or dilution tests. Defences do not mean the non-existence of confusion and dilution. The confusion and dilution tests intend to prove harm to pro-competitive functions. By contrast, fair use and functional use defences aim to prove that trade mark protection could cause anti-competitive effects and third party use could only harm trade mark functions that are beyond the scope of anti-competitive functions. Because of this peculiar position, fair use and functional use defences should not collapse into the analysis of confusion or dilution and the absence of confusion or dilution should not be a condition for these defences. As the US Third Circuit stated in *Century 21 Real Estate*, "[i]f the factors for determining fairness were incorporated into the likelihood of confusion test, a plaintiff's showing of confusion might well overwhelm a defendant's showing of fair use" and that "[t]his would essentially force a defendant asserting nominative fair use to negate all likelihood of

⁷⁸¹ McCarthy, *supra* note 87, § 7:68

confusion to succeed.”⁷⁸²

(3) Safe Harbour

Some may maintain the introduction of a new safe harbour that eliminates the liability of search engines for their use of trade marks as keywords. From the perspective of search engines, it is very tempting for trade mark law to include a new safe harbour because the safe harbour can offer predictability. Nevertheless, without firm proof that a new safe harbour can protect values which outweigh fair and efficient competition, trade mark law should not embrace it.

4. Conclusion: Liability of Advertisers and Search Engines

1) Relevant Context and Circumstances

The relevant context and circumstances are particularly significant in evaluating facts in keyword cases. The evaluation can vary, depending on whether the scope is limited to visible paid search results, whether it includes actual and directly relevant context and circumstances, or whether it encompasses all relevant context and circumstances. If, for example, trade marks used internally in software programmes are regarded as just links to paid results and as having nothing to do with adverse effects on trade mark functions, only advertising text would be considered in determining trade mark liability. Some commentators suggest that it is only the text of advertisements that can cause consumer confusion in paid search marketing.⁷⁸³ On the other hand, if the scope embraces indirectly relevant context and circumstances such as the content of advertisers’ websites, they will be considered in determining liability.

It is submitted here that courts should consider only actual context and circumstances germane directly to the use of trade marks as keywords. It is

⁷⁸² Century 21 Real Estate Corp. v. Lendingtree, Inc. , 425 F.3d 211, 223, n. 7 (3d Cir. 2005) (also mentioning in a footnote that “[i]t is the circumstance in which a court does not find bad intent but does find confusion that a nominative fair use *defense* will be most useful.”)

⁷⁸³ Dogan and Lemley, *supra* note 62, at 821 (also submitting that “even if it is a trademark claim, it is the text of the ad, not the keyword, that causes confusion, and so it is the advertiser and not the intermediary who should be liable for that confusion.”)

because context and circumstances that consumers cannot perceive as relevant to use as keywords are not capable of influencing consumer perception or consumer association and thus the pro-competitive trade mark functions. Unless consumers are omnipotent, they cannot perceive non-actual or just indirectly related context and circumstances. Average consumers of products are unable to understand what they cannot see, hear, or feel. The ECJ also asserted in *O2 Holdings* that “the referring court was right to limit its analysis to the context in which the sign similar to the bubbles trade marks was used by H3G, for the purpose of assessing the existence of a likelihood of confusion” and that “the assessment must be limited to the circumstances characterising that use.”⁷⁸⁴

Thus, courts should not take into account the content of advertisers’ websites since consumers who input trade marks into search boxes cannot perceive it. Neither should they consider the recommendation, sale, and purchase of trade marked keywords because the consumers cannot perceive these uses which were made before the input of search terms. Nevertheless, at the stage when search engines recommend and sell keywords, the recommendation, sale, and purchase amount to directly relevant context and circumstances. At this stage, advertisers constitute consumers of trade marked keywords and, unlike consumers who input trade marks into search boxes, can easily recognise them.

The thesis also suggests that internal use of trade marks should be included in actual context and circumstances. First, advertisers, consumers of keywords, can readily perceive the internal use since it is the result of the sale and purchase. Second, consumers who use the Internet can also sense it based on the fact that trade marks as keywords trigger paid search results that may or may not include the marks. Third, trade mark use in paid search marketing cannot be deemed to be the same as that in run-of-the-mill advertising. Excluding the internal use from the scope of relevant context and circumstances oversimplifies paid search marketing and ignores its core characteristic of triggering advertisements.

Given all these considerations, actual context and circumstances in use of trade marks as keywords are broken into two stages: the stage of the sale and purchase of trade marked keywords (“stage I”) and the stage when search engine

⁷⁸⁴ *O2 Holdings Ltd v. Hutchison 3G UK Ltd* (C-533/06) [2009] Bus LR 339, 365

users input trade marks as search terms (“stage II”). At stage I, advertisers constitute both consumers of trade marked keywords⁷⁸⁵ and users of trade marks on their products: they amount to consumers in that they select and purchase keywords from search engines and at the same time users on their products in that they select and purchase keywords and generate advertising text in order to promote their products or websites. The existing context at this stage is that search engines ‘recommend and sell’ trade marked keywords to advertisers in an online world and advertisers select and purchase them, submitting their maximum bid amounts and creating advertising text.

The peculiar features of use as keywords appear at stage II. Trade marks entered by computer users into search boxes remain there. Service marks of search engines also appear on SERPs and advertisers’ marks may or may not be included in their advertisements. Internalised trade marks trigger all relevant paid search results to appear on the SERPs. Search engines’ effort arguably is not enough to distinctly separate paid results from organic results.

In sum, courts should assess liability of advertisers and search engines based on the context and circumstances that consumers can perceive, recognising their difference between two stages. Courts should also acknowledge that there are context and circumstances that belong to advertisers and those that are ascribed to search engines.

2) Liability of Advertisers

(1) Use of Trade Marks

The selection and purchase of trade marks as keywords, the inclusion of trade marks into software programmes, and visible use of trade marks in advertisements have been discussed by courts and commentators in relation to advertisers’ trade mark liability. Among them, the selection and purchase is made at stage I, whereas visible use of trade marks is made at stage II. Concerning inclusion, trade marks are incorporated into programmes at stage I, but they are still included there at stage II. Whether these uses satisfy the use requirement

⁷⁸⁵ McKenna, *supra* note 554, at 819

hinges on whether consumers at each stage perceive them as ‘use of trade marks.’

At stage I, consumers of owners’ or advertisers’ products cannot notice selection, purchase, and internal use. On the other hand, advertisers, who constitute consumers of keywords, are able to perceive these uses since it is advertisers that select and purchase keywords to include them in software programmes. Thus, these uses constitute ‘use of trade marks’ within the meaning of trade mark liability.

At stage II, the selection and internal use of trade marks as keywords and visible use of trade marks in advertising text should be regarded as constituting ‘use of trade marks.’ There would be no argument about the fact that consumers of advertisers’ or owners’ products can evidently see trade marks used in the text of advertisements. In the case of the selection and internal use, consumers cannot see trade marks selected and incorporated in software programmes. Nevertheless, they can feel that somehow advertisers select and use trade marked keywords in software programmes based on the fact that these keywords trigger advertisements which do or do not include trade marks along with relevant natural results. On the other hand, these consumers cannot perceive advertisers’ purchase of trade marked keywords because no direct context indicates or implies it. It can only be perceived by consumers who are well aware of the mechanics of paid search marketing because of their expertise in online marketing. Thus, in determining advertisers’ trade mark liability at stage II, in principle, the purchase of keywords should not be considered to be ‘use of trade marks.’

(2) Likelihood of Confusion

At stage I, advertisers’ selection, purchase, and internal use would not mislead consumers into believing that trade mark owners control the quality and brand image of trade marked keywords. First, advertisers, who amount to consumers of trade marked keywords, could know well about the mechanics of paid search marketing when purchasing trade marked keywords. Second, consumers of advertisers’ or owners’ products cannot even perceive advertisers’ use before stage II.

For the purpose of determining the existence of likelihood of confusion at

stage II, at least two opposite cases should be explored: the case where proprietors' trade marks are included in advertisers' advertisements and the case where they are not.

In the first case, actionable confusion would be likely without considering the triggering effect of trade marked keywords. From the perspective of average consumers of advertisers' products, use of trade marks in advertisements could cause confusion as to controllers of product quality or product brand image. The fact that confusion dissipates at the time of purchase does not affect this conclusion. The triggering effect of trade marked keywords in software programmes and other relevant context and circumstances would contribute to strengthening consumer confusion.

Where, however, owners' trade marks are not used in advertisements, advertising text, the triggering effect of trade marked keywords, or other context 'individually' cannot cause actionable confusion. Advertisements, which do not include owners' trade marks, may be false or misleading, but they alone cannot cause consumer confusion; there is no use of trade marks. Neither can internal use of trade marks alone; there is no confusion as to controllers of product quality and brand image. The fact that trade marked keywords trigger advertisements can generate the consumer perception that there is a certain kind of relationship between trade mark owners and advertisers, but the fact in itself cannot mislead average consumers into believing that trade mark owners assume the ultimate responsibility for the quality and brand image of advertisers' products. A district court in the Fifth Circuit also asserted in *Mary Kay* that the relationship existing between search terms and sponsored links is much weaker than the one connoted by the word affiliation.⁷⁸⁶ Likewise, context and circumstances including trade marks that remain in search boxes, search engines' service marks, the location of advertisements, and arguably insufficient separation of paid search results from organic results just strongly show a certain kind of relationship. Recognising that search engines display all relevant organic results in the order of relevance and popularity, consumers exercising ordinary care would not think that paid search results just consist of advertisements of trade mark owners and licensees.

This, however, does not mean that the link between trade marked

⁷⁸⁶ *Mary Kay, Inc. v. Weber*, 601 F. Supp. 2d 839, 856 (N.D.Tex. 2009)

keywords and advertisements and other context and circumstances do not play any role in assessing likelihood of confusion. The combination of the link, surrounding context and circumstances, and the text of advertisements can cause likelihood of confusion. Where, for instance, M&S purchases a keyword identical with Interflora's mark but it only uses the 'Marks & Spencer' mark in its online advertisement for the sale and delivery of flowers, the use of the 'Marks & Spencer' mark in itself does not cause average consumers to believe that Interflora is responsible for the quality and brand image of a flower delivery service. Nevertheless, considering that the advertisement is triggered by the entry of the mark 'Interflora' in a search box and the mark 'Interflora' still remains in the search box, consumers would be misled into thinking that M&S is a network member of Interflora and hence Interflora controls the quality and brand image of a flower delivery service.⁷⁸⁷ The ECJ followed a similar path despite the fact that it regarded 'confusion as to an economic link' as influencing the essential function of the trade mark. In *Interflora*, the ECJ concluded that "where the advertisement, while not suggesting the existence of an economic link, is vague to such an extent on the origin of the goods or services at issue that reasonably well-informed and reasonably observant internet users are unable to determine, on the basis of the advertising link and the commercial message attached thereto, whether the advertiser is a third party vis-à-vis the proprietor of the trade mark or whether, on the contrary, it is economically linked to that proprietor, the conclusion must be that there is an adverse effect on that function of the trade mark."⁷⁸⁸

As the *Interflora* case shows, likelihood of confusion arising where trade marks are not included in advertisements is irrelevant to whether the text of advertisements in itself is misleading. To give another example, where consumers' input of the mark 'Hermes' triggers a bag manufacturer A's advertisement as a result of A's purchase of 'Hermes' as a keyword and the advertisement includes the text 'up to 70% off for all bags', this text in itself can be true. Consumers, however, could mistakenly believe that the company 'Hermes' controls the quality and brand image of A's bags, on the ground that the text does not

⁷⁸⁷ *Interflora Inc v. Marks & Spencer Plc* (C-323/09) [2012] E.T.M.R. 1, 39

⁷⁸⁸ *Id.*

dissociate the advertisement from ‘Hermes’ bags although other context and circumstances show a link between the ‘Hermes’ mark and bags on the advertisement.

In assessing confusion in paid search marketing, the level of consumer care about its mechanics can be critical in that consumers who are well aware of the mechanics would not be easily confused as to controllers of product quality and brand image. The level should be determined, according to the nature of advertisers’ products and the type of consumers of these products. Unless advertisers’ products are relevant to paid search marketing or consumers are experts on paid search marketing, they would not necessarily understand the mechanics of paid search marketing. In the Hermes example, the fact that bags are very expensive and thus consumers pay a higher degree of attention about controllers of the quality and brand image of A’s bags would not influence consumer perception regarding the mechanics of paid search marketing.

(3) Likelihood of Dilution

At stage I, advertisers’ use of famous marks could hardly cause dilution by blurring or tarnishment. Their selection, purchase, and internal use could not directly undermine the strong position of product quality or product brand image that famous marks identify because consumers of famous mark owners’ products are unable to connect famous marks with inconsistent or negative product quality or brand images. Only after internet users’ input of famous marks into search boxes can they realise that famous marks are used for products other than owners’ products. Thus, whether advertising text, which is created by advertisers and included in software programmes of search engines, has any mention of, for instance, products of poor quality is immaterial at stage I.

At stage II, as is the case with confusion, internal use in software programmes, visible use in advertisements, and surrounding circumstances should be globally assessed in determining blurring and tarnishment. Where famous marks are used in advertisements, the use could generate blurring or tarnishment. Blurring could arise where advertisers use famous marks for their products of inconsistent quality, where their use gives consumers of owners’ products

impressions incongruous with famous marks' images, or where famous marks are used as generic names. Tarnishment could occur where the use is made on advertisers' products of poor quality or where the use generates negative images. These uses are likely to undermine the strong position of product quality or product brand image that famous marks identify by evoking inconsistent or negative associations in the minds of consumers and thus harm the information and differentiation functions of the famous marks. A strong association between trade marks or a delay in linking famous marks to owners' products alone, however, cannot justify blurring and tarnishment.

In the case of famous marks used as keywords but not in advertisements, advertising text and internal use of famous marks cannot individually cause blurring or tarnishment. Advertising text alone does not cause dilution because it cannot satisfy the use requirement. Internal use alone cannot affect the pro-competitive functions of famous marks since it is not made on products of inconsistent or poor quality and it does not convey any inconsistent or negative brand images. The mere fact that internal use triggers advertisements cannot generate dilution without considering the advertising text. This can only reinforce an association between famous marks and advertisements or delay a link between famous marks and proprietors' products.

Internal use, however, can lead to blurring or tarnishment when combined with advertising text and surrounding context. Where internally used famous marks trigger advertisements about products of inconsistent or poor quality, or about incongruous or negative brand images, consumers could associate famous marks with this quality or images. Where, for example, the mark 'Rolex' used as a keyword triggers an advertisement for T-shirts of average quality or an advertisement that emphasises the cheap price of T-shirts, there is likely to be blurring. Dilution by tarnishment would also be likely where the NESCAFÉ mark for coffee selected as a keyword generates an advertisement for pornography or laundry bleaches. In these cases, the information and differentiation functions are likely to be harmed.

Dilution by blurring and tarnishment, unlike confusion, should be assessed from the standpoint of average consumers of owners' products. In the above examples, the assessment should be made from the viewpoint of average

consumers of watches or coffee. Thus, the degree of consumer care should depend on the price and nature of watches or coffee and the types of their consumers.

(4) Limits of Trade Mark Rights

Irrespective of whether or not advertisers use trade marks in their advertisements, the analysis of confusion or dilution should not determine whether or not the use is fair. Even if there is confusion or dilution, use can be fair. Fair use should depend on whether preventing third party use leads to anti-competitive results and whether trade mark functions affected by third party use are not pro-competitive.

The information and differentiation functions do not cover, for example, descriptive words unless they are used unfairly since their protection would deter advertisers from conveying information on products and trade mark owners would have an unfair advantage as a result of protection. Thus, advertisers can claim a fair use defence for descriptive terms.

Advertisers, however, cannot claim fair use on the ground that they use trade marked keywords to indicate the content of their websites. It is because there are no anti-competitive results in direct relation to the content of the websites. First, use of trade marks on advertisers' websites is not prevented by the decision that use of trade marks in paid search marketing causes likelihood of confusion or dilution. Second, unlike domain names, keywords do not trigger advertisers' websites, and thus a ban on confusing or dilutive use does not interfere with triggering the websites. Third, advertisers can still have many other words that can be used as keywords to describe the content of websites. Fourth, they can use trade marks that are descriptive terms. Fifth, the content of advertisers' websites is not actual and direct context that trade mark liability should be based on, given the fact that consumers cannot perceive the content of advertisers' websites until they visit the websites. Therefore, the acceptance of a fair use defence on the basis of the content of the websites would just result in harm to pro-competitive functions.

3) Liability of Search Engines

(1) Use of Trade Marks

Whether the recommendation and sale of trade marked keywords, the incorporation of keywords into software programmes to trigger advertisements,⁷⁸⁹ or search engines' trade mark policy⁷⁹⁰ constitutes 'use of trade marks' is an issue in determining search engines' liability. The recommendation and sale of keywords occurs at stage I, and the incorporation of the keywords made at this stage is still maintained at stage II. On the other hand, search engines establish or change their trade mark policy regardless of these stages: they do it before, after, or in the middle of stages. The scope of 'use of trade marks' corresponds to use of trade marks that consumers at each stage can perceive. Without this consumer perception, use of trade marks amounts to only 'a thought that cannot cause confusion or dilution.'

At stage I, advertisers, who amount to consumers of keywords, can perceive the recommendation and sale of trade marked keywords and their internal use. They, however, would not perceive use of trade marks when reading search engines' trade mark policy; the policy is merely general guidelines. Therefore, only the recommendation and sale of keywords and internal use constitute 'use of trade marks' within the meaning of trade mark liability at this stage.

At stage II, consumers of owners', advertisers', or search engines' products would perceive only search engines' internal use of trade marks. Although this use is not visible to consumers, the title of paid search results such as 'ads' and 'sponsored links' and advertisements, triggered by trade marked keywords at the time when these keywords still remain in search boxes, imply that somehow search engines include trade marks in their programmes. More importantly, the fact that trade marks used as keywords also trigger advertisements that do not embrace these trade marks makes consumers sense search engines' internal use of trade marks in their programmes. Consumers,

⁷⁸⁹ *Rescuecom Corp. v. Google, Inc.*, 562 F. 3d 123, 129-130 (2d Cir. 2009)

⁷⁹⁰ *Rosetta Stone Ltd. v. Google, Inc.*, 2012 WL 1155143, 4 (C.A.4(Va.))

however, do not necessarily know that search engines recommend and sell trade marked keywords because the actual and direct context does not imply this: i) search engines do not directly indicate on SERPs that they sell trade marked keywords in paid search marketing; ii) organic results are not displayed as a result of the sale of keywords. Only consumers such as professionals about online marketing would immediately perceive the recommendation and sale. Moreover, consumers do not view a search engine's trade mark policy as 'use of trade marks' since there is no use of proprietors' trade marks in it. Many consumers do not even know whether such a policy exists. After all, in most cases, only search engines' internal use of trade marks constitutes 'use of trade marks' within the meaning of trade mark liability at this stage.

(2) Likelihood of Confusion

At stage I, there would be no likelihood of confusion. Advertisers, who recognise the mechanics of paid search marketing and create advertisements, are not likely to believe that trade mark owners control the quality and brand image of keywords. They could understand how paid search marketing functions by reading information on it and search engines' trade mark policy before or when they select keywords. At the same time, they generate advertising text based on this understanding. Consumers of owners' or advertisers' products or of search engines' services would also not be misled as to controllers of product quality and brand image, since they cannot even perceive search engines' recommendation, sale, and internal use before they use the search engines' services. Thus, search engines' use could not cause consumer confusion at this stage.

At stage II, under the current practices of search engines in paid search marketing, the content of advertisements should not be taken into account in assessing search engines' liability. First, search engines are not involved in the creation of advertising text; advertisers are responsible for it. They only establish trade mark policy regarding use of trade marks in paid search marketing. Second, considering natural results and bricks-and-mortar advertising, consumers would not misbelieve that search engines create the text of advertisements. Consumers recognise that search engines have nothing to do with the text of natural results

and that broadcasting or newspaper companies in TV or newspaper advertising do not generate the content of advertising. Thus, whether or not trade marks are used in advertisements does not matter in the assessment of search engines' liability.

Because of this, search engines' invisible use and surrounding context could not cause confusion as to controllers of product quality and brand image. Consumers of search engine services could not mistakenly believe that trade mark owners such as the Rolex company control the quality and brand image of search engine services. An issue is whether consumers of advertisers' products could be misled into thinking that trade mark owners control the quality and brand image of advertisers' products because of search engines' invisible use. Given that advertising text should not be considered in evaluating the liability of search engines, search engines' internal use of trade marks does not connect trade marked keywords with the text of advertisements. Search engines' use just links trade marks to 'the appearance' of advertisements. This link is much weaker than the connection between advertisers' use of marks and their advertisements. Moreover, contexts such as remaining trade marks in search boxes, the title of paid results, and, arguably, the vague separation of paid results from natural results cannot make this link stronger enough to mislead consumers into thinking that trade mark owners take the ultimate responsibility for the quality and brand image of advertisers' products. These circumstances could just support some degree of connection. Therefore, search engines are not liable for confusion.

(3) Likelihood of Dilution

At stage I, search engines' use is not likely to cause dilution by blurring and tarnishment. First, the recommendation and sale of famous marks as keywords is not similar to the sale of embroidered logos. At this stage, search engines do not sell the image files of famous marks that can be immediately used in online advertising text. In fact, they sell i) advertising space, ii) the ranking of advertisements in a list of paid results, and iii) a link between trade marked keywords and advertisements. Thus, subsequent use of famous marks, for example, on products of inconsistent or poor quality cannot result directly from the recommendation and sale. Second, at this stage, famous marks are not used on

these products and thus inconsistent or negative brand images are not created in the eyes of consumers of owners' products. As a result of the sale of keywords, trade marks are just included in search engines' programmes to trigger advertisements. Third, invisible use of trade marked keywords, before it triggers advertisements, cannot associate famous marks even with the appearance of advertisements. Therefore, search engines cannot be found liable for dilution at this stage.

At stage II, search engines' invisible use of trade marks, in contrast to advertisers' invisible use, cannot cause dilution since 'the text' of advertisements on SERPs cannot be ascribed to search engines. By triggering advertisements, search engines' invisible use can make consumers of owners' products associate famous marks with advertisements. The triggering effect of invisible use alone, however, is not able to cause consumers to associate famous marks with incongruous or negative product quality or brand images; it only denotes that advertisements are somewhat relevant to famous marks. Other circumstances also indicate the same. Therefore, search engines are not liable for dilution in paid search marketing.

(4) Limits of Trade Mark Rights

Exceptions from trade mark liability would not be necessary since search engines are not liable for confusion or dilution. They, however, are worth discussing here because search engines could claim a functional use defence and commentators do argue for the introduction of safe harbours for search engines' use of trade marked keywords.⁷⁹¹

It is suggested here that search engines cannot claim functional use to defend their use of trade marked keywords. Trade marks used as keywords are not essential for the effective competition of search engines with trade mark owners. Trade marked keywords can expedite the retrieval of information from databases of search engines. This indexing function has nothing to do with competition

⁷⁹¹ Ashley Tan, *Google Adwords: Trademark Infringer or Trade Liberalizer?*, 16 Mich. Telecomm. & Tech. L. Rev. 473, 508-509 (2010) (suggesting a safe harbour on the international level)

between companies in owners' product markets.

I also argue that the introduction of a new safe harbour, which is only applicable to search engines' use of trade marks, requires a more careful approach despite its efficiency in solving trade mark disputes. If this kind of safe harbour is included in trade mark law, search engines would be readily exempted from direct trade mark liability at an early stage of a clash without having to undergo the analysis of likelihood of confusion or dilution. From the perspective of the argument that there is no direct trade mark liability for search engines' use of trade marked keywords, the safe harbour appears to be reasonable. Nevertheless, this is not the case.

First, a new type of paid search marketing or transformed paid search marketing can come into use. While, in current paid search marketing, search engines are not involved in the creation of advertising messages displayed on SERPs, the introduction of a new safe harbour would enable some search engines to participate in generating the text in return for higher payment from advertisers. Although this possibility cannot be ruled out, the safe harbour is not capable of predicting all possible forms of paid search marketing. Second, without persuasively explaining the reason why search engines are so special, this safe harbour would raise the issue of whether other intermediaries' use of trade marks should also be exempted from trade mark liability. Third, the safe harbour is not based on new values that outweigh the purpose of trade mark protection. Thus, it would be better to deal with search engines' use of trade marks on the ground of current rules rather than to introduce a new safe harbour for search engines.

Part III. Freedom of Expression

Against trade mark owners' argument for trade mark liability, advertisers and search engines make claims that their use of trade marks constitutes speech which is protected under freedom of expression and thus they are not responsible for trade mark infringement. In relation to this, Part III, as part of a virtuous cycle, seeks a balance between trade mark protection and free speech values. The general relationship between free speech and trade mark law is examined in chapter 6 and direct liability in paid search marketing from the standpoint of free speech in chapter 7.

Chapter 6: Freedom of Expression and Trade Mark Law

This chapter first examines the scope of freedom of speech and, second, posits freedom of speech against the context of trade mark law. Having considered the definition and protectability of commercial speech and the rules for restricting commercial and non-commercial speech, it embeds the freedom of speech analysis against trade mark law.

1. Scope of Free Speech and Standards for Limiting Speech

1) Constitutional Law concerning Freedom of Speech

Although the USA, the EU, and Korea have constitutional or treaty provisions with regard to freedom of speech, their language and structure differ considerably. For example, the term 'freedom of speech'⁷⁹² is used in the US First Amendment and the Korean Constitution while the European Convention for the Protection of Human Rights and Fundamental Freedoms ("ECHR") refers to 'freedom of expression.'⁷⁹³

⁷⁹² In this thesis, speech is used as the same meaning of expression.

⁷⁹³ The European Convention for the Protection of Human Rights and Fundamental Freedoms is an international treaty under which the member States of the Council of Europe promise to secure fundamental civil and political rights, not only to their own citizens but also to everyone within their jurisdiction. It came into force in 1953.

In the USA, a number of free speech doctrines have been developed on the back of a straightforward provision. The First Amendment provides that “congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.” It does not suggest principles about the restriction of freedom of speech; however, jurisprudence developed a variety of doctrines.⁷⁹⁴ The US Supreme Court balances freedom of speech against other significant rights or interests based on those doctrines rather than the First Amendment, all of which were devised to strengthen protection of freedom of speech.⁷⁹⁵

Article 10 of the ECHR prescribes freedom of expression more explicitly. First, it defines the scope of freedom of expression that includes i) freedom to hold opinions, ii) freedom to impart information and ideas, and iii) freedom of listeners to receive information and ideas. On the other hand, it does “not prevent States from requiring the licensing of broadcasting, television or cinema enterprises.” Second, article 10(2) stipulates limitations: they should be ‘prescribed by the law’, ‘serve the legitimate aim’, and be ‘necessary in a democratic society’. Third, article 10(2) enumerates diverse interests for which freedom can be regulated by law more extensively than the First Amendment and the Korean Constitution.

In Korea, freedom of speech is regulated together with freedom of the press and freedom of assembly and association in article 21(1) of the Korean Constitution.⁷⁹⁶ Limitations are provided in articles 21(2) and 21(4),⁷⁹⁷ as well

⁷⁹⁴ Barendt, *supra* note 1, at 48

⁷⁹⁵ *Id.* at 50-51

⁷⁹⁶ Young-Sung Kwon, *Constitutional Law: A Textbook* (5th edn, Bobmun Sa 2010) (Korean) 495 (maintaining that freedom of expression is a broader notion than freedom of speech in that freedom of expression is a generic concept which includes both the freedom of individual expression-freedom of speech and the press- and the freedom of collective expression-freedom of assembly and association.)

⁷⁹⁷ Article 21 of the Korean Constitution provides as follows:

- (1) All citizens enjoy the freedom of speech and the press, and of assembly and association.
- (2) Licensing or censorship of speech and the press, and licensing of assembly and association may not be recognised.
- (3) The standard of news service and broadcast facilities and matters necessary to ensure the functions of newspapers is determined by law.

as article 37(2) which concerns the general principle of restricting the freedoms and rights of citizens. Article 21(2) bans prior restraints, and article 21(4) prescribes the boundaries that freedom of speech cannot transgress. Freedom of speech can be restricted under article 37(2) of the Constitution only if the restriction is imposed ‘by law’, it is ‘necessary for national security, the maintenance of law and order, or for public welfare’, and ‘no essential aspect of the freedom or right shall be violated’.⁷⁹⁸

From a comparative perspective, the First Amendment, the ECHR, and the Korean Constitution share commonalities. They do not provide a definition of ‘speech,’ including commercial and non-commercial speech. Neither do they distinguish between commercial and non-commercial expression. Provisions about the restriction of expression in the ECHR and the Korean Constitution do not explicitly suggest that commercial speech should be treated differently from non-commercial speech.

Looking at the differences, the First Amendment does not include any standard for limiting free speech while both the ECHR and the Korean Constitution provide for limitation standards and the relationship between free speech and others’ reputation and rights. According to the ECHR, freedom of expression may be limited for the reputation or rights of others.⁷⁹⁹ The Korean Constitution stipulates that if speech violates the honour or rights of others, they may seek damages.⁸⁰⁰ It appears that lack of explicit provisions as to the restriction of free speech in the First Amendment leads to the US Supreme Court’s inconsistent decisions as to the level of the protection of commercial speech.

2) Protectability of Commercial Speech under Freedom of Expression

(1) Protection of Commercial Speech

(4) Neither speech nor the press may violate the honor or rights of other persons nor undermine public morals or social ethics. Should speech or the press violate the honor or rights of other persons, claims may be made for the damage resulting therefrom.

⁷⁹⁸ Korean Constitution, art. 37(2)

⁷⁹⁹ ECHR, art. 10(2)

⁸⁰⁰ Korean Constitution, art. 21(4)

While there are issues concerning the appropriateness of protecting commercial speech under freedom of expression, courts include it under the broad speech umbrella. One issue is that it does not promote individual autonomy, self-realisation, and self-fulfilment since it is not easy to establish that they are enhanced as a result of informed economic decision-making.⁸⁰¹ Another is that it is not desirable for the values of a market economy to be safeguarded by freedom of expression.⁸⁰² It is also submitted that, even if commercial expression doctrines usually draw on the information function of advertisements, commercial advertising does not always contain information.⁸⁰³

Nevertheless, the current common position of the US Supreme Court, the ECtHR, the ECJ, and the Constitutional Court of Korea is that commercial speech constitutes protectable speech.

The US Supreme Court held in its first commercial speech case⁸⁰⁴ in 1942 that the Constitution does not restrain government as respects purely commercial advertising; its main position continued until the 1970s.⁸⁰⁵ In *Virginia State Board of Pharmacy*, however, the US Supreme Court decided explicitly that commercial speech is not wholly outside the protection of the First Amendment⁸⁰⁶ and thenceforth it has not felt any more that it has to justify why commercial speech is constitutionally protected.⁸⁰⁷ The so-called ‘the commercial speech doctrine’ began to develop.⁸⁰⁸

In the EU, the ECtHR held in *Markt Intern and Beermann* that “the information of a commercial nature ... cannot be excluded from the scope of Article 10(1) [of the ECHR] which does not apply solely to certain types of information or ideas or forms of expressions.”⁸⁰⁹ Since this decision, the question

⁸⁰¹ Roger A. Shiner, *Freedom of Commercial Expression* (Oxford University Press 2003) 326-327

⁸⁰² Barendt, *supra* note 1, at 403

⁸⁰³ Shiner, *supra* note 801, at 328

⁸⁰⁴ *Valentine v. Chrestensen*, 316 U.S. 52, 54 (1942)

⁸⁰⁵ Tom Bannigan, *Nike Revisited: Can Commercial Corporations Engage in Non-Commercial Speech?*, 39 *Conn. L. Rev.* 379, 385 (2006)

⁸⁰⁶ *Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council, Inc.*, 425 U.S. 748, 762 (1976)

⁸⁰⁷ Shiner, *supra* note 801, at 96

⁸⁰⁸ *Id.* (maintaining that “the focus of the opinions is on the details of the commercial speech doctrine, especially the level of protection and how speech is to deserve it, together with some attention to exactly what qualifies as commercial speech.”)

⁸⁰⁹ *Markt Intern and Beermann v. Germany* (1990) 12 E.H.R.R. 161, 171

of whether commercial speech is included in the freedom of expression has not been raised before the ECtHR.⁸¹⁰

In *Germany v. European Parliament and E.U. Council*, Advocate General Fennelly argued that commercial expression should also be protected under EU law,⁸¹¹ analysing the consistency of the Advertising Directive⁸¹² with the fundamental right of freedom of expression,⁸¹³ whereas the ECJ did not address this issue since it annulled the Advertising Directive on the ground of lack of legal basis.⁸¹⁴ In *Herbert Karner Industrie-Auktionen GmbH*, however, Advocate General Alber maintained that commercial speech is included in “freedom of expression, as embodied in Art.10 of the ECHR, as a general principle of law” whose observance the ECJ ensures,⁸¹⁵ and the ECJ acknowledged the protection of commercial speech under free speech by mentioning the lesser degree of protection of commercial expression.⁸¹⁶

The Constitutional Court of Korea also found that commercial speech is constitutionally protected. It recognised freedom of expression as an indispensable basic right for the existence and development of modern liberal democracy⁸¹⁷ on the one hand and emphasised that freedom of speech is a means of self-fulfilment (an individual value) and self-government (a social value) on the other.⁸¹⁸ On the basis of this rationale, the Court acknowledged that commercial speech is constitutionally protected under freedom of speech, deciding that advertisements, which spread ideas, knowledge, and information to a large number of unspecified people, are also under the protection of the freedom of speech and the press.⁸¹⁹

⁸¹⁰ Shiner, *supra* note 801, at 113

⁸¹¹ Advocate General Jacobs just mentioned the case law of the ECtHR and did not explore a free speech issue in *Gourmet* since it was not argued before the ECJ. *See* *Konsumentombudsmannen (KO) v. Gourmet International Products (GIP)* [2001] 2 C.M.L.R. 31, 690

⁸¹² European Parliament and Council Directive 98/43 relating to the advertising and sponsorship of tobacco products

⁸¹³ *Germany v. European Parliament and E.U. Council*, [2000] 3 C.M.L.R. 1175, 1243-1251

⁸¹⁴ Shiner, *supra* note 801, at 102

⁸¹⁵ *Herbert Karner Industrie-Auktionen GmbH v. Troostwijk GmbH* [2004] 2 C.M.L.R. 5, 93-94

⁸¹⁶ *Id.* at 106

⁸¹⁷ Judgment of 26 June 1992, Constitutional Court, 90 Heon-Ga 23

⁸¹⁸ Judgment of 24 June 1999, Constitutional Court, 97 Heon-Ma 265

⁸¹⁹ Judgment of 27 February 1998, Constitutional Court, 96 Heon-Ba 2; Judgment of 30 March 2000, Constitutional Court, 97 Heon-Ma 108; Judgment of 30 March 2000, Constitutional Court, 99 Heon-Ma 143; Judgment of 18 December 2002, Constitutional Court, 2000 Heon-Ma 764; Judgment of 27 October 2005, Constitutional Court, 2003 Heon-Ga 3

(2) Rationale for Protection

Despite the universal recognition of the need to safeguard commercial expression, courts have adopted distinct rationales. In many cases, the US Supreme Court focused on consumer and societal interests based on ‘the informational function of advertising’:⁸²⁰ consumers and society in general benefit from ‘the free flow of commercial information.’ Commercial information could lead to “the alleviation of physical pain or the enjoyment of basic necessities” for consumers.⁸²¹ From a societal perspective, advertisements serve ‘public interest’ in that i) even an individual advertisement, though purely commercial, may have a general public interest, ii) the free flow of commercial information is absolutely necessary for intelligent and well-informed numerous private economic choices, through which the allocation of resources will be made in a free enterprise economy, and iii) the free flow of commercial information is essential to the formation of intelligent opinions as to how a free enterprise system ought to be regulated or changed.⁸²²

The Court’s primary concern in protecting commercial speech, however, is sometimes broader. In *Edenfield*, a case about a ban on in-person solicitation by certified public accountants, the Court suggested that a commercial marketplace offers a forum in which “ideas and information flourish” and “the speaker and the audience, not the government, assess the value of the information.”⁸²³ In *Lorillard Tobacco*, the Court stressed the interests of tobacco retailers and manufacturers, who constituted speakers of commercial speech, in delivering truthful information about their products to adult consumers, while evaluating whether regulations were more than necessary to further substantial societal interests in preventing underage tobacco use.⁸²⁴

⁸²⁰ *Central Hudson Gas & Elec. Corp. v. Public Serv. Comm’n of New York*, 447 U.S. 557, 563 (1980)

⁸²¹ *Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council, Inc.*, 425 U.S. 748, 764 (1976)

⁸²² *Id.* at 763-765; *Rubin v. Coors Brewing Co.*, 514 U.S. 476, 481 (1995); *44 Liquormart v. Rhode Island*, 517 U.S. 484, 496 (1996)

⁸²³ *Edenfield v. Fane*, 507 U.S. 761, 767 (1993); *Thompson v. W. States Med. Ctr.*, 535 U.S. 357, 367 (2002)

⁸²⁴ *Lorillard Tobacco Co. v. Reilly*, 533 U.S. 525, 564 (2001)

As regards the protection of freedom of commercial expression under article 10 of the ECHR, the ECtHR explained that it is because the expression delivers information of a commercial nature and article 10(1) does not limit types of information or ideas or forms of expression.⁸²⁵

Meanwhile, Advocate General Fennelly maintained that commercial expression deserves protection under EU law because of “[individuals’] inherent entitlement as human beings freely to express and receive views on *any* topic, including the merits of the goods or services which they market or purchase.”⁸²⁶ He reasoned that not only social function but also the necessity for the autonomy, dignity, and personal development of individuals enables a personal right to be regarded as fundamental.⁸²⁷

The Constitutional Court of Korea also supported that advertisements are under the protection of freedom of speech since they spread ideas, knowledge, and information to a large number of unspecified people.⁸²⁸ In the Outdoor Advertisements etc. Control Act case, the Court additionally argued that advertisements are covered by freedom of expression since ‘the right of the people to know’ is the right to garner information from all the sources that all can access generally without the limitation of the method of information gathering, and there is no reason to exclude advertisements from those information sources.⁸²⁹

3) Reduced Protection of Commercial Speech

(1) Protection of Commercial and Non-commercial Speech

Commentators and courts are split as to the level of protection that should be given to commercial speech. Some commentators maintain that commercial speech should be accorded the same level of constitutional protection under

⁸²⁵ Markt Intern and Beermann v. Germany (1990) 12 E.H.R.R. 161, 171; Casado Coca v. Spain (1994) 18 E.H.R.R. 1, 20

⁸²⁶ Germany v. European Parliament and E.U. Council [2000] 3 C.M.L.R. 1175, 1243-1244

⁸²⁷ Id.

⁸²⁸ Judgment of 27 February 1998, Constitutional Court, 96 Heon-Ba 2; Judgment of 27 October 2005, Constitutional Court, 2003 Heon-Ga 3

⁸²⁹ Judgment of 18 December 2002, Constitutional Court, 2000 Heon-Ma 764

freedom of speech since the exchange of commercial information is at least as significant as other types of speech.⁸³⁰ Others argue for a lower level of protection for commercial speech. This includes the different application of compelled disclosures, overbroad regulations, prior restraints,⁸³¹ the tolerance of false or misleading speech, and standards for allowing truthful speech to be regulated to achieve other government interests.⁸³² The less privileged status of commercial speech nonetheless does not mean that “noncommercial proposals to engage in illegal activity” have “greater protection than commercial proposals to do so.”⁸³³

Commercial expression is given lesser protection by the US Supreme Court. The predominant position of the Court is to distinguish between the protection of commercial speech and that of other types of speech.⁸³⁴ In *Virginia State Board of Pharmacy*, the Court implied in a footnote that commercial speech, which enjoys First Amendment protection, can be discerned from other forms of speech, asserting that there exist “common sense differences between speech that does “no more than propose a commercial transaction and other varieties.”⁸³⁵ In *Central Hudson Gas*, the Court invalidated a ban on promotional advertising by the utility company on the basis of the dichotomy of commercial and non-commercial speech, deciding that the Commission’s complete suppression of speech was “more extensive than necessary” to advance the public interest in energy conservation and hence violated the First Amendment.⁸³⁶ The Court mentioned “‘the commonsense distinction’ between speech proposing a commercial transaction which occurs in an area traditionally subject to

⁸³⁰ Alex Kozinski and Stuart Banner, *Who's Afraid of Commercial Speech?*, 76 Va. L. Rev. 627 (1990)

⁸³¹ Robert Post, *The Constitutional Status of Commercial Speech*, 48 UCLA L. Rev. 1, 1 (2000) (maintaining that the distinction between the constitutional function of commercial speech and that of public discourse explains why the state can compel disclosures, impose overbroad regulations, and establish prior restraints within the domain of commercial speech, but not within the domain of public discourse.)

⁸³² Bennigson, *supra* note 805, at 386

⁸³³ *United States v. Williams* 553 U.S. 285, n. 2 (2008)

⁸³⁴ Nat Stern, *Commercial Speech, “Irrational” Clients, and the Persistence of Bans on Subjective Lawyer Advertising*, 2009 B.Y.U. L. Rev. 1221, 1227 (2009) (arguing that the US Supreme Court has “predominantly, though not invariably, been guided” by its decisions in *Virginia State Board of Pharmacy* and *Central Hudson Gas* for commercial speech issues in other cases.)

⁸³⁵ *Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council, Inc.*, 425 U.S. 748, n. 24 (1976)

⁸³⁶ *Central Hudson Gas & Elec. Corp. v. Public Serv. Comm’n of New York*, 447 U.S. 557, 572 (1980)

government regulation, and other varieties of speech,” adding that “the constitution therefore accords a lesser protection to commercial speech than to other constitutionally guaranteed expression.”⁸³⁷ In *Deborah Morse* in 2007, the Court took the same position, holding that “First Amendment jurisprudence has identified some categories of expression that are less deserving of protection than others—fighting words, obscenity, and commercial speech, to name a few.”⁸³⁸

Not all US Supreme Court decisions, however, conferred lesser protection on all forms of commercial expression. In *44 Liquormart*, the Court emphasised that “when a State entirely prohibits the dissemination of truthful, nonmisleading commercial messages for reasons unrelated to the preservation of a fair bargaining process,” the same scrutiny as is applied to non-commercial expression is required.⁸³⁹ Moreover, in the recent case of *Sorrell*, the Court concluded that a regulation, which imposes burdens on protected expression based on the content of speech and the identity of speakers, should be subject to strict scrutiny even when the expression is commercial.⁸⁴⁰

On the other hand, the ECtHR does not categorise expression explicitly, but allows more readily ‘the necessity of a legitimate interference’ with expression in the case where it is classified as commercial expression.⁸⁴¹ The ECtHR has consistently decided that ‘a margin of appreciation’ is essential in commercial matters, particularly in the area of unfair competition and advertising.⁸⁴² Furthermore, the ECtHR treats entirely commercial expression differently from other types of commercial expression. In *Hertel*, the Court argued that the extent of the margin of appreciation needs to be lessened for expression which is not ‘given individual’s purely commercial expression’ but the

⁸³⁷ *Id.* at 562-563

⁸³⁸ *Deborah Morse v. Joseph Frederick*, 551 U.S. 393, 446 (2007)

⁸³⁹ *44 Liquormart v. Rhode Island*, 517 U.S. 484, 501 (1996). Robert Post argues that “this passage fundamentally challenges the entire conceptual structure of *Central Hudson*, which conceives commercial speech as a discrete category of communication that can be regulated for a wide variety of reasons.” *See Post*, *supra* note 831, at 47. It can be argued that the *Liquormart* court distinguish between commercial speech for a strict test and commercial speech for a less than strict review.

⁸⁴⁰ *Sorrell v. IMS Health Inc.*, 131 S.Ct. 2653, 2661-2667 (2011)

⁸⁴¹ Colin R. Munro, *The Value of Commercial Speech*, CLJUK 134, 141 (2003)

⁸⁴² *Markt Intern and Beermann v. Germany* (1990) 12 E.H.R.R. 161, 174; *Casado Coca v. Spain* (1994) 18 E.H.R.R. 1, 24; *Jacobowski v. Germany* (1995) 19 E.H.R.R. 64, 77; *Hertel v. Switzerland* (1999) 28 E.H.R.R. 534, 571; *Vgt Verein gegen Tierfabriken v. Switzerland* (2002) 34 E.H.R.R. 4, 176; *Krone Verlag GmbH & Co KG v. Austria* (2006) 42 E.H.R.R. 28, 583

participation in a debate affecting general interests.⁸⁴³

Meanwhile, in *Germany v. European Parliament and E.U. Council*, although the ECJ did not address freedom of commercial expression as a legal basis for the case, Advocate General Fennelly expressed his view concerning the lesser protection of commercial speech. He argued that the “disparate treatment” approach, similar to that of the ECtHR, should be adopted in Community law, explaining that while ‘convincing evidence of a pressing social need’ is required for the limitation of non-commercial expression, the requirement of ‘necessary on reasonable grounds’ is needed for the restriction of commercial expression.⁸⁴⁴ The same argument is developed in the opinion of Advocate General Alber in *Herbert Karner Industrie-Auktionen GmbH*.⁸⁴⁵ Moreover, the ECJ clarified the different degree of protection between commercial and non-commercial expression in this case, holding that “[r]eview is limited to an examination of the reasonableness and proportionality of the interference” for commercial expression.⁸⁴⁶

Since the *Medical Service Act* case, regarding the prohibition of medical advertisements, the Constitutional Court of Korea has explicitly accorded lesser protection to commercial speech. In that case, the Court distinguished commercial speech from political and civil expression of ideas or knowledge, and it adopted the test of ‘whether a restriction is within the necessary scope to fulfil the legislative purpose’ instead of ‘the least restriction’ test in applying the principle of proportionality to the restriction of commercial advertisements.⁸⁴⁷ In the *Health Functional Food Act* case, the Court also held that the necessity of the limitation of a false or puffery advertisement for health functional food is high.⁸⁴⁸

(2) Rationale for the Lower Protection Level

Courts that support the disparate treatment in the protection of speech put forward various justifications. In *Virginia State Board of Pharmacy*, the US

⁸⁴³ *Hertel*, (1999) 28 E.H.R.R. 534 at 571

⁸⁴⁴ *Germany v. European Parliament and E.U. Council* [2000] 3 C.M.L.R. 1175, 1245

⁸⁴⁵ *Herbert Karner Industrie-Auktionen GmbH v. Troostwijk GmbH* [2004] 2 C.M.L.R. 5, 94

⁸⁴⁶ *Id.* at 106

⁸⁴⁷ Judgment of 27 October 2005, Constitutional Court, 2003 Heon-Ga 3

⁸⁴⁸ Judgment of 29 July 2010, Constitutional Court, 2006 Heon-Ba 75

Supreme Court suggested two reasons: the greater ‘objectivity’ and ‘hardiness’ of commercial speech.⁸⁴⁹ The first reason is that advertisers know all the information about their products better than anyone and hence they can verify its truthfulness more easily. Second, because of its commercial profits, commercial speech is not likely to be “chilled” and “foregone entirely”.⁸⁵⁰ Another rationale asserted in other cases is that the purpose of the restriction of commercial speech is related to the preservation of a fair bargaining process or commercial harm.⁸⁵¹ That is, in general, commercial expression is regulated by the government for the protection of consumers from misleading, deceptive, or aggressive sales practices, or for the disclosure of beneficial information for consumers.⁸⁵²

In the EU, the ECtHR held that the complex and fluctuating area of unfair competition and advertising necessitates a margin of appreciation in assessing the necessity of interference since it cannot re-examine all relevant facts and circumstances.⁸⁵³

Meanwhile, Advocate Generals Fennelly and Alber asserted in, respectively, *Germany v. European Parliament and E.U. Council* and in *Herbert Karner Industrie-Auktionen GmbH* that the disparate constitutional protection can be justified by the different manner in which commercial expression and other types of expression interact with general public interest; whereas political speech contributes to critical societal interests, commercial expression does not play a similarly important role.⁸⁵⁴ The ECJ also indirectly suggested the distance from public interest as a reason for lesser protection in *Herbert Karner Industrie-Auktionen GmbH*, describing the freedom of commercial expression as one of the freedoms whose implementation is not conducive to “a discussion of public interest”.⁸⁵⁵

⁸⁴⁹ *Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council, Inc.*, 425 U.S. 748, n. 24 (1976); *44 Liquormart v. Rhode Island*, 517 U.S. 484, 499 (1996)

⁸⁵⁰ *Virginia State Board of Pharmacy*, 425 U.S. at n. 24

⁸⁵¹ *Ohralik v. Ohio State Bar Ass’n*, 436 U.S. 447, 455-56 (1978); *Bolger v. Youngs Drug Prods. Corp.*, 463 U.S. 60, 81 (1983) (Justice Stevens, concurring in the judgment); *City of Cincinnati v. Discovery Network*, 507 U.S. 410, 426 (1993); *Rubin v. Coors Brewing Co.*, 514 U.S. 476, 494-496 (1995) (Justice Stevens, concurring in the judgment)

⁸⁵² *44 Liquormart*, 517 U.S. at 501

⁸⁵³ *Markt Intern and Beermann v. Germany* (1990) 12 E.H.R.R. 161, 174

⁸⁵⁴ *Germany v. European Parliament and E.U. Council* [2000] 3 C.M.L.R. 1175, 1245; *Herbert Karner Industrie-Auktionen GmbH v. Troostwijk GmbH* [2004] 2 C.M.L.R. 5, 94

⁸⁵⁵ *Herbert Karner*, [2004] 2 C.M.L.R. 5 at 106

The Constitutional Court of Korea found the justification for the lesser protection of commercial speech in that it is different from political and civil expression of ideas or knowledge and that its effect on the development of personality and individuality is less critical.⁸⁵⁶ The Court also suggested that its restriction does not have crucial effects because it is propelled by business profits and has little risk that the only expression that suits the taste of a person with political power will be allowed.⁸⁵⁷

To sum up, court decisions as to why commercial speech does not deserve full protection fall under four categories. First, the rationale for protecting free speech makes commercial expression ‘less valued’ than other forms of speech; the public interest in protecting commercial expression is less significant and commercial expression contributes less to public discourse and personal development. Second, speakers of false commercial speech are ‘more blameworthy’; the speech is conveyed by speakers who know the truth better than anyone. Third, commercial speech has ‘high durability’ to withstand suppression; its commercial profits would not let it stifled by regulations. Fourth, ‘the nature of governmental interests’ justifies lesser protection; the interests consist in protecting consumers from commercial harm.

4) Definition of Commercial Speech

Commercial speech should be clearly defined in order to be distinguished from other types of constitutionally protected expression. In practice, however, it is not easy to distinguish the former from the latter because of the complexity of advertisements. As Justice Stevens argued in *Central Hudson Gas*,⁸⁵⁸ if the nature of commercial speech is determined according to subject matter, a labour leader’s exhortation to strike and an economist’s dissertation on the money supply can receive lesser protection than non-commercial speech. If an economic motivation is used as a standard, the work of Shakespeare, who may have had a pecuniary motive, can be commercial speech.

⁸⁵⁶ Judgment of 27 October 2005, Constitutional Court, 2003 Heon-Ga 3

⁸⁵⁷ Judgment of 29 July 2010, Constitutional Court, 2006 Heon-Ba 75

⁸⁵⁸ *Central Hudson Gas & Elec. Corp. v. Public Serv. Comm’n of New York*, 447 U.S. 557, 579-580 (1980)

Because of the difficulty in the definition of commercial speech,⁸⁵⁹ for example, on the basis of the common characteristics shared by speakers or the content of commercial expression, at least one scholar defines it in connection with the principal rationale given for free speech. He maintains that commercial speech can be defined as “the set of communicative acts about commercial subjects that within a public communicative sphere convey information of relevance to democratic decision making but that do not themselves form part of public discourse.”⁸⁶⁰

Although this appears to be a tight knot to untangle, efforts to define commercial speech should not be abandoned.⁸⁶¹ It is suggested that the focus should be placed more on the rationale for which commercial speech is constitutionally protected and the reasons why it is given a lower level of protection than non-commercial speech.⁸⁶²

The US Supreme Court has been exploring that route; however, it appears that the ECtHR and the Constitutional Court of Korea have not felt the same necessity. At first, the US Supreme Court defined commercial speech as speech that does “no more than propose a commercial transaction.”⁸⁶³ Then, in *Bolger*, the Court regarded this as ‘the core notion of commercial speech’ rather than a definition, adopting a different test for classification.⁸⁶⁴ The Court considered three factors in characterising informational pamphlets as commercial speech: i) their nature as advertisements, ii) the reference to a specific product, and iii) an economic motivation. It then concluded that “the combination of all these characteristics provide[d] strong support” for the decision that the pamphlets constituted commercial speech, adding in a footnote that all three characteristics are not required for speech to be commercial.⁸⁶⁵

⁸⁵⁹ Munro, *supra* note 841, 148-155 (explaining the difficulties in defining commercial speech from the perspective of category crossover, wider dimension, domestic definitions, and approaches in the literature.)

⁸⁶⁰ Post, *supra* note 831, at 5-7, 25

⁸⁶¹ Barendt, *supra* note 1, at 398; Erwin Chemerinsky and Catherine Fisk, What Is Commercial Speech? The Issue Not Decided in *Nike v. Kasky*, 54 Case W. Res. L. Rev. 1143, 1160 (2004)

⁸⁶² Chemerinsky and Fisk, *supra* note 861, at 1160

⁸⁶³ *Pittsburgh Press Co. v. Pittsburgh Comm’n on Human Relations*, 413 U.S. 376, 385 (1973); *see also* *Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council, Inc.*, 425 U.S. 748, 762 (1976)

⁸⁶⁴ Bennis, *supra* note 805, at 387 (arguing that this phrase is considered “a paradigm example than as a definition or necessary condition.”)

⁸⁶⁵ *Bolger v. Youngs Drug Prods. Corp.*, 463 U.S. 60, 66-68, n. 14 (1983)

Commercial speech was also described as “expression related solely to the economic interests of the speaker and its audience” in *Central Hudson Gas*.⁸⁶⁶ Justice Stevens criticised this definition in the same case, asserting that the Court’s definition is “too broad” and “it is important that the commercial speech concept not be defined too broadly lest speech deserving of greater constitutional protection be inadvertently suppressed” because of less constitutional protection of commercial speech than other forms of speech.⁸⁶⁷

In *Nike*, which was dismissed by the US Supreme Court on jurisdictional grounds,⁸⁶⁸ the Supreme Court of California suggested a more detailed test. It held that factors in categorising statements as commercial speech are i) the speaker, who is likely to be someone engaged in commerce or someone acting on behalf of a person so engaged, ii) the intended audience, who is likely to be actual or potential buyers or customers of the speaker’s goods or services, or persons acting for actual or potential buyers or customers, or persons (such as reporters or reviewers) likely to repeat the message to or otherwise influence actual or potential buyers or customers, and iii) the factual content of the message, which should be commercial in nature.⁸⁶⁹

Unlike the US Supreme Court, the ECtHR and the ECJ have not sought a consistent definition of commercial speech.⁸⁷⁰ The characteristics of commercial speech, however, can be found in the decisions of the ECtHR. Moreover, the European Commission on Human Rights (“Commission”), which played a role of a preliminary filter for applications for relief until the 1998 reorganisation and distinguished the level of protection conferred to commercial expression from that given to non-commercial expression,⁸⁷¹ also described the nature of commercial speech in some cases. The ECtHR seemed to describe commercial speech as ‘the commercial context inciting the public to purchase a particular product’ by holding that “the commercial indubitably fell outside the regular commercial context in the sense of inciting the public to purchase a particular

⁸⁶⁶ *Central Hudson Gas & Elec. Corp. v. Public Serv. Comm’n of New York*, 447 U.S. 557, 561 (1980)

⁸⁶⁷ *Id.* at 579-580

⁸⁶⁸ *Nike, Inc. v. Kasky*, 539 U.S. 654, 657-658 (2003)

⁸⁶⁹ *Kasky v. Nike, Inc.*, 45 P.3d 243, 256 (Cal. 2002)

⁸⁷⁰ *Shiner*, *supra* note 801, at 6

⁸⁷¹ *Id.* at 96

product” in *VgT Verein gegen Tierfabriken*.⁸⁷² The Commission also characterised commercial advertisements as “offering objects for sale” in *Church of Scientology*, holding that once advertisements, which concern religious objects, constitute “commercial advertisements offering objects for sale,” statements of religious content amount to “the manifestation of a desire to market goods for profit” rather than “the manifestation of a belief in practice” under article 9 of the ECHR.⁸⁷³

The Constitutional Court of Korea also has not provided the general definition of commercial speech. Rather, it decided the difference between different types of speech on a case by case basis. The Court, however, implied that the nature of commercial speech is ‘its intention to sell products’ by deciding that an advertisement concerning the efficacy of food amounts to commercial expression for the sale of food and that commercial expression is protected by freedom of expression.⁸⁷⁴ The Court also asserted in the *Health Functional Food Act* case that commercial advertising is an activity for profit of which the main purpose is to promote products and boost sales.⁸⁷⁵

5) Standards for Limiting Expression

On the basis of the lesser protection of commercial expression, courts in each jurisdiction have developed different, but similar in terms of effect standards for limiting speech: commercial speech is accorded “a limited measure of protection, commensurate with its subordinate position.”⁸⁷⁶

In *Central Hudson Gas*, the US Supreme Court articulated a four-step analysis: the *Central Hudson* test or an ‘intermediate scrutiny standard.’ According to this analysis, the regulation of commercial speech does not run afoul of free speech if i) commercial speech concerns lawful activity and is not misleading, ii) the asserted governmental interests are substantial, iii) the

⁸⁷² *Vgt Verein gegen Tierfabriken v. Switzerland* (2002) 34 E.H.R.R. 4, 173

⁸⁷³ *The Church of Scientology and Another v. Sweden* (1979) E.C.C. 511, 525-526 (distinguishing “between advertisements which are merely ‘informational’ or ‘descriptive’ in character and commercial advertisements offering objects for sale”)

⁸⁷⁴ Judgment of 30 March 2000, Constitutional Court, 97 Heon-Ma 108; Judgment of 30 March 2000, Constitutional Court, 99 Heon-Ma 143

⁸⁷⁵ Judgment of 29 July 2010, Constitutional Court, 2006 Heon-Ba 75

⁸⁷⁶ *Ohralik v. Ohio State Bar Ass’n*, 436 U.S. 447, 456 (1978)

regulation directly advances these interests asserted, and iv) it is not more extensive than is necessary to serve these interests.⁸⁷⁷ The last two parts of the analysis relate to the requirement that a regulatory technique should be in proportion to these interests.⁸⁷⁸ The Central Hudson test is distinguished from the Ward test⁸⁷⁹ for time, place, manner regulations and the O'Brien test⁸⁸⁰ for symbolic speech. The Central Hudson test applies to both content-neutral and content-based regulations, whereas the Ward test and the O'Brien test only to content-neutral regulations.⁸⁸¹ The Central Hudson test has played a role as a dominant standard even though it has been sometimes faced with justices' criticism.⁸⁸²

A test for non-commercial speech is stricter than the Central Hudson test. It requires 'compelling interests' and 'the least restrictive means to further these interests' instead of 'substantial interests' and 'not more extensive than is necessary to serve these interests.'⁸⁸³ On the other hand, it does not require that speech should be legal and non-misleading.⁸⁸⁴

In contrast to the First Amendment, the ECHR has a restriction rule in article 10(2). In order for the limitation of expression to fall within the reach of article 10 of the ECHR, the ECtHR held it should i) be prescribed by law, ii) pursue one or more of the legitimate aims referred to in article 10(2) such as the prevention of disorder or crime, the protection of health or morals, the protection of the reputation or rights of others, the protection of the disclosure of information received in confidence, or the maintenance of the authority and impartiality of the judiciary, and iii) be necessary in a democratic society for achieving such an aim or aims.⁸⁸⁵ Here, for non-commercial expression, the necessity in a democratic society is construed as meaning 'the existence of

⁸⁷⁷ Central Hudson Gas & Elec. Corp. v. Public Serv. Comm'n of New York, 447 U.S. 557, 564-566 (1980)

⁸⁷⁸ Id. at 564

⁸⁷⁹ Ward v. Rock Against Racism, 491 U.S. 781, 791 (1989)

⁸⁸⁰ O'Brien v. United States, 391 U.S. 367, 377 (1968)

⁸⁸¹ Ashutosh Bhagwat, The Test that Ate Everything: Intermediate Scrutiny in First Amendment Jurisprudence, 2007 U. Ill. L. Rev. 783, 794 (2007)

⁸⁸² Id.; Thompson v. W. States Med. Ctr., 535 U.S. 357, 367-368 (2002)

⁸⁸³ Board of Trustees of the State University of New York v. Fox, 492 U.S. 469, 477 (1989); Sable Communications of Cal., Inc. v. FCC, 492 U.S. 115, 126 (1989); United States v. Playboy Entm't Group, 529 U.S. 803, 813 (2000)

⁸⁸⁴ Id.

⁸⁸⁵ Krone Verlag GmbH & Co KG v. Austria (2006) 42 E.H.R.R. 28, 582

pressing social need.’⁸⁸⁶

In the case of commercial speech, the necessity in a democratic society is interpreted differently. If the restriction of commercial expression is considered to be necessary ‘on reasonable grounds,’ it satisfies ‘the necessity in a democratic society.’⁸⁸⁷ Unlike the Central Hudson test, however, the ECtHR does not distinguish between false or misleading commercial speech and legal, non-misleading commercial speech in applying the restriction rule. The ECJ adopted a similar test for commercial speech, asserting that “[w]hen the exercise of the freedom does not contribute to a discussion of public interest and, in addition, arises in a context in which the Member States have a certain amount of discretion, review is limited to an examination of the reasonableness and proportionality of the interference” and that “[t]his holds true for the commercial use of freedom of expression, particularly in a field as complex and fluctuating as advertising for the requirements for the interference with commercial speech.”⁸⁸⁸

In Korea, the limitation of speech should also satisfy fundamental rules not to contravene freedom of speech under article 21 of the Korean Constitution. It should not run afoul of the constitutional principles especially required for the restriction of freedom of expression such as the rule of clarity and the rule of preventing censorship. In particular, article 21(4) provides that “[n]either speech nor the press may violate the honour or rights of other persons nor undermine public morals or social ethics.” Moreover, it should not violate the constitutional basic rules for the limitation of basic rights: the rule of restriction by law, the rule of the necessity for national security, the maintenance of law and order, or public welfare, and the rule that no essential aspect of the freedom or right shall be violated.⁸⁸⁹ The rule of the necessity (the principle of proportionality) consists of four parts. First, the legislative purpose of regulating law should be legitimate. Second, a means to limit freedom of expression should be necessary for the purpose. Third, it should be the least restrictive means. Finally, a balance of interests should be struck.⁸⁹⁰

⁸⁸⁶ *Sunday Times v. United Kingdom* (1992) 14 E.H.R.R. 229, 241

⁸⁸⁷ *Markt Intern and Beermann v. Germany* (1990) 12 E.H.R.R. 161, 176

⁸⁸⁸ *Herbert Karner Industrie-Auktionen GmbH v. Troostwijk GmbH* [2004] 2 C.M.L.R. 5, 106

⁸⁸⁹ Judgment of 28 May 2009, Constitutional Court, 2006 Heon-Ba 109

⁸⁹⁰ Judgment of 30 March 2000, Constitutional Court, 99 Heon-Ma 143

With regard to commercial speech, the Court applies the principle of proportionality at a lesser degree. It decided in the Medical Service Act case that in reviewing the restriction of commercial advertisements under the principle of proportionality, it is proper for the standard of ‘the least restriction’ to be modified into ‘whether the restriction is in the necessary scope to fulfil the legislative purpose.’⁸⁹¹ As in the EU, the Constitutional Court of Korea does not distinguish the level of scrutiny for false or misleading commercial speech from that for legal and true commercial speech.

6) Conclusion

(1) Protection of Commercial Speech

This thesis suggests that commercial speech should be protected under freedom of expression because of its nature as speech, contribution to developing the audience’s faculties for critical thinking, relevance to public interest, and protection of speaker interests. First, as the ECtHR, Advocate General Fennelly, and the Constitutional Court of Korea asserted, commercial speech is a type of speech, and the First Amendment, the ECHR, and the Korean Constitution do not distinguish between commercial and non-commercial speech. There is no reason for commercial speech to be excluded from the scope of speech under these laws.

Second, both consumers, who are potential buyers, and other audiences, that are not potential buyers, could develop their abilities to think critically, which are necessary for the proper participation in public discourse. The protection of commercial speech could contribute to honing consumers’ critical thinking abilities⁸⁹² because most commercial advertisements today do not just provide consumers with information on products in a simple way; they also convey other information, such as brand images and opinions, and they do so in various ways. Consumers, who want to rationally decide their preferences or purchase products, need to carefully judge the advantages and disadvantages of products based on these kinds of information imparted by advertisements. For other audiences,

⁸⁹¹ Judgment of 27 October 2005, Constitutional Court, 2003 Heon-Ga 3

⁸⁹² Adam Winkler, *Beyond Bellotti*, 32 *Loy. L.A. L. Rev.* 133, 197 (1998)

commercial expression also relates to their critical thinking. They could develop their abilities to think critically as they try to understand advertising messages. For them, commercial expression is almost the same as non-commercial expression.

Third, the information or opinions conveyed by commercial advertisements also concern public interest directly or indirectly. Even purely commercial expression can be linked to public interest. For example, as the Constitutional Court of Korea decided in the Medical Service Act case, commercial medical advertisements, if they are based on objective facts, can enhance public interest by helping consumers make reasonable choices and by promoting fair competition among medical persons since they include important information on medical services.⁸⁹³ This can also be shown by the fact that when the question of the constitutionality of restrictions on commercial speech is raised, one important factor for the constitutionality test is whether there are substantial societal interests.

Fourth, there are also speaker interests in protecting commercial expression. Sellers' effective ways of delivering information about their products to consumers are critical for competition with other sellers in product markets. By offering attractive information that can differentiate their products from others, they could sustain their business in highly competitive markets. By doing so, they could also polish up their communication skills which are needed to convey other forms of expression. The restriction of commercial speech would result in the interference with these speaker interests. Speaker interests, however, are not as significant as listener interests because commercial speech could include misleading expression because of speakers' intention to earn profits.

For the above reasons, commercial speech should be protected like other types of speech. Although disparate functions between commercial and non-commercial expression can be the reason for the different level of protection, they cannot be the grounds for not protecting commercial expression.

(2) Different Level of Protection

⁸⁹³ Judgment of 27 October 2005, Constitutional Court, 2003 Heon-Ga 3

The recognition of the necessity to protect commercial speech does not automatically lead to the conclusion that commercial expression should be afforded the same level of protection with non-commercial speech. It is submitted here that commercial expression does not deserve full protection under free speech.

‘Greater objectivity,’ however, cannot fully justify this. It can explain only why false or misleading commercial expression is afforded a lower level of protection than false or misleading non-commercial speech. Unless speech delivered to listeners is neither true nor legal, there is no reason to discriminate against speakers of commercial speech.

Moreover, the lower degree of protection given to commercial expression should not be because the expression is capable of enduring suppression better than other types of speech. In many cases, a political or religious belief can make speakers tolerate suppression. More importantly, restraints should not be based on the positive side of expression, but on its negative side; it cannot be said that durability falls within the negative side.

Societal interests in protecting consumers are also insufficient as a rationale for the different treatment of speech. Non-commercial expression is not less protected even when limitations are aimed for consumer protection. It should not be the purpose of regulations but the characteristics of commercial speech that can give an explanation for the different level of protection.

In terms of the rationale for the protection of non-commercial expression such as political speech, commercial speech is not as closely related to public discourse in a democratic society as political speech. This fact, however, just shows a difference between them. It cannot prove that commercial speech is of lower value. In the case of artistic expression, it is not accorded lower protection even though its primary function is different from that of political speech.

Here it is suggested that the reason why commercial speech deserves only limited protection under free speech can be explained by the fact that it is likely to include some degree of misleading information. Since commercial speech is aimed to secure maximum profits, sellers readily use misleading expression if, they believe, it is necessary; some misleading speech is tolerable by listeners, but some are not. This nature of commercial speech results in a lower

level of protection.

(3) Definition of Commercial Speech and Mixed Speech

In reality, an advertisement has both a commercial and a non-commercial nature. A business, recognising that commercial speech is given relatively less protection, seeks to render its advertisements non-commercial by adding non-commercial messages. Moreover, modern advertisements tend to persuade consumers to choose brands not only by illustrating the uniqueness or excellence of products or producers but also by displaying brand images. Advertorials, advertisements in the form of an editorial, and editorials about branded products serve that purpose. Against this setting, the definition of commercial speech is of great importance in the scope of the protection of ‘mixed speech.’ The definition should encompass the rationales for protection of commercial speech and the disparity in protection between commercial and non-commercial speech.

First of all, commercial speech should possess the attribute of speech within the reach of free speech. According to dictionary definitions,⁸⁹⁴ while expression means “the process of making known one’s thoughts or feelings,” the meaning of speech is “the expression of or the ability to express thoughts and feelings by articulate sounds.” Speech within the meaning of free speech, however, is not just spoken or written language; it also covers communication through symbols and actions other than the use of language.⁸⁹⁵ The US Supreme Court held in *Spence* that a student’s act of hanging a US flag upside down and attaching a peace symbol to the flag was protected under freedom of speech.⁸⁹⁶ The Court clarified that, in order for an act to constitute speech within the meaning of the First Amendment, it should be “sufficiently imbued with elements of communication.” It additionally stated that the combination of the nature of the

⁸⁹⁴ Google dictionary; *see* also Oxford Dictionaries Online (defining expression as “the action of making known one’s thoughts or feelings”); the Oxford Advanced Learner’s Dictionary (expression means “things that people say, write or do in order to show their feelings, opinions and ideas”); the Korean Standard Dictionary by the National Institute of the Korean Language defines expression as “showing thoughts and feelings in words or by gestures.”

⁸⁹⁵ Rodney A. Smolla, 1 *Smolla & Nimmer on Freedom of Speech* § 11:2 (2010)

⁸⁹⁶ *Spence v. Washington*, 418 U.S. 405, 405 (1974)

act and surrounding context and circumstances could lead to this result,⁸⁹⁷ while also stressing a speaker's intent.⁸⁹⁸ Therefore, commercial speech should be 'communication'.

Secondly, the main justification for the protection of commercial speech is that it enables 'the audience' to improve the capacity of analytical thinking required for public discourse. While other types of speech can facilitate self-development, self-fulfilment, and self-autonomy of both speakers and the audience, the constitutional value of commercial speech is primarily ascribed to the audience including consumers. Notwithstanding the interests of speakers in differentiating their products from others for the purpose of competition, the probability that the profit-oriented speakers use misleading information devalues speaker interests. In this regard, whether expression is commercial or not should be assessed in terms of the audience, not speakers.

Most importantly, commercial expression ought to be defined based on the rationale for its lesser protection: the high possibility of the existence of misleading information. Commercial speech should be limited to one that the audience is likely to perceive as including misleading information because of commercial profit. Readers would hardly believe that authors use misleading information in order to sell more books. Researchers would not include misleading information in their theses about economics. On the other hand, it is likely that advertisements which no more than propose commercial transactions employ potentially misleading expressions. The advertisements, which incorporate non-commercial nature in them along with commercial nature, could easily use misleading expressions where they 'primarily' propose commercial transactions of products. In this sense, commercial speech should be interpreted narrowly enough to exclude non-commercial speech, and at the same time, broadly enough to embrace diversified commercial advertisements.

On the basis of the above reasons, this thesis suggests that commercial expression should be defined as 'communication which primarily proposes a commercial transaction from the standpoint of the audience.'

Under this definition, mixed speech, which has both commercial and

⁸⁹⁷ Id. at 409-411

⁸⁹⁸ Id.

non-commercial content, can be categorised as commercial or non-commercial, depending on whether it primarily concerns the proposal of transaction of goods. Nevertheless, mixed speech should be presumed to be non-commercial until it is proved to be commercial.⁸⁹⁹ This is because relatively wider limitations are allowed for commercial speech in spite of the fact that free speech restriction is exceptional. Freedom of expression is a prerequisite for self-realization, self-fulfilment, self-autonomy, or public discourse necessary for liberal democracy, and therefore its restriction should be exceptional. If mixed expression may be deemed commercial and thus given lesser protection,⁹⁰⁰ the restriction of speech cannot be exceptional; the presumption could cause a chilling effect on freedom of expression since a speaker has to prove that his expression is non-commercial. He will withdraw it rather than expend time and efforts in proving that it is non-commercial.

Meanwhile, it cannot be said that mixed expression is always considered to be either commercial or non-commercial ‘as a whole.’ If commercial speech parts and non-commercial parts are ‘inextricably interwoven’ with each other in mixed speech, the speech will be categorised as commercial or non-commercial and a single test will apply to it. The US Supreme Court in cases regarding the solicitation of charitable funds decided that the same test should be used for a single speech where its component parts are inextricably intertwined.⁹⁰¹ The Court asserted that an endeavour to “parcel out the speech,” applying one scrutiny to one expression and another scrutiny to another expression, would be both non-natural and unrealistic.⁹⁰² Nevertheless, unless it is impossible to disentangle commercial expression from non-commercial expression, for example, by law or the nature of things, different tests should be applied to different types of

⁸⁹⁹ Barendt, *supra* note 1, at 398 (contending that “borderline cases should be resolved with the help of a presumption.”)

⁹⁰⁰ Margreth Barrett, *Domain Names, Trademarks and the First Amendment: Searching for Meaningful Boundaries*, 97 *Trademark Rep.* 848, 862 (2007) (stating that “mixed messages, which simultaneously propose a commercial transaction and address social, political or other issues of public interest, may be deemed “commercial speech,” and thus subjected to lesser First Amendment protection.”)

⁹⁰¹ *Schaumburg v. Citizens for a Better Environment*, 444 U.S. 620, 632 (1980); *Maryland v. Munson*, 467 U.S. 947, 959-960 (1984); *Riley v. Nat’l Fed’n of the Blind, Inc.*, 487 U.S. 781, 796 (1988)

⁹⁰² *Riley*, 487 U.S. at 796

expression.⁹⁰³ For instance, commercial advertisements during a commercial break can be differentiated from TV programmes, while product placements in TV programmes cannot be easily separated from programmes themselves.

(4) Standards for the Restriction

Standards for the interference with free speech in the USA, the EU, and Korea are not exactly the same. First, the US standard requires compelling state interests for non-commercial speech, but other jurisdictions require legitimate interests for both commercial and non-commercial expression. Second, the US Central Hudson test demands that commercial speech should be legal and non-misleading, while, in the EU and Korea, standards for commercial expression apply to not only lawful and non-confusing expression but also false or misleading speech. Third, whether a means to restrict speech is not more extensive than is necessary (for commercial speech) or the least restrictive means (for non-commercial speech) is one prong of the test in the USA and Korea, while the ECtHR does not require this part of the test. Finally, the Constitutional Court of Korea calls for the balance of interests and others do not.

Most differences, however, can be explained by other standards. The different strength of state interests in the US Supreme Court corresponds to the prong of ‘the necessity in a democratic society for achieving legitimate aims’ in the ECtHR and the principle of proportionality—the balance of interests in particular—in the Constitutional Court of Korea. According to the ECtHR, whether or not a means to limit expression is the least restrictive means appears to be included in the requirement of ‘the necessity in a democratic society for achieving legitimate aims.’

On the other hand, whether commercial speech is legal and non-misleading in the US Supreme Court is not in conformity with the tests in other jurisdictions. Pursuant to Central Hudson, the limitation of false or misleading commercial speech needs lesser strict scrutiny than that of true and legal commercial speech. The ECtHR, the ECJ, and the Constitutional Court of Korea, however, do not require such scrutiny for false or misleading expression. This

⁹⁰³ Board of Trustees of the State University of New York v. Fox, 492 U.S. 469, 474-475 (1989)

does not mean that EU and Korean standards accord to false or misleading commercial expression the same degree of protection as is given to true and legal commercial speech. The same analysis applies to both cases.

This thesis submits that illegal, false, or misleading commercial expression as well as legal and non-misleading commercial speech should be limited under the same scrutiny, considering trade mark cases.

First, likelihood of confusion plays a role as a gate requirement under the Central Hudson test, but the scope of ‘likelihood of confusion’ is not well defined.⁹⁰⁴ A broad interpretation could make commercial speech fall outside the reach of free speech. This runs counter to court decisions that commercial expression should be protected under freedom of expression.

Second, the scope of likelihood of confusion needs to be examined on the basis of the scrutiny for restricting commercial speech, but this is not possible under the US test. On the contrary, the meaning of likelihood of confusion determines the application of the scrutiny. This seems like ‘putting the cart before the horse.’

Third, the Central Hudson analysis cannot give directions as to why some misleading uses are permitted because of exceptions from trade mark liability such as fair use. According to the Central Hudson test, if commercial speech is misleading, it is no more under intermediate scrutiny. Thus, the test cannot explain why a fair use defence is necessary from the perspective of free speech. One possible interpretation would be that there is no actionable likelihood of confusion in the case of fair use and ‘misleading’ under the test is limited to actionable likelihood of confusion. This interpretation, however, makes a fair use defence unnecessary; the likelihood of confusion test would determine whether the standard for limiting commercial speech applies to a specific case or not, embracing the analysis of fair use.

Finally, the difference in the degree of restriction between illegal, false, or misleading use and legal and non-misleading use can be adjusted by the direct furtherance of the state interests and the necessary scope of regulations. The

⁹⁰⁴ Lisa P. Ramsey, *Increasing First Amendment Scrutiny of Trademark Law*, 61 *SMU L. Rev.* 381, 420 (2008) (maintaining that the exclusion of misleading commercial speech from the First Amendment protection just on the basis of initial interest confusion on the Internet is problematic)

direct furtherance and the necessity will be more readily recognised in the case of illegal, false, or misleading use.

Therefore, here it is supported that the standard for limiting commercial speech should integrate three parts: i) the asserted state interests should be substantial, ii) the regulation should directly advance the state interests asserted, and iii) the regulation should not be more extensive than is necessary to serve these interests.

2. Restriction of Expression by Trade Mark Law

1) Approaches as to the Relationship between Free Speech and Trade Mark Law

Trade mark protection clashes with freedom of expression in many cases. If commercial speech is treated the same as other types of speech under free speech and the scope of free speech expands, trade mark protection would shrink. Conversely, if courts, on the basis of the commercial/non-commercial divide, are more lenient to the regulation of commercial speech and thus the scope of trade mark protection is broadened, this could chill free speech. As Judge Kozinski affirmed in *MCA Records* that “if this were a sci-fi melodrama, it might be called *Speech-Zilla meets Trademark Kong*,”⁹⁰⁵ it is difficult to maintain a balance between trade mark rights and free speech values.

If the Central Hudson test is adopted and all uses of trade marks are considered to be commercial speech, it seems that *Speech-Zilla* never encounters *Trade-mark Kong* in trade mark infringement cases;⁹⁰⁶ use of trade marks which is likely to confuse consumers cannot satisfy the first part of the Central Hudson standard.

Trade mark law, however, still clashes with free speech even if courts adopt the Central Hudson test. First of all, it is not certain that all trade mark uses are categorised as commercial speech. Sellers use trade marks in their commercial

⁹⁰⁵ *Mattel, Inc. v. MCA Records, Inc.*, 296 F.3d 894, 898 (9th Cir. 2002)

⁹⁰⁶ *Taubman Co. v. Webfeats*, 319 F.3d 770, 774-775 (6th Cir. 2003) (pointing out that if the defendant’s use is commercial and confusing, “then it is misleading commercial speech, and outside the First Amendment.”)

advertisements while authors include trade marks in their works or music. Protesters parody trade marks in order to emphasise their beliefs.

Second, the scope of ‘likelihood of confusion’ and ‘misleading’ is very wide and indeterminate. Some types of confusion are perceived as tolerable by consumers, but others are not. Moreover, consumer care is not identical. Sophisticated consumers are not readily misled by the information that could confuse average consumers. Furthermore, whether ‘likelihood of confusion’ corresponds to ‘misleading’ is vague.

Third, the expansion of trade mark protection beyond confusion-based liability such as dilution triggers a new round of conflict between trade mark rights and free speech. Because dilutive use of trade marks may not constitute misleading expressions, the regulation of the use is not totally outside freedom of commercial expression even under the Central Hudson test.

In order to reconcile the conflict and find a balance between trade mark protection and free speech, courts, mostly in the USA, have adopted three distinct approaches: i) the ‘likelihood of confusion’ test, ii) the ‘alternative avenues’ test, and iii) the Rogers test.⁹⁰⁷ A nominative fair use doctrine was also devised by the US Ninth Circuit and it is contended that the nominative fair use analysis was created since the Rogers test applied solely to use of trade marks in titles of works.⁹⁰⁸

The likelihood of confusion approach does not “pay special solicitude to” free speech defences,⁹⁰⁹ suggesting that balancing trade mark protection against freedom of expression has been achieved by a statutory framework.⁹¹⁰ In *Dr. Seuss Enterprises*, the US Ninth Circuit emphasised that the issue in this case was likelihood of confusion in product markets rather than the protection of creative expressions and focused on the eight-factor *Sleekcraft* test.⁹¹¹ Furthermore, the Circuit regarded a parody defence as being included in the likelihood of

⁹⁰⁷ *Parks v. LaFace Records*, 329 F.3d 437, 447 (6th Cir. 2003)

⁹⁰⁸ Pratheepan Gulasekaram, *Policing the Border Between Trademarks and Free Speech: Protecting Unauthorized Trademark Use in Expressive Works*, 80 Wash. L. Rev. 887, 919-920 (2005)

⁹⁰⁹ *Parks*, 329 F.3d at 448

⁹¹⁰ *Films of Distinction, Inc. v. Allegro Film Prods., Inc.*, 12 F.Supp.2d 1068, 1078 (C.D.Cal.1998)

⁹¹¹ *Dr. Seuss Enterprises, L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1403-1405 (9th Cir. 1997)

confusion test. According to the Circuit, the parody defence was only another way of claiming that there was no likelihood of confusion and it should not be given preferential treatment.⁹¹²

The second approach, the ‘alternative avenues’ test, accords more weight to trade mark protection, stressing that trade marks possess the nature of property rights. This standard stems from *Lloyd v. Tanner*,⁹¹³ and the US Second Circuit adopted it in *Dallas Cowboys Cheerleaders*.⁹¹⁴ It was also used by the Eighth Circuit in *Mutual of Omaha*.⁹¹⁵ Under this approach, free speech interests are outweighed by trade mark protection if there are “adequate alternative avenues of communication.”⁹¹⁶

Many US Circuits use the Rogers test when trade marks are employed in the context of artistic expression. Since the Second Circuit introduced this test in *Rogers*,⁹¹⁷ not only the Second Circuit itself but also other federal courts such as the Fifth,⁹¹⁸ the Sixth,⁹¹⁹ and the Ninth⁹²⁰ Circuits have adopted this test. In contrast to the previous two approaches, this one is premised on the idea that trade mark law should be narrowly interpreted in order not to come into conflict with free speech interests.⁹²¹ At first, the Rogers test only applied to use of trade marks in the title of artistic works, but it expanded to become “generally applicable to Lanham Act claims against works of artistic expression.”⁹²² This test consists of two prongs: artistic relevance and explicitly misleading use. Use of a mark in an expressive work will not be banned as an infringement or a false designation under the Lanham Act “unless [it] has no artistic relevance to the underlying work whatsoever or, if it has some artistic relevance, unless [it]

⁹¹² *Id.* at 1405-1406

⁹¹³ *Lloyd Corp. v. Tanner*, 407 U.S. 551 (1972)

⁹¹⁴ *Dallas Cowboys Cheerleaders v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 206 (2d Cir. 1979)

⁹¹⁵ *Mutual of Omaha Ins. Co. v. Novak*, 836 F.2d 397, 402 (8th Cir. 1988)

⁹¹⁶ *Id.*

⁹¹⁷ *Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989)

⁹¹⁸ *Sugar Busters LLC v. Brennan*, 177 F.3d 258 (5th Cir. 1999); *Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658 (5th Cir. 2000)

⁹¹⁹ *Parks v. LaFace Records*, 329 F.3d 437 (6th Cir. 2003)

⁹²⁰ *Mattel, Inc. v. MCA Records, Inc.*, 296 F.3d 894 (9th Cir. 2002); *Mattel, Inc. v. Walking Mountain Productions*, 353 F.3d 792 (9th Cir. 2003); *E.S.S. Entertainment 2000, Inc. v. Rock Star Videos, Inc.*, 547 F.3d 1095 (9th Cir. 2008)

⁹²¹ *Rogers*, 875 F.2d at 998

⁹²² *Cliffs Notes, Inc. v. Bantam Doubleday Dell Publishing Group*, 886 F.2d 490, 495 (2d Cir. 1989)

explicitly misleads as to the source or the content of the work.⁹²³

This thesis argues that these approaches do not sufficiently justify the balancing between trade mark protection and free speech values from the perspective of standards for limiting freedom of expression. The likelihood of confusion approach hardly delimits the scope of trade mark protection since free speech interests are interpreted as being already incorporated in the confusion test. It cannot explain whether the likelihood of confusion test satisfies the standard which has been forged by the Supreme Court. Neither can it elucidate the different treatment in protecting commercial and non-commercial speech.

The ‘alternative avenues’ approach has the same problem: neither strict nor intermediate scrutiny offers any rationale for this approach. Moreover, this method lacks persuasive power by equating trade mark rights with real property rights⁹²⁴ and ignoring the fact that property rights can be limited by other constitutional values.

The Rogers approach, despite its endeavour to find a proper balance, was not based on the standard for limiting free speech. The Rogers court sought to consider both trade mark concerns and free speech interests, holding that “the [Lanham] Act should be construed to apply to artistic works only where the public interest in avoiding consumer confusion outweighs the public interest in free expression.”⁹²⁵ This analysis appears to concern ‘the existence of compelling interests’ which is part of the strict scrutiny which applies to the restriction of non-commercial expression. The court, however, did not continue its discussion based on the strict scrutiny.

Thus, it is needed to explore the general relationship between trade mark law and free speech in terms of standards for limiting commercial and non-commercial expression. For this purpose, the nature of ‘use of trade marks’ as speech should be examined first.

2) Use of Trade Marks and Speech

⁹²³ *Rogers*, 875 F.2d at 999

⁹²⁴ *Parks*, 329 F.3d at 450

⁹²⁵ *Rogers*, 875 F.2d at 999

Producers and retailers normally use trade marks to convey information on product quality and brand image to differentiate their products from other products and thus to build strong consumer preference for their products. Meanwhile, trade marks, particularly famous marks, are also employed in our daily conversation as signs expressing other meanings. For example, consumers use Tylenol to indicate analgesics and use ‘the Rolls Royce of its class’ to express supremacy in a class of products.⁹²⁶ In these uses, which do not constitute use as trade marks, trade marks possess communicative characteristics, and thus they are considered to be speech covered by free expression. Free speech values are “implicated in opposition to the trademark right.”⁹²⁷ There would be no objection against this argument.

On the other hand, there is a split in court decisions on whether use as trade marks amounts to ‘expression’ for free speech purposes. Some US courts construed ‘use as trade marks’ as not constituting speech within the meaning of the First Amendment, stating that “[u]se of another’s trademark is entitled to First Amendment protection only when the use of that mark is part of a communicative message, not when it is used merely to identify the source of a product.”⁹²⁸ This interpretation is predicated on the “distinction between communicative messages and product labels or identifications;”⁹²⁹ that is, a communication does not include information as to the source or sponsorship of products. According to this, trade marks used solely to indicate source or sponsorship are completely irrelevant to free speech interests.⁹³⁰ It is even unnecessary to classify the use as commercial or non-commercial. Trade mark owners are free to claim their rights against third party users who rely on freedom of expression.

I suggest that there is no reason to exclude ‘use as trade marks’ from the scope of ‘speech.’ As the US Supreme Court asserted in *Sorrell*, “the creation and dissemination of information are speech within the meaning of the First Amendment” and factual information is “the beginning point for much of the

⁹²⁶ *Mattel, Inc. v. MCA Records, Inc.*, 296 F.3d 894, 900 (9th Cir. 2002)

⁹²⁷ *Yankee Publishing v. News America Publishing*, 809 F.Supp. 267, 276 (S.D.N.Y. 1992)

⁹²⁸ *Planned Parenthood Federation of America, Inc. v. Bucci*, 1997 WL 133313, 10-11 (S.D.N.Y. 1997); *OBH, Inc. v. Spotlight Magazine, Inc.*, 86 F.Supp.2d 176, 197-198 (W.D.N.Y. 2000)

⁹²⁹ *Id.*

⁹³⁰ *Yankee Publishing*, 809 F.Supp. at 276; *Diller v. Barry Driller, Inc.*, 2012 WL 4044732, 10 (C.D.Cal.)

speech that is most essential to advance human knowledge and to conduct human affairs.”⁹³¹ Moreover, use as trade marks is located at the heart of the communication between sellers, consumers, and other competitors in the light of trade mark functions. Trade marks convey information as to product quality and brand image and play a core role in differentiating products bearing them from other products. This information is indispensable for reasonable consumer decisions and helps competitors to establish their marketing strategies. After all, the main and essential functions of trade marks concern the communication of significant information to their main audience, consumers and competitors. Therefore, ‘use as trade marks’ constitutes ‘speech’ for the purpose of free speech.⁹³²

Although use of trade marks including use as trade marks can constitute speech within the meaning of free speech, there are some uses of trade marks that cannot be regarded as ‘speech’ because of the lack of communicative elements. If trade marks are used invisibly and the use is not communicated to others, then the use in itself cannot amount to ‘speech.’ The invisible use of trade marks is similar to “an individual’s private thoughts about trade marks,”⁹³³ which cannot reach listeners. For example, trade marks, which are included as metatags in software programmes to trigger search results, do not constitute ‘expression.’

3) Use of Trade Marks and Commercial Speech

Another issue, which arises in applying the standards for limiting free speech to trade mark law, is whether use of trade marks is classified as commercial or non-commercial. This does not only concern the definition of commercial speech; it also relates to the question of whether the categorisation relies solely on the nature of use of trade marks or on the contexts in which trade marks are used.

⁹³¹ Sorrell v. IMS Health Inc., 131 S.Ct. 2653, 2667 (2011) (admitting that “prescriber-identifying information is speech for First Amendment purposes.”)

⁹³² Ramsey, supra note 904, at 409 (“a trademark, such as “Coca-Cola,” can provide information about who is manufacturing or selling this product, or about the quality of products sold under this brand. A trademark may be used in a domain name to identify the owner or operator of a certain website or provide other information. All of these uses of a trademark are “speech,” regardless of whether the mark holder or a third party uses the mark to communicate in these ways.”)

⁹³³ 1-800 Contacts, Inc. v. WhenU.com, Inc., 414 F.3d 400, 408-409 (2d Cir. 2005)

Given various uses of trade marks today, an answer to the latter question is crucial. Nowadays, trade marks are used both in the context of commercial and non-commercial expression. They are found in the middle of commercial advertisements, signboards about products, or the packaging of goods. Meanwhile, they are used as part of the titles of movies or books. Editorials and articles in various mass media include trade marks.

Traditionally, use as trade marks itself can be interpreted as commercial speech since sellers employ trade marks to propose commercial transactions by differentiating their products from others based on the information that trade marks deliver. In this vein, some argue that use as trade marks is a form of commercial speech because its purpose is to attract consumers and hence it functions as part of the proposal of a commercial transaction.⁹³⁴

Trade marks, however, are often placed against different contexts as brand marketing strategies become more diversified. Some advertisements do not show the intent to propose commercial transactions, either explicitly or implicitly. They may deal with social issues or express corporate philosophies, displaying trade marks to identify a corporate itself. Trade marks used in these advertisements indicate the source of products, but it is very unlikely that advertisements constitute ‘commercial speech’ within the meaning of free speech because they do not directly or indirectly propose commercial transactions.⁹³⁵ The commercial nature that ‘use as trade marks’ brings about is intertwined with, and outweighed by, the non-commercial characteristics of advertisements as a whole. In this sense, whether use of trade marks is commercial or not should depend on its contexts.

Likewise, use of trade marks, which does not constitute ‘use as trade marks,’ should also be categorised based on contexts. For example, if a company uses the expression ‘the Rolex of cars’ in its advertisement to promote its cars, the expression should be classified as commercial. Even if the mark ‘Rolex’ does not indicate the source of watches, only meaning ‘the best,’ its use in this context

⁹³⁴ Robert C. Denicola, *Trademarks as Speech: Constitutional Implications of the Emerging Rationales for the Protection of Trade Symbols*, 1982 Wis. L. Rev. 158, 193 (1982)

⁹³⁵ Ramsey, *supra* note 904, at 396-397 (stating that “political groups use trademarks, such as “United We Stand America” or “MoveOn.org,” to identify the source of their activities and distinguish themselves from other organizations.”)

aims at the proposal of commercial transactions. On the other hand, if expressions like ‘the Rolex of cars’ are used in an editorial that does not concern the proposal of commercial transactions, the use must be within the category of non-commercial expression.

Classification based on contexts is more consistent with the usefulness of distinguishing between commercial and non-commercial speech: the type of ‘standards for restricting free speech’ which applies to a specific expression. If the nature of use of trade marks alone determines which standard applies to an expression, non-commercial speech, including use as trade marks, could be restricted according to the standard for limiting commercial speech. This is in conflict with free speech. Thus, depending on the nature of speech as a whole, not the nature of use of trade marks, different speech restriction standards should apply. Where bans on use of trade marks could suppress non-commercial speech, the standard for limiting non-commercial speech should apply to this case regardless of whether trade marks included in this speech are characterised as commercial or non-commercial speech.

In the light of both contexts where trade marks are used and the definition of commercial speech that this thesis supports,⁹³⁶ use of trade marks is commercial if the use is made in expressions which constitute communication that primarily proposes commercial transactions of products from the standpoint of the audience. Whether or not trade marks are used to indicate source should not intervene in this assessment. For example, trade marks printed on the front of T-shirts would be characterised as commercial if retailers sell these T-shirts in ordinary product markets. This commercial nature does not concern whether trade marks are used to identify the source of T-shirts, to decorate T-shirts, or to poke fun at trade mark owners. On the other hand, where T-shirts bearing trade marks are displayed as artistic works in art galleries or sold to promote political campaigns, the use of trade marks would be regarded as non-commercial even if trade marks on their face appear to indicate who is responsible for product quality and brand image. This is because the audience would not think that the primary purpose of employing trade marks is the sale of T-shirts.

There may be some cases where contexts are equivocal. If, for example,

⁹³⁶ See Supra Chapter 6. 1. 6)

trade marks are incorporated in editorials which appear to aim at advertising products, their real primary purposes are not readily detected. As was discussed before,⁹³⁷ use of trade marks and editorials should be presumed to be non-commercial until they are proved to be commercial, considering comparably wider limitations allowed for commercial speech.

Moreover, certain use of trade marks can be separated from their contexts. This use occurs when protesters sell T-shirts emblazoned with trade marks for the sake of political issues but the information that trade marks deliver has nothing to do with those issues. This instance is very similar to the sale of housewares combined with teaching home economics in a dormitory in *Fox*.⁹³⁸ As the US Supreme Court concluded that the sale of housewares was separable from teaching home economics and amounted to commercial expression,⁹³⁹ the use of trade marks on T-shirts can be disentangled from political protests.

4) Purpose of Trade Mark Law and Societal Interests

Since this thesis argues that use of trade marks may constitute commercial or non-commercial speech depending on contexts, both standards for limiting commercial and non-commercial expression are relevant to trade mark law. The prevention of use of trade marks in commercial contexts can survive an intermediate free speech test if i) the aim of the prevention by trade mark law is substantial, ii) the prevention directly advances this aim, and iii) it is not more extensive than is necessary to serve that aim. On the other hand, use of trade marks in non-commercial contexts can be prohibited under strict free speech scrutiny if i) there are compelling interests in prohibiting the use, ii) the prohibition directly furthers these interests, and iii) it is the least restrictive means.

The first part of each test, the existence of substantial or compelling interests in preventing third party use, concerns none other than the purpose of trade mark law, and thus different understandings as to purpose could result in following opposing directions. Since this thesis considers the aim of trade mark

⁹³⁷ *Id.*

⁹³⁸ *Board of Trustees of the State University of New York v. Fox*, 492 U.S. 469 (1989)

⁹³⁹ *Id.* at 474-475

protection to be ‘fair and efficient competition by means of protecting pro-competitive functions of trade marks,’ the analysis of the first prong boils down to the question of whether this aim is substantial, compelling, or insignificant.

It is suggested here that the purpose of trade mark protection is substantial unless a core requirement for trade mark liability is interpreted too broadly. US courts which adopted the Central Hudson test have not doubted the existence of substantial societal interests in trade mark cases. The ECtHR, the ECJ, and the Constitutional Court of Korea also appear to admit the substantiality of the purpose of trade mark law in that they have not denied the constitutionality of bans on third party use.

More importantly, fair competition is regarded as an important or substantial interest by the US Supreme Court and the ECtHR. In *Turner Broadcasting System*, the Court found that interests in removing restraints on fair competition are substantial even when individuals or entities participate in expressive activities under the protection of free speech.⁹⁴⁰ The ECtHR also stated in *Hertel*, a case about unfair competition law, that the aim of an order prohibiting “an act of unfair competition” which damaged “goodwill, credit, professional reputation, business or economic interests in general” was legitimate since the aim was “protection of the ... rights of others” set out in article 10(2) of the ECHR.⁹⁴¹ Thus, at least, the aim of trade mark protection that this thesis supports can be characterised as substantial.

Furthermore, trade mark owners have free speech interests in using their trade marks. They should be free to deliver their information and ideas by employing their trade marks in their commercial or non-commercial speech. Although their interests in expressive use of trade marks could not be restricted by trade mark law, their free speech interests in use as trade marks could be adversely affected by court decisions which either deny their claims for trade mark infringement or accept third party users’ claims for a declaratory judgment of non-infringement. These free speech values are at least as substantial as other interests that the US Supreme Court has found substantial.

⁹⁴⁰ *Turner Broadcasting System, Inc. v. Federal Communications Commission*, 512 U.S. 622, 664 (1994); *see also* *Turner Broadcasting System, Inc. v. Federal Communications Commission*, 520 U.S. 180, 189-190 (1997)

⁹⁴¹ *Hertel v. Switzerland* (1999) 28 E.H.R.R. 534, 569

Bans on third party use, however, should be limited to cases where pro-competitive trade mark functions are likely to be harmed. The furtherance of fair and efficient competition in the abstract itself cannot be substantial. It is ‘the elimination of real barriers in the way of free and efficient competition by protecting trade mark functions’ that is significant or substantial interests within the meaning of standards for limiting commercial speech. In this vein, a core requirement for trade mark liability should be narrowly tailored.

As to whether or not bans on use of trade marks by trade mark law have compelling interests, courts do not reach a consensus. US courts adopting the Rogers balancing test appear to interpret the prevention of explicit or compelling likelihood of confusion as compelling interests. They did not directly discuss compelling interests in the application of the Rogers test, but they admitted in relation to trade marks used in non-commercial contexts that only explicit or compelling likelihood of confusion outweighs free speech interests.⁹⁴² The decision of the Ninth Circuit in *Nissan*,⁹⁴³ on the other hand, can be viewed as finding no compelling interests. The Circuit concluded that there was no “broader public interest than in traditional trade mark law” and hence a restraint on the placing of links on *nissan.com* to websites with negative comments about Nissan Motor violated freedom of expression.⁹⁴⁴

This thesis suggests that public interest in preventing third parties from using trade marks can be compelling if likelihood of harm to pro-competitive trade mark functions is so evident and clear as to show actual malice or calculated falsehood. The first reason for this argument is that if evident likelihood of harm to pro-competitive functions is not eliminated, it could cause serious market disorder. Consumers could hardly distinguish the products they wish to purchase from other products, especially in markets where a lot of competitors exist. Here, markets for lemons would appear. Trade mark owners would not feel any need to maintain product quality because of the inability of consumers to distinguish and severe information asymmetry. They, on the contrary, would deteriorate the

⁹⁴² *Twin Peaks Productions v. Publications International, Ltd.*, 996 F.2d 1366, 1379 (2d Cir. 1993); *Sugar Busters LLC v. Brennan*, 177 F.3d 258, n.7 (5th Cir. 1999); *Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658, 665 (5th Cir. 2000)

⁹⁴³ *Nissan Motor Co. v. Nissan Computer Corp.*, 378 F.3d 1002 (9th Cir. 2004)

⁹⁴⁴ *Id.* at 1017-1018

quality of products to earn more profits. Competitors would rather use other famous marks than invest time and efforts on the development of their own trade marks. Like trade mark owners, they would also worsen product quality. Producers, who could not link their own images to their own marks, would no more try to create product brand images that consumers want to enjoy. This market disorder would outweigh free speech values in protecting non-commercial speech. In this sense, as one party argued in *Hertel*,⁹⁴⁵ trade mark protection not only aims at the protection of rights of others but also at the prevention of economic disorder.

Second, the removal of evident risks to pro-competitive trade mark functions would facilitate free speech of trade mark owners. Courts' rejection of trade mark owners' claims for trade mark infringement based on evident risks could 'immediately' hinder owners' rights to use trade marks as such in their commercial or non-commercial expressions by making trade marks malfunction. The owners could not any more speak what they want to speak through their trade marks because the information and messages that these marks deliver could not be communicated correctly to listeners by reason of the existence of confusingly similar or identical trade marks. On the other hand, if these risks are eliminated, the owners would freely use their trade marks, enriching the information and brand images that trade marks are capable of conveying. This elimination would not impose any illegitimate burden on competitors' free speech since only use of trade marks that could cause evident dangers is prevented. Thus, it can be submitted that the restriction of free speech by trade mark law also aims to protect free speech rights of trade mark owners.

Third, the US Supreme Court has found in some instances that false non-commercial speech can be restricted on the ground of its content under certain conditions.⁹⁴⁶ The Court has traditionally permitted content-based restrictions only for a few categories of speech such as incitement, obscenity, defamation, speech integral to criminal conduct, fighting words, child pornography, fraud, true threats, and speech presenting some grave and imminent threat the Government has the power to prevent, but falsity alone has not become part of

⁹⁴⁵ *Hertel*, (1999) 28 E.H.R.R. 534 at 569

⁹⁴⁶ *New York Times v. Sullivan*, 376 U.S. 254, 279-280 (1964)

these categories.⁹⁴⁷ Nevertheless, the content-based regulation of false non-commercial speech was allowed by the Court on the condition of actual malice: “a knowing or reckless falsehood.”⁹⁴⁸ In *Garrison*, a case about the District Attorney of Orleans Parish’s statement disparaging judges’ judicial conduct, the Court reasoned that calculated falsehood is “at odds with the premises of democratic government and with the orderly manner in which economic, social, or political change is to be effected.”⁹⁴⁹ Likewise, if third party use of trade marks is made with the high degree of awareness of probable confusion, this calculated likelihood of confusion could “[fall] into that class of utterances which are no essential part of any exposition of ideas, and are of such slight social value as a step to truth that any benefit that may be derived from them is clearly outweighed by the social interest in order and morality.”⁹⁵⁰

In sum, restraints on use of trade marks by trade mark law can be substantial or compelling depending on the degree of harm to pro-competitive trade mark functions. If harm is likely, bans on use of trade marks would be substantial. If likelihood of harm is explicit, bans would be compelling. Without this likelihood of harm, however, bans could impinge on free speech values.

5) Trade Mark Protection and Direct Furtherance of Societal Interests

The second part of standards for limiting free speech asks whether restraints on free speech directly advance the asserted interests. This part can be understood as meaning that there should be real harm and regulations should lessen it in a direct and material fashion.⁹⁵¹ “Mere speculation or conjecture” cannot satisfy this step.⁹⁵² Neither can “ineffective and remote” regulations.⁹⁵³ There should be a direct causal link between the harm that needs to be prevented and the means chosen for the furtherance of the interests.⁹⁵⁴

In trade mark cases, this prong requires real harm to pro-competitive

⁹⁴⁷ *United States v. Xavier Alvarez*, 132 S.Ct. 2537, 2544-2545 (2012)

⁹⁴⁸ *Id.* at 2545; *see also New York Times*, 376 U.S. at 279-280

⁹⁴⁹ *Garrison v. Louisiana*, 379 U.S. 64, 75 (1964)

⁹⁵⁰ *Id.*

⁹⁵¹ *Greater New Orleans Broad. Ass’n v. United States*, 527 U.S. 173, 188 (1999)

⁹⁵² *Id.*

⁹⁵³ *Id.*

⁹⁵⁴ *United States v. Xavier Alvarez*, 132 S.Ct. 2537, 2549 (2012)

trade mark functions and direct elimination of the harm to a material degree by the prevention of use of trade marks. Trade mark liability can survive this step. Insofar as liability is interpreted as arising only when pro-competitive trade mark functions are likely to be harmed, this harm is neither speculative nor conjectural. It is real. ‘Likelihood’ does not mean ‘mere possibility.’ Moreover, many factors such as the similarity between trade marks at issue are analysed in assessing likelihood of harm to pro-competitive trade mark functions.

Moreover, bans on third party use constitute the direct means to advance the purpose of trade mark law. Unlike political speech in general, confusing or dilutive use of trade marks could not facilitate in markets of ideas a debate that would lead to true information. Before reaching the true information that trade marks convey, market disorder would arise. On the other hand, bans on third party use can effectively eliminate likelihood of harm to pro-competitive trade mark functions.

6) Remedies for Trade Mark Protection and Less Speech-Restrictive Means

As a final step to assess the relationship between trade mark law and free speech, a remedy for trade mark infringement that use of trade marks in commercial contexts causes should be ‘not more extensive than is necessary.’ Where trade mark liability stems from unauthorised use of trade marks in non-commercial contexts, a remedy has to be the least restrictive means to achieve compelling interests that trade mark law intends to protect.

The meaning of ‘not more extensive than is necessary’ is perceived by the US Supreme Court as ‘narrowly tailored,’ ‘a reasonable fit between governmental interests and means,’ and ‘proportional to the interest served.’⁹⁵⁵ A remedy such as compensation and the prevention of unauthorised use can be regarded as a means which is proportional to the purpose of trade mark law in that there are not many less restrictive or non-speech-related means for this purpose.

The introduction of sponsorship or non-sponsorship disclosures into trade

⁹⁵⁵ *Greater New Orleans Broad. Ass’n*, 527 U.S. at 188 (citing *Board of Trustees of the State University of New York v. Fox*, 492 U.S. 469, 480 (1989))

mark law, however, is an issue. There are sceptical opinions about the effect of these disclosures on the prevention of likelihood of confusion. A study shows that disclosures are ineffective when the main advertising message is misleading; they can cause consumer confusion as to their meanings.⁹⁵⁶ There are also opposite arguments. The US Supreme Court asserted in *Zauderer* that “disclosure requirements trench much more narrowly on an advertiser’s interests than do flat prohibitions on speech.”⁹⁵⁷ Some US courts recommended disclosures as a remedy to “dissipate the possibility of consumer confusion or deception.”⁹⁵⁸ Trade marks used in domain names that “on their face dispel any confusion as to sponsorship or endorsement” such as “independent-lexus-broker.com” and “we-are-definitely-not-lexus.com” could eliminate harm to trade mark functions.⁹⁵⁹

This thesis supports the introduction of disclaimers into trade mark law. Where trade marks are used in non-commercial contexts, disclaimers that dissociate third party users from trade mark owners would be less speech-restrictive means than bans on use; because of disclaimers, bans on trade mark use cannot be the least restrictive means. In *Westchester Media*, the US Fifth Circuit also regarded disclaimers as a remedy with free speech values and argued for the accommodation of disclaimers as a trade mark remedy particularly when allegedly infringing use of trade marks is “not solely a commercial appropriation of another’s mark.”⁹⁶⁰ This is also consistent with the position of the EU Directive on electronic commerce.⁹⁶¹

The EU Directive on electronic commerce, which seeks harmony with freedom of expression,⁹⁶² lays down the rule about transparency, taking into account consumer protection and fair trading. It is provided in recital 9 in the preamble to the Directive that “directives covering the supply of information society services must ensure that this activity may be engaged in freely in the

⁹⁵⁶ Tushnet, *supra* note 176, at 742-743

⁹⁵⁷ *Zauderer v. Office of Disciplinary Counsel*, 471 U.S. 626, 651 (1985)

⁹⁵⁸ *In re R. M. J.*, 455 U.S. 191, 201 (1982); *see also* *Bates v. State Bar of Arizona*, 433 U.S. 350, 384 (1977)

⁹⁵⁹ *Toyota Motor Sales, U.S.A., Inc. v. Tabari*, 610 F.3d 1171, 1176 (9th Cir. 2010)

⁹⁶⁰ *Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658, 672-673 (5th Cir. 2000)

⁹⁶¹ 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

⁹⁶² Recital 9 in the preamble to the Directive states that “this Directive is not intended to affect national fundamental rules and principles relating to freedom of expression.”

light of [Article 10(1) of the ECHR], subject only to the restrictions laid down in paragraph 2 of that Article and in Article 46(1) of the Treaty.” Together with this recital, the Directive stipulates in recital 29 that commercial communications must satisfy transparency requirements for the benefit of consumer protection and fair trading. Considering these recitals, articles 6(a) and 6(b) of the Directive require that both a commercial communication, which is part of, or constitutes, an information society service and the natural or legal person on whose behalf the commercial communication is made should be clearly identifiable.

7) Conclusion

Use as trade marks, as well as other uses of trade marks, constitutes speech within the meaning of free speech if it possesses a communicative element. This means that not only third parties but also trade mark owners are entitled to free speech protection. Moreover, any use is characterised as commercial or non-commercial, depending on the nature of contexts where trade marks are employed. Even where trade marks are used to identify the source of products, the use can be non-commercial according to its context.

The analysis of the relationship between trade mark law and freedom of expression based on the application of speech restriction standards to trade mark protection shows that unauthorised use of trade marks can be prevented by trade mark law without damaging free speech values if a core requirement for trade mark liability is narrowly interpreted. In particular, where trade marks are used in non-commercial contexts, likelihood of harm to pro-competitive trade mark functions should be evident and clear enough to display actual malice or calculated falsehood. In relation to this, requirements for trade mark liability in terms of free speech will be discussed in the next chapter.

Finally, sponsorship or non-sponsorship disclosures as a trade mark remedy should be included in trade mark law. Current remedies cannot survive the last step of the standard for limiting non-commercial speech: the least restrictive means. Even though there are doubts as to the effectiveness of disclosures, making disclosures more operative protects free speech values better than abandoning use of disclosures because of their limits.

Chapter 7: Freedom of Expression and Direct Liability in Paid Search Marketing

This chapter first analyses requirements for and exceptions from trade mark liability, based on the relationship between trade mark protection and free speech discussed in chapter 6. Then, it explores the direct liability of advertisers and search engine providers for use of trade marks in paid search marketing from the perspective of free speech.

1. Free Speech Restrictions and Trade Mark Liability

1) Use in Commerce and Commercial Speech

Scholars, who agree on the need to balance trade mark protection against free speech values, have different opinions about how to interpret ‘use in commerce.’⁹⁶³ Those who argue for the trade mark use theory limit its meaning to ‘use as trade marks’⁹⁶⁴ while others contend that the fair use doctrine should be developed instead of the trade mark use doctrine.⁹⁶⁵

The thesis argues that confusion and dilution provisions should be narrowly construed in order for trade mark protection not to conflict with free speech interests. This, however, does not mean that all requirements should be interpreted as narrowly as possible. Rather, it implies that a core requirement such as likelihood of confusion or dilution should correspond to the protection of pro-competitive trade mark functions through which trade mark protection aims to promote fair and efficient competition. That is, trade mark liability should arise only when harm to pro-competitive trade mark functions is likely, or, in the case of use of trade marks in non-commercial contexts, only when likelihood of harm is evident.

⁹⁶³ Dogan and Lemley, *supra* note 521, at 1674; Dinwoodie and Janis, *supra* note 712, at 1714

⁹⁶⁴ Dogan and Lemley, *supra* note 521, at 1689 (arguing that “[the trademark use doctrine in the infringement context] avoids a chill on the speech and commercial activities of parties whose relationship to trademark infringement is, at best, indirect.”)

⁹⁶⁵ Dinwoodie and Janis, *supra* note 712, at 1714; Dinwoodie and Janis, *supra* note 65, at 1613 (stating that “[a]lthough consumer understanding will likely only develop when a sign is used “as a mark,” a range of uses by a third party may interfere with that understanding.”)

In the same vein, it is supported here that ‘use’ should not be construed as only meaning ‘use as trade marks.’ First, ‘use in commerce’ is not the only requirement that can determine the balance between trade mark protection and freedom of expression. Calibrating the scope of likelihood of confusion can prevent a chill on speech. A fair use defence is also capable of protecting free speech values.

The second reason is that a too narrow interpretation of the concept of ‘use’ could lead to a detrimental effect on free speech of ‘trade mark owners’ by allowing use of trade marks that can cause likelihood of confusion or dilution. Trade mark owners’ free speech interests in using trade marks to convey information as to product quality and brand image and to differentiate their products from other products cannot be outweighed by other speakers’ free speech interests in using these trade marks. Use as one’s own trade mark should only be allowed to trade mark owners under freedom of speech considerations. Thus, trade mark cases are not only about trade mark protection against freedom of expression; they are also about the owners’ freedom of expression against users’ freedom of expression. As the US Supreme Court asserted in *Eldred*, a case about the constitutionality of the Copyright Term Extension Act of 1998 (CTEA), not all speech has the same values: “The First Amendment securely protects the freedom to make—or decline to make—one’s own speech; it bears less heavily when speakers assert the right to make other people’s speeches.”⁹⁶⁶ I submit here that an exemption from trade mark liability by introducing the trade mark use doctrine could not secure trade mark owners’ own speech.

Third, it cannot be said that there is no case where bans on use of trade marks, even if the use does not constitute use as trade marks, can directly advance the purpose of trade mark law to a material degree. The development of both online technology and brand marketing makes it possible for third parties to confuse consumers as to controllers of product quality and brand image without using trade marks as such by disentangling use of trade marks from their information and differentiation functions. Paid search marketing is a representative example.

⁹⁶⁶ *Eldred v. Ashcroft*, 537 U.S. 186, 221 (2002)

As regards use ‘in commerce’ or ‘in the course of trade’, some authors⁹⁶⁷ or courts⁹⁶⁸ argue that trade mark rights are protected only against commercial speech. According to them, the ‘use in commerce’ requirement protects freedom of speech “by confining the infringement cause of action to commercial transactions, and generally, to commercial speech.”⁹⁶⁹

Actionable use of trade marks, however, should not be limited to commercial speech even though it appears to be commercial speech because of the requirement of ‘in relation to goods or services.’ For commercial use of trade marks to be identical with commercial speech, either commercial use has to be narrowly interpreted or commercial speech should have a broad meaning. Neither, however, is acceptable. If the concept of ‘commerce’ under trade mark law is interpreted as narrowly as commercial speech, use of trade marks in recent advertisements, which do not relate primarily to the proposal of commercial transactions, cannot amount to ‘use in commerce.’ They are entirely free from trade mark liability. This result is not compatible with the purpose of trade mark law since those third party uses could harm pro-competitive trade mark functions. On the other hand, commercial speech cannot be broadly defined. The concept of commercial speech should be narrowly tailored, considering, for example, the rationale for the lesser degree of protection given to commercial speech.

Moreover, there are many cases where use of trade marks on products does not aim at proposing commercial transactions, but at conveying opinions or information which are not about the source or sponsorship of products:⁹⁷⁰ some may be used in political contexts; others in artistic contexts. The ECJ also construes the notion of ‘use in commerce’ as broader than commercial speech, deciding that use in commerce occurs “in the context of commercial activity with a view to economic advantage and not as a private matter.”⁹⁷¹

⁹⁶⁷ Barrett, *supra* note 900, at 858-859

⁹⁶⁸ *L.L. Bean, Inc. v. Drake Publishers, Inc.*, 811 F.2d 26, 32, n. 4 (1st Cir. 1987); *Int’l Ass’n of Machinists & Aero. Workers v. Winship Green Nursing Ctr.*, 914 F.Supp. 651, 654, n. 2 (D.Me. 1996); *Planned Parenthood Federation of America, Inc. v. Bucci*, 1997 WL 133313, 7 (S.D.N.Y. 1997); *Bihari v. Gross*, 119 F.Supp.2d 309, 318 (S.D.N.Y. 2000)

⁹⁶⁹ Barrett, *supra* note 900, at 859

⁹⁷⁰ *L.L. Bean*, 811 F.2d at 32, n. 4; *Mutual of Omaha Ins. Co. v. Novak*, 775 F.2d 247 (8th Cir. 1985)

⁹⁷¹ *Arsenal Football Club Plc v. Reed* (C-206/01) [2003] E.T.M.R. 19, 236; *Celine Sarl v. Celine SA* (C-17/06) [2007] E.M.T.R. 80, 1337; *UDV North America Inc. v. Brandtraders NV* (C-62/08) [2010] E.T.M.R. 25, 460

2) Likelihood of Confusion

(1) Use of Trade Marks as Commercial Speech

In contrast to the ‘use in commerce’ requirement, likelihood of confusion, a core requirement for trade mark infringement, should not be interpreted broadly in order for trade mark protection not to conflict with free speech interests. Only where likelihood of confusion constitutes real harm to pro-competitive trade mark functions, such likelihood of confusion should be prevented. In this sense, likelihood of confusion as to controllers of product quality and brand image provides a substantial justification for trade mark liability in that it significantly endangers what trade mark law intends to protect; owners’ trade marks cannot convey information any more as to who is responsible for product quality and brand image. As a result, they cannot serve to differentiate the owners’ products from other products. This would lead to unfairness, material inefficiency, and anti-competitiveness in product markets. Removing this likely confusion by means of bans on unauthorised use could restore fair and efficient competition.

On the other hand, other types of confusion such as possible confusion as to source and likely confusion as to some kind of relationship between products and trade marks would not put ‘pro-competitive trade mark functions’ at risk. For example, where there is a meagre possibility that a trade mark owner could be the controller of the quality and brand image of a user’s products since a trade mark is used on products which are far different from the owner’s, there would be no real danger to pro-competitive trade mark functions.⁹⁷² Average reasonable consumers would not determine their preferences based solely on this insufficient information. A possibility of a license could also not be regarded as actionable likelihood of confusion unless consumers mistakenly believe that trade mark owners control the quality and brand image of users’ products because of the license.

Initial interest confusion should be understood in the same vein. If

⁹⁷² Barrett, *supra* note 900, at 859-860 (stating that “the likelihood of confusion requirement has been greatly dissipated in recent years.”)

unauthorised use causes any meaningful risk to pro-competitive trade mark functions in owners' product markets, the elimination of initial interest confusion should be perceived as possessing substantial public interest. Thus, insofar as the use generates likelihood of consumer confusion as to controllers of product quality or product brand image, there are significant societal interests in preventing the use regardless of whether the danger arises prior to the purchase of products or whether the danger dissipates at the time of the purchase. The dissipation does not mean that the danger never occurred. On the other hand, unless the use creates such likely confusion, the fact that the use diverts consumer attention cannot justify the prevention of the use. This prevention could only result in a chill on speakers' use of trade marks.

(2) Use of Trade Marks as Non-commercial Speech

Where trade marks are used in non-commercial contexts and thus the use constitutes non-commercial speech, likelihood of confusion should be interpreted more strictly than in use of trade marks as commercial speech. It is because the first step of the standard for limiting non-commercial expression requires that societal interests in the regulation of speech should be compelling. Just as falsity in non-commercial speech can be restricted only where there exists actual malice or calculated falsehood, likelihood of confusion caused by use of trade marks in non-commercial contexts can be regulated where it is so evident as to be perceived as calculated. This explicit or compelling likelihood of confusion could cause immediate adverse effects on pro-competitive trade mark functions and hence on fair and efficient competition. This would also be of great concern to free speech rights of trade mark owners in that the confusing use would seriously prevent the owners from speaking what they want to speak through use of their trade marks.

This standard is similar to the second prong of the Rogers balancing test which was adopted by US courts in Rogers for trade marks used in titles of works⁹⁷³ and expanded to Lanham Act claims against works of artistic

⁹⁷³ Rogers v. Grimaldi, 875 F.2d 994, 999 (2d Cir. 1989); *see also* Gulasekaram, *supra* note 908, at 922 (insisting that "as minimal levels of confusion will be insufficient to overcome the free

expression.⁹⁷⁴ According to the US Second Circuit in *Rogers*, use of trade marks in literary titles is not prevented by trade mark law “unless the title has no artistic relevance to the underlying work whatsoever, or, if it has some artistic relevance, unless the title explicitly misleads as to the source or the content of the work.”⁹⁷⁵ In other cases adopting the *Rogers* test, US courts used the expression ‘particularly compelling’ instead of ‘explicit.’ For example, the Second Circuit in *Twin Peaks Productions* and the Fifth Circuit in *Westchester Media* stated that likelihood of confusion must be “particularly compelling” to outweigh free speech values.⁹⁷⁶

The *Rogers* balancing test, however, does not exactly correspond to the standard for limiting non-commercial speech. It is not based on the clear distinction between commercial and non-commercial expression. The Second Circuit regarded titles as possessing both artistic and commercial elements intertwined inextricably with each other,⁹⁷⁷ but it did not assess whether titles are classified as commercial or non-commercial. It argued for more protection of titles as speech not because titles are non-commercial speech but because they have expressive elements.⁹⁷⁸ The Ninth Circuit even interpreted the *Rogers* test as requiring explicit likelihood of confusion once titles have just more than zero relevance to artistic works.⁹⁷⁹ This construction produces almost the same consequences that arise when an expression is categorised as non-commercial on the ground that it inseparably includes a tiny amount of non-commercial speech.

3) Likelihood of Dilution

(1) Use of Trade Marks as Commercial Speech

speech ideal, the balance will presumptively favor defendant artists and allow them to prevail in confusion-based infringement claims,” and that this would apply “regardless of whether the trademark is used in the title or content of a work, or of the medium in which the trademark is presented, be it a sticker, t-shirt, magazine, poster, or movie.”)

⁹⁷⁴ J. Thomas McCarthy, 2 *Rights of Publicity and Privacy* § 8:71 (2d ed.)

⁹⁷⁵ *Rogers*, 875 F.2d at 999

⁹⁷⁶ *Twin Peaks Productions v. Publications International, Ltd.*, 996 F.2d 1366, 1379 (2d Cir. 1993); *Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658, 664-665 (5th Cir. 2000)

⁹⁷⁷ *Rogers*, 875 F.2d at 998

⁹⁷⁸ *Id.*

⁹⁷⁹ *E.S.S. Entertainment 2000, Inc. v. Rock Star Videos, Inc.*, 547 F.3d 1095, 1100 (9th Cir. 2008)

Dilution-based trade mark liability is more likely to conflict with free speech rights. Likelihood of confusion is generated by unauthorised use of trade marks in competing product markets or in non-competing but related product markets. Dilution, however, can also be caused by use of trade marks in entirely unrelated product markets. Thus, whereas trade mark protection based on confusion is normally in tension with freedom of expression in relevant product markets, dilution-based protection is potentially at odds with free speech interests even in irrelevant product markets.⁹⁸⁰

Under the Central Hudson test for commercial speech which excludes false or misleading expression from free speech protection, dilution-based liability endangers free speech values much more than confusion-based liability. Confusing use of trade marks could constitute ‘misleading speech,’ and hence bans on this use would not conflict with freedom of expression. On the other hand, bans on diluting use of trade marks should survive other prongs of the test in order not to infringe on free speech rights of users since the diluting use, which does not require a showing of confusion, may not amount to misleading speech.⁹⁸¹

In particular, the danger to free speech values that anti-dilution protection could cause would be high when confusion-based trade mark protection is interpreted as having the dual goals of protecting trade mark owners’ goodwill and preventing consumer confusion. Anti-dilution protection, whose aim is regarded as solely the protection of trade mark owners’ goodwill, would not pass the second prong of the Central Hudson test: whether societal interests are substantial. The Second Circuit made this point in *MCA Records*, stating that “dilution law protects only the distinctiveness of the mark, which is inherently less weighty than the dual interest of protecting trademark owners and avoiding harm to consumers that is at the heart of every trademark claim.”⁹⁸²

Despite the high possibility of conflicts, however, anti-dilution protection is not inherently inconsistent with freedom of expression. This thesis suggests

⁹⁸⁰ *Mattel, Inc. v. MCA Records, Inc.*, 296 F.3d 894, 904-905 (9th Cir. 2002) (asserting that “[a] dilution injunction, by contrast to a trademark injunction, will generally sweep across broad vistas of the economy.”)

⁹⁸¹ *Id.* at 905 (stating that “dilution injunctions therefore lack the built-in First Amendment compass of trademark injunctions.”)

⁹⁸² *Id.*

that the purpose of anti-dilution protection is the same as that of confusion-based protection: the furtherance of fair and efficient competition by way of protecting pro-competitive trade mark functions in product markets. Based on this suggestion, anti-dilution regulation can overcome the standard for limiting free speech. In other words, the aim of anti-dilution regulation is substantial so far as likelihood of dilution is construed as occurring only when the pro-competitive functions of owners' trade marks are likely to be harmed. The reason why this regulation does not pass the standard is not that the aim of dilution-based protection can never be substantial. It is because the aim is interpreted as solely the protection of trade mark owners and as a result likelihood of dilution is broadly accepted.

Thus, likelihood of dilution should be limited to cases where pro-competitive trade mark functions are likely to be harmed. As this thesis suggested in chapter 5, this harm is likely to arise when third party use of famous marks could lead consumers to associate famous marks with inconsistent or negative product quality or brand images; blurring concerns association of famous marks with inconsistent product quality or brand images, and tarnishment relates to association of famous marks with negative product quality or brand images.

On the other hand, the mere fact that third party use makes consumers associate famous marks with other products cannot be deemed to be blurring unless the association leads to the probability of harming the functions of the marks in owners' product markets. Although this association makes it difficult for famous mark owners to enter users' product markets, the association would not adversely affect the functions of the famous marks in many cases. Consumers would not experience difficulty in connecting the famous trade marks with the owners' products in specific product markets since products remind consumers of the famous marks.⁹⁸³ The famous marks still could convey information as to the strong position of product quality and brand image and serve to differentiate products bearing the marks from other products based on this information. A mere delay in consumers' associating the famous marks with the owners' products caused by third party use in distant product markets would not influence consumer preference in owners' product markets. Moreover, parodic use of

⁹⁸³ Klerman, *supra* note 131, at 1765; Tushnet, *supra* note 134, at 529-532

famous marks in distant product markets may reinforce the functions of the famous marks by facilitating an association between the marks and owners' products.⁹⁸⁴

Unlike blurring and tarnishment, unfair advantage, a third type of actionable dilution in EU trade mark law, can hardly coexist with free speech values. According to the interpretation of the ECJ, use of famous marks can constitute unfair advantage if made "without paying any financial compensation" to the owners of famous marks;⁹⁸⁵ in determining unfair advantage, the impact on the functions of famous marks in owners' product markets is not taken into account. Compensation, however, cannot be a substantial societal interest that justifies the suppression of free speech. Moreover, the existence of unfair advantage cannot be established based on whether the functions of famous marks in owners' product markets are likely to be harmed since 'unfair advantage,' as the expression itself shows, relates to third party users' product markets. Therefore, unfair advantage should be excluded from protection under dilution.

(2) Use of Trade Marks as Non-commercial Speech

When trade marks are employed in non-commercial contexts, 'likelihood of dilution' should be interpreted more strictly for anti-dilution regulation to have compelling interests. Just as actual malice or calculated falsehood can justify the restriction of falsity in non-commercial speech and explicit or compelling likelihood of confusion is required for use of trade marks as non-commercial speech, likelihood of dilution caused by use of trade marks in non-commercial contexts can be regulated where it is evident or compelling enough to show actual malice or calculated falsehood. If, for example, famous marks are obviously used as generic terms in movies, or if famous marks for quality products carrying brand images of 'luxury' and 'prestige' are used in artistic works to evidently denote 'poor quality,' these uses could cause 'likelihood of dilution.' On the other hand, where famous marks are used only to reveal 'the truth' that could harm the strong position of the quality or brand image of owners' products, it could not be

⁹⁸⁴ Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC, 507 F.3d 252, 267 (4th Cir. 2007)

⁹⁸⁵ L'Oréal SA v. Bellure NV (C-487/07) [2009] E.T.M.R. 55, 1032

easy to find actual malice or calculated falsehood in use of famous marks.

This more stringent interpretation, however, is not possible in the USA and Korea. The Lanham Act and the Korean Unfair Competition Act exclude non-commercial use from dilution-based liability in order to incorporate free speech values and limitations in anti-dilution regulations. The Lanham Act provides in section 43(c)(3)(C) that “any noncommercial use of a mark” “shall not be actionable as dilution by blurring or dilution by tarnishment.” It is also stipulated in article 2(1)(iii) of the Korean Unfair Competition Act that actionable dilution should be without due cause as prescribed by Presidential Decree including non-commercial use.

Both laws appear to be predicated on the assumption that all bans on dilutive use of trade marks as non-commercial speech cannot possess compelling societal interests. Under this assumption, third parties are free to use famous trade marks in non-commercial contexts unless the use causes likelihood of confusion, whether or not the use puts the functions of the marks at high risk.

Moreover, they seem to be based on a more relaxed interpretation of likelihood of dilution: courts could find dilution likely even where there is no evidence of likely harm to the distinctiveness or reputation of famous marks. Without non-commercial speech exceptions, this broad understanding of dilution would inevitably run counter to strongly protected freedom of non-commercial expression. Thus, it appears to be inevitable to introduce a safe harbour for non-commercial speech to avoid conflicts with free speech.

Non-commercial speech exclusions, however, give too much weight to free speech of third party users. By deliberately repeating use of famous marks as generic terms in movies or by maliciously emphasising ‘poor quality’ of high-end branded products in artistic works, third parties can cause the malfunction of the famous marks that outweighs third parties’ freedom of non-commercial speech. Consumers would begin to regard the famous marks as product names. They would change their preference for the branded products as they mistakenly believe that the famous marks cannot convey the same images any more. Nonetheless, it is dubious how much these uses of trade marks in non-commercial contexts could contribute to public discourse. Third parties can reveal the truth without actual malice or calculated falsehood. Quite contrarily, trade mark

owners' free speech would be chilled in that they cannot speak what they want to convey through use of their trade marks.

Insofar as likelihood of dilution caused by use of trade marks as non-commercial speech is more narrowly interpreted, non-commercial speech exceptions are unnecessary. Where likelihood of dilution is explicit, third party use of famous marks should be prevented. Thus, it is suggested that the Lanham Act and the Korean Unfair Competition Act need to be amended.

4) Fair Use Defence

(1) Scope of a Fair Use Defence

A 'fair use clause' is often called one of the built-in limitations⁹⁸⁶ for freedom of expression or the internalisation of free speech into trade mark law. Third party users counterclaim fair use to defend free speech values against both confusion and dilution claims. Even when trade mark owners prove likelihood of confusion or dilution, users can be free from trade mark liability by claiming fair use. Furthermore, third party users are able to protect free speech interests much more effectively by claiming fair use rather than denying likelihood of confusion and dilution. Facts about free speech can have more dominant effects on the assessment of the presence of fair use than on the evaluation of the absence of confusion or dilution. The facts that suffice to support a fair use defence concern a few factors of the confusion or dilution test that can be overwhelmed by other factors.

A too strict interpretation of fair use could result in insufficient protection of third party users' free speech interests. In *Adam Opel AG v. Autec*,⁹⁸⁷ Opel affixed the Opel logo to the radiator grills of its remote-controlled scale models of the Opel Astra V8 Coupé with its trade mark 'Cartronic' appearing on the front page of user instructions and on the front of remote control transmitters.⁹⁸⁷ The ECJ rejected the applicability of article 6(1)(b) to this case, on the ground that use of the trade mark Opel for scale models was "merely an element in the faithful

⁹⁸⁶ Barrett, *supra* note 900, at 859

⁹⁸⁷ *Adam Opel AG v. Autec AG* (C-48/05) [2007] E.T.M.R. 33, 515

reproduction of the original vehicles” and not an indication of a characteristic of the models.⁹⁸⁸ Nevertheless, given that the Opel logo on scale models delivers information that they were models of the Opel vehicles and that Autec made use of its own trade mark, ‘other characteristics of goods or services’ within the meaning of article 6(1)(b) should have been interpreted more broadly. The narrow interpretation of fair use in this case made Autec unlikely to communicate information about scale models of the Opel cars easily. The lack of a broad fair use defence in Europe made the ECJ focus on the harm to proprietors’ interests in order to find that there is no infringement.⁹⁸⁹

I suggest that the scope of fair use should correspond to standards for limiting free speech. In particular, it should relate to societal interests—likelihood of harm to pro-competitive trade mark functions. Unlike likelihood of confusion or dilution that shows likely harm, however, a fair use defence indicates that the protection of trade marks could cause anti-competitive results and that affected trade mark functions do not fall within the scope of pro-competitive functions. Where, for instance, auto brokers make use of the trade mark ‘Lexus’ in their domain names ‘buyorleaselexus.com’ and ‘buy-a-lexus.com’⁹⁹⁰ both to describe their business of brokering Lexus cars and to indicate Lexus automobiles in a way that does not cause likelihood of confusion or dilution, preventing the use of the trade mark ‘Lexus’ could cause anti-competitive results. At the same time, the prevention would chill brokers’ free speech. Thus, there is no substantial societal interest in preventing the use of ‘Lexus.’ In this case, brokers can raise a fair use defence against Toyota’s trade mark infringement claim.

On the other hand, if advertising text including those domain names also has the expression ‘official dealers’ in front of domain names, a ban on the use of the mark ‘Lexus’ in this advertising would not create anti-competitive results because auto brokers can use the mark in domain names in other contexts. Thus, this use cannot be fair. This use, on the contrary, could harm the pro-competitive functions of the mark ‘Lexus’ by causing consumer confusion as to the controller of the quality and brand image of the car brokering service. Therefore, there exist

⁹⁸⁸ Id. at 521

⁹⁸⁹ Id. at 518

⁹⁹⁰ Toyota Motor Sales, U.S.A., Inc. v. Tabari, 610 F.3d 1171, 1180-1182 (9th Cir. 2010)

substantial societal interests in protecting trade marks. The fact that brokers' use of the Lexus mark in domain names constitutes fair use cannot justify brokers' use in this context. Neither can indirect contexts such as a disclaimer on the websites which disavows the sponsorship of Toyota. In this situation, auto brokers would hardly succeed in their fair use defence.

(2) Fair Use and Requirements for Liability

A fair use defence should be distinguished from 'use as trade marks.' Unlike the trade mark use doctrine, it can sift out speech worthy of protection under freedom of expression from speech unworthy of protection. Unauthorised use of trade marks, which does not constitute 'use as trade marks,' could harm pro-competitive trade mark functions, and thus there can be substantial or compelling societal interests in preventing this use. The trade mark use theory always protects this unauthorised use while a fair use doctrine does not. In this sense, the trade mark use doctrine should not be introduced in trade mark law for the proper protection of free speech. Neither should provisions about fair use be used as a statutory ground for the trade mark use theory.

Many courts, however, rely on the use requirement more easily than on a fair use defence in order to protect free speech. In *Hölterhoff*, the ECJ found no liability for unauthorised use, based on article 5(1) of the Trade Mark Directive rather than article 6(1)(b) about fair use, concluding that article 5(1) does not apply to the case "where a third party, in the course of commercial negotiations, reveals the origin of goods which he has produced himself and uses the sign in question solely to denote the particular characteristics of the goods he is offering for sale so that there can be no question of the trade mark used being perceived as a sign indicative of the undertaking of origin."⁹⁹¹ The Court did not rely on article 6(1)(b)⁹⁹² even though Advocate General Jacobs mentioned both articles 5(1) and 6(1).⁹⁹³ If this approach, which is almost the same as that of the trade

⁹⁹¹ *Hölterhoff v. Freiesleben* (C-2/00) [2002] E.T.M.R. 79, 922

⁹⁹² Advocate General Maduro commented in the footnote of his opinion in the Google joined cases that the ECJ could have applied article 6(1)(b) in this case. See *Google France v. Louis Vuitton Malletier* (C-236/08) [2010] E.T.M.R. 30, n. 52

⁹⁹³ *Hölterhoff*, [2002] E.T.M.R. 79 at 85

mark use theory, is generally followed, many unfair expressions could also be exempted from trade mark liability under the name of free speech.

A fair use defence plays a role in protecting free speech values more properly when a fair use test is separated from confusion or dilution tests. Combining these tests can cause the de facto shift of the burden to prove likely confusion or dilution from trade mark owners to third party users. This shift of the burden requiring money and efforts, in turn, could cause a chill on the free speech of the users who cannot afford litigation. The significance of the burden can be found in the decision of the US Ninth Circuit which includes ‘no likelihood of confusion’ as the third prong of a nominative fair use test. In *Toyota*, the Ninth Circuit decided that if a defendant claiming nominative fair use shows that it used a trade mark to refer to trade marked products, then the burden of proving a likelihood of confusion reverts to a plaintiff.⁹⁹⁴

5) Conclusion

For the harmonious coexistence of trade mark protection with freedom of expression, a strict interpretation of ‘likelihood of confusion or dilution’ is necessary. Where trade marks are used in commercial contexts and hence societal interests in preventing unauthorised use need to be substantial, likelihood of confusion or dilution should be interpreted as arising only when pro-competitive trade mark functions are likely to be harmed. Where use of trade marks constitutes non-commercial speech the restriction of which requires compelling governmental interests, likelihood of confusion or dilution should be sufficiently evident to show actual malice or calculated falsehood. Moreover, since free speech can be protected efficiently by claiming a fair use defence, a too strict application of a fair use defence should be avoided.

The need for harmony, however, does not ensure that confusing or diluting use of trade marks should be limited to ‘use as trade marks’ or that trade mark law should only apply to use of trade marks as ‘commercial speech.’ Moreover, risks in the direct contexts where trade marks are used should not be ignored because of free speech interests in indirectly related contexts. To interpret

⁹⁹⁴ *Toyota Motor Sales*, 610 F.3d at 1183

otherwise would tilt the balance in favour of third party users' free speech at the sacrifice of what trade mark law aims at. It could also damage trade mark owners' rights to speak and consumers' rights to listen in that unauthorised use could distort the information that trade marks provide. Most importantly, non-commercial speech exclusions from dilution-based liability provided for in the Lanham Act and the Korean Unfair Competition Act give too much weight to free speech interests of third party users.

2. Direct Liability in Paid Search Marketing

1) Free Speech on the Internet

A basic issue in the analysis of the direct trade mark liability of advertisers and search engines from the perspective of free speech is whether free speech in an online world is the same as that in an offline world. There may be an argument that information or ideas on the Internet should be protected more strongly under free speech than those in bricks-and-mortar businesses because of the contribution of the Internet to freedom of speech. Conversely, others may argue that speech on the Internet should be restricted more than offline speech on the ground of the risk that the Internet poses in our society. This thesis does not support both arguments. It is submitted here that free speech interests both in online and offline worlds should be identical.

The Internet both facilitates and hampers free speech. The advent and development of the Internet, one of the most efficient and significant modes of communication, has made the information age more democratic.⁹⁹⁵ The Internet offers more equal opportunities for communication than any other media⁹⁹⁶ by providing a wealth of instantaneously available information, knowledge, and ideas, by enabling both speakers and listeners to access channels at considerably lower costs, and by opening the possibility that anyone can be speakers as well as listeners.

The benefits of the Internet also function as threats to our society. It is

⁹⁹⁵ Barendt, *supra* note 1, at 451

⁹⁹⁶ *Id.*

hardly possible to control the flood of information. Widespread internet use and the anonymous nature of the Internet make it difficult to find deliberate speakers with whom people can share opinions and discuss issues.⁹⁹⁷ Faster communication of information leads to the reduction of time necessary for developing careful thoughts.⁹⁹⁸ Since people do not have to consider the profitability of their expressions owing to low cost access to the Internet, they need not turn their attention to their expressions as much as they do when using other conventional mass media.⁹⁹⁹ Speech on the Internet is not under control of professional editors compared to that in other media.¹⁰⁰⁰ In the same vein, authors argue that “the Internet will not provide a new public forum for general political debate, but rather will lead to further fragmentation or balkanization of speech.”¹⁰⁰¹ Given both the negative and positive contribution of the Internet to free speech, using the Internet itself cannot be any ground for the lower or higher level of free speech protection.

Moreover, the Internet itself does not create a new type of speech which requires weaker or stronger protection. Speech can be categorised as either commercial speech, which is accorded a low degree of protection, or fully protected non-commercial speech. Commercial expression on the Internet can only be characterised as commercial. Commercial speech cannot change into non-commercial just because it is made in an online world. The Internet is only a new kind of media through which people communicate with each other. As the Constitutional Court of Korea recently found that the real name verification system required for users of online bulletin boards was unconstitutional,¹⁰⁰² there is no reason that online speech is treated differently from offline speech. The Court decided in this case that the Korean Act on Promotion of Information and Communication Network Utilization and Information Protection, etc., which compelled online information service providers with more than 100,000 visitors per day to take necessary measures to verify real names of internet bulletin board

⁹⁹⁷ Scott Hammack, *The Internet Loophole: Why Threatening Speech On-line Requires a Modification of the Courts' Approach to True Threats and Incitement*, 36 *Colum. J.L. & Soc. Probs.* 65, 81(2002)

⁹⁹⁸ *Id.* at 83

⁹⁹⁹ *Id.* at 85

¹⁰⁰⁰ Barendt, *supra* note 1, at 453

¹⁰⁰¹ *Id.* at 454

¹⁰⁰² Judgment of 23 August 2012, Constitutional Court, 2010 Heon-Ma 47, 2010 Heon-Ma 252

users, infringed constitutionally protected freedom of expression.¹⁰⁰³ It reasoned that the real name verification system was not the least restrictive means to develop a healthy internet culture that the system aimed at, adding that there was no evidence that it reduced harm to this aim to such a degree as to justify the prior restraint of free speech while it seriously restricted free speech of both the users and the providers.¹⁰⁰⁴

From the perspective of free speech, expressions in an online world can be neither absolutely free from regulation nor restricted more than those in an offline world. Thus, expressions of advertisers and search engines in an online world should be protected under free speech only as much as those in an offline world: the same standards for limiting speech apply to their expressions in both worlds.

2) Speech and Speakers in Paid Search Marketing

For advertisers or search engines to claim free speech protection to defend their unauthorised use of trade marks in paid search marketing, bans on their use should limit ‘speech’ within the meaning of free speech. If trade mark protection does not restrict any ‘speech,’ free speech cannot be invoked as a ground to justify their use. Therefore, it is necessary to assess whether expressions of advertisers and search engines constitute ‘speech.’

Paid search marketing consists of various expressions. Search engines recommend keywords to advertisers. Search engines sell keywords and advertisers select and purchase them. As a result, keywords are incorporated into search engines’ software programmes. Advertisers generate advertisements which are saved in the software programmes and triggered in response to internet users’ entry of keywords. Search engines display search engine results on their websites ‘in their formats.’

The recommendation, sale, and purchase of keywords, and advertisements displayed on SERPs evidently amount to speech within the meaning of freedom of expression since they deliver information and ideas to

¹⁰⁰³ Id.

¹⁰⁰⁴ Id.

listeners. On the other hand, whether invisible use of keywords and advertisements in the programmes constitutes ‘speech’ is not certain.

Some may maintain that invisible use of trade marked keywords is ‘speech’ since it communicates information about the relationship between the keywords and advertisements.¹⁰⁰⁵ Keywords and advertisements included in software programmes, however, cannot convey any information or ideas to listeners until they are shown to them. Only after online users input keywords into search boxes, the keywords in the programmes, which do not appear on SERPs, trigger advertisements and hence advertisements deliver information or ideas to consumers. In this sense, it is not invisibly used keywords themselves that impart information on the relationship to online users. The information is delivered by the fact that advertisements appear in response to internet users’ entry of keywords. The internal use, which lacks a communicative element, cannot be speech. It is only inextricably intertwined with advertisements displayed on SERPs and SERPs as a whole, both of which constitute ‘expression’ protected under free speech. This is also true where trade marks are used as keywords. Therefore, this thesis submits that not all uses of trade marks constitute ‘speech.’

SERPs can be characterised as ‘speech’ in that not only the structure, design, and word of SERPs but also SERPs as a whole deliver information, knowledge, or ideas to the audience. In particular, the title of ‘sponsored links’ or ‘ads’, the location of paid search results, keywords remained in search boxes, and trade marks or logos of search engines convey clear-cut messages that the order of the display in search results equals the relevance to keywords that internet users enter in search engines.

As speakers cannot claim free speech rights based on other speakers’ speech, advertisers or search engines cannot maintain that they are not liable for their unauthorised use of trade marks because the prevention of the use unjustifiably restricts other advertisers’ or search engines’ speech. Thus, it is necessary to analyse ‘to whom each speech belongs’ in paid search marketing where more than one speakers convey their information, knowledge, or ideas.

The recommendation of keywords via suggestion tools and the sale of keywords to advertisers are search engines’ speech, whereas the purchase of

¹⁰⁰⁵ Ramsey, *supra* note 904, at 411-412

keywords from search engines is advertisers'. Meanwhile, since internal use of keywords does not constitute 'speech,' its speaker is immaterial. It is only the effect of the sale and purchase contract between search engines and advertisers.

SERPs also consist of various expressions of many speakers. Each advertiser conveys its information, knowledge, or ideas in its own advertisement. Even when advertisers use trade marks without permission, the use is not trade mark owners' speech, but advertisers' speech. SERPs as a whole, on the other hand, can be categorised as search engines' expression. Regulating the format of SERPs or requiring search engines to display disclaimers on SERPs constitutes the restriction of search engines' free speech. The order of the display of search results in accordance with each search engine's ranking policy also relates to the search engine's speech.

In sum, advertisers or search engines can claim their free speech rights in order to justify their use of trade marks. They, however, cannot maintain their free speech interests in their invisible use of trade marks since the invisible use does not constitute 'speech'. They can only insist that societal interests in banning invisible use are outweighed by free speech interests in protecting their expressions such as advertisements on SERPs or SERPs as a whole. Moreover, advertisers cannot argue for free speech interests in designing SERPs in order to defend advertisers' use of trade marks as keywords since SERPs as a whole belong to search engines. Search engines cannot also assert free speech values in advertisements displayed on SERPs to justify their use of trade marks as keywords unless they are engaged in the creation of the advertisements.

3) Commercial or Non-commercial Speech

This thesis argues that use of trade marks should be characterised as commercial or non-commercial depending on its contexts and that the requirements for trade mark liability should be interpreted differently according to the characteristics of use of trade marks as speech. Hence, it is not only practically useful but also critical to categorise various expressions in paid search marketing as commercial or non-commercial speech.

It is evident that the sale, selection, and purchase of keywords are

classified as commercial. They are the offer and acceptance of commercial transactions. A US district court also stated in *Buying for the Home* that the purchase of trade marked keywords was “a commercial transaction that occurred in commerce, trading on the value of Plaintiff’s mark.”¹⁰⁰⁶ The recommendation of keywords can also be characterised as commercial because it is made for the purpose of offering to sell keywords.

On the other hand, there can be arguments as to whether the incorporation of keywords into software programmes is commercial or non-commercial. Some contend that the invisible use is commercial.¹⁰⁰⁷ The invisible use, however, cannot be considered ‘speech’ since it lacks communication. It is only interlocked with advertisements on SERPs and SERPs as a whole.

Search results under the title of ‘sponsored links’ or ‘ads’ can be either commercial or non-commercial. Considering the fact that search engines charge advertisers for paid search marketing, most paid search results are possibly about the proposal of commercial transactions and hence commercial. Nevertheless, there still remains the possibility that search results concern political opinions or artistic works. Political organizations could use paid search marketing to publicise their platforms. Authors could buy keywords to introduce their works. Paid search marketing could also be used by operators of gripe or parody sites.

As regards the classification of ‘SERPs as a whole,’ it may be argued that paid results as a whole, unlike organic results, constitute commercial speech¹⁰⁰⁸ because search engines receive money from advertisers for keywords. Nevertheless, internet users cannot readily find that advertisers pay search engines for keywords. The title ‘ads’ does not sufficiently show that advertisers pay search engines. More importantly, as the US Supreme Court stated in *New York Times*,¹⁰⁰⁹ the fact that search engines are paid for displaying advertisements is immaterial. Paid search results as a whole would not be

¹⁰⁰⁶ *Buying for the Home, LLC v. Humble Abode, LLC*, 459 F.Supp.2d 310, 323 (D.N.J. 2006)

¹⁰⁰⁷ Ramsey, *supra* note 904, at 396

¹⁰⁰⁸ Frank Pasquale, *Asterisk Revisited: Debating a Right of Reply on Search Results*, 3 J. Bus. & Tech. L. 61, 73 (2008) (arguing that Google’s “sponsored results” is the type of advertising that is “paradigmatic of commercial speech.”)

¹⁰⁰⁹ *New York Times Co. v. Sullivan*, 376 U.S. 254, 266 (1964) (asserting that “[t]hat the Times was paid for publishing the advertisement is as immaterial in this connection as is the fact that newspapers and books are sold” and that “[a]ny other conclusion would discourage newspapers from carrying ‘editorial advertisements’ of this type.”)

perceived by the audience as search engines' proposal of commercial transactions. Moreover, unless it is assumed that average consumers of all kinds of products are internet-savvy, the audience could not tell the difference between organic search results and paid search results with ease.¹⁰¹⁰ For these reasons, SERPs as a whole which belong to search engines should be categorised as non-commercial speech.

To sum up, advertisers' selection and purchase of keywords as well as search engines' recommendation and sale of keywords are classified as commercial speech, whereas search engines' SERPs as a whole are characterised as non-commercial. Advertisements which appear on SERPs can be commercial or non-commercial speech, depending on their nature.

Accordingly, as this thesis argues that use of trade marks can be categorised into commercial or non-commercial speech depending on its contexts, whether 'use of trade marks' in paid search marketing constitutes commercial or non-commercial speech hinges on its direct contexts. Advertisers' selection and purchase of trade marks as keywords, advertisers' use of trade marks in commercial advertisements, and search engines' recommendation and sale of trade marks as keywords constitute commercial speech. Advertisers' use of trade marks in non-commercial advertisements and search engines' use of trade marks on SERPs other than in advertisements amount to non-commercial speech. Invisible use of trade marks as keywords, which does not constitute 'speech,' can be characterised as neither commercial nor non-commercial. Standards for limiting speech, however, can also apply to the invisible use since its restriction may result in the suppression of advertisers' advertisements or search engines' SERPs as a whole because of its tight link to them.

Thus, evident or compelling likelihood of confusion or dilution, which I suggest is required for the prevention of 'unauthorised use of trade marks as non-commercial speech,' is necessary for trade mark owners to prevent advertisers from using trade marks in non-commercial advertisements. It is also needed to

¹⁰¹⁰ Deborah Fallows, Search Engine Users, Pew Internet & American Life Project, 17 (2005) <<http://www.pewinternet.org/Reports/2005/Search-Engine-Users.aspx>> accessed 23 February 2011 (showing that 62 percent of those who have used a search engine are not aware that there are organic search results and paid search results, and among the 38 percent of internet users who are aware of this practice 45 percent are not always able to tell which results are paid or sponsored and which are not.)

inhibit advertisers' invisible use of trade marks as keywords, which triggers non-commercial advertisements, and search engines' invisible use, which causes the display of SERPs as a whole.

4) Free Speech and Direct Trade Mark Liability

(1) Advertisers

a) Likelihood of Confusion

This thesis argues that where trade marks are used in commercial contexts, the confusion-based liability of advertisers occurs only when pro-competitive trade mark functions are likely to be harmed; this likely harm does exist when consumers are confused as to controllers of product quality and brand image since pro-competitive trade mark functions only relates to the position of product quality and brand image.

At the stage of the sale and purchase of trade marks as keywords ("stage I"), selection, purchase, and invisible use do not make consumers, who are advertisers at this stage, confused as to controllers of product quality and brand image. Advertisers would hardly believe that trade mark owners are responsible for the quality of keywords. They would be well aware of the mechanics of paid search marketing and the meaning of buying trade marked keywords since they would read search engines' guidelines and trade mark policies before or when they purchase the keywords. Consumers of owners' or advertisers' products would not even know the selection, purchase, and invisible use at stage I. From the perspective of free speech, there are no substantial societal interests in banning the selection, purchase, and invisible use of trade marks as keywords at this stage.

At the stage of search engine users' entry of trade marked keywords into search engine boxes ("stage II"), however, unauthorised use of trade marks in commercial advertisements may generate likelihood of confusion as to who controls product quality and brand image, and hence there can be substantial governmental interests in preventing the use. The fact that consumer confusion

dissipates after consumers visit advertisers' websites cannot offset these substantial interests. Advertisements still carry the risk that justifies the suppression of commercial expression. If, for instance, advertisers' use of trade marks is permitted on the ground of disclaimers written on the front pages of their websites, it would enable advertisers to use every possible expression in advertisements that is likely to confuse consumers.

Even where commercial advertisements displayed on SERPs do not include trade marks, their misleading expressions, in combination with the triggering effect of trade marked keywords and other circumstances, can create consumer confusion. In this case, the standard for limiting commercial speech should also apply to bans on invisible use of trade marks as keywords because the prevention of the invisible use would restrict free commercial speech of advertisers: if the use is prevented, trade marks used as keywords could not trigger such advertisements as are directly related to them. Thus, consumer confusion required for bans on invisible use should be about controllers of product quality and brand image. Mere diversion of consumer attention to advertisers' websites cannot amount to substantial societal interests in preventing the invisible use.

On the other hand, where trade marks are used in non-commercial advertisements such as political campaign advertisements and advertisements for gripe or parody websites, there should be explicit or compelling likelihood of confusion for advertisers to be liable for trade mark infringement. Where non-commercial advertisements include trade marks but do not have expressions which could evidently cause consumer confusion as to controllers of product quality or product brand image, it should be concluded that advertisers are not liable.

This is also the case where trade marks are used only as keywords in software programmes. Trade mark infringement could arise when the text of non-commercial advertisements together with the invisible use could evidently mislead consumers into thinking that proprietors are controllers of the quality and brand image of users' products. Without evident likelihood of confusion, societal interests in preventing the internal use of trade marks cannot prevail over free speech values that underlie advertisers' paid search marketing.

b) Likelihood of Dilution

This thesis suggests that the prevention of diluting use of trade marks is justifiable by the standard for restricting commercial speech when the use is likely to harm the pro-competitive functions of famous marks in owners' product markets.

At stage I, advertisers' selection, purchase, and invisible use of trade marks as keywords are not likely to blur or tarnish famous marks to a degree that adversely affects the pro-competitive functions. It is because consumers of owners' products are unable to connect famous marks with inconsistent or negative product quality or brand images until trade marked keywords trigger advertisements. For instance, perfume sellers' selection, purchase, and invisible use of the keyword 'perfumebay' alone cannot harm the pro-competitive functions of the trade mark 'eBay' since consumers of eBay's service cannot link the keyword to sellers' advertisements before the advertisements are displayed on a SERP. Similarly, where advertisements saved in programmes include both the 'perfumebay' mark and tarnishing expressions, they cannot harm the pro-competitive functions of 'eBay' until the keyword 'perfumebay' triggers the advertisements.

On the other hand, at stage II, advertisers' unauthorised use of trade marks in their commercial advertisements on SERPs can cause likelihood of blurring or tarnishment, depending on the text of the advertisements. Even where the advertisements do not contain famous marks, the combination of their text, the linking effect of keywords, and other context and circumstances can generate likelihood of dilution. Bans on use of trade marks based solely on the existence of unfair advantage, however, should not be admitted; these bans could only cause the suppression of free speech without substantial interests.

Where advertisers include famous marks in the text of non-commercial advertisements displayed on SERPs, they should be responsible for trade mark dilution only if likelihood of dilution is evident. Even where advertisers do not use trade marks in the text, the advertisements triggered by trade marked keywords can cause compelling likelihood of dilution. According to the Lanham

Act and the Korean Unfair Competition Act, advertisers are exempted from dilution-based liability only because use of trade marks constitutes non-commercial speech. These provisions, however, are not consistent with the standard for limiting non-commercial expression. They tilt a balance in favour of advertisers' free speech at the sacrifice of compelling interests in preventing use of trade marks. Both laws need to be amended.

c) Fair Use Defence

Advertisers can protect their free speech values effectively by claiming a fair use defence. For instance, advertisers can claim that their visible or invisible use of trade marks is intended to describe advertisers' products or to indicate the source of owners' products.

Advertisers, however, cannot defend their free speech values by maintaining that their use is necessary for search engines to provide users with relevant information; that is, free speech of search engines cannot be the ground for free speech of advertisers. Nor can they argue that invisible use of trade marks as keywords aims at describing the content of their websites; advertisers' free speech interests in describing the content of the websites are not affected by the prevention of the internal use.

(2) Search Engines

a) Likelihood of Confusion

At stage I, search engines' recommendation and sale of trade marks as keywords, which constitutes commercial speech, cannot be inhibited since the recommendation and sale would not cause consumer confusion that is likely to harm pro-competitive trade mark functions in owners' product markets. Advertisers, who amount to consumers of trade marked keywords, would not misperceive trade mark owners as controllers of the quality and brand image of keywords. Nor could average consumers in owners' or advertisers' product markets mistakenly believe that trade mark owners control the quality and brand

image of advertisers' products on the ground of the recommendation and sale. Average consumers who input keywords in search boxes could not perceive that trade marked keywords are suggested or sold. Therefore, there are no substantial societal interests to suppress the recommendation and sale of trade marks as keywords.

At stage II, the restriction of search engines' internal use of trade marked keywords would adversely affect the display of SERPs as a whole which I classify as non-commercial speech. Given the facts that almost all words can be trade marks and that there are a lot of non-infringing uses of trade marks, the restriction could hamper the proper function of paid search result services by limiting the link between keywords and paid search results. Thus, the standard for restricting non-commercial speech, which requires compelling likelihood of confusion, should apply to this prevention.

SERPs as a whole, which are connected with internal use of trade marks as keywords, strongly show that internally used trade marks are linked with advertisers' advertisements. First, trade marked keywords trigger advertisements. Second, trade marked keywords that internet users entered into search engines still remain in search boxes. Third, some SERPs indicate that the results are 'ads related to' the keywords. Fourth, advertisements are displayed in a colour, typeface, and font size similar to those of organic search results except, for example, light-coloured rectangular backgrounds. Fifth, there is no mention of the facts that advertisers pay search engines for the purchase of the keywords and that the order of paid search results does not correspond to their significance or their relevance to the keywords.

Despite showing the close connection of keywords with advertisements, SERPs as a whole and invisible use do not generate evident consumer confusion. Search engines do not use any expression that could 'clearly' mislead consumers as to controllers of product quality or product brand image in SERPs. Particularly, they do not use the expression 'sponsored by trade mark owners' as the title of paid search results despite the fact that they use expressions such as 'Sponsored Results' and 'Sponsored Links' which only have the meagre possibility of misleading consumers. This degree of confusion cannot survive the first prong of the standard for restricting non-commercial speech: there should be compelling

societal interests in preventing speech.

The text of advertisements ‘created by advertisers’ should not be taken into account in assessing whether search engines’ use of trade marks causes likelihood of confusion. Search engines’ speech cannot be suppressed because of the harm that advertisers’ expressions generate. If search engines participate in the creation of the text of advertisements, the text could be factored in the assessment. Under current practices, however, search engines are not involved in creating advertisers’ speech; they just connect trade marked keywords with advertisers’ expressions.

b) Likelihood of Dilution

At stage I, it would be unlikely that search engines’ recommendation and sale of famous marks as keywords causes blurring or tarnishment that would amount to harm to pro-competitive functions of the marks. The recommendation and sale only concerns trade marks ‘as keywords.’ Search engines do not suggest and sell image files of famous marks that can be used in advertisements. Actually, they only suggest and sell a link between trade marked keywords and advertisements, space for advertisements, and the ranking of advertisements. In contrast to the sale of embroidered patches with a hockey team’s symbol through sporting goods stores, search engines cannot expect that their recommendation and sale would lead immediately to advertisers’ use of the famous marks or misleading expressions in advertisements. Moreover, consumers of owners’ products cannot perceive whether use of famous marks is made on products of inconsistent or poor quality and creates any inconsistent or negative brand images before advertisements are triggered.

At stage II, search engines’ SERPs as a whole, even together with the triggering effect of internally used trade marks, can hardly cause any ‘evident’ likelihood of dilution which can pose compelling risks to pro-competitive functions. As is the case in the evaluation of likelihood of confusion, search engines neither include any expression that could evidently blur or tarnish famous marks in their SERPs nor design SERPs in a way that could cause evident likelihood of dilution. From the perspective of the non-commercial speech

restriction test, the reason for allowing search engines' invisible use is not that it constitutes non-commercial speech. The reason is also not just that SERPs amount to non-commercial speech. It is because bans on the invisible use could cause the restriction of SERPs, which are characterised as non-commercial speech, and there are no compelling societal interests in these bans: there is no compelling likelihood of harm to pro-competitive trade mark functions. In this sense, a non-commercial use defence to dilution-based liability in trade mark law or unfair competition law should be removed.

The fact that advertisements on SERPs generate compelling likelihood of dilution should not influence the assessment of search engines' dilution-based liability. The risks arising from advertisers' expressions cannot outweigh search engines' free speech values. If search engines' use of trade marks were directly connected to the risks by, for example, making invisibly used trade marks automatically appear in the advertisements, search engines could also be responsible for these risks. This, however, is not a current practice in paid search marketing.

c) Fair Use Defence

If search engines' use of trade marks is found to cause evident likelihood of confusion or dilution, search engines cannot claim fair use based on advertisers' speech. Just as search engines are not responsible for risks that advertisers' speech poses to trade mark functions, they cannot be exempted from direct liability because of advertisers' fair use of trade marks in advertisements. They cannot also claim that their invisible use of trade marks is necessary to describe 'the content of advertisers' websites.' Advertisers' use of disclaimers either in advertisements or on their websites is not capable of dispelling search engines' liability.

(3) Remedy

Where use of trade marks is classified as non-commercial speech, a means to further compelling societal interests in suppressing use of trade marks

should be the least restrictive. This thesis suggests that disclaimers can be the least restrictive means because they are less restrictive than bans on use of trade marks. Disclaimers included in advertisements can remedy likelihood of confusion or dilution arising from advertisers' use of trade marks if they are used in a way to clearly dissociate advertisers' products from trade mark owners. Disclaimers at the top of paid search results can also remove confusion or dilution that search engines' SERPs as a whole may generate. Thus, disclaimers should be introduced into trade mark law and unfair competition law as a remedy.

Part IV. Conclusion

Given the peculiarities of use of trade marks in paid search marketing, courts cannot determine trade mark liability in this context based solely on their jurisprudence on metatags, pop-up advertising, and banner advertising cases. Likewise, the analogy of paid search marketing to product placement, the sale of embroidered logos, and newspaper advertising are no more than references in determining liability of advertisers and search engines. This jurisprudence and analogy amount to just piecemeal approaches that cannot sufficiently cope with the development of paid search marketing. Rather, the liability needs to be analysed through ‘a virtuous cycle in the application of trade mark law’, which can reach a balance between interested parties and between trade mark protection and free speech values.¹⁰¹¹

Searching for the balance is the first step in the virtuous cycle. As a stimulus, I suggest that ‘fair and efficient competition’ should be the ultimate purpose of trade mark law.¹⁰¹² This concept takes into account trade mark proprietors, competitors, third party users, consumers, and marketplaces. ‘Efficiency’ and ‘fairness’ founded on ‘competition’ balance and counterbalance the interests of relevant parties. Properly applied, the concept covers the two fundamental principles by avoiding the inherent contradictions between them: the prevention of consumer confusion and the protection of goodwill. It does not rely on the search cost theory. It also liberates trade mark law from the discussion about trade mark functions by focusing on competition and brand image protection as balancing and counterbalancing tools in delineating the scope of protection. Trade mark functions remain determinative, but a competition and image protection perspective allows us to identify protectable functions with clarity and precision. Normally courts fail to distinguish between protectable and non-protectable functions.

It is suggested that not all functions deserve protection.¹⁰¹³ Fair and efficient competition can be achieved ‘by way of protecting pro-competitive trade

¹⁰¹¹ This is expressed as a hypothesis in this thesis. *See* Chapters 1.1. and 2.4.

¹⁰¹² *See* *Supra* Chapter 3.1.4)

¹⁰¹³ *See* *Supra* Chapter 3.2.4)

mark functions': the intra-trade mark information function and the inter-trade mark differentiation function. The information function means the function of concisely conveying to consumers information as to the position of product quality and brand image. The differentiation function is the function of enabling producers to differentiate their products from those of others and at the same time consumers to distinguish between products, to form a preference for certain trade marked products, and to make purchasing decisions, based on the information imparted by trade marks. Trade marks fulfil these functions in owners' markets and competing product markets.

In relation to these fundamental concepts of trade mark law, use of trade marks in paid search marketing has posed a question about currently accepted fundamentals of trade mark protection, causing global tensions between trade mark proprietors, advertisers, search engines, and consumers. Courts in different jurisdictions have not adopted a similar position because of different factual contexts, distinct appreciations of similar facts, and most importantly different legal interpretations of requirements for and exceptions from trade mark liability.¹⁰¹⁴ In the USA where the Supreme Court has not yet delivered its opinion, federal courts have taken diverse positions in applying the Lanham Act to paid search marketing cases. There are also diverging legal interpretations among scholars in connection with use of trade marks in paid search marketing.

As regards legal interpretation, I submit that it should be based on the protection of pro-competitive trade mark functions because only pro-competitive functions are considered protectable under trade mark law; that is, only where third party use is likely to harm the information and differentiation functions of owners' trade marks in owners' product markets, users could be liable.¹⁰¹⁵ I also suggest that trade mark liability in double identity cases could arise only where the information and differentiation functions of owners' marks are likely to be harmed.¹⁰¹⁶ Aiming at competition in product markets on the one hand and encompassing brand image protection on the other, the protection of pro-competitive functions produces balancing and counterbalancing dynamics in the

¹⁰¹⁴ See Supra Chapter 4.4.

¹⁰¹⁵ See Supra Chapter 5: 1. and 3.1)

¹⁰¹⁶ See Supra Chapter 5.3.3)(1)

legal interpretation.

First, ‘use of trade marks’ should be construed as meaning use of trade marks in a manner that can be perceived by consumers. If it is narrowly interpreted as ‘use as trade marks,’ this could tip the balance in favour of third party users. The use requirement can neither distinguish between fair and unfair use nor decide likelihood of harm to pro-competitive trade mark functions until the absence or presence of likelihood of confusion or dilution is obvious.

Second, likelihood of confusion should be interpreted as arising where consumers are misled into thinking that trade mark owners control the quality and brand image of users’ products. In relation to this, ‘likelihood of expansion’ should not be factored in the assessment of likelihood of confusion because consumers would not mistakenly believe that owners control the quality and brand image of users’ products without the misconception that owners already entered users’ markets. Whether or not a likelihood of confusion exists at the time of purchase is immaterial. Moreover, in the context of paid search marketing, the degree of consumer care should be decided differently, depending on whether the focus is on the similarity between trade marks or the mechanics of paid search marketing.

Third, likelihood of dilution should be construed as occurring when third party use of famous marks could damage the strong position of product quality or product brand image that the marks indicate. There is a likelihood of blurring when use of famous marks could make consumers of owners’ products associate famous marks with inconsistent but not negative product quality or images. Tarnishment is likely to arise when the use could lead consumers to associate famous marks with negative quality or images. On the other hand, more mental time or additional cognitive efforts in linking trade marks to owners’ products alone cannot justify trade mark liability. In the same vein, the taking of unfair advantage, a third type of dilution that constitutes infringing use in EU trade mark law, should not be accepted as such because its existence does not depend on harm to the information and differentiation functions of famous marks. In determining blurring and tarnishment, which could arise in owners’ product markets, consumer care should depend on the price and nature of owners’ products and the type of consumers of owners’ products.

Fourth, fair use and functional use defences should not be accepted where banning third party use is not likely to cause anti-competitive results. They, on the other hand, should not collapse into the analysis of confusion or dilution, and the absence of confusion or dilution should not be a condition for them. Whereas the confusion and dilution tests are intended to prove likelihood of harm to pro-competitive functions, fair use and functional use defences aim to demonstrate that third party use is essential for fair and efficient competition in product markets despite its effects on trade mark functions: the use adversely affects only trade mark functions which are beyond the reach of pro-competitive functions.

These interpretations are supplemented by the next step in the virtuous cycle: the additional consideration of a balance between trade mark protection and free speech. Use of trade marks, which constitutes speech within the meaning of free speech if it possesses a communicative nature, can be classified as commercial or non-commercial expression according to whether the use is made in commercial or non-commercial contexts. Thus, depending on contexts, the standard for limiting commercial or non-commercial speech applies to use of trade marks. In the case of internal use which in itself cannot constitute speech because of its lack of communicative nature, the application of the standard depends on the type of an expression that the restriction of the internal use could influence. Given that trade mark law aims to foster fair and efficient competition by way of protecting pro-competitive trade mark functions and that trade mark owners also have free speech interests in preventing third party use, bans on unauthorised use by trade mark law are in conformity with the standards for the restriction of speech if 'core' requirements for trade mark liability are narrowly interpreted.

Where trade marks are used in commercial contexts, the interpretation of likelihood of confusion and dilution should be the same as that suggested based on protectable trade mark functions. Confusion as to controllers of product quality and brand image offers a substantial justification for trade mark liability. Insofar as likelihood of dilution is construed as existing only when third party use of famous marks could cause consumers to associate famous marks with inconsistent or negative quality or images, societal interests in anti-dilution protection are substantial.

On the other hand, where third parties use trade marks in non-commercial contexts, likelihood of confusion or dilution should be evident enough to show actual malice or calculated falsehood.¹⁰¹⁷ Under this strict interpretation, a non-commercial use exception provided for in the Lanham Act and the Korean Unfair Competition Act is unnecessary. Rather, these laws need to be revised for a better balance between trade mark protection and free speech. Moreover, sponsorship or non-sponsorship disclosures are necessary as a remedy to survive the last part of the standard for limiting non-commercial expression: the least restrictive means.

Unlike confusion and dilution, the use requirement, which this thesis does not regard as a core requirement, does not have to be construed strictly because of free speech. In particular, use ‘in commerce’ or ‘in the course of trade’ need not be limited to commercial speech to constitute infringing use. Use in commerce should not be construed strictly as excluding use in contexts that do not relate primarily to the proposal of commercial transactions. It is because this use could harm pro-competitive trade mark functions. In contrast, commercial speech should be defined narrowly, considering the rationale for the lesser degree of protection accorded to commercial speech: high possibility of the existence of misleading information.

As regards the consistent evaluation of facts in paid search marketing, this thesis suggests that courts should take into account only actual context and circumstances directly relevant to use of trade marks as keywords because those that consumers cannot perceive as relevant are unable to influence consumer perception or consumer association and thus the pro-competitive trade mark functions. Hence, the content of advertisers’ websites should not be considered since consumers cannot perceive it until they visit the websites. Unlike the content, the sale and purchase of trade marked keywords can be recognised by advertisers who amount to consumers of keywords, while it cannot be recognised by internet users. Internal use can be detected by both advertisers and internet users. Given these considerations, actual and direct context and circumstances are broadly broken into two stages: the stage of the sale and purchase of trade marked keywords (“stage I”) and the stage when consumers input trade marks as search terms (“stage II”).

¹⁰¹⁷ See *Supra* Chapters 6.2.4), 7.1.2), and 7.1.3)

Considering the interpretation based both on the protection of pro-competitive trade mark functions and speech restriction standards, and the actual and direct context and circumstances of paid search marketing, advertisers can be liable for their use of trade marks even when trade marks are not included in their advertisements.¹⁰¹⁸

At stage I, advertisers' selection, purchase, and internal use of trade marked keywords constitute 'use of trade marks' because advertisers, who amount to consumers of keywords, can perceive these uses. These uses, however, cannot lead consumers of keywords, owners' products, or advertisers' products to be confused as to controllers of product quality and brand image. They cannot also cause likelihood of blurring or tarnishment because consumers of famous mark owners' products cannot associate famous marks with inconsistent or negative quality or images. In terms of free speech restriction standards, there are no substantial societal interests in preventing them at this stage.

At stage II, advertisers' use of trade marks in advertising text and their selection and internal use of trade marks as keywords constitute 'use of trade marks.' The purchase, however, should not be considered to be 'use of trade marks' at this stage because of its imperceptibility by consumers of owners' or advertisers' products. Where trade marks are included in commercial advertisements, confusion or dilution would be likely without considering the triggering effect of trade marked keywords if consumers of advertisers' products are likely to be confused as to controllers of product quality and brand image, or if consumers of owners' products are likely to associate owners' famous marks with inconsistent or negative product quality or brand images. Where trade marks are not included in commercial advertisements, the combination of the triggering effect, surrounding context and circumstances, and advertising messages can cause likelihood of confusion or dilution. In the light of free speech, where advertisements are non-commercial, there should be evident or compelling likelihood of confusion or dilution for liability. Despite the existence of likelihood of confusion or dilution, advertisers can claim fair use or free speech defences. They, however, cannot use a fair use defence on the ground that they use trade marks as keywords to describe the content of their websites. Moreover, they

¹⁰¹⁸ See *Supra* Chapters 5.4.2) and 7.2.4)(1)

should not be exempted from dilution-based liability just because they use trade marks as non-commercial speech.

In contrast to advertisers, search engines are not responsible for their use ‘under current practices,’ whether or not trade marks are included in advertising text.¹⁰¹⁹

At stage I, search engines’ recommendation, sale of keywords, and internal use constitute ‘use of trade marks’ within the meaning of trade mark liability. Like advertisers’ use at this stage, search engines’ use does not cause any likelihood of confusion or dilution. There are also no societal interests in preventing these uses.

At stage II, only search engines’ internal use of trade marks can constitute use of trade marks in most cases. Advertising text including use of trade marks should not be taken into account in assessing search engines’ liability under the current practices in which search engines do not create the text. Because of this, the triggering effect of invisible use and other context and circumstances cannot cause consumer confusion as to controllers of product quality and brand image. Nor can it cause consumer association of famous marks with inconsistent or negative product quality or brand images.

In the light of free speech values, it is more obvious that search engines are not liable for their internal use. Since the restriction of search engines’ internal use could adversely affect the display of SERPs as a whole which constitutes non-commercial expression, the standard for limiting non-commercial speech should apply to this restriction. Thus, there should be evident or compelling likelihood of confusion or dilution. Nevertheless, there is no such confusion or dilution found in paid search marketing.

And finally, the virtuous cycle returns to the starting point. Trade mark protection in the context of paid search marketing, which is based on the protection of pro-competitive trade mark functions and speech restriction standards, could promote fair and efficient competition in product markets. At the same time, it could reach a balance between trade mark proprietors, advertisers, search engines, and consumers and between trade mark protection and free speech values.

¹⁰¹⁹ See *Supra* Chapters 5.4.3) and 7.2.4)(2)

In this thesis, I suggested that fair and efficient competition is core in finding a balance between interested parties and between trade mark protection and free speech values and that the balance can be reached through ‘a virtuous cycle in the application of trade mark law.’ I also tested my suggestions against use of trade marks in paid search marketing which possesses unique peculiarities and has globally challenged the basics of trade mark law. Since the direct liability of advertisers and search engines is determined on the basis of the legal interpretation drawn from both the protection of pro-competitive trade mark functions and standards for restricting free speech, it could advance fair and efficient competition and maintain the balance in the context of paid search marketing. Then again, searching for a balance in different contexts will commence the transformation of the virtuous cycle into a virtuous spiral. As a result, fair and efficient competition could be promoted in all product markets.

Bibliography

Books and Articles

- Akerlof G, The Market for 'Lemons': Quality, Certainty and the Market Mechanism, 84 Q.J. Econ. (1970)
- Bailey A, Trade Mark Functions and Protection for Marks with a Reputation, Journal of Intellectual Property Law & Practice, 2013 Vol.8 No.11 (2013)
- Barendt E, *Freedom of Speech* (2nd edn, Oxford University Press 2005)
- Barrett M, Internet Trademark Suits and the Demise of "Trademark Use," 39 U.S. Davis L. Rev. 371 (2006)
- — Domain Names, Trademarks and the First Amendment: Searching for Meaningful Boundaries, 97 Trademark Rep. 848 (2007)
- — Finding Trademark Use: The Historical Foundation for Limiting Infringement Liability to Use "in the Manner of a Mark", 43 Wake Forest L. Rev. 893 (2008)
- — Trademarks and Digital Technologies: "Use" on the Net, 13 No. 11 J. Internet L. 1 (2010)
- Beebe B, The Continuing Debacle of U.S. Antidilution Law: Evidence from the First Year of Trademark Dilution Revision Act Case Law, 24 Santa Clara Computer & High Tech. L.J. 449 (2007-2008)
- Bennigson T, Nike Revisited: Can Commercial Corporations Engage in Non-Commercial Speech?, 39 Conn. L. Rev. 379 (2006)
- Bhagwat A, The Test that Ate Everything: Intermediate Scrutiny in First Amendment Jurisprudence, 2007 U. Ill. L. Rev. 783 (2007)
- Bone RG, Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law, 86 B.U. L. Rev. 547 (2006)
- Bradford LR, Emotion, Dilution, and the Trademark Consumer, 23 Berkely Tech. L.J. 1227 (2008)
- Brown, Jr. RS, Advertising and the Public Interest: Legal Protection of Trade Symbols, 57 Yale L. J. 1165 (1948)
- Chaffey D and others, *Internet marketing: strategy, implementation and practice* (Dave Chaffey ed, 4th edn, Pearson Education 2009)
- Chemerinsky E and Fisk C, What Is Commercial Speech? The Issue Not Decided in Nike v. Kasky, 54 Case W. Res. L. Rev. 1143 (2004)
- Denicola RC, Trademarks as Speech: Constitutional Implications of the Emerging Rationales for the Protection of Trade Symbols, 1982 Wis. L. Rev. 158 (1982)
- Dillbary JS, Getting the Word Out: The Informational Function of Trademarks, 41 Ariz. St. L.J. 991(2009)
- Dinwoodie GB, Trademarks and Territory: Detaching Trademark Law from the Nation-State, 41 Hous. L.Rev. 885 (2004)
- — Trademark Law and Social Norms (2007) available at <http://www.oiprc.ox.ac.uk/papers/EJWP0207.pdf>
- — Lewis & Clark Law School Ninth Distinguished IP Lecture: Developing Defenses in Trademark Law, 13 Lewis & Clark L. Rev. 99 (2009)
- — and Janis M, Confusion over Use: Contextualism in Trademark Law, 92 Iowa L. Rev. 1597 (2007)
- — and Janis M, Lessons from the Trademark Use Debate, 92 Iowa L. Rev. 1703 (2007)
- Doellinger CJ, A New Theory of Trademarks, 111 Penn St. L. Rev. 823 (2007)
- Dogan SL, Trademark Remedies and Online Intermediaries, 14 Lewis & Clark L. Rev. 467 (2010)
- — and Lemley MA, Trademarks and Consumer Search Costs on the Internet, 41 Hous. L. Rev. 777 (2004)
- — and Lemley MA, The Merchandising Right: Fragile Theory or Fait Accompli?, 54 Emory L.J. 461 (2005)
- — and Lemley MA, Grounding Trademark Law through Trademark Use, 92 Iowa L. Rev. 1669 (2007)
- Ealy JA, Utilitarianism and Trademark Protection, 19 J. Contemp. Legal Issues 14 (2010)
- Economides NS, The Economics of Trademarks, 78 Trademark Rep. 523 (1988)
- Engel E and others, *The Art of SEO* (O'reilly 2009)
- Fhima IS, *Trade Mark Dilution in Europe and the United States* (Oxford University Press 2011)
- Geddes B, *Advanced Google AdWords* (Wiley 2010)

Goldman E, *Deregulating Relevancy in Internet Trademark Law*, 54 Emory L.J. 507 (2005)

Gulasekaram P, *Policing the Border Between Trademarks and Free Speech: Protecting Unauthorized Trademark Use in Expressive Works*, 80 Wash. L. Rev. 887 (2005)

Hammack S, *The Internet Loophole: Why Threatening Speech On-line Requires a Modification of the Courts' Approach to True Threats and Incitement*, 36 Colum. J.L. & Soc. Probs. 65 (2002)

Hanson MB, *Protecting Trademark Good Will: The case for a Federal Standard of Misappropriation*, 81 Trademark Rep. 480 (1991)

Jacoby J, *The Psychological Foundations of Trademark Law: Secondary Meaning, Genericism, Fame, Confusion and Dilution*, 91 Trademark Rep. 1013 (2001)

Jong SJ and Park JS, *Intellectual Property* (2nd edn, Hongmun Sa 2011) (Korean)

Katz A, *Making Sense of Nonsense: Intellectual Property, Antitrust, and Market Power*, 49 Ariz. L. Rev. 837 (2007)

Klerman D, *Trademark Dilution, Search Costs, and Naked Licensing*, 74 Fordham L. Rev. 1759 (2006)

Kozinski A and Banner S, *Who's Afraid of Commercial Speech?*, 76 Va. L. Rev. 627 (1990)

Kratzke WP, *Normative Economic Analysis of Trademark Law*, 21 Mem. St. U. L. Rev. 199 (1991)

Kwon YS, *Constitutional Law: A Textbook* (5th edn, Bobmun Sa 2010) (Korean)

Ladas SP, *Trademark Licensing and the Antitrust Law*, 63 TMR 245 (1973)

Landes WM and Posner RA, *The Economic Structure of Intellectual Property Law* (Harvard University Press 2003)

Lemley MA and McKenna MP, *Irrelevant Confusion*, 62 Stan. L. Rev. 413 (2010)

— — and McKenna MP, *Owning Mark(et)s*, 109 Mich. L. Rev. 137 (2010)

Liakatou V and Maniatis S, *Lego – building a European concept of functionality*, E.I.P.R. 653 (2010)

Litman J, *Breakfast with Batman: The Public Interest in the Advertising Age*, 108 Yale L.J. 1717 (1999)

Lunney, Jr. GS, *Trademark Monopolies*, 48 Emory L.J. 367 (1999)

— — *Trademarks and the Internet: The United States' Experience*, 97 Trademark Rep. 931 (2007)

Macaw MG, *Google, Inc. v. American Blind & Wallpaper Factory, Inc.: A Justification for the Use of Trademarks as Keywords to Trigger Paid Advertising Placements in Internet Search Engine Results*, 32 Rutgers Computer & Tech. L.J. 1 (2005)

Maniatis S, *A Consumer Trade Mark: Protection Based on Origin and Quality*, E.I.P.R. 406 (1993)

— — *Trade Mark Law and Domain Names: Back to Basics?*, E.I.P.R. 397 (2002)

— — and Botis D, *Trade Marks in Europe: A Practical Jurisprudence* (2nd edn, Sweet & Maxwell 2010)

Mankiw NG and Taylor MP, *Economics* (2nd edn, Cengage Learning 2011)

McCarthy JT, 1 McCarthy on Trademarks and Unfair Competition (4th ed.)

— — 2 Rights of Publicity and Privacy (2d ed.)

— — 4 McCarthy on Trademarks and Unfair Competition (4th ed.)

McGeeveran W, *Rethinking Trademark Fair Use*, 94 Iowa L. Rev. 49 (2008)

McKenna MP, *The Normative Foundations of Trademark Law*, 82 Notre Dame L. Rev. 1839 (2007)

— — *Trademark Use and the Problem of Source*, 2009 U. Ill. L. Rev. 773 (2009)

— — *A Consumer Decision-making Theory of Trademark Law*, 98 Va. L. Rev. 67 (2012)

Mireles, Jr. MS, *Towards Recognizing and Reconciling the Multiplicity of Values and Interests in Trademark Law*, 44 Ind. L. Rev. 427 (2011)

Munro CR, *The Value of Commercial Speech*, CLJUK 134 (2003)

Pasquale F, *Asterisk Revisited: Debating a Right of Reply on Search Results*, 3 J. Bus. & Tech. L. 61 (2008)

Post R, *The Constitutional Status of Commercial Speech*, 48 UCLA L. Rev. 1 (2000)

Ramsey LP, *Increasing First Amendment Scrutiny of Trademark Law*, 61 SMU L. Rev. 381 (2008)

Rosler H, *The Rationale for European Trade Mark Protection*, E.I.P.R. 100 (2007)

Rothman JE, *Initial Interest Confusion: Standing at the Crossroads of Trademark Law*, 27 Cardozo L. Rev. 105 (2005)

Saunders KM, *Confusion is the Key: A Trademark Law Analysis of Keyword Banner Advertising*, 71 Fordham L. Rev. 543 (2002)

Schechter F, *The Rational Basis of Trademark Protection*, 40 Harv. L. Rev. 813 (1927)

Sharrock LM, *Realigning the Initial Interest Confusion Doctrine with the Lanham Act*, 25

Whittier L. Rev. 53 (2003)
 Sheff JN, *Biasing Brands*, 32 *Cardozo L. Rev.* 1245 (2011)
 Shiner RA, *Freedom of Commercial Expression* (Oxford University Press 2003)
 Smolla RA, 1 *Smolla & Nimmer on Freedom of Speech* (2010)
 Stern N, *Commercial Speech, “Irrational” Clients, and the Persistence of Bans on Subjective Lawyer Advertising*, 2009 *B.Y.U. L. Rev.* 1221 (2009)
 Stigler GJ, *The Economics of Information*, 69 *J. Pol. Econ.* 213 (1961)
 Tan A, *Google Adwords: Trademark Infringer or Trade Liberalizer?*, 16 *Mich. Telecomm. & Tech. L. Rev.* 473 (2010)
 Tushnet R, *Trademark Law as Commercial Speech Regulation*, 58 *S.C. L. Rev.* 737 (2007)
 — — *Gone in Sixty MilliSeconds: Trademark Law and Cognitive Science*, 86 *Tex. L. Rev.* 507 (2008)
 Widmaier U, *Use, Liability, and the Structure of Trademark Law*, 33 *Hofstra L. Rev.* 603 (2004)
 Winkler A, *Beyond Bellotti*, 32 *Loy. L.A. L. Rev.* 133 (1998)

Legislation, Legal History, and Treaties

Convention for the Protection of Human Rights and Fundamental Freedoms
 Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark
 Council Regulation (EC) No 207/2009 of 26 February 2009 on the Community trade mark
 Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market
 Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate the laws of the Member States relating to trade marks
 European Parliament and Council Directive 98/43 relating to the advertising and sponsorship of tobacco products
 First Amendment to the United States Constitution
 First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks
 Korean Constitution
 Korean Trade Mark Act
 Korean Unfair Competition Prevention and Trade Secret Protection Act
 Lanham Act
 Senate Report No. 1333, 1946 *U.S. Code Cong. Serv.*
 Testimony of Anne Gundelfinger before House Subcommittee on Courts, the Internet, and Intellectual Property, Committee on House Judiciary, U.S. House of Representatives, HR 683 (Feb. 17, 2005)

Cases

US cases

AMF, Inc. v. Sleekcraft Boats, 599 F.2d 341 (9th Cir. 1979)
Anheuser-Busch, Inc. v. L & L Wings, Inc., 962 F.2d 316 (4th Cir.1992)
Aunt Jemima Mills Co. v. Rigney & Co., 247 F. 407 (2d Cir. 1917)
Australian Gold, Inc. v. Hatfield, 436 F.3d 1228 (10th Cir.2006)
Avery Dennison Corp. v. Sumpton, 189 F.3d 868 (9th Cir. 1999)
Banff v. Federated Department Stores, 841 F.2d 486 (2d Cir. 1988)
Bates v. State Bar of Arizona, 433 U.S. 350 (1977)
Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co., 550 F.3d 465 (5th Cir. 2008)
Bihari v. Gross, 119 F.Supp.2d 309 (S.D.N.Y. 2000)
Board of Trustees of the State University of New York v. Fox, 492 U.S. 469 (1989)
Bolger v. Youngs Drug Prods. Corp., 463 U.S. 60 (1983)
Boston Duck Tours v. Super Duck Tours, 531 F.3d 1 (1st Cir. 2008)
Boston Professional Hockey Assoc., Inc. v. Dallas Cap & Emblem Mfg., Inc., 510 F.2d 1004 (5th Cir. 1975)

Brookfield Commc'ns, Inc. v. West Coast Entm't Corp., 174 F.3d 1036 (9th Cir. 1999)
 Burberry v. Designers Imports, 2010 WL 199906 (S.D.N.Y. 2010)
 Buying for the Home, LLC v. Humble Abode, LLC, 459 F.Supp.2d 310 (D.N.J. 2006)
 Calvin Klein Cosmetics Corporation v. Lenox Laboratories, Inc., 815 F.2d 500 (8th Cir. 1987)
 Central Hudson Gas & Elec. Corp. v. Public Serv. Comm'n of New York, 447 U.S. 557 (1980)
 Century 21 Real Estate Corp. v. Lendingtree, Inc., 425 F.3d 211 (3d Cir. 2005)
 City of Cincinnati v. Discovery Network, 507 U.S. 410 (1993)
 Cliffs Notes, Inc. v. Bantam Doubleday Dell Publishing Group, 886 F.2d 490 (2d Cir. 1989)
 College Network, Inc. v. Moore Educational Publishers, Inc., 378 Fed.Appx. 403 (5th Cir. 2010)
 Colt Def. LLC v. Bushmaster Firearms, Inc., 486 F.3d 701 (1st Cir. 2007)
 Dallas Cowboys Cheerleaders v. Pussycat Cinema, Ltd., 604 F.2d 200 (2d Cir. 1979)
 Dastar Corporation v. Twentieth Century Fox Film Corporation, et al., 539 U.S. 23 (2003)
 Deborah Morse v. Joseph Frederick, 551 U.S. 393 (2007)
 Deere & Co. v. MTD Products, Inc., 41 F.3d 39 (2d Cir. 1994)
 Designer Skin, LLC v. S&L Vitamins, Inc., 560 F.Supp.2d 811 (D.Ariz. 2008)
 Diller v. Barry Driller, Inc., 2012 WL 4044732 (C.D.Cal.)
 Dr. Seuss Enterprises, L.P. v. Penguin Books USA, Inc., 109 F.3d 1394 (9th Cir. 1997)
 Dreamwerks Prod. Group v. SKG Studio, 142 F.3d 1127 (9th Cir. 1998)
 E.S.S. Entertainment 2000, Inc. v. Rock Star Videos, Inc., 547 F.3d 1095 (9th Cir. 2008)
 Edenfield v. Fane, 507 U.S. 761, 767 (1993)
 Edina Realty, Inc. v. The MLSONline.com, 80 U.S.P.Q.2d 1039 (D. Minn. 2006)
 El Greco Leather Products Co. v. Shoe World, Inc., 806 F.2d 392 (2d Cir. 1986)
 Eldred v. Ashcroft, 537 U.S. 186 (2002)
 Elvis Presley Enterprises, Inc. v. Capece, 141 F.3d 188 (5th Cir. 1998)
 Eva's Bridal Ltd. and Said Ghusein v. Halanick Enterprised, Inc., and Nayef Ghusein, 639 F. 3d 788 (7th Cir. 2011)
 Everett Laboratories, Inc. v. Vertical Pharmaceuticals, Inc., 227 Fed.Appx. 124 (3d Cir. 2007)
 Films of Distinction, Inc. v. Allegro Film Prods., Inc., 12 F.Supp.2d 1068 (C.D.Cal.1998)
 Fortune Dynamic, Inc. v. Victoria's Secret Stores Brand Management, Inc., 618 F.3d 1025 (9th Cir. 2010)
 FragranceNet.com, Inc. v. FragranceX.com, Inc., 493 F.Supp.2d 545 (E.D.N.Y. 2007)
 Freecycle Network, Inc. v. Oey, 505 F.3d 898 (9th Cir. 2007)
 Garrison v. Louisiana, 379 U.S. 64 (1964)
 General Motors Corp. v. Keystone Automotive Industries, Inc., 453 F.3d 351 (6th Cir. 2006)
 Gibson Guitar Corp. v. Paul Reed Smith Guitars, LP, 423 F.3d 539 (6th Cir. 2005)
 Google Inc. v. American Blind & Wallpaper, 2007 WL 1159950 (N.D. Cal. 2007)
 Gorenstein Enterprises, Inc. v. Quality Care-USA, Inc., 874 F.2d 431 (7th Cir.1989)
 GoTo.com, Inc. v. Walt Disney Co., 202 F.3d 1199 (9th Cir. 2000)
 Government Employees Ins. Co. v. Google, Inc., 2005 WL 1903128 (E.D. Va. 2005)
 Government Employees Ins. Co. v. Google, Inc., 330 F.Supp.2d 700 (E.D. Va. 2004)
 Greater New Orleans Broad. Ass'n v. United States, 527 U.S. 173 (1999)
 Hamzik v. Zale Corp., 2007 WL 1174863 (N.D.N.Y. 2007)
 Hanover Star Milling Co. v. Metcalf, 240 U.S. 403 (1916)
 Hearts on Fire Company LLC v. Blue Nile, Inc., 603 F. Supp. 2d 274 (D. Mass. 2009)
 Hensley Mfg. v. ProPride, Inc., 579 F.3d 603 (6th Cir. 2009)
 Herman Miller, Inc. v. Palazzetti Imports and Exports, Inc., 270 F.3d 298 (6th Cir. 2001)
 HMH Pub. Co., Inc. v. Brincat, 504 F.2d 713 (9th Cir. 1974)
 Hormel Foods Corp. v. Jim Henson Productions, Inc., 73 F.3d 497 (2d Cir. 1996)
 Horphag Research, Ltd. v. Garcia, 475 F.3d 1036 (9th Cir. 2007)
 Horphag Research, Ltd. v. Pelligrini, 337 F.3d 1036 (9th Cir. 2003)
 Hysitron Inc. v. MTS Systems Corp., 2008 WL 3161969 (D. Minn. 2008)
 iCall, Inc. v. Tribair, Inc., 2012 WL 5878389 (N.D.Cal.)
 In re R. M. J., 455 U.S. 191 (1982)
 In re XMH Corp., 647 F.3d 690 (7th Cir. 2011)
 Int'l Ass'n of Machinists & Aero. Workers v. Winship Green Nursing Ctr., 103 F.3d 196 (1st Cir. 1996)
 Int'l Ass'n of Machinists & Aero. Workers v. Winship Green Nursing Ctr., 914 F.Supp. 651 (D.Me. 1996)
 International Stamp Art, Inc. v. U.S. Postal Service, 456 F.3d 1270 (11th Cir. 2006)

Interpace Corp. v. Lapp, Inc., 721 F.2d 460 (3d Cir. 1983)
 Interstellar Starship Servs., Ltd. v. Epix, Inc., 304 F.3d 936 (9th Cir. 2002)
 Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844 (1982)
 J.G. Wentworth, S.S.C. Ltd. P'ship v. Settlement Funding LLC, 2007 WL 30115 (E.D.Pa. 2007)
 Kasky v. Nike, Inc., 45 P.3d 243 (Cal. 2002)
 KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc., 408 F.3d 596 (9th Cir. 2005)
 KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc., 543 U.S. 111 (2004)
 L.L. Bean, Inc. v. Drake Publishers, Inc., 811 F.2d 26 (1st Cir. 1987)
 Lloyd Corp. v. Tanner, 407 U.S. 551 (1972)
 Lorillard Tobacco Co. v. Reilly, 533 U.S. 525 (2001)
 Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC, 507 F.3d 252 (4th Cir.2007)
 MacMahan Pharmacal Co. v. Denver Chemical Mfg. Co., 113 F. 468 (8th Cir. 1901)
 Mary Kay, Inc. v. Weber, 601 F. Supp. 2d 839 (N.D. Tex. 2009)
 Maryland v. Munson, 467 U.S. 947 (1984)
 Mattel, Inc. v. MCA Records, Inc., 296 F.3d 894 (9th Cir. 2002)
 Mattel, Inc. v. Walking Mountain Productions, 353 F.3d 792 (9th Cir. 2003)
 Merck & Co., Inc. v. Mediplan Health Consulting, Inc., 425 F. Supp. 2d 402 (S.D.N.Y. 2006)
 Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co., 316 U.S. 203 (1942)
 Miss Universe, L.P., LLLP v. Villegas, 672 F. Supp. 2d 575 (S.D. N.Y. 2009)
 Moseley v. V Secret Catalogue, Inc., 537 U.S. 418 (2003)
 Mutual of Omaha Ins. Co. v. Novak, 836 F.2d 397 (8th Cir. 1988)
 Nabisco, Inc. v. PF Brands, Inc., 191 F.3d 208 (2d Cir.1999)
 Network Automation, Inc. v. Advanced Systems Concepts, Inc., 2011 WL 815806 (C.A.9(Cal.))
 New Kids on the Block v. News Am. Publ'g, Inc., 971 F.2d 302 (9th Cir. 1992)
 New York Times v. Sullivan, 376 U.S. 254 (1964)
 Nike, Inc. v. Kasky, 539 U.S. 654 (2003)
 Nissan Motor Co. v. Nissan Computer Corp., 378 F.3d 1002 (9th Cir. 2004)
 Nitro Leisure Products, L.L.C. v. Acushnet Co., 341 F.3d 1356 (Fed. Cir. 2003)
 North American Medical Corp. v. Axiom Worldwide, Inc., 522 F.3d 1211 (11th Cir. 2008)
 O'Brien v. United States, 391 U.S. 367 (1968)
 OBH, Inc. v. Spotlight Magazine, Inc., 86 F.Supp.2d 176 (W.D.N.Y. 2000)
 Ohralik v. Ohio State Bar Ass'n, 436 U.S. 447 (1978)
 Park 'N Fly, Inc. v. Dollar Park & Fly, 469 U.S. 189 (1985)
 Parks v. LaFace Records, 329 F.3d 437 (6th Cir. 2003)
 Perfumebay.com Inc. v. eBay, Inc., 506 F.3d 1165 (9th Cir. 2007)
 Pignons S.A. de Mecanique de Precision v. Polaroid Corp., 657 F.2d 482 (1st Cir. 1981)
 Pittsburgh Press Co. v. Pittsburgh Comm'n on Human Relations, 413 U.S. 376 (1973)
 Planned Parenthood Federation of America, Inc. v. Bucci, 1997 WL 133313 (S.D.N.Y. 1997)
 Playboy Enterprises, Inc. v. Netscape Communications, Inc., 354 F.3d 1020 (9th Cir. 2004)
 Playboy Enterprises, Inc. v. Welles, 279 F.3d 796 (9th Cir. 2002)
 Polaroid Corp. v. Polarad Elecs. Corp., 287 F.2d 492 (2d Cir. 1961)
 Promatek Industries, Ltd. v. Equitrac Corp., 300 F.3d 808 (7th Cir. 2002)
 Qualitex Co. v. Jacobson Prods. Co., 514 U.S. 159 (1995)
 Rescuecom Corp. v. Google, Inc., 456 F.Supp.2d 393 (N.D.N.Y. 2006)
 Rescuecom Corp. v. Google, Inc., 562 F. 3d 123 (2d Cir. 2009)
 Retail Services, Inc. v. Freebies Publishing, 364 F.3d 535 (4th Cir. 2004)
 Riley v. Nat'l Fed'n of the Blind, Inc., 487 U.S. 781 (1988)
 Rogers v. Grimaldi, 875 F.2d 994 (2d Cir. 1989)
 Rosenberg Bros. & Co. v. Elliott, 7 F.2d 962 (3d Cir. 1925)
 Rosetta Stone Ltd. v. Google, Inc., 730 F.Supp.2d 531 (E.D. Va. 2010)
 Rosetta Stone Ltd. v. Google Inc., 2010 WL 4306013 (C.A.4)
 Rosetta Stone Ltd. v. Google, Inc., 2012 WL 1155143 (C.A.4(Va.))
 Rotoworks Intern. Ltd. v. Grassworks USA, LLC, 504 F.Supp.2d 453 (W.D. Arkansas 2007)
 Rubin v. Coors Brewing Co., 514 U.S. 476 (1995)
 S&L Vitamins Inc. v. Australian Gold Inc., 521 F.Supp.2d 188 (E.D.N.Y. 2007)
 Sable Communications of Cal., Inc. v. FCC, 492 U.S. 115 (1989)
 San Francisco Arts & Athletics, Inc. v. United States Olympic Committee and International Olympic Committee, 483 U.S. 522 (1987)
 Savin Corp. v. The Savin Group, 391 F.3d 439 (2d Cir. 2004)

Schaumburg v. Citizens for a Better Environment, 444 U.S. 620 (1980)
 Sebastian Intern., Inc. v. Longs Drug Stores Corp., 53 F.3d 1073 (9th Cir. 1995)
 Shredded Wheat Co. v. Humphrey Cornell Co., 250 F. 960 (2d Cir. 1918)
 Site Pro-1, Inc v. Better Metal, LLC, 506 F.Supp.2d 123 (E.D.N.Y. 2007)
 Smith v. Chanel, Inc., 402 F.2d 562 (9th Cir. 1968)
 Sorrell v. IMS Health Inc., 131 S.Ct. 2653 (2011)
 Spence v. Washington, 418 U.S. 405 (1974)
 Sport Supply Group, Inc. v. Columbia Cas. Co., 335 F.3d 453 (5th Cir. 2003)
 Standard Process, Inc. v. Banks, 554 F. Supp. 2d 866 (E.D. Wis. 2008)
 Starbucks Corp. v. Wolfe's Borough Coffee, Inc., 588 F.3d 97 (2d Cir. 2009)
 Storus Corp. v. Aroa Marketing, Inc., 2008 WL 449835 (N.D.Ca. 2008)
 Sugar Busters LLC v. Brennan, 177 F.3d 258 (5th Cir. 1999)
 Taubman Co. v. Webfeats, 319 F.3d 770 (6th Cir. 2003)
 Thane International, Inc. v. Trek Bicycle Corp., 305 F.3d 894 (9th Cir.2002)
 Thompson v. W. States Med. Ctr., 535 U.S. 357 (2002)
 Tiffany (NJ), Inc. v. eBay Inc., 600 F.3d 93 (2d Cir. 2010)
 Times Mirror Magazines, Inc. v. Las Vegas Sports News, L.L.C., 212 F.3d 157 (3d Cir. 2000)
 TMT North America, Inc. v. Magic Touch GmbH, 124 F.3d 876 (7th Cir. 1997)
 Top Tobacco, L.P. v. North Atlantic Operating Co., Inc., 509 F.3d 380 (7th Cir. 2007)
 Toyota Motor Sales, U.S.A., Inc. v. Tabari, 610 F.3d 1171 (9th Cir. 2010)
 Traffix Devices, Inc. v. Marketing Displays, Inc., 532 U.S. 23 (2001)
 Truck Equipment Service Co. v. Fruehauf Corp., 536 F.2d 1210 (8th Cir. 1976)
 Turner Broadcasting System, Inc. v. Federal Communications Commission, 512 U.S. 622 (1994)
 Turner Broadcasting System, Inc. v. Federal Communications Commission, 520 U.S. 180 (1997)
 Twin Peaks Productions v. Publications International, Ltd., 996 F.2d 1366 (2d Cir. 1993)
 Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763 (1992)
 Ty Inc. v. Perryman, 306 F.3d 509 (7th Cir. 2002)
 U-Haul Int'l, Inc., v. WhenU.com, Inc., 279 F. Supp.2d 723 (E.D. Va. 2003)
 United States v. Michael Williams 553 U.S. 285 (2008)
 United States v. Playboy Entm't Group, 529 U.S. 803 (2000)
 United States v. Xavier Alvarez, 132 S.Ct. 2537 (2012)
 Univ. of Ga. Athletic Ass'n v. Laite, 756 F.2d 1535 (11th Cir.1985)
 Universal City Studios, Inc. v. Montgomery Ward & Co., 1980 WL 30333 (N.D. Ill. 1980)
 Utah Lighthouse Ministry v. Foundation for Apologetic Information and Research, 527 F.3d 1045
 (10th Cir. 2008)
 V Secret Catalogue v. Victoria's Secret Stores, 605 F.3d 382 (6th Cir. 2010)
 Valentine v. Chrestensen, 316 U.S. 52 (1942)
 Venture Tape Corp. v. McGills Glass Warehouse, 540 F.3d 56 (1st Cir. 2008)
 Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council, Inc., 425 U.S. 748
 (1976)
 Vogue Co. v. Thompson-Hudson Co., 300 F. 509 (6th Cir. 1924)
 Vuitton Et Fils S.A. v. J. Young Enterprises, Inc., 644 F.2d 769 (9th Cir. 1981)
 Wal-Mart Stores, Inc. v. Samara Brothers, Inc., 529 U.S. 205 (2000)
 Ward v. Rock Against Racism, 491 U.S. 781 (1989)
 Wells Fargo & Co. v. WhenU.com, Inc., 293 F. Supp.2d 734 (E.D.Mich. 2003)
 Westchester Media v. PRL USA Holdings, Inc., 214 F.3d 658 (5th Cir. 2000)
 Yankee Publishing v. News America Publishing, 809 F.Supp. 267 (S.D.N.Y. 1992)
 Zauderer v. Office of Disciplinary Counsel, 471 U.S. 626 (1985)
 1-800 Contacts, Inc. v. WhenU.com, 309 F.Supp.2d 467 (S.D.N.Y. 2003)
 1-800 Contacts, Inc. v. WhenU.com, Inc., 414 F.3d 400 (2d Cir. 2005)
 44 Liquormart v. Rhode Island, 517 U.S. 484 (1996)
 800-JR Cigar, Inc. v. GoTo.com, Inc., 437 F.Supp.2d 273 (D.N.J. 2006)

EU cases

Adam Opel AG v. Autec AG (C-48/05) [2007] E.T.M.R. 33
 Adidas-Salomon AG and Another v. Fitnessworld Trading Ltd (C-408/01) [2004] Ch. 120
 Adidas AG and another v. Marca Mode CV and others (C-102/07) [2008] Bus. L.R. 1791

Alcon Inc v. Office for Harmonisation in the Internal Market (C-412/05 P) [2007] E.T.M.R. 68
 Arsenal Football Club Plc v. Reed (C-206/01) [2003] E.T.M.R. 19
 Canon Kabushiki Kaisha v. Metro-Goldwyn-Mayer Inc. (C-39/97) [1999] 1 C.M.L.R. 77
 Casado Coca v. Spain (1994) 18 E.H.R.R. 1
 Celine Sarl v. Celine SA (C-17/06) [2007] E.T.M.R. 80
 Centrafarm BV v. American Home Products Corporation (Case 3/78) [1979] 1 C.M.L.R. 326
 Cnl-Sucal NV SA v. Hag GF AG (C-10/89) [1990] 3 C.M.L.R. 571
 Copad SA v. Christian Dior Couture SA and others (C-59/08) [2009] Bus. L.R. 1571
 Die BergSpechte Outdoor Reisen und Alpenschule Edi Koblmüller GmbH v. Günter Guni, trekking.at Reisen GmbH (C-278/08) [2010] E.T.M.R. 33
 Dyson Ltd v. Registrar of Trade Marks (C-321/03) [2007] Bus. L.R. 787
 Elizabeth Florence Emanuel v. Continental Shelf 128 Ltd (C-259/04) [2006] E.T.M.R. 56
 Environmental Manufacturing LLP v. OHIM (T-570/10) [2012] E.T.M.R. 54
 Environmental Manufacturing LLP v OHIM (C-383/12 P) [2013] All ER (D) 196 (Nov)
 Farmeco AE Dermokallyntika v. OHIM (T-131/09) [2010]
 Germany v. European Parliament and E.U. Council, [2000] 3 C.M.L.R. 1175
 Gerolsteiner Brunnen GmbH & Co v. Putsch GmbH (C-100/02) [2004] E.T.M.R. 40
 Google France v. Louis Vuitton Malletier (Joined Cases C-236/08, C-237/08 and C-238/08) [2010] E.T.M.R. 30
 Heidelberger Bauchemie GmbH (C-49/02) [2004] E.T.M.R. 99
 Herbert Karner Industrie-Auktionen GmbH v. Troostwijk GmbH [2004] 2 C.M.L.R. 5
 Hertel v. Switzerland (1999) 28 E.H.R.R. 534
 Hoffmann-la Roche v. Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH (C-102/77) [1978] 3 C.M.L.R. 217
 Hölterhoff v. Freiesleben (C-2/00) [2002] E.T.M.R. 79
 IG Communications Ltd v. OHIM (T-301/09) [2013] E.T.M.R. 17
 Inland Revenue Comrs v. Muller & Co's Margarine Ltd [1901] AC 217
 Intel Corp'n Inc v. CPM United Kingdom Ltd (C-252/07) [2009] Bus. L.R. 1079
 Interflora Inc v. Marks & Spencer Plc (C-323/09) [2012] E.T.M.R. 1
 Interflora Inc and Interflora British Unit v. Marks and Spencer Plc and Flowers Direct Online Limited [2013] E.T.M.R. 35
 Jacobowski v. Germany (1995) 19 E.H.R.R. 64
 Konsumentombudsmannen (KO) v. Gourmet International Products (GIP) [2001] 2 C.M.L.R. 31
 Krone Verlag GmbH & Co KG v. Austria (2006) 42 E.H.R.R. 28
 KWS Saat AG v. Office for Harmonisation in the Internal Market (C-447/02 P) [2007] IP & T 314
 L'Oréal SA v. Bellure NV (C-487/07) [2009] E.T.M.R. 55
 L'Oréal SA v. eBay International AG (C-324/09) [2011] E.T.M.R. 52
 Lego Juris A/S v. Office for Harmonisation in the Internal Market, Mega Brands, Inc. (C-48/09 P) [2010] E.T.M.R. 63
 Libertel Groep BV v. Benelux-Merkenbureau (C-104/01) [2005] 2 C.M.L.R. 45
 Lidl Stiftung & Co KG v. OHIM (T-237/11) [2013] E.T.M.R. 21
 Lloyd Schuhfabrik Meyer & Co. GmbH v. Klijsen Handel BV (C-342/97) [1999] 2 C.M.L.R. 1343
 Marks & Spencer Plc v Interflora Inc and Interflora British Unit [2013] E.T.M.R. 11
 Markt Intern and Beermann v. Germany (1990) 12 E.H.R.R. 161
 O2 Holdings Ltd v. Hutchison 3G UK Ltd (C-533/06) [2009] Bus LR 339
 Och-Ziff Management Europe Ltd v. Och Capital LLP [2011] E.T.M.R. 1
 Parfums Christian Dior SA and Another v. Evora BV (C-337/95) [1998] E.T.M.R. 26
 Philips Electronics NV v. Remington Consumer Products Ltd (C-299/99) [2002] E.T.M.R. 81
 Portakabin Ltd and Portakabin BV v. Primakabin BV (C-558/08) [2010] E.T.M.R. 52
 Sunday Times v. United Kingdom (1992) 14 E.H.R.R. 229
 The Church of Scientology and Another v. Sweden (1979) E.C.C. 511
 UDV North America Inc. v. Brandtraders NV (C-62/08) [2010] E.T.M.R. 25
 Van Zuylen Freres v. Hag A.G. (C-192/73) [1974] 2 C.M.L.R. 127
 Vgt Verein gegen Tierfabriken v. Switzerland (2002) 34 E.H.R.R. 4
 Viking Gas A/S v. Kosan Gas A/S (C-46/10) [2011] E.T.M.R. 58

Korean Cases

Judgment of 17 September 1970, Supreme Court, 70 Hu 16
Judgment of 25 September 1984, Supreme Court, 83 Hu 65
Judgment of 12 February 1991, Supreme Court, 90 Hu 1376
Judgment of 26 June 1992, Constitutional Court, 90 Heon-Ga 23
Judgment of 30 July 1996, Supreme Court, 95 Hu 1821
Judgment of 14 February 1997, Supreme Court, 96 Do 1424
Judgment of 11 July 1997, Supreme Court, 96 Hu 2173
Judgment of 13 February 1998, Supreme Court, 97 Hu 938
Judgment of 27 February 1998, Constitutional Court, 96 Heon-Ba 2
Judgment of 24 June 1999, Constitutional Court, 97 Heon-Ma 265
Judgment of 23 November 1999, Supreme Court, 97 Hu 2842
Judgment of 30 March 2000, Constitutional Court, 97 Heon-Ma 108
Judgment of 30 March 2000, Constitutional Court, 99 Heon-Ma 143
Judgment of 21 April 2000, Supreme Court, 97 Hu 860, 877, 884
Judgment of 26 December 2000, Supreme Court, 98 Do 2743
Judgment of 24 September 2002, Supreme Court, 99 Da 42322
Judgment of 18 October 2002, Seoul District Court, 2001 Ga Hab 35469
Judgment of 18 December 2002, Constitutional Court, 2000 Heon-Ma 764
Judgment of 11 April 2003, Supreme Court, 2002 Do 3445
Judgment of 13 June 2003, Supreme Court, 2001 Da 79068
Judgment of 25 July 2003, Patent Court, 2003 Heo 1109
Decision of 7 August 2003, Seoul District Court, 2003 Ka Hab 1488
Judgment of 28 October 2004, Supreme Court, 2003 Hu 2027
Judgment of 7 October 2005, Supreme Court, 2004 Hu 1458
Judgment of 27 October 2005, Constitutional Court, 2003 Heon-Ga 3
Judgment of 14 April 2006, Supreme Court, 2004 Hu 2246
Judgment of 16 June 2006, Supreme Court, 2004 Hu 3225
Judgment of 25 January 2007, Supreme Court, 2005 Da 67223
Judgment of 22 February 2007, Supreme Court, 2005 Da 39099
Judgment of 13 April 2007, Patent Court, 2006 Heo 9555
Judgment of 12 October 2007, Supreme Court, 2007 Da 31174
Judgment of 24 July 2008, Supreme Court, 2006 Da 40461, 40478
Decision of 23 September 2008, Seoul High Court, 2008 Ra 618
Judgment of 25 September 2008, Supreme Court, 2006 Da 51577
Judgment of 14 May 2009, Supreme Court, 2009 Hu 665
Judgment of 28 May 2009, Constitutional Court, 2006 Heon-Ba 109
Judgment of 23 July 2009, Supreme Court, 2009 Do 310
Judgment of 15 October 2009, Supreme Court, 2009 Do 3929
Judgment of 22 October 2009, Seoul High Court, 2009 No 300
Judgment of 29 July 2010, Constitutional Court, 2006 Heon-Ba 75
Decision of 25 August 2010, Supreme Court, 2008 Ma 1541
Judgment of 15 September 2010, Patent Court, 2010 Heo 3271
Judgment of 30 September 2010, Supreme Court, 2009 Do 12238
Judgment of 25 August 2011, Supreme Court, 2010 Do 7088
Judgment of 29 March 2012, Supreme Court, 2010 Da 20044
Judgment of 24 May 2012, Supreme Court, 2010 Hu 3073
Judgment of 23 August 2012, Constitutional Court, 2010 Heon-Ma 47, 2010 Heon-Ma 252

Online Sources

- — AdWords Trademark Policy <https://support.google.com/adwordspolicy/answer/61118?hl=en&ref_topic=16316> accessed 5 December 2013
- — Editorial FAQs <<http://advertising.microsoft.com/small-business/support-center/search-advertising/editorial-faq>> accessed 14 July 2012
- — Guidelines for advertising text (Korean) <http://searchad.naver.com/AIIS20/AIIS2004_A01.nbp> accessed 5 December 2013
- — Help for trademark owners <<https://support.google.com/adwordspolicy/answer/2562124>>

- accessed 5 December 2013
- — Intellectual Property Guidelines <<http://advertise.bingads.microsoft.com/en-us/editorial-intellectual-property-guidelines>> accessed 5 December 2013
 - — OECD Broadband Statistics Update <<http://www.oecd.org/sti/broadband/broadband-statistics-update.htm>> accessed 2 August 2013
 - — Update to Canadian, UK and Ireland ad text trademark policy <<http://adwords.blogspot.co.uk/2010/08/update-to-canadian-uk-and-ireland-ad.html>> accessed 5 December 2013
 - — Updates to AdWords trademark policy <<https://support.google.com/adwordspolicy/answer/177578>> accessed 5 December 2013
 - — Website Registration Guidelines (Korean) <http://searchad.naver.com/AIIS20/AIIS2004_A01.nbp> accessed 5 December 2013
- Fallows D, Search Engine Users, Pew Internet & American Life Project, 17 (2005) <<http://www.pewinternet.org/Reports/2005/Search-Engine-Users.aspx>> accessed 23 February 2011