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Sale of Keywords: Trademark Violation, Unfair Competition or Proper E-Advertising?

A recent decision of the Landgericht (District Court) in Hamburg has raised the interest of the internet community: with its decision of February 16, 2000 the court ruled, *inter alia*, that the sale of keywords by search engines is a violation of section 1 of the German Act against Unfair Competition (*Gesetz gegen den unlauteren Wettbewerb*—"UWG").

The Facts

What was the background of this decision? The cosmetics manufacturer Estee Lauder Companies Inc., its international distribution affiliates and the authorised national distributor for Germany brought a lawsuit against Excite Inc., a company running search engines using the domains "www.excite.com" and "www.excite.de" and a U.S.-based cosmetics discounter offering cosmetic products on its homepages "www.fragrancecounter.com" and "www.cosmeticscounter.com" (now iBeauty). The cosmetics discounter also offered Estee Lauder products though it was not an authorised dealer. Excite had sold for its .com-internet search engine the keywords "Estee Lauder", "Clinique" and "Origins", all trade marks of Estee Lauder, to the virtual cosmetics discounter for its banner ads. The effect was that whenever a user entered the keywords into the internet search engine www.excite.com banner ads of the discounter popped up on the screen while the engine was still searching the net for matches. The trade marks were also used within the banner ads in such a way that the brands were connected with the domain Clinique@fragrancecounter. These banner ads were hyperlinks which would connect the user directly with the homepages of the discounter when the user clicked on the ads.

The Court Ruling

The court prohibited Excite and the discounter from causing any of the discounter's banner advertisements to be triggered by the sold keywords on the excite.com website and the discounter from using the protected trade marks of Estee Lauder within the banner ads.

Furthermore, the court held that both Excite and the discounter were liable for any damage caused by the infringements. The court also permanently halted the discounter from shipping the named Estee Lauder products into Germany if they had been brought into circulation in the United States for the first time, and ordered that the discounter had to reveal its turnover and profits from such products in Germany to Estee Lauder. The respondents had to bear the costs of the proceedings, including the claimants' legal fees.

The respondents have filed an appeal against the decision to the Hanseatisches Oberlandesgericht (Court of Appeal Hamburg).

The Legal Background

The German court considered itself competent although the keyword feature was only available on the excite.com website which is designed in English and was not available on the excite.de website which is designed in the German language. According to the German Civil Procedure Code (§ 32) and to the Act against Unfair Competition (§ 24) the court where the infringement of the protected right took place is competent. The respondents had argued that it was just a technical side effect of the internet that the excite.com website was also available in Germany and that it was not designed to address consumers in Germany. However, the claimants proved that the discounter had sold cosmetics to customers in Hamburg who had ordered the goods on the .com website and delivered the goods to customers in Hamburg. Therefore the court held that the discounter performed at least one element of the infringement within its district, which is sufficient. With regard to Excite, the court held that all internet search engines are designed to address the general public worldwide, irrespective of the language used or the top-level domain chosen.

In so far as the ruling itself is concerned only with the use of the trade marks by the discounter within the banner ads the court based its decision on trade mark law (§ 14 (2) (1) of the German Trade Mark Act—*Markengesetz*). The discounter had denied trade mark infringement because the brands were only used in connection with the @ symbol as a hint that these products were available from its virtual cosmetics shops. Still the judges ruled that the discounter was using the brand names like a trade mark without consent, creating the false impression that it belonged to the exclusive distribution system of the claimants.

As far as the other claims are concerned the court based its decision on § 1 of the Act against Unfair Competition, which says: "Any person who, in course of business activity for purposes of competition, commits acts contrary to honest practices, may be enjoined from these acts and held for damages."

Extensive case law results from this general rule, one of which is improper exploitation of the reputation of a competitor.¹ The Hamburg court considered the use of the trade marks of Estee Lauder as keywords for the banner ads of the discounter as such an improper

exploitation of reputation. The court recognised the well-known character of the trade marks in dispute. Because of the claimants investment in advertising and marketing, internet users know the brand names and connect a certain image of exclusivity and quality with these products. When such potential customers of the claimants enter the famous brand names into the excite.com search engine they are systematically lead to the virtual cosmetics shop of the discounter, which is not an authorised dealer. Moreover, those customers are offered other cosmetic products so that the discounter and the manufacturers of these cosmetics benefit from the investment the claimants have made in promoting their products and their reputation. It is even more convenient for the user just to click on the banner ad as a hyperlink to the homepage of the discounter than to wait for the result of its search which takes longer and often results in a number of unclear hits. The court pointed out as crucial that it was only possible for the discounter to receive such attention by potential customers by way of agreeing the brand names of Estee Lauder as keywords with Excite. Any other form of internet advertising, such as general rotation or channel rotation of banner ads would not lead to the same channel effect at the expense of Estee Lauder, its authorised distributors and dealers.

Although the trade marks obviously play a key role in this reasoning the court did not base its decision on trade mark law on this point. It discussed a claim according to § 14 (1) (1) of the German Trade Mark Act in this respect as well. However, because the keywords are not visibly used by the discounter the court tended to deny trade mark infringement in this respect. It is a principle in German trade mark law that the main character of a trade mark is to guarantee a certain manufacturer. Where the trade mark is not visibly used the user cannot be misled about the manufacturer. The keyword purchase by the discounter from Excite only exploited the famous character of the trade marks. This would only affect trade mark rights if they also protected the advertising value of a trade mark. However, other than some voices in the German legal literature,² the District Court, Hamburg followed the well established opinion that trade mark rights do not protect the advertising value of a trade mark. Therefore the court referred to unfair competition law.

With regard to Excite, the court ruled that the sale of the keywords is an infringement of honest practices according to § 1 of the Act against Unfair Competition on its own. The search engine is not only taking part in the infringement of the advertising company but exploiting the reputation and advertising value of the brand names of the claimants for its own purposes. With the "sale" of the claimants' brand names Excite is assuming the advertising rights in these names which are protected by the Act against Unfair Competition. Because of its channelling effect keyword purchases are much more valuable than other forms of e-advertising, such as general rotation or channel rotation. This additional value is only based on the improper exploitation of the reputation of the claimants trademarks.

¹ See e.g. Federal Supreme Court [1982] B.G.H.Z. 86, 90 at 95, *Rolls Royce*.

² See e.g. Fezer, *Markenrecht* (2nd ed., 1999) (Commentary on Trade Mark Law), § 14, margin notes 39, 48 *et seq.*

Comments

Though this is "only" a decision in the first instance with an appeal pending, the ruling of the District Court Hamburg is remarkable for several reasons.

As the parties have mentioned in the proceedings two similar cases are pending in France (Tribunal de Grande Instance de Paris) and the United States (U.S. District Court, Southern District of New York). The decision from Hamburg seems to be the first which had to deal with the issue of keyword purchases. The claimants could have chosen any district court in Germany as the respective homepages are available throughout Germany on any internet connected computer. Because of Hamburg's reputation as the media and especially new media capital of Germany, the District Court, Hamburg has extensive experience with media and internet issues. The decision has been handed down by a chamber of the court (15th Chamber) which again specialises in trade mark and unfair competition law. Therefore the decision carries more weight than one from any other district court in Germany.

There is no doubt that the Court of Appeal will confirm the competence of the Hamburg courts for this issue and the application of German law on the basis that the discounter has sold and delivered products to Hamburg. It will be interesting to see whether the Court of Appeal will develop another approach to the trade mark issue, as in this respect the decision of the District Court is rather conservative, albeit, as already pointed out, based on well established principles. In any case the result in this case would be the same: the sale and use of well known trade marks as keywords would be prohibited. A difference would be apparent in cases of not so well known trade marks, as in these cases the "exploitation of reputation" case law would not be applicable.

Another astonishing fact is that the court has not specifically mentioned the liability rules of the German internet service regulations, such as the Tele Services Act (*Teledienstegesetz*) and the Media Services State Treaty (*Mediendienstestaatsvertrag*). Both regulations provide for a limitation of liability for tele services and media services. Excite explicitly invoked these regulations with regard to the use of the trade marks within the banner ads. According to § 5(3) of the Media Services State Treaty and Tele Services Act a provider is not liable where it is only providing access to another party's content. However, this regulation is not applicable to banner ads provided by a search engine, as offering banner ads within ones own website is more than just providing access to such content. More applicable is § 5 (2) of the Media Services State Treaty and Tele Services Act, according to which a provider is responsible for the content of third parties which is "kept ready for use" if it has knowledge of this content and if it is technically possible and adequate to stop the use. Therefore, in the end, the application of these regulations would not have made any difference as Excite obviously had knowledge of the content of the banner ads sold to pop up on its own website and was easily able to stop these advertisements. Therefore, also according to these regulations, Excite was responsible

for any trade mark infringement committed within the banner ads.

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