

Google's Adwords® Program Sparks New Legal Challenges and Marketing Controversies



By E. Thomas Watson

Google Inc's controversial Adwords® program was the subject of several significant legal developments within the past month. Under the program, Google sells advertisements that appear on its search results page in the form of "sponsored links," along with regular search results, whenever a user types a word selected by the advertiser in the Google search bar. The controversial part of this program is that advertisers can select competitors' trademarks as keywords that trigger their own sponsored links.

Adwords® and its companion Keyword Suggestion Tool lie at the heart of Google's phenomenal ability to generate cash. It is the program through which advertisers purchase terms (keywords) that, when entered as a search term in the Google® search engine bar, trigger (depending on the placement algorithm purchased by the advertiser) the appearance of the advertiser's sponsored link ad. These sponsored link advertisements appear either in a yellow shaded area at the top or in the right-hand margin of the search results page and consist of a headline, a body of text and a hyperlink to the advertiser's website. As a result of the purchase, searchers who type a particular brand name into the Google® search window may find that the search returns not only references to the brand they searched on but also references to the brand's competitors in the form of "sponsored link" ads that contain links to the competitors' sites. If the searcher clicks on a link contained in such an ad, he will be taken to the competitor's site, where he may be persuaded to buy the competitor's products instead of the brand he originally searched for.

Many trademark owners believe that valuable trade is lost when casual browsers visit the competitor's page instead of the brand owner's page and that the appearance of the sponsored link ad constitutes a form of trademark infringement.. The success of that argument in turn depends on whether this "use" is a "use" of a trademark "in commerce." This is a preliminary requirement that must be met before a court will even consider whether the use constitutes an infringement. Until now, the federal courts have been split on this issue, with those located in the influential Second Circuit of the U.S. Court of Appeals (New York, Connecticut and Vermont) holding that the keywords transaction was not a use in commerce for the purpose of determining trademark infringement, with courts outside the Second Circuit generally holding that it was. Finally, in early April, in an important decision called *Rescuecom Corp. v. Google Inc.*, a panel of the Second Circuit held that keyword purchases could constitute a use in commerce so as to support a claim of trademark infringement.

From time to time prominent companies such as American Airlines, GEICO and American Blinds & Wallpaper Factory Inc. have sued over the Adwords program, but usually have dropped the suit and allowed Google to continue the program. Those Google victories may now be in jeopardy as a result of the Second Circuit's holding in *Rescuecom*. In a strictly technical sense, the Second Circuit held only that the purchase of a competitor's trademark as keyword advertising *could* constitute the wrongful use of another's trademark in commerce. But the opinion contained much language that strongly suggested that the Adwords program indeed constitutes trademark infringement. Declaring that Congress' intent on this point was difficult to decipher from the words of the trademark act, the court invited Congress to clarify the matter. Unless Congress or the U.S. Supreme Court accepts the invitation, the legal tide is turning against Google's Adwords.

Taking quick advantage of this turn of events, on May 11, 2009, a small Texas company named FPX filed a class action suit asserting trademark infringement against Google on behalf of itself and all trademark owners in the state. This is believed to be the first class action lawsuit filed against Google on this issue.

Although the arguments in *Rescuecom* and the earlier cases have been phrased in legal terms as to whether the Adwords program is a "use in commerce" under the federal trademark act, the practical problem lies in the fact that the sale of advertising by Google and the selection of a competitor's trademark as a keyword by an advertiser both take place out of the public eye. Until now, Google has not allowed the keyword trademark to appear to the searcher in the keyword advertisement's text. How then, Google and its advertisers have argued, can the public be confused by the advertiser's invisible selection of the competitor's trademark?

But now Google has decided that, in certain circumstances, it will allow the competitor's trademark to appear, fully visible, in the text of the sponsored link ad. On May 15, 2009, Google announced that it will soon begin to show ads that use the trademark of a third party in the *content* of the sponsored link ad, all without the knowledge or consent of the trademark owner. Google defends this policy by arguing that the change will result in ads that are more relevant to users, as it will allow, for example, an Internet shoe seller to identify the specific brands that it carries. The policy, as announced, seems to be legally defensible under the "fair use" doctrine, but it is bound to be unpopular with companies that want to control all uses of their brand on the Internet. Microsoft and Yahoo! have similar policies, although neither will sell trademarks as triggers for a competitor's ads.

Difficulties in deciding whether the sale of keyword advertising could constitute the use of a trademark in commerce and so potentially be a form of trademark infringement are not limited to the United States. The Austrian Supreme Court, the French Cour de Cassation and the German Federal Supreme Court all have referred this important trademark issue to the European Court of Justice for a decision under the European Trademarks Directive. The German referral was made just this past March, while the French and Austrian referrals have been pending for a year.

There are advantages and disadvantages to consumers and brand owners in Google's Adwords'® policies. Many commentators have argued that keyword advertising is in principle no different from paying a grocery store to place one's product next to a better-known brand, or having the store's coupon machine generate discount coupons for one's product when a consumer purchases that of a competitor. In some large companies, the product managers loudly object to the unauthorized use of their brand names, while down the hall the marketing department pays large sums to agencies that purchase keywords on the company's behalf. However the legal challenges eventually turn out, it is important for brand owners to realize that for now, their brands may be used, for a price, by almost anyone on the Internet.

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