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Territorial Trademark Rights in the Global Village - International Jurisdiction, Choice of Law and Substantive Law for Trademark Disputes on the Internet

Part Contents

- A. Introduction
 - B. Technical Reterritorialization of the Internet?
 - C. Case Law on International Trademark Disputes on the Internet
 - I. "SG2 v. Brokat"
 - II. "Playboy v. Chuckleberry"
 - III. "Bensusan v. King" D. International Jurisdiction for Tort Actions
 - I. Introduction
 - II. International Jurisdiction for Tort Actions Under German Code of Civil Procedure and Brussels Convention
 - 1. Legal Basis
 - 2. Case Law on Jurisdiction for Trademark Infringements in Internationally Disseminated Mass Media
 - III. International Jurisdiction for Trademark Disputes on the Internet
 - 1. Application of Traditional Principles
 - 2. Limitation of International Jurisdiction for Trademark Infringements on the Internet
 - E. Applicable Law for Trademark Infringements on the Internet F. Substantive Law
 - I. General Principles
 - II. Specific Problem of Use of Trademarks on the Internet
 - III. Approaches to Restrict Trademark Law in Trademark Disputes on the Internet
 - 1. Online Advertising on the Web
 - 2. Sales Activities
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- *** Part Two will appear in the next issue of IIC. For German-language version see 1999 GRUR Int. 659.

G. International Domain Name Conflicts

I. Legal Protection Before National Courts

II. Legal Protection Under "Administrative Dispute Resolution Policy" of "Final Report of the WIPO Internet Domain Name Process" H. Summary and Prospects

A. Introduction

The Internet has initiated a new stage in the internationalization of trade. With a minimum of financial and logistical expenditure, any company is able to advertise its goods and services worldwide and, if such are capable of digitization, to transmit them directly to purchasers via worldwide computer networks.¹

The advertising and sales activities that can be achieved worldwide by means of the new communications technology represent a significant potential for the expansion of a company's business activities, but also involve considerable legal risks. Hitherto, the most frequent cause of legal disputes on the Internet has been the infringement of trademark rights. A company that uses the Internet as a communications and trading platform must expect to be cited before a distant forum for an infringement of foreign trademark rights as a result of the use of a trademark or domain name on its website. Given the territoriality principle acknowledged in all legal systems, and the resulting possibility that one and the same trademark can be protected for different holders in different countries, the use of a sign on the Internet can result in disputes even though the marks have hitherto coexisted without dispute, because their use in general business activity has been restricted to a domestic market.

This article examines the legal questions of personal jurisdiction, conflict of laws and the substantive law applicable to trademark disputes that result from the cross-border effects of the Internet.²

The first section will examine whether the legal problems caused by the lack of borders on the Internet can be dealt with by a "technical re-territorialization of the Internet." It will become apparent that such a solution is impractical both for economic and technical reasons, and that the

1 According to a study by Forester Research, the market potential for inter-entrepreneurial trade is expected to grow to \$66 billion by the year 2000, while Internet sales to final customers are expected to reach the \$7 billion mark.

2 In the meantime the Standing Committee on the Law of Trademarks, Industrial Designs and Geographical Indications has published a Study concerning the Use of Trademarks on the Internet, which discusses some of the questions dealt with in this article. The study (SCT/2/9) and a Summary of the Study and Principles for Discussion (SCT/2/10) are available on the Internet under http://www.wipo.int/eng/document/sct/index_2b.htm.

answers to the legal questions must be provided by the legal system itself. The second section contains, as the basis for a discussion of the legal questions at issue, a brief overview of existing case law on international trademark disputes on the Internet. The decisions are intended to serve as a means of revealing the typical factual constellations that lie behind the disputes, and to develop initial regulatory approaches to the legal questions that need to be solved. The third section will first try to apply the conventional principles for determining personal jurisdiction in the case of cross-border advertising to the use of trademarks on the Internet, and then examine the possibility of restricting the place of infringement with respect to jurisdiction law. It will become apparent that on the one hand the rigid German examination of jurisdiction allows little scope for differentiated solutions to international jurisdiction for trademark infringements, while on the other hand a restriction of international jurisdiction can only be reasonably applied if clarification is reached concerning the substantive legal questions raised by the use of trademarks on the Internet.

The fourth section presents the conflict-of-law problems, followed in the fifth section by a discussion of the possible answers to the substantive-law questions, with special treatment of the domain issues in the sixth section. It will be shown that the traditional instruments of trademark law and its underlying principle of exclusive rights are only capable to a limited extent of achieving reasonable results in trademark disputes on the Internet, and should therefore be modified by restrictive criteria.

B. Technical Reterritorialization of the Internet?

Regularly, when the law is challenged by new technical developments, the question arises whether the same technology causing the problems can also provide the means for their solution.

In the same way the legal problems caused by the global nature of the Internet could be solved most easily if the global effects of the Internet could be restricted to national borders in the event of a dispute. The infringer of a trademark right would be obliged to subdivide his sales and advertising activities on a territorial basis, and in particular set up the website in such a way that it could no longer be accessed by users from the country in whose territory accessibility would lead to an infringement of trademark rights.

However, it is largely agreed that a technical reterritorialization of the Internet according to national borders is quite impossible on the basis of the existing network infrastructure.³ Although it is technically possible to

³ The authors would like to thank Prof. Gerhard Schneider of the Society of Academic Data Processing for valuable information on the technical aspects.

block access to websites for certain computers by identifying their IP addresses or domain names with special blocking lists on the accessed webserver,⁴ there is at present no database listing the physical locations of all individual computers connected to the Internet. Since the operation of the Internet does not require such a database at all, which could anyway only be set up with considerable financial expenditure and could never be complete, it is unlikely that such a database would ever be created. Even if such a database existed, it would not reveal whether the user who is accessing a Webserver from a particular computer is really located at the computer, or whether he has logged in from somewhere else in the world.⁵

On the one hand, there are the large local networks of, for instance, international companies or supraregional access providers (*e.g.*, AOL, CompuServe) that extend beyond national borders but whose computers are all operated under the same IP address. In this case, it is *a priori* impossible to determine where the computer accessing a Webserver is located. At the same time proxy servers can be used to access the information of a Webserver even if direct access to the Webserver were blocked for a particular computer.⁶

Moreover, it should also be noted that while Internet technology currently plays a central role within global communications systems, even today it does not represent the only global communications platform. As the "*EU Green Paper on the Convergence of the Fields of Telecommunications, Media and Information Technology and their Regulation Policy Effects*"⁷ clearly shows, digital technology will permit additional communication and information services whose very nature is global, which will merge with each other both in terms of the transmission methods used (terrestrial frequencies, cable networks, satellite) and in terms of the end devices necessary for their use (telephone, television, PC). Legal systems will not be able to avoid dealing with the legal consequences resulting from the global nature of communications technology. There can hardly be any doubt that in certain areas of the law it will be necessary to make (occasionally considerable) amendments to the legal principles based on the borders of nation states. The subject of the following con-

4 Thus it is possible to specify exactly on any http server which computer is allowed to call up a page. The access restriction can apply to individual computers or to entire ranges of IP numbers or domains.

5 *E.g.*, by means of the Telnet terminal emulation protocol.

6 In order to reduce the load on network resources and to save users long waiting times when calling up Internet information, practically all Internet access providers use such proxy servers, which act as intermediate memory by retaining pages already called up from the Internet in their local working memory (known as the cache).

7 COM (97) 623 final dated December 3, 1997; the Green Paper can be accessed on the website <http://www.ispo.cec.be/convergencegp/>.

tribution is to show that trademark law will also not be able to avoid making adjustments to global communications technology.

C. *Case Law on International Trademark Disputes on the Internet*

Before we address the principles applicable to international jurisdiction, conflict of law and substantive law in trademark disputes, it is necessary to cast a brief glance at the decisions on international trademark disputes on the Internet. While the problem has already been given considerable attention in academic literature, case law is still very thin on the ground.⁸ Three decisions in existing cases are presented below, which appear capable of revealing the essential constellations of facts and illustrating the legal issues concerning trademark protection that result from the global nature of the Internet.

I. "SG 2 v. Brokat"⁹

One of the few genuinely international cases of a trademark dispute, in which objection was raised not to the use of a domain name but of a trademark on a web-page, was submitted to the Nanterre Court of Appeals for decision. SG 2, a French software enterprise, had requested the Nanterre court to issue a preliminary injunction against Brokat, a German company located in Stuttgart, forbidding the latter from continuing to use the term "payline," a German trademark registered in its name for the Internet payment system "Brokat-payline" that it sold on the Internet under the web address "*brokat.de*". The French company had previously registered "payline" as a trademark in France for the same services.¹⁰ In addition it was found that the German company had not yet sold its products on the French market and did not intend to do so in the future, since otherwise it would have infringed French national cryptography regulations.

⁸ Numerous decisions on interregional trademark conflicts on the Internet have, on the other hand, been issued by US courts; *cf.* on this point, and on the general principles of US international jurisdiction law, BETTINGER, 1998 GRUR Int. 660 *et seq.*; KOCH, 1999 CR 125; PICHLER, in HOEREN & SIEBER (eds.), "Handbuch Multimediarecht" 81, Part 31 (Munich 1999).

⁹ Nanterre Court of Appeals, October 13, 1996 - *SG 2 v. Brokat Informationssysteme GmbH*.

¹⁰ In addition, the French company had also registered the sign as a Community trademark, but only after the filing date of Brokat's German application, and without the possibility of claiming priority from the earlier French application filed before the German application. As a result, the Community trademark application could thus no longer affect the defendant's German trademark rights.

The defendant contested the French court's international jurisdiction with respect to the requested prohibition on use with worldwide effect, which the defendant argued could at best be issued by a German court, and for the rest relied on its German trademark rights, which were equivalent to the plaintiffs French trademark rights.

However, the Nanterre court issued the injunction requested. It justified its international jurisdiction on the grounds that the defendant's website could be accessed worldwide and hence there had also been a place of infringement on French territory (Art. 5, No. 3, of the Brussels Convention on Jurisdiction and Enforcement of Judgments in Civil and Commercial Matters). With respect to the worldwide effect of the prohibition issued, it held that a French court, if it enjoyed jurisdiction as the court of the place of infringement, must be able to impose the sanctions provided by French trademark law, since otherwise a trademark would no longer be protected on its territory. Consequently, the German enterprise was obliged to cease the use of the trademark "payline" in France in any form and hence also, and in particular, on the Internet.

II. "Playboy v. Chuckleberry"¹¹

The decision of the District Court for the Southern District of New York, in a similar constellation of facts in 1996, was somewhat more cautious and took greater account of the international nature of the facts of the case. The plaintiff was Playboy Enterprises Inc., the publisher of the world-famous Playboy magazine. The defendant was the publisher of the Italian men's magazine Playmen, which had set up a home page on an Italian Internet server, using the trademark "Playmen." Access was available to the title page of the Italian magazine and also to photos, which, depending on how candid they were, were available free of charge under the name "Playmen-Lite" or against payment under the name "Playmen-Pro." Playboy Inc. argued that the defendant's online service infringed an injunction imposed in 1981 prohibiting the defendant from distributing and selling the Playmen magazine in the USA on the grounds of an infringement of the American "Playboy" trademark. According to the plaintiff, the defendant was obliged to improve the password issuing procedure, which already applied to the "Playmen-Pro" version, by means of a credit card check that would filter out users from the United States. At the same time, the defendant should also prevent access by US citizens to the "Playmen-Lite" version. This could, for instance, be done by issuing free passwords for the "Playmen-Lite" version after verification of the user IDs, again so as to prevent access by US citizens. The fact that the "Lite" version was fundamentally to be treated in the same way as the "Playmen-Pro" version resulted from the fact that the

¹¹ *Playboy Enterprises v. Chuckleberry Publishing Inc.*, 39 USPQ 2d 1746 (S.D.N.Y. 1996).

"Playmen-Lite" version was already the product itself and no longer mere advertising.

However, with respect to the use of the trademark "Playmen" by the defendant on the home page for its Italian services, a use forbidden in the USA, the court held that nobody should be prevented from setting up a website under a particular name merely because this website is also accessible from a country in which the sale of the products advertised on the website is forbidden as a result of an infringement of national trademark law.

III. "Bensusan v. King"¹²

The decision in *Bensusan v. King* was based on an interregional constellation of facts, but one which is also conceivable as a genuinely international dispute. The cause of the dispute was the use of a company logo on the home page of a website. Richard King, operator of a jazz bar under the name "Blue Note" in Columbia, Missouri, had set up a web-page on the Internet including the term "Blue Note" on the home page. Bensusan Restaurant Corp., the operator of jazz bars in New York and other cities under the same name, relying on its registered trademark for the name "Blue Note," filed an action for infringement of trademark and unfair competition law against King before the New York District Court.

The court held that the conditions for its jurisdiction according to the New York "long-arm statute"¹³ were not met. It was true that for a tort in the form of a trademark infringement it was sufficient that only a single product infringing the plaintiffs trademark rights was offered on the New York market. However, this condition was not satisfied by the mere accessibility of a web-page stating a telephone number. The fact that a person could access information about services allegedly infringing a trademark on the Internet was not to be equated with advertising, sales or other activities for placing one's own products on the New York market.

¹² *Bensusan Restaurant Corp. v. King*, 937 F.Supp. 259, 299 (S.D.N.Y. September 9, 1996): the decision has now been confirmed on appeal (United States Court of Appeals No. 1383, Docket No. 96-9344, September 10, 1997).

¹³ The corresponding provision of Sec. 302(a) of the Civil Practice Law and Rules ("CPLR") allows jurisdiction in the following cases: Sec. 302 (a)(1) addressing the transaction of business in New York; Sec. 302 (a)(3) governing the commission of a tortious act outside New York causing injury in New York where the defendant either (1) regularly transacts business or "derives substantial revenue from goods or consumed services rendered in the state" or (2) expects his act "to have consequences in the state and derives substantial revenue from interstate or international commerce;" *cf.* also the report on recent decisions of US courts on interregional and international jurisdiction for trademark infringements on the Internet, in BETTINGER, 1998 GRUR Int. 660 *et seq.*

Moreover, even if the conditions of the procedural-law regulations were deemed to be met, it would infringe the constitutional principle of "due process" if jurisdiction was enjoyed in New York, since King, like many others, had merely made available a website for access on the Internet. Even if, for technical reasons, this had effects at federal or even international level, and such effects were predictable for King, he did not thereby deliberately make use of the advantage of carrying out business activities on the New York market.

D. International Jurisdiction for Tort Actions **I. Introduction**

If the use of a trademark on a website leads to a dispute between parties from different countries, the first question that arises is which national courts are competent to hear the infringement claim and have jurisdiction as to the substance of the matter. The answer to this question is provided by the national rules for the international jurisdiction of domestic courts. In German law, subject to higher ranking international treaties,¹⁴ such as the Brussels Convention,¹⁵ the provisions of the Code of Civil Procedure concerning local jurisdiction apply. This means that the German courts enjoy international jurisdiction if in the specific case a German court enjoys local jurisdiction pursuant to Sec. 12 *et seq.* of the Code of Civil Procedure in a purely national case (known as the "double functionality" of the rules for local jurisdiction).¹⁶ Since, in international trademark disputes relating to the Internet, the potential infringer usually has neither a registered office, a branch nor assets in Germany, international jurisdiction can only be established by the special jurisdiction for tort claims (Sec. 32 of the Code of Civil Procedure and Art. 5, No. 3, of the Brussels Convention).

However, the attempt to determine the scope of the special jurisdiction for tort claims based on national trademark rights on the global Internet raises considerable difficulties. If the technical possibility of accessing a website from Germany is to be regarded as a sufficient basis to establish

14 *See also* the Preliminary Draft Convention on Jurisdiction and the Effects of Judgments in Civil and Commercial Matters of the Hague Conference on Private International Law from June 18, 1999, available under <ftp://hcch.net/doc/241e.rtf>, which was provisionally approved by the Special Committee on November 12, 1999.

15 European Convention on Jurisdiction and the Enforcement of Foreign Judgments dated September 27, 1968, 1972 BGBI. II, 774, as amended by the Third Accession Convention dated May 26, 1989, 1994 BGBI. II, 518. The Fourth Accession Convention dated November 29, 1996, regulating the accession of Austria, Finland and Sweden, entered into effect for Germany on January 1, 1999, 1999 BGBI. II, 634.

16 General opinion, 94 BGHZ 156, 157 with further references; 115 BGHZ 90, 91; GEIMER, "Internationales Zivilprozeßrecht," point 943.

jurisdiction over foreign parties on grounds of a domestic act of infringement, foreign companies would always have to appear before German courts if the owner of a German trademark felt his rights were being impaired by the defendant's Internet activity. Particularly in cases where the defendant's business activity is restricted to a special region without any risk of an expansion abroad, such as in the jazz club case (*Bensusan v. King*), it seems to appear obvious that the scope of personal jurisdiction for tort actions should be limited in such a way that the defendant would not have to appear at all before the German courts in order to defend himself against an a priori futile claim.

Consequently, an increasing number of voices in legal literature is demanding a limitation of international German jurisdiction based on place of infringement for Internet disputes concerning the infringement of domestic trademark rights. Whereas some favor flexible jurisdictional rules that would leave open the possibility of denying jurisdiction in an individual case,¹⁷ the majority proposes to distinguish between websites "purposely directed (also) to Germany" and websites which are accessible in Germany only by reason of the technical nature of the Internet.¹⁸

II. International Jurisdiction for Tort Actions Under Code of Civil Procedure and Brussels Convention

1. Legal Basis

International personal jurisdiction for tort claims pursuant to Sec. 32 of the Code of Civil Procedure presupposes a "place of infringement" within German territory, whereby "place of infringement" is to be understood both as the place where the act causing the harm was committed and the place where the result occurred (principle of ubiquity).¹⁹ If these places are located in different countries, the injured party is given a choice of forum for the recovery of the entire damages from the multinational act of infringement.²⁰ However, due to their territorial nature, infringements of trademark rights show a difference in treatment to general tort actions.

¹⁷ Thus in particular KUNER, 1996 CR 453, 458.

¹⁸ Generally: KOCH, 1999 CR 121, 129; PICHLER, in HOEREN & SIEBER, "Handbuch Multi-media-Recht," points 137,157 (1999); specifically for trademark law: UBBER 1997 WRP 497, 502; WEGNER, 1998 CR 676, 680; KUR, in LOEWENHEIM & KOCH, "Praxis des Online-Rechts" 97 (1999); for competition law: BACHMANN, 1998 IPRax 179, 185 *et seq.*; PICHLER, *op.cit.*, point 143.

¹⁹ Federal Supreme Court decisions, 1980 NJW 1224, 1225; 1990 NJW 1533: SCHACK, "Internationales Zivilverfahrensrecht," point 293. The more or less accidental place where the damage occurs plays no role, *cf.* SCHACK, "Internationales Zivilverfahrensrecht," point 304.

²⁰ Reich Supreme Court, 1936 JW 1291; GEIMER, "Internationales ZivilprozeBrecht," point 1500.

According to this principle of territoriality, the exclusive rights of a trademark as a national monopoly end at the borders of the national territory in question, so that also, by definition, the infringement of a trademark right can only take place in the country granting the right.²¹ Infringing acts taking place in Germany can thus not infringe foreign trademark rights, and vice versa. This means in effect that German international jurisdiction based on the place of an infringement of a trademark right only exists for actions relating to German trademarks.²² Therefore the jurisdiction for torts pursuant to Sec. 32 of the Code of Civil Procedure is restricted to actions based on German trademark rights.²³

If the defendant is domiciled or has a registered office in a Contracting State of the Brussels Convention, Sec. 32 of the Code of Civil Procedure is superseded by Art. 5, No. 3, of the Brussels Convention.²⁴ According to this provision, actions based on torts, including infringements of intellectual property rights,²⁵ can be filed before the courts at the place "*where the harmful event occurred*." The European Court of Justice construes this expression broadly to mean both the place of the action causing the harm and the place of its result, and allows the injured party a choice between

21 Federal Supreme Court, 1964 GRUR 372, 375 - *Maja*; Mannheim District Court, 1968 GRUR Int. 236 - *Tannenzeichen*; the application of the territoriality principle was not regarded as self-evident from the very start. For Germany, it was established by the Reich Supreme Court in the Hengstenberg decision *Springendes Pferd* in 1927, 118 RGZ 76, in which the previous theory of the universal scope of German trademarks was abandoned.

22 The Federal Supreme Court's assumption in the *Zeiss* decision, 1958 GRUR 189, 197, that in the case of transit across the territory of Germany there can be a domestic place of infringement pursuant to Sec. 32 of the Code of Civil Procedure on the ground of a pending infringement of foreign trademark rights, is hardly compatible with the territoriality principle. Transit merely represents a preparatory action for an infringement of a foreign trademark abroad that begins when the border is actually crossed, but itself is not an infringement of the foreign trademark right. It is also remarkable that, in the case to be decided, the Federal Supreme Court in the result refused jurisdiction based on the place of infringement with respect to a possible infringement of foreign trademarks resulting from transit across German territory, though it based this finding on the lack of local jurisdiction of the court invoked.

23 See, for the comparable issue under Art. 5, No. 3, of the Brussels Convention, STAUDER, 1976 GRUR Int. 465, 474; KIENINGER, 1998 GRUR Int. 280, 282.

24 The Convention is binding within its scope of application and displaces national jurisdiction laws. For the accelerated summary proceedings important in trademark law, national jurisdiction regulations continue to apply alongside those of the Convention pursuant to Art. 24 of the Convention, see ECJ, 1999 EuZW 421, 424.

25 This follows by *argumentum e contrario* from Art. 16, No. 4, of the Brussels Convention, which only provides for the exclusive jurisdiction of the granting state for nullity actions. Cf. THOMAS & PUTZO, "Zivilprozeßordnung," point 10, Art. 5 Brussels Convention; STAUDER, 1976 GRUR Int. 465; KIENINGER, 1998 GRUR Int. 280, 282.

these two jurisdictions.²⁶ But again the territorial restriction of national trademark rights modifies, like in German domestic law, the place of infringement in a specific way such that the jurisdiction for tort actions according to Art. 5, No. 3, of the Brussels Convention also coincides with the state granting the trademark right, and Art. 5, No. 3, of the Convention allows jurisdiction only for actions based on domestic but not on foreign trademark rights.²⁷

On the other hand it has never been regarded as a problem of jurisdiction that a possible injunction, which is solely based on domestic competition law or domestic intellectual property rights, shows extraterritorial effects. The level of examination of a claim, where an extraterritorial effect of a possible injunction became relevant, was the level of substantive law. This means that the extraterritorial effect could lead to the result that the infringement of the national trademark or national competition law was permitted by way of exception due to the special circumstances of the case, but it could not exclude the plaintiffs action from jurisdiction of domestic courts.²⁸

Thus jurisdiction pursuant to Sec. 32 of the Code of Civil Procedure and Art. 5, No. 3, of the Brussels Convention run largely parallel for actions relating to infringement of trademark rights,²⁹ and the following considerations on the determination of a domestic place of infringement in the case of trademark disputes on the Internet apply equally to both provisions.

2. Case Law on Jurisdiction for Trademark Infringements in Internationally Disseminated Mass Media

The case law on international jurisdiction for actions based on German trademark rights directed against the use of trademarks in internationally distributed press media is extremely sparse. There have been no decisions by the Supreme Court, and the only decision issued on this problem to

26 ECJ, 1977 NJW 493 - *Bier v. Mines de Potasse d'Alsace S.A.* The place of damage is only understood to be the place at which the first damage was incurred, but not the place of further consequential damage. Cf. ECJ, 1997 IPRax 331 - *Marinari v. Lloyds Bank*.

27 STAUDER, 1976 GRUR Int. 465, 474, 477.

28 Cf. Federal Supreme Court, 1971 GRUR 153 - *Tampax*; Mannheim District Court, 1968 GRUR Int. 236 - *Tannenzeichen*, both discussed below.

29 In particular, the restrictive construction of Art. 5, No. 3, of the Convention for the dissemination of defamatory press articles in press organs distributed internationally resulting from the decision in *Fiona Shevill v. Presse Alliance S.A.* (ECJ, 1995 NJW 1882) does not lead to a difference in the scope of the two jurisdictions for torts in the case of trademark disputes, since claims for infringements of trademarks are in any event restricted by the territoriality principle to damage in the specific country of protection.

date appears to be the *Tannenzeichen* decision of the Mannheim District Court in 1967.³⁰

In the *Tannenzeichen* case, a North American company had advertised its products, which were sold exclusively in the USA, in American magazines distributed worldwide using its American registered trademark showing a fir-tree symbol. A small number of the total edition was supplied - on subscription - to Germany. A German company that had registered the same fir-tree symbol for identical goods as a trademark in Germany regarded the use of the mark in the American company's advertisements as an infringement of its German trademark and brought an action for an injunction against the distribution of the advertisements in Germany. The district court upheld German jurisdiction pursuant to Sec. 32 of the Code of Civil Procedure, but it dismissed the action upon the merits as unfounded. It emphasized that the failure of the plaintiffs submissions to reveal an unlawful infringement of the trademark at issue was insufficient to deny the international jurisdiction of the court invoked and bar the action as improper. Although as a matter of principle the plaintiff must present conclusively the facts that give rise to international jurisdiction, this could not mean that, if the legal assessment of specific facts were disputed in a particular case, the plaintiff would have to argue the correct legal point of view that first has to be examined. Otherwise, it would be impossible to reach a finding with substantive legal effect that certain facts were *not* to be regarded as an infringement of the domestic trademark right. Thus, in order to establish international jurisdiction pursuant to Sec. 32 of the Code of Civil Procedure, it must be sufficient if the facts submitted by the plaintiff which, in its opinion, should constitute the tort, took place within the forum.³¹

The *Tampax* decision of the Federal Supreme Court, to which reference is repeatedly made when determining the scope of international jurisdiction for trademark disputes on the Internet, did not concern trademark-law issues but rather almost exclusively competition-law questions with respect to advertisements in cross-border press media.³² In this case, a British company had advertised in a German-language Swiss magazine for a product that was also available in Germany but was distributed there by a different company. A competitor of the German company filed an action for the cessation of the advertising on the grounds of an infringement of the German Act Against Unfair Competition. The Federal Supreme

30 1968 GRUR Int. 236.

31 In the case itself, the district court held that German trademark law was in any event applicable as a result of the distribution in Germany. See below, at F.

32 Federal Supreme Court, 1971 GRUR 153, with comment by DROSTE.

Court upheld the international jurisdiction of the German courts pursuant to Sec. 32 of the Code of Civil Procedure, since the magazines crossed the border in regular business activity and the cross-border effect of the advertising was thus predictable for the advertiser. The Court pointed out that there could only be no "distribution" of a magazine in Germany and hence no "trading in Germany" in cases in which "only occasionally an individual copy or several copies of a magazine crossed the border."³³

This decision is cited to conclude that the German courts only have international jurisdiction for advertisements in border-crossing press media if the advertisements were specifically addressed to the German market, *i.e.*, if Germany was part of the "intended area of distribution" of the advertising company. However, on closer examination, the *Tampax* decision does not contain such a precedent. According to the Federal Supreme Court, the target of the advertising was not at all decisive for the question whether there had been a place of distribution and hence a place of (potential) infringement in Germany. The sole decisive factor was the "regular" area of distribution of the medium. Only genuinely accidental and occasional border crossings should not suffice to establish jurisdiction in Germany, since such cases lack predictability and expectability for the advertiser. The *Tampax* decision therefore does not give reasons for a restrictive construction of the place of (potential) infringement for the purposes of jurisdiction law with respect to advertisements in media that are distributed across borders on a regular basis.

Leaving this aside, a restrictive construction of the jurisdiction-law place of infringement with respect to unfair competition - which was the sole issue in the *Tampax* decision - would not as a matter of principle be automatically transferable to trademark infringements. While in competition law the territorial relationship to a particular country is loosened at conflict-of-law level by taking as the point of reference the place of the competitive conflict of interests,³⁴ trademark law underlies the principle of territoriality reflected by the applicability of the law of the country of protection. The fundamentally exclusive character of a monopoly right hinders the denial of (international) jurisdiction if the facts that according to the plaintiff constitute the infringement of his trademark have taken place within the forum. Whether the facts are also sufficient to support the plaintiff's petition is not a question of the admissibility of the action but of its merits. In effect, thus, the place of (potential) infringement of trade

33 Thus already in the Supreme Court decision, 1936 GRUR 670 - *Primeros*; Cologne Court of Appeals, 1953 GRUR 396; Stuttgart Court of Appeals, 1954 GRUR 131.

34 Fundamentally Federal Supreme Court, 1962 GRUR 243 - *Kindersaugflaschen*. See also SCHRICKER, "Großkommentar. UWG," Introduction F 162,183 *et seq.*

marks within a cross-border mass medium is at least,³⁵ according to conventional opinion, the place at which this medium is regularly, and hence not merely accidentally, brought to the attention of third persons.

III. International Jurisdiction for Trademark Disputes on the Internet

1. Application of Traditional Principles

If the traditional principles to determine the specific jurisdiction for torts concerning trademark uses in international mass media are applied to the Internet, the question arises whether and to what extent the accessibility of websites from Germany can be compared with the "regular area of distribution" of traditional press media. From a technical point of view, it is by no means accidental that a website can be accessed by all computers connected to the Internet. Any company active on the Internet knows of this technically possible worldwide accessibility of its website. The only difference to conventional press products is that the information is not transported across the border to its addressees in tangible form, but is made available in digital form on a server to access and retrieve at any time. However, this technical difference in communication does not of itself justify a different legal treatment. In particular, it would appear rather pointless to deny any distribution at all at the places from which a website can be accessed.³⁶ Firstly, the technique that underlies the communications processes, namely that the individual user must "request" the data from servers located abroad, is not visible in the practical handling of the Internet. Secondly, the relation that is established by the "making available" of contents on the Internet to the places from where they can be accessed is, given the fact that the contents can be accessed at any time and repeatedly by the users, lasting and hence more intensive from a technical point of view than that established by the more or less ephemeral media such as newspapers, magazines, television or radio.

The technical possibility of accessing a website thus equals the regular, non-accidental dissemination of a press medium with the result that, upon application of traditional principles, in Germany, as (part of) the "regular and not merely accidental area of dissemination" of the Internet, the courts enjoy international jurisdiction for all litigation that concerns the infringement of German trademark rights by the use of trademarks on websites accessible from Germany.

35 Ingerl & Rohnke go even further and assume that infringement of the extended protection of famous trademarks pursuant to Sees. 14(2)(3) and 15(3) of the Trademark Act can without difficulty be committed by sending the publication to places that are not part of the "regular area of distribution," thus establishing jurisdiction (Sec. 104 Trademark Act, points 46 *et seq.*).

36 Criticism also expressed in BACHMANN, 1998 IPRax 179,185.

2. Limitation of International Jurisdiction for Trademark Disputes on the Internet

This "universal" German jurisdiction for potential infringements of German trademark rights through foreign websites should, according to the vast majority in the literature, be restricted.³⁷ The main reason given is the protection of foreign defendants against becoming involved in litigation before a distant forum simply on the grounds of the accessibility of their website. Reference is regularly made to the decisions of the US courts where personal jurisdiction according to the long-arm statutes has been denied in cases in which the defendants, as in the *Bensusan* case, had no contacts with the forum state beyond the mere accessibility of their website.³⁸

Yet the effort to restrict German jurisdiction based on the place of infringement for international trademark disputes on the Internet involving German trademarks is proving to be difficult in terms of its legal transformation and effective procedural enforcement. Unlike the American jurisdictional rules, which a priori are aimed at a flexible handling and permit a comprehensive consideration of all the facts of the individual case by the courts,³⁹ the German judges are allowed no opportunity to apply comparable considerations at the level of jurisdiction. According to German procedural law, the existence (or absence) of jurisdiction should be reliably predictable in advance by the parties, thus avoiding unproductive disputes about jurisdiction that would delay a decision in the case proper.

a) *Forum non conveniens*

One means of restricting German jurisdiction based on the place of infringement for disputes between German and foreign parties concerning the use of trademarks on the Internet would be to retain the traditional "universal" jurisdiction for tort actions with German trademarks involved, but to allow the courts the possibility of denying their jurisdiction in the individual case as improper.⁴⁰ This solution would reflect the Anglo-American doctrine of *forum non conveniens*, according to which the courts are not obliged to exercise an existing jurisdiction if in their opinion

³⁷ See the references in footnote 18.

³⁸ See for details BETTINGER, 1998 GRUR Int. 660, 662 *et seq.*, and KOCH, 1998 CR 121, 125 *et seq.*

³⁹ This goes as far as considerations such as that the court invoked was only two hours by car away from the defendant's registered office, see *Inset Systems Inc. v. Instruction Set Inc.*, 937 KSupp. 161 (D. Conn. 1996), discussed by BETTINGER, 1998 GRUR Int. 660, 663.

⁴⁰ This flexible solution is discussed by KUNER, 1996 CR 453, 457 *et seq.* In favor of a general approximation to US law, HARTWIEG, 1996 JZ 109.

the courts of a foreign country are significantly more suited to hear the dispute.⁴¹ However, the Internet, as a communication medium that can be used in principle by anyone, requires rules for handling a huge number of potential trademark disputes to ensure legal clarity and certainty. This need cannot be satisfied appropriately by the doctrine of *forum non conveniens*, which necessarily provides for a correction in the individual case due to particularly exceptional constellations. In addition, the essential precondition for the denial of jurisdiction *as forum non conveniens* - the existence of a clearly more suitable court abroad - is not met in the case of trademark disputes on the Internet. Foreign courts cannot be regarded as better suited for infringement litigation deriving from domestic trademarks, since the proximity of the facts and the evidence argues in favor of a legal venue in Germany; nor does it go without saying that foreign countries hear infringement cases based on foreign intellectual property rights.⁴²

b) Sufficient minimum contacts

The most frequent proposal in the literature is to subject German jurisdiction for tort actions concerning the infringement of German trademarks to the existence of certain, "sufficient" minimum contacts, which, in light of the global nature of the Internet, would not be established by the mere accessibility of a website from Germany.⁴³ Rather, the existence of German jurisdiction would depend on whether the use of the trademark on the website constituted "*domestic trade*"⁴⁴ or whether the website was (at least also) "*intentionally directed to the German market*."⁴⁵ This could, for instance, be assumed in the case of a website operated under a ".de" domain, but it would have to be denied if the operator clarified by the addition of disclaimers, such as "*no delivery of goods to Germany*," that his website was not intended to address Internet users located in Germany.⁴⁶

Leaving aside the difficulties of differentiation that such a criterion would involve, and the resulting uncertainty for the question of international

41 See SCHACK, "Internationales Zivilverfahrensrecht," points 494 *et seq.*

42 On the recent change in the British approach, restricted to the scope of application of the Brussels Convention, *see, e.g.*, KIENINGER, 1998 GRUR Int. 280.

43 However, the sufficient domestic connecting factor of a constellation of facts does not as a matter of principle represent a sufficient requirement in international law to establish national jurisdiction. On the contrary, exorbitant legal venues with only a weak domestic connecting factor are widespread, *see* SCHACK, "Internationales Zivilverfahrensrecht," point 330.

44 KOCH, 1999 CR 121,124.

45 Thus above all UBBER, 1997 WRP 497, 502; also generally for intellectual property rights, PICHLER, in HOEREN & SIEBER, *op.cit.*, point 156.

46 UBBER, 1997 WRP 497, 503.

jurisdiction, on closer examination there are above all procedural-law peculiarities in Germany which, unless modified, prevent effective protection of foreign defendants by simply restricting the scope of German jurisdictional rules for Internet trademark disputes. In addition, the restriction of jurisdiction for tort claims raises the fundamental question of the scope of substantive German trademark law on the global Internet.

(aa) Procedural aspects

The first procedural difficulty for effective protection of defendants results from the substantive-law nature of the legal venue for torts.⁴⁷ This means that the facts that set forth grounds for the jurisdictional domestic place of infringement are as a matter of principle always at the same time necessary both for establishing jurisdiction and for the merits of the claim (known as dual relevant facts). In order to permit a decision upon the merits of the case, it is a principle of German procedural law that the existence of dually relevant jurisdictional facts should not already be examined at the level of admissibility of an action.⁴⁸

All the jurisdictional facts that are conclusive for the intended accessibility of a website in Germany, or the absence thereof, also play a decisive role for the merits of the infringement claim under trademark law. Although *intended accessibility* does not of itself establish an infringement, since this also depends on other facts, in particular likelihood of confusion according to German trademark law, nevertheless, where the *intended accessibility* is lacking, a German trademark right would generally not be infringed.⁴⁹ On the basis of this dual relevance of the facts concerning the *intended accessibility* of a website, German courts would have to accept the plaintiffs assertion that there was *intended accessibility*, without having any opportunity to examine the issue of their international jurisdiction for the action, even if this were disputed by the defendant. Provided that the submission on *intended accessibility* was not in itself unconvincing, the courts would be obliged to uphold their jurisdiction. The prohibition on the hearing of evidence concerning dually relevant facts for the examination of jurisdiction would therefore have to be par-

⁴⁷ Examples to the contrary are the legal venue at the registered office of a company pursuant to Sec. 17 of the Code of Civil Procedure or the legal venue based on assets according to Sec. 23 of the Code of Civil Procedure.

⁴⁸ Case law and prevalent opinion; generally, 124 BGHZ 237; for Sec. 32 of the Code of Civil Procedure, STEIN, JONAS & SCHUMANN, "Zivilprozeßordnung," Sec. 1, point 20 *et seq.* on Art. 5, No. 3, of the Brussels Convention, KROPHOLLER, "EuGVU," Art. 5, point 63. It is doubtful whether this procedural-law principle, which generally applies in German law, is compatible with the defendant protection function of Art. 20(1) of the Brussels Convention, *see* SCHACK, "Internationales Zivilverfahrensrecht," point 387.

⁴⁹ In any event if accessibility as intended applied, such a restriction of substantive German trademark rights would have to be assumed. See below, at (bb).

tially repealed⁵⁰ if the effect of the restriction of jurisdiction by means of the criterion of *intended accessibility* were not to be limited only to unconvincing submissions on this point.⁵¹

A further procedural aspect restricts the practical usefulness of limiting jurisdiction only to websites with *intended accessibility* in Germany. Thus a restriction of jurisdiction would only achieve a genuinely perceptible improvement for foreign defendants if they were altogether spared the need to appear before the German court invoked only in order to object to the lack of international jurisdiction. This procedural question is regulated very differently in domestic German law and European law.

If the rules of the Brussels Convention apply, the German court - if a defendant domiciled in another Member State does not appear at the proceedings in Germany - would have to examine the existence of international jurisdiction *ex officio* (Art. 20(1) of the Brussels Convention). In such a case, the court is not allowed to regard the facts submitted by the plaintiff with respect to jurisdiction as admitted, but can or must demand that the plaintiff submit the necessary evidence. If this is not sufficient to establish jurisdiction, the action is dismissed as inadmissible by judgment on procedural grounds, without the foreign defendant having to appear before the court to object to the lack of jurisdiction.⁵² On the other hand, in the field of domestic German law, the defendant's default leads to a fictitious admission of the plaintiffs factual oral submissions concerning international jurisdiction for the tort action based on a domestic place of infringement (Sec. 331(1), first sent., of the Code of Civil Procedure).⁵³

50 In favor of a partial repeal with respect to the international jurisdiction for claims concerning unfair competition on the Internet, BACHMANN, 1998 IPRax 179,185.

51 It should also be taken into consideration that the burden of substantiation on the plaintiff is only very limited if the defendant does not oppose the claim.

52 GEIMER, "Internationales Zivilprozeßrecht," point 1820 notes that Art. 20(1) of the Brussels Convention, according to the Jenard Report (on Art. 20 of the Convention), is one "of the most important provisions of the Convention" for ensuring the protection of defendants.

53 It is true that international jurisdiction is also under autonomous German law a procedural requirement to be examined *ex officio* at every stage of the proceedings, *i.e.*, also at higher instance, *see* BGHZ GS 44, 46, and prevailing opinion. However, the official investigations principle does not apply; instead the plaintiff must himself provide the necessary evidence. If he fails to do so, Sec. 335(1)(1) of the Code of Civil Procedure lays down that a decision by default cannot be issued against the defendant. This prohibition on the decision by default in Sec. 335(1)(1) of the Code of Civil Procedure is largely ineffective owing to the regulation of Sec. 331(1), first sent., of the Code of Civil Procedure, according to which, in the event of default by the defendant, the plaintiffs oral submissions (on Sec. 32 of the Code of Civil Procedure) are deemed to be admitted. *See* on the issue as a whole, GEIMER, "Internationales Zivilverfahrensrecht," point 1821; SCHACK, "Internationales Zivilverfahrensrecht," point 386.

This fictitious admission obliges a foreign defendant to appear before the German court, invoked in the event of exaggerated or untrue allegations by the plaintiff, only in order to object to the lack of international jurisdiction. Otherwise he would run the risk of a decision by default being issued against him despite an uncertain or lack of factual basis. If account is taken of the low burden of proof on the plaintiff where the defendant does not defend the action, on the one hand, and the flexibility of the criterion of *intended accessibility* on the other hand, the issue of a decision by default to the detriment of the foreign defendant would probably represent the rule rather than the exception.⁵⁴

As a result therefore, the foreign defendant, according to domestic German law, would only largely be spared the necessity of having to enter an appearance to the proceedings in Germany where there is a lack of international jurisdiction for torts if, in addition to limiting the jurisdiction and (partial) repeal of the prohibition on the hearing of evidence concerning dually relevant facts, the courts were subjected to an obligation to examine their international jurisdiction, as is already the case in European law by virtue of Art. 20(1) of the Brussels Convention.⁵⁵

(bb) Dependence of the limitation of place-of-infringement-based jurisdiction for torts on the scope of substantive trademark law

In addition to procedural aspects, the restriction of international jurisdiction for trademark infringements gives rise above all to the question of the scope of substantive German trademark law on the Internet.

Thus, the function of the rules concerning international jurisdiction consists exclusively of reasonably distributing the competence of national courts to hear cases with foreign factors involved amongst the various states. In particular, the exclusion of certain cases from the jurisdiction of a state is not done for the purpose of denying the plaintiff legal protection altogether, but on the grounds that there is a more suitable forum abroad for such a dispute. However, for questions concerning the infringement of German trademark rights, there can be no doubt that the German courts

54 It is true that the action is only conclusive if the plaintiff completely fills out a basis for a claim with facts. However, the border between facts and legal concepts is difficult to draw, and there is no rule on how specific and colorful the party's submissions should be, Federal Supreme Court, 1986 NJW 1162. At least in the statement of claim, the plaintiff is entitled to describe the basis for the claim using common legal terms instead of facts, Federal Supreme Court, 1962 NJW 1394. This is sufficient for a decision by default.

55 As already long demanded by procedural-law literature, see SCHACK "Internationales Zivilprozeßrecht;" GEIMER (in any event as clarification), "Internationales Zivilverfahrensrecht," point 1822; *ibid.*, 1973 NJW 1151; *ibid.*, 1986 WM 119; KROPHOLLER, "Handbuch Internationales Zivilverfahrensrecht," Chapter III, point 218 (Vol. 11982).

are suitable as courts at the place where the potential infringement took place.⁵⁶ Especially the proximity of facts and evidence are given when a judgment is to be passed concerning a likelihood of confusion or dilution occurring in Germany, or other issues of substantive German trademark law.

Consequently, where the literature demands a restriction of international jurisdiction for tort actions based on German trademark rights, this demand is apparently not inspired by genuine jurisdictional considerations but rather on the notion that in certain cases, in which in any event an infringement of German trademark rights must ultimately be denied in terms of substantive law, foreign defendants should not be expected to have to appear before a German court in order to defend a futile action. In particular, the contradictory situation should not be allowed to develop in which, although a German trademark right has been infringed in substantive terms, there is no forum for a tort action against this infringement based on place-of-infringement jurisdiction in Germany.⁵⁷ Therefore it is implied by the denial of jurisdiction in cases where intended accessibility is lacking that German trademarks can only be infringed on the Internet if a website is intentionally directed (also) towards users from Germany. This result, although desirable, represents a not insignificant and until now, as the *pay line* decision illustrates, not self-evident interference in the territorial exclusivity right of the owner of a national trademark, and requires a detailed examination and justification that cannot be obtained within the framework of the admissibility examination. Consequently, until sufficient clarification has been achieved on the substantive-law question of the conditions under which German trademark rights can or cannot be infringed by foreign websites, the establishment of the jurisdiction of German (or other national) courts is, as a matter of principle, necessary to clarify the substantive-law situation.⁵⁸ Given the substantive-law nature of the legal venue for torts, the restriction of international jurisdiction for trademark infringements thus proves to be subordinate to a restriction of the scope of German substantive trademark rights on the Internet, and can, moreover, largely only be implemented in parallel with the latter. However, as yet there has been no detailed discussion of the more important questions of substantive law.

56 Nor with respect to the Internet can it be argued that the foreign courts at the place of the server or at the general legal venue of the defendant are more suited than the German courts for deciding issues concerning the infringements of German trademark rights. See BACHMANN, 1998 IPRax 179 *et seq.*

57 Cf. BORNKAMM, in BARTSCH & LUTTERBECK (eds.), "Neues Recht für neue Medien" 99: "The reverse situation - applicability of German law but no legal venue in Germany - cannot occur."

58 Cf. Mannheim District Court, 1968 GRUR Int. 237.

In addition, in light of the fundamental relationship between substantive law and specific jurisdiction for tort actions, the question arises whether in the German legal system a restrictive application of substantive trademark law would not in practical terms lead to approximately the same result as the restriction of international jurisdiction by means of a flexible place-of-infringement criterion like "intended accessibility," which is open to much interpretation by parties and courts, and would be difficult to handle in procedural terms. Thus, once it had been determined that German trademark rights could only be infringed by the use of foreign trademarks on the Internet if the website could be accessed from Germany with intent, or subject to even stricter requirements,⁵⁹ it could not seriously be expected that the existing "universal" jurisdiction of German courts would lead to a large number of actions against foreign websites. A plaintiff, even if he can assume with certainty that his action will be admitted for decision, will generally only have recourse to a forum if he can at the same time expect to succeed on the merits of the case. Where there is no prospect of success, the plaintiff, despite existing international jurisdiction, will as a rule refrain from filing proceedings.⁶⁰ In addition, the German costs rules, which impose the costs of the entire litigation on the party that has filed a futile action, have, in combination with the absence of contingency fees for attorneys, a regulatory effect to the benefit of potential foreign defendants.

As a result of these considerations on international jurisdiction for trademark disputes on the Internet, it can thus be stated that it is not only because of the substantive-law subordination of the legal venue for torts that a restriction of the substantive trademark law must be given priority to a restriction of the international jurisdiction based on the place of infringement, but also that, in practical terms, a reasonable substantive-law solution can also make restricting international jurisdiction at least to some extent unnecessary.

⁵⁹ See, for the possible substantive-law approaches, the discussion under F, in Part Two.

⁶⁰ Of course it is also conceivable that recourse will be had to the German courts merely for purposes of harassment or to exercise pressure on the foreign party. However, it appears more appropriate for such exceptions to seek a correction by applying to the individual case the criterion of the (lack of) a need for legal protection for the action requested. For, in effect, litigation for harassment purposes can in any event not be prevented by means of a restriction of jurisdiction, since litigation concerning the question of the existence of international jurisdiction can also be pursued through several instances.

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Territorial Trademark Rights in the Global Village - International Jurisdiction, Choice of Law and Substantive Law for Trademark Disputes on the Internet

Part Two*** **Contents**

- A. Introduction
- B. Technical Reterritorialization of the Internet?
- C. Case Law on International Trademark Disputes on the Internet
 - I. "SG 2 v. Brokat"
 - II. "Playboy v. Chuckleberry"
 - III. "Bensusan v. King"
- D. International Jurisdiction for Tort Actions
 - I. Introduction
 - II. International Jurisdiction for Tort Actions Under Code of Civil Procedure and Brussels Convention
 - 1. Legal Basis
 - 2. Case Law on Jurisdiction for Trademark Infringements in Internationally Disseminated Mass Media
 - III. International Jurisdiction for Trademark Disputes on the Internet
 - 1. Application of Traditional Principles
 - 2. Limitation of International Jurisdiction for Trademark Infringements on the Internet
- E. Applicable Law for Trademark Infringements on the Internet
- F. Substantive Law
 - I. General Principles
 - II. Specific Problem of Use of Trademarks on the Internet
- III. Approaches to Restrict Trademark Law in Trademark Disputes on the Internet
 - 1. Online Advertising on the WWW
 - 2. Sales Activities

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G. International Domain Name Conflicts

I. Legal Protection Before National Courts

II. Legal Protection Under Administrative Dispute Resolution Policy of Final Report of the WIPO Internet Domain Name Process H. Summary and Prospects

E. Applicable Law for Trademark Infringements on the Internet

The substantive-law principle of territoriality that applies to trademarks worldwide corresponds with the application of the law of the country of protection at the level of the conflict of laws.⁶¹ This conflict-of-law principle provides that the question of whether and to what extent trademark protection is granted against specific cross-border use is to be determined according to the law of the country for which trademark protection is claimed. Since on the basis of the principle of territoriality, only domestic trademark rights can have effect in the specific country of protection,⁶² the question whether a German (subjective) trademark right has been infringed is determined as a result exclusively according to German (objective) trademark law, while the question whether a foreign (subjective) trademark right has been infringed is determined exclusively according to the specific foreign (objective) trademark law. It is indeed thereby possible that one and the same use, such as the use of a mark on the Internet, may infringe two national trademark rights, possibly belonging to different holders, at the same time.

There is no reason to depart from this principle of the country of protection as a conflict-of-law rule conventionally applied to trademark rights, by developing entirely new point-of-attachment rules.⁶³ Thus, in the event of an action deriving from German trademark rights against a use of a trademark on the Internet, there would be no point in denying the applicability of German trademark law and instead determining the case according to foreign trademark law. In particular, the conflict of trade-

61 Known as *lex loci protectionis* see ULMER, "Die Immaterialgüterrechte im IPR" 51 (1975); SANDROCK, 1985 GRUR Int. 507, 513 *et seq.* The new German Act on Private International Law (EGBGB) does not provide an explicit rule for infringements of intellectual property rights, but in the explanatory memorandum of the new Act it is stated that the new law does not change the general rule of *lex loci protectionis* for infringements of intellectual property rights, 1999 BGBI. I, 1026, Bundesrats-Drucksachen 759/98, at 18, 22).

62 See the discussion above under D.II.1, Part One.

63 The special nature of intellectual property rights in the field of the conflict of laws is also made clear by their exemption from the scope of application of Art. 3 of the planned E-Commerce Directive (Draft Directive dated November 18, 1998, COM (1998) 586 final).

marks on the Internet is not a question of asserting either the domestic or foreign objective trademark law by means of an abstract choice-of-law rule, but of achieving a balance between the subjective trademark rights granted by the different national legal systems in light of the fact that the use of trademarks on the Internet can only be either global or not at all.⁶⁴ Since it is not the conflict of legal systems but rather the conflict of subjective property rights that must be solved, classic conflict-of-laws rules do not seem suitable for solving the conflict. From a systematic point of view, it seems to be more reasonable to restrict the scope of both (or all) subjective trademark rights involved in a cross-border Internet dispute on the ground of the global nature of the medium, by excluding certain uses of a foreign trademark, despite their effect on the national territory, from the scope of the substantive trademark-law exclusivity in each national trademark law. The following section examines how and in what manner such a restriction of substantive law could be achieved. In any event, trademark conflict-of-law rules are not the appropriate starting point for the solution to the problem. To solve the "conflict of rights" on the Internet, new rules of substantive law have to be developed for those genuinely international cases where national substantive rights conflict in a global medium. In the following analysis, German law forms the starting point, but the final solution could also be adopted in an international agreement.

F. Substantive Law I. General Principles

As a matter of principle, a trademark allows its holder to prevent any third party acting without his consent from using a trademark that is identical or misleadingly similar (Sees. 14(2)(1) and (2), 15(2) of the German Trademark Act). In cases of well-known trademarks or commercial designations, use can also be prohibited even where there is no risk of confusion under trademark law but where the use of the sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character of the repute of the trademark or the commercial designation

64 In particular, the international private law on trademarks with its starting point of the existing property right differs clearly from the flexibility of competition-law rules on the conflict of laws, in which the starting point of a value-based examination is the place of the competitive conflict of interests, with a certain conflict-of-law perceptibility threshold having to be exceeded for it to be applied, *see* SCHRICKER, "GroBkommentar. UWG," Introduction, F 190 *et seq.*, with further references. It is only in such a flexible system that the criterion of accessibility "as intended" - as a concretization of the place of the competitive conflict of interests in the context of the Internet - can be fitted. In light of the territorially exclusive character of trademark monopoly rights, it would be contrary to the system to take as the starting point the intention of accessibility for the application of national trademark law.

(Sees. 14(2)(3), 15(3) of the German Trademark Act). Possible infringements include not only affixing the sign to goods or the offering or supplying of services under that sign, but also use in business papers or in advertising, *i.e.*, any rendering of the trademark outwardly perceptible for advertising purposes. Such an outwardly perceptible rendering includes online perceptibility of the sign.⁶⁵

However, the territorial restriction of the trademark means that claims for injunction are only possible if the infringement has taken place within the territorial scope of the trademark in question or - in the case of preventive injunctions - where infringement is seriously threatened by an action carried out abroad.

As long as infringements are restricted to national territory, the territoriality of rights means that no-one can be prevented by trademark law from using or registering in the national territory a trademark or business trademark that is identical or misleadingly similar to the foreign trademark of another who uses it for identical or similar goods or services.⁶⁶ Domestic trademark rights and foreign rights in the same sign can exist alongside each other independently, irrespective of whether they belong to the same or different holders. It is only under certain circumstances that, departing from the territoriality principle, the holder of a foreign trademark can invoke the German Act Against Unfair Competition to resist its use by a third party in Germany.⁶⁷

The peaceful coexistence of rights with separate areas of protection terminates as soon as an infringement takes place within the territorial area of protection of the domestic trademark. In such a case the trademark protected in the national territory by an exclusive right prevails against the foreign right, *i.e.*, the holder of the national trademark can impose an absolute prohibition against the foreign trademark in order to prevent an incursion into the national area of protection of his trademark. As a mat-

65 Expressly, INGERL & ROHNKE, "Markengesetz," Sec. 14, point 131; FEZER, "Marken-recht," Sec. 14, point 488; ALTHAMMER & KLAKA, "Markengesetz," Sec. 14, point 31.

66 Federal Supreme Court, 1969 GRUR 607, 609 *et seq.*, 2 IIC 272 (1970) - *Recrirr*, for comparison, *see* SACK, 1988 GRUR Int. 320, 332.

67 Thus, for instance, if the third party knows the market, and if the domestic trademark is used with the intention of preventing the holder of the foreign mark from using it in Germany, or if the use in Germany by a third party serves the purpose of exploiting its reputation or establishes a risk of dilution, Federal Supreme Court decisions, 1967 GRUR 298 *et seq.* - *Modess*; 1967 GRUR 304 *et seq.* - *Siroset*; 1987 GRUR 292 *et seq.* - *Klingr*, *cf.* also SACK, 1988 GRUR Int. 320, 332.

ter of principle, trademark protection does not provide for the coexistence of signs with identical areas of protection.⁶⁸

II. Specific Problem of Use of Trademarks on the Internet

The conflict-free coexistence of trademarks ends if a trademark is used on a website on the Internet. As soon as a company decides to be present on the worldwide web, the perceptibility of the trademark on a website that can be accessed from abroad necessarily leads to an incursion into the area of application of the domestic right.

If the traditional concept of trademark law is applied the result is quite clear. The trademark-law claims in Sees. 14 and 15 of the German Trademark Act and the protection of names pursuant to Sec. 12 of the Civil Code grant the holder of the right a comprehensive and exclusive right to use the trademark, which allows him to prevent any use of a sign that is identical or misleadingly similar within the territorial area of protection.

In this sense, German courts have continued to apply traditional trademark concepts to trademark conflicts on the Internet. Thus in particular the Berlin Court of Appeals⁶⁹ has held that the accessibility of a domain name registered by a US company is sufficient to establish an infringement in Germany, and has prevented the defendant, resident in Kansas City, from using the contested domain names. According to the court, the consequence that the domain names can no longer be used worldwide was to be accepted. Likewise, the Nanterre Court of Appeals, in the decision referred to above, applied the general trademark-law principles without restriction and granted the French rightholder an absolute right to prohibit the use of the trademark in France.⁷⁰

The unrestricted application of the general principles of trademark law to trademark disputes on the Internet seems to be problematic. Not only does it appear unacceptable that any foreign enterprise, even if its busi-

68 Exceptions from this absolute protection have hitherto only been permitted by case law in cases of persons bearing the same family name or under certain conditions, in the case of signs with only regional scope of protection, cf. FEZER, "Markenrecht," Sec. 21, point 18, with further references; on coexistence in the case of geographically limited trademark rights, see KUR, "Der Schutz nicht eingetragener Marken," in SCHRICKER (ed.), "Die Neuordnung des Markenrechts in Europa" 135, 143; FEZER, "Markenrecht," Sec. 15, point 128; INGERL & ROHNKE, "Markengesetz," Sec. 15, point 20; Munich Court of Appeals, 1994 WRP 326, 330, in a dispute between a brewery with regionally restricted business activities and a brewery operative nation-wide; see also Munich Court of Appeals, 1994 OLG Report 103, following Federal Supreme Court, GRUR 1991,155,156- *Rialto*.

69 Berlin Court of Appeals, 1997 CR 685 *et seq.* - *concert-concept*.

70 October 13, 1996, *SG 2 v. Brokat Informationssysteme GmbH*, see above C I, in Part One.

ness activity is restricted to its own national territory or - as in the above-mentioned case of *Bensusan v. King* - to a local or regional level, can, through its presence on the Internet, be exposed to the risk of being condemned for an infringement of trademarks in any country in the world. It also cannot reasonably be expected that a rightholder whose business activities are restricted to the national territory or even its local region must take into account conflicting trademarks and commercial designations all over the world.⁷¹

The unrestricted application of trademark-law principles to trademark disputes on the Internet would also mean that, as soon as a sign is protected in a single country in the world, the rightholders could forbid each other from using their trademarks on the Internet. Thus in the case of *SG 2 v. Brokat*, not only could the French company prevent the German rightholder from using its trademark on the Internet, but vice versa the German software company, relying on its trademark protected in Germany, could forbid the French company from using the trademark on the Internet. If such a judicial practice were to establish itself worldwide, a large number of companies would no longer be able to use the Internet as an advertising platform.

In addition to the possibility of the holders of identical or misleadingly similar trademarks mutually blocking each other, and the practically de facto impossibility of complying with trademark rights in every country of the world, account must be taken of a further peculiarity. Since the accessibility of web-pages cannot be restricted territorially, and since consequently there is no possibility of breaking up the prohibition in territorial terms, the effect of a prohibition on the use of a trademark on the Internet issued on the basis of an infringement of a domestic trademark right cannot be restricted to the national territory but necessarily also has an effect outside the territorial protection of the protected sign. The order imposed upon a foreign enterprise not to render a conflicting sign perceptible in the national territory via the Internet necessarily means that the foreign company must in future cease to use the trademark on the Internet as a whole, *i.e.*, also in countries where use of the trademark would be permissible because of the absence of conflicting rights.⁷² Since

71 In the result, likewise INGERL & ROHNKE, "Markengesetz," Sec. 14, points 30, 31, who argue for a normative restriction of trademark protection via the criterion of sufficient domestic connecting factor; see below III 1.

72 A comparable problem is raised by competitive actions on the Internet, which likewise can only be forbidden overall, with the consequence that a prohibition restricted to the territory of one country de facto leads to a prohibition of the entire advertising measures on the Internet and hence to the application of the most strict competition law; *cf.* Frankfurt Court of Appeals, 1999 K & R 138, with comment by KOTTHOFF; on the problem in detail DETHLOFF, 1998 NJW 1596, 1602; *see also* 1997 CR 682; NIEBLER, in LOEWENHEIM & KOCH, "Praxis des Online-Rechts" 249; RUSSMANN, 1998 K & R 426.

product marketing on the Internet has already become vitally important in a number of trade sectors, while at the same time the use of different trademarks for online and offline marketing of the same product is hardly practicable, the companies would ultimately have no other choice than to cease using the trademark both within and outside the Internet or to switch to a different trademark. In the case of conflicting company names, which are practically impossible to change, the company would be permanently prevented from using the Internet for sales and advertising purposes. If the court invoked by the foreign rightholder in his home country also held that online accessibility via the Internet was sufficient to prevent the German enterprise from using the sign on the Internet, the protected trademark could no longer be used by either company as a trademark or commercial designation.

III. Approaches to Restrict Trademark Law in Trademark Disputes on the Internet

If, in light of the above consequences, it seems that the unrestricted application of trademark-law concepts are unsuitable as a means of solving trademark disputes on the Internet, the question arises of how existing trademark law could be adapted to new conflicts. An examination of the interests involved shows the trademark owner's right deriving from his national trademark to prevent impairment as far as possible of the territorial protection of his trademark and to prevent attempts by third parties to penetrate the legitimate territorial protection of his trademark. This interest in protection is in conflict with the interest of the foreign user of the sign in not being subject to a prohibition under trademark law for uses made by him in a particular country, either because he himself has obtained prior trademark protection for the sign in that country or because the use of the sign is permissible for lack of any conflicting rights. Thus the conflict resolution requires a line drawn between territorially restricted trademark protection and the resulting foreign freedom of the designation.⁷³

1. Online Advertising on the Web

As a starting point, three possible solutions to the dispute can be considered.

a) Sufficient minimum contact

The least drastic modification of trademark protection could be conceived by means of a construction such that only those uses of a sign on the Internet are regarded as a *use* within the national territory if there is a do-

⁷³ Likewise the Mannheim District Court, 1968 GRUR Int. 236, 237, with respect to the use of trademarks in cross-border print media.

mestic connecting factor going beyond mere online perceptibility of the sign in the respective country.⁷⁴ Indications whether a website reveals a sufficient domestic connecting factor going beyond mere accessibility could be found in the language used on the website, actual visits to the website from persons in the particular country, activity "outside" the Internet or the use of an ISO Standard country code top level domain. Thus there would be no domestic connecting factor if the website, thanks to language, only has a negligibly small circle of recipients in Germany, or if the nature of the goods and services offered on the website showed that they were not suitable for cross-border sales to Germany.⁷⁵

On the other hand, a sufficient minimum contact would for instance be assumed if reference is made to the Internet information in other media. The same would apply to the use of a domain name under the country code domain ".de," since this would indicate that the focal point of business interest was in Germany.⁷⁶

This approach of sufficient minimum contact appears convincing at first glance, but is open to reservations. It is true that the criterion indeed appears capable of acting as a filter in all conflicts in which the linguistic wording of a website or, as in the case of *Bensusan v. King*, the specific nature of the goods or services shows that the latter are accessed by few or no Internet users in Germany. If a website is in Chinese or Arabic script, or if a foreign pizza service or a foreign taxi company offers its services on the Internet, the trademark right effects, despite the perceptibility of the sign in Germany, are only marginal, with the result that there is no impairment of the trademarks in Germany and hence no basis for an injunction. Such merely "virtual" trademark impairments could, if such conflicts are ever in practice submitted to the courts, be excluded from trademark infringement by means of the minimum contact criterion.

On the other hand, the criterion gives rise to difficulties in all cases in which goods and services offered on a website are suitable for cross-border sales, and the linguistic form of the website no longer permits the

74 Cf. INGERL & ROHNKE, "Markengesetz," Sec. 14, point 31; KUR, in LOEWENHEIM & KOCH (eds.), "Praxis des Online-Rechts" 325, 377 (1998); JAEGER-LENZ, in LEHMANN (ed.), "Electronic Commerce" 183 (1999); OMSELS, 1997 GRUR 328, 337; VOLKER & WEIDERT, 1997 WRP 652, 662.

75 Similarly also OMSELS, 1997 GRUR 328, 337; with respect to domain name conflicts, taking the concept of use as the point of reference and requiring a specific interference in the domestic protective right or an aim towards the domestic market resulting from the type and presentation of the goods and services offered, KUR, in LOEWENHEIM & KOCH (eds.), "Praxis des Online-Rechts" 325, 377 (1998).

76 With reference to the question of international jurisdiction for tort actions and the specific case of domain name conflicts, WEGNER, 1998 CR 676, 683; UBBER, 1997 WRP 498.

potential circle of addressees to be determined.⁷⁷ This is the case, for instance, with websites in English or where, such as the case of the offer of digitized products, the goods and services offered on the website can be directly transferred via the Internet. Since the potential market here can be extended to practically all the countries in the world with a minimum of financial and logistic effort, a claim for injunction under trademark law would meet the sufficient contact criterion. The assumption of an infringement based only on sufficient contact would have the consequence that the foreign user of the sign would be prohibited from using his trademark or business name for advertising on the Internet, without the particular conflict of interests and principles shown above being included in the evaluation of the dispute. The criterion of a sufficient minimum contact factor may thus be capable of filtering out certain cases of a minimum impairment of property rights from infringement claims, but does not represent the requisite analysis standard for a decision of the substantive-law issue.

b) General balance-of-interest proviso

If the criterion of sufficient minimum contact is not adequate as a criterion for the solution of the substantive-law issue, a further possible *de lege lata* approach would be to subject the trademark-law claim to a comprehensive balancing of the conflicting interests in addition to the statutory tort requirements.

Such a balance-of-interest proviso is not unknown to trademark law. With respect to particular trademark disputes, courts have already seen themselves occasioned to settle the contradictions of interests and principles by means of a balancing of interests. In particular, restrictions to the assertion of infringement claims by the rightholder have been permitted by the courts in cases of identical names, where the honest use of one's own family name in business dealings, even if this use is within the scope of protection of an older trademark, cannot be simply denied to the holder of the name; instead a balancing of the mutual interests is applied and results merely in the imposition of the use of distinctive additions.⁷⁸

⁷⁷ The language criterion fails with respect to advertising by a foreign company in English; likewise, for companies from the German-speaking world that offer their products on a website written in German.

⁷⁸ Before the new Trademark Act entered into effect, the principles concerning identical names were derived in legal and dogmatic terms from the feature of dishonesty in Sec. 12 of the Civil Code; for details see KNAAK, "Das Recht der Gleichnamigen" 53; under the new Trademark Act, the basis for identical name rights is partly found in Sec. 23, No. 1, of the Act and in the feature of dishonesty in Sec. 15(2) of the Trademark Act; see INGERL & ROHNKE, "Markengesetz," Sec. 23, points 19, 20 with reference to (Contd. on page 294)

Likewise, in the conflict between an earlier trade name with geographically restricted protection and a more recent trademark used at supra-regional or national level, courts have curtailed the absolute protection of the regionally or locally restricted trade name to such measures as are justified on the basis of a balance of interests.⁷⁹ According to the words of the Federal Supreme Court, the individual interests of the parties are to be balanced in such cases, and in particular the question should be asked of the importance and the weight that a prohibitory order would have for the plaintiff and the economic effects that a geographically restricted prohibition would have for the company active at supra-regional level. Exceptions to absolute protection have been admitted after balancing the mutual interests, particularly with respect to the use of signs in supra-regional radio, television and magazine advertising, since it is only with unreasonable organizational effort that the latter can be prevented at regional level.⁸⁰

Finally, the *Tannenzeichen* decision of the Mannheim District Court concerning the use of trademarks in international magazines, referred to above, is also based on a restriction of absolute protection resulting from a balance of the conflicting interests.⁸¹ Since only a small proportion of the total edition of the magazines was disseminated in Germany, the use of the sign in Germany was regarded as a mere "spilling over" of the primary and permissible use abroad. The conflict in such cases between the territorially restricted protection of the trademark and the resulting freedom of use abroad could only be solved by a decision balancing the specific interests of the parties involved. Since both magazines were distributed abroad and had no regionally differentiated editions, and hence the defendant could only choose between advertising in these magazines abroad and in the home country or not at all, the balancing of interests resulted in a clear predominance to the benefit of the foreign freedom of trademark.⁸²

(Contd. from page 293)

Sec. 23, No. 1, of the Act; FEZER, "Markenrecht," Sec. 15, points 92 *et seq.*; Federal Supreme Court, 1997 WRP 751, 755 - *B.Z. v. Berliner Zeitung*; SCHOLZ, 1996 GRUR 679, 680, with reference to Sec. 15(2) Act.

79 Federal Supreme Court, 1991 GRUR 155, 156 - *Rialto*.

80 Munich Court of Appeals, 1994 WRP 326, 330, in a dispute between a brewery with regionally restricted business activities and a brewery operative nation-wide; likewise Munich Court of Appeals, 1994 OLG Report 103, following Federal Supreme Court, 1991 GRUR 155, 156 - *Rialto*; likewise Kiel District Court, 1994 AfP 330, for geographically limited title protection; *cf.* also INGERL & ROHNKE, "Markengesetz," Sec. 15, point 20.

81 1968 GRUR Int. 236 *et seq.*

82 *Id.* at 237.

The principle of balancing of interests also appears to be a practicable approach to trademark disputes on the Internet. As in the case of the use of signs in magazines distributed internationally, courts could use the method of the balance of interests to analyze the facts of the dispute and achieve a balance of the conflicting interests. Since the decisive factors would be questions of fact, the balancing of interests would essentially be a duty of the courts, which would have to draw the necessary line between territorially restricted trademark protection and the resulting freedom of use in light of the circumstances of the individual case, with the specific problem of such trademark disputes on the Internet, as already described.

Nevertheless, there are doubts whether the solution of new disputes can be left entirely to the courts. Even if, as the cases of identical names and the protection of commercial designations with territorially restricted protection show, the principle of the balancing of interests generally causes no difficulties in deciding trademark disputes, it still appears doubtful whether the courts would be at all willing in the near future, in the absence of statutory requirements, to abandon the absolute protection of trademarks by means of a balancing of interests. As court decisions issued on international domain name conflicts on the Internet clearly show, there is the risk that the courts will come down on the side of national trademark protection and ignore the consequences for the foreign user of the trademark. If the solution to new disputes is left entirely to the judiciary, it is to be feared that the contradiction between domestic protection of the trademark and foreign freedom of use will as a rule be solved one-sidedly in favor of the domestic trademark rights. In the long term, a nationally and internationally uniform solution to the trademark problem specific to the Internet will in any event not be possible without a clear statutory change.

c) "De lege ferenda" approaches

There are two possible solutions for a statutory change to the infringement of trademark rights.

(aa) Coexistence by using differentiating additions and disclaimers

A statutory amendment could be made in the form of a coexistence model with additions. A solution to trademark disputes is conceivable by means of the insertion of differentiating additions or disclaimers, such as in cases of identical names.⁸³ According to this model, the domestic trademark

83 A coexistence solution with additions as a means of solving trademark and company name conflicts in the European single market was originally upheld by the ECJ in the *HAG I* decision, but the approach was criticized by the majority in the legal literature (Contd. on page 296)

holder would be obliged to tolerate the use on the Internet of an identical or misleadingly similar sign, but the foreign trademark holder would, within the limits of what is reasonable, be obliged to counter the risk of confusion by inserting, where possible, differentiating additions or disclaimers. Such additions could be indications of origin, such as the place or country of manufacture, the domicile or place of business of the foreign trademark user or a disclaimer such as "not be confused with...."

However, from a practical point of view, this approach appears dubious. It is true that such additions and disclaimers, if at all noted, may under certain circumstances correct errors concerning the commercial origins of the goods and services offered. This would, however, presuppose that the additions and disclaimers are displayed in a manner capable of perception and do not fade into the background as compared with the emphasized trademarks or firm names.

Even if such explanatory additions and disclaimers could enjoy a certain distinguishing and identifying function, there is still doubt whether a general dispute settlement model involving a codified obligation to use such distinguishing references is suitable for solving Internet-specific disputes. On the one hand, it should not be ignored that a considerable number of trademarks that are identical or misleadingly similar coexist in a large number of countries. In such a case, a legal claim to differentiating additions and disclaimers would mean that under certain circumstances a large number of such references would have to be included on the website, which on the one hand would once again call into question their differentiating and identification function and on the other hand would also be difficult to implement in practice. Moreover, a general obligation on companies to use additions also appears an unsuitable means of solving disputes from a normative point of view. Firstly, the use of differentiating additions and disclaimers is often of a discriminatory nature. The value of a company name or a trademark with a distinguishing additive, such as a notice "not to be confused with" or a geographical term, is at the least

(Contd. from page 295)

and subsequently repealed by the ECJ in the *HAG II* decision, 5 IIC 338 (1974), 23 IIC 92 (1992); on the discussion concerning the necessity for a coexistence solution with additions as a means of solving the conflict between the requirement of a uniform common market and national trademark law, cf. BEIER, 1978 RIW/AWD 213 *et seq.*, who rejects a coexistence model; JOHANNES, 1976 RIW/AWD 10; and ROTTIGER, 1976 RIW/ADW 354 *et seq.*, focus on the necessity for coexistence with different additions, particularly for company names.

considerably impaired.⁸⁴ Consequently, in many cases the trademark user cannot reasonably be expected to tolerate the impairment of his own trademark resulting from the obligation to use such additions, an impairment that also applies in those countries in which a use of the sign on the Internet would be permissible thanks to the holder's own prior right or in the absence of conflicting rights.

Finally it should not be overlooked that a codified legal right to differentiating references or disclaimers would give rise to a considerable number of legal disputes. It is to be expected that domestic trademark holders affected by the perceptibility of a foreign identical or misleadingly similar trademark would assert their claims to such additions through the courts in the event of dispute. As a consequence, in many cases only a court decision would clarify the question as to the type of additions or disclaimers that were capable of reducing the risk of confusion, and where and in what form these were to be inserted on the website. This would undermine the objective of relieving the use of trademarks on the Internet from the necessity of worldwide trademark searches and examinations of possible conflicts.

(bb) Coexistence with unfair-use proviso

Finally, it is necessary to consider the approach of restricting absolute protection and replacing it by a coexistence solution with an unfair-use proviso. By introducing a restriction on protection that applies uniformly to trademarks and commercial designations, the use of a sign in advertising on the Internet would be exempt from claims for prohibition provided the use of the trademark or commercial designation were not contrary to unfair practices.⁸⁵ Accordingly, the domestic holder of a trademark right would be obliged to tolerate the perceptibility on the Internet of an identical or misleadingly similar sign unless particular circumstances established that the use of the sign amount to unfair use by the foreign user of the mark. Since in such cases, the assertion of unfairness represents an exception to the general admissibility of the use of signs on the Internet, the domestic holder of the trademark right would be obliged to submit and substantiate the unfairness of the use of the designation.

⁸⁴ Cf. KNAAK, "Das Recht der Gleichnamigen" 54.

⁸⁵ From the point of view of legislative structure, such a rule would be comparable with Sec. 23 of the Trademark Act and, leaving aside minor linguistic differences, the identical provisions of Art. 6(1) of the EU Trademark Directive (89/104/EEC) and Art. 12 of the Community Trademark Regulation, which contain restrictions on protection with respect to the use of names and addresses, trademarks describing goods or services and specifications of purpose likewise supplemented by a dishonesty proviso.

(i) Coexistence

The possibility of such coexistence of trademarks is not fundamentally unknown to trademark law. The willingness to open the barriers to coexistence solutions has already been discussed in a number of special conflict situations.

Solutions that accept coexistence have been regarded as necessary for specific forms of use in the case of conflicts between national trade names in the European single market. Thus a company that affixes its trade name as a necessary indication of the manufacturer or in connection with the goods cannot be prevented from selling these goods in another Member State.⁸⁶ The coexistence of conflicting rights has also been considered for locally restricted commercial designations, in particular for the use of such designations in advertising in mass communication media.⁸⁷

Nor has the German legislature refused to accept coexistence solutions. A comparable approach was proposed for supra-regional advertising for the cases of dispute resulting from the reunification of Germany, in which trademarks and service marks originating in the Federal Republic of Germany entered into conflict with identical trademarks originating from the former German Democratic Republic as a result of the extension of territorial protection.⁸⁸ While all uses of trademarks outside advertising remained subject to absolute protection, and thus the holder of the more recent trademark in the particular territory may only use the mark in the other part of Germany if the older holder in this part has consented, this principle was restricted with respect to supra-regional advertising. Even without the consent of the holder of the other trademark, an extended-territory trademark may be used in mass media communication if the dissemination cannot reasonably be restricted to the previous territory of protection. In such a case, the interference in the exclusive right of the other trademark holder is not regarded as infringement.

The trademark coexistence that must be accepted for supra-regional advertising is based on the consideration that the absolute protection of trademarks leads to an unreasonable obstacle to the trademark holder's business activity as far as concerns his ability to use it for advertising his products or services in media distributed beyond the territory of protection in question to the other part of the country, or in television or radio

86 KNAAK, "Gedanken zum Konflikt von Handelsnamen im Gemeinsamen Markt," 1982 GRUR Int. 651; *see also* KLAKA, "Vor-(Weiter)Benutzung im Kennzeichnungsrecht," in ERDMANN ET AL. (eds.), "Festschrift für v. Gamm" 271, 287.

87 KUR, "Der Schutz nicht eingetragener Marken," in SCHRICKER (ed.), "Die Neuordnung des Markenrechts in Europa" 135, 143.

88 *Cf.* FEZER, "Markenrecht," Introduction, point 61; INGERL & ROHNKE, "Markengesetz," Introduction, point 31, with further references; KNAAK, 1993 GRUR Int. 18 *et seq.*

advertising, the broadcasting of which cannot be restricted to the original territory. Since in such cases the rightholder faces the alternative of either obtaining the consent of the holder of the conflicting trademark in the other territory or, if this is refused, renouncing the use of these advertising media, an exception to absolute protection of the trademark is justified.⁸⁹

A solution based on coexistence also represents a possible approach to solving trademark disputes on the Internet. If the foreign user of the trademark is a company that uses the Internet in order to provide information about its goods and services that can be accessed by Internet users in other countries, but where the nature of the products or other reasons preclude cross-border trade in goods or services, the effects on the national trademark resulting from the mere accessibility of the website are marginal. Since the foreign user of the trademark, in light of the impossibility of subdividing the accessibility of websites on a territorial basis, is obliged by a prohibitory order to renounce entirely the use of the Internet as an advertising medium, the balancing of the conflicting interests and principles clearly results in foreign freedom of use prevailing over the domestic trademark right.

However, even in cases in which the website, because of the language that is used and the nature of the products advertised, is capable of having an effect on the domestic market, the scales will frequently tip in favor of the foreign freedom of trademark where the trademark is used honestly. It is true that, in individual cases, the effects of the use of a trademark on a website that can be accessed from Germany may be of some considerable significance to the domestic rightholder. In particular, the search for information using Internet catalogs and search engines can result in a foreign website also being accessed in considerable numbers from Germany, with the result that, unlike the case of international distribution of magazines, it can no longer be a question of a "spilling over" of the permitted use abroad, or of a marginal impairment of trademark interests. Nor can the general public's interest in not being misled by the use of identical or misleadingly similar trademarks be discounted as a significant factor in adjudicating the dispute.

Nevertheless, even in these dispute situations, priority will frequently be given to foreign freedom of use against the domestic trademark protection. Primarily, even once the number of visits to the website have passed a certain threshold, the interests of the domestic rightholder are less strongly affected by the perceptibility of the foreign trademark on the Internet than by the sale of the product in Germany. The consequences for

⁸⁹ Earlier British law also accepted exceptions from the principle of territorial exclusivity in the doctrine of "honest concurrent user" adopted in Sec. 12(2) of the Trade Marks Act 1938.

the foreign rightholder obliged to refrain from use are as a rule more serious. If he wished to comply with the judicial prohibition, the latter would have either to abandon his trademark, which is protected in his own country and possibly in a number of other countries, and which represents considerable goodwill for his business, or renounce entirely the use of the Internet as an advertising medium. Likewise, the public's interest in not being misled by the coexistence of identical or misleadingly similar trademarks can only be achieved with restrictions in a global medium. Anyone who uses a global interactive medium can be expected to apply greater attention with respect to the possibility of coexisting trademarks, particularly since information concerning the commercial origins of the goods or the identity of the company are frequently contained in the general presentation of the company and the contact information regularly provided on the website.

A final argument against retaining the trademark-law exclusivity principle is the above-mentioned mutual blocking of the rightholders in the event that a prohibition order is granted by virtue of a trademark. If the domestic user of the trademark is granted an absolute right of prohibition against the use by a foreign enterprise of an identical or misleadingly similar trademark, it must also expect that the foreign rightholder will bring an action for prohibition against it on the grounds of the use of its trademark on the Internet. In this case, both rightholders would be denied the possibility of using their trademark on the Internet. In order to avoid this consequence, coexistence is unavoidable. As such, it does not represent a devaluation of trademark rights but leads to a restriction of the scope of national trademark protection where this is unavoidable in order to protect the foreign rightholder, and hence ultimately in the interests of all rightholders in the lawful use of their trademarks on the Internet.

(ii) Unfair-use proviso

If a coexistence solution appears justified in typical conflict situations, nevertheless, the restriction of absolute protection is only to be accepted for cases of honest use of trademarks. As experience with the abusive registration of domain names ("domain grabbing" or "cybersquatting") and other new forms of trademark infringement on the Net (*e.g.*, "meta-tagging"⁹⁰) shows, there is a particularly large risk of the abusive use of trademarks on the Internet. In order to prevent a coexistence rule assisting the abusive use of designations, courts must have at their disposal a flexible instrument that protects the domestic rightholder against such

90 Meta-tagging means the insertion of trademarks and names in the source code of a website with the aim of causing the Internet search machines to include the website in the lists of results to search queries for the corresponding terms; on the legal problem of meta-tagging, cf. KUR, in LOEWENHEIM & KOCH(eds.), "Praxis des Online-Rechts" 325, 371 (1998).

practices on the Internet. In order to exclude unfair and abusive use of designations on the Internet, the coexistence model must be supplemented by a dishonesty proviso. The basic condition for the admissibility of the use of a trademark in advertising on the Internet is accordingly the good faith use of the trademark. If the foreign rightholder infringes this requirement, he can no longer rely on freedom of use abroad, and the legal consequences otherwise applied to trademark infringements will be imposed, *i.e.* the domestic rightholder will be entitled to an unrestricted prohibition claim pursuant to Sees. 14 and 15 of the German Trademark Act and Sec. 12 of the German Civil Code, irrespective of the effect that such an order has beyond the domestic territory of protection.

In the decision whether the unfair-use standard is met, the notion of unfair use is not limited to cases of egregious examples of deliberate, bad faith infringements, but the courts will have to examine, while balancing interests, all the circumstances of the specific individual case, taking into account both the principle of territoriality and the resulting freedom of use, and the domestic rightholder's interest in obtaining reasonable protection of his trademark. In applying the unfair-use criterion the courts will have to include a number of factors in the examination which "interact like a moving system, and whose accumulation and interaction can establish the unfairness standard." Of importance in balancing interests will be above all subjective aspects of dishonesty such as the intention to cause confusion or to mislead, systematic imitation of the foreign trademark, as well as the degree of identity or similarity between the trademarks, the degree of reputation of the trademark in domestic trade circles and the scope of the geographical protection of the trademark outside the domestic protected territory.

The main cases of application will be, without this being an exhaustive list, not only the use of the trademark with an intention to cause confusion and to misuse, but above all the protection of famous trademarks against dilution or exploitation of reputation that is already the requisite of "unfair use" according to current law. Particularly in the case of the famous and well-known trademarks within the meaning of Art. 6^{bis} of the Paris Convention and Art. 16(3) of TRIPS, which are particularly at risk, the balancing of interests will as a rule lead to the trademark-law prohibition claim being granted, particularly since here the protection of the trademark in most cases applies, not only in Germany but in a number of countries, and hence the freedom of use as a value factor is of less importance.

In addition, the use of a trademark on a website using the top level domain ".de" can be considered as a separate group of cases of the dishonesty proviso, since the choice of a ".de" domain expressly establishes a relationship to the German market, and for this reason it appears justified

to exclude these websites from the coexistence rule and subject them without restriction to general trademark principles. The elastic meaning of the proposed unfair-use proviso thus provides sufficient flexibility to guarantee the necessary protection of domestic trademarks.

Moreover, courts would be allowed scope for differentiating legal consequences within the examination of dishonesty. Thus, in the individual case, courts will be able to issue a relative prohibition order instead of granting or refusing trademark-law claims, depending on the circumstances of the individual case and after balancing the conflicting individual interests and consumers' interests, *i.e.*, when the user of an identical or misleadingly similar sign can be ordered to apply measures that would eliminate the allegation of unfair use. Such measures could also be in the form of orders to use differentiating additions or disclaimers, but such a conflict settlement would only be justified in exceptional cases given the problems of such additions shown above.

(cc) Interim result

In conclusion it remains to be stated that the absolute protection of trademarks by existing trademark law is not a suitable means for solving trademark disputes on the Internet, but that rather consideration should be given to restricting absolute trademark protection and applying a coexistence model restricted by an unfair-use proviso.

The proposed coexistence solution, according to which the rightholder must tolerate the parallel use of a sign that is identical or misleadingly similar by the foreign user of the mark on the Internet, provided the use is not considered unfair, results from the attempt to square territorially restricted trademark protection with the resulting freedom of use in other territories of protection. The negative consequences for the domestic rightholder resulting from the perceptibility of an identical or misleadingly similar sign may be considerable, but appear to be justified on the basis of the freedom of use abroad and in light of the possibility, in the general interest of rightholders, of using the Internet as an advertising medium if the allegation of unfair use cannot be established in light of all the circumstances of the case, and after balancing and valuing the different interests involved.

2. Sales Activities

Finally there remains the question of how sales activities on the Internet are to be assessed under trademark law. There are few doubts on the assessment of the cases where the goods offered on the website do not permit digitization and hence must be put into circulation in Germany through conventional distribution channels. If the order alone is made on line, the sale of the goods and services can be restricted territorially as for

other forms of remote sales, so that there is no occasion for restricting existing trademark-law principles, and the goods and services can only be put into circulation where they are not in conflict with third party trademarks.

However, a restriction of the general trademark-law principles in the sense of the coexistence model proposed for online advertising does not appear necessary for cases of sales activities carried out directly via the Internet. It is true that the territorial destination of online distribution cannot be determined by technical means. However, unlike Internet advertising, the territorial demarcation of sales activities carried out directly via the Internet is not a priori impossible. Since the goods and services offered online are only distributed or made available after conclusion of a contract and prior payment or by using password systems, there is the possibility of identifying the purchaser according to nationality and of excluding Internet users from countries with conflicting trademark rights from the purchase of online products. The specific problem of an inseparably mixed foreign-domestic legal situation, as described for the Internet, which requires a restriction of the absolute protection of trademarks, thus does not apply to online sales activities. Consequently, an exception from the trademark-law exclusivity principle, which would represent a privilege for online sales as compared with conventional distribution forms for goods and services, would appear neither justified nor necessary.

Finally, mention must be made of conflict situations in which - like the free "Playmen-Lite" version in the *Playboy v. Chuckleberry* case referred to above⁹¹ - the products can be accessed in the net free of charge. The US court in this case demanded that access to the free version should also only be possible against issue of a password to the exclusion of US Internet users, since "Playmen Lite" itself represented the product. As far as concerns the classification of the accessibility of an online product free of charge as a sales action, and according to the general rules of trademark law, this decision goes too far. The interactive nature of the Internet as an (advertising) medium would be largely destroyed if in such cases the requirement of the creation of password systems were made the rule. Such forms of advertising in which the product itself is made available free of charge as a means of advertising are to be classified in trademark-law terms as advertising, with the result that the proposed coexistence solution should also apply here.

As a result, online sales actions - which do not include advertisements through offering products free of charge - are, like offline sales activities, subject to general trademark-law principles, with the consequence that

91 See above C.I.L, in Part One.

online sales may only be made to such countries in which there are no conflicting national trademark rights.

G. International Domain Name Conflicts

A special issue of trademark law on the Internet that has been left aside in the considerations so far is that of domain name dispute, which has occurred on numerous occasions in the past.⁹² According to now established case law by the appellate courts, the use of a domain name that is identical or misleadingly similar to a trademark or a commercial designation may give rise to prohibition claims under trademark law.⁹³ Just like the use of a trademark on a website, the use of a domain name can thus lead to trademark disputes if a foreign company operates under a domain name a website that can be retrieved by Internet users in Germany.

I. Legal Protection Before National Courts

A comparison of domain name disputes with general trademark disputes resulting from the use of trademarks on the Internet reveals no fundamental differences with respect to the international nature of the problem. As with the use of a sign on a website, the use of a domain name also leads to global perceptibility, which can be forbidden by the holders of identical or misleadingly similar signs by application of general trademark-law principles. Since the accessibility of domain names cannot be restricted territorially,⁹⁴ a prohibitory order, just as for the use of a trademark on the website, will mean that the domain owner must abandon the use of the domain overall, *i.e.*, also in the countries in which use would be permissible in the absence of property rights or on the basis of the user's own trademark. Consequently, as with general trademark disputes on the Internet, the solution of domain name disputes with foreign reference requires a distinction to be drawn between the freedom of use abroad and domestic protection, with the result that both the considerations on international jurisdiction and on conflict of laws, and the coexistence model proposed for the solution of substantive-law issues can also be applied to

92 On the newly created possibilities of legal protection in addition to national jurisdiction, within the framework of the "Alternative Dispute Resolution (ADR) Policy" of the "Final Report of the WIPO Internet Domain Name Process," *see* BETTINGER, 1999 CR 492 *et seq.*

93 Of the numerous publications on German law, reference is made to: KUR, in LOEWEN-HEIM & KOCH (eds.), "Praxis des Online-Rechts" 325,377 (1998), with further references; BETTINGER, 1997 GRUR Int. 402; JAEGER-LENZ, in LEHMANN (ed.), "Electronic Commerce" 183 (1999); A. NORDEMANN, 1997 NJW 1891 *et seq.*; OMSELS, 1997 GRUR 328 *et seq.*; VOLKER & WEIDERT, 1997 WRP 652 *et seq.*; WIEBE, 1998 CR 157 *et seq.*; UBBER, 1997 WRP 498.

94 See above B, in Part One.

the use of domain names. As far as concerns the substantive-law solution of disputes, the cases of domain grabbing or cybersquatting that occurred particularly in the initial stages of the commercialization of the Internet, and in which third party signs were registered as domain names in bad faith or for abusive purposes, such as in order to prevent the owner of the trademark from reflecting the mark in a corresponding domain name using his trademark as a domain name, to sell or otherwise transfer the domain name to the owner of the trademark or to a competitor or otherwise disrupt the business of a competitor, can without difficulty be covered by the unfair-use proviso of the proposed coexistence model.⁹⁵ The same applies to cases in which a foreign domain holder's choice of domain name dishonestly exploits or impairs the distinctiveness and the reputation of the domestic trademark. However, just like the use of a trademark on a website, the unfair-use test is not limited to deliberate, bad faith registrations but can also be fulfilled if the balance of interests and analysis of principles justifies an exemption of coexistence and thus absolute protection of the domestic trademark or commercial designation.⁹⁶

II. Legal Protection Under "Administrative Dispute Resolution Policy" of "Final Report of the WIPO Internet Domain Name Process"

As a reaction to the large number of abusive domain name registrations, demands have been voiced for the provision of alternative dispute solutions that would avoid time-consuming and expensive state recognition and enforcement proceedings. In the Final Report of the WIPO Internet Domain Name Process these demands have been taken into account. The WIPO report, initiated by a White Paper from the USA and with the approval of WIPO Member nations, contains a detailed catalogue of recommendations for reforming the domain name system and possible alternative dispute settlements that will be submitted to ICANN and to the Member nations of WIPO.⁹⁷

If the recommendations prepared by WIPO are implemented, the right-holders, in addition to proceedings before national courts, would have three further alternative procedures for solving domain name disputes. The proceedings referred to as "*online mediation*" and "*online arbitra-*

95 Such a case of abusive registration was that of *Playboy Enterprises v. AsiaFocus International Inc.*; the *concert-concept* case decided by the Berlin Court of Appeals, 1997 CR 685, was also probably a case of an abusive registration, with the result that the decision is to be supported, although not in its justification but in its result both with respect to the "de" domain at issue and the "com" domain.

96 See above F.III.1, in Part One.

97 Final Report of the WIPO Internet Domain Name Process, April 30, 1999, available at <http://www.wipo.org>.

tion" correspond with the traditional extra-judicial dispute settlement instruments of mediation and arbitration.

The establishment of the procedural and technical requirements for online mediation, to which the parties submit voluntarily in the event of a dispute, is intended to use the expertise of a neutral mediator to achieve a mutually agreed negotiated settlement of domain name disputes.

Online arbitration procedures that substitute for national courts and issue binding settlements of disputes on the basis of private autonomous agreements between the parties according to the agreed national substantive law will frequently also represent a genuine alternative to state jurisdiction in light of the costs and time involved in international litigation.⁸

In practice, considerable importance will attach to the *Administrative Dispute-Resolution Procedures* (ADR) planned as an addition to the arbitration and mediation proceedings. According to the recommendations of the WIPO Report, in future every applicant for a domain name should be obliged to subject himself to administrative dispute settlement procedures with uniform procedural and substantive principles in the event of an alleged infringement of rights, with the result that the decision is to be implemented by the office issuing domain names without need for judicial recognition and enforcement.

Unlike as set out in the WIPO Interim Report dated December 23, 1998," which provided that all possible constellations of domain name disputes could as a matter of principle be the subject matter of ADR procedures, a significant restriction has been imposed on the scope of application of the ADR procedures in the final report. The legal protection created within the framework of the ADR procedures in addition to state jurisdiction should only be available in cases of abusive registration.¹⁰⁰

Such a restriction to the scope of application of the new dispute settlement procedures can at the present time be welcomed. It appears entirely

98 According to the proposals in the WIPO Report, an optional arbitration clause should be included in the form of contracts between registration office and domain applicants, with the result that the domain holder can optionally accept participation in arbitration proceedings at the time of the registration of the domain.

99 See for details KUR, 1999 GRUR Int. 212.

100 This essentially means cases known as "domain-grabbing" or "cyber-squatting;" for the protection of well-known and famous trademarks, the report also proposes the introduction of particular defensive rights during registration procedures. Thus, subject to strict requirements, the blocking of one or more gTLDs can be imposed, with the result that applications for registration of an identical trademark by a third party not authorized by the trademark holder can be rejected by the registration office; cf. KUR, 1999 GRUR Int. 212, 216.

reasonable to test the newly created dispute settlement instruments first of all in the easy cases of abusive registrations. This should not of course mean that the overwhelming majority of domain name disputes, in which the allegation of bad faith cannot be established, will remain permanently outside the scope of the new dispute settlement mechanism. As compared with dispute settlement by national courts, with its fixation on national law and the considerable difficulties in the enforcement of rights, ADR procedures present significant advantages which in the long term should also be applied to decisions concerning general domain name disputes. The coexistence model proposed here for solving international trademark disputes on the Internet could provide an adequate substantive basis for decisions.

H. Summary and Prospects

The above considerations have clearly shown that trademark disputes resulting from the absence of frontiers on the Internet lead to different needs for modifications of traditional legal concepts.

With respect to specific international jurisdiction for trademark infringements, modifications have proven difficult. Given the substantive-law subordination of the legal venue for torts, a restriction only appears reasonable if clarification is first achieved as to the extent to which national trademarks can be infringed by the use of signs on the Internet by foreign companies. In addition, a restriction of the jurisdiction rules would only have an effect on the parties involved if basic procedural-law principles were abandoned. The solution to the jurisdictional problems in international trademark disputes therefore might not be found in attempts to restrict existing rules on the jurisdiction of national courts but in developing new forms of (binding) online-arbitration, where the arbitration board consists of arbitrators with different nationalities.

There is no need for a modification to the conflict-of-law principle of the country of protection applicable to trademarks. Instead new rules of substantive law to solve the genuinely international conflicts between national trademark rights on the Internet must be developed. These rules must take into account all circumstances of the individual case and especially both (or all) national trademark rights involved in the conflict. The new rules of substantive law for international conflicts between national trademarks should be created at international level and then be implemented in national trademark laws.

Substantive trademark law has been shown to provide a decisive approach towards a solution to Internet-specific trademark disputes. While trademark-law principles can be maintained for online sales activities, uses in online advertising require a line to be drawn between trademark protec-

tion restricted territorially to the particular country and the freedom of use abroad. This requires a more flexible approach to trademark protection. As a possible approach a coexistence model should be considered which permits the coexistence of national trademarks on the Internet provided that, in light of the entire circumstances of the case, and taking into account the individual interests and the interests of the general public, the allegation of unfair use of the sign cannot be established.

Of course the necessary statutory changes can only result from European or international initiatives. Consequently, the aim at the first stage - if necessary on the basis of substantive reciprocity between EU nationals and nationals of third countries - is a Community-law regulation, and, as a desirable long-term objective, an international uniform regulation within the framework of the Paris Convention or the TRIPS Agreement.