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A generation of counterfeit consumers: an interview with the EUIPO

The Trademark Lawyer sits down with Julio Laporta, Head of Communication and Spokesperson at the EUIPO, to discuss the findings of the latest survey that showed that one in two young Europeans have purchased counterfeits in the last year.

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Liability for trademark infringement involving artificial intelligence

Gabriele Engels, Counsel at DLA Piper, questions infringement liability for AI processes, such as grocery delivery item replacement.

In light of the UK's policy paper on AI regulation being unveiled this summer and the EU's continuing efforts to tackle the same question, it is time to examine the status quo of AI liability, especially regarding trademark infringements. This article examines the existing liability regimes as well as the case law on trademarks and analyses their suitability for AI systems. In doing so, two sources of possible trademark infringements are illustrated; AI-assisted grocery delivery services and the EUIPO's image-based trademark search tool "eSearch plus".

What is AI?

As a uniform definition does not exist, the term "artificial intelligence" (AI) is used inconsistently to describe various applications associated with human intelligence. Generally, AI systems can be classified as such if they are "capable of learning", comparable to the problem-solving and decision-making abilities of the human mind. One of the most important capabilities of AI systems lies in the recognition and classification of patterns and rules in data sets. The characteristics of an AI application are then further defined according to (i) the functions it pursues and (ii) the environment in which it operates. Everyday examples range from facial recognition software for smartphones, over Google Maps, to the algorithms which prompt suggestions for search queries.

Legislative approaches

A decision is currently being made at the EU level as to whether the adaptation of existing liability rules is sufficient to address the newly arising challenges posed by AI or whether the

Gabriele Engels

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introduction of an AI-specific liability regime is necessary. The proposal for a Regulation on Artificial Intelligence[1] contains a broad definition of AI as a software-based technology that generates an output based on interactions with its environment. This AI Regulation then distinguishes between four risk categories: Unacceptable, high, low, and minimal risk. Low and minimal risk AIs, such as chatbots or spam filters respectively, are not subject to any special obligations and must only comply with transparency requirements. By contrast, systems with an unacceptable risk (often deployed in scenarios in which fundamental rights are significantly affected, e.g., facial recognition programs that use real-time biometric data for law enforcement purposes) are prohibited entirely. The focal point of the Regulation, however, lies on so-called high-risk AI systems, which must meet strict requirements. Examples include security components contained inside other products (e.g., drones).

This purely risk-based approach, which operates independently from fault, automatically triggers the obligation to comply with specific requirements aimed at preventing rights violations when operating AI systems or placing them on the market. However, the AI Regulation does not address particularly relevant questions surrounding intellectual property rights and liability, especially where an AI is the actual perpetrator of such infringements. These include evidentiary issues such as proving the existence of a defect in intangible products, as well as a causal link between such a defect and a harmful outcome. Similar difficulties arise around the identification of the potentially liable party and proving fault.

By comparison, the UK has made use of its new-found autonomy in a post-Brexit world and released a policy paper outlining its own approach to AI regulation on 18 July 2022[2]. This stands in stark contrast to the approach offered by the EU. Instead of the universally applicable, risk-based approach which addresses all AIs, the policy paper suggests a sector-based approach which delegates regulation responsibilities to the individual industry sectors. The danger of multiple, highly divergent, or even unintentionally overlapping regimes shall be mitigated by the implementation of overarching core principles related *inter alia* to transparency, security, safety, and fairness.

Liability for trademark infringements

Despite innovative approaches, existing liability regimes as well as the planned legal reforms insufficiently address the issue of liability of AI systems regarding trademark infringements. In practice, one quickly encounters various concerns, especially of an evidentiary nature.

These issues are rooted in the situation-specific, unpredictable behavior of AI, its constant adaptation, and the opacity of its decision-making processes, to name but a few characteristics. The more autonomous an

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AI system behaves and the more comprehensive the decision process is, the more difficult it becomes for the injured right holder to determine the responsible party. It is virtually impossible for an average consumer to comprehend how these complex systems operate, let alone prove that an error in the AI caused the damage. These difficulties intensify where various AI systems are involved or a single infringement has several possible causes, e.g., faulty programming of the AI as well as incorrect data entry by the user.

1. What do the Courts say?

Due to the sheer number of new apps and AI programs appearing seemingly daily, one could assume that the courts have not yet had the opportunity to address the issue at hand. However, courts have dealt with trademark infringements committed by AI in numerous cases. Above all, these decisions were rendered in the context of so-called keyword advertising.[3]

These cases revolve around complex, AI-based algorithms which provide users with search results based on pre-set keywords, usually based on specific brand names. Upon entering these brand names into the search engine, the user is presented not (only) with the

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1. COM (2021) 206 final v. 21.04.2021 - "AI Regulation"
2. https://www.gov.uk/government/publications/ establishing-a-pro-innovation-approach-to- regulating-ai/ establishing-a-pro-innovation-approach-to- regulating-ai-policy-statement
3. e.g. CJEU, C-236/08-C-238/08, 23 March 2010, Google France; High Court of Justice (Chancery Division), [2014] EWHC 181 (Ch), 10 February 2014, *Lush v. Amazon.*

Résumé

Gabriele Engels, Counsel

Gabriele is a German IP specialist lawyer with over 10 years´ experience in advising on strategic orientation, enforcement and defense of her client`s brands and rights. She has wide experience in relation to trademarks, in particular with regard to internet-related issues, including domain name disputes and use of digital content. She has also wide experience in licensing and other IP related agreements as well as advertising and marketing law.

products sold by the rights owner of the brand, but with a list of results for alternative, competitor products, offers from third-party sellers or advertisements linked to such third-party products.

In general, service providers on the internet such as Google and Amazon are only secondarily liable next to advertisers, if they do not play an "active role" in the infringement. An active involvement can be affirmed where the service provider participates in the selection of the keyword or the design of the advertisement. However, even without active participation service providers are obliged to cease and desist in cases of obvious trademark infringements or where they have knowledge of the concrete illegality of the content. Additionally, they may be held liable for damages if the content is not immediately removed or blocked. [4]

Where the algorithm is designed by the platform operator and used to push the platform's own products, the search results are generally attributable to the service provider as its own trademark infringement making it primarily liable.[5] This does not mean that the use of third-party signs as keywords is generally prohibited, however, certain measures must be taken to avoid committing a trademark infringement. For instance, it must be ensured that the advertisement which is coupled with the search term is unequivocal regarding the economic origin of the advertised products.[6]

Generally, the party responsible for the selection of the displayed advertisement or search results, is considered the infringing party. If this selection is made by an algorithm that is operated and controlled by a platform, (perpetrator) liability for the infringement lies with the platform. If the selection is actively made by an advertiser (as in the case with classic keyword advertising), primary liability lies with the latter. The service provider is liable as a secondary infringer if it abandons its role as a "neutral intermediary", i.e., if it had knowledge of the infringement and made no reasonable efforts to end it.

2. When does this become relevant?

But do these decisions by EU and UK courts provide an answer to the essential questions surrounding AI liability for trademark infringements? With AI increasingly creeping into every aspect of our lives, have attribution, causality and evidentiary issues been sufficiently resolved?

Grocery delivery services
As everyday life grows more hectic, certain chores are increasingly outsourced to digital services. For this reason, the likes of Sainsbury's

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[4] CJEU, Google France, loc. cit.
[5] see High Court, Lush v. Amazon, loc. cit.
[6] CJEU, C-323/09, 22 September 2011, Interflora.
[7] High Court, Lush v. Amazon, loc. cit.
[8] See also: Resolution of the EU Parliament of 20 October 2020 with recommendations to the Commission on a regulation of civil liability in the use of artificial intelligence (2020/2014(INL)

and Waitrose have been delivering the weekly shopping of households all over the UK for years. Additional competitors, such as Getir and Gorillas, have since joined the fray, making on-demand grocery delivery a fast-growing industry. A few clicks in an app allow the user to select specific products from specific brands which are then delivered straight to their front door.

Such innovation becomes relevant under trademark law if the AI-technology embedded in the software decides to offer a similar product from a different brand as an alternative to what the user initially searched for, e.g., soap from another manufacturer or brand instead of "Lush" products when prompted with the search term "Lush".[7] This scenario could arise in the context of grocery delivery, for example, when the user's preferred ice cream brand is sold-out and the app chooses ice cream from another brand to be delivered as a replacement.

Presumably, the AI processes involved operate with the aid of databases equipped with recognition patterns and responses, similarly to other smart technologies. The question arises whether the AI embedded in the process works this way independently or whether it was programmed to do so.

To provide an answer, one can look to the ratios of the decisions mentioned above and transfer them to the issue presented by grocery delivery services. Where an AI-based search program is prompted with a specific brand, yet displays alternative products, the way in which these products are presented will be crucial in ascertaining whether a trademark infringement has been committed. Particularly decisive is whether a reference was made to the trademark proprietor's products. To avoid trademark infringement, measures should be taken to prevent a user from assuming that an economic relationship exists between the manufacturer of the (alternative) product and the trademark owner.

The attempted order of "Lush" soap which is followed by the notice that products of this brand are not available, coupled with the question whether alternative suggestions from other manufacturers or brands are desired would be an example of an instance where a trademark infringement could be negated.

Additionally, the question remains regarding whether the AI independently chose to act in this way or whether the algorithm was programmed to advertise third-party products from the outset. Where competitors have actively instructed the AI-based algorithm to suggest their alternative products, they are likely to be primarily liable for the possible trademark infringement. If the AI has independently decided to suggest an alternative product, the infringement could be attributable to its operator.

AI-based trademark comparison tool

Furthermore, AI programs used in trademark searches could also be considered "infringers". Consider the EUIPO's own image search engine as part of its "eSearch plus" tool. After uploading an image, the AI technology browses through its database of trademarks and produces a list of any trademark it deems similar to the uploaded image. The results of such a query are presented in order of trademark number without the tool determining how high their similarity is. The search results can then be evaluated by a lawyer with specialized knowledge.

It is no difficult feat to envision this process being transformed into a fully autonomous system, with the program replacing the lawyer's assessment by not only researching similar trademarks, but also conclusively assessing them. A party interested in registering a new trademark and wanting to ensure that the envisioned logo is not already protected by someone else, might upload a drawing or rendering of the design and search the database. The EUIPO eSearch plus tool would then present a selection of similar trademarks along with an assessment of the degree of similarity.

> **Who is liable if the AI system makes an incorrect assessment?**

This scenario raises questions in particular surrounding risk distribution: Who is liable if the AI system makes an incorrect assessment, as a consequence of which a trademark is registered, used and infringements occur?

Depending on the arrangements in the contract between the service provider of the search tool software and the user, the service provider might be liable insofar as a clause determines that the evaluation provided by the AI is reliable. Insofar as liability has been expressly excluded (to the extent permitted by law), the user may well be liable for the trademark infringement. If the contract does not include a liability distribution clause, the service provider is likely to be at fault for the infringement, as the party responsible for the evaluation of the search results.

3. What are potential solutions?

Although existing jurisprudence offers some starting points as to how trademark infringe-ments and AI can be dealt with, the approaches set out therein are unlikely to do the increasingly complex, interactive processes justice.

Establishing presumption rules which ease or even reverse the burden of proof in favor of the

injured party could solve the problem of proving causality.[8] Regarding risk distribution, a differentiation could be made between developers, operators, users, and injured parties according to the type of AI and the degree of autonomy the system has. Increasingly automated processes mean that users have less influence over the actions and outcome of AI. This should be reflected in liability regimes.

Insofar as the user's input can only influence the output of the AI to a limited degree, liability for unforeseen damage should not be imposed on the user, but on the operator or developer (presumed fault with possibility of exculpation). To the extent that the user retains some influence over the AI system and/or does not exercise this influence with due care, he would be held liable.

Due to the implicit issues of proof, establishing joint and several liability of the involved parties (if necessary, according to causation contributions) is probably preferable from the trademark owner's perspective.

Additionally, introducing strict liability for AI systems with the significant potential of causing damage, i.e. high-risk AI, could be considered. The creation of such strict liability for operators could prevent the emergence of attribution and liability gaps. In this respect, the introduction of a compulsory insurance for AI operators is also conceivable.

Conclusion and Outlook

After an evaluation of the consultation results, the adoption of a separate AI liability regime by the EU Commission is planned for the third quarter of 2022. Until then, the general liability principles will continue to apply.

As can be deduced from the jurisprudence, EU and UK courts generally want to place liability with the party that predetermines the specific result of the AI system. This can be the individual advertiser who predetermines which search terms will trigger their specifically designed ad. It could also be the platform operator who uses an algorithm to his advantage, which is independently capable of causing an infringement. Until a more tailored liability regime has been developed, this approach offers an acceptable risk allocation.

Regarding the use of AI within a business context, the most effective protection against liability and the costs of claims is contractual arrangements addressing liability distribution. These should be negotiated with AI developers as well as with third parties who otherwise influence the AI system. In the absence of specific regulations, the nature of the AI and its exact functioning should be stipulated in an agreement, i.e. whether it is fully autonomous or semi-autonomous. For semi-autonomous systems, it
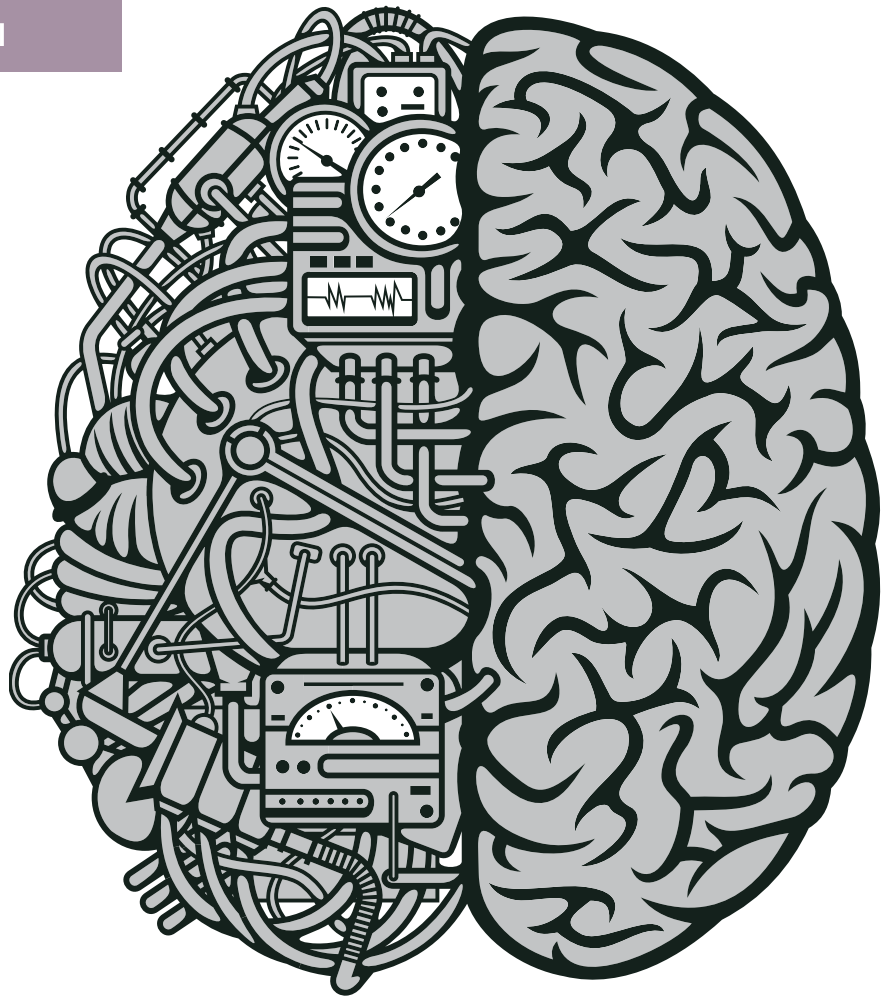
> **For semi-autonomous systems, it should also be specified whether there is a significant degree of human control and the importance of this control.**

should also be specified whether there is a significant degree of human control and the importance of this control.

In view of the opacity and unpredictability of AI and the EU's risk-based approach, measures protecting the injured party should be included in a new EU-wide liability regime. This should provide, facilitations of proof up to a complete reversal of the burden of proof in favor of the injured party. Special regulations for certain types of high-risk AI and joint and several liability of the involved parties can also contribute to closing liability gaps for possible trademark infringements committed through AI systems.

*This article does not consider the EU Commission's "Proposal for a Directive of the European Parliament and of the Council on liability for defective products" (COM(2022)495) and the "Proposal for a Directive on adapting non contractual civil liability rules to artificial intelligence" of 28 September 2022, complementing the revision of the Product Liability Directive.

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