

# Deharmonization through the Intellectual Property Enforcement Directive

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## Abstract

The regulations on Rights on Immaterial Goods have gained immensely in their economic importance, particularly for European SMEs. Therefore, the decision by the EU to harmonize and clarify is essentially right. On the other hand, we are dealing with complex issues here. It is relatively easy to identify a common continental European heritage of protecting authors' rights, which in some ways differs distinctly from the Anglo-American copyright system. But the details differ throughout the Member States – often not in so far as regards the actual law, but in how the underlying abstract legal concepts are generally understood. To know about those differences beforehand is essential to the process of harmonization. Otherwise, transferring concepts from one or a few Member States might result in a Directive which in the end may in many member states simply be unimplementable.

## 1 Scope not clearly defined

### 1.1 Intellectual Property

If you bring together three lawyers from across Europe, it soon becomes clear that it will prove very difficult to get a definition of either Intellectual or Industrial Property they will all agree on, especially when it comes to the question of which areas of law should actually be included. Even the concept of a property right is vastly different in the English common law and European continental law<sup>1</sup>. And although the term Intellectual Property seems to be marketed heavily by some interest groups, hardly any of the national legal systems actually use it. Where the term has actually survived, it seems to be for historic reasons. One of Germany's most distinguished experts has gone so far as to call the term Intellectual Property *an aberration of legal theory, drawn from the junkyard of legal history, which only serves to obscure the facts*<sup>2</sup> - it is quite rare that legal scholars find such strong words. And even in a jurisdiction where an apparently similar term is used, such as Propriété Artistiq in France, it differs fundamentally in many important nuances.

The concept is so problematic, because the approach in Europe has been based on the existence of a clearly defined set of Rights on Immaterial Goods, each with its own characteristics, and appropriate enforcement measures. This has led in continental Europe to a great degree of legal certainty and predictability of legal decisions. In the US, the absence of these individual codes, with their detailed specifications, has led to a much less certain environment; which has in turn been exploited by a large number of companies

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<sup>1</sup> *Maurizio Lupoi*, The Origins of the European Legal Order, Cambridge (2000), S 472 f.

<sup>2</sup> *Manfred Rehbinder*, Urheberrecht, 12th Edition, Munich (2002), Rz 79, S 52 f.

apparently basing their entire business practice on the application of dubious legal threats. Blurring the distinctiveness of these separate rights into the single ambiguous, unclearly defined and even controversial term Intellectual Property is not a good way to preserve the legal precision which derives by maintaining the separate rights as separate legally distinct entities. It might therefore be well advised to systematically remove the phrase "*Intellectual Property*" from the Directive, and instead to use the formula "*Certain Rights on Immaterial Goods*", which would then be explicitly enumerated in the directive.

## 1.2 Industrial Property

The one thing you *might* get our three European lawyers to get to agree upon is that Industrial Property is what is left when you take Authors Rights/Copyright away from Intellectual Property. But then their discussions would begin once more, leaving you with the problem that Industrial Property might include - or not include, depending from which Member State each lawyer is from - each of the following:

- Patent Law
- Industrial Design Law
- Trademark Law
- Competition Law (as a whole; or only parts)
- Antitrust Law
- Business Secrets, Know-How, and almost anything else that can be subject to a franchise
- Confidential Information

Thus for example in Germany, Industrial Property (Gewerbliche Schutzrechte) includes Patent Law, Industrial Design Law, Trademark Law as well as the whole Competition Law, from generally misleading customers to unfair discounts or imitation<sup>3</sup>. In Italy it seems to be limited to Patent, Industrial Design and Trademark Law (although there are scholars who define it more broadly); whereas in the UK it also includes Business Secrets, Know-How as well as Confidential Information. In the end (even if we suppose Member States will clearly write into law what should be included and what should not, rather than merely copying the wording from Art. 1 into their implementations, abandoning legal predictability, and leaving everything up to the judges), we might end up with Trademark Infringements or Unfair Competition falling under this Directive in some countries, but not in others.

If the directive were to be implemented that way, organized counterfeiters would then strategically be able to decide where best to control their actions from, so as not to be subject to searches, seizures and the freezing of bank accounts, depending on their "specialization" in infringing rights.

## 1.3 Commercial Scale

The organized crime of professional infringers is what the Directive sets out to target. But there also seems to be a certain interest in frightening the users of p2p-services like Kazaa from downloading music, films or software without paying the rightsholders. A legislative approach that tries to punish potential suspects by its investigative methods is questionable as such, but the main problem is that instead of openly trying to deal with p2p-services, the directive sets an extremely low standard of conditions when its measures can be applied. One of the most troubling is the almost complete lack of a working definition of what is regarded as *on a commercial scale*<sup>4</sup>. The only hint is given by Recital 13a - and Recitals rarely ever make it into actual implementations:

<sup>3</sup> *Heinrich Hubmann/Horst-Peter Götting*, Gewerblicher Rechtsschutz, 7th Edition, Munich (2002), S 1, Rz 1.

<sup>4</sup> Similar concerns are expressed by *Robin D. Gross*, Protecting Civil Liberties, Competition and Innovation in the EU Intellectual Property Rights Enforcement Directive, 11 February 2004, available at <http://www.ipjustice.org/CODE/021104strasbourg.html>

*The measures provided for in Articles 7(2), 9(1) and 10(1a) of this Directive need to be applied only in respect of acts committed on a commercial scale. The acts which are committed on a commercial scale are those carried out for direct or indirect economic or commercial advantage; this would normally exclude acts done by end consumers acting in good faith.*

According to these words, the measures of Arts. 7(2), 9(1) and 10(1a) appear to be required in *all* cases of commercial infringement. Furthermore, everything infringing that might be done at least for indirect economic advantage would be subject to all of these measures that are reserved for commercial infringers. It *might*, one would hope, not include consumers acting on good faith, but the Directive actually does nothing to guarantee that. Especially when we consider the fact that if someone is acting in good faith or not is something we usually only know *after a court case decision*, whereas most of the measures in the directive can be ordered *even before the start of a procedure*.

This problem could be addressed by removing the equivocation from the last sentence, so that it would read:

*The acts which are committed on a commercial scale are those carried out for direct or indirect commercial advantage; this excludes acts done by end consumers acting in good faith.*

Furthermore, such an important statement should be moved out of the Recitals: it should appear in the main body of the Directive. But it would be appropriate to add to the recitals a statement that such measures are intended only for use in exceptional cases only; and that they are not intended to become standard practice in all civil disputes about immaterial rights.

## **2 A hidden Criminal Law Reform?**

It has to be stated clearly that *in almost all continental Member States*, that the most important provisions of the directive, in particular searches, seizures, the freezing of bank accounts, as well as the information rights as defined in Arts. 7, 8, 9 and 11, are *exclusively limited to criminal investigative procedure* and *absolutely alien to any Civil Law case*<sup>5</sup>.

This merging of civil and criminal law might prove to be extremely difficult to implement, as investigative procedures can only be ordered by prosecutors in those Member States. In particular, searches and seizures can only be carried out by the official authorities, and have to be authorized by an independent judge beforehand or in the case of immediate danger immediately afterwards. For some member states, the phrase "*judicial authorities*" is a further crucial but ambiguous term, as e.g. in Italian law, it includes prosecutors and judges.

But the most problematic aspect remains the extremely low barrier the directive sets for the measures to be ordered. In general, they can be applied even before the commencement of proceedings:

- *on application by a party who presents reasonably available evidence to support his claims*
- *that his intellectual property right has been infringed or is about to be infringed*
- *even without the other party being heard*

This might actually result in searches, seizures and other measures being ordered and kept intact for at least a month *on the basis of mere suspect of a possible infringement*. Certainly, the Directive claims to set only a minimum standard, but the standard should not be set that low if it comes to fundamental procedural rights

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<sup>5</sup> Cf. *Martin Parschalk*, Provider-Haftung für Urheberrechtsverletzungen Dritter, in: *ecolex* 1999, S 748 ff; on the legitimacy of criminal investigations in the context of digital networks *Wolfgang Wessely*, Sicherheitspolizeiliche und strafprozessuale Erhebungen im Internet, in: *ÖJZ* 1996, S 612.

like Art. 6 EMRK. A significant number of member states usually implement a Directive by copying their body without Recitals into national law, perhaps adapting a few of the wordings (or perhaps not). Given that Rights on Immaterial Goods are generally a quite complex issue, and that there is little experience in mixing together civil and criminal law in continental Europe, this Directive might have unforeseeable results for a large number of member states. And even if there were a way to resolve that tension, the risk is very high that an unwanted door would be opened to an abusive introduction of criminal investigative methods into mere civil law, e.g. even licensing contract disagreements, which could be possible according to Art. 5 [...] *all other persons authorized to use those rights, in particular licensees, in so far as permitted by and in accordance with the provisions of the applicable law [...]*.

Those measures, also known as Anton Pillar order and Mareva injunctions are only known in a few countries, mainly outside of continental Europe, e.g. Australia, Israel, Trinidad and Tobago, where they are regularly carried out not by official authorities, but by the (supposed) rightsholder. Just as a sidenote: It seems a little inadequate that the US government should feel qualified to comment positively on a directive whose provisions, for reasons of constitutional law, could never make it into US law. Even in England, where there is experience of similar measures to those of Arts. 7-10, the House of Lords has stated its concern, in particular for the low requirements for the measures to be applicable. For the rest of Europe, the basic problem can be summarized in one sentence: *The measures do not belong to civil law, but to criminal law, but the conditions under which they may be ordered are much too low to fulfill the latter's requirements.*

### 3 Potential economic damages, particularly to SMEs

#### 3.1 The Deharmonization Problem

To see the effect different implementations might have on the common market, we do not need to speculate too much, since we can learn from the examples of earlier Directives.

For example, looking at Art. 6, 1 of the Directive 2001/29/EU, we can notice that it has been implemented in slightly different ways. In Austria, § 90c of the Law on Authors rights now states that the Holder of a right can act against circumvention of a technical measure created to protect that right from being infringed. But the rights of free use, e.g. private copying, educational use, citations etc. are according to the common doctrine regarded as *ex lege licenses* - licenses created by and based on law, not on the rightsholders' consent. Therefore, making use of those rights can never be an infringement of the rightsholders' position. Furthermore, § 91, 1 states that anybody who circumvents such a technical measure just making legal private copies is not to be punished. The question of whether in such a case the rightsholder could act on the basis of § 90c against such a circumvention seems unlikely to be answered by yes, but definitive clarity it will be up to court decisions<sup>6</sup>.

In Germany on the other hand it is up to the consumer to take legal action against a rightsholder who protects his content in a way that renders impossible even private copying. To reduce this disadvantage for the consumer, such a case can also be filed by consumer protection organizations. *But*: A content provider who wants enter the European market now faces two different risk scenarios, if he uses a protection scheme that might interfere with free or fair use. In Austria, he will have to act against consumers; whereas in Germany he will just have to sit and wait to be sued. Furthermore, it has been stated in a German High Court decision, that the maximum number of legitimate private copies cannot exceed seven, whereas in Austria it has been explicitly decided that no such numeric limit necessarily exists. A music company introducing a copy protection scheme which allows a maximum number of 10 copies for private use will thus be safe from German consumer protection associations; but in Austria more copies than this might still be legitimate - which might be reason enough for the company to introduce a different pricing scheme. And so we have the classical example of a *market barrier* here.

<sup>6</sup>See also Vgl. *Barbera Laimer/Clemens Thiele*, Die Privatkopie nach der Urheberrechtsgesetznovelle 2003, Dezember 2003, S 12 f, erhältlich unter <http://www.rechtsprobleme.at/doks/privatkopie-laimer-thiele.pdf>

Now this situation is based upon just one Article in one Directive and affects only two countries. To know what differences might be created by some of the ambiguities<sup>7</sup> that unfortunately still remain in the IP-Enforcement directive is probably something that should not be left to experimentation.

### 3.2 Lethal Weapons against SMEs

All of the uncertainties in the IP-Enforcement directive lead to at least one more problem, which is possibly its biggest. Large companies could have a welcome tool at hand to drive competition from innovative, but financially weak, SMEs out of business.

Patent law is one example where most disputes are usually very different from cases of back-and-white recklessly intentional infringement. There are simply very very many patents around, many of them very abstract in their scope and quite different in their terminology, and potentially open to a whole range of different possible interpretations in court. Due to the first-come, first-serve nature of Patent Law, even independent reinvention is considered to be infringing. But even the European Patent Office will refuse to take responsibility for their own prior art researches carried out on request by patent applicants. Given that Article 7 at least permits an interpretation of reversing the burden of proof from the rightholder to the suspected infringer based on little more than only that suspect, this problem becomes only more severe.

Through the interaction of its unclearly defined scope; its harsh measures with their low standards of requirements for applicability; and its mixing of Civil and Criminal Law elements, this Directive in its current state would make it possible for a company, even one with no intention of finally taking its case all the way to a final decision in court, to get measures ordered against an alleged infringer that could in effect shut that company down for at least a month. The aggressive plaintiff might have to pay damages later on, but if the company requesting the measures is strong and the competitor weak but innovative, it might be a great business idea.

And that might be the Directive's biggest danger: *by targeting organized crime and p2p-users with the same weapon, the ones who might be hit could be the SMEs.*

## 4 Conclusion

Therefore, the proposed Directive on measures and procedures to ensure the enforcement of intellectual property rights, even in its "compromise" version of 6 February 2004<sup>8</sup>

- *is undefined in its scope and potentially deharmonizing,*
- *mixes civil and criminal procedure in a dangerous way with unforeseeable results,*
- *fails completely to distinguish severe and minor offences in an adequate way,*
- *introduces measures potentially harmful to the competitive position of european enterprises, in particular SMEs.*

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<sup>7</sup> Elaborating on some more of the contradictions resulting from the undefined scope of the Directive cf. *Axel Metzger*, Stellungnahme des Instituts für Rechtsfragen der Freien und Open Source Software (ifrOSS) zum Kommissionsvorschlag für eine Richtlinie über die Maßnahmen und Verfahren zum Schutz der Rechte an geistigem Eigentum, January 2002, S 2 f, available at [http://www.ifross.de/ifross\\_html/art38.pdf](http://www.ifross.de/ifross_html/art38.pdf)

<sup>8</sup> The initial proposal of the Commission can be found at [http://europa.eu.int/comm/internal\\_market/en/indprop/piracy/index.htm](http://europa.eu.int/comm/internal_market/en/indprop/piracy/index.htm); the Final Report is available at [http://europa.eu.int/prelex/detail\\_dossier\\_real.cfm?CL=en&DosId=180910](http://europa.eu.int/prelex/detail_dossier_real.cfm?CL=en&DosId=180910)