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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Application of Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on the enforcement of intellectual property rights

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of the European Parliament and the Council of 29 April 2004
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EXECUTIVE SUMMARY

Effective means of enforcing intellectual property rights are essential for promoting innovation and creativity. Directive 2004/48/EC on the enforcement of intellectual property rights harmonises the minimum means available to right holders and public authorities for fighting infringements of intellectual property rights. It also establishes a general framework for exchanging information and administrative co-operation between national authorities and with the Commission.

A first evaluation of the impact of the Directive shows that noteworthy progress has been made since it was adopted and implemented in the Member States. The Directive created high European legal standards to enforce different types of rights that are protected by independent legal regimes (such as copyright, patents, trademarks and designs, but also geographical indications and plant breeders' rights).

However, despite an overall improvement of enforcement procedures, the sheer volume and financial value of intellectual property rights infringements are alarming. One reason is the unprecedented increase in opportunities to infringe intellectual property rights offered by the Internet. The Directive was not designed with this challenge in mind.

Other issues that could need special attention are the use of provisional and precautionary measures such as injunctions, procedures to gather and preserve evidence (including the relationship between the right of information and protection of privacy), clarification of the meaning of various corrective measures, including the costs of destruction, and calculation of damages.

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1. INTRODUCTION

It is essential to find effective means of enforcing intellectual property rights to promote innovation and creativity. This Report provides the first assessment of the implementation and impact of Directive 2004/48/EC on the enforcement of intellectual property rights[1] ('the Directive'). This assessment is required by Article 18 of the Directive and is based both on the Commission's appraisal of developments and on feedback received from Member States via national reports, which, in turn, reflect views expressed by industry, legal practitioners, consumers' associations and other interested parties.

The information received points to the conclusion that the Directive has had a substantial and positive effect on protecting intellectual property rights under civil law in Europe. The Directive created a straightforward framework for enforcing intellectual property rights which, broadly, provides comparable protection across national borders. In particular the presumption of authorship or ownership (Article 5), the possibility of "sampling" in the context of information gathering (Article 6), provisional measures to preserve evidence (Article 7) and the possibility of injunctions against intermediaries (Articles 9 and 11) have helped render the enforcement of intellectual property rights in the EU more effective.

[1] OJ L157, 30.04.2004, p, 16.

However, due to late transposition of the Directive in many Member States (the transposition process was not completed until 2009)[2] experience in applying the Directive is limited and only few court cases have been reported. Therefore, the Commission has not been able to conduct a critical economic analysis of the impact that the Directive has had on innovation and on development of the information society, as provided for in Article 18 of the Directive.

Despite these limitations, this initial evaluation of the effectiveness of the Directive comes at the right time. Several studies carried out by international organisations and industry have shown that infringements of intellectual property rights have reached a significant level, with certain of these goods posing a danger to consumers' health and safety[3]. In response, over the last two years, the Commission has adopted two Communications[4]. The second one, inter alia, set up a European Observatory on Counterfeiting and Piracy to improve the understanding on IPR infringements and create a platform for representatives from national authorities and stakeholders to exchange ideas and expertise on best practices, develop joint enforcement strategies and make recommendations to policy-makers. These were followed by two Council Resolutions[5] that supported the Commission's policy. The report adopted by the European Parliament also expressed support for an enhanced policy, including a strong legal framework to combat counterfeiting and piracy[6]. Infringements of intellectual property rights taking place outside of the EU also constitute a major source of concern. The Commission is addressing them in different ways, for instance by including ambitious chapters on intellectual property rights in bilateral trade agreements and through participation in international initiatives, such as the on-going negotiation of the ACTA agreement[7].

The analysis shows that certain provisions of the Directive including the relationship with other Directives are understood in different ways in the different Member States and have given rise to **different interpretations and application in practice**. These provisions could warrant further clarifications to make the Directive fully effective.

The **Internet** and digital technologies have added an extra, challenging dimension to enforcing intellectual property rights. On the one hand, the Internet has allowed creators, inventors and their commercial partners to find new ways to market their products. On the other hand, it has also opened the door to new forms of infringements, some of which have proved difficult to combat.

This Report sets out a series of concrete issues where clarification may be needed, in particular to adapt the Directive to the new challenges inherent in a modern Digital Society. It

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2 The deadline for the implementation of the Directive, for the then 25 Member States, expired on 29 April 2006. For details on the transposition process see Annex 1 to the Staff Working Paper that accompanies this Report.

3 See for example http://www.iccwbo.org/uploadedFiles/BASCAP/Pages/OECD-FullReport.pdf; http://www.iccwbo.org/uploadedFiles/BASCAP/Pages/Building%20a%20Digital%20Economy%20-%20TERA(1).pdf.

4 Commission Communication of 16 July 2008: 'An industrial property rights strategy for Europe', COM(2008)465 final; Commission Communication: 'Enhancing the enforcement of intellectual property rights in the internal market', COM(2009) 467 final.

5 Council Resolution of 25 September 2008 on a comprehensive European anti-counterfeiting and anti-piracy plan, OJ C 253, 4.10.2008, p.1; Council Resolution of 1 March 2010 on the enforcement of intellectual rights in the internal market, OJ C 56, 6.3.2010, p.1.

6 European Parliament, Resolution of 22 September 2010 on enforcement of intellectual property rights in the internal market (2009/2178(INI)), A7-0175/2010.

7 For details see http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2005:129:0003:0016:EN:PDF.

is complemented by a Commission Staff Working Document which provides additional information and background on its findings.

2. THE OBJECTIVES OF THE ENFORCEMENT DIRECTIVE

Disparities between the Member States' systems for enforcing intellectual property rights undermine the proper functioning of the internal market and weaken the enforcement of the substantive law on such rights. This leads to barriers to cross-border activities, loss of confidence in the internal market and lower investment in innovation and creation. The Directive draws national legislative systems closer together to give rightholders and Member States' authorities a minimum but standard toolbox to combat infringements of intellectual property rights.

The Directive incorporates civil law measures under the TRIPS Agreement[8] into the EU legal framework. It goes beyond the minimum provisions laid down in that Agreement as it also covers, for example, damages, corrective measures and evidence. In addition, the Directive is based on the practices enshrined in the legislation of the Member States that proved to be most effective before the Directive was adopted (the 'best practices approach'). Member States may also add sanctions and remedies that are more favourable to rightholders[9]. The Directive therefore provides a minimum but flexible legal framework for enforcing intellectual property rights.

3. CLARIFICATIONS MAY BE REQUIRED FOR MORE EFFECTIVE PROTECTION OF INTELLECTUAL PROPERTY RIGHTS AND A BETTER FUNCTIONING INTERNAL MARKET

The analysis of the implementation of the Directive in the Member States shows that the Directive lays a solid foundation for enforcing intellectual property rights in the internal market, but that certain clarification may be needed to avoid any ambiguities and adapt the Directive to the new challenges posed in particular by today's digital environment.

3.1. Specific challenges of the digital environment

The multi-purpose nature of the Internet makes it easy to commit a wide variety of infringements of intellectual property rights. Goods infringing intellectual property rights are offered for sale on the Internet. Search engines often enable fraudsters to attract Internet users to their unlawful offers available for sale or download. File-sharing of copyright-protected content has become ubiquitous, partly because the development of legal offers of digital content has not been able to keep up with demand, especially on a cross-border basis, and has led many law-abiding citizens to commit massive infringements of copyright and related rights in the form of illegal up-loading and disseminating protected content. Many online sites are either hosting or facilitating the online distribution of protected works without the consent of the right holders. In this context, the limitations of the existing legal framework may need to be clearly assessed.

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8 Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) of 1994; Council Decision (of 22 December 1994) concerning the conclusion on behalf of the European Community, as regards matters within its competence, of the agreements reached in the Uruguay Round multilateral negotiations (1986-1994) (94/800/EC), OJ L 336, p.1.

9 See Article 2(1) of the Directive.

3.2. The scope of the Directive

The Directive applies to all infringements of intellectual property rights protected under European or national law and contains no definitions of the intellectual property rights it covers. Although this flexible approach offers several advantages, different interpretations of the concept of 'intellectual property right', led Member States to ask the Commission to publish a minimum list of the intellectual property rights which it considers are covered by the Directive[10].

Even after the Commission published this clarification, uncertainties still remain as to whether some rights protected under national law are covered. This mainly concerns domain names, national rights on matters such as trade secrets (including know-how) and other acts frequently covered by national unfair competition law such as parasitic copies and other forms of 'competing on the edge of the law'. These forms of commercial misbehaviour seem to be on the rise, too. They often have damaging effects on the rightholders, undermine innovation and bring only short-term benefits to consumers. It could be useful to further assess this negative phenomenon and the need to include, in the Directive, a minimum list of the intellectual property rights covered.

3.3. The concept of intermediaries and the workability of injunctions

The Directive makes a broad interpretation of the concept of 'intermediaries' to include all intermediaries 'whose services are used *by a third party* to infringe an intellectual property right'. This implies that even intermediaries with no direct contractual relationship or connection with the infringer are subject to these measures provided for in the Directive.

Nevertheless, the level of evidence required by the courts in the Member States is generally rather high. Furthermore, uncertainties remain over intermediaries and the specific measures to which they are subject by contributing to or facilitating an infringement, regardless of their liability.

Intermediaries who transport goods suspected of infringing intellectual property rights (such as carriers, freight forwarders, or shipping agents) can play a leading role in controlling the distribution of goods that infringe intellectual property rights. Internet platforms such as online market places or search engines can also play an important role in reducing the number of the infringements, in particular through preventive measures and ‘notice and take-down’ policies.

Internet service providers are also key to the way the online environment works. They provide access to the Internet and interconnect the underlying networks, host websites and servers. As intermediaries between all users of the Internet and the rightholders, they are often placed in a compromising position by unlawful acts committed by their customers. For this reason, EU law already contains specific provisions limiting the liability of Internet service providers whose services are used to infringe intellectual property rights[11].

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[10] Statement by the Commission concerning Article 2 of Directive 2004/48/EC of the European Parliament and of the Council on the enforcement of intellectual property rights (2005/295/EC), OJ L94, 13.04.2005, p. 37.

[11] Directive 2000/31/EC of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (Directive on electronic commerce), OJ L 178, 17.7.2000, p.1.

Measures to be taken against intermediaries concern, in particular, the right of information, provisional and precautionary measures (e.g. interlocutory injunctions), or permanent injunctions.

The Directive leaves it to Member States to determine when and how an injunction can be issued against an intermediary. For this to work efficiently, it could be useful to clarify that injunctions should not depend on the liability of the intermediary. Furthermore, the findings reported in the Staff Working Paper that accompanies this Report indicate that the currently available legislative and non-legislative instruments are not powerful enough to combat online infringements of intellectual property rights effectively. Given intermediaries' favourable position to contribute to the prevention and termination of online infringements, the Commission could explore how to involve them more closely.

3.4. The question of the right balance between the right of information and privacy laws

The right of information obliges the infringer or another person to provide to the rightholder information on the origin and distribution networks of the goods which infringe intellectual property rights. The main challenge regarding this right is the need to respect privacy laws and the protection of personal data.

In some Member States the right of information provided for in the Directive seems to be granted very restrictively, mainly due to national laws on the protection and retention of personal data[12]. This issue could deserve special attention. National laws must also allow the courts to apply EU law on enforcement of intellectual property rights. According to the Court of Justice of the European Union a fair balance must be struck between the various rights at stake (such as the right to data protection and the right to property, which includes intellectual property rights)[13] given that both data protection/privacy and the protection of intellectual property are recognised as fundamental rights by the Charter of Fundamental Rights of the European Union[14].

The European legal framework on the protection of personal data[15] on the one hand and enforcement of intellectual property rights on the other is neutral, in that there is no rule implying that the right to privacy should generally take precedence over the right to property or vice versa. National laws implementing the various directives must therefore be construed in a way that allows a balance to be struck between these rights in each case in order to guarantee that the provision on the right of information can protect the rightholders effectively without compromising rights relating to the protection of personal data. Further evaluations

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12 Examples are, according to the 2009 Study on Online Copyright Enforcement and Data Protection in Selected Member States (Hunton & Williams, Brussels, http://ec.europa.eu/internal_market/iprenforcement/docs/study-online-enforcement_en.pdf), Austria and Spain.

13 Judgment of 29 January 2008 in the case C-275/06 Productores de Música de España (Promusicae) v Telefónica de España SAU; judgment of 19 February 2009 in the case C-557/07 LSG-Gesellschaft zur Wahrnehmung von Leistungschutzrechten GMBH v Tele2 Telecommunication GMBH.

14 Articles 7, 8 and 17(2), Charter of Fundamental Rights of the European Union (2000/C 364/01), OJ C364, 18.12.2000, p. 1.

15 In particular Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data, OJ L 281, 23.11.1995, p. 31, and Directive 2002/58/EC on the processing of personal data and the protection of privacy in the electronic communications sector, OJ L 201, 31.7.2002, p. 37.

could be needed on the extent to which Member States' laws and the way they are applied are consistent with these requirements. If necessary, means to remedy the situation and strike an appropriate balance between the rights at stake could also be considered.

3.5. The compensatory and dissuasive effect of damages

Measures, procedures and remedies provided for by the Directive must be effective, proportionate and dissuasive. At present, damages awarded in intellectual property rights cases remain comparatively low. Only a few Member States have reported an increase in the damages awarded, as a result of implementing the Directive.

According to information received from rightholders, damages awards do not currently appear to effectively dissuade potential infringers from engaging in illegal activities. This is particularly so where damages awarded by the courts fail to match the level of profit made by the infringers.

The main aim of awarding damages is to place the rightholders in the same situation as they would have been in, in the absence of the infringement. Nowadays, however, infringers' profits (unjust enrichment) often appear to be substantially higher than the actual damage incurred by the rightholder. In such cases, it could be considered whether the courts should have the power to grant damages commensurate with the infringer's unjust enrichment, even if they exceed the actual damage incurred by the rightholder. Equally, there could be a case for making greater use of the possibility to award damages for other economic consequences and moral damages.

In cases where the infringer is a legal person and the rightholder fails to obtain damages because the infringer has no assets, has been liquidated or is in any other way insolvent, an assessment could be made as to whether the rightholder is able to claim damages from the company's managing director(s) under national law, and if so under what conditions.

3.6. Corrective measures

As set out in more detail in the Commission Staff Working Document, further clarification of the definition of 'corrective measures' might be needed. In particular, the distinction between 'recall' and the 'definitive removal' of goods found to infringe intellectual property right from channels of commerce is not clear-cut under most national legislation. Another point which could be clarified is how to apply these measures if the goods are no longer in the possession of the infringer.

Lastly, as to the costs of the destruction of the infringing goods, consideration could be given to how to ensure that these costs can be imposed by the court directly on the unsuccessful party.

3.7. Other issues

A number of other issues emerge from the analysis of the implementation of the Directive by the Member States which could deserve further discussion at EU level.

Firstly, it seems that Member States have rarely taken up the optional provisions of the Directive (e.g. concerning description orders that provide for a court clerk to enter the premises of the alleged infringer and examine the situation. This optional provision of the Directive has not been implemented by some Member States for civil proceedings and

therefore this kind of measure is available only in the context of criminal proceedings). The cases where Member States, in accordance with Article 2(1), have adopted rules that are more favourable to right holders than those of the Directive are even more rare. The reasons for this could be examined in more detail. The link between the 'commercial scale' requirement (i.e. the requirement that the infringing act is carried out for direct or indirect economic or commercial advantage) and the right of information in Member States' rules could also be explored further.

Secondly, the options available to address problems in collecting evidence in cross-border cases could be assessed, as well as the need to define more precisely when information can be considered to be "under the control" of a party to a judicial proceeding (Article 6(1)). Whether the current rules on collecting evidence in cases involving confidential information create problems in practice, in particular in the context of provisional measures and in cases where different national concepts of confidentiality come into play, might also warrant further evaluation.

Lastly, the usefulness of harmonising the secondary use of goods infringing intellectual property rights and possible problems related to such harmonisation could be explored.

4. CONCLUSION

Infringements of intellectual property rights cause widespread economic harm. A significant number of products infringing intellectual property rights now pose a real threat to consumer health and safety. Proper protection of intellectual property rights is fundamental to stimulate innovation and culture in a competitive, wealth-generating, knowledge-based economy. Different interests have to be carefully balanced. To this end, the Commission will continue to be actively engaged with all stakeholders.

The main conclusion drawn from this first evaluation of the Directive is that the Directive has had a substantial and positive effect on the protection of intellectual property rights by civil law in Europe. However, it has become apparent that the Directive was not designed with the challenge posed by the Internet to the enforcement of intellectual property rights in mind. In addition, several issues could deserve further attention. Among them, one could mention the use of provisional and precautionary measures such as injunctions, procedures to gather and preserve evidence (including the relationship between the right of information and protection of privacy), clarification of the meaning of various corrective measures, including the costs of destruction, and calculation of damages.

With a view to informing the Commission's decisions on any future measure that might be envisaged and to feed the thorough impact assessment work that the Commission is launching as concerns the issues mentioned in this Report, the Commission welcomes any feedback from the European Parliament, the Council of Ministers, Member States, the European Economic and Social Committee and all other interested parties on this Report by **31 March 2011.**