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EVALUATION

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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

Guidance on certain aspects of Directive 2004/48/EC of the European Parliament and of the Council on the enforcement of intellectual property rights

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1. INTRODUCTION

The purpose of this evaluation is to assess the functioning of the Directive 2004/48/EC on the enforcement of intellectual property rights[1] ("Directive", "IPR Enforcement Directive") in terms of its effectiveness, efficiency, coherence, relevance and EU added value.

The Directive was adopted on 29 April 2004 and aims to contribute to creating a level playing field for the enforcement of intellectual property rights ("IPRs") in the EU and thus requires Member States to provide for certain measures, procedures and remedies to ensure the protection of IP. For the purpose of the Directive, IPRs include industrial property rights (Article 1)[2].

This evaluation provides an assessment on whether the measures, procedures and remedies established by the Directive constitute a solid IPR enforcement toolkit, whether they are fit for purpose and achieve their objectives, inter alia in the digital environment.

While the Member States should have complied with the provisions of the Directive by 29 April 2006, the Directive was implemented over a range of years up to 2009. The scope of the evaluation covers 28 Member States and the impacts of the Directive on the functioning of the internal market in relation to IPR enforcement since its entry into force.

This report is based in particular on a study for an ex-post evaluation of the Directive[3] which includes an open online public consultation carried out between 5 December 2015 and 15 April 2016[4] as well as several stakeholders' consultation activities[5] and extensive desk research.

2. BACKGROUND TO THE INITIATIVE

2.1. THE OBJECTIVE OF THE DIRECTIVE

Before the adoption of the Directive, Member States had developed diverse set of rules and procedures for addressing IPR enforcement, which was found to be detrimental to the functioning of the internal market. Therefore, the Directive was the first instrument to address IPR enforcement for IP rights with the objective to approximate legislative systems so as to ensure a high, equivalent and homogeneous level of protection of IP rights in the internal market (Recital 10). Within this context, the Directive sets out measures, procedures and remedies necessary to ensure the enforcement of intellectual property rights (Article 1). This

[1] Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights, OJ L 157, 30.4.2004

[2] Statement 2005/295/EC by the Commission concerning Article 2 of the Directive (OJ L 94 of 13.4.2005) provides a list of IPRs which the Commission considers at least to be covered by the scope of the Directive.

[3] See *"Support study for the ex-post evaluation and ex-ante impact analysis of the IPR enforcement directive (IPRED)"*, Technopolis Group in a consortium with EY and Schalast Rechtsanwälte, 2017

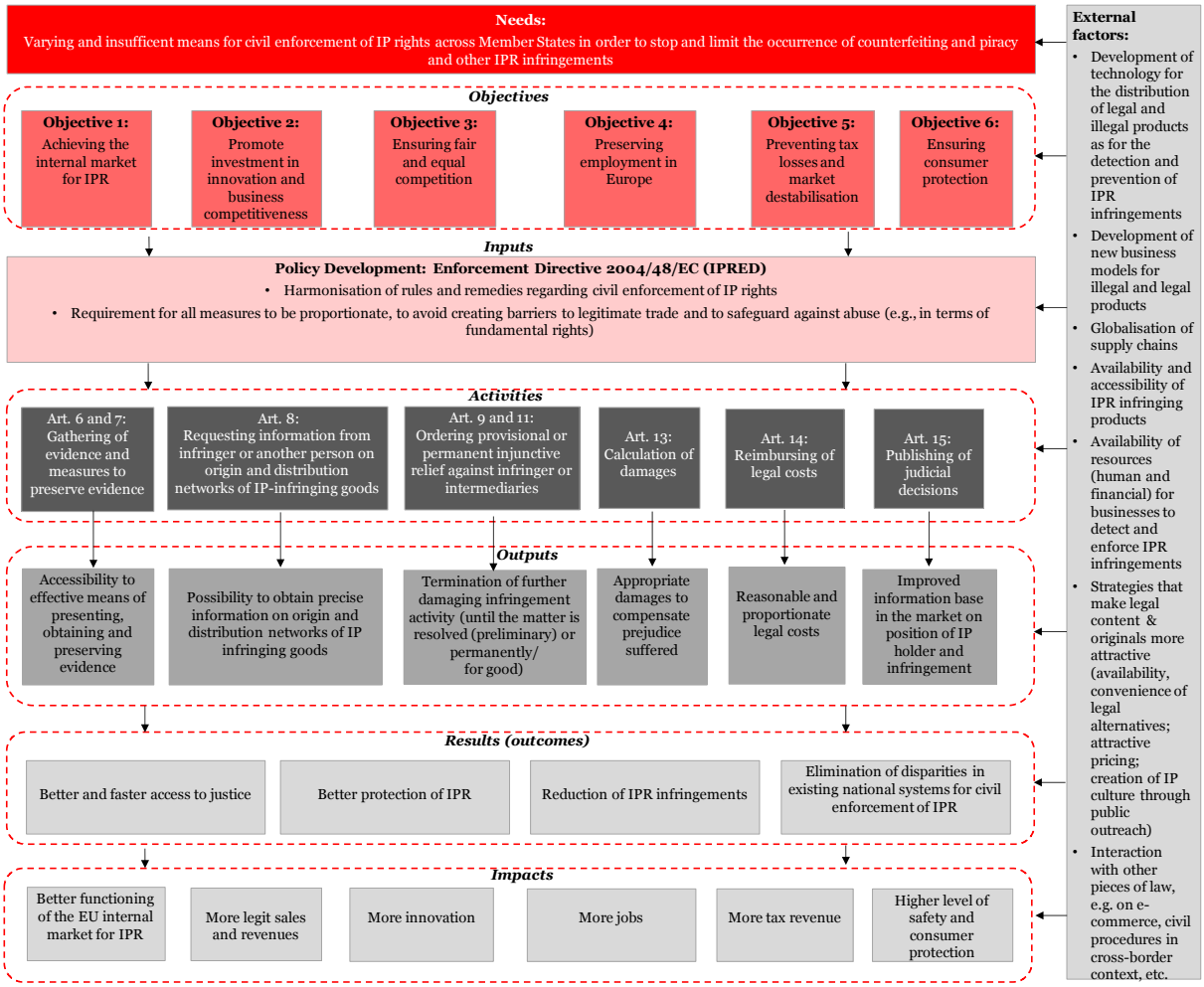
[4] Public consultation on the evaluation and modernisation of the legal framework for the enforcement of intellectual property rights launched on 9 December 2015, results available at http://ec.europa.eu/DocsRoom/documents/18661

[5] See Annex II – Synopsis report.

includes general obligations and specific provisions on legal standing, evidence and information, interlocutory measures, seizures and injunctions, damages and legal costs and judicial publication.

The protection of IP is important not only for promoting innovation and creativity, but also for improving competitiveness, preserving employment, ensuring fair and equal competition, and preventing tax losses and market destabilisation. All these aspects are reflected in the intervention logic of the Directive, presented in Figure 1 below.

Figure 1 – Brief description of the different components of the Directive, its objectives and its expected outcomes



2.2. THE DIRECTIVE AND NATIONAL CIVIL REDRESS PROCEDURES

The Directive seeks to provide harmonisation of national civil redress rules and procedures to ensure that all Member States have a similar minimum set of measures available primarily for rightholders to defend their IPRs.

However, the Directive does not intend to provide for a full harmonisation of these measures, procedures and remedies, but does apply without prejudice to the means which are or may be provided for in EU or national legislation, in so far as those means may be more favourable for rightholders, and thus contains only minimum harmonisation rules (Article 2(1)).

Therefore, enforcement of IPRs is not limited to a single Directive, but it encompasses an enforcement system with complementing parts going beyond the Directive's scope. This national civil enforcement pillar, composed first and foremost of the national procedural civil law, is critical for the success of the Directive, since the effectiveness of the instruments provided for by the Directive depends on the effectiveness of the overall justice system.

Finally, as provided in its Article 3, the means that the Directive sets out to be transposed by the Member States must be "fair and equitable" and must not be "unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays". They must furthermore be effective, proportionate and dissuasive and must not act as barriers to legitimate trade and provide safeguards against abuse.

2.3. CONTEXT OF THIS EVALUATION

Prior to the adoption of the Directive, a diverse set of rules, procedures and practices relating to the enforcement of IPRs developed among Member States which was found to be detrimental to the good functioning of the internal market. Therefore, the Directive was the first horizontal tool to address IPR enforcement with the aim to 'approximate legislative systems so as to ensure a high, equivalent and homogeneous level of protection in the internal market' (Recital 10).

This evaluation started in December 2015 and is based, in particular, on a study for an ex-post evaluation of the Directive[6] which includes an open online public consultation carried out between 5 December 2015 and 15 April 2016[7] as well as several stakeholders consultation activities[8] and extensive desk research..

As prescribed in its Article 18, an analysis of the Directive's application was conducted three years after the Directive's transposition deadline. This analysis provided for a first although incomplete review, mostly because in some of the Member States the implementation process was only finalised in 2009. In its result the Commission concluded that the Directive had a substantial and positive effect on the civil enforcement of IPRs in the EU[9]. Nonetheless, the report underlined that several issues could deserve further attention, namely:

- the challenge posed by the online infringements of IPRs,
- the use of provisional and precautionary measures such as injunctions,
- procedures to gather and preserve evidence
- the relationship between the right of information and protection of privacy,
- the meaning of various corrective measures, including the costs of destruction, and

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[6] See *"Support study…"*

[7] Public consultation on the evaluation and modernisation of the legal framework for the enforcement of intellectual property rights launched on 9 December 2015, results available at http://ec.europa.eu/DocsRoom/documents/18661

[8] See Annex II – Synopsis report.

[9] Report from the Commission *"Application of Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on the enforcement of intellectual property rights"* (COM(2010)0779 final)

– the calculation of damages.

Due to the Directive's late implementation and unavailability of competent judicial authorities' decisions demonstrating how the measures, procedures and remedies are applied, additional analysis was necessary for a more comprehensive overview. To that aim a follow-up public consultation was conducted in March 2011, followed by a public hearing on the application of the Directive in a digital environment in June 2011[10]. Further to this, a broad public consultation on the efficiency of proceedings and accessibility of measures in the civil enforcement of IPRs was launched in November 2012[11].

In the wake of the confirmation that the Anti-Counterfeiting Trade Agreement ("ACTA"), a multilateral Treaty on IPR enforcement that was being negotiated with key trading partners, would not be signed by the EU, the Commission re-oriented its policy approach.

In July 2014, the Commission outlined an Action Plan for IPR enforcement[12], with which it sought to promote better compliance with IPRs by all economic actors. Rather than penalising the citizen for infringing – often unknowingly – IPRs, the proposed actions focused on the commercial scale infringers. This so-called 'follow-the-money approach' endeavored to deprive commercial scale infringers of the revenue flows that draw them into illegal activities.

While the action plan was seen as an important way to improve the EU approach to the enforcement of IPRs, the Parliament and Council called on the Commission to examine whether the EU legislative framework in that area was still fit for purpose:

– The Council[13] recalled that several other aspects of IPR enforcement not contained in the Action Plan were raising questions, including: the use of tools available to identify IPR infringers; the role of intermediaries in assisting the fight against IPR infringement; and the allocation of damages in IPR disputes. The Council encouraged the Commission to consider all possible options to address these matters.
– The European Parliament[14] called on the Commission to come up with a detailed assessment of possible limitations of the current legal framework as regards online activities and, if appropriate, with proposals for adapting the EU legislative framework to the internet environment.

In 2015, first in the Digital Single Market Communication[15] and then in the Single Market Strategy[16], the Commission announced that it would conduct a review of the IPR enforcement

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[10] http://ec.europa.eu/internal_market/consultations/2011/intellectual_property_rights_en.htm
[11] http://ec.europa.eu/internal_market/consultations/2012/intellectual-property-rights_en.htm
[12] Commission Communication *"Towards a renewed consensus on the enforcement of Intellectual Property Rights: An EU Action Plan"*, COM(2014) 392 final of 1.7.2014,
[13] Conclusions of the Council of the European Union of 5 December 2014 on IPR enforcement (15321/14)
[14] Report of the European Parliament on *"Towards a renewed consensus on the enforcement of Intellectual Property Rights: An EU Action Plan"* (2014/2151(INI)) of 18.5.2015
[15] Communication from the Commission *"A Digital Single Market Strategy for Europe"* (COM(2015) 192 final
[16] Communication from the Commission *"Upgrading the Single Market: more opportunities for people and business*" (COM(2015) 550 final)

framework to respond to the rise of IPR infringements, with a specific focus on commercial-scale infringements.

More information on the policy, legal and economic context of the evaluation is provided in Annex IV.

3. IMPLEMENTATION: STATE OF PLAY

In 2012 an external study[17] examined the transposition of the Directive by Member States. According to this study most Member States succeeded in meeting the Directive's requirements, and complied with the minimum harmonisation introduced. In the other Member States the most important discrepancy was the lack of provisions against intermediaries whose services are used by a third party to infringe IPRs.

While not all of the Member States needed to change their existing legal provisions on enforcement extensively to transpose the Directive, the most important amendments in national legislation concerned generally speaking rules on obtaining and securing evidence (Article 6 and 7), right of information (Article 8) and injunctions (Articles 9 and 11). It was also reported that in some Member States there were discrepancies as to enforcement of different types of IPRs, in particular regarding plant variety rights, trade names, utility models, and topographies of semiconductor products.

4. METHOD

Methodology

This report is based on various sources of information: an external study providing support for an ex-post evaluation of the Directive ("Evaluation Study")[18], which included open online public consultation[19] (results presented in Annex II), statistics on collected court decisions from all EU Member-States concerning intellectual property law, studies prepared by the European Observatory on Infringements of Intellectual Property Rights and other available studies and data collections prepared by national or international public authorities, academics or other stakeholders. Several discussions have also taken place with Member States in the Expert Group on IPR enforcement[20], providing information on the way in which key measures are being applied at national level. Finally, on 21 June 2016, the Commission held a conference on IPR enforcement[21], where key European and international policy-makers, public representatives, enforcement agencies, rights-holders and representatives of civil society gathered to review the progress made in disrupting IP infringing activities.

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[17] Conformity Assessment of Directive 2004/48/EC, TIPIK 2012
[18] See *"Support study…"*
[19] Public consultation on the evaluation and modernisation of the legal framework for the enforcement of intellectual property rights, responses and summary available at http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item_id=8580
[20] Expert Group on IPR enforcement meetings of 3 May 2016 and 3 April 2017
[21] http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item_id=8730

The lack of quantitative data was compensated through increased inputs from interviews with stakeholders and the network of legal experts in the different Member States, who contributed to the analysis.

Limitations of findings and mitigating measures

The EU intervention in the area of IPR enforcement has a particular nature, given that it approximates legislative systems of the Member States so that the tools provided in the Directive build on and/or continue to live alongside with the national civil procedural law practices pre-dating the Directive.

This character, combined with important technological and market developments that have taken place since the adoption of the Directive, as well as the lack of monitoring arrangements in the Directive itself, make it difficult to detect clear causal links between the intervention's impact and the evolving reality of IPR infringements.

Significant differences between the Member States' civil enforcement systems, both in legal and economic terms, have further complicated drawing conclusions on the functioning of the Directive.

In addition, despite best efforts, only very limited quantitative data could be gathered on the application of measures, procedures and remedies set out in the Directive.

To obtain an overview of the volume of IP court cases in the EU, data on all 28 Member States between 2005 and 2015 was sought. However, obtaining data on relevant categories of court decisions has proved problematic. The difficulties in finding accurate and complete information are due to different administrative practices in publishing court decisions across the EU. While in some Member States most of those decisions are made publicly available, in other Member States the publication is either limited to certain types of decisions or even excluded in individual cases. Furthermore, certain decisions may also be anonymized in such a way that relevant information cannot be extracted or identified.[22]

The fact that the evaluation can only rely on limited empirical evidence impedes reaching definitive conclusions on the detailed performance criteria of this Directive. As a consequence, the observations – although made on the basis of the best available data - are merely descriptive and effects cannot be attributed in full to the Directive. In particular, the results of the econometric model analysis cannot be interpreted to establish a causality link.

Mitigating measures were taken to compensate for the lack of quantitative data through increased inputs from interviews with stakeholders and the network of legal experts in the different Member States, who contributed to the analysis.

Finally, since the Directive does not provide for monitoring arrangements (other than a report by the Commission), the evaluation lacked evidence covering in a systematic

[22] See also under 5.3.2

and comprehensive manner the whole period of its application. The work of the Observatory complemented part of the evaluation, but cannot be considered as a uniform reporting tool covering nor all IP rights, neither cross-border activity.

5. ANALYSIS AND ANSWERS TO THE EVALUATION QUESTIONS

5.1. EFFECTIVENESS

The functioning of the Directive in terms of effectiveness was assessed on the basis of the following evaluation questions:

1) *To what extent has the Directive, with its different measures, procedures and remedies it provides for, achieved its objective, i.e. to ensure a level playing field for the enforcement of intellectual property rights?*
2) *What have been the effects of the Directive? To what extent do those observed effects/changes correspond to the objectives? To what extent can those effects/changes be attributed to the directive? To what extent can those effects be linked to other EU instruments?*
3) *What are the main factors, e.g. in the formulation but also the implementation and application of the rules, that support or hamper achieving these objectives? To what extent have the different measures, procedures and remedies provided for by the Directive been complemented by non-legislative interventions at EU and national level, including voluntary stakeholder initiatives?*
4) *What are the consequences or effects (both positive and negative) that were not originally planned?*

5.1.1. ACHIEVEMENT OF THE MAIN OBJECTIVE

Evaluation question 1

To what extent has the Directive, with its different measures, procedures and remedies it provides for, achieved its objective, i.e. to ensure a level playing field for the enforcement of intellectual property rights*?*

5.1.1.1. THE DIRECTIVE AS A WHOLE

Evidence from the several stakeholder consultations[23] indicates that the Directive has mainly achieved its objective to improve civil enforcement of IPRs. In response to the public consultation most rightholders and representatives of the judiciary and legal profession felt that the implemented rules partly achieved the objective of ensuring effective civil redress against IPR infringements (63% and 55% of representatives respectively). The views

[23] See Annex II – Synopsis report.

of intermediaries, citizens and Member States were more positive, with the majority of respondents reporting that the existing rules had been effective. The Evaluation Study concluded[24] that for the most part the Directive has indeed improved the enforcement of IPR. The study indicates that the Directive proved to be effective on very general and conceptual level, allowing for a common legal European framework, the development of pan-European enforcement strategies, and a productive exchange of intelligence among judges cross-border. It was also concluded that higher order effectiveness is hampered by the actual application of the Directive in the Member States, which is not so much due to the way it is transposed as legal text, but how civil court proceedings and traditions operate in general in different Member States.[25] In response to the public consultation the majority of stakeholders did not consider that the measures, procedures and remedies provided for in the Directive are applied in a homogeneous manner across the Member States.

This is also confirmed by a recent study on patent litigation in Europe[26], which compares patent litigation cases in France, Germany, the Netherlands and the UK and analyses the effects of these different enforcement systems on the outcome of cases. The study points out at the inconsistency of decision-making in the European patent litigation system.

5.1.1.2. EFFECTIVENESS OF THE MEASURES SET OUT IN THE DIRECTIVE

5.1.1.2.1. PRESENTING, OBTAINING AND PRESERVING EVIDENCE (ARTICLES 6 AND 7)

Article 6 of the Directive requires Member States to provide the ability to apply for a court order requiring the opposing party to produce specified evidence, such as a sample of a substantial number of allegedly infringing copies. In case of infringements on a commercial scale, the evidence may include banking, financial or commercial documents under the control of the opposing party.

Given that only the infringer knows the quantities of the infringed goods and the rightholder may only have a few samples, the ability to obtain banking, financial and commercial documents that provide reliable information about the quantities of products sold or distributed and revenues obtained by the alleged infringer, is key. Lack of this information hampers in particular the rightholders' claims for damages.

Evidence – in particular in the online world – can be destroyed rather quickly and easily, thus, Article 7 provides for prompt and effective provisional measures to preserve evidence. They may be ordered by the court even before proceedings on the merits of the case have been instituted and if the rightholder has already substantiated the infringement or threat of infringement to a reasonable extent. Member States should set out measures that may include description, search orders or seizure of goods, and in certain cases materials used in the

[24] See *"Support study…",* p. 132
[25] See *"Support study…",* p. 132
[26] Patent litigation in Europe, Eur J Law Econ (2017) 44:1–44, available online under the following link: http://link.springer.com/article/10.1007/s10657-016-9529-0

production and/or distribution of the goods and related documents. While search orders as such tend to be in general easily obtained, they are not available in the scope of civil proceedings in Hungary and Malta. The costs for search orders (which are often covered by the rightholder in advance) also vary; in the UK they tend to be prohibitive, and as a result they are barely used.

All Member States have incorporated these provisions for the presentation and preservation of evidence in their legal system.

The majority of respondents to the public consultation considered that the measures provided by the Directive are effective for presenting, obtaining and preserving evidence. Some respondents however considered that the provisions on evidence could benefit from clarification, in particular with regard to the preservation of evidence in the digital environment and the presentation of evidence obtained in another jurisdiction.

The use and presentation of digital evidence and the access to digital information is not explicitly regulated by the Directive, and therefore largely relies on national civil procedures, what allows for the necessary amount of flexibility. Most stakeholders believe that the measures provided for by the Directive for presenting and preserving evidence are not adapted to the online context.

Half of the rightholders responding to the public consultation indicated that they faced problems using evidence when making use of their right of information/taking legal action/applying for an injunction in a cross-border situation. The Evaluation Study also reported a lack of effectiveness of the rules of evidence in a cross border context, largely revolving around four main issues:

- the difficulty of gathering evidence in practice for foreign cases and of using evidence of an infringement in a country other than the country where the litigation is taking place;
- cost, e.g. where discrepancies among Member States on the thresholds for requiring production of evidence may increase expenses;
- inconsistency in availability of information in different Member States. For example, some Member States reportedly do not provide information about importers/exporters of goods seized by Customs.
- national differences as regards the production and preservation of evidence, which occasionally led to that court orders issued in one Member States not being accepted in another.

On a general level, Articles 6 and 7 of the Directive has proved to be effective to a certain extent, since they provided for tools to present and preserve evidence in all Member States. However, the application of the specific measures differs, depending on the civil procedure law and tradition of a specific Member State. Obtaining and securing digital evidence, as well as using evidence in the cross-border context, has proved to particularly challenge the effectiveness of the Directive.

5.1.1.2.2. **RIGHT OF INFORMATION (ARTICLE 8)**

The right of information ("ROI"), established in Article 8 of the Directive, allows the competent judicial authorities to order that information on the origin and distribution networks of the goods or services which infringe an IP right shall be provided by certain persons if the infringer was found to be using the infringing services on a commercial scale.

According to the data presented in the Evaluation Study[27] the number of ROI requests substantially increased after the transposition of the Directive into national law for all types of IP and for all Member States.

In the course of the public consultation the majority of respondents from Member States, intermediaries and the judiciary expressed the opinion that the existing rules on the ROI have helped effectively in protecting IP and preventing IPR infringements. The majority of consulted rightholders considered that there was a need to clarify the provisions on the ROI application to ensure that the right balance is struck between the right to property and the right to judicial review on the one hand and the right to respect for private life and/or the right to protection of personal data on the other.

Rightholders also consider that the effectiveness of this measure is affected by the difference in requirements at national level for a ROI request to be justified and granted, in particular against a third person.

It has been also reported by the stakeholders that since the Directive merely refers to "the context of proceedings concerning an infringement of an intellectual property right" it is unclear if the ROI can only be exercised when proceedings on the merits of the case, establishing the existence of an infringement, have been launched or if it can be used already before the commencement of proceedings on the merits of the case[28].

According to the Evaluation Study, differences also exist in the application of the measure against a third party who is not an infringing party. In Poland, there are limited mechanisms ensuring proportionate use of the right of information and the use of "access to information" for industrial property is very limited. It is because information can be requested only when infringement occurs with "high probability". In Ireland, for example, the applicant must present a prima facie case that an infringement of IP rights has occurred and the information sought will disclose the identity of the alleged infringers.

It also results from the study that the use of this measure varies significantly between Member States, with some jurisdictions not using the measures at all[29].

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[27] See *"Support study…",* p. 251

[28] In some Member States, such as Belgium or Romania, requests for information can only be made in the course of proceedings while in other, e.g. Germany, the use of the right of information may be exercised before the launch if special statutory requirements ('manifest infringement') are complied with.

[29] Bulgaria, Cyprus, Croatia, Latvia, Lithuania, Malta, Slovakia and Slovenia. See *"Support study…",* p. xxx.

In general, the existing rules on ROI have ensured for a certain level of protection of IP by allowing national judicial authorities to order that information on the origin and distribution networks of IP infringing goods and services is to be provided. Even though all the MS transposed this provision and agree that the ROI is necessary for an effective enforcement of IPRs, the effectiveness of this measure has been limited due to the differences in the application among Member States.

5.1.1.2.3. PROVISIONAL AND PRECAUTIONARY MEASURES AND INJUNCTIONS (ARTICLES 9 AND 11)

Article 9 of the Directive provides for the possibility to apply for interlocutory injunctions (court orders to compel or prevent a party from doing certain acts pending the final determination of the case) intended to prevent imminent infringements of their IPRs, or to stop the on-going infringements, on a provisional basis. Such interlocutory injunctions should also be available against intermediaries whose services are used by third parties to infringe IPR, under the same conditions. Article 11 provides that where a judicial decision confirming an infringement of an IPR is taken through proceedings on the merits of the case national courts may issue an injunction ('permanent' injunction) against the infringer aimed at prohibiting the continuation of the infringement[30]. Such permanent injunctions can also be issued against intermediaries.

The Evaluation Study concluded that preliminary injunctions (and other provisional measures) are the most effective measures against alleged IP infringers. The possibility of obtaining a provisional measure – to be in the position to order an alleged infringer to stop selling, importing or manufacturing products or providing services until a final verdict is reached and the different arguments are assessed – has proven the most powerful feature of this instrument. The econometric analysis performed in the Evaluation Study[31] however did not provide any further solid conclusions. The legal analysis indicated that the effectiveness of the measure is again impacted by the application of the remedy at national level.

While under Article 9 interlocutory injunctions must also be available against any intermediary whose services are used by third parties to infringe IP rights, different notions of 'intermediary' are used at national level[32]. Also, the procedure for and scope of interlocutory injunctions is still fragmented across the EU, establishing different conditions for the existence of urgency (different time limits for the request, demonstration of a likely

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[30] Article 11: 'Member States shall ensure that, where a judicial decision is taken finding an infringement of an intellectual property right, the judicial authorities may issue against the infringer an injunction aimed at prohibiting the continuation of the infringement. Where provided for by national law, non-compliance with an injunction shall, where appropriate, be subject to a recurring penalty payment, with a view to ensuring compliance. Member States shall also ensure that rightholders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe an intellectual property right, without prejudice to Article 8(3) of Directive 2001/29/EC.'

[31] See *"Support study…"*, p. 78

[32] E.g. "the one who delivers a counterfeiting service in the framework of its counterfeiting activity in French territory' (France) or "anyone who contributes to the infringement" (Sweden).

irreparable harm required or not)[33], the level of evidence required[34] and the type of evidence admissible[35].

Similar findings can be observed with regard to injunctions to prohibit permanently the continuation of the infringement. While under Article 11 these permanent injunctions must also be available against intermediaries whose services are used by third parties to infringe IP rights, disparities remain as to the type of intermediary that can be enjoined and whether injunctions can be obtained to prevent future infringements[36]. In some Member States (e.g. Germany) injunctions against intermediaries can only be obtained if they have some liability in the infringing activities.

In their responses to the public consultation, some rightholders also flagged as a problem the scope of forward looking injunctions.[37] The rightholders, representatives of the judiciary and legal profession as well as Member States indicated in the public consultation that they would welcome clarifications with regard to the scope of provisional and permanent injunctions' applications. In their view it should be clarified that all types of intermediaries can be enjoined, that no specific liability or responsibility (e.g. violation of any duty of care) of the intermediary is required to issue an injunction and that national courts may order intermediaries to take measures aimed not only at bringing to an end infringements already committed against IPR using their services, but also at preventing further infringements.

In conclusion, the effectiveness of the requirements for obtaining provisional and permanent injunctions against an infringer and against an intermediary in contributing to the improvement of access to efficient civil enforcement of IPR appears to be limited by the subsequent divergent application of the EU rules at national level.

5.1.1.2.4. **DAMAGES (ART. 13)**

According to Article 13 of the Directive, Member States shall ensure that the infringer pays the rightholder damages appropriate to the actual prejudice suffered by him/her as a result of the infringement. The Directive provides two models for the calculation of damages, one based on taking into account "all appropriate aspects" of the infringement and the other on a lump sum method. According to the first one, the calculation of damages should be based on aspects such as negative economic consequences, including lost profits, which the injured

[33] *"National implementation of Enforcement Directive"*, Union-ip, 2011
[34] "serious questions to be tried", "interests of the IPR owner prevail over the interests of the alleged infringer" or "reasonable evidence that a favourable judgment will be granted to that applicant".
[35] *Ibid.*
[36] E.g. in the UK injunctions can be granted against online and offline intermediaries and also to prevent future infringements of the same kind whereas it seems not possible yet to have an injunction granted in Poland against an internet access provider to block access to an IP infringing website or in the Czech Republic to prevent the continuation of infringing activities.
[37] While in some jurisdictions catalogue- or repertoire-wide injunctions, i.e. injunctions requiring intermediaries to prevent further "infringements of all rights held by a rightholder or that are part of a licensee's catalogue or repertoire", based on an established infringement of a sample of those rights, are available (e.g. Ireland and the UK), such broad injunctions are not available in others.

party has suffered, any unfair profits made by the infringer, and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused. Alternatively, the award of damages may consist in a lump sum based on elements such as at least the amount of royalties or fees which would have been due if the infringer had requested authorisation to use the IPRs concerned (e.g. on the basis of licensing agreement).

This measure is effective, first and foremost, if rightholders are able to obtain compensation for the actual prejudice suffered as a result of IPR infringements. As a secondary objective it should also act as a deterrent to infringers. Starting proceedings on the merits to claim damages is an investment of time and resources; because the civil court proceedings in IP matters can in certain cases take several years before the final decision is issued, and tend to be costly inter alia due to the specialist expertise needed, many rightholders consider it is not worth to launch such proceedings if the financial outcome cannot be predicted.

An overall majority of the judiciary, legal profession representatives and of the Member States found in their responses to the public consultation that the rules for setting damages helped effectively in protecting IPR and preventing infringements. Half of the responding rightholders however considered the award of damages to be insufficient, almost all saying that the application of the rules in court is the main obstacle to a sufficient compensation. According to rightholders, damages are not assessed in their entirety, sometimes with the result that infringers are subject to the same conditions as a regular licensee. According to rightholders the main reasons for not claiming damages are the low probability of obtaining appropriate compensation for the damages suffered and for the reimbursement of legal costs/other expenses. Rightholders call for a clarification of the rules, in particular the rules on quantification of damages, in order to ensure reimbursement of the actual prejudice suffered as well as dissuasion of future infringements. The judiciary and legal profession did also call for more legal clarity on the calculation of damages and for a reduction in the cost of producing evidence related to damages.

The limited data available analysed in the Evaluation Study[38] point to significant differences in damages requested and awarded by courts in different Member States and across different IPRs, raising the question of a level playing field for IPR enforcement and an equal level of protection for IPR in the EU[39].

As described above, the Directive provides for two alternative methods of setting the damages. Member States' national rules and practices differ considerably however in what is included in the calculation and how:

- negative economic consequences and unfair profits made by the infringer can be cumulated (e.g. Belgium, Luxemburg or the Netherlands) or shall not be cumulated (Germany, Italy or Slovakia);

[38] See *"Support study…",* p. 205
[39] See *"Support study…",* p. 65

- damages for moral prejudice suffered may be granted only in copyright cases (excluding owners of industrial property rights), only to physical persons (excluding legal entities)[40], only in cases of intentional or negligent infringements (Finland), or may be granted even without suffering material damages (Slovenia);
- the abstract calculation method on the basis of the amount of hypothetical royalties/fees is only available if the actual prejudice cannot be calculated (Hungary, Latvia, Slovakia);
- the lost profits are estimated[41].

These examples show that not all Member States have implemented the criteria for the calculation of damages set in the Directive as alternative, and therefore not all leave an actual choice to the judicial authorities/applicants. In particular, it seems that in some Member States the lump sum damages only come into play if the damage cannot be assessed according to the actual prejudice suffered. It appears that Member States' practice in this respect varies. In some Member States (e.g. Hungary, Latvia, Slovak Republic) it appears that lump sum damages are available only if damages cannot be calculated otherwise, for example in cases when the actual prejudice cannot be calculated precisely. In other Member States (e.g. the Netherlands, Poland), it seems that courts or parties can freely choose according to which criterion they assess the damage.[42]

A study by the EUIPO provides for a recent update on how costs and damages are approached across Member States[43]. While it does not provide data on costs and damages awarded, it insists on the difficulty for courts to calculate damages and highlights the shortcomings of this measure in achieving its objective .

An additional reason for the discrepancy between damages requested and awarded is the burden of proof.[44] While a high burden of proof ensures that any damages awarded do not go beyond the prejudice actually suffered, it also makes it more difficult for applicants to substantiate that prejudice. This can be particular problematic in establishing loss of profits of the rightholder and unfair profits made by the infringer:

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[40] "Damages in Intellectual Property Rights", European Commission, European Observatory on Infringements of Intellectual Property Rights, 2010

[41] In the Netherlands, the calculation for loss of sale is based on the profit that the aggrieved party would have had in the absence of the infringement. There is no uniform calculation method for this and the indirect profit loss is difficult to prove. In Spain, the basis for damages is 'loss suffered', which includes: opportunity costs (for example time spent by the IP right owner's personnel dedicate to the management of the procedure which would have been otherwise dedicated to the commercial activity of the company), communicating costs (informing the clients about the infringement), investigation costs; cost of prejudicial actions and profit obtained by the infringer as a consequence of the illicit use.

[42] CSWD Analysis of the application of Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on the enforcement of intellectual property rights in the Member States (SEC(2010) 1589), p. 23.

[43] https://euipo.europa.eu/tunnel-web/secure/webdav/guest/document_library/observatory/documents/publications/Observatory+update+on+costs+and+damages.pdf

[44] See *"Support study…",* p. 67

- Rightholders' lost profits can be difficult to prove (a high level of evidence is required) and/or their calculation may lead to divergent results[45]. Lost profits can be difficult to prove where infringing activities undermine the value of legal sales[46]. Also, for the calculation of the lost profits, it is often unclear whether the price of the original product or the price of the counterfeit/pirated product (which may be substantially lower in some cases) should be taken into account.
- Unfair profits: many Member States require a rightholder to prove that the profits were made with or as a result of the infringing products (causal link)[47].
- Damages for other negative economic consequences (e.g. price erosion, reputational damage, tarnishment of trade mark, damage to good-will) and moral (immaterial) damages are rarely awarded and often cannot even be requested by the claimant, given the difficulty to meet the standard of proof requested[48].

The impact of a high burden of proof is further increased by the fact that in many jurisdictions it is often the court that will choose the method of calculation, i.e. (a) taking account of all appropriate aspects of the individual case or (b) setting the damages as a lump sum, and not the rightholder, although the rightholder will have to present the required evidence.

At the same time a high burden of proof can lead to harm being compensated by lump sum damages, as less evidence tends to be required. It has been reported however that such lump sum damages are often limited from 1 to 5 % of the total turnover of the infringer which can be attributed to the infringed right (as they tend to be calculated on the basis of hypothetical royalties/fees).

To summarise, the rules on damages set out in the Directive appear to have helped overall in effectively protecting IPR and preventing infringements. However, the level of damages awarded by the courts does not always seem sufficient to compensate for the actual prejudice suffered notably in the online environment. This is primarily due to different application of the rules at national level (even inside a given Court, individual practices by judges may vary), and different judicial traditions.

[45] *"Damages in Intellectual Property Rights"*, European Commission, European Observatory on Infringements of Intellectual Property Rights, 2010

[46] Extensive infringing activities often make the branded goods lose their 'exclusivity', which leads to a decline in consumer demand, damage to goodwill etc. ("Analysis of the application of Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights in the Member States", Commission Staff Working Document, SEC(2010)1589)

[47] Indeed, infringers may sometimes make higher profits with the infringing products that the rightholders with their branded goods. Rightholders appear to find it very difficult to prove that they would have earned the same profits as the infringers, particularly where the infringers offer their products under conditions that significantly differ from those of the legal channels (e.g. lower prices, lower manufacturing costs, absence of related services etc.)

[48] *"Damages in Intellectual Property Rights"*, European Commission, European Observatory on Infringements of Intellectual Property Rights, 2010

5.1.1.2.5. REIMBURSEMENT OF LEGAL COSTS (ARTICLE 14)

According to Article 14 of the Directive Member States shall ensure that reasonable and proportionate legal costs and other expenses incurred by the successful party shall, as a general rule, be borne by the unsuccessful party, unless equity does not allow this. While this general principle provides the national judicial authorities with the basis for reimbursement of costs, in calculating the actual amount that should be awarded the courts are often bound by specific national regimes on calculation of damages in civil matters. Such national regimes are often not-IP specific, based on caps and/or refer to the national rules governing the minimum costs of assistance of attorneys-at-law or patent attorneys.

Rightholders can incur significant costs in relation to the enforcement of their IPRs. As indicated above, they may have to invest substantial sums to detect an infringement, identify the infringer, investigate and gather evidence of infringement, secure seizure, store and eventually destroy infringing goods. Also, because of the complexity of the matter, in particular in patent cases, high-level technical expertise can be needed to understand the nature of the right and the scope of potential infringement.

Similarly as in the case of damages, respondents to the public consultation[49] and the Evaluation Study[50] identified considerable differences in the calculation of legal costs and in the decision-making procedures in Member States. Although the legal costs awarded by courts to the winning party may not reflect the true legal costs incurred, the available data suggests indeed a significant heterogeneity between Member States.

In addition, the reimbursement of legal costs awarded to the successful party reportedly often only covers a fraction of the total costs incurred and certain cost elements are sometimes not even considered by the court. According to the public consultation[51], court fees for instituting proceedings and other procedural costs are often fully covered while external experts' costs, attorneys' charges and additional attorneys' fees are mostly only partly covered, also because of caps on the recoverability of legal costs in the respective national legislation. The vast majority of rightholders considered the reimbursement of legal costs insufficient. A comparison of the legal costs reimbursed at national level shows a very divergent picture[52].

Member States and public authorities indicated in the public consultation that mostly identified attorneys' charges, court fees for instituting proceedings, external experts' costs, additional attorneys' fees and other court costs as being covered. Half of the respondents indicated that the reimbursement of legal costs is subject to limitations.

Only very few rightholders consider the reimbursement of their legal costs to be sufficient. The main reasons given for the perceived inadequacy of reimbursement are non-consideration of all the necessary litigation costs, such as in-house costs or expert fees (despite the need for

[49] See Annex II – Synopsis report.
[50] See *"Support study…",* p. 69
[51] See Annex II – Synopsis report.
[52] See Annex IV.

specialist knowledge in such cases), difficulty to quantify the costs for producing evidence and statutory caps on the amount of legal costs that can be recovered. The low or unpredictable level of cost recovery in IP litigation can deter SMEs from relying on registered IPR to defend their investments[53].

The majority of rightholders thus called for an adjustment of practices, ensuring an appropriate recoverability of the actual costs, including necessary non-judicial costs, such as expert and investigation costs, in all Member States. Many comments from stakeholders referred to ensuring that rightholders are able to recover more 'realistic' or indeed full costs of IPR enforcement, including costs related to investigating and pursuing an infringement, and all related expenses and expert fees.

A large majority of respondents from the judiciary and legal profession did not believe that the application of the provisions on legal costs have helped effectively in protecting and preventing IPR infringements. Some respondents are of the opinion that courts enjoy too much discretionary power in granting legal costs, resulting very often in insufficient reimbursement of costs. Respondents called for an uniform interpretation and application of the rules in order to enhance the level of reimbursement of costs for the winning party.

To conclude, the effectiveness of the rule established by the Directive that reasonable and proportionate legal costs and other expenses incurred by the successful party shall, as a general rule, be borne by the unsuccessful party, unless equity does not allow this, is affected by divergent national rules laying down specific principles and caps for the reimbursement of such costs in civil proceedings. Because of this divergent approach taken up by the Member States, the Directive has not achieved a high, equivalent and homogeneous level of protection in the internal market in the area of reimbursement of legal costs.

5.1.2. EFFECTS OF THE DIRECTIVE

Evaluation question 2

What have been the effects of the Directive? To what extent do those observed effects/changes correspond to the objectives? To what extent can those effects/changes be attributed to the Directive? To what extent can those effects be linked to other EU instruments?

The expected effects of the Directive were to have higher use of legal enforcement remedies, to have more efficient remedies (in terms of the length of procedures and costs), less occurrence of IPR infringements and better knowledge on IPR enforcement rules (see also Figure 1 with the intervention logic presented).

In general, the following effects of the Directive have been noted by stakeholders:

[53] *"Intellectual Property SME Scoreboard 2016"*, EUIPO, European Observatory on Infringements of Intellectual Property Rights, 2016

- While in some Member States only little change was noted in legislation and legal practice, it was also said that the Directive led to considerable improvements in other Member States, making tools available that were not available before the Directive.

- The Directive had a direct effect on the harmonisation of laws and tools that made it more effective to implement a single pan-European strategy for IP enforcement.

- A better pan-European strategy by companies translated into effectiveness gains, since it opened up room to go after more IP infringement cases and/or act on IP infringement where otherwise no action would have been taken.

- The Directive seems to have substantially increased the interaction between judges in different Member States. Interviews with judges suggest that they meet more often and look at rulings in other Member States to inform themselves, and the often cross-border or international characteristic seem to require national judges to be better informed about other Member States' practices.

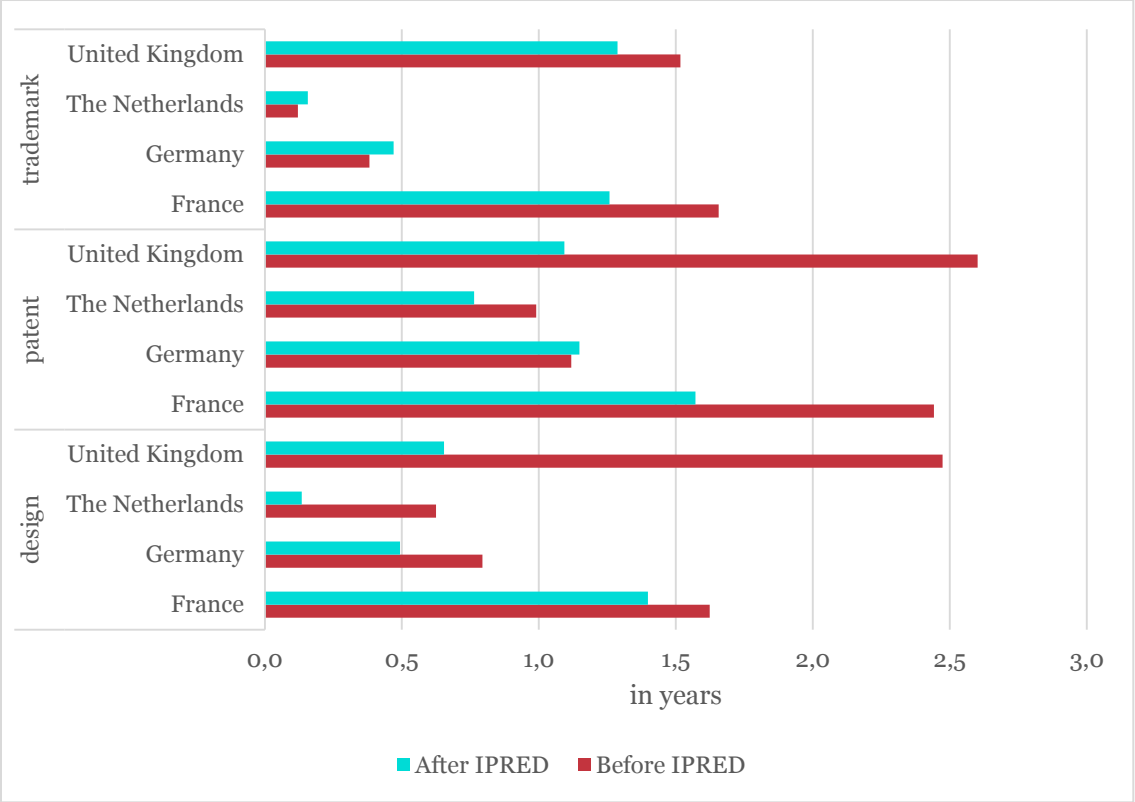
The Evaluation Study presents data on number of court cases and average length of the proceedings to assess whether the Directive had impact on the amount of civil proceedings taking place as well as on their length.

According to the Evaluation Study, although the number of court cases for all IPRs have increased, this cannot be solely attributed to the adoption of the Directive.

When comparing the situation in four selected Member States (France, the United Kingdom, Netherlands and Germany), the following picture emerges. The average duration of litigations related to all IP types and all of these four Member States is about one year. In trademark court cases, France and the United Kingdom are on average the Member States with the highest duration of litigations (1.4 years), while for Germany and Netherlands the average duration of the proceedings is a third (or less) the duration of the cases in France and the United Kingdom (0.4 and 0.2 years respectively). In patent court cases, the duration is the highest for all the four Member States compared to the other two IP types. France has the highest duration average of 1.8 years, followed by the United Kingdom and Germany with 1.1 years and the Netherlands with 0.8 years. In design court cases France leads with 1.4 years followed by the United Kingdom with one year, Germany with 0.5 years and the Netherlands with 0.1 years.

According to the data presented in the Evaluation Study, the preliminary comparison of the pattern 'before and after' the transposition of the Directive shows that in all IP types, across all four Member States concerned, the average duration of litigations has decreased or remained stable. The highest reductions are in design and patent court cases specifically in the United Kingdom and in patent court cases in France.

Figure 1 Average length of the proceedings of the court cases before and after the Directive



Source: Technopolis calculations based on Darts-ip data

The legal analysis investigates whether the implementation of the Directive's measures across the EU compared to the national laws before the Directive introduced changes in the judiciary systems that could impact on the duration. The focus was placed on right of information (Article 8), provisional measures (article 9), damages settlement (Article 13), provision on the publication of cases (Article 15).

According to the legal analysis only, it is possible that change in delays could at least partially be attributed to the Directive because of the availability of measures that were not available before the Directive.

It is however difficult to assess the strength of the effects since the Directive is only part of a broader enforcement framework. Thus, direct effects can be seen in all Member States where their legal provisions were changed, while secondary effects can only be found after the Directive was in place and used. In this respect, one can argue that the hitherto clarification at CJEU level helped to overcome some shortcomings (i.e., vague language, absence of definitions) and triggered more communication among judges across the MS. This may further enhance national rulings and may also lead to further harmonisation in the application of the Directive's provisions.

Thus, the evolution of court cases and their specific provisions do not find effects of the Directive on statistically measurable characteristics of civil enforcement of IP in Europe overall. This is in line with the feedback from the interviews.

The econometric models for the most part did not unveil strong correlations between the introduction of the Directive and the development of key indicators on litigation activity – let alone causality. Together with the interview evidence, it appears that the Directive had only marginal significant effects on IP litigation activity in Europe[54].

5.1.3. MAIN FACTORS THAT SUPPORT OR HAMPER ACHIEVING THE OBJECTIVES

Evaluation question 3

What are the main factors, e.g. in the formulation but also the implementation and application of the rules, that support or hamper achieving these objectives[55]? To what extent have the different measures, procedures and remedies provided for by the Directive been complemented by non-legislative interventions at EU and national level, including voluntary stakeholder initiatives?

According to the Evaluation Study and as analysed above when examining the extent to which the different measures provided for by the Directive are affecting its effectiveness,, the issues which hamper the achievement of the Directive seem to be often in the sphere of the (lack of precise) formulation of some key notions in the Directive as well as, according to the stakeholder opinions, the actual application of the Directive in the Member States.

The concerns with the formulation mainly focus on two areas: involvement of intermediaries, and scope of injunctions.

The differences in implementation are often linked to specifics of certain Member States, industries and/or certain IP rights, as well as the way how the general civil enforcement functions in the Member States. These differences have been highlighted under question 2.

Intermediary

The formulation of the notion of intermediary is a factor leading to potential differences on the Member States' level. This notion is interpreted in various ways so as to include different entities, ranging from different types of online service providers to carriers, shipping agents, postal service providers, etc. The Evaluation Study has showed that different interpretation is due to the fact that most Member States do not precise who qualifies as an "intermediary" with only some (e.g. FI, CZ) attempting to provide a definition of this term.[56] However, even in the absence of a formal definition, the notion of intermediary seems to be similarly perceived across the EU 28.

[54] See *"Support study…",* p. 84
[55] The main objectives of the Directive for this purpose are: 1) Achieving the internal market for IPR 2) Promote investment in innovation and business competitiveness 3) Ensuring fair and equal competition 4) Preserving employment in Europe 5) Preventing tax losses and market destabilisation 6) Ensuring consumer protection.
[56] See *"Support study…",* p. 60

Under Articles 9 and 11 of the Directive the intermediary may be ordered to take measures aimed at bringing infringements of intellectual property rights to an end, and at preventing further infringements. In this respect, intermediaries implemented various policies against the infringers, such as take-down notices[57], sanctions implemented in their policies and other tools aiming at eliminating the illegal offers.

In Sweden, for instance, the law does not distinguish between different types of intermediaries. However, regarding ISPs whose services are being used by a third party to infringe an IPR, the law is somewhat unclear. In one case a hosting service provider was considered responsible for contribution to the infringements carried out by the users of a platform by providing it with access to the internet, whereas in another case it was ruled that in order to obtain an injunction against an online intermediary it is not sufficient that the intermediary merely provides access to the internet without also providing some sort of direct assistance to the primary infringers.

Scope of injunctions

The formulation of the scope of the injunctions is another hampering factor emerging from the Evaluation Report and contacts with stakeholders. Most Member States provide the court with the ability to issue orders against future infringement.[58] Hence, the injunction may order the recall and/or removal from all chains of commerce of the infringing products as well as of the materials, tools, or equipment intended for or used during the infringement. In this sense, the injunction can be prohibitory or ordering: prohibitory injunctions prohibit the infringer from producing or selling the infringing product or service, whereas ordering injunctions order the infringer to call back, destroy, or hand over infringing products.

Despite the differences in the Member States concerning the requirements in particular concerning injunctions against intermediaries issued under the Directive, injunction measures are important for their respective legal systems. Some Member States (e.g. DK, SI, EL, IT) mention that rightholders often rely on precautionary/provisional measures as their primary enforcement remedy; in some Member States (e.g. IT and DE) ex parte injunctions can usually be obtained within a few days, and are reportedly the most effective remedies.

Cross-checking with the available darts-ip data[59] on preliminary injunctions, the Evaluation Report identified different patterns. Given that in Italy an interlocutory injunction is available whenever an IP infringement is ongoing or imminent, irrespective of the degree of urgency of the matter, there is no requirement on rightholders to file their requests within a short time of becoming aware of the actual or threatened infringement. It may come to no surprise that Italy has the highest number of preliminary injunctions over the 2005-2015 period (almost 1.400).

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[57] Such procedures are also relevant in view of the liability regime of Articles 12-15 of the E-Commerce Directive

[58] See *"Support study…",* p. 62

[59] Darts-ip is a private firm which collects court cases information for the EU-MS and beyond. It was used in order to overcome the lack of quantitative data, to obtain more insights on the enforcement of IPR as provided for by the Directive.

Thus, in approximately 46% of all Italian cases a preliminary injunction has been used. The Netherlands come second with about 770 cases which in turn form a share of 51% of all Dutch cases. In Germany and France, preliminary injunction requests are in 12% and 5.3% of the German and French cases respectively. Among the Member States with lower absolute case numbers, requests for preliminary injunctions enjoy a high share such as in Cyprus (75% - 21 cases) and Slovakia (40% - 64 cases). In Ireland and Latvia, on the other hand, this measure is not used at all.

Lack of sanctions for non-compliance

The measures, procedures and remedies provided for by the Directive are only effective if their addressees also actually implement them. It is therefore important that there are measures available which aim to ensure compliance with court orders made for instance regarding evidence, the right of information and injunctions. It appears however, that sanctions for non-compliance with the measures, procedures and remedies are not always sufficiently deterrent**:**

- For some Member States (e.g. Lithuania, Hungary) the sanctions for failing to comply with orders regarding evidence and the right of information are reported to be not dissuasive. In Poland, there are reportedly no sanctions imposed on the defendant who fails to comply – only a third party or a witness. By contrast in some other Member States (Greece, Italy, Malta, Spain), a failure on the part of the defendant to produce required documents enables the court to draw an inference regarding the facts to be proven, which provides a strong incentive for the defendant to produce the required documents. In some Member States, the court has a general power to impose sanctions that are appropriate in the circumstances. For example in Denmark, Cyprus and the UK, the court can impose fines and, following proceedings for contempt of court, impose imprisonment.[60]
- For injunctions significant disparities between the laws of the Member States appear to exist regarding the sanctions in place for failing to comply with provisional/precautionary measures. In most Member States, it is possible to obtain an interlocutory injunction that requires the alleged infringer or intermediary to pay a penalty if the infringement continues. However, this is impossible in several Member States. In some Member States, maximum fines of € 290, or even € 100 (or € 200 in the case of a repeated failure to comply with the order), have been reported.[61]

Specialised judiciary

As regards factors that had a positive contribution to achieving the objective of the Directive, several stakeholders pointed out in particular to the existence of specialised judiciary[62].

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[60] *"Evidence and right of information in intellectual property rights"*, European Commission, European Observatory on Infringements of Intellectual Property Rights, 2010

[61] *"Injunctions in intellectual property"*, European Commission, European Observatory on Infringements of Intellectual Property Rights, 2011

[62] See *"Support study…",* p. 93

Irrespective of the type of IPR at issue – or whether interviewee had a history of being defendants or plaintiffs in IPR enforcement cases, or whether it is a SME or a large firm – there was overwhelming support for specialisation as decisive factor for efficient and effective IPR enforcement. The advantages of specialised judges were seen primarily in terms of predictability. More consistent decisions could lead to greater legal certainty and a more efficient civil court system.

Experienced judges were considered faster and therefore more efficient in assessing a case (i.e., the time needed to spend on a case would be less; according to an estimate some efficiency gains would be around 50%).This translates into higher speed, more usage of IP enforcement proceedings when necessary and fewer costs. It was also seen as a deterrent against abuse, as a specialised judge could be quicker to dismiss "frivolous claims".

Voluntary stakeholders' initiatives

Article 17 of the Directive is concerned with the encouragement of codes of conduct. As for such voluntary stakeholders' initiatives, the level of engagement and efficiency of existing schemes at national level varies significantly[63]. The feedback on national soft law measures like memoranda of understandings between intermediaries and rights holders is mixed according to many stakeholders.[64] While this initiative is generally perceived beneficial to support better enforcement of IPR, there are certain doubts as to expected utility and effectiveness. There was a consensus that memoranda of understandings cannot substitute the Directive but rather acts as a complementary instrument.

At the EU level, the Memorandum of Understanding[65] on the online sale of counterfeit goods entered into force in 2011 and further memoranda are being discussed. There is a consensus among stakeholders that cooperation agreements between rightholders and intermediary service providers can be a significant complementary route to the legislative framework. Rightholders and intermediaries signed up to an agreement on a set of guiding principles and rules aimed at identifying and disrupting the revenue that commercial scale IP infringing websites obtain through online advertising.

5.1.4. CONSEQUENCES OR EFFECTS NOT ORIGINALLY PLANNED

Evaluation question 4 *What are the consequences or effects (both positive and negative) that were not originally planned?*

The planned effects of the Directive are analysed in details under question 2.

[63] https://euipo.europa.eu/tunnel-web/secure/webdav/guest/document_library/observatory/documents/Research%20and%20sudies/study_voluntary_collaboration_practices_en.pdf

[64] See *"Support study…",* p. 116

[65] Memorandum of Understanding on the sale of counterfeit goods via the Internet, available at http://ec.europa.eu/DocsRoom/documents/18023/attachments/1/translations/

The analysis indicates overall that no major unplanned effects were detected. The following point was however raised in this context:

Abusive litigation

A recent study by the JRC[66] from 2016 indicates that patent assertion has become a common practice in shaping the balance between technology creation and technology dissemination in the ICT industry in Europe. The importance of this practice for the functioning of ICT markets has given rise to new entities that enforce patents but do not utilise the patented technology, commonly referred to as patent assertion entities (PAEs). The study concludes that the institutional and legal framework in Europe has not allowed the more negative consequences associated with PAEs to materialise to the same extent that it has, according to some economic literature, in the US.

Some stakeholders have reported the potential abuse of rules on evidence (Articles 6 and 7) in patent-related matters to get hold of confidential business information as a potential negative effect of the Directive. This practice of "fishing expeditions" however could not be quantified apart from allegations by some actors.

CONCLUSIONS

The Directive's rules have helped effectively in protecting IP and preventing IPR infringements. The Directive also provides effective means for facilitating the civil enforcement of IPRs. It established a common legal framework, where the same set of tools can be applied across the EU. In this respect, it has achieved the objective of approximating the legislative systems of the Member States for the civil enforcement of IPR, thereby generally ensuring a high, equivalent and homogeneous level of protection in the internal market.

The analysis of the application of the measures, procedures and remedies provided for by the Directive at national level however shows a significant divergence between Member States in applying the relevant provisions which in turn affect the Directive's effectiveness. The reason for such divergence is both the different interpretation of the Directive's provisions at national level and the divergent legal traditions of Member States, which are reflected in different national civil procedural rules. As to the latter, the Directive's measures, procedures and remedies are embedded into the general civil procedural law framework – and the lack of effectiveness of the Directive in some respects is caused by factors outside the scope of the Directive.

For SMEs, costly and complicated judicial procedures may be an important deterrent stopping them from actively defending their assets.

[66] https://publications.europa.eu/en/publication-detail/-/publication/18fbdb72-9a87-11e6-9bca-01aa75ed71a1/language-en

5.2. EFFICIENCY

The functioning of the Directive in terms of efficiency was assessed on the basis of the following evaluation questions:

5) What are the costs and benefits associated with the implementation and application of the Directive? To what extent are they proportionate?

6) To what extent, have the different measures, procedures and remedies provided for by the Directive been efficient means of ensuring the enforcement of IPRs? What factors influence the efficiency of the different measures, procedures and remedies?

7) How affordable were the costs borne by different addressees for the measures, procedures and remedies provided for by the Directive? Are they proportionate to the benefits achieved?

8) If there are significant differences in costs, length of procedure or other necessary resources invested between Member States, what is causing them?

5.2.1. COSTS AND BENEFITS

Evaluation question 5 *What are the costs and benefits associated with the implementation and application of the Directive? To what extent are they proportionate?*

5.2.1.1. COSTS

The costs of the implementation of the Directive

The Directive approximates the legislation of the Member States in the field of civil enforcement of IPR. The Directive required Member States to transpose its provisions into their national laws and thus to make available to applicants the Directive's measures, procedures and remedies for the enforcement of IPR. The Directive does not require Member States to establish specific administrative procedures or infrastructures. The Directive does not provide for any market monitoring arrangements or reporting obligations to be fulfilled by the Member States or any of the private parties concerned. Stakeholders (rightholders and intermediaries) during the public consultation did not indicate any administrative costs in relation to the implementation of the Directive.

The costs of the application of the Directive

Rightholders, both small and large companies, use the following resources to detect and combat infringements of their IPR:

- cost of employee time dedicated to IPR enforcement (for activities such as market monitoring and identification of infringements);
- cost of external legal assistance;
- court fees in connection with infringement-related litigation;

- storage and destruction costs;
- other infringement-related costs.

Overall, the average EU company that aims to protect its IP spends EUR 115 317 per year on enforcement-related activities, with a wide variation, depending on company size. In the case of small companies (i.e. those with fewer than 50 employees), the average outlay is EUR 83 653 per year. For medium-sized companies (those with 50 to 250 employees), the figure is EUR 103 166. Finally, for large companies, those with more than 250 employees, the enforcement costs amount to EUR 159 132 per year.[67]

Some of these costs are related to the application of the Directive. The Directive provides measures, procedures and remedies for the enforcement of IPR in civil law proceedings. The costs of the practical application of the Directive therefore overlap with the costs for civil justice and civil litigation. The basic elements of the quantifiable costs of litigation are the same in every jurisdiction:

- Charges for use of the courts, including associated officers, bailiffs;
- Evidential costs: witnesses, experts;
- Lawyers' fees.[68]

These costs divide into administrative/court fees (the costs of civil litigation for the applicant: court and lawyer fees) and substantive compliance costs (preparation of a legal action, meeting the requested level of evidence) for the applicant, substantive compliance costs (costs of compliance with the Directive measures) for the unsuccessful party and possible indirect costs due to the wider impact of the Directive measures, procedures and remedies (e.g. injunctions).

However, not all of these costs can be attributed directly to the application of the Directive. The key types of costs that affect an applicant's decision to litigate are the legal costs of bringing the action (administrative/court fees and the costs of legal and expert services). For the applicant, the administrative/ court fees and substantive compliance costs are use-based. These costs only occur if a rightholder is applying for a Directive measure, procedure or remedy in civil court proceedings. The Directive itself however does not impose any administrative or compliance costs on the applicant. The costs of bringing legal action and the preparation of legal action derive primarily from the general rules and procedures for the use of the civil justice system in a Member State, not from the Directive.

The Evaluation Study[69] concluded that the Directive has not imposed any incremental direct costs on the applicant compared to the period before the date of transposition of the Directive, either in terms of administrative costs or substantive compliance costs. In that respect the

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[67] "Private costs of enforcement of IPR", EUIPO, European Observatory on Infringements of Intellectual Property Rights, 2017; based on a survey of 1 291 companies in 14 EU Member States (these Member States account for 90 % of all companies in the EU).

[68] "Costs and Funding of Civil Litigation: A Comparative Evaluation Study", Hodges, Vogenauer and Tulibacka, University of Oxford Legal Research Paper Series, 2009.

[69] See *"Support study…",* p. 94

Evaluation Study also found that there is no statistically significant correlation between the implementation of the Directive and the number of IPR court cases and between the implementation of the Directive and the average duration of IP litigation cases (except for the average duration of patent cases, which decreased). The application of the Directive has therefore also not led to additional costs for applicants related to longer court proceedings.

According to the Evaluation Study, the operating costs of intermediaries also cannot be directly attributed to the Directive. The large intermediaries argued that they had already processes in place for IP rightholders to record an infringement (notice and take down process) and obtain data that would allow them to enforce their IPR against the primary infringer. It should also be noted that investments made by intermediaries would need to be assessed considering at least the e-Commerce Directive (2000)[70] and the Information Society Directive (2001)[71], which came into force before the IPR Enforcement Directive (2004). Moreover, companies' corporate responsibility is another important driver and can vary greatly from intermediary to intermediary – there is credible feedback that the intermediaries interviewed have a high degree of self-interest to be perceived as a "serious and reliable" platform by their customers and end-users, an image, which would be in jeopardy if they allowed an abuse of their platform for the offering of counterfeit and pirated goods. This is particularly true where the customers can be victims of the illegal activity (i.e. purchase of fake medicine or fashionable bag).

5.2.1.2. BENEFITS

Concerning benefits, the intervention logic supporting the Directive is that the approximation of the measures, procedures and remedies necessary to ensure the enforcement of IPR results in better and faster access to justice, better protection of IPR in particular in a cross border context, reduction of IPR infringements and in an elimination of disparities in the existing national systems for civil enforcement of IPR.

The main objective of the Directive was indeed to provide for a minimum set of measures, procedures and remedies, and limit the disparities between the systems of the Member States as regards the means of enforcing IPR, thus ensuring a high, equivalent and homogeneous level of protection in the internal market. This results in direct and indirect efficiency improvements for the parties involved.

According to the Evaluation Study[72], the majority of stakeholders were of the opinion that the Directive provided for additional tools in the hands of rightholders to litigate in case of IPR infringement and accomplished a more harmonised enforcement framework in the EU

[70] Directive 2000/31/EC of the European Parliament and of the Council 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, 17.07.2000.

[71] Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, OJ L 167, 22.06.2001.

[72] See *"Support study…",* p. 102

Member States. The harmonisation of the measures, procedures and remedies necessary to ensure the enforcement of IPR allows to assess an infringement case across various jurisdictions and to employ similar legal tools in different Member States. The possibility of a pan-European enforcement strategy translates into efficiency gains and possible cost savings (e.g. fewer resources to coordinate, prepare and implement IP enforcement action in the EU or more legal action with the same resources, streamlining of monitoring activities).

However, on the basis of the available data, it is not possible to provide a comprehensive quantitative description of these benefits. The econometric modelling analysis employed in the Evaluation Study[73] concludes that possible benefits cannot be attributed directly to the Directive. There is no quantitative evidence indicating either a positive or negative trend due to the Directive.

An indirect benefit from the implementation and application of the Directive could be seen in the enhanced sharing of knowledge and good practice in the area of civil enforcement of IPR between Member States, in particular between national judges. The Evaluation Study has shown that with the transposition of the Directive the interaction between judges in different Member States has substantially increased. Judges meet more often and look at rulings in other Member States to inform themselves. While the Directive does not require meetings of judges a growing awareness of enforcement legislation and the often cross-border or international characteristic seem to require national judges to be better informed about other Member States' practices – arguably leading to higher quality judgements.

The fact that interlocutory and permanent injunctions can also be applied for against "intermediaries whose services are used by a third party to infringe an intellectual property right" might have motivated intermediaries to engage more proactively in the protection of IPR, to avoid being the addressee of court injunctions. The number of voluntary cooperation agreements between rightholders and intermediaries aiming at the identification and prevention of IPR infringements through the use of intermediary services is growing. At the same time this development has again to be assessed also in light of the relevant obligations set out in relation to certain categories of intermediaries in the e-Commerce Directive and the Information Society Directive in the case of copyright.

The Directive itself includes a reference in its recitals saying that the "Directive respects the fundamental rights and observes the principles recognised in particular by the Charter of Fundamental Rights of the European Union". The application of the Directive, and the interpretation of the Directive by the CJEU in preliminary reference proceedings following from this application, has certainly helped to clarify the relationship between the different fundamental rights concerned by the enforcement of IPR.

The results of the EUIPO sectorial studies on the scope, scale and impact of IPR infringement in EU[74] and the recent study by the OECD and the EUIPO[75] indicate that, despite the adoption

[73] See *"Support study…",* p. 101
[74] https://euipo.europa.eu/ohimportal/en/web/observatory/quantification-of-ipr-infringement

and application of the Directive, illicit trade is not disappearing and that counterfeiting and piracy is still on the rise, impacting all market segments.

5.2.1.3. OVERALL COST/BENEFIT RELATIONSHIP

The Evaluation Study[76] finally provides for a general cost-benefit analysis. With little to no changes to the cost situation, but with principal improvements brought by the Directive even if public consultation feedback was not able to pinpoint costs attributable to the Directive, the overall perception was that the benefits outweigh the costs. Therefore, the Directive can be seen as a useful and necessary piece of legislation to harmonise IPR enforcement across Europe.

5.2.2. EFFICIENCY OF THE DIFFERENT MEASURES

Evaluation question 6

To what extent, have the different measures, procedures and remedies provided for by the Directive been efficient means of ensuring the enforcement of IPRs? What factors influence the efficiency of the different measures, procedures and remedies?

The efficiency analysis of the different measures depends again very much on the cost effectiveness of a measure in a particular Member State. A number of measures have been discussed already under the effectiveness criteria. The efficiency of measures on evidence, damages, legal costs, is questionable in view of the costs they generate for rightholders to enforce their rights, notably burden of proof (notably for evidence), legal costs, or the insufficient amount of damages awarded (see section 5.1.1.2). Other than lost profits, rightholders may not in practical terms always be compensated for other negative economic consequences resulting from an infringement[77].

5.2.3. AFFORDABILITY AND PROPORTIONALITY

Evaluation question 7

How affordable were the costs borne by different addressees for the measures, procedures and remedies provided for by the Directive? Are they proportionate to the benefits achieved?

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[75]https://euipo.europa.eu/tunnel-web/secure/webdav/guest/document_library/observatory/documents/Mapping_the_Economic_Impact_study/Mapping_the_Economic_Impact_en.pdf

[76] See *"Support study…",* p. 101

[77] https://euipo.europa.eu/ohimportal/documents/11370/80606/Damages+in+intellectual+property+rights/b0d70979-2af3-48cf-870b-9ed1139d917a

Affordability

Affordability is a problem especially for SMEs regardless of the type of IP. This finding is in line with inputs from the public stakeholder consultation as well as the survey results from the SME scoreboard[78]. While this finding seems simple and the remedies straightforward (make the enforcement of IPR easier, so SMEs can better access the system), the problem is far more complex. This is due to the fact that SMEs may find themselves not only in the position of a rightholder enforcing a right (as the applicant), but also on the defendant side. Allowing for easier enforcement may help therefore SME acting as applicants, but may have negative consequences for SME acting as defendants.

The SMEs interviewed – both the ones defending and the ones who could or were actually enforcing their rights – saw "affordability" actually almost as a prohibitive factor in their particular business contexts (still, all opted for the existence of IPR and good ways to enforce IPR). One of the credible suggestions to tackle this issue was the existence of specialised judges which could quickly judge validity and infringement.

Illustrative case studies come from the telecommunication sector. An SME filing for a preliminary injunction in Spain against 10 different infringing companies has been asked for 1 million euro deposit. While this was proportionate to the turnover of the accused companies, it constituted the yearly turnover of the SME in case. In a similar case another SME has been granted an injunction in Germany, but applying it before an appeal case required a deposit higher than a million euro. Again while this was proportionate to the value of the case it seems disproportionate in relation to the turnover of the SME. This indicates that growing SMEs that have valuable IP might have difficulties in enforcing their rights as their current financial strengths is below the potential of their valuable IP.

For SMEs acting as defendants the legal costs of the cases (see section 5.2.4 for illustration) can be high, again in proportion to their turnover, and not easily predictable. This may push such SMEs to settle on conditions that are strongly unfavourable for them just to avoid the risk of starting a legal battle. This is an issue that 9% of surveyed SMEs have suffered mentioning that they have been "IP bullied"[79].

According to the Evaluation Study[80], the affordability problem seems less of an issue for larger firms, where the question seems to be more whether the use of a particular Directive remedy has in principle the chance to succeed or not.

Affordability depends also very much on the general costs of the legal system in the Member States (which means that this may be again an issue of national legal traditions and procedural law, rather than a factor which the Directive directly influences)

[78] IP SME scoreboard, EUIPO 2016
[79] IP SME scoreboard, EUIPO 2016
[80] See *"Support study…",* p. 104

5.2.4. NATIONAL DIFFERENCES

Evaluation question 8

If there are significant differences in costs, length of procedure or other necessary resources invested between Member States, what is causing them?

The data and the interview evidence show that there are indeed considerable differences in costs and length of procedure.

Costs

The issue of costs has already been addressed under point 5.2.1.1.

Average legal costs awarded can be as high as € 300,000 on average for patents in the UK, or € 150,000 for trademark cases. This is indicative for typically high legal costs in the UK, which are said to be considerably larger than, for example, in Germany.

The study of the French Ministry[81] also provides for an estimate of the legal costs in view of the complexity of the case, ranging from 85 000 Euros for a 'simple' litigation case in France to 5 M Euros for a complex case in the UK.

A study made in the context of the preparation of the Unified Patent Court gives also an approximation of the incidence and cost of patent litigation for European patents in DE, FR, NL and the UK and highlights the crucial aspect of heterogeneity of the costs of litigation[82].

Length of procedure

The different length of procedures has already been addressed in detail under point 5.1.2.

According to the interviewees, such differences are mainly due to national legal traditions and, reflecting (again) the specific ways general national civil enforcement rules and procedures interact with the rules of the Directive. Different requirements to apply certain instruments of the Directive (e.g. when and under what detailed conditions preliminary injunctions can be provided) and the existence of specialised courts are examples of causes explaining these variations.

In conclusion, despite a limited amount of evidence, the Directive can be considered to have been a cost-efficient and beneficial intervention. It has not created administrative burden or significant compliance / implementation costs for either stakeholders or Member States. The Directive has helped to bring about more harmonisation across the EU MS and it provides for

[81] Fidal (2014): Comparative Study on damages allocated in the framework of counterfeiting procedures in France, UK and Germany", http://www.entreprises.gouv.fr/files/files/directions_services/etudes-et-statistiques/etudes/dommages-interets-dans-actions-en-contrefacon.pdf

[82] http://ec.europa.eu/internal_market/indprop/docs/patent/studies/litigation_system_en.pdf

a common set of tools in the hands of the stakeholders to litigate against IPR infringement across EU. However, efficiency is noted to be weakened mainly due to different national civil law traditions.

In the case of SMEs, allowing for an easier enforcement might not be the best solution as, on the one hand, it may help those SMEs acting as applicants, but on the other hand it may have negative consequences for those firms acting as defendants.

5.3. RELEVANCE

The functioning of the Directive in terms of relevance has been assessed on the basis of the following evaluation questions:

9) To what extent do the objectives of IPRED (still) correspond to the needs of stakeholders, including holders of IPRs?

10) To what extent have the measures, procedures and remedies provided for by IPRED been relevant to meet the objective of ensuring the enforcement of intellectual property? In view of the development of the digital environment, to what extent are the measures, procedures and remedies provided for by IPRED still relevant for achieving the objectives of IPRED or have other approaches currently not provided for by the Directive become more important?

11) Have there been developments since the entering into force of the Directive, in particular with regard to the development of the digital environment and technology in general, that contributed to achieving the objectives?

5.3.1. OBJECTIVES AND STAKEHOLDER NEEDS

Evaluation question 9

To what extent do the objectives of the Directive (still) correspond to the needs of stakeholders, including holders of IPRs?

Rightholders have an interest in effective and efficient means of enforcement of IPR, for which a functioning Directive harmonising enforcement procedures across Europe is seen as essential.[83] This is supported by their call to ensure a uniform interpretation of certain provisions of the Directive, such as on the right of information, damages or the calculation of legal costs (see effectiveness section above) and by the growing number of IP infringements.

The evaluation report indicates that the overall relevance of the objectives of the Directive still corresponds to the needs of all stakeholders.[84] This is reflected in several ways:

[83] See *"Support study…",* p. 106
[84] See *"Support study…",* p. 106

- Statements regarding the recognition that IPR infringement is an important and significant phenomenon that needs to be tackled, in line also with studies on the extent of counterfeiting and piracy activity.
- The overall response and media coverage concerning the public consultation on the Directive, but also of IPR enforcement topics in general.

5.3.2. RELEVANCE OF THE DIFFERENT MEASURES

Evaluation question 10

To what extent have the measures, procedures and remedies provided for by the Directive been relevant to meet the objective of ensuring the enforcement of intellectual property?- In view of the development of the digital environment, to what extent are the measures, procedures and remedies provided for by the Directive still relevant for achieving the objectives of the Directive or have other approaches currently not provided for by the Directive become more important?

Within the Directive, the different measures and remedies can be ranked according to relevance for enforcing IPR. According to the Evaluation Study[85], they could be ranked as follows:

- The most important measure – and also the one that was most intensely discussed by stakeholders – was preliminary injunctions.
- This was followed by (and most of the time coupled to) the measures relating to the right of information or to evidence.
- Ranking third, and seemingly less relevant than the remedies ranked first and second, are the provisions regarding damages and legal costs.
- Very few comments were received with respect to the provisions regarding publication. These were considered as the least relevant.

Preliminary injunctions

The rationale behind the first ranking is seen in the fact that preliminary injunctions are the most powerful tool, as they have, on a provisional basis, direct and effective consequences for the opposing party. This can be especially necessary as it can take some time until the matter is resolved in proceedings on the merits of the case. Even the threat of preliminary injunctions may in certain cases be enough to bring (alleged) IPR infringers to the negotiation table, so that litigation may not be necessary (or – if litigation is started – it will not be brought to conclusion, because the parties settle out of court).

[85] See *"Support study…",* p. 107

Right of information / evidence

According to the Evaluation Study[86], the right of information and the rules on the presentation and preservation of evidence are often relevant in practice as pre-requisite to issue an injunction. Issues on obtaining information are discussed in more details in the effectiveness section.

Damages, legal costs

The reason why damages do not seem to play much of a role, at least for the majority of stakeholders – even if the difficulties assessing damages are catered for – lies in the overall objective of rightholders to consider the future and stop infringement, rather than looking to the past and try to obtain a damages award.[87] See also section on effectiveness for more details. Apart from the problems assessing the level of damages, there is also the issue whether any damages award is actually enforceable in practice (firms may go bankrupt, bank accounts are in another country, etc.). In cases such as patent enforcement proceedings, the goal is frequently to reach licensing agreements and thus generate future revenue for the rightholder.

Publication

Almost all respondents from the judiciary and legal profession in the public consultation stated that judicial decisions related to the enforcement of IPRs are publicly accessible in their jurisdiction. However, only a few Member States have dedicated websites for such purposes. Furthermore, very often only final judgments from the appeal courts are available, not first instance or interim decisions. These are available only on commercial databases. In other jurisdictions no central database exists and judgments can only be obtained directly from the court in question. In some cases publication depends on the approval of the judge or the interest of the public in the decision in question. Personal data is removed before publication. For two Member States decisions do not seem to be publicly available.

The interviews with experts indicate that many IPR enforcement actions are actually handled in a confidential manner and details of deals struck out-of-court are kept confidential.

Digital environment

The overall feedback received from rightholders in the public consultation is to be interpreted as considering the current provisions of the Directive related to evidence to be relevant also in the digital environment. They however see a need for better application with regard to preserving evidence in the digital environment.

There was a broad consensus among respondents that the interpretation of the Articles on the presentation and preservation of evidence (Articles 6 and 7) should be clarified for the digital environment. This included three main aspects:

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[86] See *"Support study…",* p. 108
[87] See *"Support study…",* p. 108

• Clarifying that Articles 6 and 7 of the Directive apply equally to online infringements. Specific suggestions include clarifying that websites and their servers can be seized as infringing goods, including at hosting providers;

• Ensuring correct and harmonised application across all Member States, and addressing suggested flaws in generating evidence in the digital infringement, such as the requirement in some Member States for notarised evidence;

• Facilitating the production, preservation and cross-border acceptance of evidence, in light of specific challenges of digital environments such as i) the anonymity of the internet presenting difficulties in identifying and thus pursuing infringers, and ii) the ease with which infringing parties can delete evidence and online archives of date stamped data.

Other approaches for enforcement of IPRs

An approach currently not provided for by the Directive and which was discussed with interview partners as well as with the World Intellectual Property Organisation (WIPO) arbitration centre is the extent to which **alternative dispute resolution (ADR) – mediation and arbitration** – provide alternative means for IPR enforcement. One of the advantages of ADR is that that cross-border issues can often be resolved more easily, as ADR is typically designed in such a way that the whole case (which could span several Member States) is negotiated in one single procedure.

ADR also tends to be faster and cheaper than litigation before courts. The big drawback is the observation that ADR works best (or may only work) if two parties who are in a contractual arrangement (e.g., have a licensing deal) already arrange for an ADR/mediation procedure in the contract, before there are any hostilities.

However, in IPR enforcement it is often that applicants and defendants have not had an underlying prior contract regulating disputes on the IP via ADR, and once the argument starts, it is hard to still agree to use ADR. Therefore, there was some scepticism whether ADR could be a viable alternative for IPR enforcement among stakeholders. While it has been acknowledged that the significance of ADR has been increasing, ADR is still a rather nascent and small phenomenon in IPR enforcement.

5.3.3. CONTRIBUTION OF OTHER DEVELOPMENTS

Evaluation question 11

Have there been developments since the entering into force of the Directive, in particular with regard to the development of the digital environment and technology in general that contributed to achieving the objectives?

The main development since the entering into force of the Directive was an expansion of the digital market:

- The proliferation of new business models for distributing digital content and trading physical goods (both legit and illegal business models, with the latter thriving on the occurrence of IP infringements)
- A stronger occurrence and relevance of cross-border / global trade and distribution

The major issue with respect to new business models is the proliferation of internet platforms and various service providers that could be considered intermediaries within the context of Articles 9 and 11. The intermediary issue has increased in significance, also – because physical goods have been more and more traded via the internet. As such, illicit platforms of dubious origin have been a topic of discussion, as have large platforms. The general indication from stakeholders is that there is an urge to have a wider and better definition of what constitutes an intermediary under the Directive, particularly by rightholders, while online intermediaries themselves regard the current legal text as more or less sufficient. A general conclusion that can be drawn is that, at the very least, the Directive as a tool for the enforcement of IPR has not lost significance, but continues to be an important pillar for safeguarding IPR enforcement.

In recent times there have been, significant developments, in particular with the proliferation of legal alternatives to access IP protected digital content, such as streaming services or well developed games platforms[88], which however still require effective enforcement tools.

While this contributes indeed to reducing the space for business models based on infringing activities, the IP enforcement framework remains important for the take-up of legal alternatives and the digital economy at large[89]. An efficient enforcement also through the civil redress mechanisms provided by IPRED remains relevant as part of the conditions which

[88] A recent study commissioned by the Observatory of the EUIPO (https://euipo.europa.eu/ohimportal/en/web/observatory/observatory-publications) provides for an assessment of the availability, characteristics and quality of new business models for copyright-based creative industries in the EU. This study presents test cases carried out by a small panel of consumers with experience in accessing digital content via online sources in a selection of EU Member States to see whether and how digital content is available via online sources in the different Member States and to what extent there is access to this content across borders. See also EUIPO/ EUROPOL, 2017 Situation Report on Counterfeiting and Piracy in the European Union – 2017; See WIPO paper "Copyright enforcement in the Digital age: empirical economic evidence and conclusions", WIPO/ACE/10/20, August 25, 2015;

[89] Apart from the fact that for many users identifying whether a service provides legal access to content or not remains a challenge (for example the test case study quoted in fn 63 that a number of internet users in Europe take mistakenly the fact that a digital content is freely available online without the authorities having taken action as a sign that the service provides legal access to content),, piracy remains a critical challenge due not only to its negative impacts for right-holders (reduction in terms of revenues to authors, performers and all those involved in producing creative works), but also because it inhibits the launch of new services, especially in countries with low enforcement and high piracy. It additionally limits the potential of existing businesses, acting as unfair competition. Infringements of IP protected digital content remain also an area of criminal threat against IPR holders, consumers and general societal interests, requiring a special attention of enforcement authorities, as also shown by the EUIPO/Europol joint 2017 situation report on counterfeiting and piracy in the European Union (see: https://euipo.europa.eu/tunnel-web/secure/webdav/guest/document_library/observatory/documents/reports/Executive%20Summary%20Situation%20Report%20EUIPO-Europol_en.pdf).

secure that, investments in new creations and R&D are properly protected and can generate an appropriate return for investors and the creative industries[90].

In conclusion, the Directive remains relevant as a tool facilitating enforcement of the different IPRs. The overall relevance of the objectives of the Directive still corresponds to the needs of all stakeholders in the digital environment.

5.2. COHERENCE

The functioning of the Directive in terms of coherence has been assessed on the basis of the following evaluation questions:

12) To what extent are the different measures, procedures and remedies provided for by the Directive coherent and complement each other or do they overlap or even contradict?

13) To what extent have the different measures, procedures and remedies provided for by the Directive been complemented by non-legislative interventions at EU and national level, including voluntary stakeholder initiatives?

14) To what extent is IPRED coherent with other instruments and policies at EU level having similar objectives, such as e.g. the E-commerce Directive?

5.2.1. COHERENCE OF THE DIFFERENT MEASURES

Evaluation question 12

To what extent are the different measures, procedures and remedies provided for by the Directive coherent and complement each other or do they overlap or even contradict?

The evaluation did not identify any lack of coherence between the different measures, procedures and remedies themselves provided for by the Directive.

Stakeholders however pointed to certain problems in the individual application of these measures, procedures and remedies in relation to Article 3 of the Directive.

According to Article 3, the measures, procedures and remedies necessary to ensure the enforcement of the intellectual property rights covered by the Directive shall be fair and equitable and shall not be unnecessarily complicated or costly, or entail unreasonable time-

[90] Lenient IPR enforcement in a country, on the contrary, is likely to make firms in IPR-sensitive sectors less eager to invest there. This is because of the vulnerability of proprietary processes to theft, and/ or that infringing products are more likely to displace sales of genuine products. By contrast, enforcing intellectual property rights can stimulate FDI, and through that channel improve welfare in the host country ("The economic impacts of counterfeiting and piracy", frontier economics, 2017).

limits or unwarranted delays. They shall also be effective, proportionate and dissuasive and be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.

Injunctions

The proportionality of injunctions is an important element of a well-balanced IPR enforcement system. Stakeholders alleged that the procedure for granting injunctions is not always well-balanced in the light of Article 3, as injunctions are either granted too easily without due regard to the proportionality of the measure vis-à-vis other fundamental rights, or on the contrary they are not granted although justified to protect IP, in particular in commercial-scale infringement cases.

If national judicial authorities do not assess the proportionality of an injunction, i.e. its adequacy to achieve the objective of the law taking into account the objective to strike a balance between the different fundamental rights concerned, on a case by case basis, the application of Article 11 of the Directive is, in the view of these stakeholders, not consistent with the general obligation of Article 3 the Directive, i.e. that the measures, procedures and remedies shall be fair and equitable and also proportionate.

Stakeholders also complained that Member States do not give due consideration to the possibility of applying alternative measures, as established in Article 12 of the Directive. According to that Article, the competent judicial authorities may order pecuniary compensation to be paid to the injured party instead of applying the measures provided for in this section, *inter alia* injunctions, if that person acted unintentionally and without negligence, if execution of the measures in question would cause him/her disproportionate harm and if pecuniary compensation to the injured party appears reasonably satisfactory.

5.2.2. COMPLEMENTARITY OF NON-LEGISLATIVE INTERVENTIONS

Evaluation question 13

To what extent have the different measures, procedures and remedies provided for by the Directive been complemented by non-legislative interventions at EU and national level, including voluntary stakeholder initiatives?

From the different feedback from stakeholders, it emerges overall that non-legislative measures such as voluntary schemes are generally perceived beneficial to support better enforcement of IPR. Success factors for these voluntary agreements were the level of commitment of the signing stakeholders individually, and to which extent they were representative for their industries.

During discussions on existing schemes at national or regional level with the Commission, stakeholders in the EU have been very positive on the general framework and the certification process of certain existing initiatives, but that two problems have been brought to their attention: the lack of an objective compliance programme and the lack of reliability and objectivity of a self-certification process.

A study by the EUIPO[91] analyses six voluntary collaboration practices addressing online infringements of trade mark rights, design rights, copyright and rights related to copyright:

- The French charter for the fight against the sale of counterfeit goods on the internet between intellectual property rightholders and e-commerce platforms.
- The Dutch notice-and-take-down code of conduct directed to internet service providers that provide a public telecommunications service in the Netherlands.
- The Danish code of conduct for internet service providers regarding the management of court DNS blocking orders relating to IP infringements. –
- Article 1.7 of the ethics code of the Austrian advertising industry and related articles on the rules of procedure of the Werberat.
- The UK good practice principles for the trading of digital display advertising. These voluntary practices are intended to respect both the law and the fundamental rights of citizens, while combating online infringements of trade mark rights, design rights, copyright and rights related to copyright. They include codes of conduct and practices for taking down infringing sites, as well as for controlling advertising and the access to online payment systems.
- The U.S. IACC payment processor initiative & portal program

The EUIPO study casts light on the role of the parties involved, their coexistence with legal frameworks, the role of technology, the costs involved and the role of educational activities. It shows that the effectiveness of these schemes remains difficult to assess, and that the cost for monitoring activities may prove to be a burden.

A study by the International Chamber of Commerce recommends best practices for rightholders to engage with intermediaries to improve the effectiveness to fight counterfeits[92].

Other initiatives were also mentioned during the Evaluation Study as complementary measures. Most notably trainings and exchanges of judges (organised by the EPO or the EUIPO) were perceived by stakeholders as very positive. The studies of the EU Observatory on Infringements of IP have also been quoted in the public stakeholder consultation, as well as anti-counterfeiting and piracy campaigns at national levels.

In 2011 a Memorandum of Understanding (MoU) on the sale of counterfeit goods via the Internet was concluded, under the auspices of the Commission, between major internet platforms and rightholders in order to reduce counterfeit products that are being sold online. The impact of this initiative is measured with key performance indicators that allow for objective quantification. Results of the first monitoring cycle show positive tangible effects.

Another similar on-going voluntary initiative is the MoU on online advertising and IPR which brings together different stakeholders from the advertising industry, such as rightholders,

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91 https://euipo.europa.eu/tunnel-web/secure/webdav/guest/document_library/observatory/documents/Research%20and%20sudies/study_voluntary_collaboration_practices_en.pdf

92 Roles and responsibilities of intermediaries, ICC and BASCAP, March 2015

advertisers, advertising intermediaries and technology providers, with an aim to reduce the flow of ad revenue to IP infringing sites. In October 2016, an agreement was concluded under the auspices of the Commission on a set of guiding principles between industry representatives which was a key step towards concluding the Memoranda.

In order to tackle due diligence in other stakeholder circles, potential future voluntary initiatives of this kind include the MoUs concluded by payment service providers and shipping companies.

These initiatives can have a positive impact on the enforcement of IPR as they are industry-led, target specific issues and have the capability of responding to new technological developments in a timely manner.

5.2.3. COHERENCE WITH OTHER EU INSTRUMENTS AND POLICIES

Evaluation question 14

To what extent is the Directive coherent with other instruments and policies at EU level having similar objectives, such as e.g. the E-commerce Directive?

The Directive appears to be coherent with other EU instruments in the field of IPR and their enforcement, as well as with other relevant policies at EU level.

First, the coherence of the Directive is assessed in the light of existing enforcement rules for specific IPRs.

Trade marks

The Directive is in line with the trade mark acquis and, in certain cases complements it, in particular where it concerns the Trade Mark Directive[93] which contains no express rules on enforcement. The EU Trade Mark Regulation (EUTMR)[94] provides for measures on injunctive relief in cases of infringement of EU trade marks. Furthermore, its Article 131 refers to the possibility of requesting provisional measures "as may be available under the law of that State in respect of a national trade mark".

Designs

In relation to national design rights, the Design Directive[95] does not contain any express enforcement-related rules either. The EU Design Regulation[96] contains specific provisions in respect to the requirements for provisional and precautionary measures such as ex parte injunctions. Article 90 of the Design Regulation refers to the possibility of requesting provisional measures "as may be available under the law of that State in respect of national

[93] Directive (EU) 2015/2436 of 16.12.2015.
[94] Regulation (EU) 2017/1001 of 14.6.2017.
[95] Directive 98/71/EC of 13.10.1998.
[96] Council Regulation (EC) No 6/2002 of 12.12.2001.

design rights". This is a matter of national law, as harmonised by the IPR Enforcement Directive, with particular reference to Article 9 (in relation to provisional and precautionary measures) of that Directive.

Geographical indications

With regards to the protection of Geographical Indications (GIs) as IPR, the IPR Enforcement Directive complements the various Regulations at Union[97] level which provide for the protection of GIs in different sectors (agricultural products and foodstuffs, wine, spirit drinks and aromatised wines). As the GIs concern agricultural product and foodstuffs (and beverages) controls on production and market surveillance is provided by Member States pursuant to the Official Food and Feed Control Regulation[98]. The respective GI Regulations provide for general enforcement obligations on Member States including by cross reference to the Official Feed and food Control Regulation, and include administrative checks Therefore, the Directive and respective GI Regulations are complementary in their nature.

Copyright

As stipulated in Article 2(2) the IPR Enforcement Directive "this Directive shall be without prejudice to the specific provisions on the enforcement of rights and on exceptions contained in Community legislation concerning copyright and rights related to copyright, notably those found in Council Directive 91/250/EEC [on the legal protection of computer programs (now Directive 2009/24/EC on the legal protection of computer programs)] and, in particular, Article 7 thereof or in Directive 2001/29/EC [on the harmonisation of certain aspects of copyright and related rights in the information society] and, in particular, Articles 2 to 6 and Article 8 thereof.". In addition, Articles 9 of the IPR Enforcement Directive provides that injunctions against intermediaries whose services are used by a third party to infringe a copyright or a related right are covered by Directive 2001/29/EC, whereas its Article 11 states in this connection that it is without prejudice to Article 8(3) of that latter Directive.

The evaluation did not identify any incoherence in general between these two Directives, nor between the Articles 9 and 11 the IPR Enforcement Directive and Article 8(3) Information Society Directive in particular.

E-Commerce Directive

According to Article 2(3)(a) of the IPR Enforcement Directive, the "Directive shall not affect […] Directive 2000/31/EC in general, and Articles 12 to 15 of Directive 2000/31/EC in particular." At the same time Articles 12(3), 13(2) and 14(3) of the e-Commerce Directive state that those articles shall not affect the possibility, for a national court or administrative authority, of requiring a service provider to terminate or prevent an infringement.

[97]See e.g. Regulation (EU) No 1151/2012 of 21.11.2012. and Council Regulation (EC) No. 510/2006 of 20.3.2006.
[98] Regulation (EU) 2017/625 of 15.3.2017.

The CJEU has provided further guidance on the interplay between the e-Commerce Directive and the IPR Enforcement Directive[99].

Taking account of these provisions and the relevant case law, it appears from the evaluation that the IPR Enforcement Directive is coherent with the e-Commerce Directive.

Civil justice

Judicial cooperation in civil matters aims to establish close cooperation between the authorities of the Member States in order to eliminate any obstacles deriving from incompatibilities between the various legal and administrative systems. The EU's action in the area of judicial cooperation in civil matters seeks primarily to achieve the following objectives:

- to ensure a high degree of legal certainty for citizens and businesses in cross-border relations governed by civil law;
- to guarantee citizens and businesses easy and effective access to civil justice in order to settle cross-border disputes;
- to simplify cross-border cooperation instruments between national civil courts;
- to support the training of the judiciary and judicial staff.

The improvement of the quality, independence and efficiency of judicial systems is another priority of the EU's civil justice policy.

The Directive provides measures, procedures and remedies necessary to ensure the civil enforcement of IPR in the Member States. While the Directive approximates the legislation of the Member States in the field of civil enforcement of the substantive law on IPR it does not aim, as stated in Recital 11, to establish harmonised rules for judicial cooperation, jurisdiction, the recognition and enforcement of decisions in civil and commercial matters, or deal with applicable law. As noted in that recital, there are Union instruments which govern such matters in general terms and are, in principle, equally applicable to intellectual property.

Protection of fundamental rights

As laid down in Recital 32 of the Directive, the Directive respects the fundamental rights and observes the principles recognised in particular by the Charter of Fundamental Rights of the European Union. The CJEU has provided further guidance on the protection of fundamental rights in the enforcement of IPR.[100]

International obligations

As stated in the recitals, at international level, all Member States, as well as the Union itself as regards matters within its competence, are bound by the Agreement on trade-related aspects of intellectual property (the TRIPS Agreement). The TRIPS Agreement contains, in

[99] E.g. Case C‑484/14, *Mc Fadden*; Case C-324/09, *L'Oréal v. eBay*.
[100] E.g. Judgment of the CJEU (Grand Chamber) of 29 January 2008, C-275/06, *Productores de Música de España (Promusicae) v Telefónica de España SAU*, EU:C:2008:54, para. 68.

particular, provisions on the means of enforcing intellectual property rights, which are common standards applicable at international level and implemented in all Member States.

There are also international conventions to which all Member States are parties and which also contain provisions on the means of enforcing intellectual property rights. These include, in particular, the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, and the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations.

The Directive states clearly that this Directive shall not affect Member States' international obligations, including those under the TRIPS Agreement (Art. 2(3)(b)). The evaluation has not revealed any incoherence of the Directive with international obligations.

In conclusion, the Directive appears coherent with other EU instruments on IPRs and their enforcement. It also appears that voluntary stakeholders' initiatives can be a powerful complementary tool to judicial enforcement measures, depending on the level of engagement of stakeholders.

5.3. EU ADDED VALUE

The EU added value has been assessed on the basis of the following evaluation questions:

15) What has been the EU added value of the Directive, compared to what could have been achieved by Member States at national level in ensuring the enforcement of IPRs?

16) Do the objectives addressed by the Directive continue to require action at EU level?

5.3.1. EU ADDED VALUE OF THE DIRECTIVE

Evaluation question 15

What has been the EU added value of the Directive, compared to what could have been achieved by Member States at national level in ensuring the enforcement of IPRs?

According to the feedback from experts and stakeholders[101], the EU added value must be seen primarily in the context of establishing a common set of tools for IPR enforcement across Europe which would basically:

- Allow for the creation of a truly pan-European strategy for firms to enforce their IP rights due to the common concepts and procedures (even if application in the MS differs).
- Lead to efficiency and effectiveness gains; in the sense that in many cases or Member States IP enforcement becomes an option at all.
- The benefit for judges to be able to read and be inspired by rulings in other Member States applying the same legal basis results in higher predictability of rulings in an international context and also contributes to higher efficiency and effectiveness.

[101] See *"Support study…",* p. 130

- The persisting difficulties of cross-border protection of IP, often linked to the borderless nature of the internet and knowledge based business activities, require a common EU approach.

According to the experts consulted during the evaluation, it is hardly conceivable, that these values would have been achievable without the Directive, even if the Member States would have themselves invested heavily and more in civil IPR enforcement.[102] The feedback therefore indicate that purely nationally-driven approaches would have led to less efficient and effective country-specific enforcement practices, in some cases even becoming a deterrent to enforcing IP rights at all.

5.3.2. NEED FOR CONTINUOUS EU ACTION

Evaluation question 16

Do the objectives addressed by the Directive continue to require action at EU level?

There was a large consensus among experts consulted that continued action is required at EU level to tackle the objectives addressed. This, not the least, because IPR infringements remain a significant phenomenon and new challenges appear such as new strategies of counterfeiters and pirates that work increasingly in an internationally connected way.

The recent EUIPO study on IPR infringements in the clothing sector states for example that counterfeit clothes or shoes destined for the EU market are manufactured outside or inside the EU, imported into the EU and/or distributed across internal EU borders, promoted on global social networks and offered on internet sales platforms. The cross-border nature of commercial scale IP infringing activities has been highlighted in the 2015 and 2017 Situation Report of Europol and the EUIPO.[103]

Rightholders report difficulties to enforce their rights at EU level. They claim that they have to apply for injunctions separately in each jurisdiction they would like to cover because the current complexity of rules. In particular the different applications of the national IP rules and national procedural rules for granting interlocutory or permanent injunctions - for the same infringement against several infringers or intermediaries from several jurisdictions in the EU- is seen as cumbersome.

Procedural requirements such as translation and more importantly the divergence in applicable rules result in the difficulty to join case as well as significant costs and lengthy procedures.

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[102] *Idem.*

[103] See EUIPO/Europol joint 2017 situation report on counterfeiting and piracy in the European Union (https://euipo.europa.eu/tunnel-web/secure/webdav/guest/document_library/observatory/documents/reports/Executive%20Summary%20Situation%20Report%20EUIPO-Europol_en.pdf)

In conclusion, the evaluation of the EU added value indicates the continuous need for action at EU level, and moreover calls for improved enforcement at EU level.

6. CONCLUSIONS

The fact that the evaluation can only rely on very limited empirical evidence impedes reaching definitive conclusions on the detailed performance criteria of this Directive. However, a solid expert analysis, including the public consultation, and several additional stakeholder consultation, and studies led by the EUIPO have provided significant input to the evaluation.

The main conclusions of the evaluation are the following:

- All Member States have rules of national law in place that transpose the Directive. The Directive can be considered to have contributed to fostering a common framework for the enforcement of IPR.
- As regards effectiveness, the main conclusion drawn from the evaluation of the functioning of the Directive is that it has achieved its main objective by providing a minimum but solid standard toolbox of measures, procedures and remedies, contributing to a level playing field for the enforcement of IPR in the internal market. While the Directive's objectives include homogeneity, there still exist differences on how these means are applied by the competent judicial authorities at national level which affect the effectiveness of the Directive. This is mainly due to uncertainties and diverging views as to the way the provisions of the Directive should be understood (in particular provisions relating to presenting and preserving evidence, right of information, provisional and permanent injunctions, damages, reimbursement of legal costs) especially taking account of new challenges, including the digital revolution and cross-border context, as well as to differences in national civil law procedural frameworks, into which the measures, procedures and remedies of the Directive are embedded, as well as dissimilar legal and judicial traditions.
- In addition, limited public access to judgments on IPR enforcement rendered at national level allows for little transparency on how the Directive is applied in practice and does not therefore facilitate predictability, knowledge exchange and the definition of best practices.
- The Directive can be considered to have been a cost-efficient and overall a beneficial intervention. It has not created administrative burden or significant compliance or implementation costs for either stakeholders or Member States. Affordability of the costs represents however an issue particularly for the SMEs and in that context allowing for an easier enforcement may help SMEs when acting as applicants, but have negative consequences when acting as defendants.
- The existence of national judicial authorities specialised in matters related to IPR enforcement constitutes a decisive factor for the effective and efficient use of the measures, procedures and remedies under the Directive.

- The Directive remains relevant as an instrument facilitating enforcement of the different IPRs in the digital environment and in the cross-border trade.
- The Directive is coherent both internally and with other EU interventions pursuing similar objectives. Voluntary stakeholders' initiatives can be a powerful complementary tool to judicial enforcement measures, depending on the level of engagement of stakeholders.
- Finally, the Directive's objectives remain valid in view of the Commission priorities to complete the creation of the digital single market and to deliver the Single Market Strategy.
- As regards EU added value, the Directive has provided value by establishing harmonised rules across the internal market.
- In terms of REFIT, since the Directive has not created administrative burden or significant compliance and implementation costs for stakeholders or Member States and since its provisions generally leave the Member States a margin of discretion, the available simplification potential is estimated to be limited. The costs of bringing legal action and the preparation of legal action derive primarily from the general rules and procedures for the use of civil justice system in a Member State, not from the Directive.

On the basis of the above, it can be concluded that the application of the Directive by national authorities would benefit from the appropriate guidance on how to interpret key provisions and from the additional gathering of best practices for public exchange, complemented by efforts to foster transparency on IPR enforcement-related case law and strengthen the capacity of national judges to adequately deal with IPR infringement claims.

ANNEX I: PROCEDURAL INFORMATION

1. IDENTIFICATION

Lead DG: DG Internal Market, Industry, Entrepreneurship and SMEs (DG GROW)

Agenda planning/Work programme references: The Agenda Planning Reference is 2016/GROW/002. This evaluation forms part of the Commission's initiative to modernise the enforcement of IPR, as announced in the Digital Single Market Strategy[104] and the Single Market Strategy[105]. The evaluation is also part of the Commission's Regulatory Fitness and Performance Programme (REFIT).

2. ORGANISATION AND TIMING

An Inter-Service Steering Group was set up in 2015. In total, five meetings were organised: on 24 September 2015, on 28 July 2016, on 5 October 2016, on 9 June 2017 and on 19 September 2017. The following Directorate-Generals and services were consulted: SG, SJ, AGRI, BUDG, CNCT, COMP, EAC, ECFIN, EMPL, GROW, JRC, JUST, OLAF, RTD, SANTE, TRADE, TAXUD and the EPSC. The feedback received from these Directorate-Generals and services has been taken into account.

The ISSG approved the Evaluation Roadmap and the public consultation following its meeting of 24 September 2015.

3. EVIDENCE USED IN THE EVALUATION

A first evaluation of IPRED took place in 2010. The publication of the evaluation report[106] and its accompanying staff working document[107] in December 2010 started a comprehensive consultation process on the functioning of IPRED, laying the foundation for the current evaluation. The report provided the basis for an extensive public consultation which closed in late March 2011[108]. A public hearing on the application of IPRED in a digital environment was held on 7 June 2011[109]. Furthermore, a conference on the enforcement of intellectual property rights was held on 26 April 2012. A broad public consultation on the efficiency of proceedings and accessibility of measures in the civil enforcement of intellectual property rights was launched in November 2012[110]. Finally, in December 2013, a public consultation

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104 Communication from the Commission "A Digital Single Market Strategy for Europe" (COM(2015) 192 final)

105 Communication from the Commission "Upgrading the Single Market: more opportunities for people and business" (COM(2015) 550 final)

106 Report from the Commission "Application of Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on the enforcement of intellectual property rights" (COM(2010)0779 final)

107 Commission Staff Working Document "Analysis of the application of Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on the enforcement of intellectual property rights in the Member States" (SEC(2010)1589 final)

108 http://ec.europa.eu/internal_market/consultations/2011/intellectual_property_rights_en.htm

109 http://ec.europa.eu/internal_market/iprenforcement/docs/conference20110607/hearing-report_en.pdf

110 http://ec.europa.eu/internal_market/consultations/2012/intellectual-property-rights_en.htm

on the review of the EU copyright rules gathered stakeholders' views on IPR enforcement in the digital age[111].

The European Observatory on Infringements of Intellectual Property Rights prepared a number of studies which supported the evaluation of the functioning of IPRED[112].

Finally, an open internet-based consultation of 12 weeks on the evaluation of the Directive on the enforcement of intellectual property rights and the possible modernisation of the legal framework was launched in December 2015 and was running until April 2016, targeting public authorities and Member State authorities, rightholders, intermediary service providers, the judiciary and consumers and civil society[113].

Member States' authorities responsible for intellectual property policy and, in particular, the enforcement of intellectual property rights, were involved in the process through the Commission's Group of experts on the enforcement of intellectual property rights[114].

4. STUDIES TO SUPPORT THE EVALUATION REPORT

A study providing support for an ex-post evaluation of Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights has been prepared by an external contractor[115]. The overarching objective of the study was to evaluate the relevance and effectiveness, the coherence, efficiency and EU added-value of IPRED. In that respect the study provided

- a legal analysis of the application of the provisions of the Directive, as well as of the provisions of national law which are relevant in the context of the Directive and its possible revision,
- an empirical analysis of the application and effect of the Directive in each Member State, and on the Single Market as a whole, with a special focus on cross-border aspects. It should also include the quantification of regulatory (including administrative) costs and benefits triggered by the directive.
- a synthesis of the empirical and legal analysis, and
- on the basis of the findings, support for an evaluation of the Directive.

111 http://ec.europa.eu/internal_market/consultations/2013/copyright-rules/index_en.htm
112 https://euipo.europa.eu/ohimportal/en/web/observatory/observatory-publications
113 http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item_id=8580
114 http://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetail&groupID=3216
115 [Reference and link to be added once the study is published]

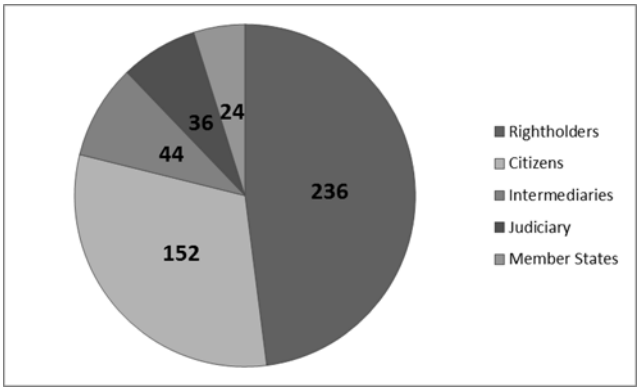
ANNEX II: SYNOPSIS REPORT

1) STAKEHOLDER CONSULTATION

In order to support an evaluation of the Directive the Commission launched on 9 December 2015 a public consultation on the evaluation and modernisation of the legal framework for the enforcement of intellectual property rights. The consultation aimed to help assess the functioning of the Directive in the online environment, with a view to identifying the possible need for adapting its provisions and, where appropriate, to propose corrective measures, focusing on commercial-scale infringements and cross-border applicability and in full respect of fundamental rights. Previous consultations had led to the conclusion that a number of key provisions of the Directive, such as the right of information, the application of injunctions or the calculation of damages, might not function properly or deliver the expected results, in particular in the online environment and in a cross-border context. Beyond the evaluation of the current Directive the consultation addressed a number of new issues, such as the role of intermediaries in IPR enforcement or the specialisation of courts, which are currently not dealt with by the Directive but might be taken up in any future initiative in order to modernise the enforcement of IPR. Finally, the public consultation sought opinions about the use and impact of 'follow the money' initiatives in the area of IPR enforcement.

The Commission published a comprehensive summary of responses to the public consultation on the evaluation and modernisation of the legal framework for the enforcement of intellectual property rights on 14 September 2016[116].

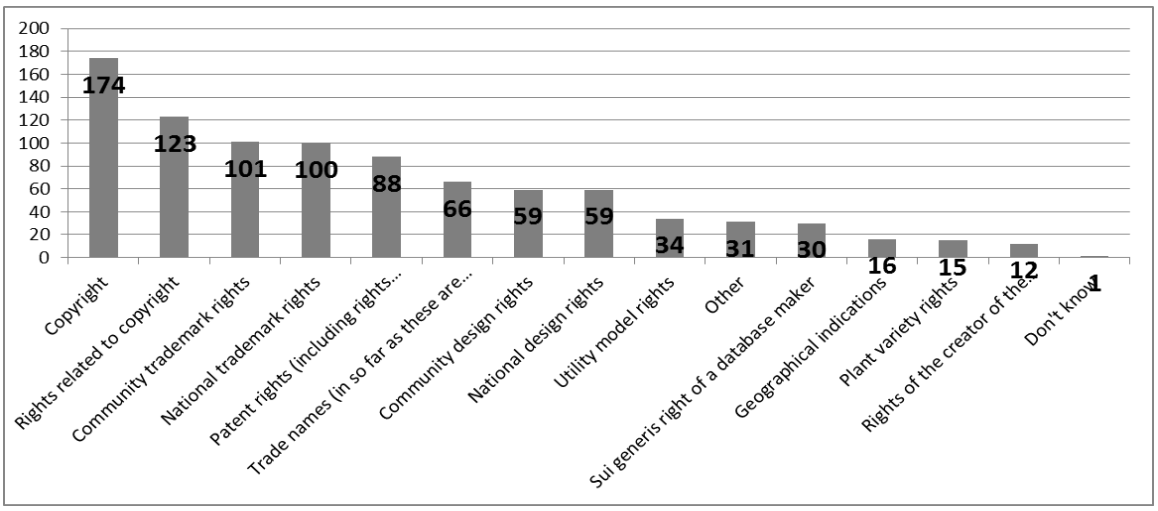
Responses to the consultation



The Commission received 492 responses to the public consultation, 454 responses through the dedicated online tool and 41 responses by email. Most responses came from rightholders, followed by citizens, intermediaries, the judiciary and legal profession and Member States and public authorities. The geographical provenance of the responses is quite balanced for all but one targeted stakeholder group, which should allow for a comprehensive analysis of the functioning of the Directive in the EU28. The situation is quite different for the **citizens**' responses where more than 50% of the contributions originate from Germany. Almost half of the individuals who replied to the consultation were aged under 34 years.

[116] Available at http://ec.europa.eu/DocsRoom/documents/18661

Looking at the **rightholders** that responded to the consultation and the type of IPR they hold or represent 2/3 of these rights are industrial property rights and 1/3 copyright or rights related to copyright.



Of the respondents under the category of **judiciary and legal professions**, most responses came from the legal profession (counsellors or associations), with only a few responses from judges and academia.

The **intermediaries** that responded to the consultation are mainly internet service providers, such as internet access providers, online marketplaces, content hosting platforms or their trade associations. A number of payment service providers, transport and logistic companies and advertising service providers also responded to the consultation.

Finally, **public authorities** responsible for intellectual property policy, in particular for IPR enforcement, and other enforcement authorities from 17 Member States contributed to the public consultation.

Main findings

The contributions to the public consultation confirmed that the infringement of IPR is a major problem. More than three quarters of the responding rightholders and public authorities reported that IPR infringements have increased over the last 10 years. Rightholders submitted that IPR infringements not only have a negative overall financial impact on their turnover but also cause reputational damage and generate high monitoring and enforcement costs. Public authorities consider the negative impact on tax revenues, health, safety, SMEs and competitiveness to be very significant.

While the majority of respondents felt that the existing rules have helped effectively in protecting IP and preventing IP infringements, many rightholders and intermediaries in particular consider that the measures and remedies provided for by the Directive are not applied in a homogeneous manner across the Member States. This could result in different levels of protection in the Member States and suggests that the Directive did not fully eliminate disparities at national level as regards the means of enforcing IPR.

More than three quarters of citizens felt that procedural and fundamental rights are not well respected in the application of the Directive.

The main reasons for rightholders not to seek civil redress in cases of IPR infringement are lawyers' fees and other costs related to litigation, length of procedure, low probability of obtaining appropriate compensation for the damages suffered and low probability of obtaining appropriate compensation of legal costs and other expenses. This seems to indicate not only that the measures provided for by the Directive do not deliver the expected results but also that national civil enforcement systems in general do not ensure sufficient access to justice.

A significant number of respondents identified a need to adjust the measures, procedures and remedies provided for by the Directive, in order to ensure legal certainty and enhance their effectiveness:

- All stakeholder groups identified a need to adjust the rules on evidence. Many respondents felt that the rules were not effective enough, in particular with regard to the preservation of evidence in the digital environment and the presentation of evidence obtained in another jurisdiction.

- All stakeholder groups apart from intermediaries saw a need to adjust the right of information. Many are concerned that the right balance is not being struck between the right to property and the right to judicial review on the one hand and the right to respect for private life and/or the right to protection of personal data on the other.

- Rightholders, the judiciary and legal profession and citizens called for an adjustment of the rules for setting damages. Respondents do not only seek more legal clarity on the calculation of damages but also a fairer allocation.

- All respondents except the Member States identified a need to adjust the rules on the reimbursement of costs. Respondents called for adjustments in order to enhance the level of reimbursement and to provide for a uniform interpretation and application of the rules.

- Rightholders and the judiciary and legal profession see a need to adjust the rules for provisional and precautionary measures and for injunctions, calling for a clarification of the scope of injunctions, in particular with regard to intermediaries.

The consultation also addressed a number of issues which are currently not dealt with by the Directive but might be taken up in any future initiative in order to modernise the enforcement of IPR. Looking at the role, responsibility and scope of engagement of intermediaries in IP enforcement, Member States and rightholders believed that intermediaries should play an important role in enforcing IPR, whereas intermediaries and citizens did not believe so. Statutory cooperation or co-regulation is considered to be more efficient than voluntary cooperation. All stakeholder groups were of the opinion that legal action in a court specialised in IPR matters provides an added value compared to legal action in non-specialised courts. The key advantages are perceived to be the shorter length of proceedings, more fit-for-purpose proceedings and better quality judgments.

Finally, the consultation encouraged participants to raise any other issue outside the scope of the current legal framework that could be considered in view of the intention to modernise the enforcement of IPR. The responses suggest that there are a number of issues outside the scope of the Directive and its current revision that are very relevant for the efficient enforcement of IPR:

- The cumbersome procedure for obtaining provisional and precautionary measures or injunctions for the same infringements against similar addressees in more than one jurisdiction in the EU was an issue particularly raised by copyright holders.

- The lack of harmonisation of substantive IP rules is an issue adding to the challenges of cross-border enforcement. The application of the relevant rules on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters and on the law applicable to non-contractual obligations in cross-border cases seems to result unavoidably in the competence of different national courts and the application of different national laws.

- Many rightholders also highlighted the application of the e-commerce framework as an issue, on the one hand with regard to the provisions on the liability of intermediary service providers, on the other hand stressing the need for a proper enforcement of the transparency requirements foreseen in that framework.

- Technological developments were seen to create major challenges for the enforcement of IPR, for example the use of anonymisation services on the internet or the covering-up of illegal activities behind legitimate e-commerce businesses. The enforcement of IPR in the digital environment also poses particular questions for internet governance and the allocation and use of domain names.

- The development of an attractive legal offer is another issue. Users seek attractive offers and will not always, or are not able to, distinguish between legal and illegal offers, in particular if the legal offer is not available or unattractive from a consumer perspective.

- Many respondents also characterised commercial-scale IPR infringement as a global business and consider that efficient enforcement will only be possible if all relevant stakeholders across the global supply web are involved.

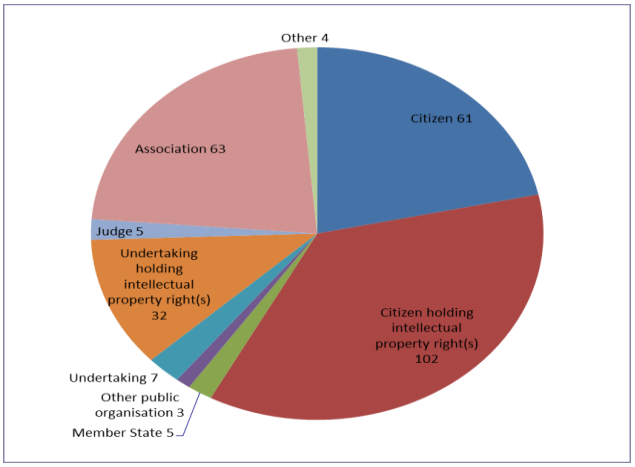
- Finally many respondents claimed that the disparities between the national systems of criminal sanctions make it difficult to combat counterfeiting and piracy effectively.

2) STAKEHOLDER CONSULTATION

An online public consultation on the efficiency of proceedings and accessibility of measures for the civil enforcement of intellectual property rights was launched on 30 November 2012 and closed on 30 March 2013. The survey aimed at gathering specific information on the efficiency of proceedings and accessibility of measures used in the context of civil enforcement of intellectual property rights. The data gathered was meant to enable the Commission to conduct a comprehensive assessment of the functionality of civil enforcement systems put in place in the Member States in order to improve the situation of all the actors active in the innovative sectors of European economy.

Responses to the consultation

The Commission received 282 responses to the public consultation. The largest share of replies (57%) was submitted by individual citizens (two thirds of who declared themselves as being rightholders). Responses were furthermore received from undertakings holding intellectual property rights (including trade and business associations and anti-counterfeiting/piracy organisations), internet service providers, telecommunications operators, collecting societies and public authorities. Among undertakings or associations, around 8% declared being classified as a SME.



There was a wide geographical coverage in terms of responses received, with respondents from 24 EU Member States. No response originating from Cyprus, Slovakia and Malta was received. A significant number of responses were also submitted by European and international bodies and associations.

Main findings

More than two thirds of the respondents (70 %) have answered the question about the significance of their IPR on their performance and growth. It seems however difficult to present the responses about the importance for each IP right since they do not correspond to the figures provided in the initial question (for example, one contributor declared holding geographical indications rights but 37 contributors declared their geographical indication

rights had no significance for their performance and growth). It seems however that among the various intellectual property rights, more respondents holding copyrights or rights related to copyright (50%) consider as crucial the significance of their right for their businesses.

Less than 15% percent of the respondents have answered the questions regarding the importance of licensing intellectual property rights from other entities or to other entities. Among those, 69% found that licensing is either crucial or of high economic importance for their businesses. Respondents from the pharmaceutical sector emphasized that the majority of their cooperation with research firms or universities is done via various license agreements, therefore enforceability of those agreements is crucial. Respondents from the audio visual industry also pointed out the high importance of licensing in their industry as well as the significant economic damage caused by infringements.

If around 100 contributors responded to the question concerning the value of their IPR portfolio, few indications were given as to its exact value and the way it is calculated. Some respondents referred to their annual turnover or explained that there is no reasonable method to properly determine the value of their portfolio.

The vast majority of respondents indicated that infringements have a negative impact on their IPR portfolio. For the audio visual industry, it is considered that unpaid license fees are the greatest part of their loss (between 20 and 70 % of the annual income) costing ca 500 million euros per year. Other than the representatives of the music and film industries, the representatives of the plant breeding and seed trading industry suggested the highest damage from infringing activities (claiming that around 50% of farmers use counterfeit products).
Nevertheless, some respondents, especially from the audio visual industry claim that infringements have a positive effect on their IPR portfolio, increasing the awareness of their works.

3) **STAKEHOLDER CONSULTATION**

On 22 December 2010, the Commission adopted its "Report on the application of Directive 2004/48/EC on the enforcement of intellectual property rights"[117]. The Report was accompanied by a Commission Staff Working Paper containing an article-by-article analysis of the application of the Directive in the Member States[118].

With the adoption, the Commission launched a public consultation on the Report, from 11 January 2011 to 31 March 2011, with the aim to verify the information provided in the report and to identify additional issues that should be addressed in the context of a possible review of the Directive.

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[117] (COM(2010)779 final)
[118] (SEC(2010)1589)

Responses to the consultation

A total of 380 contributions were received by the services of DG Internal Market and Services (hereunder DG MARKT) from a broad range of relevant associations and organisations, parties and professions. The largest share of replies was submitted by individual citizens (most of them internet users resident in France) who focused their comments on the issues related to the digital environment. Responses were furthermore received from rightholders (including trade and business associations and anti-counterfeiting/piracy organisations), consumer organisations (in particular internet user organisations), internet service providers, telecommunication operators, academics, carriers, collecting societies and public authorities. Among these public authorities, there were 20 Member States' governments that provided replies.

There was a wide geographical coverage in terms of responses received, with respondents originating from 25 EU Member States, and only Cyprus and Luxembourg not being represented in the replies. A significant number of responses were also submitted by European and international bodies and associations. Finally, there were 54 replies from citizens who did not provide any information on their Member State of residence.

Main findings

The issue as to whether the current IPR Enforcement Directive is fit to encounter the challenges posed by the digital environment triggered responses from more than 70% of the stakeholders with very different points of view. These came from rightholders and collecting societies on the one hand and ISPs, telecommunication operators and – to a large extent – individual citizens on the other.

Rightholders and collecting societies almost unanimously criticized the shortcomings of the current legal regime as transposed into national law especially in terms of how it frames the role of intermediaries as well as its perceived failure to stem the increase in online copyright infringements, whereas ISPs, telecommunication operators and individual citizens consistently stressed that there was no need for changing the current Directive. Some ISPs stated that there were not enough statistics to prove that internet causes serious problems in terms of counterfeiting.

However, a clear majority of stakeholders who advocated a change of the current legal regime requested that such change should be in accordance with the already existing legal framework at EU-level, especially to ensure coherence with the provisions and definitions of the E-Commerce Directive.

In particular, citizens expressed anxiety that a revision of the current Enforcement Directive would lead to stricter rules which would interfere with net neutrality and the freedom of speech. As for the Member States, only two saw the current regime as sufficient and suited to

combat online IPR infringement. The majority of the Member States considered the Directive partly inapt to solve IPR problems of the digital age.

Those respondents in favour of amending the current Directive specifically stressed the following issues:

(1) Need for rules on the role of intermediaries
The majority of rightholders and collecting societies demanded a greater involvement of internet service providers and other intermediaries, identifying them as key actors in combating IPR infringements in the digital world. While most of the rightholders were calling for a closer cooperation with intermediaries, only a few of them actively advocated the implementation of filtering / monitoring technologies or a duty of care principle (e.g. for intermediaries that actively use, present, organise or modify third parties' content for commercial purposes).

As for the separate issue of the liability of intermediaries, the vast majority of the stakeholders in favour of amending the IPR Enforcement Directive emphasized the need to keep the current liability-regime established by the E-Commerce Directive. Only a few (mostly rightholders) demanded for a stricter liability regime and a reform of the safe-harbour principles. A problem that was identified with regard to online-piracy as well as the sale of counterfeit goods on internet-platforms was the issue of anonymity of users and the perceived lack of verification, by ISPs, of information provided by subscribers/customers, both of which were claimed to facilitate infringements these customers and thus and hinder enforcement.

(2) Need for stricter rules on copyright infringement and file-sharing
The overwhelming majority of rightholders and a number of collecting societies called for stricter rules on online copyright-infringement and peer-to-peer file sharing, claiming that the current Directive does not provide effective and expeditious measures to tackle online-piracy and that this deficiency in the legal framework was jeopardizing investment and innovation. An issue that was raised by several rightholders and a few MS was the need for improved cross-border enforcement.

(3) Need for a level playing field for legal digital content
Rightholders, while acknowledging that the supply of licit offers is a key factor in combating online-piracy, claimed that such services cannot be developed as long as IPRs are not sufficiently protected in the online world. In particular broadcasting Rightholders rejected the idea that the current lack of licit offer was the main cause of digital piracy, arguing that most of their content was consumed illegally despite existing and easily accessible legal alternatives.

Contributors opposing changes to the current legal regime brought forward in particular the following the arguments:

(1) Lack of sufficient data for evaluation

A significant number of stakeholders, in particular ISPs, telecommunication operators and certain Member States, took the view that due to the limited experience with the implementation of the Directive as well as the lack of statistical data and evidence, it is too early to review and amend the Directive at this stage. Especially ISPs argued that a premature introduction of stricter enforcement rules would have a chilling effect on innovation and undermine consumers' confidence in digital products.

(2) Increase in legal uncertainty

In particular ISPs and other online intermediaries emphasized that any potential revision or reopening of the IPR Enforcement Directive would jeopardize the existing balance between the interests of rightholders, users and intermediaries and create legal uncertainties. They claimed that the relationship between enforcement provisions against infringements on the one hand and the limited liability regime and the prohibition of general monitoring obligations enshrined in the E-Commerce Directive on the other would risk becoming unclear. This view was to some extent shared by a number of Member States who argued that no new liability regime and no new definitions in the IPR Enforcement Directive were needed and that establishing more precise legal requirements for the enforcement of IPR would cause uncertainty for the actors involved.

(3) Shortcomings of current licit offer

Many stakeholders who opposed amending the current IPR Enforcement Directive, including ISPs, telecommunication operators and a majority of individual contributors, viewed the lack of available and attractive licit offer as one of the main causes for online piracy. They considered that increasing such service offers would constitute a feasible alternative to imposing more detailed enforcement measures. It was suggested that an appropriate role for the Commission might be to look at ways of encouraging discussions regarding pan-European licensing of content and market-driven private agreements related to development and implementation of technological solutions, such as those that exist today to protect premium content from unauthorized use, copying and distribution.

(4) Safeguarding the freedom (and free exchange) of information

The overwhelming majority of individual citizens, consumer protection organisations and academics strongly argued against any further (over)regulation of IPR infringements, especially in the context of the online world. Filtering of content and monitoring traffic on the internet were perceived as threats to fundamental rights (freedom of speech, right to privacy) or even censorship and therefore clearly rejected. Amendments to the current Directive were viewed by individuals as aimed at limiting citizens' basic freedoms.

ANNEX III: PRACTICAL EXAMPLES AND ILLUSTRATIONS

Illustration: variety of practices for awarding moral damages.

From the report of the European Observatory on Counterfeiting and Piracy we observe different practices for awarding moral damages[119]:

*"In **Poland**, it appears that moral damages may not attract monetary awards. Examples where moral damages have been claimed include in particular where there has been injury to the rightholder's reputation, emotional distress, suffering caused by an infringement, etc. Damages for moral prejudice tend to be generally rather low. In some countries, it seems that damages for moral prejudice may only be granted in copyright cases (excluding owners of industrial property rights) and/or to physical persons (excluding legal entities). Some countries do not explicitly mention the possibility of granting moral damages, although that does not automatically mean that these are not available.*

*In other countries, even if moral damages are allowed, there have been only a few instances where moral damage has been taken into consideration (**Malta**). In some countries, moral damages are available only in cases of intentional or negligent infringements (**Finland**). In **Greece**, moral damages are the only compensation that can realistically be awarded in trademark cases. It appears that in one country (**Slovenia**) moral damages may be granted even if no material damages have been suffered (e.g. for mental distress)".*

Examples on difficulties for collecting evidence needed to calculate damages

Germany - Trademarks:

German law requires claimant to provide facts proving that in the normal course of business or in special circumstances, there is the probability that without the infringement his sales or turnover would have increased. That requires for the plaintiff to disclose internal figures and data which allows the court to make the causal link between the presumed infringement and the business profit. However, most rightholders are reluctant to disclose these internal figures.

On the other hand, requesting damages on basis of the infringer´s profits is equally burdensome. The scope of the damages is limited by the net profit that the infringer has made as result of this illegal activity. For this, the plaintiff has the burden of proof to first justify that the infringer has made some net earnings, relying on the information that the potential infringer will be obliged to provide. Secondly, the court will deduce from this sum the earnings which have been incurred by the infringer, such as production costs or marketing, or other expenses which could have been derived from technical characteristics of the product which differ from the original one. The infringer often presents a poor situation of his commercial situation by stating low profits or even losses due to the infringement, which results in low level of damages awards to the right owner.

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[119] http://ec.europa.eu/internal_market/iprenforcement/docs/damages_en.pdf (Page 4)

In view of these difficulties, the most popular method for awarding damages in Germany is the lump sum method, since they require no figures to be presented to the court, but only confirmation of the infringement. The court estimates the amount of royalties that would have been agreed between parties by taking into account a relevant set of factors such as reputation of the infringed IP, intensity, duration and extent of infringement, and degree of confusion. However, lump sums in Germany range between 1-5% of the total turnover of the infringer which can be attributed to the infringer product.

France – Trademarks:

One of the main reasons for French courts not to increase the award of damages is the inability of rightholders to establish their damages and to provide evidence.

Even though since 2007 the infringer´s unfair profits can be taken into account for assessing the negative impact of an infringement, in practice, very few times they have been considered for assessing damages (see Paris Court of Appeal in Baccarat v Delsey). The main difficulty, again, is for the rightholder to establish a causal link between the net profit and the infringement. On the other side, lump sums methods spare the necessity to collect evidence and elements of proof, as required by the other methods.

France – *saisie contrefaçon*

In France, the procedure of descriptive seizure serves an important twofold purpose, resulting in significant amendments to the procedure of "seizure for counterfeit" (*saisie contrefaçon*). Through this procedure, infringers are prohibited to discard the allegedly counterfeited objects, for a custodian to be appointed, for the objects to be placed under judicial seal, or for the income associated with the alleged counterfeit to be made the object of a conservatory seizure. Thus, through the first phase of description, this procedure gives the rightholder the possibility to obtain proof of the existence and extent of the counterfeit, whereas the second phase of optional seizure has the purpose of safeguarding the rights of the holder and of avoiding an aggravation of the damage pending a judgment on the merits of the case.

Illustration for insufficient compensation: Gap between awarded and requested damages

Darts-ip data show[120] significant differences across Member States and IP titles between the amount requested for damages and the final amount awarded. This difference is significantly pronounced for IP on design. Court cases litigated in France and the Netherlands only recovered, on average, 25% and 30% of the amount requested for damages respectively. Compared to the Netherlands and Germany, France presents a considerably low level of

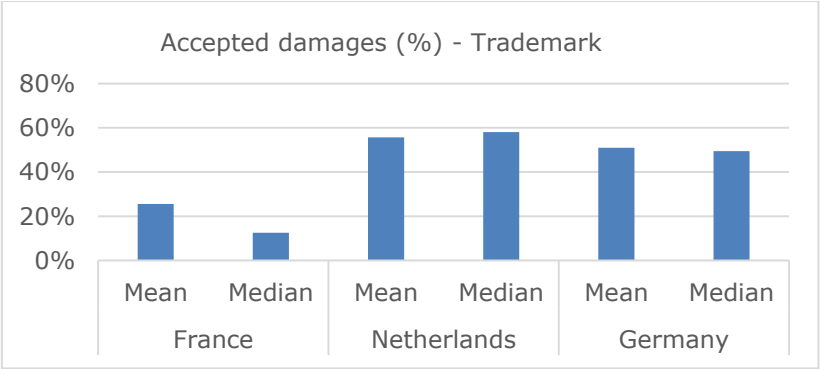
[120] Data considered for analysis includes information on 3 Member States, France, Germany and the Netherlands, and covers three different IPR: Patents, Design and Trademark. Only court cases which included both requested and awarded information, have been included in the analysis.

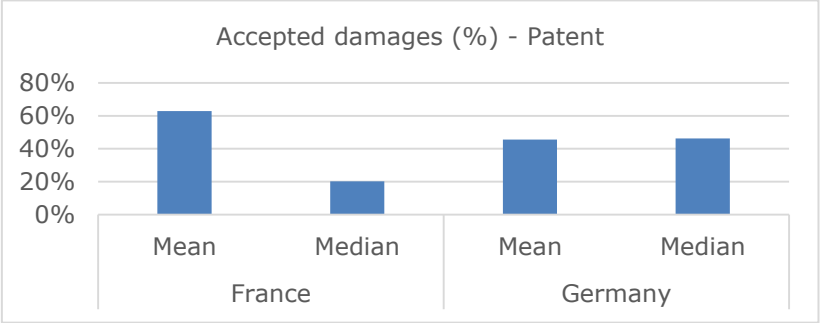
awarded damages, especially for Trademarks and Design titles.[121] It's interesting to note that in Germany, across the 3 different IPRs considered for the analysis, court cases recovered, on average, a significant share of the initial requested amount.

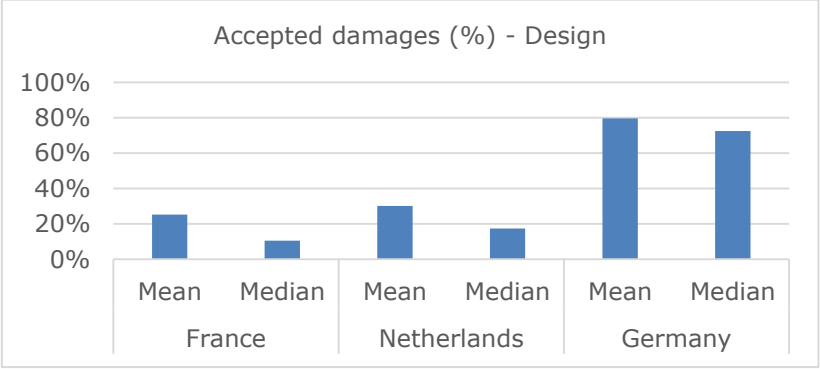
The (limited) data seems to confirm the problems identified by the stakeholders. There is a substantial difference between requested and awarded damages.

From Darts-ip data we also observe that the usage of lump sums is one of the most frequent methodologies to request and award damages in Germany and Denmark. The relevance of lump sums is especially acute for trademarks, where this methodology was applied 83% and 50% of the times in Germany and Denmark respectively.

Gap between awarded and requested damages



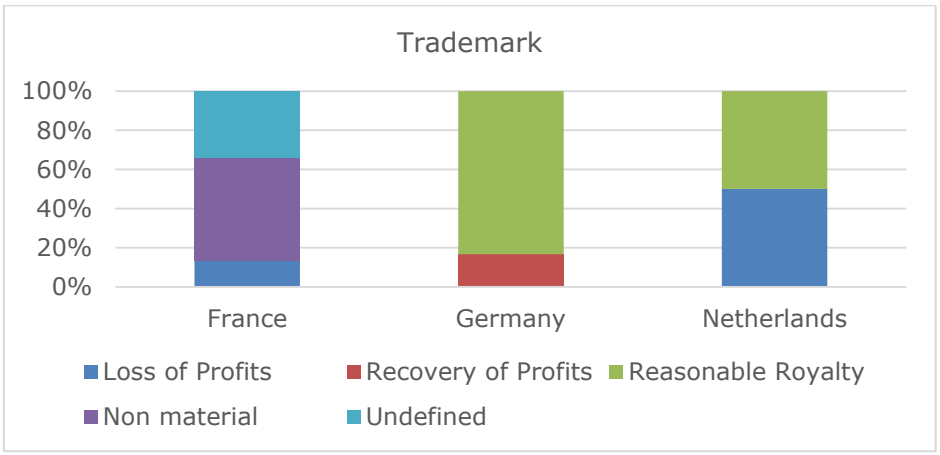


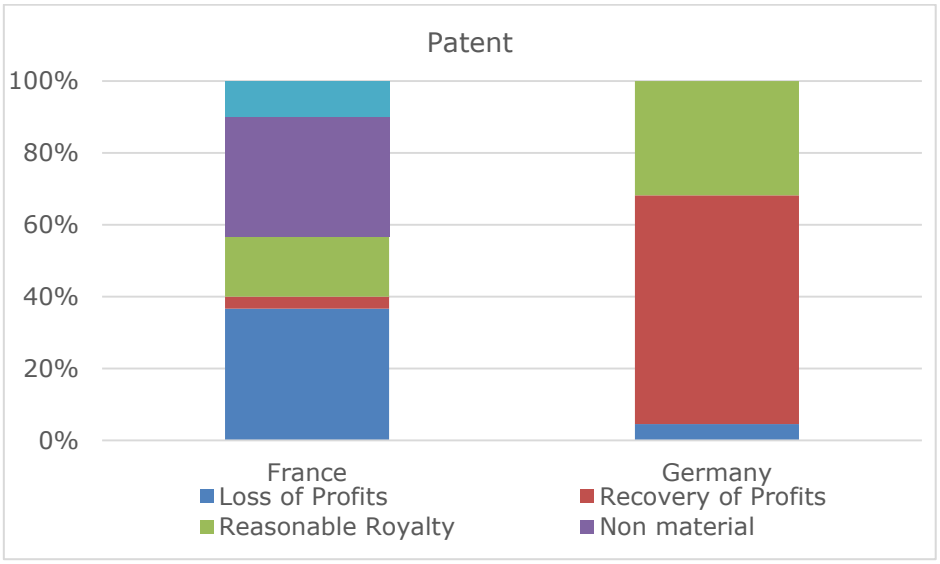


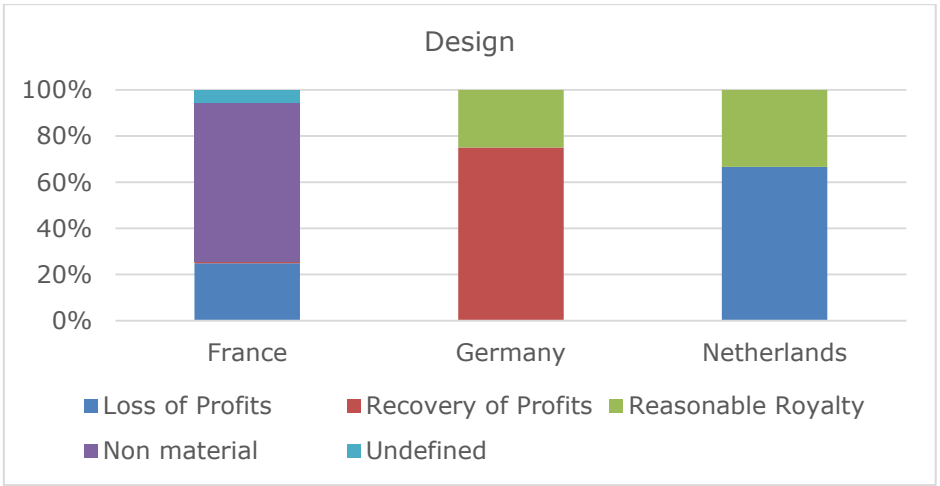
[121] The mean (63%) of requested damages for patents cases in France is quite different from the median (20%), probably because of extreme cases moving the average up. This difference seems to indicate that the gap between requested and awarded damages is also quite significant for patent court cases in France.

Moral damages seem not to be used for any IPR in Germany or the Netherlands. Only in France, were the negative impact of infringements, including moral harm to rightholders, is transposed and recognised by the law since 2007 (Article 716-14), non-material damages are frequently used, especially for trademarks and design rights (non-material used 52% and 69% of the times respectively).

Frequency of use







Darts-ip data show that, non-material damages, which include moral damages, present one of the biggest difference between the quantities requested for damages and the total awarded (73%). This seems to indicate that even though moral damages are frequently used in France, there are still problems on the quantification of this methodology.

Other categories, such as reasonable royalties (lump sums) and loss of profits also present big differences: on average, 59% and 58% of damages requested were rejected. Loss of profits is the methodology which shows the smallest gap, even though the rejection rate is not still quite significant: on average, 46% of the requested damages were rejected by the court.

Gap between awarded and requested damages, by methodology

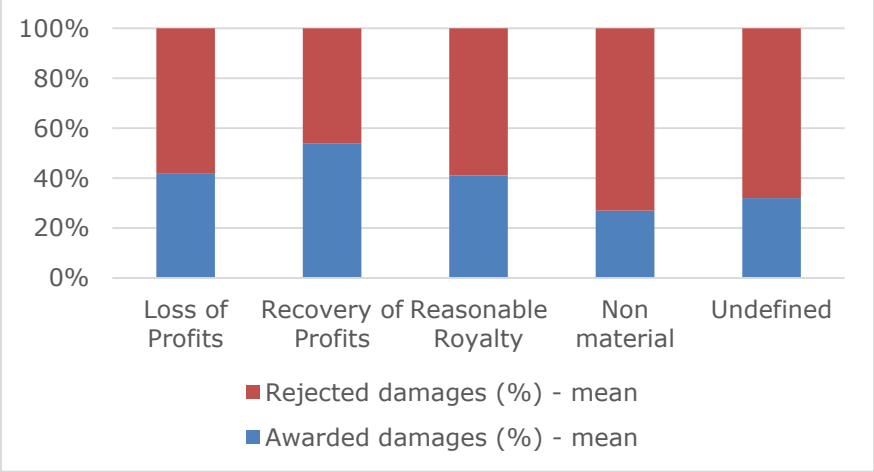


Illustration on the different approaches to cost reimbursement:

- According to expert opinion, the following estimates were made of the average proportion of actual costs that are recovered in civil IPR cases: 10-50% (Denmark), only a small percentage (Greece), 30% (Italy), between 10-30% (Luxembourg), 50% (Cyprus), 66%-100% (Romania), very low (Spain), approx. 75% (Sweden), 50-70% (Austria), and 80% (Ireland)[122].
- In the UK, only about 70% of a successful party's actual costs are reimbursed on average, applying also a cap in the Intellectual Property Enterprise Court (IPEC) by stage of litigation with the overall amount of costs that can be recovered capped at £50.000 (about €57.000).
- In France the amounts allocated to claimants range on average from €10.000 to €30.000[123], on average inferior from what is requested.
- In Cyprus, the expenses of any civil procedure will be upon the discretionary power of the court and the court has full power to decide which party will pay which amount (while Article 14 of the Directive established the loser pays principle).

[122] *"Damages in Intellectual Property Rights"*, European Commission, European Observatory on Infringements of Intellectual Property Rights, 2010
[123] *"Comparative Study on damages allocated in the framework of counterfeiting procedures in France, UK and Germany"*, Fidal, 2014

- Spain provides for full reimbursement. Spanish law distinguishes however between statutory (e.g. attorneys' fees established by law and court costs) and non-statutory costs (e.g. expert costs). The rule for full reimbursement applies only to the statutory costs.

ANNEX IV: CONTEXT

1) Legal context

The current EU regulatory framework provides for a number of instruments for the enforcement of IPR.

Directive on the enforcement of intellectual property rights

The Directive on the enforcement of intellectual property rights ("Directive", "Enforcement Directive")[124] provides for measures, procedures and remedies for the enforcement of IPR in civil law proceedings (civil remedies) and covers all types of IPR provided for by EU law and/or by the national law of the Member State[125]. While the objective of the Directive is to approximate legislative systems so as to ensure a high, equivalent and homogeneous level of protection in the internal market (Recital 10), it only contains minimum harmonisation rules, in the sense that the Directive is without prejudice to the means which are or may be provided for in EU or national legislation, in so far as those means may be more favourable for rightholders (Article 2(1)). Within this context the Directive aims to approximate the measures, procedures and remedies necessary to ensure the enforcement of intellectual property rights (Article 1). This includes general obligations and specific provisions on legal standing, evidence, interlocutory measures, seizures and injunctions, damages and legal costs and judicial publication.

Other IP enforcement related instruments

Secondly, instruments of substantive EU IP law can also contain enforcement-related provisions.

The Directive complements Article 8 of the Information Society Directive[126] as regards copyright, which sets out that Member States shall provide appropriate sanctions and remedies in respect of infringements of the rights and obligations set out in this Directive and shall take all the measures necessary to ensure that those sanctions and remedies are applied. The sanctions thus provided for shall be effective, proportionate and dissuasive. It also establishes that each Member State shall take the measures necessary to ensure that rightholders whose interests are affected by an infringing activity carried out on its territory can bring an action for damages and/or apply for an injunction and, where appropriate, for the seizure of infringing material, devices, products or components, and shall ensure that rightholders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe a copyright or related right.

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[125] Cf. Statement 2005/295/EC 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 (OJ L 94 of 13.4.2005) provides a list of IPRs which the Commission considers at least to be covered by the scope of the Directive.

[126] Directive 2001/29/EC on copyright and related rights in the information society

The Community Design Regulation[127] and the European Union Trade Mark Regulation[128] contain rather detailed rules on the designation of specialised national courts, applicable law, jurisdiction, sanctions and provisional and protective measures.

The Official Food and Feed Control Regulation[129] is relevant to the enforcement of GIs through market surveillance and controls on production of agricultural products and foodstuffs, including correct deployment of GIs.

Council Regulation 2100/94 on community plant variety rights contains rules on the entitlement to bring an action for infringement and right of any person enjoying exploitation rights to intervene in an infringement action for the purpose of obtaining compensation for damage suffered. Pursuant to the implementing rules, there is, moreover, an obligation to pay damages covering at least a lump sum calculated on the basis of the quadruple average amount charged for the licensed production of a corresponding quantity in certain cases of repeated and intentional non-compliance[130].

Article 7 of the Directive 2009/24 on the legal protection of computer programs establishes that Member States shall provide, in accordance with their national legislation, appropriate remedies against a person committing certain acts related to the circulation or possession of infringing copies or means of technological circumvention of computer programs. The seizure of infringing copies of computer programs is also provided for in accordance with the legislation of the Member State concerned.

Article 12 of the Directive 96/9 on the legal protection of databases establishes that Member States shall provide appropriate remedies in respect of infringements of the rights provided for in this Directive.

The Directive should further be understood against the background of certain other provisions of EU law that can have an impact on the enforcement of intellectual property rights. Regulation 608/2013[131] ("Customs Enforcement Regulation") provides, for instance, the basis for cooperation between private parties holding IPRs and the customs authorities of the Member States. The e-Commerce Directive[132] also contains rules that can be relevant in the context of IPR enforcement, especially in relation to liability of online intermediaries in relation to IPRs' infringements.

International context

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[127] Council Regulation (EC) No 6/2002 on Community designs

[128] Regulation (EU) 2015/2424 of the European Parliament and of the Council of 16 December 2015 amending Council Regulation (EC) No 207/2009 on the EU trade mark and Commission Regulation (EC) No 2868/95 implementing Council Regulation (EC) No 40/94 on the EU trade mark, and repealing Commission Regulation (EC) No 2869/95 on the fees payable to the Office for Harmonization in the Internal Market (Trade Marks and Designs)

[129] Regulation (EU) 2017/625 of 15.3.2017.

[130] Art. 18(2) Commission Regulation (EC) No 1768/95 implementing rules on the agricultural exemption provided for in Article 14(3) of Council Regulation (EC) No 2100/94 on Community plant variety rights

[131] Regulation (EU) No 608/2013 concerning customs enforcement of intellectual property rights

[132] Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market

It is necessary to take into account the international context for IPR enforcement, notably the work carried out by the Commission in the context of multilateral efforts to improve the international IPR framework, including by leveraging high-level trade and political dialogues to ensure progress on identified IPR issues, promoting the ratification of relevant IPR treaties by all EU Member States and ensuring that the IPR chapters in bilateral trade agreements offer adequate and efficient protection for rightholders and address key weaknesses in partner Member States' IPR systems while calibrating commitments to third countries' level of development.

The substantive rules on the protection of specific intellectual property rights were introduced by number of international agreements such as the Conventions of Paris (1883), Berne (1886), and Rome (1961). Conventions containing provisions indirectly requiring appropriate enforcement measures in any country that is a party to these conventions. However, these conventions leave it basically to these countries to provide for enforcement provisions.

The Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS Agreement") is especially relevant. This Agreement was concluded in the context of the WTO and is applicable to all WTO members, including the EU and all its Member States. Apart from setting out general obligations and certain substantive rules on the protection of IPR, it also contains rules on the enforcement of IPR by private parties. The Directive is based on the TRIPS provisions, since it was one of the measures through which the EU gave effect to its obligations under the TRIPS Agreement and this connection was noted in the Commission's explanatory memorandum to its proposal of the Directive.

2) Economic context

Intellectual property rights in their different forms are important assets allowing the EU companies to grow. About half of the EU industries are IPR-intensive[133]. The European Union Intellectual Property Office ("EUIPO") has estimated that IPR-intensive sectors account for 39% of EU GDP and 35% of all jobs[134]. Companies that own IPRs perform better in economic terms than those that do not[135]. However, large companies are four times more likely to own IP rights than smaller companies; 40% of larger firms have registered rights, compared with 9% of SMEs[136]. The results further demonstrate that businesses that own IPRs generate more revenue per employee than those that do not, have more employees and pay higher salaries to their workers and that this relationship is particularly strong for SMEs.

However, these positive achievements of IP need to be seen in the context of increasing levels of IPRs' infringements. IP-infringing activities, in particular those carried out on a commercial scale (where the infringer makes money on the back of the rightholder's investment), dissuade investment in innovation, undermine job creation and put consumers and businesses at risk. A

[133] This reflects the omnipresence of IPRs in the EU economy, with engineering activities, real estate activities, financial and insurance activities, manufacture of motor vehicles, retail, computer and pharmaceutical activities among the 20 largest IPR-intensive industries in Europe.
[134] Study on the contribution made by IPR-intensive industries to the EU economy, EUIPO-EPO 2013
[135] Study on IPR and firm performance in Europe, EUIPO 2015
[136] IP SME scoreboard, EUIPO 2016

recent study demonstrated that trade in counterfeit and pirated goods amounted to up to 2.5 % of world trade or as much as USD 461 billion in 2013 (compared with 1,9 % in 2009). This was even higher in the EU context where counterfeit and pirated goods amounted to up to 5 % of imports or as much as EUR 85 billion[137].

Estimating the economic loss attributable to commercial scale IP infringement problem is difficult, but this negative economic is widely recognised[138]. A recent update of a global fraud report surveying around 800 senior executives reported that 37% of their companies found themselves exposed to IP theft[139].

At EU level, statistics recently published by the Commission show a continuation of the trend in the high number of shipments suspected of violating intellectual property rights. Customs authorities across the EU seized an estimated five million more counterfeit items in 2015 than the previous year. More than 40 million products suspected of violating an intellectual property right were detained at the EU's external borders, with a value of nearly €650 million[140]. An estimated five million more counterfeit items were detained in 2015 than the previous year, meaning that the number of intercepted goods grew by 15% compared to 2014.[141]

Among SMEs that have registered at least one IPR, almost one in three (31 %) has suffered from IPR infringement. This proportion increases with the size of the SME, with medium-sized SMEs being affected most (39 %) and micro SMEs suffering least from IPR infringements (24 %).[142]

The EUIPO in a series of sectorial studies estimated the scope, scale and impact of IPR infringements in the EU[143]: More than 12% of sales are lost in sectors such as toys and games or handbags and luggage. The total sales lost due to IPR infringements in nine sectors analysed[144] amounted to €35 billion including clothes, accessories and footwear sector sales loss of €17 billion. The damage suffered by businesses because of counterfeiting and piracy also has a significant impact on the volume of employment they offer in the EU. According to the EUIPO estimates direct and indirect job losses in nine analysed sectors amounted to more than 786 thousand jobs lost. Counterfeiting and piracy and other IPR infringements also cost the state. First, such activity results in a loss of tax revenue and social contributions. The government revenue lost in the same nine sectors amounted to €14.4 billion.

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137 *"Trade in Counterfeit and Pirated Goods"*, OECD-EUIPO 2016

138 Measuring IPR infringements in the Internal Market, "Development of a new approach to estimating the impact of infringements on sales", Rand 2013

139 Kroll Global Fraud Report 2015-2016

140 Report on EU customs enforcement of intellectual property rights: results at the EU border 2015

141 *Ibid.*

142 "Intellectual Property SME Scoreboard 2016", EUIPO, European Observatory on Infringements of Intellectual Property Rights, 2016

143 https://euipo.europa.eu/ohimportal/en/web/observatory/quantification-of-ipr-infringement

144 I.e. cosmetics and personal care, clothing, accessories and footwear, sports good, toys and games, handbag and luggage, jewellery and watches, recorded music, spirits and wine.

Industry has estimated that, in just one Member State (Spain), in 2016 there were 4.128 billion illegal accesses to content, with a value of 23.294 billion euros and a yearly increase of 6,8% in lost profits by the cultural and content industries amounting to 1.783 billion euros[145].

Among SMEs that have registered at least one IPR, almost one in three (31 %) has suffered from IPR infringement. This proportion increases with the size of the SME, with medium-sized SMEs being affected most (39 %) and micro SMEs suffering least from IPR infringement (24 %).[146]

In conclusion, IPR infringing activities undermine growth and sustainable job creation by innovative and creative companies in the Internal Market. These same companies (including start-ups) are at the core of the EU's knowledge based economy and its future competitiveness on the world stage.

3) Policy context

Due to the late transposition of the Directive[147], its first evaluation took place in 2010. The 2010 Evaluation Report[148] and its accompanying staff working document[149] provided an initial indication on the functioning of the Directive. The main conclusion drawn from this first evaluation was that the Directive has had a substantial and positive effect on the protection of intellectual property rights by civil law in Europe.

However, the conclusions have also shown that certain provisions of the Directive were construed in different ways in different Member States and this had given rise to different interpretations and applications in practice. It has also 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 the adoption of the Report, the Commission launched a public consultation with a view to informing the Commission's decisions on any possible future measure and to feed the related impact assessment work. The deadline for the public consultation expired on 31 March 2011. A public hearing was held in June 2011 and a synthesis document on

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[145] Piracy Observatory and Digital Contents Consumption Habits 2016 – GfK study available at http://lacoalicion.es/observatorio-de-la-pirateria/observatorio-de-la-pirateria-2016/

[146] "Intellectual Property SME Scoreboard 2016", EUIPO, European Observatory on Infringements of Intellectual Property Rights, 2016

[147] While the Directive's implementation deadline was 29 April 2006, the Member States implemented the Directive over a range of years up to 2009.

[148] Report from the Commission "Application of Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on the enforcement of intellectual property rights" (COM(2010)0779 final)

[149] Analysis of the application of Directive 2004/48/EC on the enforcement of intellectual property rights in the Member States (SEC(2010)1589 final)

the responses to the public consultation published in July 2011[150]. After this consultation, a conference for Member States and stakeholders was held in April 2012, and a public consultation on the efficiency of proceedings and accessibility of measures for the civil enforcement of IPRs was held in 2013. In November 2013 the consultation on the review of the Copyright legal framework took place, and included several questions on enforcement[151].

As the above mentioned assessment of the Directive's functioning was being carried out, the Anti-Counterfeiting Trade Agreement (ACTA) was being negotiated. ACTA was a multinational treaty on IPR enforcement the negotiation of which proved to be controversial, until first the European Parliament in July 2012 and then the European Commission in December 2012 decided that ACTA should not be signed by the EU. In the wake of these events, the envisaged plans to review the Directive were postponed for the time being.

In July 2014 the Commission adopted the IPR enforcement Action Plan[152], establishing a new consensus on the enforcement of IPRs through strictly non-legislative measures. With this Action Plan the Commission re-orientated its policy for IP enforcement towards a better compliance of IPRs by all economic actors. Rather than penalising the citizen for infringing – often unknowingly – IPRs, the actions set out in this Action Plan pave the way towards a "follow the money approach", seeking to deprive commercial scale infringers of the revenue flows that draw them into such activities. However, notwithstanding these measures focusing on commercial scale infringements (such as the development of voluntary agreements, as already foreseen in the Directive (Article 17)), the question of whether the EU legislative framework for the enforcement of IPR is still fit for purpose was left unanswered.

In response to the Action Plan, the other Institutions called on the Commission to look at this very question.

The Council recalled[153] that several other aspects of IPR enforcement not contained in the Action Plan raised questions, including the use of tools available to identify IPR infringers; the role of intermediaries in assisting the fight against IPR infringement; and the allocation of damages in IPR disputes. The Council encouraged the Commission to consider all possible options to address these matters.

The European Parliament called[154] on the Commission to come up with a detailed assessment of the limitations of the current legal framework as regards online activities and, if appropriate, with proposals for adapting the EU legislative framework to the internet environment.

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[150] Report from the Commission "Application of Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on the enforcement of intellectual property rights" (COM(2010)0779 final)
[151] Available at http://ec.europa.eu/internal_market/consultations/2013/copyright-rules/index_en.htm
[152] Communication from the Commission "Towards a renewed consensus on the enforcement of Intellectual Property Rights: An EU Action Plan" (COM(2014)0392 final)
[153] Conclusions of the Council of the European Union of 5 December 2014 on IPR enforcement (15321/14)
[154] Report of the European Parliament of 9 June 2015 "Towards a renewed consensus on the enforcement of Intellectual Property Rights: An EU Action Plan" (2014/2151(INI))

The May 2015 Digital Single Market Strategy (DSM)[155] states that "the Commission will make legislative proposals […] in 2016 […] modernising enforcement of intellectual property rights, focusing on commercial-scale infringements (the "follow the money" approach) as well as its cross-border applicability, notably with regard to copyright issues". Following the opinion of the European Parliament, the Commission clarified its intention to modernise this framework in the Single Market Strategy of 28 October 2015[156], making it clear that initiatives to modernise the intellectual property rights framework would be horizontal, and encompass all types of IPRs privileging a "follow the money" approach to commercial-scale infringements, which would also contribute to promoting a fair Single Market and the fight against fraud.

This intention was also mentioned in the Communication on a modern, more European copyright framework[157] and the Communication on a fair, efficient and competitive European copyright-based economy in the Digital Single Market[158].

As a result, on 9 December 2015 the Commission has launched public consultation on the evaluation and modernisation of the legal framework for the enforcement of intellectual property rights. An external study providing support for an ex-post evaluation of the Enforcement Directive ("Evaluation Study")[159], was also commissioned.

Conclusions from the public consultation and the Evaluation Study served as a basis for the Evaluation Report[160] prepared by the Commission.

[155] Communication from the Commission "A Digital Single Market Strategy for Europe" (COM(2015) 192 final)
[156] Communication from the Commission "Upgrading the Single Market: more opportunities for people and business" (COM(2015) 550 final)
[157] Communication from the Commission "Towards a modern, more European copyright framework" (COM(2015)626)
[158] Communication from the Commission "Promoting a fair, efficient and competitive European copyright-based economy in the Digital Single Market" (COM(2016)592)
[159] "Support study for the ex-post evaluation and ex-ante impact analysis of the IPR enforcement directive (IPRED)", Technopolis Group in a consortium with EY and Schalast Rechtsanwälte, 2017 [Add reference to the publication]
[160] Commission Staff Working Document – Evaluation of the Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights, COM(2017)xxx.