

Proposed Directive on enforcement of intellectual property rights: frequently asked questions

(see also IP/03/144)

What are the main objectives of the proposed Directive?

The proposed Directive seeks to create a **level playing field** for the enforcement of intellectual property rights in different EU countries, by bringing enforcement measures into line across the EU, especially in those countries where the enforcement of intellectual property rights is currently weakest.

The proposal also aims to establish a general framework for the exchange of information between the responsible national authorities.

The proposed Directive maintains a balance between helping holders of intellectual property defend their rights and protecting users from unfair litigation (so-called rights of **due process**).

What is the main content of the proposed Directive?

The proposed Directive covers infringements of all intellectual property rights (both copyright and industrial property, such as trademarks or designs) which under European law have been harmonised within the EU.

It concentrates on infringements carried out for commercial purposes or which cause significant harm to rightholders.

The proposed Directive is based on best practice in the Member States. The measures it would extend throughout the EU include, among others, injunctions to halt the sale of counterfeit or pirate goods, provisional measures such as precautionary seizures of suspected offenders' bank accounts, evidence-gathering powers for judicial authorities and powers to force offenders to pay damages to rightholders to compensate for lost income.

What is the difference between counterfeiting and piracy?

The TRIPS Agreement on enforcement of intellectual property rights, negotiated in the World Trade Organisation, contains the following definitions:

“Counterfeit trademark goods shall mean any goods, including packaging, bearing without authorisation a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation.”

This can be interpreted as being something made in imitation of something else with the intent to deceive.

“Pirated copyright goods shall mean any goods which are copies made without the consent of the rightholder or person duly authorised by the rightholder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation”.

This can be interpreted as an illegal copy of something that already exists.

Why is the proposed Directive necessary given that most so-called counterfeiters and pirates are merely trying to cater for public demand for goods at affordable prices?

The proposed Directive deals with the **enforcement** of intellectual property rights and so it does not deal directly with the **substance** of IPRs (i.e. to what extent intellectual property is protected in law). That is already covered by an existing EU legal framework. (The measures concerned are listed in the annex to the proposed Directive).

However, it is obvious that a property right is not worth having if it is unenforceable. For example, there is little point being the legal owner of a car if there are no means available to stop people stealing it.

Intellectual property rights need to be protected and enforced within carefully defined limits, for reasons which vary according to the different types of intellectual property.

These reasons are, for the main rights concerned:

- for **patents**, the point is to protect the **inventive idea**. This allows the inventor to generate income from their invention which thus gives a powerful incentive for inventors to create new inventions. In addition, patents are published and so information about new technical developments can be disseminated to other people who can make use of them
- for **trade marks**, the point is to protect the **link between producer and product** e.g. the logo, packaging. This has two advantages, it allows consumers to identify the origin of the products they buy and hence choose the level of quality and safety they are prepared to pay for. Secondly, it gives a powerful incentive for rightholders to invest in their specific products and improve their quality and image.
- for **copyright**, the point is to protect the **expression** of a creative work such as a book, a piece of music, or a film. This allows the creator of the work and other rightholders, to market creative content. IP serves to make available such content on appropriate terms. It also stimulates future creation and ensures the availability of high quality content for others to enjoy. Put simply, if an artist could not participate actively in the marketing of his or her work and get a share of the financial benefits, they would in most cases not be able to create and invest in their creation. If an intermediary like a film or record company did not get paid, they would not be able to produce and distribute it. Many major works enjoyed by millions would never see the light of day.

Will the proposed Directive affect current definitions of “fair use” ?

No. The term “fair use” comes from American practice. However, all EU Member States have certain exceptions to the rights in place, including for private copying or library use, which would roughly correspond to the idea of fair use. The proposed Directive would not affect the scope of intellectual property law as established by existing EU and national law but only the enforcement of that law.

Will people still be able to lend CDs to a friend?

Yes. There is a framework of EU law in place which does not make private lending subject to copyright protection.

How would the proposed Directive affect copying of material in schools and libraries?

It would not (see also 'fair use' answer above).

Most Member States have exceptions in place in their national law regarding the copying of material in schools and libraries. In most cases therefore such use would be exempted from intellectual property rights and would not lead to an infringement in the first place.

Will this Directive mean that young people using file swapping software via their PCs will be held liable for IPR infringement?

The proposed Directive would **not** introduce tougher sanctions against individuals downloading the odd track for non-commercial purposes, though it would not stop Member State authorities from introducing and applying tougher laws.

The scope of this proposal covers infringements carried out for commercial purposes or which cause significant harm to the rightholder.

File swapping may be considered a copyright infringement depending on the national law in question.

This proposal only covers illegal acts, where authorisation has not been given by the rightholder or where the appropriate remuneration has not been paid for the use of that piece of intellectual property.

Exchanging illegal content over the internet is an illegal act, or an infringement of copyright if it relates to music files.

Although considerable injury to rightholders can be caused by an individual via his/her computer linked to the internet, it is not in the interest of rightholders to spend a lot of time and money in litigation to catch offenders who are simply sharing a few files with a handful of friends.

The proposed Directive aims to strike a fair balance between the interests of rightholders and legitimate users of intellectual property on the one hand and the wider opportunities the internet offers to consumers on the other, by focusing on commercial infringements or those which most damage rightholders' interests. It is *not* aimed at allowing the prosecution of large numbers of individuals using peer to peer (P2P) networks for casual file swapping.

For criminal sanctions to apply, the infringement must be 'serious'. An infringement is considered 'serious' if carried out intentionally and for commercial purposes.

Although the Directive also includes references to proportionality, i.e. for the punishment to fit the crime, it is up to national judges to decide on sentencing on a case by case basis.

Will this Directive mean that people buying a fake watch from a market stall will be held liable for IPR infringement ?

No. The act of buying is not subject to any intellectual property right.

How is this Directive compatible with TRIPS?

All EU Member States are bound by the rules of the TRIPS Agreement.

It is explicitly stated in the Directive that:

- none of its provisions in any way detracts from Member States' obligations under TRIPS;
- it does not set a limit on how far each Member State can go if it wants to go further than either TRIPS or indeed the provisions of the proposed Directive itself.

The proposed Directive goes further than TRIPS, particularly for those infringements which pose the greatest threats to rightholders, namely infringements of IPRs which are either committed for commercial reasons or which cause 'significant harm' to the rightholder.

These "TRIPS plus" elements are:

- a right of representation for collecting societies and trade associations
- a power for the authorities to seize documentary evidence relating to the suspected infringement (as well as the suspect goods themselves)
- an obligation for courts to provide information on the source of infringing goods ('right of information')
- "interlocutory injunctions" (in advance of a decision on the merits of a case) to prevent suspected offenders and also intermediaries from profiting from an infringement
- the seizure of offenders' bank accounts and other assets and profits to ensure payment of due damages
- the recall of infringing goods at the offender's own expense
- the choice for the rightholder of either lump sum damages (up to double normal royalties or licence fees) or compensation for lost profits
- payment of legal costs (and 'other expenses') by the offender where an infringement is established
- the publication of court decisions
- the winding up of companies found guilty of the most serious infringements
- the banning of machines used to produce counterfeit security features for goods covered by industrial property rights (e.g. trade marks).

In which Member States would this proposal make the biggest difference?

The proposed Directive would make a difference in all Member States. Apart from its specific provisions, the proposed Directive is also a **political signal** which will encourage national courts to apply sanctions and remedies more vigorously.

The more national laws within the EU are brought into line with one another, the more 'common ground' that is developed. These similarities will make it easier for cross-border litigation in the future.

The Directive is based on **existing best practice** and that is not the preserve of one single Member State. In addition, provisions in national law are often complex and fall within many different legislative acts, so the Commission is not in a position to give an authoritative overview of what currently applies where. The key point is that once this proposed Directive is implemented, there will be a single legal framework applicable across the EU.

But here are some examples of provisions of the proposed Directive and of Member States in which they already do or do not apply.

The notion of a **lump sum for damages** equivalent to double the licence fee (to cover for administrative expenses such as those caused by research and identification) exists in very few Member States, for example Greece, Ireland, Austria and the UK.

Compensation to the rightholder for loss of profits does not exist in, for example Netherlands, Spain or the UK.

A right for judicial authorities to require disclosure of information on origins of products and distribution networks is already available in for example Belgium, Germany, Denmark, Luxembourg, the Netherlands and the UK.

There is nothing at present in any national law to prevent **professional organisations from initiating court proceedings** on behalf of rightholders, but the proposed Directive will formalise the situation.

The right for the authorities to seize documentary evidence exists in a number of Member States such as Germany, Spain, France and Ireland

Freezing injunctions (blocking of bank accounts and assets) – exist in very few EU countries, for example the UK.

What figures are available for the impact of counterfeiting and piracy on the EU economy?

It is by definition very difficult to produce exact figures, as counterfeit and pirated goods fall outside the mainstream economy. But **counterfeiting** is estimated by industry sources to reduce EU GDP by 8 billion euros annually, with individual companies losing a total of between 45 and 65 billion euros.

Annual losses in revenue are estimated at 7.2 % for perfume and toiletries, 5.8 % for pharmaceuticals and 11.5 % for the toy and sports sector.¹

40% of software in use worldwide is believed to be **pirated**, and 37% in the EU (= loss of revenue of 2.9 billion euros annually).²

Worldwide, **36% of all music CDs and cassettes** sold are **pirated** (total sales of pirated goods is 5 billion units).

¹ Global Anti Counterfeiting Group, 29 June 2000, see <http://www.a-cg.com/archiv18.pdf>

² BSA (Business Software Alliance, annual report), see <http://www.bsa.org/usa/press/newsreleases/2002-06-10.1129.phtml>

How much has piracy and counterfeiting increased recently?

The industry estimates that software piracy has increased by 3% in 2001 in the EU and is now at 37% of software in use.

The number of optical disks (CDs, DVDs etc) and cassettes seized by EU customs officers rose from 9 million items in 2000 to nearly 40 million items in 2001. (Illegal copies of optical discs and cassettes account for 42% of all items seized).

Why such an increase?

Technology is available which allows large scale perfect copying of software and optical disks and cassettes at extremely low cost.

This represents a very advantageous cost benefit ratio for those looking to get the highest profit with the lowest investment, easy and wide distribution and low risk of detection and penalty.

What is the link between this proposal and the Commission's proposal for a Regulation to strengthen customs' powers to act against counterfeited and pirate goods, presented on 20 January?

Both pieces of legislation cover the enforcement of intellectual property rights. The proposed Regulation on customs powers applies to seizure of suspected infringing goods at the EU's **external** borders (see IP/03/75) whereas the proposed Directive covers goods and services circulating **within** the EU.

In order to coordinate the EU's internal and external policies to enforce IPRs the two proposals have been presented within a short time of each other.

However, the two proposals have to undergo separate adoption procedures due to the different legal bases in the EC Treaty.

How would EU copyright and industrial property rights enforcement under the proposed Directive compare with that in third countries, e.g. the US?

Under US law, sanctions and remedies apply to all infringements including those committed by private persons. It may be tougher on file sharing activities, depending on interpretation by the courts.

All signatories, including EU Member States are bound by the TRIPS Agreement. That agreement is implemented through various provisions in EU and national law.

This proposed Directive is fully compatible with TRIPS and also contains certain elements of added value (see question on TRIPS compatibility above).

Does the Directive cover technology used to gain access to electronic pay services such as satellite TV?

No. The proposed Directive covers the enforcement of intellectual property rights, including that associated with the content used by TV stations, but not the "lock and key" technical conditional access devices pay-TV companies use to protect access to their services.

That technology is covered, irrespective of the intellectual property background, by the Conditional Access Directive (98/84/EC) on the legal protection of conditional access services. The Commission is currently preparing a communication on the implementation of this Directive.

Will this Directive impede the development of the internet, by for example allowing injunctions to be served on service providers?

The proposed Directive would not impede the legitimate development of the Internet. On the contrary, by improving security for all stakeholders, including rightholders, it would encourage the use of the Internet as a genuinely creative medium, as opposed to a tool for piracy, which means in effect the theft from rightholders of not only the financial remuneration on which they depend but also the right to control the distribution of the work they have created.

It must be possible for rightholders to pursue infringements of intellectual property rights regardless of the means by which those rights are infringed or the form of the infringing material. The proposed Directive aims to strike a fair balance between the interests of rightholders and legitimate users of intellectual property on the one hand and the wider opportunities the internet offers to all its users on the other, by focusing on commercial infringements or those which most damage rightholders' interests.

Where injunctions *are* served on service providers, the injunctions will be limited in scope to preventing infringing acts and not those which are perfectly legal (such as the exchange of non-protected material). Judges will be bound to observe the principle of proportionality i.e. the measures applied will be appropriate to the scale of the infringement and will not go further than is necessary to prevent the infringement in question.

In the case of Internet service providers (ISPs, who provide Internet access services rather than P2P networks *per se* e.g. Yahoo, AOL), it is already established practice in the EU that, once informed of the presence of illegal material, ISPs disconnect illegal web sites (such as those that disseminate child pornography, racist material etc). There is therefore no reason why the same principle cannot apply to IPR infringements.

It is Internet offenders who themselves undermine the profitability and hence development of Internet services providing legal dissemination of IPR-protected material. E-Commerce will only be successful if Internet traders are able to make a legitimate profit on their activities. Internet-based offenders therefore retard the development of business on the Internet.

How would the system of “interlocutory injunctions” in the proposal work?

The proposed Directive envisages the use of interlocutory injunctions (among other measures) by Member States' courts to order intermediaries – such as Internet service providers - to desist from participating in infringements of intellectual property rights. This measure applies for infringements ‘for commercial purposes or which cause significant harm to the rightholder’. This does not prejudice the provisions on injunctions in Article 8(3) of the Directive on Copyright and Related Rights in the Information Society (2001/29/EC), which is already in force.

Similar measures have been used against peer-to-peer (P2P) networks in the US, most notably Napster. There are now a number of law suits in preparation or litigation, notably by the RIAA (Recording Industry Association of America) in the US regarding similar services such as Kazaa BV, Audiogalaxy, MP3Board, StreamCast Networks, Grokster and Madster.

The proposed Directive would curtail those peer to peer networks which seriously damage rightholders. How do those networks function?

Peer to peer (P2P) networks work by setting up an infrastructure which allows individual users (people at home or in the office connected to the Internet) to locate other users who have files they are interested in and then to download these files from the other user's computer via the Internet. These are often copyright-protected music or video files.

Some file sharing services therefore encourage users to infringe copyright. That is illegal and should be stopped.

Napster maintained a central database of the location of individual computer files (although it did not store the infringing files itself). It was thus possible for the rightholders to demonstrate that Napster had knowledge of the material which was being infringed and for the courts to order Napster to delete references from the database to protected material. In the case of *Kazaa et al*, this is more difficult as the relevant databases are generally stored on user's individual computers (Kazaa merely distributes the software which makes this possible).

The revenues of P2P networks, such as Napster and Kazaa, do not normally come from direct charges made on users for downloading files. Instead, their services are normally free but users have to pass through web sites which carry advertising.

P2P networks therefore make money in only an indirect way from the content they provide access to (much as free circulation newspapers). Nevertheless it is the file sharing services which attract the users in the first place and are thus essential to the business model.

Does this Directive overprotect intellectual property by taking on board the most repressive legislation found in EU Member States?

It is not right to say that the proposal simply takes on board the most 'repressive' legislation of each EU country. The Directive takes on board the best measures already adopted in various EU countries. Those are not always the most draconian and there are a number of measures currently available in certain EU countries which have not been included.

The proposed Directive seeks to create a **level playing field** for the enforcement of intellectual property rights in different EU countries. It is therefore an essential part of the Directive that enforcement measures are in general strengthened, especially in those countries where the enforcement of intellectual property rights is currently weakest.

However, the proposed Directive also maintains a balance between helping holders of intellectual property defend their rights and protecting users from unfair litigation (so-called rights of **due process**).

What safeguards does the Directive provide against unfair litigation and damage caused to innocent parties as a result ?

The proposal has a number of **safeguard clauses**:

- the proposal restates the general principles of intellectual property rights law, namely that procedures should be fair, not unnecessarily complicated, slow or costly and should not create barriers to 'legitimate trade'
- any penalties applied to offenders should be '**effective, proportionate and deterrent**' i.e. the penalty should fit the crime
- where the Directive allows for seizure of suspect goods for evidence, the company or person whose goods have been seized can ask for a review of the seizure. Furthermore, the judge can make the rightholder pay a refundable guarantee which will be forfeit if the case brought is unfounded
- where the Directive allows for a court to force someone involved in handling infringing goods to reveal who they bought the illegal goods from, this can only be done under certain conditions (e.g. where this would not incriminate the person giving the information, so-called right to avoid **self-incrimination**)
- where the Directive allows for 'interlocutory injunctions' (an injunction in advance of a decision on the merits of the case), the company or person who has been ordered to stop participating in the suspected infringement can ask for a review of the injunction. Furthermore, the judge can make the rightholder pay a refundable guarantee which will be forfeit if the case brought is unfounded. In this case, the judge can also order the rightholder to compensate the suspected offender who is found innocent for any loss they have suffered as a result of the injunction
- where the Directive allows for various measures following a decision on the merits of a case (e.g. recall, destruction of goods or disposal outside commercial channels), this will not be applied where the offender has acted in **good faith** (i.e. neither intentionally nor through negligence) and can agree a fair settlement with the rightholder whose rights have been infringed
- legal costs are awarded also to the alleged offender, if they are found to be innocent

The full text of the proposed Directive is available at:

http://www.europa.eu.int/comm/internal_market/en/intprop/news/index.htm