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LEGAL AFFAIRS

**European intellectual property law:
what lies ahead**

BRIEFING NOTE

Abstract

This note aims to describe the economic and legal rationale for patents, trade marks, copyrights and trade secrets, the major past developments and outline the issues ahead for the new European Parliament. Apart from instrument-wise views, we discuss also IPR issues in the field of enforcement and international treaties.

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LIST OF ABBREVIATIONS

EUROPEAN LEGISLATION IN THE FIELD OF INTELLECTUAL PROPERTY

Biotech. Dir.	Directive 98/44/EC of the European Parliament and of the Council of 6 July 1998 on the Legal Protection of Biotechnological Inventions
BMR	Regulation (EU) No. 608/2013 of the European Parliament and of the Council concerning Customs enforcement of intellectual property rights and repealing Council Regulation (EC) 1383/2003, OJ L 181/15 (29 June 2013)
Brussels I Reg.	EC Regulation 44/2001 of 22 December 2000 on Jurisdiction and the recognition and enforcement of Judgments in Civil and Commercial Matters
CDIR	Commission Regulation (EC) No. 2245/2002 of 21 October 2002 implementing Council Regulation (EC) No. 6/2002 on Community designs
CDR	Council Regulation (EC) No. 6/2002 on Community designs
Chip Dir.	Council Directive 87/54/EEC of 16 December 1986 on the legal protection of semiconductor products
CM Dir.	Directive 2014/26/EU of the European Parliament and of the Council of 26 February 2014 on collective management of copyright and related rights and multi-territorial licensing of rights in musical works for online use in the internal market, OJ L 84/72 (20 March 2014)
CPVR	Council Regulation (EC), No. 2100/94 of 27 July 1994 on Community Plant Varieties
CTMIR	Commission Regulation (EC), No. 2869/95 of 13 December 1995, implementing Council Regulation (EC), No. 40/94 on the Community Trade Mark
CTMR	Council Regulation No. 207/2009/EC of 26 February 2009 on the Community Trade Mark (which replaced Council Regulation (EC), No. 40/94 of 20 December 1993 on the Community Trade Mark)
Database Dir.	Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the Legal Protection of Databases
Designs Dir.	Directive 98/71/EC of the European Parliament and of the Council of 13 October 1998 on the legal protection of designs
Duration Dir.	Directive 2006/116/EC of the European Parliament and of the Council of 12 December 2006 on the term of protection of copyright and certain related rights (codified version) (repealing and replacing Council Directive 93/98/EEC of 29 October 1993 harmonizing the term of protection of copyright and certain related rights)
Electronic	Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information

Commerce Dir.	society services, in particular Electronic Commerce in the Internal Market
Enforcement Dir.	Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights
Info. Soc. Dir.	Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonization of certain aspects of copyright and related rights in the information society
MCAD	Directive 2006/114/EC of the European Parliament and of the Council of 12 December 2006 concerning Misleading and Comparative Advertising (repealing Directive 97/55/EC)
OWD	Directive 2012/28/EU of the European Parliament and of the Council of 25 October 2012 on Certain Permitted Uses of Orphan Works, OJ L 299/5 (27 October 2012)
Related Rights Dir.	Directive 2006/115/EC of the European Parliament and of the Council of 12 December 2006 on rental right and lending right and on certain rights related to copyright in the field of intellectual property (codified version (replacing Council Directive 92/100/EEC of 19 November 1992 on rental and lending right and on certain rights related to copyright in the field of intellectual property))
Resale Right Dir.	Directive 2001/83/EC of 27 September 2001 on the resale right for the benefit of the author of an original work of art
Satellite Dir.	Council Directive 93/98/EEC of 27 September 1993 on the coordination of certain rules concerning copyright and rights related to copyright applicable to satellite broadcasting and cable retransmission
Software Dir.	Council Directive 2009/24/EC of 23 April 2009 on the legal protection of computer programs (codifying Council Directive 91/250/EEC of 14 May 1991)
SPC (MP) Reg.	Council Regulation (EEC), No. 1768/92 of 18 June 1992 concerning the creation of a supplementary protection certificate for medicinal products
SPC (PPP) Reg.	Council Regulation (EC), No. 1610/96 of the European Parliament and of the Council of 23 July 1996 concerning the creation of a supplementary protection certificate for plant protection products
TM Dir.	Directive No. 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate the Laws of the Member States Relating to Trade Marks (replacing Council
Translation Reg.	Council Regulation (EU) No. 1260/2012 of 17 Dec. 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection with regard to the applicable translation arrangements.
Unitary Patent Reg.	Council Regulation (EU) No. 1257/2012 of 17 Dec. 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection.

INTERNATIONAL TREATIES

Brussels	Brussels Convention on Jurisdiction and Enforcement of Judgments in Civil and Commercial Matters, 1968
EPC	Convention on the Grant of European Patents, at Munich, 5 October 1973
EPC Revision Act	Act Revising the Convention on the Grant of European Patents (EPC), Munich, 29 November 2000, MR/3/00 Rev. 1e
GATT	General Agreement on Tariffs and Trade
Hague	Geneva Act of the Hague Agreement Concerning the International Deposit of Industrial Designs, 1999
Madrid	Madrid Agreement Concerning the International Registration of Marks of 14 April 1891
Madrid Prot.	Protocol Relating to the Madrid Agreement, adopted at Madrid on 27 June 1989
Rome	International Convention for the Protection of Performers, Producers of Phonograms, and Broadcasting Organizations, Rome, 26 October 1961
TEU	Treaty Establishing the European Union
TRIPS	Agreement on Trade-related Aspects of Intellectual Property Rights 1994
UPC Agreement	Agreement on a Unified Patent Court C 175/1 (20 June 2013) <i>OJEU</i> 1.
UPOV	International Convention for the Protection of New Varieties of Plants of 2 December 1961 (latest revision 19 March 1991)
WCT	WIPO Copyright Treaty adopted by the Diplomatic Conference on 20 December 1996
WIPO	World Intellectual Property Organization
WPPT	WIPO Performances and Phonograms Treaty adopted by the Diplomatic Conference on 20 December 1996
WTO	World Trade Organization

EXECUTIVE SUMMARY

Introduction

This note aims to describe the economic and legal rationale for patents, trade marks, copyrights and trade secrets, the major past developments and outline the issues ahead for the new European Parliament 2014-2019. Apart from instrument-wise views with respect to patents, trade marks, copyrights and trade secrets – chosen for the significance that these instruments are likely to play in the 2014-2019 Parliament – we discuss also IPR issues in the field of enforcement and international treaties.

Intellectual Property Rights (IPR) as a whole

IP law creates exclusive rights in a wide range of things from, amongst others, novels, computer programs, technical inventions to dress designs. However, IPR is not a single body of law. There are different areas, the most typical being copyright law, patent law, the law of designs and trade mark law. The adjective 'intellectual' is regarded as descriptive of the character of some of the material that this area of law regulates, namely some of the products of the human mind or 'intellect'. The designation 'property' is said to describe the form of regulation, that is, primarily the grant of individual exclusive rights that operate in a manner similar to private property rights over tangibles. Neither component is, however, uncontroversial.

There is little doubt, though, that the system of IPR is important for the EU economy. A recent study by the European Patent Office, for example, claims that IPR-intensive industries have generated 26% of all jobs in the EU during the period of 2008 to 2010 and accounted for 39% of EU GDP. Notwithstanding this general significance of IPR, there is a considerable debate as to the extent IPRs support or even inhibit economic development, innovation or freedom of expression. Too strong IPR protection may reinforce the status of incumbent industries and hinder downstream innovation. One important key for successful IPR legislation is therefore the ability to strike the right balance between the interests of right holders, any third parties as well as the general public.

Patents

Patents offer exclusive rights for up to 20 years over inventions that are new and non-obvious technological development, industrially applicable and not part of a list of subject matters that are by definition not patentable. In return for the exclusive rights, inventors have to disclose the secrets behind their inventions and pay application and renewal fees to the patent office. The idea behind the patent is therefore some form of 'social' contract between society and an inventor: The patent acts as an incentive to disclose otherwise secret information, thus making it available for the general public and third parties to generate follow-up innovations ('information function' of the patent system). Eventually, after the 20 year term of patent protection, the formerly secret information is part of the public domain and can be used freely. Within the 20 years where patent protection is granted, the original inventor has, through the monopoly rights provided, a means to recuperate his/her investment made into R&D. The assumption is that such R&D investments would have otherwise not been made.

The European Union has not been involved in the reform of patent law anywhere near as much as it has in relation to trade marks and copyright, primarily because the European Patent Convention has satisfied the commercial needs of industry. There have been many attempts at establishing a Community-wide patent regime, but these efforts have – until the Parliament of 2009-2014 – come to nought.¹ At present, in most E.U. countries,

¹ Nevertheless the Union has passed important legislation relating to the duration of patents (via the Supplementary Protection Certificates scheme) and biotechnological inventions.

patents can be obtained by two distinct routes. First, inventors can apply directly to national patent offices for patents that only apply in the national territory. Second, a person can apply to the European Patent Office (EPO), which is based in Munich, for a number of national patents. In contrast with the OHIM, which grants European Union wide unitary designs or trade marks, the EPO only grants a series of national patents.

During the Parliament of 2009 - 2014, under the enhanced cooperation procedure, the majority of states agreed a 'unitary patent package', designed to establish and enforce a common unitary patent and introduce common patents courts. The unitary patent package consists of three elements: i) the EU Regulation creating a unitary European patent: Council Regulation (EU) No. 1257/2012 of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection (the 'Unitary Patent Reg. '), ii) the EU Regulation that deals with the vexed issue of the language to be used in the unitary patent and the corresponding translation requirements: Council Regulation (EU) No. 1260/2012 of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection with regard to the applicable translation arrangements (the 'Translation Reg. '). Both of these Regulations entered into force in January 2013. The third and final part of the unitary patent package is the Agreement on a Unified Patent Court, signed by 25 participating member states on 19 February 2013 setting up a centralized patent court.

The key development in the Parliament of 2014 - 2019 will be the coming into force of the package. This requires first the required ratifications of the Agreement on the Court, because not until that comes into force will the Regulation allowing for the grant unitary patents come into operation. The Parliament will want to keep a close watch on developments and, if the patent package comes into force, on any initial problems that it encounters.

Trade marks

Trade marks are signs or symbols, usually words or pictures, which when used in trade in connection with particular goods or services indicate the commercial origin of the goods or services. A number of different rationales have been used to justify trade mark protection. While there have been few problems in justifying the protection given to signs and symbols insofar as they operate as indicators of origin (to identify the origin or ownership of goods to which the mark is affixed), or as guarantees of quality (to signify that all goods bearing the mark are of a certain quality), justifying the extensive protection that is currently granted to marks is more disputed.

There were two main actions taken in the past to harmonise registered trade marks in Europe. The Trade Marks Directive (adopted in 1988, and codified two decades later) was designed to approximate those national provisions of law that most directly affect the functioning of the internal market. The Directive therefore harmonized the general 'conditions for obtaining and continuing to hold a registered trade mark' and the rights conferred by a trade mark. The European legislature also adopted a Regulation establishing a Community Trade Mark (soon to be re-christened the 'European trade mark'). Adopted in 1994, this established the Office for Harmonization in the Internal Market (the OHIM) as an agency that could grant trade marks with EU-wide effect. The conditions an applicant must meet to be granted a trade mark, as well as the rights conferred by such marks, correspond in general to the rules in the Directive, but whereas some matters were left in the Directive to the discretion of Member states, the EU regime was necessarily obliged to adopt particular positions on those issues.

In 2013, two pieces of draft legislation were placed before the European legislature that would modify both the Regulation and Directive in a number of respects. These are: i) European Commission, Proposal for a Regulation of the European Parliament and of the Council amending Council Regulation (EC) No 207/2009 on the Community trade mark, Brussels, 27.3.2013, COM(2013) 161. and ii) Proposal for a Directive of the European Parliament and of the Council to Approximate the Laws of Member States relating to Trade

Marks (Recast), COM(2013) 162. The proposed Directive is intended to amend outdated provisions, increase legal certainty and clarify the scope of trade mark rights and limitations. The main goals of the proposal to amend the Regulation include updating the Regulation to accord with the terminology to the Lisbon Treaty, streamlining procedures to apply for and register a European trade mark and increasing legal certainty by clarifying provisions.

The Parliament voted on the various amendments in February 2014. In general it approved the Commission proposals, but made also suggestions for amendments. It is notable that Council proposes a number of similar changes to those proposed by the European Parliament. However, it has not incorporated the EP proposals on exceptions. This is therefore a topic which may need to be considered immediately by the Parliament.

Copyright

'Copyright' is the term used to describe the area of intellectual property law that regulates the creation and use that is made of a range of cultural goods such as books, songs, films, and computer programs. The various objects that are protected by copyright are usually described as 'works'. Copyright protection arises automatically (i.e., without registration or notice) and usually for the benefit of the author (though in many legal systems is assignable).

It is a commonplace amongst intellectual property commentators that the approach taken in common law countries to copyright is distinct from and in many ways in opposition to the approach taken in many continental European, civil law countries, which protect "author's rights". The common law copyright model is said to be primarily concerned with encouraging the production of new works. This is reflected in copyright law's emphasis on economic rights, such as the right to produce copies. In contrast, the civil law "author's rights" model is said to be more concerned with the natural rights of authors in their creations. This is reflected in the fact that the civil law model not only aims to secure the author's economic interests, but also aims to protect works against uses that are prejudicial to an author's spiritual interests (in particular through moral rights).

The existence of copyright in a particular work restricts the uses that can be made of the work. Not everyone thinks that copyright is a good thing. In fact, with the advent of the Internet, there are many who think that copyright unjustifiably impedes the development of new technologies or new application of existing technologies and stifles the public's ability to make the most of the new environment. Others consider that, while some aspects of copyright are justifiable, others are not. Typically the argument is that copyright law has gone too far. In response to these copyright sceptics or critics, four basic arguments are used to support the recognition (and further extension) of copyright: natural rights arguments, reward arguments, incentive arguments, and arguments from democracy. The first argument refers to the reasoning that copyright protection is granted because it is right and proper to do so. More specifically, it is right to recognize a property right in intellectual productions because such productions emanate from the mind of an individual author. Related to natural rights arguments is the second view that copyright protection is granted because we think it is fair to reward an author for the effort expended in creating a work and giving it to the public. The incentive argument presupposes that the production and public dissemination of cultural objects such as books, music, art, and films is an important and valuable activity. It also presupposes that, without copyright protection, the production and dissemination of cultural objects would not take place at an optimal level because the production costs are high, while dissemination costs are rather low. A fourth justification for copyright is that it strengthens democracy. It does so by self-reliant authorship and robust debate.

In contrast with trade marks where a unitary EU right was created, accompanied by extensive harmonization of substantive law, in copyright a much more incremental approach was adopted. In part this was because national copyright traditions were very different, so that wholesale approximation of copyright law was thought to be impossible.

Initially, the focus was on new technologies. This led to the formulation and passage of a series of directives on software, cable and satellite broadcasting, rental and lending rights and 'neighbouring rights', the duration of copyright, databases, the resale royalty right, and copyright in the 'information society'. While each of these directives concerned itself primarily with a specific aspect of copyright (that is, a specific type of subject matter or a specific right), the Directive on copyright in the Information Society concerned a series of rights and exceptions applicable to virtually all copyright works. The body of legal rules harmonized by the directives is often called the 'copyright acquis.'

After these Directives, Matters stalled until 2011, with the Commission increasingly talking about 'soft law', stakeholder dialogues, and 'memoranda of understanding', in preference to legislation. However, since 2011 three very narrow legislative interventions have occurred in relation to term of copyright in sound recordings, 'orphan works' and collective management.

Three legislative developments occurred in the preceding Parliament:

- Term Amendment (for Sound Recordings and Performers Whose Performances are Embodied in Such Recordings) (2011)
- Orphan Works Directive (2012)
- Directive on Collective Management (2014)

In December 2012, the Commission announced that in addition to structured stakeholder dialogue, it would continue its review of the EU framework for copyright with a view to a decision in 2014 on whether to table legislative reform proposals. Various reviews of national law indicate that there is a real appetite in member states for reform, particularly with regard to exceptions. At the end of 2013, the Commission opened up these same questions to consultation. A White Paper is expected in the autumn of 2014.

In the short term, the focus is likely to continue to be on the scope of rights, exceptions and issues of enforcement. These might include clarification of some of the questions that the ECJ has been dealing with, such as hyperlinking and the location of various acts (reproduction, making available) when they occur on the Internet. In the medium term, questions will need to be addressed on more thorny issues that have long divided the approaches of countries such as the UK from those of France and Germany: moral rights and copyright contracts. These topics will be particularly problematic because these are marked differences between different member states. In the longer term, Parliament will wish to consider the merits of full-scale harmonization and possibly the creation of a unitary European copyright. At present, the Commission consultation asks: "Should this be the next step in the development of copyright in the EU? Does the current level of difference among the Member State legislation mean that this is a longer term project?" An academic group of copyright specialists, the Wittem Group, has sought to pave the way for such a development.

Trade Secrets

The term 'trade secret' refers to information that possesses commercial value because of its relative secrecy. That is, the possession of the information by one entity, as opposed to potential competitors, offers the possessor significant commercial advantage. The classic example of a trade secret is a secret recipe or formula for producing a marketable commodity that enables its possessor to produce the commodity more cheaply or makes the product more effective. But trade secrets are not confined to "technical trade secrets" and can include information about the sources of materials, customers, or relate to the administrative or organisational working of businesses themselves.

Empirical evidence suggests that businesses regard 'trade secrets' as important assets and rely heavily on such secrecy as part of their innovation strategies. Empirical surveys, according to a study authored by Arundel, "consistently show that manufacturing firms give

secrecy a higher average rating [than patents] as an appropriation method for both product and process innovations.”

Interestingly, though, there has been much less exploration of the justifications for offering legal protection of trade secrets than other aspects of intellectual property law. The few analyses indicate five possible justifications: to incentivise the creation of information; to reduce wasted expense on IP protection; to prevent unjust enrichment of one person at the expense of another; to preserve and promote ethical standards of conduct; as well as national economic interests. Arguments against trade secrets include that trade secrets undermine patent law’s goal of incentivising disclosure of technical data; they may shield businesses and governments from justified scrutiny; and, eventually, they may endanger employee mobility.

Rules relating to trade secrets vary significantly from one country to another. In England, Scotland and the Republic of Ireland, trade secrets have typically been protected through a combination of contract law, labour law and the doctrine of “breach of confidence.” In other European countries, protection of trade secrecy falls within the concept of “unfair competition.” In some countries, the primary vehicle for protection of trade secrets has been the criminal law. The European Commission has been interested in the topic since 2011, when it put out tenders for a report on the state of the law, followed by a further report on the role of trade secrets for innovation. According to a subsequent impact assessment by Commission, the two main problems are sub-optimal incentives for cross-border innovation activities and reduced competitiveness, as “...the fragmented legal protection within the EU does not guarantee a comparable scope of protection and level of redress within the Internal Market, thus putting trade-secret based competitive advantages, whether innovation-related or not, at risk and undermining trade secret owners’ competitiveness.”

In November 2013, the Commission issued a proposal for a Directive. The legal basis for the proposed intervention is Article 114 (the Internal Market). The Commission proposal would require Member states to offer protection against the unlawful acquisition, use and disclosure of trade secrets. There are voices, however, that “only a modest amount of harmonization is likely to ensue from implementation of this Directive”. The Commission’s proposal has been the subject of significant debate in Council, and has been subject to substantial modification. On 26 May, 2014 the Council adopted its ‘general approach’ with eight main amendments. The Legal Affairs Committee has yet to examine the proposal systematically.

Other aspects: enforcement and international activity

In the area of enforcement, a centrepiece of European legislation is the Enforcement Directive. With this Directive, the EU has sought to harmonize certain aspects of civil remedial law. The most important developments in relation to enforcement during the Parliament of 2009 - 2014 has been through the Court of Justice. One focus has been “intermediaries”, particularly ‘online intermediaries’, such as service providers whose services support websites featuring infringing material, and those that offer their customers access to websites that themselves are infringing. In addition, the European Union has also adopted measures that regulate the external borders of the Union. The so-called ‘Border Measures Regulation’ of 2013 repealed and replaced an earlier Regulation from 2003. In 2012, using the European procedure then in place, there were more than 90,000 interceptions of goods, said to have a value of some Euro 1 billion, and the bulk of which (65 per cent) came from China. The most frequently seized goods were cigarettes (30 per cent), but 10 per cent was washing powder and 8 per cent of the goods seized were clothes. According to a recent Communication, the Commission is launching a new Communication on an Action Plan addressing Intellectual Property infringements in the EU.

In terms of international treaties the most high-profile development was the Anti-Counterfeiting Trade Agreement. In February 2012, there were widespread public protests. Ultimately, on 4 July 2012, the European Parliament rejected the ACTA 478 votes to 39,

with 165 abstentions. Reflections of the Commission show that a common factor contributing to the failure of ACTA is that public concerns have not been sufficiently taken into account (for example with respect to fitness to the digital economy or impacts on fundamental rights). For the legislative period 2014 – 2019 there are a number of international developments on the table: multilaterally, a new treaty promoted by WIPO in relation to copyrights; some sort of instrument on exceptions to copyright for libraries and archives and educational institutions; and considerations with respect to possible systems of protection for so-called 'traditional cultural expressions', driven by WIPO. At the bilateral level, the EU is in the process of negotiating the so-called Transatlantic Trade and Investment Partnership (TTIP) with the US. The details of this are not yet publicly available, but the Parliament will want to examine this closely also in terms of IP rights. Other negotiations on trade agreements include those with Mercosur, Morocco, Japan, Thailand, and Vietnam. A bilateral agreement dealing with the protection of geographical indications is being mooted with China.

1. INTRODUCTION

1.1. Overview

We describe the economic and legal rationale for patents, trade marks, copyrights and trade secrets, the major past developments and outline the issues ahead for the New Parliament. Apart from instrument-wise views, we discuss also IPR issues in the field of enforcement and international treaties. The methodology for this report was desk review.²

The report is structured as follows:

- The remainder of chapter 1 discusses the general notion of IPR and outlines the major developments in Europe.
- Chapters 2, 3, 4 and 5 provide a detailed analysis for patents, trade marks, copyrights and trade secrets, respectively.
- Chapter 6 discusses IPR issues in the field of remedies and enforcement as well as in relation to international activity/international treaties.

1.2. What is Intellectual Property?

Intellectual property law creates exclusive rights in a wide and diverse range of things from novels, computer programs, paintings, films, television broadcasts, and performances, through to dress designs, pharmaceuticals, genetically modified animals and plants. Intellectual property law also creates rights in the various insignia that are applied to goods and services, ranging from NOKIA for mobile phones, to 'VORSPRUNG DURCH TECHNIK' for motor vehicles, and from the leaping horse logo associated with Ferrari motorcars to the colour orange for EASYJET air transport services.

Intellectual property law is not a single homogenous body of law. Rather the term is usually used to describe a number of areas of law, typically including **copyright law**, **patent law**, **the law of designs** and **trade mark law**, each of which have their own characteristics. The adjective '**intellectual**' is regarded as descriptive of the character of some of the material that this area of law regulates, namely some of the products of the human mind or 'intellect'. The designation '**property**' is said to describe the form of regulation, that is, primarily the grant of individual exclusive rights that operate in a manner similar to private property rights over tangibles. Neither component is uncontroversial. Certainly, not everything that this field of the law protects can be described as 'intellectual'. Moreover, there are those who question whether, whatever the legislators may say, these rights can really be called 'property rights' as opposed to 'monopolies' or 'rights to exclude'. Others worry that, by referring to these rights as 'property', particular attitudes are engendered that lead to their expansion.

The term 'intellectual property' has only been commonly used in this way for the last thirty or forty years. Nevertheless, in that relatively brief period it has become part of the basic legal vocabulary. Today, there are international treaties relating to 'intellectual property',³ the European Parliament and Council has adopted directives concerning intellectual

² Much of this report is based on material that will appear in L. Bently & B. Sherman, *Intellectual Property Law* (Oxford: OUP, 4th ed. 2014). Our thanks go to Brad Sherman and Oxford University Press for permitting this.

³ Most significantly, TRIPs, the Treaty on Trade Related Aspects of Intellectual Property Rights, an Annex to the World Trade Organisation Agreement (1994).

property and Article 17 of the European Charter of Rights and Freedoms even declares that 'intellectual property shall be protected.'⁴

Although widely deployed, there is little agreement on the precise coverage of the term 'intellectual property'. Most definitions have the character of lists – sometimes exhaustive, sometime open-ended. Nearly all definitions include 'copyright' and 'patents', and most include 'trade marks.' But matters become more difficult when the question becomes, for example, whether the protection granted over trade secrets or undisclosed information (including personal information), counts as 'intellectual property' or is better conceived as part of the regulation of unfair competition generally.

1.3. The Importance of Intellectual Property

There can be little doubt that the regulation of "intellectual property", through the provision of rights and exceptions, is important to the EU economy. A recent European Patent Office and OHIM Study (2013) claims that "IPR intensive industries are shown to have generated almost 26% of all jobs in the EU during the period 2008 2010, with almost 21% in trade mark intensive industries, 12% in design intensive industries, 10% in patent intensive industries, and smaller proportions in copyright intensive and GI intensive industries... Over the same period, IPR intensive industries generated almost 39% of total economic activity (GDP) in the EU, worth €4.7 trillion. They also accounted for most of the EU's trade with the rest of the world, with design intensive, copyright intensive and GI intensive industries generating a trade surplus."⁵

The importance of intellectual property in the EU economy means it is important that the EU legislators take particular care when intervening in this field. They are inevitably faced with a barrage of arguments from different sides. They must be conscious that the protection of intellectual property has a complex relationship with **freedom of competition**, and, ultimately **consumer welfare**. In many cases, intellectual property rights limit competition. They do so often in order to incentivise innovation, so as to generate "dynamic" competition. But it is important that intellectual property rights are not so strong that they merely reinforce the status of incumbent industries and inhibit downstream innovation. Similarly, intellectual property rights are important for **freedom of expression**. Authors are often only able to make financial returns on their expressive output if intellectual property rights secure them exclusivity. But intellectual property rights can often also be used to inhibit the expression of third parties. Freedom to quote from existing copyright works, to parody them, to refer to them through hyperlinking are also critically important for expression. The same is true of research and innovation: IP may be a significant enabler of investment in research, but it is critically important that IP rights do not end up inhibiting innovation. In this respect, it is worth noting a further observation of the European Commission in its Competitiveness Report: **"if IPRs are handled too rigidly this raises the transaction costs of knowledge spillovers.** For this reason, open access policies and a stronger use of Creative Commons' licences for intellectual copyrights may do more to foster the technological and legal basis of the creative industry business model."⁶ Given these tensions, the European legislator is called upon to make critically important judgments about the strength of intellectual property rights and the scope of limitations on them. These judgments are not made any easier by the intense lobbying that now surrounds IPRs. **To sum up, legislators in the field of IPR must**

⁴ See Christophe Geiger, 'Intellectual Property Shall Be Protected: Art 17(2) of the Charter of Fundamental Rights of the EU: A Mysterious Provision with an Unclear Scope' [2009] *EIPR* 113.

⁵ EPO and OHIM, IPR intensive industries contribution to the Economic Performance and Employment in the European Union (2013).

⁶ European Competitiveness Report (2010). Note also, Communication from the Commission, *Trade, growth and intellectual property - Strategy for the protection and enforcement of intellectual property rights in third countries*, COM(2014) 389 final, 12, stating that it "is also important to ensure that the IP framework remains flexible enough to facilitate, rather than obstruct, the capacity for digital technology to deliver growth while at the same time stimulating innovation."

always make decisions that should strike for the best possible balances between the interests of the various actors involved in the IPR system (i.e., the right holders, third parties and the general public).

1.4. Why Protect Intellectual Property?

Despite the widespread use of the term “intellectual *property*”, intellectual goods have characteristics that make them different from more familiar resources, such as land or tangibles, that are subject to property rights.

The justifications that have been given for intellectual property tend to fall into one of two general categories. First, commentators often call upon ethical and moral arguments to justify intellectual property rights. For example, it is often said that copyright is justified because the law recognizes authors’ **natural or human rights** over the products of their labour. Similarly, trade mark protection is justified insofar as it prevents third parties from becoming unjustly enriched by ‘reaping where they have not sown’. Viewed in terms of ‘inherent’, ‘human’ or natural rights, ‘intellectual property’ needs to be recognised with other fundamental rights and freedoms, sometimes called ‘intellectual liberties’: the **freedom to pursue business, freedom of expression, the right to education and healthcare.**

Alternatively, commentators often rely upon **instrumental justifications** that focus on the fact that intellectual property induces or encourages desirable activities. For example, the patent system is sometimes justified on the basis that it provides inventors with an incentive to invest in research and development of new products, or an incentive to disclose valuable technical information to the public, which would otherwise have remained secret. Similarly, the trade mark system is justified because it encourages traders to manufacture and sell high-quality products. It also encourages them to provide information to the public about those attributes. Instrumental arguments are typically premised on the position that without intellectual property protection there would be under-production of intellectual products. This is because, while such products might be costly to create, once made available to the public they can often be readily copied. This means that (in the absence of rights giving exclusivity) a creator is likely to be undercut by competitors who have not incurred the costs of creation. The inability of the market to guarantee that an investor in research could recoup its investment is sometimes called ‘market failure.’ If intellectual property is justified by reference to these sorts of arguments, the rights that the legislature is justified in granting is **the minimum necessary to overcome the market failure.**

1.5. The EU Activity to Date (in Outline)⁷

In its early years, European intervention in intellectual property law largely came through two avenues. First, the judicial interpretation of the Treaty of Rome produced various doctrines that limited the operation of national intellectual property laws in the European Union. In addition, the Commission also played a role in policing various competition law aspects of the Treaty that had an impact on intellectual property law. However, for the last twenty years or so, most of the important interventions have been legislative in nature. In particular, there have been moves to centralize the administration of intellectual property rights and to harmonize national laws.

Exhaustion of Rights (and Its Limits)

In the 1970s and 1980s, much of the influence of the European Community in the field of intellectual property law was a consequence of the interpretation of (what is now) Articles

⁷ See C Geiger (ed.), *Constructing European Intellectual Property: Achievements and New Perspectives* (2012); C Seville, *EU Intellectual Property Law and Policy* (2009); G Tritton et al, *Intellectual Property in Europe* (3rd ed, 2008); T Cook, *EU Intellectual Property Law* (2010).

34 and 36 TFEU.⁸ These two provisions reflect the desire to establish an 'internal market', that is a single European market with no internal frontiers or national barriers to trade. To this end, Article 34 TFEU prohibits 'quantitative restrictions' on trade and provisions 'having equivalent effect'.⁹ While the use of intellectual property rights to prevent the importing of goods from one European Union country into another would be a 'quantitative restriction', Article 36 TFEU permits such restrictions where they are necessary to protect industrial and commercial property. This is conditional on the fact that such restrictions do not 'constitute a means of arbitrary discrimination or a disguised restriction on trade between member states'.

While Articles 34 and 36 TFEU appear to be contradictory, the two provisions were reconciled by permitting the maintenance and use of different national intellectual property laws, while simultaneously limiting the negative effects of the territorial nature of such rights through the so-called 'doctrine of exhaustion'.¹⁰ This prohibits an intellectual property right owner from utilizing their rights to control the resale, import, or export of any goods that have been placed on the market in the European Union by or with their consent. For example if A, who has acquired a patent in France and the United Kingdom over a particular machine, sells a machine in France, they cannot use their UK patent rights to prevent importing of the machine into the United Kingdom. This is based on the idea that the 'first sale' gives the intellectual property owner the reward that constitutes the 'specific subject matter'¹¹ of the right. It is irrelevant that the patentee expressly prohibited the purchaser from reselling the machine or exporting it. This is because it is the consent to first sale that is important.¹² As the doctrine of exhaustion facilitates the 'parallel importation' of goods within the European Union, it operates to minimize price differentials for identical goods between countries in the European Union.¹³

While the doctrine of exhaustion has reduced the impact of national intellectual property rights on the completion of the internal market, it has been unable to guarantee that barriers to trade would not arise where national laws differed in terms of substance or duration. Consequently, it soon became apparent that to achieve a fully functioning internal market, some level of harmonization would be necessary.

An Overview of the Progress of Harmonization

European Union involvement with intellectual property can be divided into five stages.

The 1970s: Patents. In the 1970s, the focus of attention was on the establishment of a Community patent system, that is a system in which a single patent would be granted for the whole of the European Union, enforceable in Community patent courts. To this end, in 1975 the Community Patent Convention was agreed to at an intergovernmental level between the (then nine) member states. However, the political will to introduce the scheme never materialized.¹⁴ In part this was because in 1973 a separate instrument for the granting of patents, the European Patent Convention (EPC), had been agreed to between states (a number of which were then outside the EC). As such, there was little urgency to implement the distinct (though linked) Community patent.

⁸ Formerly Arts 28 and 30 EC, and before that Arts 30 and 36 of the Treaty of Rome.

⁹ Art. 56 TFEU (formerly Art 49 EC and before that Art. 59 of the Treaty) makes similar prohibition on restrictions on freedom to provide services.

¹⁰ In this context, the national and territorial nature of the rights refers to the essential separateness and distinctiveness of each right—for example, the idea that a copyright owner in France and the UK has two separate French and UK copyrights. It was thought to follow from this that consent to distribution in France could in no way affect the exercise of the separate UK copyright. The doctrine of exhaustion does not change the distinctness of the two national rights (so, for example, each might be assigned separately to different persons). Rather, it limits the scope of each national law where the rights are in common control.

¹¹ *Ibid*, (defining the specific subject matter of patents and trade marks).

¹² *Dansk Supermarked A/S v. Imerco A/S*, Case C-58/80 [1981] ECR 181.

¹³ *Deutsche Grammophon GmbH v. Metro GmbH*, Case C-78/70 [1971] ECR 487.

¹⁴ [1976] OJ L 17/43.

The 1980s: Trade Marks. In the 1980s, attention turned to the harmonization of trade mark law. The first part of a **two-pronged strategy** was to **approximate national trade mark laws**. This was eventually completed by way of a directive, adopted in 1988.¹⁵ The second prong saw the establishment of a single office that granted **Community trade marks, unitary rights**, enforceable in the courts of member states designated as Community Trade Mark Courts. The Community trade mark was introduced by way of a Council Regulation, and in 1996 the Office of Harmonization in the Internal Market was established in Alicante, Spain. Following a series of amendments, the Directive and Regulation were codified in 2008 and 2009.

The 1990s: Copyright. At the end of the 1980s, the third wave of harmonization began when the Commission set out to harmonize a number of aspects of copyright law. The need for action arose because the different levels of copyright protection in different member states was seen to constitute a potential barrier to trade.¹⁶ In contrast with the approach taken to trade marks, where a unitary Community right was supplemented by extensive harmonization of national (substantive) law, the European Union passed a series of seven Directives each harmonizing **particular aspects of national copyright law (especially relating to areas of technological change)**. In so doing, the Commission also aimed to set the standard of protection to be given to creators at a 'high level'.¹⁷

From the 1990s: Designs and Plant Varieties. The 1990s also witnessed European Union intervention in relation to a number of the so-called sui generis intellectual property rights. A **Community Plant Variety Regulation** established a Community Office in Angers, France, to grant **unitary Community rights** to plant breeders. In contrast to the strategy in relation to trade marks, no harmonization directive was passed regulating national law.¹⁸

A directive was also passed relating to the **harmonization of the law relating to designs** which was followed by a Regulation introducing a **Community Registered Design** (to be issued by the Office of Harmonization in the Internal Market), and a **Community Unregistered Design Right**. The latter, available since April 2002, is the first Europe-wide, unitary right to be granted automatically, rather than after application to an office.

The New millennium: The Unified Patent. Over the last few years there have renewed efforts to introduce a centralised single patent and a centralised patent court in Europe. The so-called 'unitary patent package', consists of a mixture of two new European Union Regulations¹⁹ (that were adopted using the little used 'enhanced co-operation mechanism'²⁰ and entered into force in January 2013) and the Agreement on a Unified Patent Court, signed on 19 February 2013 (which following the Court of Justice's ruling that a proposal to establish a **unified patent** was incompatible with EU law is an intergovernmental treaty formed outside of the EU). 25 Countries have expressed an interest in implementing the unitary patent.

1.6. The Basis for Legislation

Article 114 TFEU provides for the adoption of measures for the approximation of the provisions laid down by law in Member States which have as their object the establishment

¹⁵ Trade Marks Directive.

¹⁶ It was also motivated by the prompting of the ECJ, e.g. in *EMI Electrola GmbH v. Patricia Im-und Export*, Case C-341/87 [1989] ECR 79.

¹⁷ For example, Duration Dir. Recital 10.

¹⁸ CPVR.

¹⁹ Council Regulation (EU) No. 1260/2012 of 17 Dec. 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection with regard to the applicable translation arrangements; Council Regulation (EU) No. 1257/2012 of 17 Dec. 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection.

²⁰ The general arrangements for enhanced cooperation are laid down by the TEU, Title IV.

and functioning of the **internal market**.²¹ This occurs under what is now called the **ordinary legislative procedure**.²² This is the basis for most of the Directives.

Article 352, a residual power in the TFEU relating to the Internal Market, has been used to justify most of the **Regulations** hitherto adopted which establish unitary rights operative in the European Union (relating to the Community Trade Mark, Designs and Plant Breeders' Rights).²³

Article 118 TFEU provides for the adoption of legislation relating to the creation of **European Intellectual Property Rights** with unitary effect throughout the Union.²⁴ As this power was only introduced into the Treaty in 2009, it has been used for the first time in relation to the establishment of the **Unitary Patent**.²⁵

The TEU is important for intellectual property rights partly through its provisions recognizing fundamental rights as guaranteed by the European Convention for the Protection of Human Rights and Fundamental Freedoms (Art. 6, TEU) and on police and judicial cooperation in criminal matters (Arts. 29–30 TEU, formerly Art. K.1).

Another way in which the European Union is involved in intellectual property law is through the role it plays in negotiating and signing treaties. The European Union's treaty powers are now set out in **Article 207 TFEU**.²⁶ To date the European Union has entered into a number of intellectual property-related treaties. For example, the European Union is now a party to TRIPS (which itself refers to the Berne and Paris Conventions), the Madrid Protocol on international registration of trade marks,²⁷ the WIPO Copyright Treaty and WIPO Performances and Phonograms Treaty (which refers to the Rome Convention), and the Hague Agreement on designs.²⁸

The International Framework

The two foundation multilateral arrangements: the **Paris Convention for the Protection of Industrial Property of 1883** and the **Berne Convention for the Protection of Literary and Artistic Works of 1886**. These treaties are supervised by the World Intellectual Property Organization (WIPO), based in Geneva,²⁹ which is the main forum for the development of new intellectual property initiatives at an international level.

In 1986, a new round of GATT negotiations begun which included '**Trade-Related Aspects of Intellectual Property Rights**' (or **TRIPS**). These concluded in 1993, and became part of the World Trade Organization agreement signed in Marrakesh in April 1994. The TRIPS Agreement is the first significant agreement to adopt the concept of 'intellectual property' to define its remit (and it has played a critical role in placing the concept of 'intellectual property' at the forefront of policy-making). TRIPS demands substantive protection for

²¹ Art 114 TFEU (formerly Art. 95 EC and before that Art. 100A of the Treaty).

²² In addition, under Art 115 (ex Art. 94 EC), the Council can issue directives for the approximation of the laws of member states 'as directly affect the establishing and function of the common market'.

²³ Art. 352 TFEU (formerly Art 308 EC and before that Art. 235 of the Treaty). In these cases the legislature is not harmonizing, but creating new rights.

²⁴ TFEU, Art 118 mandating action establishing uniform intellectual property rights under the 'ordinary procedure.'

²⁵ Regulation 1257/2012 of 17 Dec 2012 (under the ordinary legislative procedure) and Regulation 1260/2012 (on translations, adopted under the special legislative procedure).

²⁶ The TRIPS Agreement was entered into by the Community (under implied powers) and member states: Opinion 1/94 [1994] ECR I-5267. However, it has now been held that the whole of the TRIPS Agreement falls within 'common commercial policy' of Art 207 TFEU: *Daiichi Sankyo Co. Ltd, Sanofi-Aventis Deutschland GmbH v Demo Anonimos Viomikhaniki kai Emporiki Etairia Farmakon*, Case C-413/11 (18 July 2013) (CJEU, Gr Ch). As to whether the European Union has exclusive competence in the field of broadcaster's rights, see *European Commission v. Council of the European Union*, Case C-114/12 (pending; AG Opinion, 3 April 2014).

²⁷ Council Decision 2000/278 of 16 Apr. 2000, [2000] OJ L89/6; Council Decision of 27 Oct 2003 approving accession of the European Community to the Protocol relating to the Madrid Agreement Concerning the International Registration of Marks [2003] OJ L 296/1.

²⁸ Council Decision of 18 Dec 2006 Approving accession to the Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs OJ L 386/28 (29 Dec 2006).

²⁹ WIPO, a specialized agency of the UN, was established by a treaty signed in Stockholm on 14 July 1967.

'neighbouring rights' to copyright, trade marks, geographical indications, designs, patents, topographies of integrated circuits, and undisclosed information. As a result of TRIPS being part of the WTO Agreement, if a country fails to bring its laws into line with TRIPS, another member may complain to the WTO and set in motion a so-called 'dispute resolution procedure'.³⁰

Since TRIPs, intellectual property treaties have continued to be formulated and agreed through **WIPO**: the 1996 WIPO Copyright Treaty, the 1996 WIPO Performances and Phonograms Treaty, the 2012 Beijing Treaty on Audio-visual performances and the 2013 Marrakesh Treaty to Facilitate Access to Published Works by Visually Impaired. Treaties have also been agreed, and come into operation on procedural aspects of trade mark law (the so-called Singapore Treaty of 2009, along with a revision of the leading treaty on designs (the 1999 Geneva Act of the Hague Agreement).

Bilateral Agreements

In addition, the EU has entered into a large number of bilateral agreements. These include 'Europe Agreements' with so-called 'candidate countries',³¹ 'Euro-Med Association Agreements' with countries of the South and East Mediterranean,³² 'Partnership and Co-operation Agreements' with countries in Eastern Europe and Central Asia,³³ and 'Stabilisation and Association Agreements' with Balkan states (such as Albania, though most of these are also candidate or potential candidate countries).³⁴ Typically these agreements require the contracting party to apply to become parties to various intellectual property treaties and sometimes to implement the Community '*acquis*' so as to approximate their laws on intellectual property with those of the EU. The EU also enters bilateral agreements with countries outside of the region, such as the Central American Association Agreement of 2012,³⁵ and the Comprehensive Economic and Trade Agreement between the EU and Canada of 2013. Other agreements are limited to particular topics, such as the customs agreement with China.³⁶

³⁰ TRIPS Arts 63–64; Understanding on Rules and Procedures Governing the Settlement of Disputes.

³¹ Turkey, Iceland, Montenegro, Serbia and Former Yugoslav Republic of Macedonia (with potential candidates being Bosnia and Herzegovina, Albania and Kosovo).

³² e.g. Tunisia, Morocco, Israel, Jordan, Egypt, and Syria.

³³ These include Armenia, Georgia, Russia, Moldova, and the Ukraine.

³⁴ EC–Albania Stabilization and Association Agreement, 22 May 2006, esp Arts 70, 73 and Annex V; and most recently with Serbia, (2008) OJ L278, Arts 75 and annex VII.

³⁵ (2012) OJ L 346/3, Title VI (Arts 228 ff) (an elaborate list of undertakings).

³⁶ EU-China Customs Action plan on IPR enforcement for the years 2014–2017.

2. Patents

2.1. What is a Patent?

A patent is an exclusive right over an invention, that is a new and non-obvious technological development, that is granted to an inventor (or his or her assignee) in return for the disclosure of information about that invention. An applicant for a patent is required to disclose their invention so that it can be used (or worked) by a person competent in the specific field, who is referred to as a '**person skilled in the art**'. In return, the state (in the guise of a patent office) issues the applicant with a patent that gives exclusive rights to control the use of the limited-year period.

While the protection provided by a patent, which is limited to **20 years**, is not as long as the protection provided by copyright law or (possibly) trade mark registration, the rights granted are more extensive. The rights granted to the patent owner cover most commercial uses of the patented invention. In addition, the rights will be infringed irrespective of whether or not the defendant copied from the patented invention. In part, the breadth of the patent monopoly is offset by the fact that patents are only granted if an applicant complies with a relatively onerous registration process. Unlike copyright, which arises automatically on creation of the work, patents are only granted after the applicant satisfies the requirements of registration. The granting process imposes a number of limits and safeguards on the types of invention that are patented, the scope of the monopoly granted, and the nature of the information that is disclosed in the patent. A patent application must contain a **description** of the invention that enables a person skilled in the art to be able to put it into effect. It must also contain "**claims**" that define the scope of the monopoly precisely by reference to what is said to be new and inventive (or 'non-obvious'). The question of whether claims are valid depends on whether they are limited to material that is **new** and **inventive** (from the perspective of the person skilled in the art), and whether the description is **sufficient to enable a skilled person to put the claimed invention into effect**.

At present, in most E.U. countries, patents can be obtained by two distinct routes. First, inventors can apply directly to **national patent offices** for patents that only apply in the national territory. Second, a person can apply to the **European Patent Office (EPO)**, which is based in Munich, for a number of national patents. **In contrast with the OHIM, which grants European Union wide unitary designs or trade marks, the EPO only grants a series of national patents.** The conditions for the grant of patents by the EPO are determined by the European Patent Convention (EPC), agreed in 1973 (and revised in 2000). The membership of the EPC extends beyond the membership of the EU,³⁷ so the EPO also grants patents for non-EU member states. The terms on which members of the EPC grant national patents usually correspond with the terms of the EPC, so the effect of the EPC has been to create a reasonable level of harmonization. However, as EPO grants national patents, enforcement occurs in national courts, and is determined according to national law.

2.2. Why Grant Patents?

Patents, like other intellectual property rights, limit freedoms and impose costs on traders and researchers. If a patent maps directly onto a product, the patent rights may allow for monopolisation of the manufacture and sale of the product. This means the patentee will set the price of the product and be insulated from competition (with consequent losses in terms of consumer welfare). Moreover, in some fields a particular product – such as a

³⁷ It has 38 members and grants patents also on request for two extension states. The non-EU members are Albania, Switzerland, Iceland, Liechtenstein, Monaco, FYR Macedonia, Norway, Serbia, San Marino and Turkey. The extension countries are Bosnia and Herzegovina and Montenegro.

mobile phone – might involved hundreds or thousands of patents. The costs involved in working out what licences are required can itself be enormous, even before negotiations begin for such licences (though in some such situation standardisation has proved to be a useful means for simplifying these processes and reducing costs.) There are widely-voiced concerns about the potentially damaging effects of **“patent thickets”** on the development of new technologies,³⁸ and about the problem of **“patent trolls”**, purchasers of patents who do not make or sell the subject matter of the patent but merely seek to gain remuneration by licensing the patent (‘non-practising entities’).

While commentators have occasionally drawn on **natural rights** to justify legal mechanisms that grant patents, the most common form of argument has concentrated on the public benefits that flow from the grant of patent monopolies. Sometimes, **the public interest in the patent system was said to flow from the disclosure of the invention** that occurred on publication of the patent application. That is, the justifications focused on the role that the patent system played in the generation and circulation of technical information. (This is often referred to as the ‘information function’ of the patent system.) In particular it is said that patents act as incentives to individuals or organizations to disclose information that might otherwise have remained secret. Patents also encourage information to be disclosed in a way that is practically useful. At a more general level, the public interest in allowing patents is said to flow from the fact that the numerous patents that have been granted over time constitute a substantive and valuable database of technical and scientific information. The underpinning assumption is **that secrecy is an undesirable mode of protecting technical innovation, and that openness is crucial to the progress of innovation** (even if it requires some temporary grant of exclusivity).

Patents have also been justified by the fact that they provide an **incentive for the production of new inventions**. In this conception the underlying purpose of the patent system is the encouragement of improvements and innovation. More specifically, it is said that as patents provide the possibility for inventions to be exploited for a 20-year period, this means that investors will be more willing to fund **research and development**. In this sense, patents act as a vector that links scientific and technical research with commercial spheres.

2.3. EU Action

The European Union has not been involved in the reform of patent law anywhere near as much as it has in relation to trade marks and copyright, primarily because the European Patent Convention has satisfied the commercial needs of industry. There have been many attempts at establishing a Community-wide patent regime, but these efforts have – until the Parliament of 2009 - 2014 – come to nought. Nevertheless the Union has passed important legislation relating to the duration of patents (via the Supplementary Protection Certificates scheme) and biotechnological inventions.

Supplementary protection certificates seek to restore to patentees the periods of exclusivity which were lost from the patent term as a consequence of delays caused by the need for regulatory approval prior to marketing.³⁹ SPCs extend patent protection where it has not been possible for the patent proprietor to take full advantage of their patent rights over the period of the grant.⁴⁰ The basic patent can be extended for up to five years by this

³⁸ Discussion began with R Eisenberg and M Hellers, ‘The Tragedy of the AntiCommons in Biomedical Research’, (1998) Harvard Law Review.,

³⁹ For example, the Veterinary Medicines Directorate, the European Agency for the Evaluation of Medicinal Products, and the Pesticides Safety Directorate.

⁴⁰ Council Regulation (EEC) No. 1768/2 of 18 Jun. 1992 concerning the creation of a supplementary protection certificate for medicinal products; (1992) *OJ L* 182/1; Council Regulation (EC) No. 469/2009 of the European Parliament and of the Council of 6 May 2009 concerning the creation of a supplementary protection certificate for medicinal products [2009] *OJ L* 152/1 (the ‘SPC (PM) Reg.’); Regulation (EC) No. 1610/96 of the European

supplementary right, which is characterized as a right distinct from patents in order to avoid the apparent conflict that would otherwise occur with the term under the European Patent Convention.

The Biotechnology Directive adopted in 1998,⁴¹ harmonizes the rules on patentability in Member States and scope of protection conferred on biotechnological inventions. The Administrative Council of the EPO incorporated the Biotechnology Directive into the Implementing Regulations of the EPC, aligning EPC practice with the provisions of the Biotechnology Directive.

An attempt to introduce a proposal for a Directive on the Patentability of Computer-Implemented Inventions, introduced in February 2002 was ultimately rejected by the European Parliament in July 2005.

2.4. The 2009 - 2014 Parliament

During the last European Parliament, under the enhanced cooperation procedure, the majority of states agreed a 'unitary patent package', designed to establish and enforce a common unitary patent and introduce common patents courts. Once the package is in force, it will be possible to obtain a European patent with unitary effect across the 25 participating member states and to litigate in a single court. A European patent with unitary effect will provide uniform protection and have equal effect in all of the participating member states. Like other unitary rights, a unitary patent can be transferred, revoked or lapse only in respect of all participating member states.

The unitary patent package consists of three elements. The first is the EU Regulation creating a unitary European patent: Council Regulation (EU) No. 1257/2012 of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection (the 'Unitary Patent Reg.'). The second is the EU Regulation that deals with the vexed issue of the language to be used in the unitary patent and the corresponding translation requirements: Council Regulation (EU) No. 1260/2012 of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection with regard to the applicable translation arrangements (the 'Translation Reg.'). Both of these Regulations, which were adopted in December 2012 using the 'enhanced co-operation mechanism', entered into force in January 2013. The third and final part of the unitary patent package is the Agreement on a Unified Patent Court,⁴² signed by 25 participating member states on 19 February 2013 setting up a centralized patent court.

One of the key elements of the unitary patent package is the '**European patent with unitary effect**', a single patent – not a bundle of national patents – that provides uniform protection in 25 member states.⁴³ The unitary patent will be acquired from and administered by the EPO. When established, the unitary patent will coexist with existing national patents and with classical bundled European patents. This means that applicants for patent protection in Europe will be able to choose between national patents, classic bundled European patents, and unitary patents. Because the EPC dealt primarily with conditions of grant, provision had to be made as to the effect of the grant of a unitary patent. The unitary patent package confers on a patent owner the right to prevent direct and indirect uses of the invention and provides for a series of defences including acts done for private and non-commercial purpose, acts done for experimental purposes, situations in which biological material is used for the purpose of breeding or discovering and developing new plant varieties, the pharmaceutical preparation of medicines, certain on-farm uses of

Parliament and of the Council of 23 Jul. 1996 concerning the creation of a supplementary protection certificate for plant protection products; (1996) *OJ L* 198/30–35.

⁴¹ EC Directive on the Legal Protection of Biotechnological Inventions 98/44/EC of 6 Jul. 1998; (1998) *OJ L* 213/13.

⁴² [2013] *OJ C* 175/1 (20 June 2013).

⁴³ The Regulation derives from Commission Proposal, COM(2011)021.

patented plants and animals, and certain uses in relation to patented computer programs (such as decompilation and interoperability).

The **translation requirements** of the unitary patent will be based on the current procedures within the EPO.⁴⁴ This means that an application for a European patent will need to be filed in either English, French, or German (which are the official languages of the EPO), or, if filed in any other language, translated into one of the official languages. A compensation scheme has been designed to alleviate the translation costs that will inevitably arise where an application is not filed in one of the official languages. Under the scheme, European-based small and medium-sized enterprises (SMEs), natural persons, non-profit organizations, universities, and public research organizations that file an application in an official language of the European Union other than English, French, or German will be entitled to reimbursement by the EPO (up to a ceiling) for the cost of translating the application into one of the official languages. The unitary patent specification will be published in one of the three EPO languages and will include a translation of the claims in the other two official languages. Once a unitary European patent has been granted, no further translations will be required.⁴⁵ However, for a transitional period of twelve years, additional translations may be required: where the language of the proceedings at the EPO is French or German, a request for unitary effect will need to be accompanied by a full translation of the specification in English; where the language of proceedings at the EPO is English, the applicant will need to supply a translation in an official language of an EU member state.⁴⁶

Another key part of the unitary patent package is the **centralized patent court**, which it is hoped will simultaneously reduce litigation costs, unify patent law, and increase certainty.⁴⁷ It is not expected that the unified court will come into effect until early 2015,⁴⁸ at the earliest. The unified patent court will consist of a decentralized court of first instance (CFI), which, in turn, will consist of local, regional, and central divisions located in the member states. The central division of the CFI will be divided between London (responsible for chemical, pharmaceutical, and the life science patents), Munich (responsible for mechanical engineering patents), and Paris (responsible for all other patents). There will also be a Court of Appeal, which will be based in Luxembourg.

The unified patent court will have exclusive jurisdiction over unitary European patents and, after a transitional period of seven years (extendable to 14), all classical bundled European patents. During the transitional period, individuals and companies with bundled European patents will be able to opt out of the jurisdiction of the unified patent court and continue to use national courts for litigation. The unified patent court will also have jurisdiction over infringement and validity actions in relation to supplementary protection certificates. The court will not, however, have jurisdiction over national patents granted by national patent offices.

When the UPC Agreement comes into force, it will be possible to litigate European bundled patents and unitary patents at the unified patent court in single actions covering all

⁴⁵ One the key features of the new scheme is that it relies on the free online translation service known as 'Patent Translate'—which the EPO has developed in conjunction with Google to produce machine translations of European patent applications and patents automatically—to ensure that the lack of human translations does not jeopardize the patent system's information function. It is hoped at the time of writing that, by the end of 2014, machine translation of patents will be available for all the languages of the 38 EPO member states, including the 27 EU member states. As the Translation Regulation notes, machine translations will not have any legal effect; they will be used only for information purposes.

⁴⁶ This will ensure that during the transitional period that all unitary patents are available in English, 'which is the language customarily used in the field of international technological research and publications'.

⁴⁷ Although formally an agreement between Member states, Parliament issued a report, dated January 10 2012, on jurisdictional system for patent disputes (2011/2176(INI)).

⁴⁸ Under Article 89, the Treaty will come into force 4 months after it has received 13 ratifications, including those of France, Germany and the UK. As of September 10, 2014, Austria, Belgium, Denmark, France and Sweden ratified the agreement.

relevant states. Infringement actions may be started at the local or regional division in the country in which the alleged infringement occurred or in which the defendant is based. Where the validity of a patent is challenged, the choice of court will be determined on the basis of the way in which the patent is classified under the International Patent Classification (IPC) system. Where a defendant to an infringement action counterclaims that a patent is invalid, the judges at the local or regional division will decide whether to send the whole case (infringement and revocation) to the central division, to send the revocation case to the central division and hear the infringement case separately at the local/regional division, or to hear the entire case at the local/regional division.

The architects of the centralized patent scheme hope that a unified patent court will overcome some of the problems with the existing European patent system, particularly where a party wishes to bring an action in a number of different countries. Given that decisions relating to the infringement or validity of a unitary patent will have uniform effect across all participating member states, parties will no longer need to defend or challenge patents in different national courts. It is hoped that, in this way, the unified patent court will reduce litigation costs. It is also hoped that, because decisions will be heard by a single centralized court rather than (potentially) by a number of different national courts, legal certainty will be improved. It is also hoped that the new centralized regime will reduce the differences that encourage the 'forum shopping' of European bundle patents (such as differences in the level of damages awarded, the speed of the decision making, and different jurisprudence).

Concerns with the unitary patent still remain. Concerns have been raised, for example, about the effect of bifurcation on forum shopping, the training and quality of the judges, and the prohibitive expense of using the unitary patent, particularly for SMEs. There is also a concern that the proliferation in courts with competence to hear patent matters will fragment, rather than consolidate, patent jurisprudence. Within the United Kingdom, there are concerns about the impact that the proposed new system will have upon domestic jurisprudence and, more seriously, about whether it will effectively mark the end of domestic law.

In March 2013, Spain brought actions in the Court of Justice challenging both the Unitary Patent Regulation and the Translation Regulation. Until this matter is resolved, there will be a cloud over the legality of the unitary patent.

2.5. Case-law of CJEU

Apart from the Unitary Patent Package, there have been a few significant **developments at the CJEU**. Perhaps the most notable is the *Brustle* decision.⁴⁹ Under Biotech. Dir., Art. 6(2)(c), a patent should not be granted for 'uses of human embryos for industrial or commercial purposes. In *Brustle*, the Court of Justice was called on to consider the fate of a German patent for isolated and purified neural precursor cells produced from human embryonic stem cells (aimed at treating damaged organs). The Court said, the concept of 'human embryo' within the meaning of Article 6(2)(c) of the Directive must be understood in a wide sense, to include any organism that 'is capable of commencing the process of development of a human being'. The Court indicated further that an invention was not patentable where the implementation of the invention requires the destruction of human embryos, even if the claims did not refer to the use of human embryos and any destruction occurred at a stage long before the implementation of the invention, such as where an embryo was 'base material'. Moreover, the Court of Justice gave a broad reading to the

⁴⁹ Case C-34/10 (10 March 2011) (ECJ, Grand Chamber). There has been considerable jurisprudence on the SPC regime: see e.g. Case C-322/10, *Medeva BV v. Comptroller-General of Patents, Designs and Trade Marks*, [2012] RPC 25 (ECJ); Case C-630/10, *University of Queensland v. Comptroller-General of Patents, Designs, and Trade Marks*, [2011] ECR I-12231; Case C-6/11, *Daiichi Sankyo v. Comptroller General of Patents, Designs and Trade Marks*, (25 November 2011); Case C-130/11 *Neurim Pharmaceuticals (1991) v. The Comptroller-General of Patents*, (19 July 2012) (ECJ); Case C-210/12, *Sumitomo Chemical v. Deutsches Patent-und Markenamt*, (12 October 2013), Case C-484/12 *Georgetown University v. Octrooiencentrum Nederland*, (12 December 2013).

concept of 'industrial or commercial purposes', to include use for scientific research. The effect of these conclusions was that the invention was excluded from patentability. That result, and the reasoning that led to it, has proved highly controversial and has been the subject of substantial criticism.

2.6. The 2014-2019 Parliament

The key development in the next Parliament will be the coming into force of the package. This requires first the required ratifications of the Agreement on the Court, because not until that comes into force will the Regulation allowing for the grant unitary patents come into operation.

The preparatory committee on the unified patent court has been working to achieve detailed arrangements that will enable the system to come into operation from early 2015.⁵⁰ At its sixth meeting on 8 July 2014, the preparatory committee approved a list of suitable judges. A parallel select committee has been working on rules relating to the unitary patent, in particular financial and legal aspects. It too intends to complete its work in the first semester of 2015. The Parliament will want to keep a close watch on developments and, if the patent package comes into force, on any initial problems that it encounters.

3. TRADE MARKS

3.1. What is a Trade Mark?

Trade marks are **signs or symbols**, usually words or pictures, which when used in trade in connection with **particular goods or services indicate the commercial origin** of the goods or services. Classic (or infamous) examples include FERRARI for cars, NOKIA for phones, LEGO for toys, PRESIDENT for butter, the 'golden arches' in the shape of an M for restaurant services, and the 'swoosh' or rounded tick symbol for (Nike) sports clothing.

Trade marks may be protected either through registration, or even in the absence of registration through rules of "unfair competition." In Europe, marks can be registered, either at national (or, in the case of the Benelux, regional offices) or at the European Union's Trade Mark Office currently called the OHIM (in Alicante, Spain). Moreover, in addition to, or in the absence of registration, many Member states protect businesses that use trade marks from having those marks (or similar marks) used by third parties. In many countries, such misuse of trade marks can be prevented by relying on broad rules against "unfair competition law". In the England and Wales, Scotland, Northern Ireland and the Republic of Ireland, there is an equivalent legal action for "passing off."

There is much debate over the appropriate scope of protection of trade marks. Nearly all legal systems offer protection to trade mark owners against the use of the same or a similar trade mark on the same or very similar goods or services where that use is likely to deceive consumers or **cause confusion**. This form protects what European courts know as the **essential function of trade marks, that of indicating origin**. But some people argue that trade marks fulfil other functions, and through investment and advertising carry associated values and emotional attributes (for example, that COCA-COLA brings happiness). These additional functions are particularly said to exist in marks that have a reputation. Some legal systems then offer protection for a mark's "associations" (even where there is no confusion). These forms of protection might be against damage through harmful association, sometimes called "**tarnishment**" (COCA-COLA as the name of a disinfectant) or against third parties seeking to take advantage of the reputation (for example, by selling t-

⁵⁰ <http://www.unified-patent-court.org/>

shirts with an image of COCA-COLA bottle). As explained further below, the European registered trade mark system offers this broader protection to marks with a reputation.

These forms of legal protection underpin the enormous value of “**brands**”, though brand is a rather nebulous, commercial notion, rather than a legal concept. In 2013, the brand valuation agency Interbrand calculated that 100 brands are now worth over US\$3.9 billion each, the most valuable, Apple, Google, and Coca-cola, being worth in the region of \$98, \$93 and \$79 billion each.⁵¹

3.2. Why Protect Trade Marks?

In contrast with patent, design rights, and copyright, a trade mark does not normally give exclusive control over the sale of particular goods or services. Rather, it merely provides control over the use of the sign in connection with goods or services. Trade marks do not ordinarily create monopolies.

Nevertheless, protection of trade marks by law imposes certain costs which require justification.⁵² The sorts of costs depend on what trade mark law protects and the breadth of that protection.

Probably the most obvious cost of protecting trade marks that it restricts other people (most importantly other traders) from using the same or a similar sign. Imagine, for example, if trade mark protection existed for common descriptions – such as ‘mattresses’ for beds. If only one trade could use the term ‘mattresses’ others would have difficulty even describing what they were trying to sell. Not surprisingly trade mark systems attempt to prevent monopolisation of common descriptive terms – under European law a descriptive would be refused registration (unless it had “acquired distinctiveness” through use), and traders are normally permitted to use descriptive terms descriptively, even where marks that cover them have been protected. However, these problems are not just associated with word marks. As the scope of the subject matter of trade mark rights has expanded so that many shapes and colours are protected as trade marks, in order to avoid infringement a trader may need to be very careful as to the packaging they adopt.

The more readily available exclusive rights, and the broader the scope of those rights, the greater the costs for later market entrants. Given trade mark rights can be acquired by mere registration, the temptation to register large numbers of marks (either because there is a possibility they might be used later, or defensively to ensure other businesses cannot use non-similar, but proximate mark) is often difficult for in house lawyers of big corporation to resist. This impacts later mark entrants, even if they are not trading in the same or a similar field. These new businesses incur costs of developing suitable marks, searching registers, and where necessary negotiating with owners of related marks.

More expansive trade mark protection, which gives a trade mark holder the ability to control non-trade mark uses or uses of similar marks in relation to dissimilar goods, may **even restrict free speech**.⁵³ To the extent that the law confers power over words and symbols, it places some of the ability to make and control meaning in private hands.

Given these costs, why offer legal protection to trade marks? A number of different rationales have been used to justify trade mark protection. While there have been few problems in justifying the protection given to signs and symbols insofar as they operate as indicators of origin (to identify the origin or ownership of goods to which the mark is affixed), or as guarantees of quality (to signify that all goods bearing the mark are of a

⁵¹ See <http://interbrand.com>

⁵² W. Landes and R. Posner, ‘The Economics of Trademark Law’ (1988) 78 *TM Rep* 267, 268–9 (referring, inter alia, to the costs of transferring marks, enforcing them, and from the restriction on others from using similar marks).

⁵³ And thus raise issues under the Charter and ECHR Art. 10.

certain quality, more problems have arisen in justifying the extensive protection that is currently granted to marks.

The most prevalent of the arguments for the protection of trade signs is that they operate in the public interest insofar as **they increase the supply of information to consumers and thereby increase the efficiency of the market.** These arguments highlight the fact that trade marks are a shorthand way of communicating information that purchasers need in order to make informed purchasing choices. As long as consumers are able to assume trade marks reliably indicate the source of goods, marks reduce the customer's costs of shopping and making purchasing decisions. When the consumer sees the mark, they can be sure the product has been made by the same producer as other similarly marked items that he or she liked (or disliked) in the past. Trade marks also encourage firms to maintain consistent quality and variety standards and to compete over a wide quality and variety.

The idea that trade mark protection is necessary and desirable to minimise consumer 'search costs' has not gone without criticism. It has been observed that **reducing search costs is not an end in itself: more competitive markets are the ultimate goal.** Minimization of consumer search costs is only desirable where it serves that goal – where, in European terms, it promotes "undistorted competition." Thus trade mark rights should not, for example, be provided over product shapes if the effect of doing so is to prevent competition (even if search costs are increased for some).⁵⁴

Ethical arguments have also been used to justify the trade mark regime.⁵⁵ The main ethical argument for the protection of trade marks is based on the idea of fairness or justice. In particular, it is said that **persons should not be permitted 'to reap where they have not sown'**.⁵⁶ More specifically, it is said that by adopting 'someone else's mark, a person is taking advantage of the goodwill generated by the original trade mark owner'.⁵⁷

While classic cases where a trader uses someone else's trade mark on identical goods are clearly objectionable under the principle that a person should not reap where they have not sown, the principle has also been used to justify more extensive protection. For example, it is said that one objection to 'comparative advertising' is that even though it does not confuse consumers, it takes advantage of the reputation that the earlier trader has built up. Similarly, one of the objections which are made to marks being used on dissimilar goods is that it takes advantage of the repute of the earlier mark. 'Reap-sow' arguments thus have the potential to justify very broad protection of trade marks.

Problems arise from such attempts to use the principle that a person should not reap where they have not sown to justify more extensive forms of protection. The first problem is that it is not always easy to determine what the trade mark owner has sown: the mere selection of signs and symbols from the public domain seems a meagre basis on which to found such a claim (especially against a trader who is not aware that a mark may be registered). Also, it is not obvious that the associations that develop in the minds of the public should be regarded as something of value which the trade mark owner alone has nurtured. Second, it is often unclear whether another person is reaping from the cultivated soil of the trade mark owner or has obtained their fruits from the uncultivated commons. Although the causal link can be substantiated in cases of deception and confusion, it is difficult to justify protection where consumers are not 'confused'. Third and more generally, the law does not penalize every case of reaping without sowing (for example, copying an unpatented business idea).⁵⁸ Indeed, **copying has been described as the lifeblood of competition.**

⁵⁴ Aldred, 'The Economic Rationale for Trade Marks: An Economist's Critique', in Bently, David and Ginsburg (eds) (2008), ch 12.

⁵⁵ Dogan & Lemley, 'Trademarks and Consumer Search Costs on the Internet', (2004) 41 *Hous LR* 777, 799 n 84.

⁵⁶ Also referred to as 'free-riding', the argument can be put, and refuted, in economic terms as well as ethical ones: see R. Burrell and D. Gangjee, 'Because you're worth it: L'Oréal and the prohibition on free riding', (2010) 73 *MLR* 282-295.

⁵⁷ A. Kamperman Sanders, *Unfair Competition Law: The Protection of Intellectual and Industrial Creativity* (1997).

⁵⁸ R Burrell and D Gangjee, 'Because', op. cit.

Consequently, members of Parliament should be wary of appealing, as if by instinct, to reap-sow principles.

3.3. European Harmonisation

As disparities in the trade mark laws of individual member states (which gave trade mark owners different rights in different circumstances) were thought to impede the free movement of goods, and freedom to provide services, and to distort competition within the European Union.⁵⁹

In response, the Trade Marks Directive (adopted in 1988, and codified two decades later) was designed to approximate 'those national provisions of law which most directly affect the functioning of the internal market'.⁶⁰ The Directive therefore harmonized the general 'conditions for obtaining and continuing to hold a registered trade mark' and the rights conferred by a trade mark.⁶¹ These included the definition of registrable trade marks (including a requirement of '**graphic representation**'); the grounds on which such marks could be rejected that pertain to the mark itself (so called **absolute grounds**), such as "**descriptiveness**" of the goods/service; the grounds on which a mark could be rejected because of the rights of third parties (**relative grounds**); the **scope of the rights** and exception (or defences) to infringement.

In certain areas, however, it was decided that **harmonization was not necessary**. Consequently, member states are given discretion to decide whether to adopt certain of the rules provided for in the Directive. For example, there are certain optional grounds for refusing to register or invalidating a trade mark.⁶² Perhaps the most significant relates to the scope of protection given to **marks with a reputation**. Under the directive, Member States have the option to give broader protection against uses that damage the distinctiveness of the mark (blurring), tarnishment and uses that take unfair advantage. The Directive also leaves to the member states matters such as **the procedure** concerning the registration, revocation, and invalidity of trade marks.⁶³

In addition to the Trade Marks Directive, the European legislature also adopted a Regulation establishing a Community Trade Mark (soon to be re-christened the 'European trade mark'). Adopted in 1994, this established the **Office for Harmonization in the Internal Market (the OHIM)** as an agency that could grant **trade marks with EU-wide effect**. The conditions an applicant must meet to be granted a trade mark, as well as the rights conferred by such marks, correspond in general to the rules in the Directive, but whereas some matters were left in the Directive to the discretion of Member states, the EU regime was necessarily obliged to adopt particular positions on those issues. Since it opened in 1996, the OHIM has received over 1.3 million trade mark applications, and has **registered over a million Community trade marks**. A successful application to the OHIM results in the grant of a single trade mark which operates throughout the EU. A person can apply for both a Community Trade Mark and a national registration, and both, if granted, may subsist. The main benefit of the Community system is that it enables traders to protect their marks throughout the Community on the basis of a single application, rather than having to file separate applications in each of the member states.

While there has thus been a large level of 'Europeanization' of *registered* trade mark law, it is notable that there has been **comparatively little activity in relation to unfair competition law** (at least so far as it concerns rights of business, as opposed to consumers). The primary exception is a Directive on Misleading and Comparative

⁵⁹ TM Dir., Recital 3.

⁶⁰ TM Dir., Recital 3. Codified as Directive No. 2008/95/EC.

⁶¹ Ibid, Recital 7, Arts. 5, 6, and 7.

⁶² TM Dir., Arts. 3(2) and 4(4); Art. 5(2). These optional provisions must be implemented in full or not at all: *Adidas-Salomon AG and Adidas Benelux BV v. Fitnessworld*, Case C-408/01 [2004] 1 CMLR (4) 448, [20] (ECJ).

⁶³ TM Dir., Recitals 4-6.

Advertising, which harmonizes the circumstances where comparative advertising is permissible.⁶⁴ While the Union has adopted a more general Directive on Unfair Competitive Practices, this is restricted to business-to-consumer practices.⁶⁵

Finally, the Union has a number of initiatives dealing with the protection of 'designations of origin' (PDOs) and 'geographical indications' (PGIs) for wines, spirits, agricultural products, and food.

3.4. European Activity 2009-2014

The EU Directive and Regulation have generated a plethora of **case-law**. Indeed, 40% of the cases in the General Court relate to trade marks, being appeals from the OHIM Boards of Appeal. There have also been a huge number of references from Member States. This case-law has in many cases clarified the interpretation of the Directive and Regulation. Cases in point are the interpretation and application of the definition of trade mark, the absolute grounds (distinctiveness, descriptiveness), as well as relative grounds (concepts of 'reputation', 'similarity' of marks, 'similarity' of goods/services, 'confusion', 'association' and so on). Occasionally, the ECJ's jurisprudence has proved controversial, or lacking in clarity.

The most obvious example of problematic case-law has been the doctrine of "trade mark functions". Under the Directive and Regulation, infringement occurs where a third party uses, in the course of trade, an identical mark in relation to identical goods and services to those for which the sign has been registered. The recitals described such protection as 'absolute.' However, in a series of cases, the Court of Justice held that there would be not always be infringement if an identical mark was used for identical goods or services – **the use must be liable to damage one of the "functions of the trade mark."**⁶⁶ Initially, the Court of Justice referred to the "essential function" of **guaranteeing origin**, but, in due course it elaborated further functions, including the **communication, advertising and investment functions**.⁶⁷ National courts have objected that they do not understand these concepts, which are not referred to in the legislation and lack clarity.

In 2008, a *Communication on an Industrial Property Rights Strategy for Europe* concluded that it was time for an overall evaluation of the trade mark system in Europe.⁶⁸ A review was written by a team from the Max Planck Institute in Munich, and published in 2010.⁶⁹ In its *IPR strategy for Europe (2011)*,⁷⁰ the Commission announced a review of the trade mark system in Europe with a view to modernising the system, both at EU and at national level, by making it more effective, efficient and consistent overall.

In 2013, two pieces of draft legislation were placed before the European legislature that would modify both the Regulation and Directive in a number of respects. These are:

European Commission, Proposal for a Regulation of the European Parliament and of the Council amending Council Regulation (EC) No

⁶⁴ Directive 2006/114/EC of 12 December 2006 concerning misleading and comparative advertising OJ L 376, 27.12.2006, p. 21.

⁶⁵ Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market and amending Council Directive 84/450/EEC, Directives 97/7/EC, 98/27/EC and 2002/65/EC of the European Parliament and of the Council and Regulation (EC) No 2006/2004 of the European Parliament and of the Council.

⁶⁶ *Arsenal v. Reed*, Case C-206/01 [2002] ECR I-10273, [51]; *O₂ (UK) Ltd v. Hutchison 3G UK Ltd*, Case C-533/06 [2008] ECR I-4231, [57].

⁶⁷ *L'Oréal SA v. Bellure*, Case C-487/07 [2009] ECR I-5185, [58] (ECJ 1st Ch); *Louis Vuitton v. Google France*, Cases 236/08-238/08, [2010] ECR I-2417, [77], [AG95], (CJEU, Gr Ch); *Interflora v. Marks & Spencer*, Case 323/09 [2011] ECR I-8625 (CJEU, 1st Ch).

⁶⁸ COM(2008) 465 final of 16 July 2008.

⁶⁹ Max Planck Institute, Study on the Overall Functioning of the Community Trade Mark System (2010).

⁷⁰ A Single Market for Intellectual Property Rights: Boosting creativity and innovation to provide economic growth, high quality jobs and first class products and services in Europe - COM(2011) 287.

207/2009 on the Community trade mark, Brussels, 27.3.2013, COM(2013) 161.

Proposal for a Directive of the European Parliament and of the Council to Approximate the Laws of Member States relating to Trade Marks (Recast), COM(2013) 162.

Both are subject to the ordinary legislative procedure, (former co-decision) by the European Parliament and the Council.

The proposed Directive is intended to amend outdated provisions, increase legal certainty and clarify the scope of trade mark rights and limitations. One example is the removal of a requirement that marks be represented “graphically” in order to be registered, a requirement that dates from the era when marks were to be published in paper publications, but has the effect of excluding, for example, sound recording as a means of representing trade marks (and thus many sounds cannot be registered). The proposal for a Directive replaces the requirement of graphic representation with one of precise representation. Another example of clarification relates to **the Court’s jurisprudence on ‘functions’**: the Commission proposed to limit infringement in cases of identical marks/identical goods or services to the situation where there is damage to the **essential function of the trade mark, that of indicating origin**.

The proposal also seeks to achieve greater approximation of national trade mark laws and **procedures**. Procedural matters had been left to Member states, while some **substantive matters** were optional. The most significant of these was the option to offer extended protection to registered **mark with a reputation**, that would enable proprietors to object to specified uses of marks on goods or services that were dissimilar, and thus where it was unlikely there would be any consumer confusion, if there is blurring, tarnishment or free riding. Most Member states had taken advantage of this optional provision, but the proposed Directive would make this extended protection obligatory.⁷¹ The proposal also includes provisions on matters left untouched originally, such as rules on transfers and assignments of marks.⁷²

Other proposals are designed to **enhance correspondence between national law and law under the Community Trade Mark Regulation**. For example, the proposed Directive contains a host of provisions on “collective marks”, a concept that had previously existed at Community level but had no parallel in many national laws.⁷³ Many of the proposals relating to procedural rules not only would produce more harmonization amongst national offices, but also correspond with practices at the OHIM. Thus the proposed Directive would limit national office examination to absolute grounds (Art 41), so that relative grounds could only be raised by third parties, as is the case at the OHIM (but not in quite a number of Member States).⁷⁴ The proposal also seeks to improve cooperation between the offices of the Member States and OHIM for the purpose of converging practices and developing common tools, by putting in place a legal basis for this cooperation.⁷⁵

The **main goals of the proposal to amend the Regulation** include updating the Regulation to accord with the terminology to the Lisbon Treaty, streamlining procedures to apply for and register a European trade mark and increasing legal certainty by clarifying provisions. Good examples of the latter include clarification of the relationship between trade mark infringement and the rules on comparative advertising contained in the MCAD

⁷¹ Proposed Directive, Arts 5, 10.

⁷² Proposed Directive, Articles 22, 23, 24, 25, 26 and 27

⁷³ Proposed Directive, Articles 28, 30, 31, 32, 33, 34, 35, 36 and 37.

⁷⁴ Proposed Directive, Art 41.

⁷⁵ Proposed Directive, Article 52.

(specifying that a use of a trade mark that does not meet the eight conditions for legitimate comparative infringements).⁷⁶

The European Parliament's Input

The Committees on International Trade,⁷⁷ on the Internal Market and Consumer Protection,⁷⁸ and namely the Committee on Legal Affairs considered these documents in 2013. The Parliament voted on the various amendments in February 2014. **In general it approved the Commission proposals.**

Many of the amendments are **technical or linguistic**. For example, to change the name of the OHIM to the **European Union Intellectual Property Agency** (in contrast to the omission proposal to call it the European Trade Marks and Designs Agency), or Community Trade Marks to **European Union Trade Marks** (as opposed to the Commission proposal of 'European Trade Mark'.⁷⁹ There are other amendments relating to **governance of the Agency**, including selection of the Executive Director,⁸⁰ that ensure EP representation on the Agency's management board,⁸¹ and reporting by the Agency to the EP as well as the Commission.⁸²

Other **amendments are procedural**. In some areas the European Parliament favoured greater alignment of national procedures with OHIM procedures. However, it also called for greater flexibility in relation to ex officio application of relative grounds.⁸³ On fees, the EP proposed that these can only be altered by formal legislative acts,⁸⁴ while the EP also amended the regulation relating to delegated acts.⁸⁵ The EP also had some proposals relating declarations with respect to the intention to cover all goods in a class heading.⁸⁶

The **substantive issues** identified in the amendments included (i) treatment of absolute grounds in national offices; (ii) the rule relating to infringement in case of identical marks on identical goods; (iii) rules relating to goods in transit; (iv) the scope of exceptions.

Absolute Grounds in Directive

The Commission proposal initially suggested that national offices assess the absolute grounds not merely on the basis of whether the ground would exist in that member state. Rather it should apply if the ground would obtain "in other Members states". This proposal would have aligned the assessment in national offices with those at the OHIM, which applies grounds of refusal if such ground obtained in any part of the Community. A mark that is, for example, offensive in one Member state cannot be registered as a Community Trade mark. A trade mark that is descriptive in one Member State, such as 'Matratzen' for mattresses, would not be registrable in another Member state. The latter was, indeed, an example that had raised doubts when registration was sought in Spain.⁸⁷ Because the average Spanish consumer, unfamiliar with German, did not understand that 'matratzen' meant 'colchones', 'matratzen' was registrable as a mark for mattresses because it was not descriptive. Concerns had been expressed that this might lead to impediments to the free movement of goods (if mattresses originating in Germany and bearing the term 'matratzen'

⁷⁶ Explanatory Memorandum, [1.2], 2.

⁷⁷ Opinion, October 7, 2013.

⁷⁸ Opinion, November 7, 2013.

⁷⁹ Draft Regulation, EP Amendment 1, 20 (Art 1, point 2), 21 (Art 1, point 3), 22 (Art 1, point 4), 23 (Art 1, point 8); draft directive, EP Amendment 15. For the original Commission view, see Explanatory Memorandum, [5.1], 5.

⁸⁰ Draft regulation, EP Amendment 92.

⁸¹ Draft Regulation, EP Amendment 85

⁸² Draft Regulation EP Amendment 94.

⁸³ Draft Directive, EP Amendment 12 (recital 34)

⁸⁴ EP Amendments 17 (recital 44a, new), 18 (recital 45), 41 (Art 1, point 43, on Art 47), 111, 113, 114.

⁸⁵ EP Amendment, 110.

⁸⁶ EP Amendments 34, 35, 36. These relate to past understandings that an OHIM registration for nice class headings would cover all goods or services in the class, a position which the Court found unacceptable in the IP Translator decision: Case C-307/10, 'IP Translator' (Judgment of 19 June 2012).

⁸⁷ *Matratzen Concord AG v. Hukla Germany SA*, Case C-421/04, [2006] ECR I-2303.

might not be imported into Germany), and might work to the prejudice of German-speaking persons resident in Spain.

Nevertheless, the Parliament objected to the Commission proposal and has proposed the deletion of the provision.⁸⁸ The effect, it seems, will be to restore the position to its current one. The explanation that the EP offered is:

“It would be disproportionate and practically unworkable to require national offices to examine absolute grounds for refusal in all national jurisdictions and languages of the Union. It would further be contrary to the principle of territoriality of rights.”⁸⁹

Doctrine of Foreign Equivalents (in proposed Directive and Regulation)

Article 7(2) of the proposed Regulation,⁹⁰ and Article 4 of the proposed Directive indicated that a ground of objection was available even in cases where “a trade mark in a foreign language or script is translated or transcribed in any script or official language of a Member state.” The effect would have been that a sign that is descriptive in Japanese, would also have been regarded as descriptive for the purposes of the European Union trade mark regime (irrespective of whether it would be descriptive to the “average European consumer” of the good. Such an approach, known often as the “doctrine of foreign equivalents”, is taken in other countries such as the United States.⁹¹ It ensures that the first person to apply to protect a foreign term is prevented from gaining exclusive rights to the use of the term for the goods or services which it actually describes to speakers of that language. The rule recognises the importance of ensuring competition between traders of goods in markets for immigrants and speakers on non-EU languages. Given the colonial heritage of many European states, and the numbers of minority languages spoken in the EU, the cultural justification for a rule of this sort would seem to be as strong in the EU as in the US.

The European Parliament amendment deletes the proposed rule in relation both to the proposed Directive and Regulation.⁹² All that remains, after the EP amendment, is that a sign may not be registered under the Regulation (i.e. for European Union Trade Marks) even if the ground on non-registrability applies “in only part of the Union”. If a language is used in a relatively discrete geographically area, then a sign which is excluded (for example as offensive, misleading or descriptive) in that language, might be excluded from a Community registration. But if a small immigrant population is widely dispersed, the sign would not be capable of being rejected.

Infringement in Cases of Double Identity/The ‘Functions’ Analysis

As already noted, the Commission has proposed to replace the Court’s uncertain jurisprudence on “functions”, at least in so far as it relates to infringement where a person uses an identical sign to that which is registered on identical goods/services. The Commission proposal was limit this to damage to the origin function.⁹³ The EP amendments delete the requirement of an adverse affect on the “essential function”.⁹⁴ No justification is

⁸⁸ Draft Directive, EP Amendment 21 (to Art 4, para 1, point j).

⁸⁹ Draft Directive, EP Amendment 22, Justification. One can understand that, if the application of such a rule might raise administrative problems for offices, such a rule might be made a ground of invalidation *ex post*, rather than requiring application *ex ante* by the office. Alternatively, consideration could have been given to ensuring that immunity is provided to anyone who trades in goods bearing such signs that are descriptive in any member state.

⁹⁰ Draft Regulation, EP Amendment 26 (to Art 7, para 2)

⁹¹ See e.g. *Otokoyama Co Ltd v. Wine of Japan Import Inc*, 175 F. 3d 266 (2nd Cir 1999).

⁹² The EP’s explanation for rejection is that “for users there would be little or no added value to have the application examined for obstacles to registration in other territories than the one for which it would be valid for.”

⁹³ Thus it proposed that there be infringement where the signs and goods/services are identical “and where such use affects or is liable to affect the functions of the European trade mark to guarantee to consumers the origin of the goods or services” Explanatory Memorandum, [5.3], 8.

⁹⁴ Draft Regulation, EP Amendment 4 (to recital 15), 28 (Art 1 point 12, to Art 90); Draft Directive, EP Amendment 5 (recital 19), Amendment 30 (to article 10)

offered. Whatever the reasons of the Parliament, the amendment does nothing to reduce the state of confusion that surrounds the Court's existing case-law.⁹⁵

Goods in Transit

According to the ruling of the CJEU in Cases C-446/09 *Philips* and C-495/09 *Nokia* merely transporting a product bearing a trade mark through a territory (i.e. where the destination is somewhere else) is not an infringing use.⁹⁶ Such "goods in transit" are only to be regarded as counterfeit once there is a commercial act directed at E.U. consumers, such as sale, offer for sale or advertising.

The Commission proposed to amend the Directive and Regulation, so that goods in transit can be stopped and impounded if their use in the E.U. would be infringing.⁹⁷ The Commission noted that the *Philips/Nokia* judgment have met with strong criticism from stakeholders as placing an inappropriately high burden of proof on rights holders, and hindering the fight against counterfeiting. The Commission proposed to entitle right holders to prevent third parties from bringing goods, from third countries, bearing without authorization a trade mark which is essentially identical to the trade mark registered in respect of those goods, into the customs territory of the Union, regardless of whether they are released for free circulation.⁹⁸

The EP amendments qualify the Commission proposal.⁹⁹ Where a third party (the owner or transporter of the goods) proves that the final destination is **outside the EU**, the trade mark proprietor must show **that it has a registered trade mark in the destination country**.¹⁰⁰ The Parliament also expressed particular concerns over generic medicines.¹⁰¹

Defences

The limitations to trade mark rights are currently contained in Article 6 of the Directive and Article 12 of the regulation. This provides an exception for use of **ones own name, use of descriptive signs or indications, and use of signs to indicate the intended purpose** of the user's goods or service (for example their compatibility with the trade mark owner's products). All three exceptions are subject to the proviso that the use be "in accordance with **honest practices** in industrial and commercial matters." There are also exceptions developed in the case-law on **exhaustion of rights** and in sui generis legislation such as the Directive on Misleading and **Comparative Advertising**. In relation to trade marks with a reputation, the provisions on infringement in Article 5(2) of the Directive and Article 9 of the Regulation indicate that infringement will not be established if a use is "with due cause", and the E.C.J. has begun to elaborate on when there might be "due cause" to use a mark with a reputation.

⁹⁵ But see M Senftleben, 'Function Theory and International Exhaustion – Why it is Wise to Confine the Double Identity Rule in EU Trademark Law to Cases Affecting the Origin Function', [2014] *EIPR* (suggesting that trade mark holders lobbied heavily to have the proposal changed, for fear of its implications for the rules relating to parallel importation from outside the EU.) If that is the reason, it might have been dealt with by a specific rule indicating that such imports can be prohibited, rather than by leaving in place the confusion that the Commission's proposal sought to remove.

⁹⁶ *Philips Electronics v Lucheng Meijing Industrial Co, Nokia v HMRC*, Joined Cases C-446/09 and C-495/09 (1 Dec 2011) (CJEU, 1st Ch).

⁹⁷ Proposal for a Directive to approximate the Laws of the Member states relating to Trade Marks (Recast), COM/2013/0162 final, Art 10(5).

⁹⁸ Explanatory Memorandum, [5.3], 8.

⁹⁹ Doubts have been raised as to whether seizing goods in these circumstances is compatible with TRIPS: H Grosse Ruse-Khan, 'A Trade Agreement Creating Barriers to International Trade? ACTA Border Measures and Goods in Transit', (2011) 26 *Am U Int LR* 645.

¹⁰⁰ Draft Regulation, EP Amendment 5 (to recital 18), 28 (Art 1, point 12, amending Art 9); Draft Directive, EP Amendment 6 (recital 22), Amendment 30 (to article 10(5));

¹⁰¹ Draft regulation, Amendment 8 (recital 18c new); Draft Directive, EP Amendment 9 (to new recital 22c). Opinion of the Committee on International Trade (October 7, 2010).

Article 6 of the Directive had been considered by the Court of Justice on a number of occasions. The Court indicated a relatively broad and flexible interpretation of the defence relating to use of one's own name, such that it might encompass use of a trade name.¹⁰² It took a narrower view of the descriptiveness exception, indicating that while this not preclude use of a sign as a trade mark,¹⁰³ it would not apply in cases where a mark was used as part of presenting an item as a replica (such as by utilising the Opel trade mark on a toy version of an Opel car). The Court also took quite a restrictive view of "necessity".

In contrast, the Court has not held a consistent position in interpreting the "**honest practices**" proviso. It has stated that this indicates '**a duty to act fairly**' towards the trade mark owner.¹⁰⁴ But in one case (concerning compatibility of razor blades with razors under Article 6(c) of the Directive), the Court indicated that there are some **minimum conditions** that must be met before the defence can come into play.¹⁰⁵ More specifically, the ECJ has indicated that a use will not be in accordance with honest practices if it is done in such a manner that it may give the impression that there is a commercial connection between the reseller and the trade mark proprietor;¹⁰⁶ if the use affects the value of the trade mark by taking unfair advantage of its distinctive character or repute;¹⁰⁷ it discredits or denigrates that mark;¹⁰⁸ or if it presents its product as an imitation or replica of the product bearing the trade mark.¹⁰⁹ These latter factors seem to have been drawn from the Directive on Misleading and Comparative Advertising.

The **Commission proposal** seeks in part to reverse Court's case-law, but also in part to codify it. It seeks to reverse it as regards the meaning of "**names**", so that the defence is not available for corporate or trade names.¹¹⁰ The Commission significantly proposes to extend the exceptions to include using of "non-distinctive" signs by a third party.

The Commission also proposes to elaborate the condition to the effect that uses must be "in accordance with **honest practices** in industrial and commercial matters." Article 14(2) of the regulation indicates that a use is **not compliant if it indicates a connection** with the trade mark owner or, without due cause, **damages the distinctive character or repute of the mark, or takes unfair advantage**. On its face, this replicates the conditions for liability as conditions for the availability of the exception (though logically, this would mean the exception had little role). The Commission explained that this "**clarifies** the conditions under which use of a trade mark is not considered as complying with honest business practices" (emphasis added), but it might be noted that this is in some respects **significantly more restrictive** than under the existing case-law.

The European Parliament has proposed a number of amendments to the exceptions.¹¹¹ Taking a broader view of the range of exceptions, and recognising the importance of fundamental rights (including freedom of expression),¹¹² it proposes to elaborate a number of "referential uses" that fall within that defence. These would include comparative advertising that satisfies the conditions of the Misleading and Comparative Advertising

¹⁰² *Anheuser-Busch v. Budvar*, Case C-245/02 [2004] ECR I-10989 (ECJ, Gr Ch) [75]–[84].

¹⁰³ *Gerolsteiner Brunnen*, Case C-100/02 [2004] ECR I-691.

¹⁰⁴ *BMW v. Deenik*, Case C-63/97 [1999] ECR I-905, [61]; *Céline Sàrl v. Céline SA*, Case C-17/06 [2007] ECR I-7041, [32]; *Gerolsteiner Brunnen*, Case C-100/02 [2004] ECR I-691, [24]; *Anheuser-Busch v. Budvar*, Case C-245/02 [2004] ECR I-10989, [82] (ECJ, Gr Ch); *Gillette Co v. L.A-Laboratories Ltd Oy*, Case C-228/03 [2005] ECR I-2337, [41]; *Portakabin Ltd v. Primakabin BV* Case C-558/08, [2010] ECR I-6963, [67] (CJEU, 1st Ch).

¹⁰⁵ *Gillette*, [42]–[45], [49].

¹⁰⁶ *BMW v. Deenik*, Case C-63/97 [1999] ECR I-905, [51]; *Gillette*, [42]; *Anheuser-Busch*, [83].

¹⁰⁷ *BMW*, [52]; *Gillette* [43].

¹⁰⁸ *Gillette* [44].

¹⁰⁹ *Gillette*, [45].

¹¹⁰ No evidence has been offered that any harm has arisen from the ECJ's interpretation of the exception so that it applies to trade names.

¹¹¹ Draft Regulation, EP Amendment 29; Draft Directive, EP Amendment 33 (To Article 14, para 1, c).

¹¹² Opinion of the Committee on the Internal Market and Consumer Protection (November 7, 2013), proposed Amendment 3. Freedom of expression is, of course, recognised in the Charter of the European Union, art 11.

Directive,¹¹³ as well as advertising the sale of goods in which trade mark rights have been exhausted,¹¹⁴ “putting forward a legitimate alternative” to the goods or services of the trade mark holder,¹¹⁵ as well as uses for the purposes of parody, artistic expression, criticism or comment. By including these as examples of referential uses within Article 14(1)(c) of the (amended) Directive (and Article 12 of the existing Regulation), the Parliament would make these subject to the **“honest practices” proviso**. Whether the Parliament is conscious that the proviso, in its amended form, adds additional restrictions and **so would limit the availability of these defences** is unclear.¹¹⁶

A further EP amendment, adding Article 14(2)(a) to the Directive would exempt any use “for a due cause for any non-commercial use of a mark.”¹¹⁷ Presumably, this was thought clarificatory, as trade mark infringement only exists where there is “use in the course of trade.” The CJEU has stated that a sign is used in the course of trade where it is used ‘in the context of commercial activity with a view to economic advantage and not as a private matter’.¹¹⁸ Non-commercial uses, therefore, ought to fall outside the scope of trade mark rights, whether or not there is “due cause” for that use. The EP Amendment seems likely to be misleading.

3.5. The 2014- 2019 Parliament

The legislative resolution at the First Reading in February 2014 called on the Commission to refer the matter to Parliament again if it intended to amend the proposal substantially or replace it with another text.

The Council has also considered these pieces of legislation and on 23 July 2014 reached a Common position.¹¹⁹ The Council authorised the Italian Presidency to enter negotiations with the European Parliament to ensure swift agreement.

It is notable that Council proposes a number of similar changes to those proposed by the European Parliament. The Common position, for example, adopts the term “European Union Trade Mark”, contains a recital relating to the requirements for representation, follows the EP in permitting national offices to examine on relative grounds if they so wish, and removes the rule on formalities for transfer of trade marks.

As to the substantive issues described above, the Council has favoured positions that correspond closely with those of the Parliament in its First Reading.¹²⁰ **However, it has not incorporated the EP proposals on exceptions.** This is therefore a topic which may need to be considered immediately by the Parliament.

¹¹³ This was seen as ‘an independent ground of defence’ in *O2 Holdings Ltd v. Hutchison 3G Ltd*, Case C-533/06, [2008] ECR I-4231, [AG25].

¹¹⁴ Such freedom is already recognized by the C.J.E.U. under Case C-337/95 *Parfums Christian Dior SA v. Evora BV*, [1997] ECR I-6013, where the Court found that that ‘a balance must be struck’ between the legitimate interest of the trade mark owner and that of the re-seller, and that if the reseller is merely employing techniques that are customarily used for goods of the kind but not necessarily of the same quality in issue, then an objection to such advertising is only legitimate if it ‘seriously damages the reputation of the trade mark’.

¹¹⁵ This was recognised by the C.J.E.U. as an example of a “due cause” for referring to a registered mark with a reputation in *Interflora v. Marks & Spencer*, Case 323/09 [2011] ECR I-8625 (CJEU, 1st Ch).

¹¹⁶ The various conditions that have been inserted to clarify the “honest practices” defence would become additional conditions that any of these other referential uses would have to satisfy.

¹¹⁷ Draft Regulation, Amendment 30; Draft directive, EP Amendment 35

¹¹⁸ Case C-206/01 [2002] ECR I-10273, [40]. See also *Google France SARL v. Louis Vuitton Malletier SA*, and Joined Cases C-236/08 to C-238/08 [2010] ECR I-2417, [50] (CJEU, Gr Ch); *Frisdranken Industrie Winters BV v. Red Bull GmbH*, Case C-119/10, [2011] ECR I-0000, [28].

¹¹⁹ Presidency Compromise Proposal on the Directive: Council Doc 11827/14 (18 July 2014): Presidency Compromise proposal on the Regulation: Council Doc 11826/14 (18 July 2014).

¹²⁰ Amended Art 10(5). Parliamentarians may be interested in the recent academic statement organised by Professor Martin Senftleben of the VU University of Amsterdam entitled *Recommendation on Measures to Safeguard Freedom of Expression and Undistorted Competition in EU Trade Mark Law* (September 2014).

4. COPYRIGHT

4.1. What is Copyright?

'Copyright' is the term used to describe the area of intellectual property law that regulates the creation and use that is made of a range of cultural goods such as books, songs, films, and computer programs. The various objects that are protected by copyright are usually described as 'works'. Copyright protection arises automatically (i.e., without registration or notice) and usually for the benefit of the author (though in many legal systems is assignable). Various rights are conferred on the owner of copyright, including the right to copy the work and the right to perform the work in public. The rights vested in the owner are limited, notably in that they are not infringed when a person exploits a work that they have created themselves (i.e. independently). The rights given to a copyright owner last for a considerable time: in many cases for 70 years after the death of the author of the work.¹²¹

It is a commonplace amongst intellectual property commentators that the approach taken in common law countries to copyright is distinct from and in many ways in opposition to the approach taken in many continental European, civil law countries, which protect "author's rights" (*droit d'auteur*). The common law copyright model is said to be primarily concerned with encouraging the production of new works. This is reflected in copyright law's emphasis on economic rights, such as the right to produce copies. Another factor that is held to typify the copyright model is its relative indifference to authors. This is said to be reflected in the fact that British law presumes that an employer is the first owner of works made by an employee, the paucity of legal restrictions on alienability, and the half-hearted recognition of so-called 'moral rights' (that is, the inalienable rights that protect the author's personal relationship with the work). In contrast, the civil law *droit d'auteur* model is said to be more concerned with the natural rights of authors in their creations. This is reflected in the fact that the civil law model not only aims to secure the author's economic interests, but also aims to protect works against uses that are prejudicial to an author's spiritual interests (in particular through moral rights).

Another distinction between 'copyright' and 'author's rights' is said to have been the inclination to extend protection to subject matter – such as sound recordings, broadcasts and computer programs – that are the result of technical skill, and financial and organisational investment, rather than individual creativity. In British law, these subjects are treated as protected by copyright.¹²² In author's rights systems, since these works are not products of creative authorship, they tend to be protected by so-called 'neighbouring rights' – rights that are neighbours to author's rights. Neighbouring (or entrepreneurial) rights are typically derivative, in the sense that they use or develop existing authorial works; that they are a product of technical and organizational skill rather than authorial skill; and that the rights are initially given, not to the human creator, but to the body or person that was financially and organizationally responsible for the production of the material.

4.2. The Economic Significance of Copyright

According to the European Competitiveness Report 2010,¹²³ the creative industries account for 3.0 % of total employment (2008) and 3.3 % of GDP (2006). The number of employees in the creative industries in the EU-27 was 6.7 million in 2008. In terms of exports, creative goods account for 4.3 % of the EU-27's external exports. Between 2000 and 2007,

¹²¹ See Ch. 7.

¹²² Nonetheless an informal distinction has been drawn between two general categories of subject matter authorial works' and 'entrepreneurial works'.

¹²³ European Commission, *European Competitiveness Report* (2010) 166.

employment in the creative industries grew by an average of 3.5 % per annum, compared to 1 % in the overall EU-27 economy (software consulting and supply accounts for more than half the employment growth in creative industries in the EU-27 in the period 2000–07). This data was referred to by the Commission in July 2011, when focussing more specifically on copyright and the audiovisual sector.¹²⁴

Three caveats are worth making about this type of data.

The first relates to their accuracy or reliability. The basis for these estimates are, of course, not straightforward. Much depends on what is counted as a “copyright industry”,¹²⁵ and how value is counted. This is evident from the fact that a study conducted eight years earlier, found that the contribution of the copyright industry was €1.2 trillion, twice the figure mentioned in the 2011 study.¹²⁶ The difference between the figures is explicable by reference to the different methodologies – what is being counted and how. Indeed, one economist has explained that all “revenue derived estimates of the ‘value’, be it of copyright or the public domain are of dubious validity.”¹²⁷

The second caveat is that the “copyright industries” are involved in exploiting many assets other than “copyright”. Indeed, some part of what is exploited will be the “public domain” (one need only think of performances of Shakespeare, Mozart or sales of copies of the works of Van Gogh).¹²⁸ Moreover, statistics have been developed in the United States that aggregate **the value of industries that rely on copyright exceptions**.¹²⁹ At 2007 study found that so-called “fair use industries” generated \$4.4 trillion in revenue, accounting for one sixth of total U.S. gross domestic product, and employing more than 17 million workers. In 2010, revised estimates suggested that the total had risen to \$4.7 trillion in revenues and \$2.2 trillion in value added.¹³⁰ Many of the sectors included as “fair use industries” – for example newspaper or software publishers – would also be included in the figures for the value of “cultural” or “copyright industries.”

The third caveat is that it is dangerous to assume that the higher these figures the better. This may seem counter-intuitive to politicians. For politicians, more revenues instinctively means more taxes paid and probably more jobs. But the false logic at play here can be readily seen by considering the effect of technological change, eg digitisation, that allows for new, cheaper forms of delivery of copyright-protected materials.¹³¹ If this means that some aspects of the existing distribution models become obsolete, overall revenues may alter dramatically in a downward direction. But the numbers of copyright works being produced might still increase, revenues to authors might increase, and costs to consumers decrease. There is a danger that in focussing on revenues we lose sight of **what is important: ensuring both creativity and production of new works and competition, so that consumers receive those goods at the most competitive price**. Revenue figures then, perhaps, can indicate the importance of copyright industries, but they should not be regarded as indicators of the health or competitiveness of the sector.

¹²⁴ European Commission, *Green Paper on the online distribution of audiovisual works in the European Union: opportunities and challenges towards a digital single market*, Brussels, 13.7.2011 COM (2011) 427 final, p. 3.

¹²⁵ European Commission, *European Competitiveness Report* (2010) 165 (adopting UK DCMS definition of ‘creative industries’ as industries that ‘have their origin in individual creativity, skill and talent and have a potential for wealth and job creation through the generation and exploitation of intellectual property.’)

¹²⁶ See Media Group, Turku School of Economics and Business Administration, *The Contribution of Copyright and Related Rights to the European Economy* (2003) (“Turku Study”).

¹²⁷ R. Pollock, Paul Stepan, and Mikko Valimaki, ‘The Value of the EU Public Domain’, n. 71, at http://rufuspollock.org/papers/value_of_the_public_domain_eu.pdf

¹²⁸ R. Pollock, Paul Stepan, and Mikko Valimaki, ‘The Value of the EU Public Domain’ at http://rufuspollock.org/papers/value_of_the_public_domain_eu.pdf

¹²⁹ Thomas Rogers and Andrew Szamoszszegi, *Fair Use in the U.S. Economy: Economic Contribution of Industries Relying on Fair Use*, (CCIA, 2007).

¹³⁰ Thomas Rogers and Andrew Szamoszszegi, *Fair Use in the U.S. Economy: Economic Contribution of Industries Relying on Fair Use*, (CCIA: September 2010).

¹³¹ European Competitiveness Report (2010) 163 “the profound ongoing restructuring of the traditional publishing and media industry”

Recognising the importance of the creative industries certainly implies that copyright is important: but it does not suggest that stronger or longer copyright will be of benefit to the sector as a whole.

4.3. Why Protect Copyright?

The existence of copyright in a particular work restricts the uses that can be made of the work. **Not everyone thinks that copyright is a good thing.** In fact, with the advent of the Internet, there are many who think that copyright unjustifiably impedes the development of new technologies or new application of existing technologies and stifles the public's ability to make the most of the new environment. Others consider that, while some aspects of copyright are justifiable, others are not. Typically the argument is that copyright law has gone too far. In response to these copyright sceptics or critics, **four basic arguments** are used to support the recognition (and further extension) of copyright: natural rights arguments, reward arguments, incentive arguments, and arguments from democracy.

According to **natural rights theorists**, the reason why copyright protection is granted is not because we think that the public will benefit from copyright. Rather, copyright protection is granted because it is right and proper to do so. More specifically, it is right to recognize a property right in intellectual productions *because* such productions emanate from the mind of an individual author. For example, a poem is seen as the product of a poet's mind, their intellectual effort and inspiration. As such it should be seen as their property, and copying as equivalent to theft. Copyright is the positive law's realization of this self-evident, ethical precept. However, at this point, natural rights theorists divide as to exactly what it is about origination that entitles an author to protection. Some, particularly those associated with the European traditions, explain that **works should be protected because (and insofar as) they are the expressions of each particular author's personality.** On the assumption that a work created by an individual reflects the unique nature of them as an individual, the natural rights arguments require that we allow the creator to protect the work (from misattribution, modification, or unauthorized exploitation) because it is an extension of the persona of its creator. A second version of natural right theory, strongly represented in the US literature, has tended to found itself on labour. Drawing on the idea that a person has a natural right over the products of their labour, it is argued that an **author has a natural right over the productions of their intellectual labour.**

Related to natural rights arguments is the view that copyright protection is granted because we think it is **fair to reward an author** for the effort expended in creating a work and giving it to the public. Copyright is a legal expression of gratitude to an author for doing more than society expects or feels that they are obliged to do. In a sense, the grant of copyright is similar to the repayment of a debt.

In contrast to the natural rights and reward theories, the third argument for copyright is not based on ideas of what is right or fair to an author or creator. Rather, it is based on an idea of what is good for society or the public in general. **The incentive argument** presupposes that the production and public dissemination of cultural objects such as books, music, art, and films is an important and valuable activity. It also presupposes that, without copyright protection, the production and dissemination of cultural objects would not take place at an optimal level. The reason for this is that, while works are often very costly to produce, once published they can readily be copied. For example, while a book may take a considerable amount of time and energy to write, once published, it can be reproduced easily and cheaply. Consequently, in the absence of copyright protection, a competitor could reproduce the book without having to recoup the expense of its initial production. In so doing they could undercut the publisher. According to the incentive argument, if the book were not given any legal protection, it would never have been written or published—and the world would have been a commensurably poorer place. **The legal protection given by copyright is intended to rectify this 'market failure' by providing**

incentives that encourage the production and dissemination of works. In short, copyright provides a legal means by which those who invest time and labour in producing cultural and informational goods can not only recoup that investment, but also reap a profit proportional to the popularity of their work.¹³²

A fourth justification for copyright is that it **strengthens democracy**. It does so by self-reliant authorship, and robust debate. Copyright law is a state measure designed to enhance the independent and pluralist character of civil society. Copyright encourages greater production, but also supports **creative autonomy and expressive diversity**.

4.4. European Activity in Copyright

The desire to harmonize copyright law in Europe arose because differences in national laws relating to copyright and related rights operate to produce barriers to trade within the internal market.¹³³ **In contrast with trade marks where a unitary EU right was created, accompanied by extensive harmonization of substantive law, in copyright a much more incremental approach was adopted.** In part this was because national copyright traditions were very different, so that wholesale approximation of copyright law was thought to be impossible. Initially, the focus was on new technologies.

The subsequent decade witnessed the formulation and passage of a series of directives on **software, cable and satellite broadcasting, rental and lending rights and 'neighbouring rights', the duration of copyright, databases, the resale royalty right, and copyright in the 'information society'**. While each of these directives concerned itself primarily with a specific aspect of copyright (that is, a specific type of subject matter or a specific right), the **Directive on copyright in the Information Society** concerned a series of rights and exceptions applicable to virtually all copyright works. Consequently, this directive is widely regarded as heralding a shift from 'vertical' harmonization to 'horizontal' harmonization. Matters then stalled until 2011, with the Commission increasingly talking about 'soft law', stakeholder dialogues, and 'memoranda of understanding', in preference to legislation. However, since 2011 three very narrow legislative interventions have occurred in relation to term of copyright in sound recordings, 'orphan works' and collective management. The body of legal rules harmonized by the directives is often called the **'copyright acquis.'**

The directives consistently distinguish between two categories of work: 'authorial works' falling under the Berne Convention; and 'related rights' (specifically not 'neighbouring rights') which means various rights of performers, phonogram producers, the producers of the first fixations of films, and broadcasting organizations.

4.5. Activity in 2009-2014

Three legislative developments occurred in the preceding Parliament.

Term Amendment (for Sound Recordings and Performers Whose Performances are Embodied in Such Recordings) (2011)

The Duration Directive was amended in 2011.¹³⁴ The latter amendments arose from concern about the imminent lapse of sound recording copyright in material from the late 1950s and early 1960s, the heyday of rock 'n' roll and the early years of pop. It was argued that it would be unfair if performers, such as Sir Cliff Richard or the French performer

¹³² For recent endorsement at international level, see Marrakesh Treaty, recital 3 ('emphasizing the importance of copyright protection as an incentive and reward for literary and artistic creations').

¹³³ *EMI Electrola GmbH v. Patricia Im-und Export*, Case C-341/87 [1989] ECR 79.

¹³⁴ Directive 2011/77/EU..

Johnny Halliday, were no longer able to gain income from their recordings during their lifetime.

An initial proposal from the Commission suggested an extension of term to 95 years, purportedly to make the position equivalent to that in the United States.¹³⁵ The matter was dealt with by the Committee on Legal affairs, and on 18 February 2009, JURI issued a report proposing certain amendments (that the proposed extension of term also benefit audiovisual performers and that performers whose recording contracts included an advance against royalties be given a “clean slate” in the extended period of protection).¹³⁶ On April 23, 2009, the EP gave the proposal a first reading, though with various amendments including a 70 year – rather than 95 year term.¹³⁷ The proposal then stalled in Council, where a group of countries blocked its adoption. Ultimately, the group fell away and the Directive was enacted in 2011.

In addition to extending the term, the Directive has three features designed to protect performers.¹³⁸ Firstly, there is a **“use it or lose it”** obligation on the owner of copyright in the sound recording. More specifically, once 50 years has run the copyright in the sound recording might be determined if a performer decides to terminate an assignment of their property rights therein on the basis that the sound recording is not being exploited. Second, where the term of protection of a sound recording has been extended from 50 to 70 years, performers who were only entitled to be paid a ‘lump sum’ (as might be the case with a so-called session musician who was contracted to contribute to a particular performance), may claim, via a collecting society, a portion of a fund that the producer must pay annually to the society comprising 20% of the ‘gross revenue’ on sales (including Internet downloads). Third for performers who are entitled to royalties, the **“clean slate”** provision means that the record company cannot make certain deductions from those royalties during the extended term.

Orphan Works Directive (2012)

The Directive on Orphan Works¹³⁹ is a response to problems faced by cultural institutions in tracing copyright owners of works they wish to include in digitisation projects. An orphan work is one whose copyright owners (parents) either do not exist or cannot be located. The British Library has estimated that 40 per cent of all print works are orphan works.¹⁴⁰ Digital technologies have given rise to new potential uses of such largely forgotten or valueless works, for example in digital archives, but also because they can now be made available profitably to niche markets. Orphan works schemes seek to reduce the heavy costs incurred investigating copyright owners, and immunizing such users from later liability.

Orphan work schemes have been under consideration, in the EU since 2006,¹⁴¹ but it was only in May 2011 that the Commission first made its formal proposal.¹⁴² The Legal Affairs Committee (JURI) considered the proposal in detail and drafted a Report seeking 61

¹³⁵ Proposal for a European Parliament and Council Directive amending Directive 2006/116/EC of the European Parliament and of the Council on the term of protection of copyright and related rights {SEC(2008) 2287} {SEC(2008) 2288} /* COM/2008/0464 final - COD 2008/0157 */

¹³⁶ EP Doc A6-0070/2009.

¹³⁷ European Parliament legislative resolution of 23 April 2009 on the proposal for a directive of the European Parliament and of the Council amending Directive 2006/116/EC of the European Parliament and of the Council on the term of protection of copyright and related rights (COM(2008)0464 – C6-0281/2008 – 2008/0157(COD))

¹³⁸ Directive 2011/77/EU.

¹³⁹ Directive 2012/28/EU.

¹⁴⁰ *Gowers Review*, [4.91].

¹⁴¹ *Commission Recommendation* of August 24, 2006 on the digitisation and online accessibility of cultural material and digital preservation (2006/585/EC), *OJ L* 236/28, (31 Aug 2006) Recital 10. EC (DG Information Society and Media); Commission Decision of 27 February 2006 on setting up a High Level Expert Group on Digital Libraries, *OJ L* 63, 4.3.2006, p. 25-27; *OJ* 82, 28.3.2009, p. 9-11; *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on Creative Content Online in the Single Market* (SEC(2007) 1710 (3 Jan 2008) COM(2007) 836 final, [2.1]; Green Paper on Copyright in the Knowledge Economy (2008), COM (2008)466.

¹⁴² Brussels, 24.5.2011, COM(2011) 289 final, 2011/0136 (COD)

amendments. Informal meetings with the Council and the Parliament took place (so-called trilogue) with a view to securing passage at first reading.¹⁴³ The Parliament gave the proposal its approval at a legislative resolution on September 13, 2012,¹⁴⁴ and it was formally adopted on October 25, 2012.

The Directive, which is exceedingly narrow in scope, requires Member States to put in place measures that would permit the digitisation and making available of such works by cultural institutions which have been unable to locate copyright owners after having conducted a diligent search. The Directive only applies to certain acts,¹⁴⁵ carried out in relation to a limited list of works,¹⁴⁶ by certain institutions (cultural institutions).¹⁴⁷ These organisations are to be permitted to reproduce and make available 'orphan works',¹⁴⁸ that is works in relation to which all or some of the 'rightholders' cannot be identified or located despite a 'diligent search' having been carried out.¹⁴⁹¹⁵⁰ Such a search must be carried out for each and every work by consulting appropriate sources for the category of work in question.¹⁵¹ The search is targeted at the country of first publication,¹⁵² but if there is 'evidence to suggest that relevant information on rightholders' is to be found in other countries, sources in such countries 'shall also be consulted.'¹⁵³ The details of such searches are to be recorded in a single publicly accessible online database managed by the OHIM. If a work is regarded as orphan in one Member State, then that status should be recognised in other Member States. Should the rightholder re-appear, he or she may bring the orphan status of a work to an end.¹⁵⁴ Indeed the 're-entrant' rightholder is entitled to 'fair compensation' for past uses.¹⁵⁵ Although narrow in compass, the Directive is innovative in so far as it provides for 'mutual recognition' of orphan works: once a work is deemed orphan in one Member State it is regarded as orphan elsewhere.¹⁵⁶ The Directive is to be implemented by 29 October 2014.

Directive on Collective Management

In 2012 the Commission issued a proposal for a Directive on collective management of copyright and related rights.¹⁵⁷ This requires Member States to regulate the operation of organisations that manage copyrights collectively on behalf of authors and rightsholders. 'Collective management organisations' (or 'collecting societies' as they are usually known), such as the UK's Performing Right Society or Germany's GEMA, operate on behalf of rightholders in issuing licences and collecting and distributing remuneration. The proposal was directed at the governance of these organisations, and was a lengthy, detailed and rather technical document.

¹⁴³ TFEU, art 294(4) ("If the Council approves the European Parliament's position, the act concerned shall be adopted in the wording which corresponds to the position of the European Parliament.")

¹⁴⁴ European Parliament legislative resolution of 13 September 2012 on the proposal for a directive of the European Parliament and of the Council on certain permitted uses of orphan works (COM(2011)0289 – C7-0138/2011 – 2011/0136(COD)), *OJ C 353E*, 3.12.2013, p. 322–323.

¹⁴⁵ OWD Art. 6.

¹⁴⁶ OWD Art 1(2). Most notably, these do not include stand-alone photographs, and many unpublished works that are not already publicly accessible. The regime extends beyond authorial works to include related rights (phonograms) and also includes unpublished works that are publicly accessible as long as 'it is reasonable to assume that the rightholders would not oppose the uses': Art 1(3).

¹⁴⁷ OWD, Art. 1(1) ('publicly accessible libraries, educational establishments and museums, as well as by archives, film or audio heritage institutions and public-service broadcasting organisations')

¹⁴⁸ OWD, Art 6(1).

¹⁴⁹ OWD, Art 2.

¹⁵⁰ OWD, Arts. 2, 3.

¹⁵¹ OWD, Art 3(1).

¹⁵² OWD, Art 3(3) ('a diligent search shall be carried out in the Member State of first publication...').

¹⁵³ OWD, Art 3(4).

¹⁵⁴ OWD, Art 5.

¹⁵⁵ OWD, Art 6(5). Determined by the laws of the country where the organisation using the work is established.

¹⁵⁶ OWD, Art. 4.

¹⁵⁷ COM (2012) 372 final.

On 9 July 2013, the Legal Affairs Committee (JURI) of the European Parliament adopted its report and agreed to start the informal trilogues. Technical meetings took place in mid-September and a number of trilogues were held towards the end of 2013. In February 2014, the Directive was approved in amended form by the European Parliament and adopted.¹⁵⁸ On 26 Feb 2014, the Parliament and Council adopted Directive 2014/26/EU on collective management.¹⁵⁹

The Directive obliges Member States to regulate the substantive content of society-member and society-user relations. The Directive begins by articulating an obligation that Member States ensure that collecting societies act in the best interest of their members,¹⁶⁰ and that Member States ensure that various rights are conferred on rightholders and members,¹⁶¹ and various obligations on societies relating to annual meetings,¹⁶² collection and use of revenue,¹⁶³ deductions,¹⁶⁴ and so on. There are requirements as to distribution,¹⁶⁵ annual royalty statements (specifying deductions),¹⁶⁶ internal handling of complaints,¹⁶⁷ and external adjudication of complaints by 'competent authorities'.¹⁶⁸ The Directive states that rightholder shall have the right to terminate the authorisation to manage rights...upon serving reasonable notice not exceeding six months.¹⁶⁹

The 2014 Directive contains a number of provisions that seek to ensure that Societies which enter into reciprocal relations with other Societies are able to ensure that their members interests are secured. Importantly, for example, no deductions (eg for social and cultural purposes) are to be made by any society for fees it collects on behalf of another society under a representation agreement.¹⁷⁰ The Directive also provides that there shall be no discrimination against rightholders whose rights are managed under a representation agreement,¹⁷¹ and that monies are distributed 'regularly, diligently and accurately'.¹⁷²

The Directive (which is a minimum harmonization instrument) includes provisions that relate to users. These include obligations to conduct negotiations for the licensing of rights 'in good faith',¹⁷³ to base licensing on 'objective and non-discriminatory criteria' and for tariffs to reflect the 'economic value of the use of the rights in trade' and 'the service provided by the collective management organisation'.¹⁷⁴ The Directive requires Member States to provide for disputes to be 'submitted to a court, and if appropriate, to an independent and impartial dispute resolution body'.¹⁷⁵ The Directive has a swathe of more detailed provisions relating to multi-territory licensing.

¹⁵⁸ Directive 2014/26/EU of 26 February 2014 (hereafter 'CMD').

¹⁵⁹ OJ L 84/72.

¹⁶⁰ CMD, Art 4.

¹⁶¹ CMD, Art 5(2) (freedom to appoint collecting society from any Member state), (3) (retention of right to licence non-commercial uses), (4)-(6) (termination)

¹⁶² CMD, Art 8.

¹⁶³ CMD, Art 11

¹⁶⁴ CMD, Art 12. In some countries there a very strong traditions regarding these funds, often leading to deductions of 10% for social and cultural purposes such as pensions, grants, festival support. The Directive permits collecting societies to make deductions from which to operate 'social, cultural or educational' funds. Such deductions may be approved in the annual general meeting, Art 8(5)(d), but under art 12(4) 'such services shall be provided on fair criteria, in particular, as regards access to and the extent o, those services.'

¹⁶⁵ CMD, Art 13(1). Payments must be made within 9 months of the year end in which they were collected.

¹⁶⁶ CMD, Art 16(b), (c), (e), (f)

¹⁶⁷ CMD, Art 34 (requiring writing and reasons)

¹⁶⁸ CMD, Art 37

¹⁶⁹ CMD, Art 5.

¹⁷⁰ CMD, Art 15.

¹⁷¹ CMD, Art 14.

¹⁷² CMD, Art 15(2).

¹⁷³ CMD, Art 16(1).

¹⁷⁴ CMD, Art 16(2).

¹⁷⁵ CMD, Art 35. The body must have 'expertise in intellectual property law.'

Court of Justice Elaboration of the *Acquis*

The Court of Justice has been active in responding to references to national courts on the Directives.

One particular area is in relation to **digital technologies**, where it has recently given decisions on when Internet browsing and hyperlinking require authorisation of the copyright owner.¹⁷⁶ It has also given important rulings on the location of acts of infringement on the internet.¹⁷⁷

Elsewhere the Court has started to build on the framework set out in the directives, reasoning from one Directive to another, to offer up some harmonized norms. The most notable example of this trend relates to the notion of "**originality**". The legislature harmonized the originality requirement in an identical manner for computer programs, photographs, and databases, and the Court has gone on to adopt the same standard for all authorial works, namely that works should only be protected where they are their author's 'own intellectual creations'.¹⁷⁸ However, not all areas are amenable to judicial harmonization,¹⁷⁹ and it is notable that at least one Advocate-General has specifically urged the legislature to pursue 'a much greater level of harmonization'.¹⁸⁰

Stakeholder dialogue is thought by the European Commission to offer a more rapid, and indeed practical responses to difficult challenges. The Commission has had a number of recent successes in brokering agreements between stakeholders, for example on behalf of the visually impaired and publishers, as well as between libraries and publishers). In 2013, a series of "stakeholder" dialogues were held on cross-border access and the portability of services; user-generated content and licensing for small-scale users of protected material; facilitating the deposit and online accessibility of films in the EU; and promoting efficient text and data mining for scientific research purposes. Some of the dialogues were reported to have made some progress while others – user-generated content and data mining – reached no consensus. In these areas, there is a wide gulf between what is acceptable to different stakeholders.¹⁸¹

4.6. The 2014 -2019 Parliament

In December 2012, the Commission announced that in addition to structured stakeholder dialogue, it would continue its review of the EU framework for copyright with a view to a decision in 2014 on whether to table legislative reform proposals.¹⁸² Various reviews of national law, including the UKs *Hargreaves Review*,¹⁸³ and an Irish review (chaired by Eoin O'Dell),¹⁸⁴ indicate that there is a real appetite in member states for reform, particularly with regard to exceptions. At the end of 2013, the Commission opened up these same questions to consultation.

¹⁷⁶ Case C-360/13, in *Newspaper Licensing Agency Ltd v Public Relations Consultants Association* (June 2014) (on browsing); Case C-466/12, *Svensson v. Retriever Sverige AB*, (13 Feb 2014), (CJEU, 4th Ch) (on hyperlinking).

¹⁷⁷ Case C-173/11, *Football Dataco Ltd. v. Sportradar GmbH*, [2013] 1 CMLR (29) 903 (18 Oct. 2012) (CJEU, 3rd Ch).

¹⁷⁸ Software Dir., Art. 1(3); Duration Dir., Art. 6, Recital 17; Database Dir., Art. 3(1); Case C-5/08. *Infopaq Int v. Danske Dagblades Forening*, [2009] ECR-I 6569 (4th Ch), [37] ('copyright within the meaning of Article 2(a) of Directive 2001/29 is liable to apply only in relation to a subject-matter which is original in the sense that it is its author's own intellectual creation.')

¹⁷⁹ In Joined Cases C-457/11, C-458/11, C-459/11 and 460/11, *VG Wort v. KYOCERA Document Solutions Deutschland GmbH*, [AG31] (AG Opinion, 24 Jan 2013), ('there comes a point at which only the legislature is competent to ensure ... evolution.')

¹⁸⁰ Case C-521/11, *Amazon.com International Sales Inc v. Austro-Mechana Gesellschaft zur Wahrnehmung mechanisch-musikalischer Urheberrechte*, (7 March 2013), [AG6] (AG Mengozzi).

¹⁸¹ See *Licences for Europe: Ten Pledges to Bring More Content Online (pledges to work to make licensing easier)*.

¹⁸² Communication on Content in the Digital Single Market COM (IP/12/1394)789 final (18 Dec. 2012).

¹⁸³ Hargreaves, *Digital Opportunity: A Review of Intellectual Property and Growth. An Independent Report by Professor Ian Hargreaves* (May 2011).

¹⁸⁴ *Modernising Copyright: The Report of the Copyright Review Committee* (Dublin, 2013).

Amongst the many issues raised in the consultation are questions relating to the definition of rights (in particular the territorial scope of the making available right), hyperlinking, browsing, exhaustion through distribution online, registration, limitations and exception (including text and data mining and user generated content), private copying (and associated levies),¹⁸⁵ term, ensuring appropriate remuneration for authors. Responses to the Consultation were March 2014 and a **White Paper is expected in the autumn of 2014.**

In the short term, the focus is likely to continue to be on the **scope of rights, exceptions and issues of enforcement.** These might include clarification of some of the questions that the ECJ has been dealing with, such as hyperlinking and the location of various acts (reproduction, making available) when they occur on the Internet. It will very likely include consideration of the impact of these rules on research (for example, text and data mining) and proposals for new exceptions. There may also be consideration of certain practices that have emerged in enforcing copyright, such as "speculative invoicing". The proposal for a Directive on Trade Secrets (discussed later in this document) includes a provision designed to protect people from unjustified claims. As many of these issues are closely connected with uses on the Internet, Parliament should expect to face a range of fiercely held views.

In the medium term, questions will need to be addressed on more thorny issues that have long divided the approaches of countries such as the UK from those of France and Germany: **moral rights** and **copyright contracts.** These topics will be particularly problematic because these are marked differences between different member states. They are also areas of copyright law which are closely intertwined with other areas of national law such as **contract law and labour law.** As such, reform will invariably be caught up in broader debates.

In the longer term, Parliament will wish to consider the merits of **full-scale harmonization** and possibly the creation of a **unitary European copyright.** At present, the Commission consultation asks: "Should this be the next step in the development of copyright in the EU? Does the current level of difference among the Member State legislation mean that this is a longer term project?"¹⁸⁶ An academic group of copyright specialists, the Wittem Group, has sought to pave the way for such a development.¹⁸⁷

The new Commission President Juncker stated in his speech of July 15, 2014, A New Start for Europe: My Agenda for Jobs, Growth, Fairness and Democratic Change that "we will need to have the courage to break down national silos in telecoms regulation, in copyright and data protection legislation...To achieve this, I intend to take, within the first six months of my mandate, ambitious legislative steps towards a connected digital single market, notably by swiftly concluding negotiations on common European data protection rules; by adding more ambition to the on-going reform of our telecoms rules; **by modernising copyright rules in the light of the digital revolution and changed consumer behaviour;** and by modernising and simplifying consumer rules for online and digital purchases."

¹⁸⁵ There has been considerable work already on this issue. See A Vitorino, Recommendations resulting from the Mediation on Private Copying and Reprography Levies (2013), a mediation announced in COM (2011) 287.; E.C., *Fair Compensation for Acts of Private Copying* (Brussels, 14 Feb 2008).

¹⁸⁶ European Commission, *Public Consultation on the Review of the EU Copyright Rules* (2013), 36 Q 79.

¹⁸⁷ For 'The Wittem Code', see www.copyrightcode.eu. For discussion, see T Dreier, 'The Wittem Project of a European Copyright Code', in C Geiger (ed.), *Constructing European Intellectual Property: Achievements and New Perspectives* (2012) Ch 13.

5. TRADE SECRETS

5.1. What are Trade Secrets?

The term 'trade secret' refers to information that possesses commercial value because of its relative secrecy. That is, the possession of the information by one entity, as opposed to potential competitors, offers the possessor significant commercial advantage. The classic example of a trade secret is a secret recipe or formula for producing a marketable commodity that enables its possessor to produce the commodity more cheaply or makes the product more effective. But trade secrets are not confined to "technical trade secrets" and can include information about the sources of materials, customers, or relate to the administrative or organisational working of businesses themselves.

Empirical evidence suggests that businesses regard 'trade secrets' as important assets and rely on such secrecy as part of their innovation strategies.¹⁸⁸ According to Anthony Arundel,¹⁸⁹ empirical surveys "consistently show that manufacturing firms give secrecy a higher average rating [than patents] as an appropriation method for both product and process innovations." Arundel bases his conclusions from data collected in the 1993 (European) Community Innovation Survey (CIS). Taking a subset of 2,849 respondent businesses that reported that they perform R&D on a continuous basis, Arundel analysed replies to the question 'evaluate the effectiveness of the following methods for maintaining and increasing competitiveness of product [or process] innovations introduced during 1990–1992'. The methods included lead time, secrecy, complexity, patents, and design registration, and the respondents were asked to grade the significance from 'insignificant' to 'crucial' on a five-point scale. Most gave the highest rating to lead time (ie the advantage that comes from being first to the market), but 19.8 per cent rated secrecy as 'crucial' for process innovations, while 16.9 per cent rated secrecy 'crucial' for products. This surpassed the relevant figures for patents, which were 7.3 per cent (process) and 11.2 per cent (products). Recognizing problems with the approach taken in collating these figures, Arundel took the raw data to examine the relative rating of patents and secrecy by each respondent: **44.3 per cent rated secrecy more important than patents**, and only 17.5 per cent thought patents were more important than secrets.

5.2. Why Protect Trade Secrets?

There has been much less exploration of the justifications for offering legal protection of trade secrets than other aspects of intellectual property law. Indeed, one of the few sustained analyses conducted in the United States is highly sceptical of whether there is any independent justification for protecting trade secrets. Professor Bob Bone argues that:

"[T]rade secret law is merely a collection of other legal norms—contract, fraud, and the like—united only by the fact that they are used to protect secret information. Neither the fact that a trade secret is information nor the fact that it is a secret provides a convincing reason to impose liability for a non-consensual taking. Trade secret law is in this sense parasitic: it depends on a host theory for normative support."¹⁹⁰

Professor Bone, it should be noted, is not saying that trade secrets should not be legally protected. Rather, he is saying that they should not be protected unless there is some other legal wrong – breach of contract, trespass, theft and so on.

¹⁸⁸ For an overview, see T. Aplin, L. Bently, P Johnson & S Malynicz, *Gurry on Breach of Confidence* (Oxford: OUP, 2012) Ch 1.

¹⁸⁹ A Arundel, 'The Relative Effectiveness of Patents and Secrecy for Appropriation' (2001) 30 *Research Policy* 611, 612.

¹⁹⁰ RG Bone, 'A New Look at Trade Secret Law: Doctrine in Search of a Justification' (1998) 86 *Cal Law Rev* 241, 245.

Others, however, have identified at least five different arguments for the legal protection of trade secrets:¹⁹¹

Incentivizing the creation of information. It is recognised that in the absence of some protection, there will be underinvestment in the creation of valuable intangibles. Patents and copyright operate to correct this market failure, and it may be that trade secret law does so too.¹⁹²

Reducing wasted expense on protection. Absent any legal protection of trade secrets, a business that developed, or held, valuable information would take steps to keep competitors from accessing the information. To do so they would likely limit who had access to the information, and invest in security measures. In turn, competitors who suspected that others had valuable information would spend money trying to access it. An 'arms race' of defensive and offensive action would ensue, all involving unproductive expenditure. Trade secrets law reduces the level of private "wasted" investment in protecting, and uncovering, existing trade secrets, and, as such, improves overall welfare.¹⁹³

To prevent the unjust enrichment of one person at the expense of another. The contention is that it is ethically wrong for one business to gain the information of another—and thus be 'enriched'—by means which are 'unfair' (and hence 'unjust'). The use of information that has been given in confidence is just such unfair enrichment, as is the acquisition of information that is revealed in breach of contractual or other relations of confidence or by other reprehensible means.

To preserve and promote ethical standards of conduct. It is sometimes said that trade secrets deserve protection in order to uphold standards of 'business ethics'. The First Restatement of Torts in the United States, for example, explains that trade secret 'protection is merely against breach of faith and reprehensible means of learning another's secret'.

National economic interests. The argument is simply that the creation of valuable commercial information underpins the EU's economy and, if such information is not protected, the economies of other countries will benefit from such information and ultimately become more competitive. This is particularly significant in relation to trade secrets, because it is in relation to knowledge generation (rather than labour costs, mineral or agricultural resources), that the EU retains a 'comparative advantage' over other countries active in the 'global economy'. Arguments of this sort informed the US Economic Espionage Act (which criminalized misappropriation of trade secrets in US federal law).

These potential reasons need to be set against important harms. Protecting trade secrets, in so far as it offers protection that is preferred to patent law, **undermines patent law's goal of incentivising disclosure of technical data.** In this respect, it has been recognised that it is important the trade secret law is relatively weak, so that incentives exist, where appropriate, to seek patents. One such "weakness" is provided in many legal systems by ensuring "reverse engineering" is permissible and not regarded as involving violation of trade secrets.

Broad protection of trade secrets may also endanger valuable competition. An important literature from the US has highlighted **the importance of employee mobility**, and the

¹⁹¹ For further exploration of these arguments, see T. Aplin, L. Bently, P. Johnson & S. Malynicz, *Gurry on Breach of Confidence* (Oxford: OUP, 2012) Ch 3.

¹⁹² *Kewanee Oil v Bicron* 416 US 470, 481 (1974). According to Burger CJ, "Trade secret law will encourage invention in areas where patent law does not reach, and will prompt the independent innovator to proceed with discovery and exploitation of his invention. Competition is fostered and the public is not deprived of the use of valuable, if not quite patentable, invention information; the inventor will know that ... he will be able to recoup his investment with relatively little risk from poachers".

¹⁹³ Landes and Posner, *The Economic Structure of Intellectual Property Law*, 354–71.

so-called “technological spillovers” associated with such mobility, in producing competition and innovation amongst hi-technology firms. Indeed, some studies claim that one reason for the emergence of Silicon Valley came from the mobility engendered by legal rules that prohibited so called “restrictive covenants.” Similar reasoning applies to protection of trade secrets. Employee mobility can only be assured if broad freedoms are offered to ex-employees to utilise skill and knowledge gained in previous employment. This suggests that only easily identifiable, discrete information of obviously high value, should be capable of protection against ex-employees. A broad and/or vague conception of trade secrecy could facilitate legal actions to harass ex-employees and impede competition.

Moreover, protection of trade secrets involves many of the dangers widely acknowledged with secrecy: it can shield businesses, and indeed governments, from **justified scrutiny**. Trade secret law, and confidentiality more generally, has been used as a mechanism to cover up wrong-doing, to impede attempts at ensuring that employees are not subject to discrimination (on gender or racial lines),¹⁹⁴ as well as to shield poor decision-making by government (particularly in procurement matters) from scrutiny.

5.3. EU Harmonization Efforts

Rules relating to trade secrets vary significantly from one country to another. In England, Scotland and the Republic of Ireland, trade secrets have typically been protected through a combination of contract law, labour law and the doctrine of “breach of confidence.” In other European countries, protection of trade secrecy falls within the concept of “unfair competition.”¹⁹⁵ In some countries, the primary vehicle for protection of trade secrets has been the criminal law.¹⁹⁶

The 1994 TRIPS Agreement requires members to afford protection to those who lawfully control ‘undisclosed information’. More specifically, Article 39 of TRIPS states that, in the course of providing protection against unfair competition (as required by Article 10*bis* of the Paris Convention), members shall provide natural and legal persons with the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practice. Article 39 requires information to be protected if it is secret, has commercial value because it is secret, and has been subject to reasonable steps to keep it secret.

The European Commission has been interested in the topic since 2011, when it put out tenders for a report on the state of the law,¹⁹⁷ followed by a further report on the role of trade secrets for innovation.¹⁹⁸ These studies identified widespread variations in the laws of Member States. The Commission is of the view that this impacts on cooperation across borders and. According to the Impact assessment¹⁹⁹

“Two main problems have been identified:

- (1) Sub-optimal incentives for cross-border innovation activities. When trade secrets are under a risk of misappropriation with ineffective legal protection, incentives to undertake innovation activities (including at cross-border scale) are affected
- (2) Trade secret-based competitive advantages are at risk (reduced competitiveness): the fragmented legal protection within the EU does not guarantee a comparable scope of protection and level of redress within the

¹⁹⁴ Through restrictions on disclosure of information about pay and conditions.

¹⁹⁵ Hogan Lovells International, *Study on Trade Secrets and Parasitic Copying (Look-alikes)*, MARKT/2010/20/D: *Report on Trade Secrets for the European Commission* (2011), [251]-[252]

¹⁹⁶ *Ibid*, [254]-[256].

¹⁹⁷ *Ibid*.

¹⁹⁸ Baker & Mackenzie, *Study on Trade Secrets and Confidential Business Information in the Internal Market*, MARKT/2011/128/D (2013).

¹⁹⁹ Commission Staff Working Document, *Executive Summary of the Impact Assessment*, Brussels, 28.11.2013 SWD(2013) 472 final, 4. *Explanatory Memorandum*, COM/2013/0813 final - 2013/0402 (COD), 5.

Internal Market, thus putting trade-secret based competitive advantages, whether innovation-related or not, at risk and undermining trade secret owners' competitiveness."

In **November 2013, the Commission issued a proposal for a Directive**.²⁰⁰ The **legal basis** for the proposed intervention is Article 114 (the Internal Market). The proposal explains:

"The existing national rules offer an uneven level of protection across the EU of trade secrets against misappropriation, which jeopardises the smooth functioning of the Internal Market for information and know-how."²⁰¹

One commentator, has observed, however, that "**only a modest amount of harmonization is likely to ensue** from implementation of this Directive."²⁰² The proposed amendments by the Council would reduce still further the harmonizing effect, raising doubts as to the appropriate legal basis for the proposal.

The Commission proposal would require Member states to offer protection against the unlawful acquisition, use and disclosure of trade secrets. The proposal does not define the type of protection: it does not, for example, require that trade secrets are treated as 'property' or 'intellectual property' or that protection be afforded under the rubric of 'unfair competition'. Rather the Commission proposal requires that various types of 'measures, procedures and remedies' be available in order to prevent, or obtain redress for, the unlawful acquisition, use or disclosure of a trade secret.

It is proposed to adopt the definition of subject matter utilized in Article 39 of the TRIPs Agreement.²⁰³ This, of course, represents a minimum standard in TRIPs, whereas in the context of a harmonizing Directive also defines the limits of Member States law (on this topic).²⁰⁴ In that respect it is worth noting that the definition includes a condition, namely, that 'the information has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.'²⁰⁵

The proposal seeks to define the circumstances when acquisition, use or disclosure is unlawful. Acquisition would be unlawful where the information is acquired by bribery, theft, inducing breach of confidence or 'any other conduct which, under the circumstances, is considered contrary to honest commercial practices.'²⁰⁶ The latter phrase is derived from Article 10bis of the Paris Convention.

There are important **safeguards** for **independent creation** and **reverse engineering**. Under proposed Article 4(1), the acquisition of trade secrets is said to be lawful when obtained by 'independent discovery or creation' or the 'observation, study, disassembly or test of a product or object that has been made available to the public or that it is lawfully in the possession of the acquirer of the information.'²⁰⁷²⁰⁸

²⁰⁰ Proposal for a Directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure, COM/2013/0813 final - 2013/0402 (COD).

²⁰¹ *Explanatory Memorandum*, COM/2013/0813 final - 2013/0402 (COD), 6.

²⁰² Tanya Aplin, 'A Critical Evaluation of the Proposed EU Trade Secrets Directive', King's College, London, Working Paper, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2467946

²⁰³ Proposed Dir., Art 2. Note also recital 8 (such definition s and should not extend to the knowledge and skills gained by employees in the normal course of their employment and which are known among or accessible to persons within the circles that normally deal with the kind of information in question).

²⁰⁴ Proposed Dir., Recital 8.

²⁰⁵ Proposed Dir., Art 2(1)(c). The requirement can be traced back to the US Uniform Trade Secrets Act. On this aspect of US law, see especially Bob Bone, 'Trade Secrecy, Innovation and the Requirement of Reasonable Secrecy Precautions', in R. Dreyfuss and K. Strandburg (eds), *The Law and Theory of Trade Secrecy: A Handbook of Contemporary Research* (Edward Elgar, 2012).

²⁰⁶ Proposed Dir, Art 3(2)(f).

²⁰⁷ Proposed Dir, Recital 10.

²⁰⁸ Cf. the position under current German law, where reverse engineering may not be permissible.

Moreover, the proposal explicitly deals with products made using trade secrets, which it designates 'infringing goods.' It is intended to provide that 'the conscious and deliberate production, offering or placing on the market of infringing goods' shall be considered an unlawful use of a trade secret. 'Infringing goods' are defined as good 'whose design, quality, manufacturing process or marketing *significantly* benefits from trade secrets unlawfully acquired, used or disclosed.'²⁰⁹

The proposed Directive is general in its terms and thus appears applicable to trade secrets held by **employees, and ex-employees**. Article 3(3) as to when the use of a trade secret should be unlawful seems applicable to employees and ex-employees. Recital 8 states that the definition of a trade secret 'not extend to the knowledge and skills gained by employees in the normal course of their employment and which are known among or accessible to persons within the circles that normally deal with the kind of information in question' Article 4(2)(e), which prevents the use of measures against a person whose acquisition, use or disclosure is 'for the purpose of protecting a **legitimate interest**' might offer ex-employees some freedom.²¹⁰

The proposal contains **safeguards that would protect the 'public interest'** in ensuring certain information is disclosed. More specifically, proposed Article 4(2) states that Member State should ensure that measures to prevent use or disclosure are not available when it is 'for making legitimate use of the right to **freedom of expression** and information' or 'for the purpose of **revealing an applicant's misconduct**, wrongdoing or illegal activity, provided that the alleged acquisition, use or disclosure of the trade secret was necessary for such revelation and that the respondent acted in the public interest.'²¹¹

The proposal would require Member states to offer a whole panoply of **civil law procedures and remedies**, including measures to keep information secret during litigation,²¹² interim relief,²¹³ injunctions,²¹⁴ destruction of infringing good,²¹⁵ and damages.²¹⁶ There is much here that replicates the Enforcement Directive. However two provision are particularly worth noting. First, Article 7 proposes a **limitation period of 2 years** (shorter than that under the civil law in many Member states). Second, Article 8 empowers the courts to **restrict access to information during trial** in order to maintain its confidentiality. Most radically, the court might prevent the information from being disclosed to the alleged infringer, but only to his or her legal representative and experts (who would be subject to confidentiality obligations).²¹⁷

The proposed Directive would also require Member states to offer remedies for **abusive actions**, that is, in cases where actions for misuse of trade secrets are themselves misused.²¹⁸ This is a significant proposal, not seen elsewhere in the intellectual property legislation (though consideration might be given to such a general rule).

There is no proposal on criminal sanctions.

²⁰⁹ Proposed Dir, Art 2(4).

²¹⁰ For example, Article 16 of the Charter protects the freedom to conduct a business.

²¹¹ Recital 12.

²¹² Proposed Dir. Art 8.

²¹³ Proposed Dir, Arts 9-10.

²¹⁴ Proposed Dir., Arts 11-12.

²¹⁵ Proposed Dir, Art 11(2)(d), (e), 11(3).

²¹⁶ Proposed Dir, Art 13,

²¹⁷ Proposed Dir. Art 8. In exceptional circumstances, and subject to appropriate justification, the competent judicial authorities may restrict the parties' access to those hearings and order them to be carried out only in the presence of the legal representatives of the parties and authorised experts subject to the confidentiality obligation."

²¹⁸ Proposed Dir., Art 6(2).

5.4. The 2014 - 2019 Parliament

The Commission's proposal has been the subject of significant debate in Council, and has been subject to substantial modification. On 26 May, 2014 the Council adopted its 'general approach'.²¹⁹

The main amendments promoted by the Council are:

(1) Clarifying that this is a **minimum harmonisation** of the different civil law regimes, whilst allowing member states to apply stricter rules, albeit with certain safeguards for example in defining lawful acquisition of information (Council General Approach, Article 1);

(2) Redefining the (minimum) circumstances in which acquisition, use or disclosure of trade secrets would be unlawful **by removing the requirement of scienter** in relation to acquisition, use or disclosure (the proposal refers to 'gross negligence or intention' but in the common approach adopted in Council this is removed) and marketing of infringing goods (the proposal says this is unlawful where 'conscious and deliberate');²²⁰

(3) Redefining the circumstances in which acquisition of trade secrets would be unlawful by reducing the examples of conduct which is contrary to honest commercial practices in Article 3(2)

(4) Redefining the circumstances in which acquisition would be lawful, in particular, by narrowing the "**reverse engineering**" provision in Article 4(1)(b) of the proposal, which states that it is lawful to

"observation, study, disassembly or test of a product or object that has been made available to the public or that it is lawfully in the possession of the acquirer of the information"

by adding the condition that the acquirer must be "free from any legally valid duty to limit the acquisition of the trade secret."

(5) Adding a new clause stating that acquisition, use and disclosure is lawful "to the extent that [it]...is required or allowed by Union or national law."²²¹

(6) Replacing the Commission proposal for a two year **limitation** period for claims or bringing actions before courts, with one of **six years**; ²²²

(7) Modifying the proposal's the **preservation of confidentiality** in the course of legal proceedings, to ensure that the rights of the parties involved in a trade secret litigation case are not undermined by allowing for the creation of "confidentiality clubs" but stating that they **should include "at least one person from each party**, its respective lawyer or representative to the proceedings...";

(8) Qualifying the right of the trade secret holder to claim damages in relation to **employees** by permitting Member states to restrict liability for in case of violation of a trade secret if acting **without intent**.²²³

The European Economic and Social Committee issued an opinion on March 24, 2014, in support of the proposal. The rapporteur was Pedro Augusto Almeida Freire.²²⁴ The European Data Protection Supervisor delivered its opinion on March 12, 2014.²²⁵

²¹⁹ Council Doc 9870/14, Brussels, May 19, 2014. These amendments are also analysed in Tanya Aplin, 'A Critical Evaluation of the Proposed EU Trade Secrets Directive', King's College, London, Working Paper, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2467946

²²⁰ Council, General Approach, Art 3(2), (3), (5).

²²¹ Council, General Approach, Art 4(1)(a).

²²² Council, General Approach, Art 7.

²²³ Council, General Approach, Art 13, para 2.

²²⁴ [OJ C/2014/226/48](http://eur-lex.europa.eu/legal-content/EN/OJ/2014/226/48).

The Legal Affairs Committee has yet to examine the proposal systematically.²²⁶ It has appointed a rapporteur, Marielle Gallo (France, EPP/Christian Democrats), who recently was the rapporteur for JURI in relation to the directive on regulation of Collective Management Organisations (see Chapter 4).

6. OTHER ASPECTS: ENFORCEMENT, INTERNATIONAL ACTIVITY

There is persistent concern with issues of enforcement of intellectual property rights both within the EU and internationally.

6.1. Private International Law

If infringing goods are made in one country but advertised via the Internet and transmitted (electronically or by post) to another country, where can or must an action be brought? What law is to be applied in such cases?

The European Union has adopted a Regulation governing jurisdiction and recognition of judgments (based on the Brussels Convention of 1968).²²⁷ These are general instruments but with implications for intellectual property rights, particularly given the increasing concerns over cross-border infringement. The EU's 'Rome II' Regulation adopts the principle that the *lex protectionis* is the applicable law in the case of non-contractual actions relating to intellectual property rights.²²⁸

The basic rule of the Brussels Regulation is that a person domiciled in a member state should be sued in the courts of that state.²²⁹ Consequently, a British copyright owner must normally bring an action against a French infringer in French courts—the domicile of the claimant and the familiarity of the court with the relevant law being largely irrelevant. There are five qualifications to this basic rule that need to be noted, as follows

(i) Where the matter involves a tort, a claimant *may* bring an action in the place where the harmful event occurred.²³⁰

(ii) Where there are a number of defendants, an action may be brought in the country in which any one of the defendants is domiciled.²³¹

(iii) An action can be brought in a country other than that of the defendant's domicile if both parties agree.²³²

(iv) In proceedings concerned with the registration or validity of patents, trade mark, designs, or other similar rights required to be deposited or registered, the courts of that state have exclusive jurisdiction.²³³

²²⁵https://secure.edps.europa.eu/EDPSWEB/webdav/site/mySite/shared/Documents/Consultation/Opinions/2014/14-03-12_TRADE_SECRETS_EN.pdf

²²⁶ It was discussed at the meeting of 19 March 2014 and the EP Policy Department provided an in-depth analysis in the meeting of 7 April 2014 EP 493 055.

²²⁷ Regulation (EC) No. 44/2001 of 22 December 2000 on jurisdiction and recognition and enforcement of judgments [2001] *OJ L* I2/1.

²²⁸ Regulation (EC) No. 864/2007 of 11 July 2007 on the law applicable to non-contractual obligations [2007] *OJ L* 199/40 (31 July 2007) ('Rome II'), Art. 8. The concept of intellectual property is defined, by example, in Recital 21. A different principle applies to cases of 'unfair competition'.

²²⁹ Brussels Reg., Art. 2 (ex Brussels, Art. 2). 6, 4.

²³⁰ Brussels Reg., Art. 5(3).

²³¹ Brussels Reg., Art. 6(1).

²³² Brussels Reg., Art. 23.

²³³ Brussels Reg., Art. 22(4).

- (v) Different rules apply in relation to preliminary measures.²³⁴

The 2009 - 2014 Parliament saw a number of important cases decided by the CJEU interpreting these provisions jurisdiction (which in turn reflect great uncertainty in the courts of Member States). The case-law on both the “place of the harmful event” (for article 5(3)),²³⁵ and co-defendant rules (Article 6(1)) can be said to be in the process of elaboration and at present is anything but coherent.²³⁶ This is not the place to offer further detail, though the topic is one with which the EU legislature needs to be concerned.

6.2. Remedies and enforcement

The EU has sought to harmonize certain aspects of civil remedial law in the **Enforcement Directive**.²³⁷ The Directive requires that the courts of member states make available certain procedures and remedies: seizure orders,²³⁸ disclosure orders,²³⁹ interim injunctions,²⁴⁰ final injunctions,²⁴¹ publicity orders,²⁴² as well as financial remedies.²⁴³ The Directive sets out certain standards, in particular ‘proportionality’, that are to be taken into account when applying its provisions.²⁴⁴ The Directive does not deal with criminal liability. Not long after the Enforcement Directive was adopted, a concerted attempt was made to introduce a directive requiring criminal remedies.²⁴⁵ In the face of doubts over competence to legislate in relation to criminal matters, however, the proposal was abandoned. Although criminal sanctions for infringement of IP remains a matter of national law, there is some oversight, in particular via the European Court of Human Rights, to ensure fundamental rights and freedoms are not compromised.²⁴⁶

The most important developments in relation to enforcement during the Parliament of 2009 - 2014 has been through the Court of Justice. One focus has been “intermediaries”, particularly ‘online intermediaries’, such as service providers whose services support websites featuring infringing material, and those that offer their customers access to websites that themselves are infringing.²⁴⁷ Under Article 11 of the Enforcement Directive, member states are required to make provision for right holders ‘to apply for an injunction against intermediaries whose services are used by third parties to infringe an intellectual property right’. A parallel provision, applicable to copyright and related rights can be found in Article 8(3) of the Information Society Directive.²⁴⁸ The

²³⁴ Brussels Reg., Art. 31.

²³⁵ *Football Dataco Ltd v. Sportradar GmbH*, Case C-173/11 [2013] 1 CMLR 29 (ECJ, Third Chamber) (taking a targeting approach in relation to database right); *Wintersteiger AG v. Products 4U Sondermaschinenbau GmbH*, Case C-523/10 (19 April 2012) (ECJ, First Chamber) (for trade marks, place of D’s establishment); *eDate Advertising GmbH v. X*, Case C-509/09 [2011] ECR I-10269 (ECJ, Grand Chamber) (in personality rights cases, place of claimant’s centre of interests); *Pinckney v. KDG Mediatech AG*, Case C-170/12 [2014] FSR (18) 354 (ECJ, Fourth Chamber) (in copyright cases, the country where infringement is said to have occurred necessarily has jurisdiction as place of damage).

²³⁶ *Solvay SA v. Honeywell Fluorine Products Europe BV*, Case C-616/10 (12 July 2012) (ECJ, Third Chamber); *Eva-Maria Painer v. Standard VerlagsGmbH and ors*, Case C-145/10 [2012] ECDR (6) 89, (ECJ, Third Chamber).

²³⁷ Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights [2004] OJ L 195/16.

²³⁸ Enforcement Dir., Art. 7.

²³⁹ Ibid., Art. 8.

²⁴⁰ Ibid., Art. 9.

²⁴¹ Ibid., Art. 11.

²⁴² Ibid., Art. 15.

²⁴³ Ibid., Art. 13.

²⁴⁴ Ibid., Art. 3.

²⁴⁵ European Commission, *Proposal for a Directive on Criminal Measures Aimed at Ensuring the Enforcement of Intellectual Property Rights* (July 2005) COM(2005) 276 final; *Amended Proposal* (March 2008) COM(2006) 0168 final.

²⁴⁶ See e.g. *Neij and Kolmisoppi (The Pirate Bay) v. Sweden*, App. No. 40397/12 [2013] ECDR (7) 213 (ECtHR, Fifth Section).

²⁴⁷ *LSG-Gesellschaft zur Wahrnehmung von Leistungsschutzrechten GmbH v. Tele2 Telecommunication GmbH*, Case C-557/07 [2009] ECR I-1227, [46]; *UPC Telekabel Wien GmbH v. Constantin Film Verleih GmbH, Wega Filmproduktionsgesellschaft mbH*, Case C-314/12 (27 March 2014) (ECJ, Fourth Chamber).

²⁴⁸ Info. Soc. Dir. Art. 8(3).

rationale is that such intermediaries are often 'best placed to bring such infringing activities to an end'.²⁴⁹ There is no need to establish that the intermediary is liable either as a primary or secondary infringer. Member states are free to establish the 'conditions and modalities' of implementation.²⁵⁰

In *eBay*,²⁵¹ the Court of Justice held that trade mark owners could secure, against the operator of an online marketplace by means of which their rights have been infringed, injunctions requiring the operator to take measures to prevent future infringements of those rights. The Court indicated that the precise measures were for national courts to devise using the procedural devices available to them. The Court said that the measures must be 'effective and dissuasive', 'proportionate', and must 'strike a fair balance between the various rights and interests'.²⁵² A similar approach has been taken to intermediaries which facilitate copyright infringements. The Court has held that as long as the Court balances appropriately the rights and freedoms of the parties, **an order that an internet service provider block access to particular sites (where infringing material is made available) might be justified.**²⁵³ It seems conceivable that similar orders might be made against search engines that provide access to infringing sites, perhaps by requiring 'de-indexing'. However, the Court said that it would be **inappropriate to grant an injunction that would compel a social networking site to install a filtering system**, because orders that require service providers to monitor the activities of their customers are precluded by the e-Commerce Directive,²⁵⁴ and it has been held that this necessarily precludes systems designed to filter copyright material.²⁵⁵

In addition, the European Union has also adopted measures that **regulate the external borders** of the Union. More specifically, it has put in place mechanisms that ensure that goods that infringe intellectual property rights can be retained by customs authorities when they are introduced into or exported from the Community.²⁵⁶ The so-called '**Border Measures Regulation**' of 2013 repealed and replaced an earlier Regulation from 2003.²⁵⁷ In 2012, using the European procedure then in place, there were more than 90,000 interceptions of goods, said to have a value of some Euro 1 billion, and the bulk of which (65 per cent) came from China. The most frequently seized goods were cigarettes (30 per cent), but 10 per cent was washing powder and 8 per cent of the goods seized were clothes.²⁵⁸

The European regulations establish mechanisms that ensure that goods that infringe intellectual property rights, other than travellers' personal luggage,²⁵⁹ can be retained by customs authorities when they are introduced into the European Union. The Border Measures Regulation defines 'intellectual property rights' in Article 2(1) to cover goods infringing rights in trade marks, designs, copyright and related rights, geographical indications, patents, plant breeders' rights, and supplementary protection certificates, plus

²⁴⁹ Info. Soc. Dir., Recital 59.

²⁵⁰ Info.Soc.Dir., Recital 59.

²⁵¹ *L'Oréal SA v. eBay International AG*, Case C-324/09 [2011] ECR I-6011, [128]–[143].

²⁵² *Ibid.*, [136]–[143].

²⁵³ See *UPC Telekabel Wien GmbH v. Constantin Film Verleih GmbH, Wega Filmproduktionsgesellschaft mbH*, Case C-314/12 (27 March 2014) (ECJ, Fourth Chamber).

²⁵⁴ e-Commerce Dir., Art. 15; *Scarlet Extended*, Case C-70/10 [2011] ECR I-11959, [35]; *SABAM v. Netlog NV*, Case C-360/10 (16 February 2012) (ECJ, Third Chamber), [33].

²⁵⁵ *Scarlet Extended*, Case C-70/10 [2011] ECR I-11959, [39]–[40]; *SABAM v. Netlog NV*, Case C-360/10 (16 February 2012) (ECJ, Third Chamber), [37]–[38].

²⁵⁶ Regulation (EU) No. 608/2013 of 12 June 2013 concerning customs enforcement of intellectual property rights and repealing Council Regulation (EC) No. 1383/2003 [2013] OJ L 81/15 (the 'Border Measures Regulation').

²⁵⁷ *Ibid.*

²⁵⁸ European Commission, *Customs Action to Tackle IPR Infringing Goods: Frequently Asked Questions* (5 August 2013) IP/13/738.

²⁵⁹ BMR, Art. 1(4) (goods of a non-commercial nature contained in a traveller's personal luggage). But goods sent from outside the European Union to a personal address within are liable to seizure if they would be infringing within the Union: *Blomqvist v. Rolex SA*, Case C-98/13 (6 February 2014) (ECJ, Second Chamber).

national laws of utility models and trade names.²⁶⁰ The Regulation does not apply to parallel imports or overruns.²⁶¹

Provisions are made in the Border Measures Regulation for a proactive intellectual property rights holder who gets wind of the fact that goods are going to be imported to make an 'application for Customs action'—that is, the right holder can apply to the relevant customs authorities designated by each member state to detain the goods, should they come into its hands.²⁶² If the customs office comes across goods that it suspects are infringing (within the decision), 'it shall suspend release of the goods or detain them'.²⁶³ Right holders are given information necessary to assist them in establishing whether an intellectual property right has been infringed, including the opportunity to inspect the goods and to remove samples for analysis.²⁶⁴

Even if advance warning has not been given, but the relevant authority has sufficient grounds for suspecting that goods are infringing, the Regulation empowers the authority to prevent their transit temporarily.²⁶⁵ The authority will attempt to contact the relevant intellectual property right holder, who must complete the standard application for customs action within four days.

The customs office will not detain the goods indefinitely. **Under the newly formulated Regulation**, it seems that there are three possible scenarios that might ensue. First, the intellectual property right holder may take no further action. If so, the customs office should release the goods after ten days.²⁶⁶ Second, the intellectual property right holder (or other relevant third party) may commence an action for infringement in the relevant national tribunal (which could be a court or administrative body, depending of national provisions).²⁶⁷ If this occurs, and the right holder informs the authority, detention of the goods can be continued pending the outcome of proceedings.²⁶⁸ However, since that may not be for some time, the owner of the goods has an option of seeking the release of the goods on condition that they provide an appropriate security.²⁶⁹ This option, it should be noted, is available only where the allegation is infringement of patent, design, plant breeders' right, utility model, or semi-conductor topography right (and thus not in cases of infringement of copyright, trade marks, or geographical indications). If the goods are found to be infringing at the substantive hearing, the competent authorities are empowered to destroy the goods and to take any measures that deprive the persons concerned of the economic benefits of the transaction.²⁷⁰ Removing trade marks affixed to counterfeit goods is not normally regarded as sufficient.²⁷¹

The third scenario is that **the goods may be destroyed**. Here two procedures are available: a general one; and one concerned with small packages. First, the parties may agree to destruction of the goods without the need for proceedings.²⁷² The second procedure for destruction relates to '**small consignments' (that is, posted parcels comprising fewer than three items and weighing under 2 kilos), where the goods are counterfeit or pirated**'.²⁷³ Here, the customs authority may give the declarant or

²⁶⁰ BMR., Art. 2.

²⁶¹ BMR, Art. 1(5).

²⁶² BMR, Art. 5. Apparently, in 2012, there were 23,134 such applications.

²⁶³ BMR, Art. 17(1). If it fails to detect them, the authority is not liable to the right holder: BMR, Art. 27.

²⁶⁴ BMR, Arts 17(3), (4), 18(5), 19.

²⁶⁵ BMR, Arts 18, 5(3).

²⁶⁶ BMR, Art. 23.

²⁶⁷ *Sintex Trading v. Maksu ja Tolliamet*, Case C-583/12 (9 April 2014) (ECJ, Second Chamber).

²⁶⁸ BMR, Art. 23.

²⁶⁹ *Ibid.*

²⁷⁰ BMR, Art. 17.

²⁷¹ *Ibid.*

²⁷² BMR, Art 23. Until 1 January 2014, this procedure was optional for member states. It is now mandatory.

²⁷³ BMR, Art. 26(6). For the definition of pirated or counterfeit goods, see Art. 2(5) and (6). This covers certain infringements of copyright, related rights, and designs, trade marks, and geographical indications.

holder notice of its intention to destroy the goods.²⁷⁴ The 'declarant or holder' has ten days in which to respond to such a notice and may agree to destruction, or oppose it, or, in some cases, will 'be deemed to have agreed'.²⁷⁵ Where there is agreement, or deemed agreement, the goods may be destroyed.²⁷⁶

The EU has also established the European Observatory on Infringements of Intellectual Property Rights.

According to a recent Communication, the Commission is launching a new Communication on an Action Plan addressing Intellectual Property infringements in the EU. The Communication states that "non-legislative actions are envisaged in promoting proportionate and equitable IP enforcement measures, and prioritising policy actions to bring more focus, better coordination and streamlining to current policies in protecting IPR."²⁷⁷

International action

Improving "enforcement" of IPRs also involves taking action outside the EU – particularly encouraging third countries to adopt equivalent levels of intellectual property protection, and enforce those standard.

During the Parliament of 2009 - 2014, the EU was involved in agreeing a number of important treaties, both negotiated by WIPO: the Beijing Treaty on Audiovisual Performances, signed in 2012, and the Marrakesh Treaty for the Visually Impaired, signed in 2013.

However, by far the most high-profile development was the Anti-Counterfeiting Trade Agreement. The ACTA was a plurilateral trade agreement, negotiated outside the WTO or WIPO, in secret. The agreement related largely to remedies, and from a European perspective did not go very much beyond what was already in place.²⁷⁸

The agreement was signed in October 2011 by Australia, Canada, Japan, Morocco, New Zealand, Singapore, South Korea, and the United States. In 2012, 22 countries which are member states of the European Union signed as well.

Elsewhere, criticism of the agreement that had been widespread amongst civil society groups grew into outright opposition. The MEP, Kader Arif (FR, S), resigned his position as rapporteur in January 2012. In February 2012, there were widespread public protests. Ultimately, on 4 July 2012, the European Parliament rejected the ACTA 478 votes to 39, with 165 abstentions. So far, only Japan has ratified ACTA.

The Commission has reflected on the experience with ACTA. A recent Communication observes:

"There are different reasons for the failure of these initiatives, but a common thread was a view that public concerns had not been sufficiently taken into account, e.g. whether these rules were fit for a digital economy or the impact these measures might have on fundamental rights as well as what is referred to as 'internet freedoms'."²⁷⁹

²⁷⁴ BMR, Art. 26(1).

²⁷⁵ BMR, Art. 26(6).

²⁷⁶ BMR, Art. 26(7). Otherwise, the right holder is informed and, if it takes no action, the goods will be released.

²⁷⁷ Communication from the Commission, *Trade, growth and intellectual property - Strategy for the protection and enforcement of intellectual property rights in third countries*, COM(2014) 389 final, 13.

²⁷⁸ For a detailed analysis of how it in fact did do so, see Opinion of European Academics, at http://www.iri.uni-hannover.de/tl_files/pdf/ACTA_opinion_200111_2.pdf

²⁷⁹ Communication from the Commission, *Trade, growth and intellectual property - Strategy for the protection and enforcement of intellectual property rights in third countries*, COM(2014) 389 final, 12.

6.3. The 2014 -2019 Parliament

A number of further international developments can be expected over the term of the next Parliament.

Multilateral

For over a decade, WIPO has been actively promoting a new treaty in relation to broadcasting organisations. Even though much of the content of the proposed treaty echoes that which was adopted for copyright, sound recordings, and performers in the two 1996 Treaties, one recurring issue has been the best way to deal with internet services which are similar to broadcasting. There had been some hope for a diplomatic conference in 2014.²⁸⁰

Second, the Standing Committee has been considering some sort of instrument on exceptions to copyright for libraries and archives and educational institutions.

Third, WIPO has long been involved examining possible systems of protection for so-called 'traditional cultural expressions'. In reflection of the fact that many indigenous cultures do not draw a rigid line between art and science in the way that Western cultures often do, WIPO's activities extend beyond copyright to include patents, trade marks, and other related rights. The work is conducted by the Intergovernmental Committee on Intellectual Property and Genetic Resources, Traditional Knowledge and Folklore and considerable progress has been made towards a draft, though it contains so many options (as to what counts as TCE and what protection should be afforded) that it resists summary.²⁸¹ The WIPO General Assembly will decide in September 2014 on whether sufficient progress has been made to warrant convening a Diplomatic Conference.²⁸²

Fourth, longstanding negotiations have been taking place in the WTO over Geographical indications and will continue to be pursued by the EU.²⁸³

Bilaterals

The EU is in the process of negotiating the so-called Transatlantic Trade and Investment Partnership (TTIP) with the US. The details of this are not yet publicly available, but the Parliament will want to examine this closely. It may be interesting to note in this context that a recent study by the European Commission, using a survey of 330 European businesses, indicated that North America is by far the most important trading partner region for Europe for patent licenses.²⁸⁴ Other negotiations on trade agreements include those with Mercosur, Morocco, Japan, Thailand, and Vietnam. A bilateral agreement dealing with the protection of geographical indications is being mooted with China.²⁸⁵

²⁸⁰ There is also a parallel initiative in the Council of Europe. For discussion, see *European Commission v. Council of the European Union*, Case C-114/12 (3 April 2014), [AG2]-[AG8], [AG122]-[AG139], (AG Sharpston).

²⁸¹ The draft provisions on TCEs are contained in WIPO/GRTKF/IC/25/7, July, 2013

²⁸² Assemblies of Member States of WIPO Forty-Third (21st Ordinary) Session, Sept 23 - Oct 2, 2013.

²⁸³ Communication, *Trade, growth and intellectual property*, COM(2014) 389 final, 14.

²⁸⁴ Radauer and Dudenbostel, 'PATLICE Survey – Survey on patent licensing activities by patenting firms' (2013), European Commission, Brussels, <http://ec.europa.eu/research/innovation-union/pdf/patllice-survey.pdf>

²⁸⁵ Ibid 15.

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