

Opinion of the European Economic and Social Committee on the ‘Proposal for a Directive of the European Parliament and of the Council on measures and procedures to ensure the enforcement of intellectual property rights’

(COM(2003) 46 final — 2003/0024 (COD))

(2004/C 32/02)

On 4 March 2003 the Council decided to consult the European Economic and Social Committee, under Article 95 of the Treaty establishing the European Community, on the above-mentioned proposal.

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee’s work on the subject, adopted its opinion on 7 October 2003. The rapporteur was Mr Retureau.

At its 403rd plenary session of 29 and 30 October 2003 (meeting of 29 October), the European Economic and Social Committee adopted the following opinion by 115 votes to one with four abstentions.

I. Presentation and summary

1. Objectives

1.1. Following a series of initial (and still incomplete) vertical texts, including current and draft legislation on industrial property (patents, Community trade mark, trade marks and designs, trade names — referred to henceforth as IP) and literary and artistic property (copyright and related rights, *ad-hoc* rights, resale rights, artists’ and publishers’ rights — referred to henceforth as LAP), the Commission is now presenting a horizontal project concerning civil proceedings and certain aspects of criminal procedures and sanctions for piracy and counterfeiting within the internal market.

2. Grounds

2.1. According to the proposal’s explanatory memorandum, the provisions of Article 41 of the WTO TRIPS (Trade-Related Aspects of Intellectual Property Rights) Agreement to protect IP-LAP rights in international trade are insufficient; disparities between national laws in terms of procedures and sanctions also affect the single market by creating distortions in the field of civil and criminal legal means of combating piracy and counterfeiting.

2.1.1. Organised crime is moving into all these illegal activities on a dangerous scale. Moreover, the high-speed Internet network makes it easier to pirate software and other intellectual works, such as music. For these reasons,

prosecution procedures, protection under civil law of the rights of IP-LAP right holders and certain criminal sanctions applicable to pirates and counterfeiters should be harmonised across the internal market.

3. Summary of the opinion

3.1. The Committee supports the objective pursued and endorses the principle of horizontal harmonisation of measures to combat piracy and counterfeiting, which is on the rise in both third countries and Member States, and is damaging to the legitimate interests of consumers, companies and individual authors; as Community law currently stands, the Committee considers the form of a horizontal directive, as proposed, to be appropriate. It would however make a number of comments and suggestions regarding the text referred to it for an opinion.

3.2. The Committee would like to see a draft directive which clearly proposes measures to protect *bona fide* consumers and, more generally, consumer education and information measures on IP-LAP rights, focusing especially on young people.

3.3. In the digital and Internet field, the EESC urges that no backing be given to measures, even in guideline form, which would affect the legitimate rights or privacy of consumers and users, would impose an excessive burden on internet-access providers, or could even drive those publishers who offer alternative solutions — especially open source software and formats (which can be freely used and reproduced) or private copying software and hardware — off the market.

3.4. IP-LAP rights, which confer exclusive rights upon holders, amount to temporary, legally constituted monopolies; they are only allowed for specified periods of time, and without prejudice to the greater public interest, are not unlimited and must not hamper the free dissemination and transfer of theoretical and scientific knowledge and technologies, such as those relating to Internet, on which a competitive knowledge-based economy depends — and which does not yet exist in Europe.

3.5. The above comments by the Committee are in keeping with the TRIPS objectives (Article 7) and their underlying principles (Article 8(2))⁽¹⁾: these should be included in the recitals of the directive, since the possible penalties cannot be entirely dissociated from substantive law, and possible abuses of IP-LAP rights by right holders must not be overlooked.

3.6. Where counterfeit products which put users or their property at risk are concerned, specific sanctions with sufficient deterrent effect must be provided, together with adequate compensation in the event of accidents involving injury or damage. Market withdrawal, confiscation and destruction measures, at the infringer's cost, are absolutely necessary in such cases. Consumers and consumer organisations must enjoy adequate means under law to seek compensation for losses incurred and to punish infringers.

3.7. Lastly, the EESC calls upon the Commission to commit itself to in-depth independent sectoral studies employing a transparent methodology. These should seek in particular to encourage convergent legislation and a global strategy for developing closer judicial, police and customs cooperation, including studies and regular reports and other appropriate initiatives. The purpose would be to effectively combat pirating and counterfeiting from the manufacturing stage onwards, primarily targeting criminal networks together with those who habitually trade in pirated or counterfeited tangible or intangible goods. The Committee also calls upon the Member

States to give urgent consideration to all opportunities for cooperation between themselves and with the Community to this end.

II. Analysis of the proposal and comments

4. General comments

4.1. The explanatory memorandum mentions the Green Paper on the fight against counterfeiting and piracy, in respect of which the EESC would refer to its earlier opinion⁽²⁾. The Committee would also refer to its other opinions mentioned by the Commission, and to its opinion on the patentability of computer-implemented inventions⁽³⁾.

4.2. The Committee endorses the overall object of the draft directive. It notes, however, that European patents issued by a certain number of countries (which vary depending on where they are filed) adhering to the 1973 Munich Convention have been included within the scope of the directive. In principle Community jurisdiction does not extend to the convention in either substantive or territorial terms, unless the Community joins it. The situation will differ with the future Community patent, which will be valid in all Member States and over which the Community will have jurisdiction. However, it is the Committee's view that the WTO TRIPS Agreement requires the Community to protect all existing IP-LAP rights throughout its territory and, moreover, that such protection lies within the Community's powers concerning the internal market (Article 95 of the Treaty establishing the European Community). This article is the legal basis for the directive and sets out to remove distortions of competition as a result of disparities between national rights, procedures and practices.

4.3. It should also be pointed out that effective measures against European or international criminal networks, or against large-scale counterfeiting and pirating, would require a comprehensive, coordinated and coherent approach, covering cooperation under the second pillar between courts, police forces and customs services, reinforcement of the customs code, criminal law, measures against organised crime and money laundering, as well as Europol and Interpol functions, since counterfeited objects or pirated works often originate in third countries.

(1) Article 7. Objectives. The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.

Article 8. Principles (...) 2. Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology www.wto.org.

(2) OJ C 116, 28.4.1999.

(3) OJ C 61, 14.3.2003.

4.4. The Committee cannot fail to take note of the mismatch between the objectives set out in the introduction and the content of the draft directive itself. It represents only a first step which does not yet come close to meeting the enormous economic and social challenges posed by industrial counterfeiting and piracy which affect employment, competitiveness and businesses, chiefly SME-SMIs, who are least able to identify those infringing their intangible rights and to uphold these rights in foreign national courts.

4.5. Harmonisation is becoming all the more urgent since with enlargement, bringing in more Member States, legislative and procedural differences will multiply, entailing a risk of distortion of the internal market. The long overdue advent of the European patent makes such harmonisation even more essential.

4.6. The Committee would prefer a combination of national rights which offer effective protection to right holders and consumers in keeping with the different legal systems and the general principles of law applied by them (in particular the presumption of innocence and protection of privacy). This might be done in conjunction with a relatively early review. Excessive obligations should not be imposed on certain businesses (including Internet-access providers and manufacturers of blank media), and neither should the rights of legitimate users be restricted or all consumers taxed indiscriminately (tax on blank media for the benefit of certain right holders but not all). The aim should be harmonisation which is more than just the sum of those provisions offering the greatest protection to right holders only, taken out of their national context, and should also allow legislation, parts of legislation, or procedures to be strengthened in those countries where they are insufficiently developed.

4.7. In view of the diversity of national situations and the huge numbers of counterfeit goods, regular evaluation of the impact of the directive, and of any adjustments made in line with changing circumstances, would be essential. If necessary, measures to protect specific sectors could then be envisaged.

4.8. In this spirit, the Committee for the present approves the option for a directive which should provide for coherent means of protection and a form of harmonisation which reflect the spirit of the various legal systems, rather than a regulation which could severely disrupt existing laws which are successfully performing their functions. In the longer term, movement towards a regulation may be possible regarding the Community patent and trade mark. In spite of the differences in procedure or national legislation, it would for the moment suffice for each Member State and candidate country to

introduce real protection and effective deterrent and punitive measures against pirating and counterfeiting for commercial ends or by criminal gangs. It should also be noted that the directive would impose radical changes on some national legal systems even though they provide effective solutions.

4.9. The Committee considers the personal scope of the proposal to be sufficiently broad. Although directives such as those on software or copyright and related rights acknowledge the rights of users and consumers, such as the right to back-up copying, private use or for demonstration or educational purposes, but such rights and their scope vary from country to country: whether or not they are implemented is left to the workings of subsidiarity. In this respect, the Committee regrets the emerging trend in a number of countries to further curtail or abolish users' rights.

4.10. The Commission's competence in criminal affairs is the subject of a dispute between the Council and the Commission currently before the Court of the Justice, and the Committee cannot prejudge the issue which will become *res judicata* in the future. However, in earlier opinions the Committee has generally accepted that, *inter alia* by means of a framework directive, the Commission could propose harmonisation of the criminal sanctions needed to enforce first pillar provisions, and would only alter its approach in the light of a relevant judgement of the CJEC.

4.11. Turning to practical steps to halt pirating and counterfeiting and compensation for businesses incurring losses, national judges should retain their powers of discretion *in concreto* concerning economic losses and infringement of non-pecuniary rights or brand image. Judges, sometimes assisted by experts, are empowered to set the amount of civil damages incurred and fines or other applicable criminal sanctions according to national law, although in some countries these sanctions should be revised and put into effective practice to give them real deterrent effect.

4.12. The Committee believes that independent, rigorous sectoral studies should be carried out in advance to provide an objective evaluation of factors which vary widely in scale and their actual effect on sectors, particularly in their impact on the economy and employment, on SMEs-SMIs and on consumers. This applies in particular to products which may affect health, safety or the guarantees which users may legitimately expect (spare parts, toys, electrical equipment, etc.). Such an important issue as protection of consumers against counterfeit products merits far greater attention as a part of anti-counterfeiting strategy.

4.13. The proposed harmonisation must be balanced and in proportion to the objectives set. Implementing measures and sanctions are dependent upon substantive law, and should also be designed to be as favourable as possible to consumers, their protection and the effectiveness of their legitimate rights as users. Consumers or their representatives should be able to participate as civil parties to actions brought by right holders against pirates and counterfeiters, in cases where users, acting in good faith, have incurred loss as a result of pirated or counterfeit products.

4.14. Bona fide users should not be implicated in any enquiries by police, judicial or customs authorities, who alone are authorised to carry out investigations, into the origin of objects or programmes in their possession.

4.15. The Committee believes that future measures must primarily target those European and international networks which present the greatest danger to consumer safety and business interests. Investigations, cross-border and international cooperation, protection of evidence and deterrent penalties are necessary. Proportionate deterrent measures could be applied to users acting in bad faith, within the framework of the existing national laws, bearing in mind that future major efforts must primarily focus on achieving tangible results for the European economy, consumer safety and employment.

4.16. Lastly, the need to make IP-LAP compatible with the knowledge and information society is only mentioned in passing, and compatibility with public interest requirements is not mentioned at all. These are however major issues, and the harmonisation of means of protecting research and production investments must involve more than blanket reinforcement of civil and penal sanctions and greater judicial and material resources for legal investigations and proceedings.

4.17. Neither should harmonisation block the dissemination of knowledge and its use in teaching, which requires publication of inventions, innovations, new procedures and computer programme sources for the purposes of interoperability, at least for application interfaces and file formats. In any case, reverse engineering should not be considered to constitute counterfeiting. Similarly, independent programmes enabling files, including protected ones, to be read or their format to be changed cannot be judged to infringe copyright since an independent creation is involved, and unlimited extension of the legal scope of the copyright concept is

unacceptable in the light of the general principle of interpreting criminal offences in as restrictive a way as possible.

5. *Specific comments*

5.1. The preliminary general considerations of the proposal appear rather confused, taking an equally condemnatory view of criminal gangs, individuals who wittingly or unwittingly acquire counterfeit products and teenagers swapping music through the web. Some of the considerations do not match the scope of the draft directive: they should be removed from what is an otherwise relevant and balanced proposal.

5.2. In the Committee's view, the steps to be taken should be diverse and tailored to each clearly identified and defined category of rights and economic sector. It must be ensured that legitimate measures of protection do not become an intimidating arsenal of civil and criminal law which could, in some cases, paralyse innovation on the part of SMEs-SMIs under constant threat of counterfeit proceedings by certain monopolies or oligopolies.

5.3. All 'options' affecting web surfers' private lives or preventing users from fully exercising their rights (right to private copying, right to play CDs-DVDs on different types of machine, right to choose one's computer operating system without having to pay for a preloaded system and programmes the price of which is kept secret, right to non-zoned DVD players, etc.) represent improper restrictions, possibly forced purchase, or sale of products with truncated functions, and are unacceptable to the Committee, since they are disproportionate to their stated — and in any case, often unfair — aims.

5.4. The arrangements for taxing blank writable media are even more unjust if such media or systems are protected against copying by built-in hardware or software devices.

5.5. It would be better for companies in the sector to concentrate their innovative efforts on viable commercial models in the digital communications age in order to harness a huge potential market, rather than viewing all consumers as potential pirates or seeking perpetual unearned income by taxing blank media or imposing disabling technical restrictions on reading tools or media. Many viable software manufacturers market their products on-line at reasonable prices. The first Internet pay-distribution companies in the music sector show that a market which respects the rights of music publishers and artists can still be created and developed.

5.6. The Committee does however fully endorse the voluntary system for identifying the origin of blank writable media, which should help combat industrial-scale counterfeiting. Codes of conduct for public and private enterprises on the proper management of intangible property rights should also be encouraged, and have already provided real results in Europe: the number of 'code-compliant' companies is growing, and this trend will certainly be confirmed if licence prices are not set at an abusive level and if competition can effectively be brought to bear (e.g. monopolies or oligopolies in several sectors). In this context, excluding from the scope of the directive all institutions and undertakings acting in the exercise of their prerogative of public power is difficult to justify with regard to codes of conduct. Neither Community or national institutions, nor public enterprises may be exempted from compliance with IP-LAP rights.

6. Lastly, the Committee wishes to comment in detail on certain articles of the draft directive:

- Damages: the provisions here are extremely, sometimes excessively, precise, such as the requirement for the complainant to provide evidence of the profits made by the defendant, and in support of which the defendant must provide accounts for illegal or criminal activity ...
- European and national organisations defending consumers' rights must be recognised as being qualified to take part in general interest actions or actions for injunctions, provided they are legally constituted and representative.
- In purely civil proceedings, damages are justified by the serious prejudice incurred by the complainant, not by the intentional character of the infringement of rights; in contrast, if the civil proceedings are subordinate to criminal proceedings, then the intentional nature of the prejudice must be established.
- Provisional and precautionary measures: although on the grounds of urgency a court may not initially be required to hear the defendant, principally in order to prevent destruction or removal of evidence, the defendant must in all cases then be heard with equal urgency; seizure of goods or freezing of bank accounts may cripple a wrongly-accused company or even drive it completely off the market. Respect for the rights of the defence is an inalienable principle of Community law.
- Evidence: the appropriate criminal courts alone may order the seizure of bank, financial or commercial documents and their forwarding to a civil jurisdiction; in the context of on-going criminal proceedings, it is generally the courts which are competent.
- Penalties: in addition to destruction of goods, seizure of pirating or counterfeiting equipment might also be envisaged. Any criminal penalties applicable to legal persons depend on the internal law of each country. These penalties should be brought into line with the legal systems of the individual Member States.
- Publication of judgments: the proposed wording places no restrictions on publication: the judge lays down either an overall sum to be used for this purpose, or the titles of publications and the form that the statement should take (summary of the judgment or *in extenso* report).
- Technical measures: whether or not a technical device or copying or counterfeiting software is unlawful often depends not on their nature but on the purposes for which they are used. The same means may be used for legitimate ends (individual back-up copying, for example). In consequence, circumventing an improper technical device in order to exercise a consumer's right cannot be regarded as unlawful.
- Codes of conduct: these should also set out consumers' rights and guarantees, in keeping with Community law.

Brussels, 29 October 2003.

The President
of the European Economic and Social Committee
Roger BRIESCH