

I N S I D E T H E M I N D S

IP Client Strategies in the EU

*Leading Lawyers on Understanding European
Intellectual Property Laws, Staying Ahead of
Changing Regulations, and Developing IP Protection
Strategies in a Global Economy*



ASPATORE

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A Journey to Twenty-First Century IP Law in the EU

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History

Three years ago, I paid a visit to a fellow lawyer in one of the North African countries. He received me in his office, well supplied with modern technology, computers, and communication hardware. During our meeting, I noticed a number of DVDs on a small table near him. He followed my look of curiosity and proudly picked a few of them, letting me know he was a fan of U.S. movies, showing some he had recently bought. One in particular had been in the theaters a very short time ago. To my question if they were bought in the open market, he answered affirmatively, telling me the DVD samples were being sold according to the law, and even showing me the tax stamp as evidence of the authorization and payment of taxes to the state. Then I asked, “And what about copyright?” With a smile, he answered, “*That*, we do not pay.” This short story may be a good example of the long way still to go to build an international common ground regarding intellectual property (IP) protection rules.

It is rather obvious that market behaviors, as referred to above, may eventually expand to the European Union (EU) market, mainly if the third-world countries providing this kind of legal robe have cooperation agreements with the EU and a vast movement of persons between them.

IP rights became part of our daily life on both sides of the Atlantic Ocean, and in a virtual economy. Sometimes we almost forget that both patent and trademark protection and copyright recognition started centuries ago, and are embodied in the personal rights and in the rule of law of European legal tradition.

As early as 1534, the British government granted the exclusive right to publish printed works to a stationer’s company that, in exchange for its monopoly, was obliged to seek permission from the crown before it printed anything. In 1710, Parliament passed the Statute of Anna that took the exclusion right from the stationer’s company and gave it to the authors. The authors would then have the exclusive right to publish their own works for a period of fourteen years. Copyright was born.

The United States adopted this exclusive fourteen-year right with the 1790 Copyright Act. An important development can be found there: if

the author was alive at the end of this fourteen-year period, they could renew the copyright for an additional fourteen-year period. In the next two centuries, Congress gradually increased this period of renewal until the present seventy years. This limitation was, according to Congress, resulting from the Constitution of the United States of America, Article 1, No. 8, which was updating for constitutional purposes the above-mentioned Statute of Anna. Only in 1998 has the U.S. Congress decided, in order to avoid a protection gap between the U.S. law and European Regulation Directive 93/83/CE (Council Directive 93/83/EEC, OJ 1993 L248/15 (Sept. 27, 1993)), to extend the copyright term up to seventy years after the copyright owner's death, by the Copyright Term Extension Act of 1998 (see also Supreme Court decision in *Eldred v. Ashcroft*, 537 U.S. 186 (2003)). The European Commission is now considering an extension up to ninety-five years.

Patent and trademark protection developed accordingly. In 1883 and 1886, IP recognition came with the Paris Convention for the Protection of Industrial Property and the Berne Convention for the Protection of Literacy and Artistic Works. IP is usually divided into two branches, namely industrial property and copyright. Gradually, successive conventions and treaties represented the efforts of most developed nations to recognize and protect IP. However, difference of approach between European states and the United States has increased, namely in the regulation and effects of the European patent versus the international patent ruled by the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the Paris Convention. After the birth of the European Union, a trend began in order to build a common European legal framework on main IP issues.

Anti-counterfeit regulation is today a major concern for developed economies as well as authors and companies. Old behaviors are frequently noticed even in emergent economies and developing countries. As in the anecdote referred to above, developing countries often don't give protection to foreign copyright, patents, and software programs, nor to refer the counter-faction often detected. For sectors such as the pharmaceutical industry, this is a major problem, since those countries' laws allow nationals to bypass significant costs of pharmaceutical manufacturing using innovation and clinical data of

European or U.S. companies. Counterfeit products frequently enjoy access to vast markets without the payment of any IP rights, provided that the local taxes related to production and selling are duly paid to local authorities. The TRIPS Agreement in the framework of the World Trade Organization tried to build a common ground at a global level, providing a worldwide basis for legal regulation and protection of IP rights.

However, protection in emergent countries and local markets has proven difficult to verify and even more difficult to prove, since national laws discriminate and protect local copyrights and patents that replicate developed economies' IP. On the contrary, counterfeiting and piracy are profitable exports for underdeveloped and emerging economies supported by the global instruments of electronic commerce and information society.

Being a major concern for the EU internal market, counterfeiting has been targeted by a set of directives since 1991 with the Directive 91/250/EEC (Council Directive 91/250/EEC, OJ 1991 L122/42 (May 14, 1991)), which aims for the harmonization of member states' laws regarding the protection of computer programs, to create a legal environment that will afford a degree of security against unauthorized reproduction of such programs.

To fight against this growing movement and try to bring it to an end in 2004, the European Parliament and the Council of Ministers adopted a directive on the enforcement of industrial and IP rights (Directive 2004/48/EC, OJ 2004 L157/45 (Apr. 29, 2004)). This directive requires all member states to create a level playing field for right holders in the EU by applying effective remedies against those engaged in counterfeiting and piracy.

Considering the last two years, IP laws have changed, moving toward the enforcement of IP rights in different EU countries. The directive on the enforcement of IP rights (Directive 2004/48/EC, OJ 2004 L157/45 (Apr. 29, 2004)) is the best example of the law changes. The enforcement directive finally allows more effective evidence collecting, enables preliminary seizure of goods (and the materials and tools for the

manufacturing and distribution of infringing materials), and raises the compensation to be paid to the rights holder.

IP Rights

IP rights encompass a wide range of rights that are acknowledged and protected in some way in all developed countries. IP rights have been internationally standardized among the EU countries, which have prepared and executed a set of measures to support and facilitate successful creation, development, and management of IP, creating a dominant collective strategy. Although the essentials of IP law in other countries such as the United States and Europe are similar, there are key differences with regard to specific issues, namely concerning patents, some of which are unavoidable because of market integration pressures in the EU. Notwithstanding the above, the present regulations on IP matters represent a significant step toward convergence. Undeniably, the resemblance of EU politics with other countries' approaches has never been greater. It highlights one of the major odds companies and creators have to deal with when their activity, their book value, and their profits rely on IP. Over the years and mainly after European Court of Justice decisions (see Case 78/70, *Deutsche Grammophon Gesellschaft GmbH v. Metro-SB-Grossmärkte GmbH & Co KG*, 1971 E.C.R. 487. Also, Case 187/80, *Merck & Co. v. Stephan BV*, 1981 E.C.R. 2063, IP rights have been seen under European law as ancillary regarding free movement of goods regulation that prevails. A similar difference of approach is found regarding trademark function. (See Case C-108/97, *Windsurfing Chiemsee Produktions und Vertriebs GmbH v. Boots und Sefelzubehör Walter Huber and Franz Attenberger*, 1999 E.C.R. I-2779. To compare with the U.S. approach, see Eric P. Raciti, *The Harmonization of Trademarks in the European Community: The Harmonization Directive and the Community Trademark*, 78 J. PAT. & TRADEMARK OFF. SOC'Y 51 (1996). About IP rights, the doctrine of exhaustion principle under the EU perspective states that the IP rights owner has the exclusive right to first introduce the product in circulation (by distributing it) within the territory of the EU. But afterwards, the exclusivity falls. The same rationale is being used by the European Court of Justice, even following the Council Directive 89/104/EEC, OJ 1989 L40/1 (Dec. 21, 1988). (In the

interpretation of trademarks protection as Treaty of Rome Art. 234 (Treaty Establishing the European Community, Nov. 10, 1997, OJ 1997 C340/273, EU: EC Treaty (1997) Art. 234 [hereafter EC Treaty]); see also Case C-292/00, *Davidoff & Cie SA and Zino Davidoff SA v. Gofkid Ltd.*, 2003 E.C.R. I-389.

It is useful to remember the existence of an international legal system aiming at the protection of patents and trademarks, as well as other IP rights, including copyright. As referred to above, the Paris Convention of 1883 established a number of principles that still today are the framework of the IP international protection legal system. If we consider just trademarks and patents, the international legal system is based in a number of international treaties: the Madrid Agreement on Trademarks International Registration of 1891; the Patent Cooperation Treaty signed in Washington in 1970; the Trademark Law Treaty signed in Geneva in 1994 (reviewed by the Treaty of Singapore of 2006); and the Threat on Patent Law signed in Geneva in 2000 and being in force since 2005. But if European law is based in the same international principles already settled by the Paris Convention, the Madrid Agreement on Trademarks, and the Patent Cooperation Treaty, and the same international framework has been accepted when, as members of the World Trade Organization, all the EU member states have signed the TRIPS Agreement, the common legal background stops there.

European Patent

In 2000, the EU member states signed the final version of the European Patent Convention, establishing the European Patent Office and granting to individuals and companies of the European member states one single European proceeding to obtain the registry of a European patent. Under Article 64, this patent grants its owner a national patent, submitted to the binding legal rules of the owner's home state. In reality, the European patent is a national one, obtained through a common European proceeding. Nevertheless, harmonization is significant in regard to the main definition items of an invention, such as the possibility of industrial utilization, as well as the possibility to have a patent in one of the three main languages of the European Patent Office (English, French, and German).

It is relevant to take in consideration for the due approach of EU legal background that IP and free trade are concepts linked in international terms by TRIPS, which went far beyond the Paris Convention, namely regarding most favored nation status, duration, and self-executing IP rights. The most favored nation status, as in the TRIPS Agreement, has as effect that a member state is bound to give to other member states' nationals all the advantages granted to the nationals of any other member state that has been granted a more beneficial legal regime. In addition, TRIPS rules can be self-executing and accepted by member states' national courts in matters as protected goods, exclusive rights, and duration. TRIPS also unifies the minimum term of duration for patents, trademarks, and industrial models and designs. But above that, European law has built in the last decades a fully independent regulation of IP based on the use of the four main instruments: the EC Treaty, European Court of Justice decisions, European directives, and European binding regulation, applicable to all EU member states.

The EU is an interesting case of how IP and copyright protection has developed in the last decade. Being oriented to the construction of a single market, the European Community was built according to the principle of free movement of goods and fair competition. Systematically developing twenty-eight articles and following the Treaty of Rome, IP legislation has for a long time been seen as ancillary and unable to prevent the principles of free competition and free movement of goods subsequently built as the cornerstone of an internal market economic and legal construction.

It is important to identify the second main problem to be dealt with by European legislation regarding IP protection: information technology and the build-up of a digital economy supported by a digital network, allowing two dematerialized concepts to relate to each other—Internet and IP. Therefore, counterfeiting and illicit copies appear to be the old and new face of the same reality.

The framework of our companies' problems is, at least in theoretical terms, probably the same in the EU as in other large economic spaces. Economic players face similar obstacles related to the source of their activity and profit. IP rights in the EU have significant differences that

paradoxically are the result of an effort to build one market and apply the same rules to the national member states.

The TRIPS Agreement within the World Trade Organization framework can be invoked at a national level and in a national court in different matters, such as the protected goods, exclusive rights, and the duration of this protection. However, in every case it is important to consider (and then to emphasize when drafting a strategy to protect IP clients' rights) that internal rules are necessary to link national law and TRIPS Agreement rules.

About this issue, it is important to understand how the international law and legal principles in IP have been articulated with the TRIPS Agreement. As referred to above, during the last decades, EU ruling in IP has been achieved by rules and principles of the European Economic Community Treaty, European Court of Justice decisions, the harmonization of legal systems of member states, and finally by the build-up, through binding regulations, of IP European titles, valid in every member state.

The first difference between European law and the international rules, or the U.S. internal regulation, lies in the Treaty of Rome itself. It is important to note Article 30 (formerly Article 36) accepting the possibility of quantitative restrictions based on the protection of IP. But the same article also states that the eventual restrictions should not jeopardize the free competition or the free movements of goods, blocking imports, and allowing a unilateral discrimination by the national law.

However, this principle may, in our time, seriously harm the IP rights at a national and even at a single market level. To a foreign company, it would be possible to find a number of exemptions based in the technology transfer regulation of 2009. (See Commission Regulation 772/2004, OJ 2004 L123/11 (Apr. 27, 2004) (EC); Commission Regulation 2790/1999, OJ 1999 L336/21 (Dec. 29, 1999) (EC).) This regulation, issued by the European Commission, has been interpreted up to a certain measure as an exclusion to the exhaustion principle in the case of an agreement between a licensor and a licensee, in which the licensor reserves for itself the right to exercise the IP rights, protected by a patent to oppose the exploitation of the technology licensed outside the license territory by the licensee. On the other side, under vertical restraints regulation, a seller of a certain product

may impose restrictions on active sales into territories reserved to third-party buyers, as it may also reserve territories for itself. The rationale is to protect the IP rights up to a point where they would collide with competition rules. The European exhaustion principle of IP rights limits the IP rights owner's possibility to avoid the import of its products sold abroad allowing the free movement of goods throughout the frontiers and indirectly allowing the reduction of goods prices.

This is a matter of particular importance, since it is applicable not only to patents, but also to other IP rights and IP-related agreements, such as copyright. However, the application to that is not possible if, for instance, a copyright license goes beyond the scope of other industrial property rights. Initially the Treaty of Rome does not state about the exhaustion principle being a creation of European Court of Justice. Considering that, to allow copyright owners to forbid the import and distribution of copyrighted goods would limit the free movement of goods favoring the partition of European space allowing the continuation of national and/or regional markets and jeopardizing the construction of an internal common market, the European Court of Justice in a number of decisions settled the principle of exhaustion. The exhaustion principle in copyright therefore became until today ancillary to major EU goals such as free movement of goods and increased competition.

Since 2000, the European Commission has made efforts to recognize a European patent concept, but its proposal has not yet been approved by the member states. Additionally, a directive proposal regarding computer programs, presented by the European Commission in 2002, has not yet been approved. Yet we can say that at least regarding industrial property rights, the European legal regime is complete with Directive 2004/48/EC, OJ 2004 L157/45 (Apr. 29, 2004). Although European efforts to harmonize IP regulation exist, a number of issues have been, until recently, left to the member states' laws—namely in what concerns rights and definition of a patent.

Trademarks

Under the same Treaty of Rome and European Court of Justice jurisprudence, the main purpose of the exception allowed in Article 30

contains a complex structure known as the exhaustion rule. This principle has been, in recent years, introduced in secondary IP legislation and implemented in the legal system of several EU member states. The importance of this principle comes precisely from the fact that in matters where the national law about IP rights remains territorial, and therefore allowing a certain level of protection, the EU jurisprudence consistently overtakes the national IP rules when in conflict with the free movement of goods principle. In a way that perhaps was not clearly in the mind of European legislators, the European Court of Justice development of Articles 28 and 30 of the Treaty of Rome allowed the build-up of rights exhaustion as a fundamental principle in a new set of IP rights that we can consider as a true European IP law.

The exhaustion principle, as defined by the European Court of Justice, can be described as the loss of control of an IP rights owner regarding distribution or importation rights over subsequent acts of distribution when an initial importation or distribution is made in the internal market. This European IP law does not regard the existence of the IP rights themselves, states the court, but only the need to improve free movement of goods and competition, harmonizing it with national IP rights. This is applicable both to industrial property and to IP and copyright. The idea has been to deal with the internal market as one single market, in the sense it exists in the other dominant national territories.

Since December 1988, the EU has tried to build a common legislation in what concerns trademarks through harmonization efforts established under Council Regulation 40/90, OJ 1994 L11/1 (Dec. 20. 1993) (EC), the European trademark having effects and being recognized within the full territory of the EU. In the trademark regulation also exists the questions raised by the European principle of an exhaustion rule. But clearly it is less relevant for economic activity than patents and copyright. In fact, European Law and the European Court of Justice (see Case 16/74, *Centrafarm BV et Adriaan de Peijper v. Winthrop BV*, 1974 E.C.R. 1183 (1974); Case 119/75, *Terrapin (Overseas) Ltd. v. Terranova Industrie CA Kapferer & Co.*, 1976 E.C.R. 1039 (1976); Case C-292/00, *Davidoff & Cie SA and Zino Davidoff SA v. Gofkid Ltd.*, 2003 E.C.R. I-389 (2003); *Arsenal Football Club Plc. v. Reed*, 2002 E.W.H.C. 2695, 2003 1 C.M.L.R. 13 (2002)) established the principle for the purposes of free movement of goods protection. But

European trademarks usually raise different questions, and although traditionally in the early European Court of Justice decisions the aim was to grant the trademark owner the exclusivity right to use trademark as well as control of production by the trademark owner, recent decisions of the court, since *Davidoff & Cie SA and Zino Davidoff SA v. Gofkeid Ltd*, consider that the basis of European trademark regulation is the guarantee not only of goods quality and the entity responsible for it, but also the guaranty of origin of the goods. A different tone unveiled a contradictory approach within the court's jurisprudence (see S.M. Maniatis, *Whither European Trademark Law? Arsenal and Davidoff: The Creative Disorder Stage*, 7 MARQ. INTELL. PROP. L. REV. 99, 108 (2003)).

Trademarks in Europe have to consider three main aspects:

1. The first one is the conciliation between European and internal law, having in account that the principle (but not always the reality) is that internal law is ancillary regarding the European regulation.
2. The second aspect regards the reciprocity principle, and therefore European trademark and national trademark can prevail in similar terms. Council Regulation 40/90, OJ 1994 L11/1 (Dec. 20, 1993) (EC) states in Article 34 that the owner of a trademark registered in a European member state, applying for the European trademark of identical goods or services, may prevail upon the seniority of previous national trademark. And an application for a European trademark may without further formalities be transformed in a national trademarks application.
3. The third aspect, and clearly the most important, is the conciliation between the European trademark and the already existent international trademark. This matter was regulated by the Madrid Protocol since the nineteenth century. Only in 2003 was it possible to coordinate both concepts, what has been done through Council Regulation 1992/2003, OJ 2003 L296/1 (Oct. 27, 2003) (EC), becoming in force October 1, 2004. Under this new regime, the national trademark owners may designate the EU when requesting the international registration of a trademark. An international trademark granted under this application will be valid and protected in the entire EU member state territories.

IP and Computer Programs

As mentioned above, it is possible today to recognize the existence of European IP in these matters. But the companies and other committed economic agents focused in this market should never forget that, side by side with European rules, there remain several national legislations of EU member states, equally bound to respect their international agreements and the treaties they have executed. European legislation is therefore, nowadays, a way to get a single legal treatment for the IP matters in the EU and to allow competition and free movements of goods.

The EU regulation still has to be in consideration under a different approach. Some countries within the EU are common law countries, while others follow the continental model. In some matters, such as the recognition of IP rights in the courts and the application of the precedent, it has consequences that cannot be ignored. Since the computer programs registration is not mandatory, and in most EU member states, the precedent does not exist, this matter is regulated by national laws and national courts according their own criteria. (Council Directive 87/54/EEC, OJ 1987 L24/36 (Dec. 16, 1986)). See also § 11 of *Gesetz über den Schutz der Topographien von mikroelektronischen Halbleitererzeugnissen – Halbleiterschutzgesetz* – L. 622-7 of French *Code du Droit D'Auteur*; in UK, *Design Rights-Semiconductor Topographies- Regulations* 1989.) In the case of alleged infringement of IP rights by Internet service providers, described below, the reader can examine an example of such impact (see *SABAM v. Scarlet* as below).

In one issue, the continental legal tradition has been overcome by an enlarged approach originated in common law countries. I am referring to the adoption of a broader definition of IP. In effect, Europe has adopted the definition present in the Stockholm Convention, Article 2°, considering IP “not only their right strictly specified, but also all the other rights related to intellectual activity in industrial, scientific, literary and artistic domains.” Having that in mind, we can go through a few highlights the economic agent is supposed to consider when preparing to deal with IP issues in Europe or in the axis internal law/international regulation.

Software Intellectual Rights

In an economy where virtual markets and information technologies grow in importance every day, software IP rights correspond to a new category of dematerialized goods needing protection against illegitimate copy and use. The first country to protect them was the United States, with the Semiconductor Chips Protection Act of 1984. That act accepted the notion of a new IP right, this act being applicable only to U.S. citizens or U.S.-based companies and the same categories in countries having a reciprocity clause agreement with the United States. With this impulse, the EU has also adopted, with Council Directive 87/54/EEC, OJ 1987 L24/36 (Dec. 16, 1986), the protection of IP rights of semiconductors.

It is interesting to note that although both constructions are similar, in the directive, some key conditions make it quite close to copyright. But other elements, namely the need of registration to have the right recognized clearly, separate them, approaching the concept with one of the patents. In practical terms, it would be wise to understand we have a *sui generis* protection of exclusive IP rights. But their similitude is not without consequences, being the patent law applicable to software products as subsidiary law as it happens in Germany as well as in France. (See also § 11 of *Gesetz über den Schutz der Topographien von mikroelektronischen Halbleitererzeugnissen – Halbleiterschutzgesetz*.) Software protection rights have therefore a different framework according to several EU member states. Companies and IP software rights owners have to take into account that neither the mentioned directive nor the Treaty of Washington supplies the legal framework and answer to protect IP software rights within the European Community, making necessary a skilled know-how to provide the tools to implement this protection in the EU combining the national legislation of member states.

Some similar considerations should be taken into account about databases, since the European rules about them harmonized since 1996. Directive 96/9/EC, OJ 1996 L77/20 (Mar. 11, 1996) is the main instrument to harmonize EU member states' legislation granting to database producers a fourteen-year exclusivity right regarding the use of

database content. Nevertheless, the directive considers an IP right similar to copyright. This construction transposes to the EU member states legislation that does not match with U.S. rules that limit databases' IP rights to the protection of the cases where we can consider the existence of an original creation (see Ruling by U.S. Court of Appeals for the 2nd Circuit in *Matthew Bender & Co. v. West Publishing Co.*, 158 F.3d 674 (2d Cir. 1998). It means that “free riding” has a different understanding in the EU and in the United States.

A final note about legal background, which should be raised due to its relevance in the framework of an internal market, and even in the relation between large economic regions such as the United States and the EU, is the interconnection between protection of IP rights and competition.

The transfer from the initial concept of competition to the present IP relevant competition approach is provided by the main international agreements: the Paris Convention of 1925 and the TRIPS Agreement. But although TRIPS already supplies a legal ground for a multilateral protection of know-how and IP, EU regulation goes far beyond, especially with Directive 2005/29/CE of June 2005, which places as unfair competition practices the violation of most rights, mainly in what concerns their commercial use in the market.

Relevant EU Regulation in Recent Years

Since 2000, the EU has adopted the following major directives in IP matters:

- Directive 2000/31/EC, OJ 2000 L178/1 (June 8, 2000), on certain legal aspects of the information society services, and in particular electronic commerce, in the internal market
- Directive 2001/29/EC, OJ 2001 L167/10 (May 22, 2001), on the harmonization of certain aspects of copyright and related rights in the information society
- Directive 2001/84/EC, OJ 2001 L272/32 (Sept. 27, 2001), on the resale right for the benefit of the author of an original work of art

- Directive 2002/58/EC, OJ 2002 L201/37 (July 12, 2002), on the treatment of personal data and the protection of privacy in the electronic communications sector
- Directive 2004/48/EC, OJ 2004 L157/45 (Apr. 29, 2004), on enforcement of IP rights
- Directive 2006/115/EC, OJ 2006 L376/28 (Dec. 12, 2006), on rental right, lending right, and on certain rights related to copyright in the field of IP
- Directive 2006/116/EC, OJ 2006 L372/12 (Dec. 12, 2006), on the term of protection of copyright and certain related rights

Many directives have risen seeking the harmonization of laws in the EU related to IP aspects, considering its adoption from all of the member states. Directive 2004/48/CE means a significant step toward the enforcement of IP rights in different EU countries, by bringing enforcement measures into line across the EU.

IP Client Approach

An aspect seldom ignored or devaluated is the company's IP portfolio, and yet it may be, more than an asset, a valuable piece of goodwill. Many companies still don't consider the goodwill of their IP, and often IP due diligence seems mandatory to provide the needed information on this matter.

The ownership of software rights traverses a multiplicity of business and economic activity areas. Because we are facing rights with a specific national and international trade regulation, their identification, protection, and the consequences of the infringement of these rights are a mandatory subject of attention to all companies with activities in areas where computer technology operates intensively. Companies functioning in such areas as the media, pharmaceuticals, and electronics are obvious examples. Even in communication or logistics companies, we often find computer programs and services, but the corresponding related rights management is not considering the applicable laws, therefore becoming a source of contingencies often ignored by the economic agents.

Both the contingencies and the risk associated with them may arise from a multiplicity of reasons: the use of licensed software reproduced internally without the required support or license agreement; the use of illegal software purchased from a third party other than the rights holder; and the fact that the market may negatively associate a company being sued for using pirated software concerning the company's image or trademark.

Companies frequently develop their software by customizing their own applications. Every economic agent operating in the market has an advantage in knowing the rights concerning the creation, installation, and use of the software available. The lack of a precise inventory on this matter causes additional contingencies (such as third-party IP rights breach), which frequently are not identified or quantified by the company, and commonly place their management in violation of the internal or external compliance regulations.

Nowadays, it is undeniable that the risk inherent to the verification of evidence of some of those contingencies enables a negative interpretation associated with the company's brand image (negative publicity), and exponentially increases the costs with hypothetical compensation payments as well as with the loss of sales and even in the stock market by downgrading the share capital held by the stockholders.

To protect their own interests on this matter, companies have an advantage in, first of all, auditing the computing products and services the company holds and/or uses, and afterwards, creating and systematically updating a portfolio concerning the products identified and the rights and obligations arising from them. The portfolio management concerning the IP rights entails internal and external compliance procedures that should be implemented, aiming at proper IP management by any company. An accurate assessment of the IP portfolio of a company may have a tremendous impact both in valuation as well as in deal structures. Through IP due diligence, the company can obtain answers to questions such as IPs owned, IP rights to be registered, key factors affecting the value of IP, potential claims of third parties, and whether IP is adequately protected by contracts, processes, and security.

Different IP rights raise different questions. Patent assets have to be accessed under a number of criteria. Should third parties be considered co-inventors? What is the real scope of patent rights that has direct impact in the commercial value? What is the impact of patent ownership by joint ventures and the like? Additionally, companies should care about managing patent risks in building a patent portfolio that allows remedying any deficiencies.

Regarding copyright, it would be important, for a full understanding of IP value and management, to list the appropriate assignment and the needed waivers, to limit the third-party uses of copyright works, and to ensure that licenses in and out adequately protect copyright. Most of the tasks described here should be dealt with by an IP lawyer.

A Relevant Downturn: The Enforcement Directive

Implementing the EU IP Rights Enforcement Directive (Directive 2004/48/EC, OJ 2004 L157/45 (Apr. 29, 2004)) was a significant challenge the EU had to deal with. Its implementation may be deemed controversial, as some member states, rather than creating a new law to deal with IP rights, opted to adjust the internal IP legislation. Though this was unquestionably a constructive step in the enforcement of IP rights, it seems to be a less effective protection of IP rights, if not adequately transposed for the European member states' national laws. However, the proceedings allowed namely by Article 7 of Directive 2004/48 appear to be useful before the infringing products are distributed. Enforcement directive proceedings may be helpful in case of preparatory acts regarding infringement acts, such as computer programs used without the due license. In patents, where the proof of violation usually requires a deeper analysis, the enforcement directive approach may be very helpful. However, it is important to take into account that significant differences exist between the national legislation of several EU member states, namely regarding the entity performing the collection of evidence, and the EU member states remain divided in key questions such as liability and the competence of public authorities.

The main objective is to ensure the enforcement of IP rights. It is essentially designed to regulate judicial questions bearing on precautionary

measures and the calculation of compensation in case of infringement of IP rights in particular, through the introduction of the following points:

1. Measures to obtain and/or preserve evidence based on the simple indication of infringement of IP rights (In the case of preservation of evidence, no prior hearing of the respondent is required).
2. Obligation to provide information based on the mere indication of the infringement of IP rights
3. The prevention of an impending infringement and the prohibition to continue with the infringement of IP rights
4. The preventive seizure of movable or immovable property of the offender (including bank accounts), by producing evidence of circumstances that may undermine the collection of sums due as compensation for damages
5. Application of accessory sanctions and/or preventive measures
6. Court decisions may be publicly disclosed at the request of the aggrieved party and at the expense of the offender.

IP Rights Infringement in the Twenty-First Century

As we have seen in the above paragraphs, copyright law traces its roots to the sixteenth century, or even before, with the possibility to make a printed copy. As Russ VerSteeg said:

Copyright law has constantly struggled to keep pace with advancements in technology. The printing press, movable type, radio, photographs, motion pictures, sound recordings, television, VCRs, satellites, cable television, and then of course the Internet have all challenged copyright law. Copyright law must try to keep up with communication that literally moves at the speed of light, and now allows us to store more information on the tip of a ballpoint pen than could fit in IBM's largest computer in the 1950s. The volume of information capable of being stored and the speed at which it can move is phenomenal when compared to even twenty years ago. Meanwhile, copyright law, originally developed in response to the printing press, must constantly try to meet the legal needs

created by every new technological development. This continual attempt to catch up with new technology is a dominant theme in the history of copyright jurisprudence. This theme continues in the *Viacom v. YouTube* litigation.

(See Russ VerSteeg, *Viacom v. YouTube: Preliminary Observations*, 9 N.C. J. L. & TECH. 43, 43 (2007).)

The Internet and its expansion, allowing information to be transferred in a nanosecond, probably brings the most serious threat today for IP rights owners. The two cases that close this chapter are clearly evidence of the new legal frontier that stands before companies' executives and their legal counsel.

As Boyle wrote in the *Financial Times* edition of March 15, 2007:

The notion of the Internet as a free ride, a place in cyberspace where almost anything is available for nothing, might at last be put to the real test. YouTube had been a quirky, fast-growing start up until the deep-pocketed Internet search behemoth Google Inc. bought the company last November for \$ 1.76 billion. But YouTube's soaring popularity, especially among younger people who are increasingly tuning out traditional media, has broadcasters frightened of losing viewers and advertising dollars.

Like Napster and Grokster before it, YouTube is the creation of the young and ambitious who built their business on giving people something for nothing. Napster and Grokster made money by selling access to copyrighted songs without paying royalties. In theory, they were only selling connections to whatever their users were interested in swapping, but what made people sign up for these services was the prospect of getting popular music for free. The courts decided that a business model built on encouraging piracy of copyrighted work violates the law.

(See James Boyle, *Rocks in the Web's Safe Harbors*, FINANCIAL TIMES (London), Mar. 15, 2007, at 15.)

In March 2007, media giant Viacom brought a \$1 million lawsuit against YouTube for massive copyright infringement, claiming the video-sharing Web site made around 160,000 Viacom-owned videos available to YouTube users without permission. The claim is not yet settled, but has been followed by a new claim against Google YouTube presented by the Italian Television Network Mediaset, asking \$500 million in a Roman court. The number of lawsuits against Internet service providers seems certain to increase with the growing importance of Web sites that publish user-generated content and offer peer-to-peer services. Viacom and Mediaset claims may be a useful test.

Even more recently, on January 28, 2009, the four biggest record publishers (Universal, Warner, Sony BMG, and EMI) reached a judicial agreement with Ireland's main Internet service provider, Eircom, under the terms of which the latter must implement in-house measures against illegal peer-to-peer downloads. The parties involved agreed to cooperate among themselves with a view to putting an end to abuse by those infringing copyright through the peer-to-peer system.

The record publishers will use a service that involves a peer-to-peer file-sharing system to find illegal downloaders and will provide Eircom with the IP address of those suspected of violation. This IP will be detected by entities specially hired for the purpose by the publishers. Infringing surfers will be warned by Eircom that the respective address has been detected and, in certain circumstances, the surfer will be prevented from accessing the Internet to share music files via peer-to-peer networks.

Proposals as to a possible obligation of control by the Internet service providers have already been debated within the EU, and in April 2009, the European Commission reached an agreement with the European Parliament to issue a directive having as rationale the framework agreed with Eircom for Ireland. Irish case law was brought to a jurisdiction where common law is prevalent. It follows the case law already established in the sentence of June 29, 2007, proffered in the *SABAM v. Scarlet (Tiscali)* case (Tribunal de Première Instance de Bruxelles, 29/06/2007), under which Scarlet, a Belgian entity providing Internet services, was obliged to monitor the sharing of musical files through peer-to-peer networks. In a decision that was the first of its kind, the Belgian court imposed the obligation of

proactive monitoring by the Internet service provider, notwithstanding the fact that the Electronic Mail Directive stipulates that the responsibility of the Internet service provider depends on recognition of the infringement.

IP rights legal counsel will be, in the following years, one of the most fascinating areas of legal thought. It is vital for company executives to understand sooner rather than later what this new market means, and the risks of trying to implement new solutions based in old lessons or, even worse, to ignore the challenge.

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