UNIVERSITÀ EUROPEA DI ROMA

Facoltà di Economia - 2018/2019

EU INNOVATION POLICY

Prof. Valeria Falce (UER - Jean Monnet Chair)

OBJECTIVES OF THE JEAN MONNET CHAIR

THE **JEAN MONNET CHAIR** IN EU INNOVATION POLICY AIMS TO :

- **foster** the **dialogue** between the **academic world** and **policy-makers**, in particular to enhance governance of EU policies on innovation
- **promote innovation** in **teaching** and **research** through cross-sectorial and multi-disciplinary studies, open education, networking with other institutions

The Chair focuses on **European innovation policy** with a particular attention to the **single innovation market** and **intellectual property rights strategy**.

AIMS OF THE EU INNOVATION POLICY COURSE

- THE **TEACHING COURSE** AIMS TO :
  - **build** a **solid knowledge-base** on **Innovation Policy**, which is essential to the construction of a community of innovation for economic and social growth, sustainable development and competitiveness
  - **allow students** to **develop** a **critical approach** on substantive issues in innovation policy and competition law, with particular focus on EU integration and a Single Innovation Market for the EU

PROGRAMME OF THE COURSE

LECTURES

Module I: *Innovation Union and EU Innovation Policy*

- Innovation in Europe: scoreboard, performance and indicators
- The Lisbon Strategy
- The Europe 2020 growth strategy and the Innovation Union

PROGRAMME OF THE COURSE

LECTURES

Module II: *Single Market for Intellectual Property Rights*

- The modernization of copyright and related rights
- Trademarks and related rights package
- European patent with unitary effect
- The trade secrets Directive

PROGRAMME OF THE COURSE

LECTURES

Module III: *EU Integration and a Single Innovation Market*

- The principle of territoriality
- The principle of exhaustion and parallel imports
- European knowledge market for patents and licensing

PROGRAMME OF THE COURSE

SEMINARS

Advanced Studies on the Intersection between Intellectual Property & Competition

► Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

► building the innovation ecosystem through licensing: standardisation based on patent-protected technologies; evaluating standard essential patents; negotiating SEPs

MODULE I

INNOVATION UNION & EU INNOVATION POLICY

(*Lecture I*)

Innovation in Europe
Scoreboard Performance and Indicators

ROLE AND MEANING OF INNOVATION

Innovation is a **key driver** for economic and sustainable **growth,** as well as for empowering communities and responding to societal challenges. As stated in the *Communication on Innovation Union*, **innovation policy** plays a **fundamental role** in order to inspire future visions and insights on **policy-making** and R&D funding in the knowledge-based economy. Innovation is the engine of economic growth, creating **new markets**, reaching new **productivity** levels and improving long-term **welfare**.

Innovation in Europe
Scoreboard Performance and Indicators

ROLE AND MEANING OF INNOVATION

However, **innovation** is a pervasive and elusive subject. It is **pervasive** since it entails both public and private investments, it **permeates** all areas of **public policy** (tax, labour, telecom, energy, competition, IP and industrial policy, education, immigration, health, agriculture etc), and **requires action** at local, regional, national, global levels. At the same time, it is a very **elusive** subject since it is **hard to define** and there is no 'one size fits all solution' to maximize the potential of innovation in a given country.

Innovation in Europe
Scoreboard Performance and Indicators

ROLE AND MEANING OF INNOVATION

All **governments** are willing to **promote innovation**, but none of them can be sure of how to fully boost its potential. It might be **difficult** to **strike** a **balance** between different **forces**: on the one hand, **innovation** is accelerating, becoming more **global** and **open**; on the other, it requires sophisticated **skills**, global **cooperation** between private and public players, and monitoring of **societal needs**. It might also be **difficult** to **craft** innovation **policies** that will not be obsolete when they come into force.

Innovation in Europe
Scoreboard Performance and Indicators

ROLE AND MEANING OF INNOVATION

As to its **definition**, different suggestions have been proposed. It could be defined as:

- process by which individuals & organizations generate and put in practice new ideas
- process by which value is created for customers, by transforming new knowledge and technology into profitable goods and services for national and global markets
- adoption of new products, processes, approaches that create a valuable outcome

Innovation in Europe
Scoreboard Performance and Indicators

ROLE AND MEANING OF INNOVATION

- introduction of new goods, methods of production, new markets (Schumpeter)
- creation of new (or efficient reallocation of existing) resources which contribute to progress - *i.e.* allocative efficiency and social welfare (Granieri & Renda)

Given this broad range of definitions, it is clear that **there is no 'one size fits all' recipe for defining innovation** which can be applied to all sectors of economy and countries.

Innovation in Europe
Scoreboard Performance and Indicators

INNOVATION AND THE EUROPEAN UNION - A BRIEF OVERVIEW

Europe has not an Internal Market for innovation yet. **Investing** more in **research**, **innovation** and Innovation Policy entrepreneurship is the sole **answer** within **Europe 2020** to neutralize the weaknesses in public education & innovation systems, **enhance** capacity to deliver smart, sustainable and inclusive **growth**, favor smart specialization & circular innovation, **create** a **balanced IP system**. As a result of the *Innovation Union flagship initiative* (2010), a strategic and integrated approach to innovation - boosting European national regional research and innovation potential - is essential.

Innovation in Europe
Scoreboard Performance and Indicators

OBJECTIVE OF THE EUROPEAN INNOVATION SCOREBOARD

The **European Innovation Scoreboard,** launched in 2000 & published yearly by the Commission**,** offers a comparative **analysis** of **research** and **innovation performance** in **EU countries**, other European countries, and regional neighbours. It examines **strengths** and **weaknesses** of national **research** and **innovation systems**, and helps countries to **track progress** & **spot priority areas** to boost innovation performance.

Innovation in Europe
Scoreboard Performance and Indicators

WHICH INDICATORS ARE USED FOR THE SCOREBOARD ?

4 main categories – 10 innovation dimensions - 27 performance indicators

- Framework Conditions (capture main drivers of innovation performance)
- Investments (include public and private investments in R&D)
- Innovation activities (capture innovation efforts at company level)
- Impacts (show how innovation translates into benefits for the whole economy)

ANNEX 1

Table 1 – European Innovation Scoreboard: dimensions and indicators

FRAMEWORK CONDITIONS

Human resources

1.1.1 New doctorate graduates

1.1.2 Population aged 25-34 with tertiary education

1.1.3 Lifelong learning

Attractive research systems

1.2.1 International scientific co-publications

1.2.2 Top 10% most cited publications

1.2.3 Foreign doctorate students

Innovation-friendly environment

1.3.1 Broadband penetration

1.3.2 Opportunity-driven entrepreneurship

INVESTMENTS

Finance and support

2.1.1 R&D expenditure in the public sector

2.1.2 Venture capital expenditures

Firm investments

2.2.1 R&D expenditure in the business sector

2.2.2 Non-R&D innovation expenditures

2.2.3 Enterprises providing training to develop or upgrade ICT skills of their personnel

INNOVATION ACTIVITIES

Innovators

3.1.1 SMEs with product or process innovations

3.1.2 SMEs with marketing or organisational innovations

3.1.3 SMEs innovating in-house

Linkages

3.2.1 Innovative SMEs collaborating with others

3.2.2 Public-private co-publications

3.2.3 Private co-funding of public R&D expenditures

Intellectual assets

3.3.1 PCT patent applications

3.2.2 Trademark applications

3.2.3 Design applications

IMPACTS

Employment impacts

4.1.1 Employment in knowledge-intensive activities

4.1.2 Employment fast-growing enterprises of innovative sectors

Sales impacts

4.2.1 Medium and high tech product exports

4.2.2 Knowledge-intensive services exports

4.2.3 Sales of new-to-market and new-to-firm product innovations

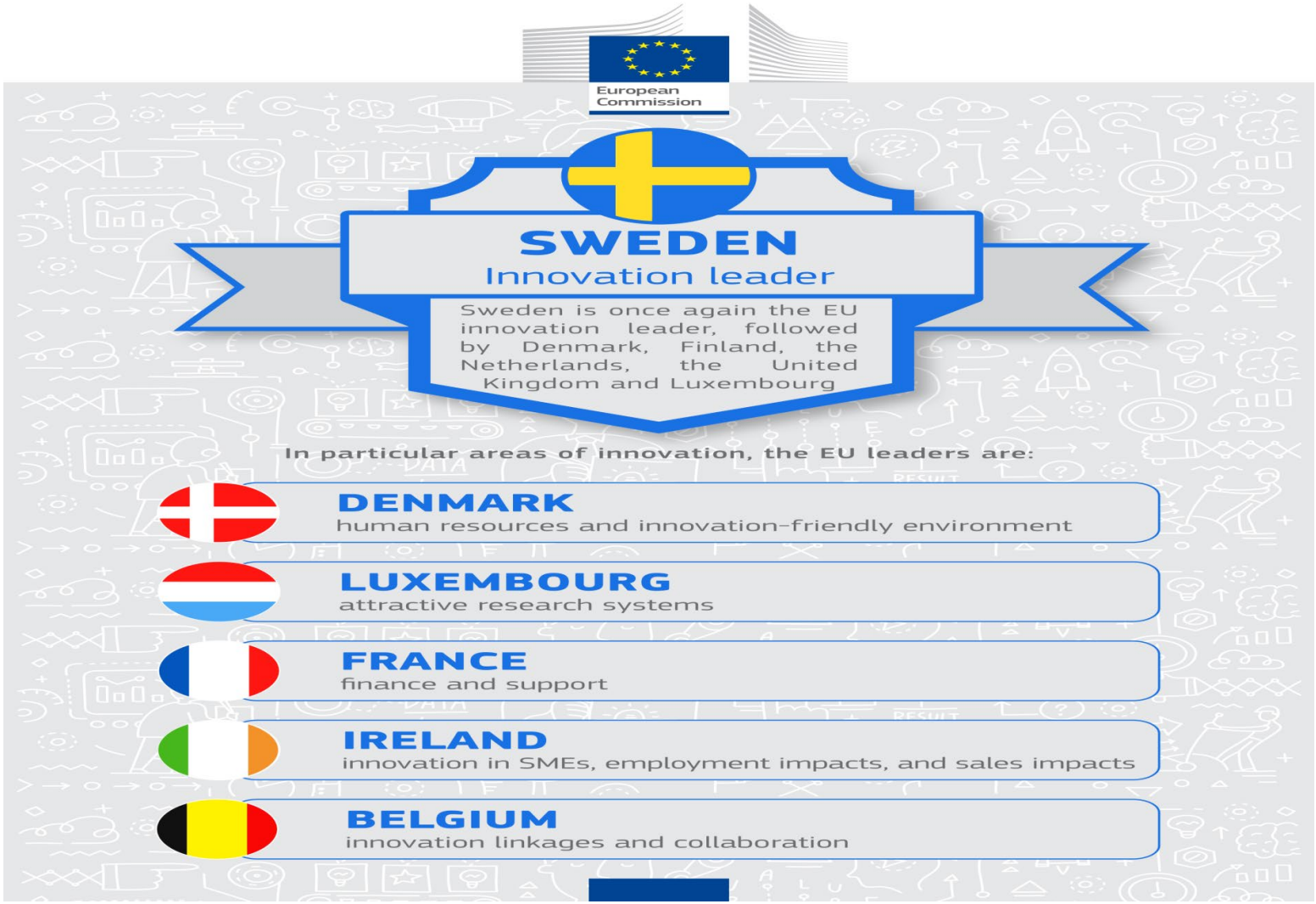
Innovation in Europe
Scoreboard Performance and Indicators

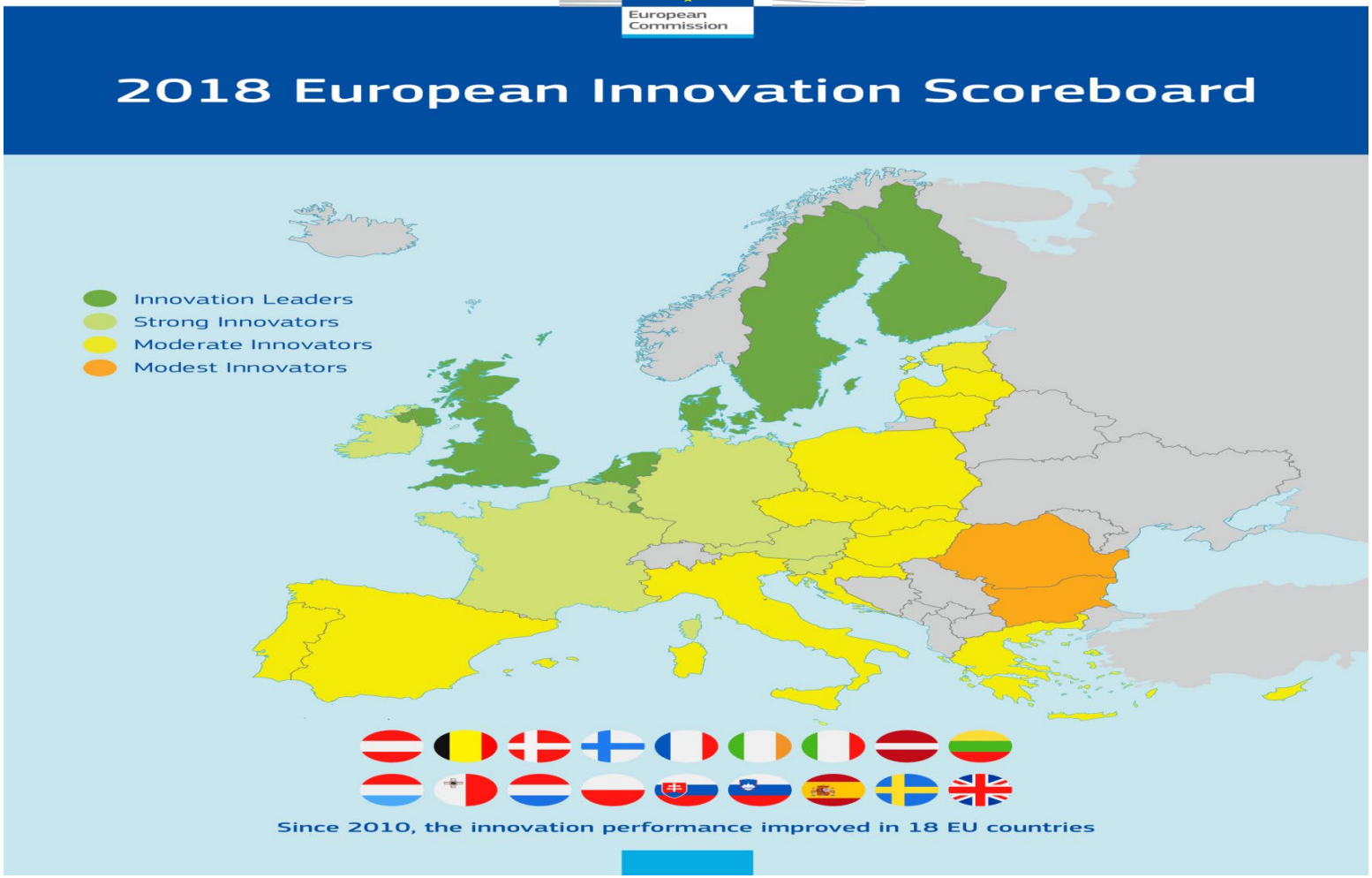
EUROPEAN INNOVATION SCOREBOARD (2018)

According to the last edition of the Scoreboard, the **EU innovation performance** continues to **improve**, **progress** is **accelerating** and the outlook is positive. Progress has been strongest in the dimensions of i) **innovation-friendly environments**, ii) **human resources**, and iii) **attractive research systems**.

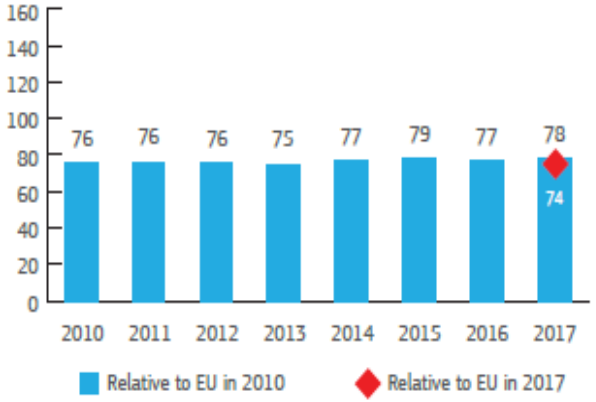
► **EU innovation leaders**: Sweden, Denmark, Finland, UK, Luxembourg

► **Fastest growing innovators**: Lithuania, Netherlands, Malta, UK, France


European Commission
SWEDEN
Innovation leader
Sweden is once again the EU innovation leader, followed by Denmark, Finland, the Netherlands, the United Kingdom and Luxembourg
In particular areas of innovation, the EU leaders are:
DENMARK
human resources and innovation-friendly environment
LUXEMBOURG
attractive research systems
FRANCE
finance and support
IRELAND
innovation in SMEs, employment impacts, and sales impacts
BELGIUM
innovation linkages and collaboration


European Commission
2018 European Innovation Scoreboard
Innovation Leaders
Strong Innovators
Moderate Innovators
Modest Innovators
Since 2010, the innovation performance improved in 18 EU countries

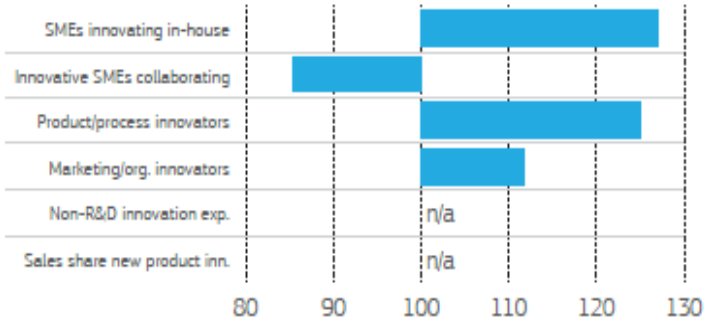
Italy is a **Moderate Innovator**. Over time, performance has increased relative to that of the EU in 2010.



Innovators and Intellectual assets are the strongest innovation dimensions. Human resources and Finance and support are the weakest innovation dimensions.

Provisional CIS 2016 data show improved performance for three indicators and reduced performance for one indicator. There are no fast-track data for the other two indicators.

Provisional CIS 2016 vs CIS 2014 (=100)



Structural differences with the EU are shown in the table below. The turnover share of large enterprises and the value added share of foreign-controlled enterprises are well below the EU average.

Innovation in Europe
Scoreboard Performance and Indicators

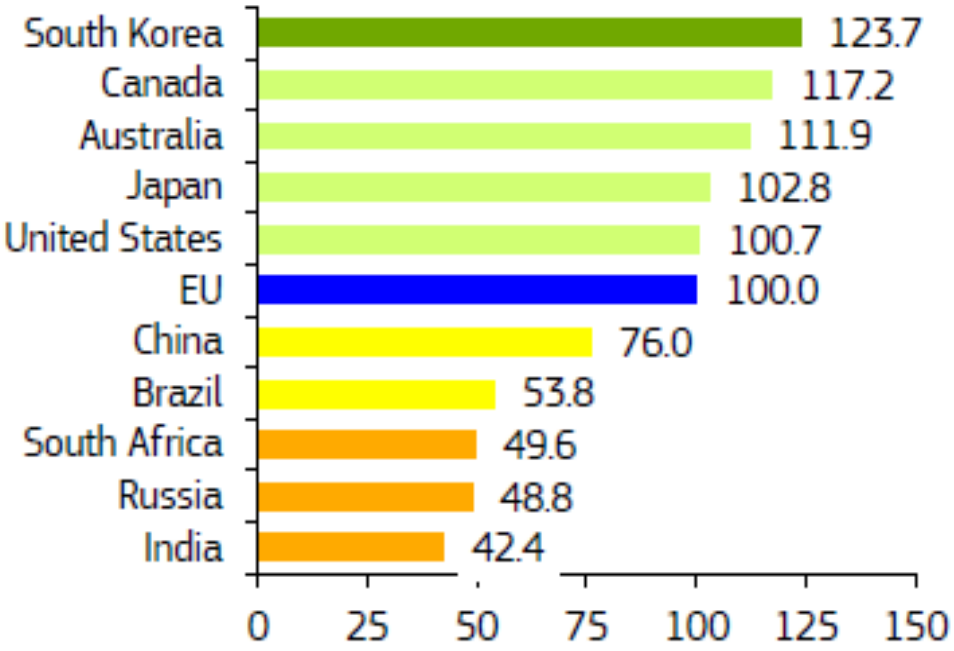
EUROPEAN *v* GLOBAL INNOVATION PERFORMANCE (2018)

The **EU** continues to **improve** its **position** (+ 5.8% between 2010-2017); it maintains a performance lead over China, Brazil, South Africa, Russia and India. China however has a much higher innovation performance growth rate, and is catching up very fast.

► **South Korea** is the most innovative country (+ 24% above EU performance)

► **Canada**, **Australia**, **Japan** and the **U.S.** are performing better than the EU

Figure 4: Global performance



Bars show countries' performance in 2017 relative to that of the EU in 2017.

Innovation in Europe
Scoreboard Performance and Indicators

EUROPEAN *v* GLOBAL INNOVATION PERFORMANCE (2018)

To achieve a high level of innovation performances, countries need a **balanced innovation system**, with an appropriate level of **investments** in **education**, **research** & **development**, innovation friendly **business environment**, strong **digital infrastructure**, **competitive markets**, and efficient **allocation of resources**.

► **EU** needs to **reinforce** its **efforts** to **innovate,** and move towards cleaner and smarter industry to **boost** its **competitiveness** and increase societal **welfare**.

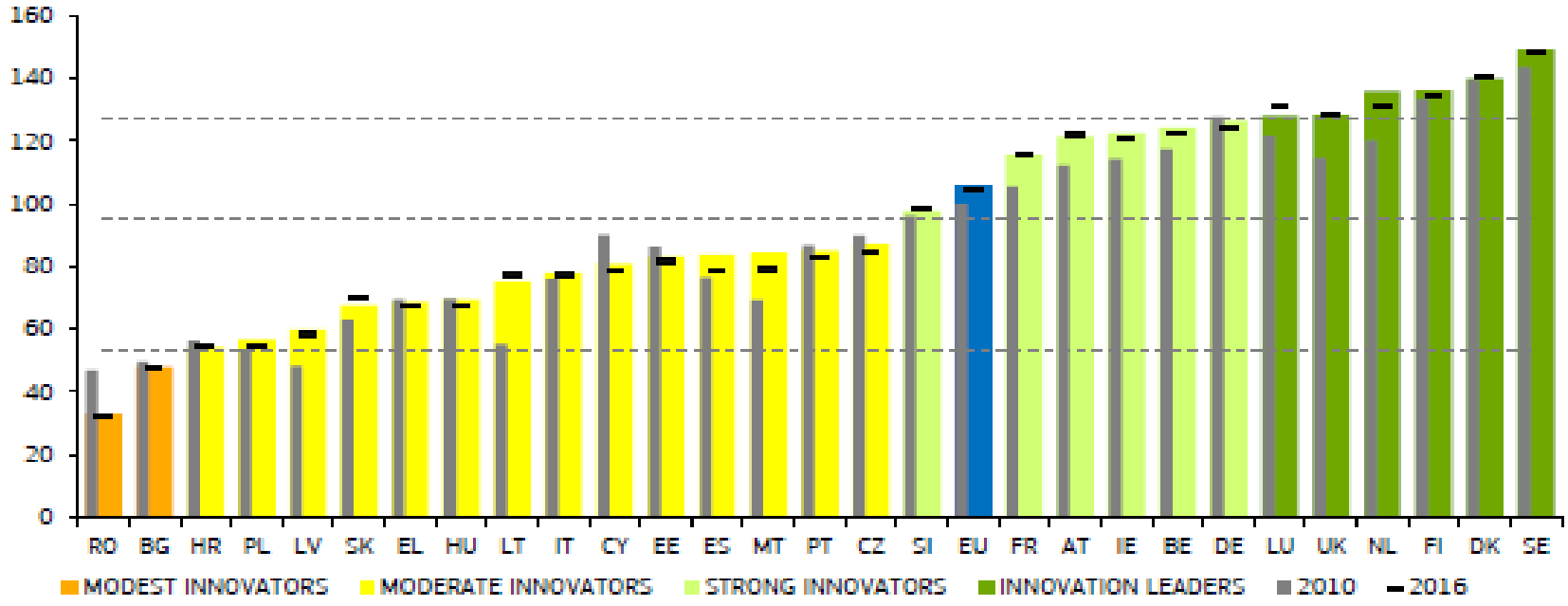
Innovation in Europe
Scoreboard Performance and Indicators

EUROPEAN *v* GLOBAL INNOVATION PERFORMANCE (2018)

In particular, the **European Union** has to work on a variety of **weaknesses**:

- ► EU **companies spend less** on **innovation** than their competitors
- ► **public investment** across the EU **falls short** of 3% GDP target
- ► 40% of **workforce** in Europe **lacks** the necessary **digital skills**
- ► **R&D intensity** is not homogenous (investments concentrated in west EU regions)

Figure 2: Performance of EU Member States' innovation systems



Coloured columns show Member States' performance in 2017, using the most recent data for 27 indicators, relative to that of the EU in 2010. The horizontal hyphens show performance in 2016, using the next most recent data for 27 indicators, relative to that of the EU in 2010. Grey columns show Member States' performance in 2010 relative to that of the EU in 2010. For all years, the same measurement methodology has been used. The dashed lines show the threshold values between the performance groups in 2017, comparing Member States' performance in 2017 relative to that of the EU in 2017.

- how can we define innovation ?
- why is innovation so important for the society ?
- which key indicators does the Innovation Scoreboard look at ?

Innovation in Europe
Scoreboard Performance and Indicators

SUGGESTED READINGS

- EU Commission, 'European Innovation Scoreboard' (2018)
- EU Commission, 'European Innovation Scoreboard 2018: Europe Must Deepen its Innovation Edge' , (2018) Press Release IP/18/4223
- EU Commission, '2018 European Innovation Scoreboard – Frequently asked questions', (2018) Fact Sheet Memo/18/4224
- M. Granieri & A. Renda, *Innovation Law and Policy in the European Union* (Springer 2012)

MODULE I

INNOVATION UNION & EU INNOVATION POLICY

(*Lecture II*)

The Lisbon Strategy

INNOVATION AND THE EARLY DAYS OF THE EC

The Commission first identified **innovation as a process** which needs to be supported at Community level only during the **1960s,** when the first measures about research and innovation were adopted. A **Working Group** on Scientific and Technical Research Policy was established to promote the advancement of research and innovation.

It noted that **innovation** was becoming **increasingly important** but that the situation in **Europe** was **problematic**. It identified a number of issues to be addressed both at Member States and Community levels: low dynamism in universities, a lack of suitable human resources, and lack of an environment conducive to research and innovation.

The Lisbon Strategy

- INNOVATION AND THE EARLY DAYS OF THE EC

- In the **1970**s, innovation was mainly considered as a **policy topic** related to the development of a broader policy on **research.** The goal of a policy for research was to strengthen Europe's position in international competition through innovation, and to create conditions favourable to innovation. Later, however, the concept of innovation was progressively linked to industrial and economic policies. This phase marked a widening of the scope of innovation well beyond its technological component.
- **Innovation** was generally interpreted as a **linear process** which translates **knowledge into products**. The '**European paradox**' meant that Europe had failed in turning knowledge into products, due to a lack of favourable climate for SMEs, a tax & cultural environment hostile to risk taking, and resistance of employees to innovation.

The Lisbon Strategy

EVOLUTION OF INNOVATION POLICY

- A **Commission Communication** on '*industrial development and innovation'* (1980) set a new dynamic, highlighting the **need** for a **successful innovation**, which should act as a bridge between industrial strategies and scientific & technological policies.
- A 1981 Communication established a **first Community policy for innovation**, strongly linked to industrial policies. It also remarked the **failure** of the Community in **enhancing innovation,** due to many factors (R&D, taxation, funding, skilled workforce). It suggested that **solutions** should be focused on various aspects of the EC **internal market** (*e.g*, standards, IPRs, norms, public markets), and that the Community **lending instruments** should give priority to innovation.

The Lisbon Strategy

- EVOLUTION OF INNOVATION POLICY

- **Various programs** supporting innovation were implemented in the **1980s**:

  - SPRINT (strategic programme for innovation and technology transfer)
  - EUREKA (supporting stronger links between public and private partners)
  - Framework Programme for Research and Development (R&D)
  - Programme for SMEs (promotion of small and medium sized enterprises)

The Lisbon Strategy

- TOWARDS THE LISBON STRATEGY
- The Commission **White Paper** on '*growth competitiveness and employment'* (**1993**) marked a further evolution of the concept of **innovation**, by recognising that the linear model had been replaced by **more complex mechanisms**. According to the document, innovation requires an organized **interdependence** between the **upstream phases** (linked to technology) and the **downstream phases** (linked to the market).
- **Other initiatives** (1994-95) included: i) *Fourth Framework Programme for Research*, with specific innovation program (promotes an environment encouraging innovation); ii) *Regional Innovation Strategy* (supports definition & implementation of innovation policy at regional level); iii) *Institute for Prospective Technological Studies* (contributes to understand the industrial innovation & growth); iv) *Green Paper on Innovation* (EU innovation policy as distinct from research & industrial policies).

The Lisbon Strategy

TOWARDS THE LISBON STRATEGY

Only in **1996**, the Commission implemented the **first action plan** in support of **innovation**, trying to address the limited capacity in Europe to convert scientific inventions in commercial successes (*European Paradox*). It argued that action at EC level was necessary, to draw up and enforce *inter alia* rules on competition, IPRs and internal market. The action plan suggested **three areas for action**:

- **foster innovation culture** (improve education & training, facilitate researcher mobility, stimulate innovation in the public sector etc)
- **establish a framework conducive to innovation** (simplify legal & regulatory environment, and ease innovation financing in Europe)
- **better articulate research & innovation** (both at national and at Community level)

The Lisbon Strategy

- WHAT WAS THE STRATEGY ABOUT ?

- The Lisbon Strategy was an **action** formulated in 2000, for **addressing** the **EU economy** in the period **2000-2010**. Its objective was to make the Union 'the **most competitive and dynamic knowledge-based economy** in the world, capable of **sustainable economic growth** with more and **better jobs** and **greater social cohesion**', by 2010.

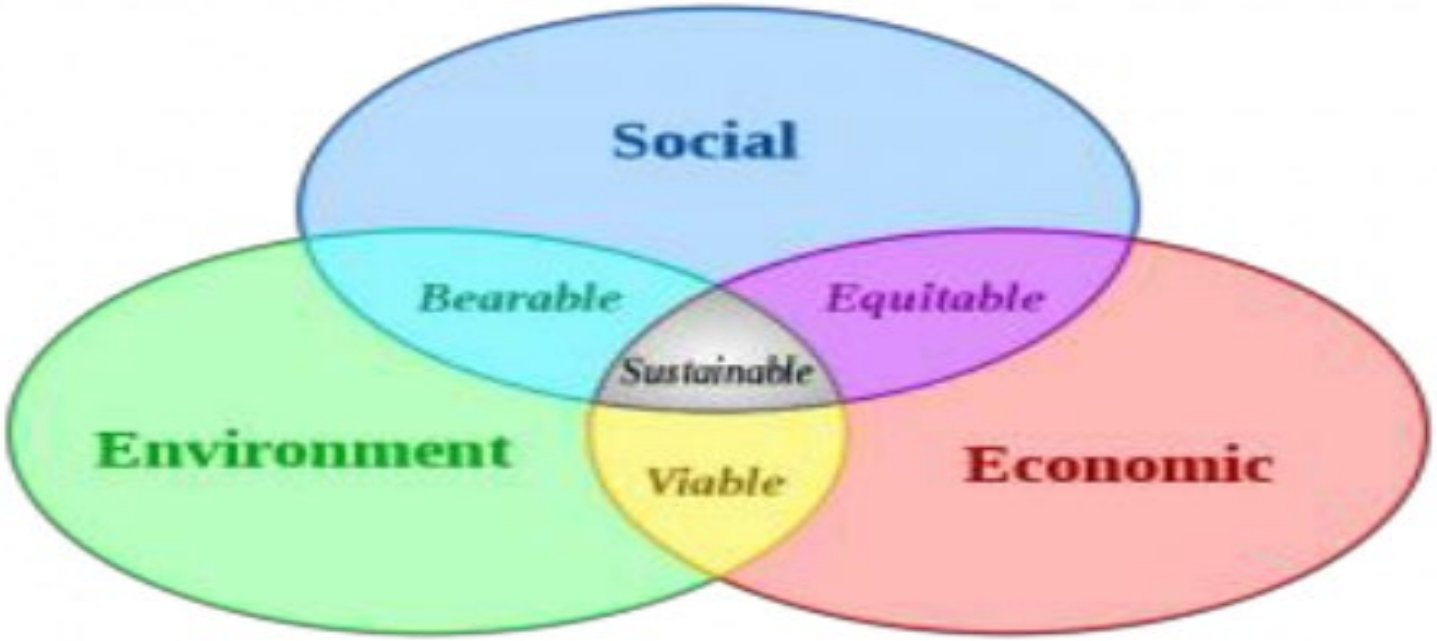
- [VIDEO 1 - VIDEO 2]

The Lisbon Strategy

- SCOPE AND GOALS OF THE STRATEGY

- Set out by the European Council, it aimed at **addressing** the **low productivity levels** and the **stagnation** of the **EU economic growth.** To this end, it formulated various **policy initiatives** to be implemented by the EU Member States. The main goals identified by the Strategy were to be **achieved by 2010**.
- At the core of the Strategy, heavily based on the concept of **innovation** (seen more as a process to achieve other aims, rather than a goal in itself), there were the following areas: **economic, social, environmental renewal and sustainability**.

- ***The Lisbon Strategy***



The Lisbon Strategy

SCOPE AND GOALS OF THE STRATEGY

► under the Lisbon Strategy, a **more robust economy** would **improve employment** in the Union; **inclusive social and environmental policies** would contribute themselves to **boost economic growth.**

► key concepts of the Strategy referred to the **knowledge economy**, **innovation**, and **technology governance**. **Innovation** was identified as one of the **pillar** of the EU resurgence, and **research** as a means towards the achievement of **higher levels** of **prosperity** and **growth** (*Communication Towards a European Research Area* – 2000)**.**

The Lisbon Strategy

- THE KEY ROLE OF RESEARCH

- In particular, the importance of the **role of research** had previously led to the creation of a **European Research Area (ERA – January 2000).** This project was endorsed by the Lisbon European Council in March 2000, with the aim of **strengthening Europe's leadership** in **research**. The general impression was that Europe was not investing enough in progress and in knowledge.

- Thus, the **Commission** proposed a broad action plan to **raise R&D expenditure** in the EU, and **Member States** set national **R&D** investment **targets** at 3% of the GDP.

The Lisbon Strategy

- <u>VARIOUS POLICY INITIATIVES (2000)</u>
- More in general, during the decade of the Lisbon Strategy, **several initiatives** were implemented to **increase investments** in **research** and **innovation** capacities. Below, a brief review of the main acts and documents adopted by the EU institutions.
- According to a **Commission Communication** on '*innovation in a knowledge driven society*' (**2000**), i**nnovation policy** should be seen as a new horizontal policy **connecting different areas** (economic, industrial and research policies). It was also recognised that the **fragmentation** of the European innovation system needed **to be addressed**, in order to limit the risks connected to an 'innovation divide'.

The Lisbon Strategy

VARIOUS POLICY INITIATIVES (2000)

The Commission Communication (2000) identified **5 goals**, in order to **support Member States** and go beyond the unsuitable linear model that had led to unsuccessful measures: i) **ensuring** the **coherence** of **innovation** policies (through the coordination & assessment of national policies); ii) **establishing** a **regulatory framework** conducive to innovation (*i.e.*, effectively regulate, without over-regulating); iii) **encouraging** the creation and growth of **innovative enterprises** (build a favourable legal, fiscal and financial environment); iv) **improving key interfaces** in the innovation system (promote interactions between the actors of the innovation process); v) **creating** a **society open** to **innovation** (*i.e.*, a well-informed European society). Other initiatives also followed the 2000 Communication.

The Lisbon Strategy

VARIOUS POLICY INITIATIVES (2001-2003)

► the **2001 European Innovation Scoreboard** noted that all Member States had improved their innovation performance, and underlined that innovation has a strong regional dimension. However, it also identified two major weaknesses at EC level: patenting and business R&D.

► the **Commission Communication on '*Industrial Policy*' (2002)** highlighted the characters of innovation, which is the result of complex and interactive processes.

► the **Commission Communication on '*Choosing to Grow*' (2003)** held that creating the right environment for innovation is the new competitiveness challenge.

► the **European Technology Platform** was introduced in 2003, as an industry-led stakeholders forum, which aimed at improving innovation and knowledge transfer.

The Lisbon Strategy

- VARIOUS POLICY INITIATIVES (2001-2003)

- In another **Communication** (**2003**), the Commission published an update of its policy for innovation in the context of the Lisbon Strategy. **Innovation** was identified as a **cornerstone** of the **Strategy**, and the innovation process was seen as a **complex interaction** between individuals organizations & their operating environment. Further, the Commission noted that innovation policies must extend their focus **beyond** the **link** with **research**. Innovation policy indeed has an ubiquitous nature & covers many **different policy areas**: Single Market & competition, regional policy, taxation policy, labour market, education, standards, IPRs, and sectoral policies. It concluded that **coordination** between **Member States** & **EC** was necessary to balance conflicting interests and priorities, and that it was urgent to **define** a **common framework** – and a set of priorities and goals - for both European and national innovation policy.

The Lisbon Strategy

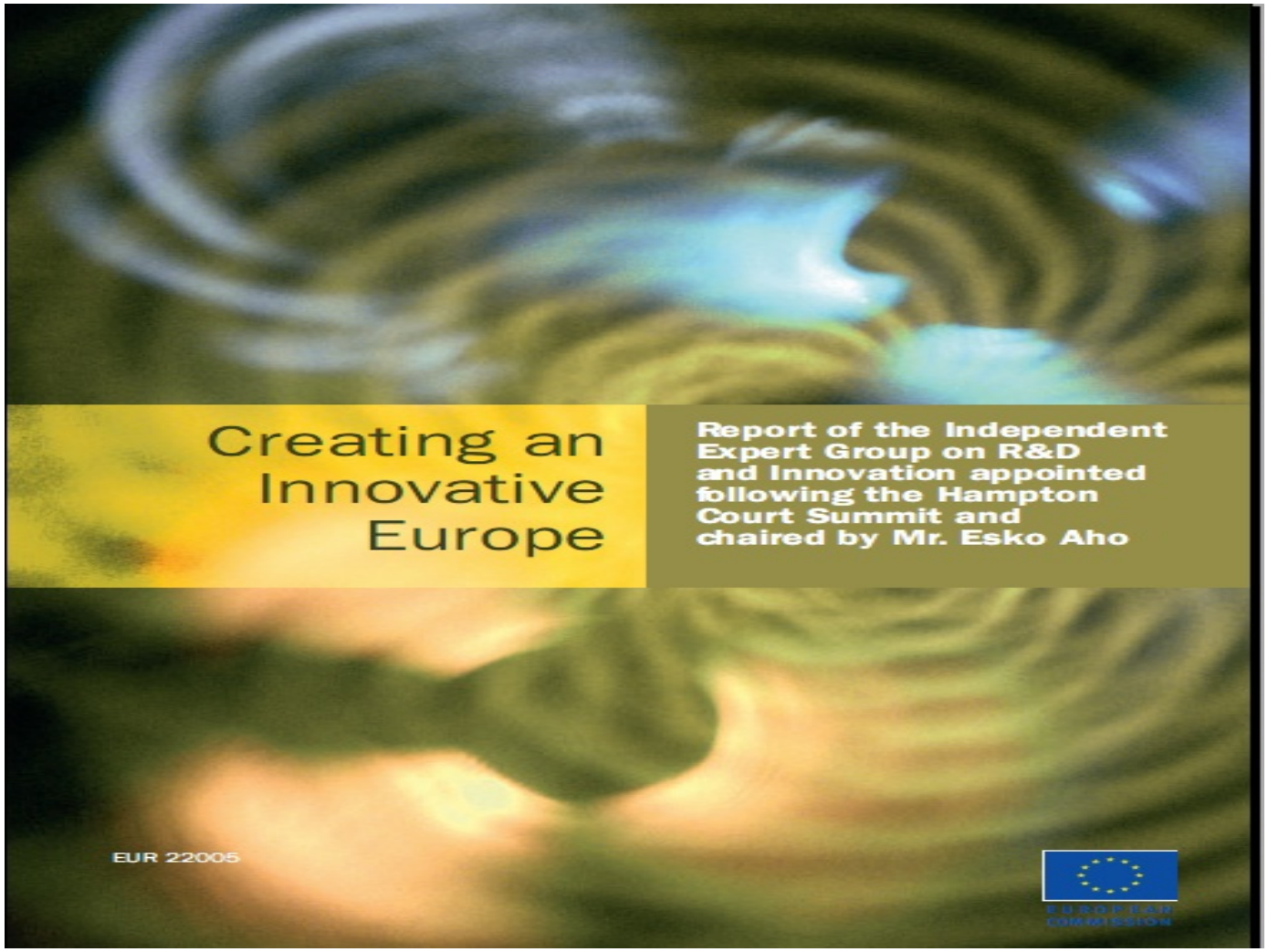
VARIOUS POLICY INITIATIVES (2005-2006)

► in **2005**, the Commission presented '***a new start for the Lisbon strategy***', with the intent to ensure that knowledge and innovation are the beating heart of European growth; it proposed the creation of a European Institute of Technology, of innovation poles at regional level, and of European technology initiatives.

► Commission issued a **proposal** for a '*competitiveness and innovation framework programme*' (to bring together EC programs in fields critical to innovation & growth).

► in the same year, the **European Council** published economic policy **guidelines**, stressing the importance of innovation capacity for the EC economy and inviting Member States to introduce innovation as a topic in their national reform programmes.

► in a different **communication** (2005), the Commission also stressed the key role of Member States to reform & strengthen their public research and innovation systems.


Creating an Innovative Europe
Report of the Independent Expert Group on R&D and Innovation appointed following the Hampton Court Summit and chaired by Mr. Esko Aho
EUR 22005

The Lisbon Strategy

- <u>VARIOUS POLICY INITIATIVES (2005-2006)</u>

- ► the **Aho Report** on '*creating an innovative Europe*' (2006) had to find ways to **accelerate** the **implementation** of initiatives reinforcing Europe **research** and **innovation performance**. Its key recommendation was that 'a **pact** for research and innovation is **needed** to drive the agenda for an innovative Europe', which also required will and commitment from political business and social leaders. The expert group of the report suggested acting on **regulation**, **standards, public procurement** and **IPRs**, fostering a culture conducive to innovation.

- The **Parliament** (Resolution, 2006) endorsed the suggestions of the Aho Report, and supported the adoption of an 'open innovation approach' to boost R&D capacity.

The Lisbon Strategy

VARIOUS POLICY INITIATIVES (2005-2006)

► in a new **Communication (2006)**, on '*a broad based innovation strategy for the EU*', the Commission highlighted the **EU innovation potential**. In order to create a true European innovation space, it proposed a **roadmap of 10 actions** regarding *inter alia* education, internal market, regulatory environment, IPRs, cooperation between stakeholders, financial instruments, and the role of government in supporting innovation. The Commission concluded that there was a need for an **improved governance structure for innovation**; the priority was to establish strong innovation systems in all Member States.

► in different circumstances (**2006**), the **European Council** concluded that **innovation** policy should be best understood as a set of instruments, validating the **wide policy mix approach**. It invited both Commission and Member States to **push forward** the **implementation** of the innovation policy **strategy**.

The Lisbon Strategy

- VARIOUS POLICY INITIATIVES (2007-2009)

- ► a **European Parliament Resolution** (2007) stressed the importance of promoting favourable market conditions, in order to create a regulatory environment encouraging innovation; according to the Parliament, **innovation** is a **means** to enhance **welfare**.

- ► in a **2007 Communication** on knowledge transfer, the **Commission** noted that many companies were developing **open innovation approaches** to R&D, aiming to maximise economic value from their intellectual property.

- ► the **European Council (2007)** also observed that **faster progress** was **necessary** to respond to the need of business to operate in an environment of open innovation.

The Lisbon Strategy

- VARIOUS POLICY INITIATIVES (2007-2009)
- What is more, a community framework for **state aid** for research & innovation was adopted in **2007**, together with the other actions addressing the full spectrum of the innovation policy mix.
- Further efforts were also made by the Commission and the Member States to **re-launch** the **European Research Area**, and to end the fragmentation of the research landscape (2007-2008). Member States then launched **partnership initiatives** to increase **cooperation** in the areas of: i) careers & **mobility** of **researchers**; ii) design & operations of **research programs**; iii) creation of quality **research infrastructures**; iv) **cooperation** between public **research** & **industry**; v) international **cooperation** in **science** & **technology**. Unfortunately, all these initiatives did **not** prove to be fully **effective** to **overcome** the European **weaknesses** in the field.

The Lisbon Strategy

- VARIOUS POLICY INITIATIVES (2007-2009)
- In **2008**, the **European Council** had called for the launch of a **European plan** for Innovation. The **Commission**, in response to this step, noted (Communication 2009) that there was still a **need** to **foster** a policy and regulatory **framework** promoting globally competitive EU industries and rewarding investments in research & innovation. **Better coordination** was also needed in relation to innovation policies at EU, regional and national levels, despite the relevant number of innovation programs.
- The **Commission** launched an **open consultation** on Community Innovation Policy (2009). The results showed the need to simplify and streamline EU funding programs, improve coordination between different governance levels (EU, national, regional), better align research/education/innovation policies, and focus more strongly on SMEs.

The Lisbon Strategy

- ASSESSMENT OF THE STRATEGY
- As noted, in the decade 2000-2010, several **reports** were issued on the **advancement** and **progress** of the Lisbon **Strategy**. Most of these reports (*Kok Report* 2004; *Aho Report* 2006) highlighted that the innovation potential of the EU was not being fully exploited, that the business climate should be made more innovation friendly, and that the **European Union** was **not** generally **on track** to achieve the Lisbon targets.
- A **new action plan** (2009), at both national and European level, identified certain **priorities**: improvements in the **education systems**; the creation of a **EU Institute** of **Innovation** and **Technology**; the promotion of **employment** for **researchers**; the facilitation of **knowledge transfer** between universities and the industry; the need to reshape **legislation** on the governments support to research and investments.

The Lisbon Strategy

ASSESSMENT OF THE STRATEGY

By 2010, even if some progress had been made, most of the **goals** had **not** been **achieved**. Possible causes of the failure of the Strategy were identified in a **lack of coordination** among the Member States, **conflicting priorities**, an **overloaded agenda**, **lack of efficient governance &** of **determined political action**, investments spread over **too many programmes**, and the **non-binding character** of the Strategy.

The official review of the Lisbon Strategy took place in a European Summit in 2010; in that context, the **new Europe 2020 Strategy** was also launched.

The Lisbon Strategy

- END OF THE STRATEGY

- In brief, after the decade 2000-2010, the EU Commission started to work on many of the Lisbon **targets** for the **following decade** (**2010-2020**). To this end, countless **policy actions** have been formulated and **massive investments** have been made in the field of innovation to **achieve smart, sustainable and inclusive growth.**

The Lisbon Strategy

- NEW CONCEPT OF INNOVATION

- **Innovation** has thus evolved to be understood as a
- **highly complex process**, which involves various
- actors (*i.e*. universities, private firms, governmental
- agencies, research centres) exchanging funds, skills
- and knowledge.

The Lisbon Strategy

- NEW CONCEPT OF INNOVATION

- Such a model is known as **'Open Innovation'**. Innovation policy is nowadays considered as an **umbrella policy**, rather than a single policy, which seeks to identify and address any bottleneck or limitation in the innovation process. It is **connected** to R&D / industrial / education policies, and with **other policies & instruments** providing the framework conditions for the innovation process (*e.g.,* taxation, financial support, state aid, regulation, standards, IPRs).

- At the EU level, moreover, regional & cohesion policy and the single market & competition policy are also related to the **innovation policy mix**. Thus, it can be said that innovation policy is a concept overarching & permeating a large range of policies.

The Lisbon Strategy

- <u>EU INNOVATION POLICY MIX</u>

- ► some elements of this innovation policy mix mainly **support the process of innovation** (*e.g*, by fostering the creation of knowledge, or stimulating the production of goods), and are referred to as **supply-side policies.**

- ► other policies & instruments instead will mainly **create demand for innovation** (*eg*, IPRs favouring the commercialization of knowledge, or new regulations implying the improvement of existing goods), and are referred to as **demand-side policies.**

- Supply-side policies have been widely used since the 1960s, to boost the innovation process. In the last 20 years, the set of instruments and policies on the demand-side has been broadened. Sector policies often create a demand for innovation.

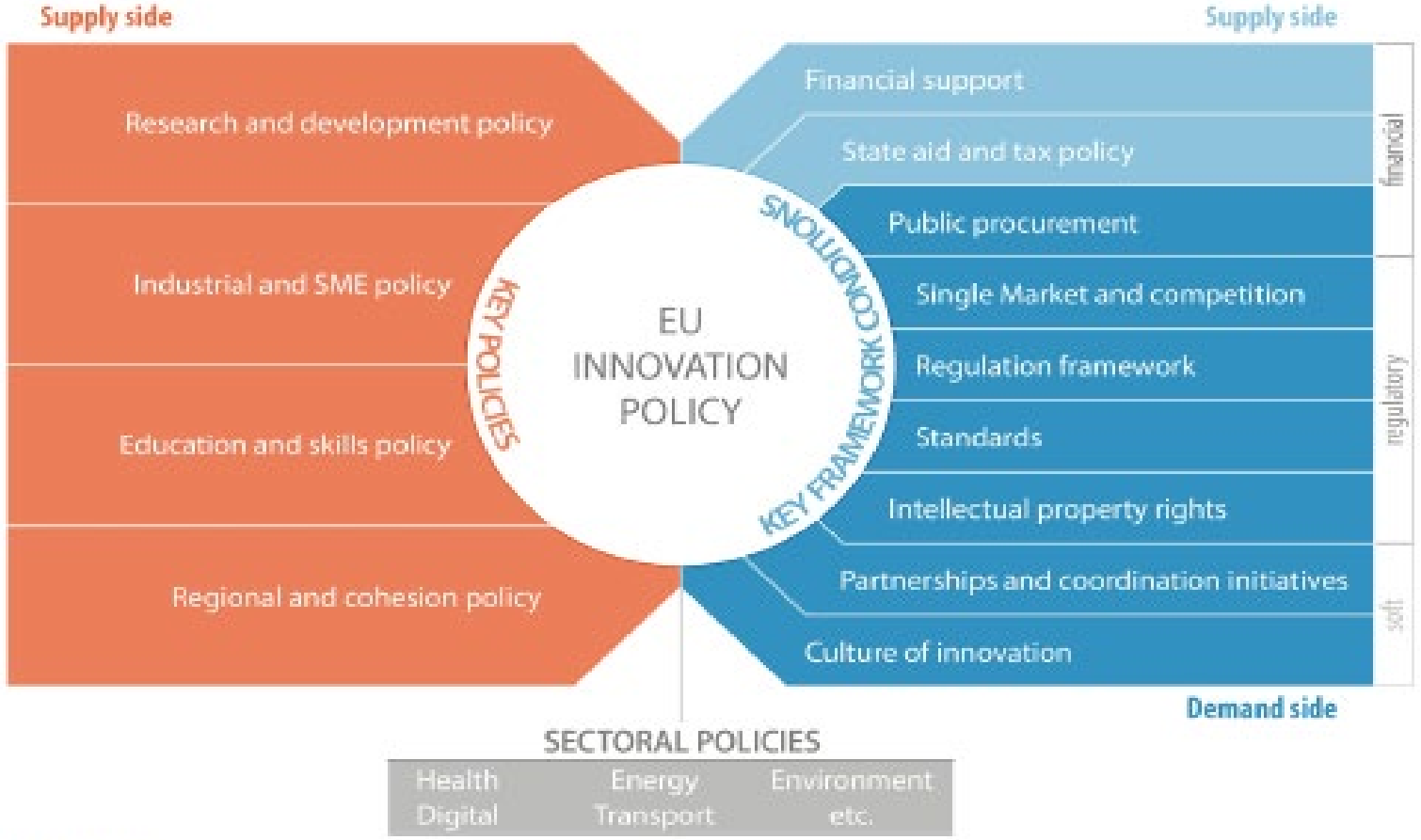
Table 1 – Key components and aspects of an innovation policy mix

	Policy or instrument	Regulatory	Financial	Soft
Supply-side	R&D policy	✓✓✓	✓✓	✓
	Industrial policy	✓✓✓	✓	✓
	Education policy	✓✓✓	✓	✓
	Direct financial support		✓✓✓	
	State aid and tax policy		✓✓✓	
Demand-side	Public procurement		✓✓✓	
	Regulation framework	✓✓✓		
	Standards	✓✓✓		✓
	IPR	✓✓✓		
	Partnerships and initiatives			✓✓✓
	Culture of innovation			✓✓✓
	Sectoral policies	✓✓✓	✓	✓

Source: EPRS ✓: Potential feature ✓✓: Important feature ✓✓✓: Main feature

- **Regulatory** tools setting rules for social and market interactions;
- **Financial** tools providing specific pecuniary incentives (or disincentives); and
- **Soft** tools characterised as voluntary and non-coercive (recommendations, voluntary agreements, etc.).

Figure 1 – The EU innovation policy mix



Source: EPRS.

The Lisbon Strategy

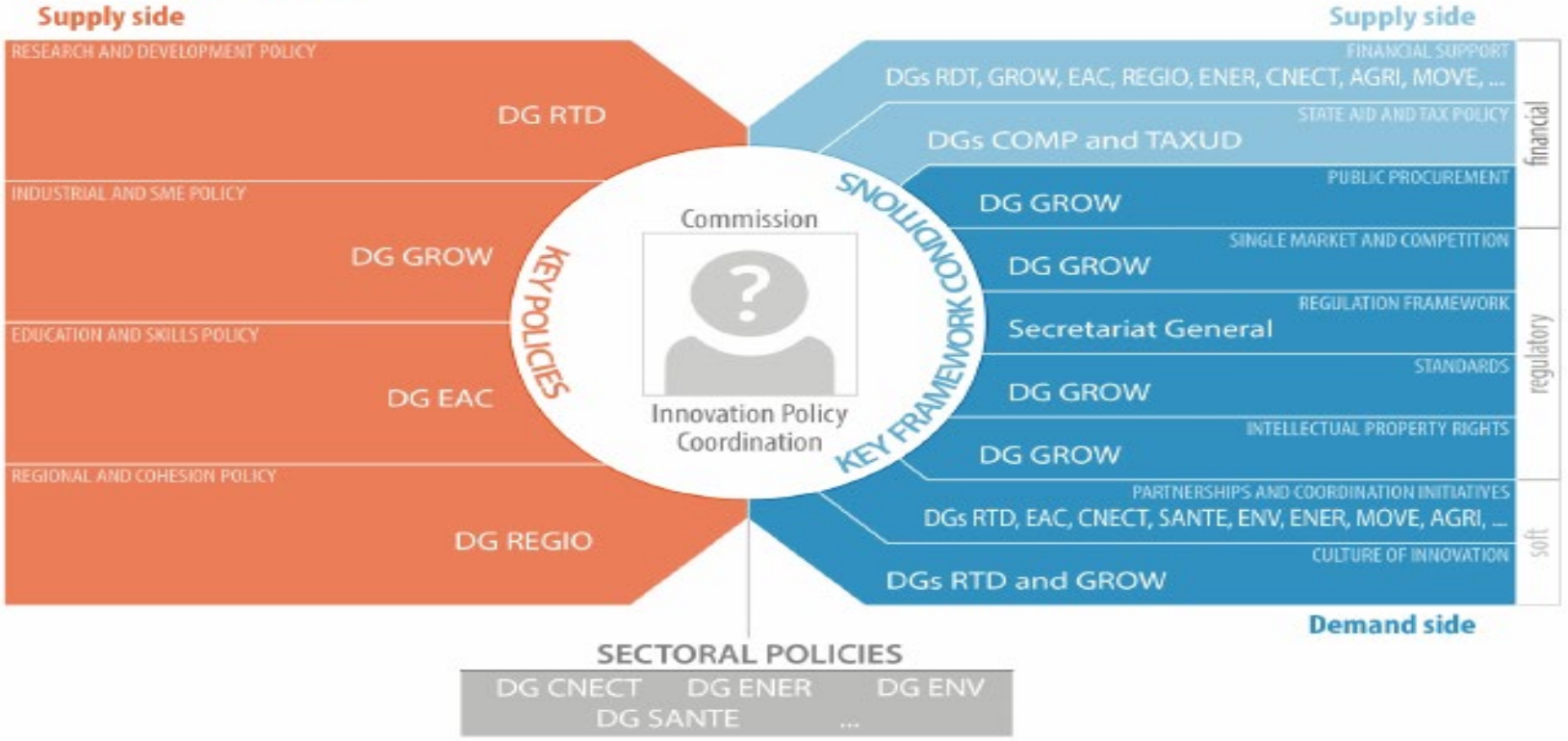
EU INNOVATION POLICY MIX

► the **efficiency** of each instrument of the **innovation policy mix** mainly depends on the **socio-economic, cultural and geographical context** in which it is introduced. Each instrument has to be carefully designed for the context in which it will be used.

► the crucial **goal** of innovation policy is to **shape** the **best policy mix** to support innovation, in light of the given time & governance level (local, regional, national, European) and considering the interactions between all elements and factors.

► designing an efficient innovation policy mix is a **continuous** and **dynamic process** which entails trade-offs between instruments and policies.

Figure 2 – The Commission Directorates-General involved in the development of the EU innovation policy mix



Directorates General

RTD (Research and Innovation), **GROW** (Internal Market, Industry, Entrepreneurship and SMEs), **EAC** (Education and Culture), **REGIO** (Regional and urban policy), **COMP** (Competition), **TAXUD** (Taxation), **CNECT** (Communications Networks, Content and Technology), **ENV** (Environment), **SANTE** (Health and food safety), **MOVE** (Mobility and transport), **ENER** (Energy), **AGRI** (Agriculture and rural development)

Source: EPRS.

The Lisbon Strategy

EU INNOVATION POLICY MIX

The **EU innovation policy mix** includes all cited policies and instruments, and **complements** the **measures** adopted at **national** & **regional** levels. Yet, two aspects are specific to the EU level:

- **Regional** and **cohesion policies**, which support the actors of the innovation process at regional level and influence the design of regional innovation policy mixes

- **Single Market** and **competition policies**, which strongly influence the shaping of the innovation ecosystem at EU level (think about the unified regulatory environment, and the free movement of goods, skills & knowledge, both beneficial for innovation)

The Lisbon Strategy

- EU INNOVATION POLICY MIX
- Depending on the components of the mix, the **EU competence** may be highly significant or of simple support to national or regional measures. In brief, the EU has a **different level of responsibility** for each element of the policy mix.
- For instance, the EU enjoys **full competence** on competition policy, the adoption of some regulations, and the implementation of standards. Then, the EU **shares responsibility** with the Member States on issues regarding R&D policy, regional policy, tax policy and IPRs. Finally, the EU **influence** is **limited** with regard to industrial policy and education policy. For many aspects of the mix, the EU adopts a **soft approach** (making recommendations to the Member States, setting monitoring activities, promoting exchanges of best practices & coordination activities).

- **how has innovation policy evolved in the EU ?**
- **which were the aims, pillars and key areas of the Lisbon Strategy ?**
- **how do we balance actions on innovation policy at EU and state level ?**

The Lisbon Strategy

SUGGESTED READINGS

- European Council, 'Presidency Conclusions', Lisbon 23-24 March 2000
- Report (Aho) of the Independent Expert Group, 'Creating an Innovative Europe' (2006)
- European Parliament (Research Service), 'EU Innovation Policy - Part I' (2016)
- M. Granieri & A. Renda, *Innovation Law and Policy in the European Union* (Springer 2012)

MODULE I

INNOVATION UNION & EU INNOVATION POLICY

(*Lecture III*)

Europe 2020 Growth Strategy & the Innovation Union

SCOPE AND GOALS OF EUROPE 2020

In 2010, at the end of the decade characterised by the partially unsuccessful Lisbon Strategy, the Commission presented the **Europe 2020 Strategy**. It defined **three main objectives** (covering five areas)**, seven flagship initiatives, and various ambitious targets** to be met during the decade and ultimately by 2020. The three main goals are:

i) **smart growth** - aimed at developing an economy based on knowledge & innovation

ii) **sustainable growth** - promoting a greener, more efficient & competitive economy

iii) **inclusive growth** – aimed at fostering a high employment economy [VIDEO]

Europe 2020 Growth Strategy & the Innovation Union

SCOPE AND GOALS OF EUROPE 2020

The **5** target **areas** of Europe 2020 comprise:

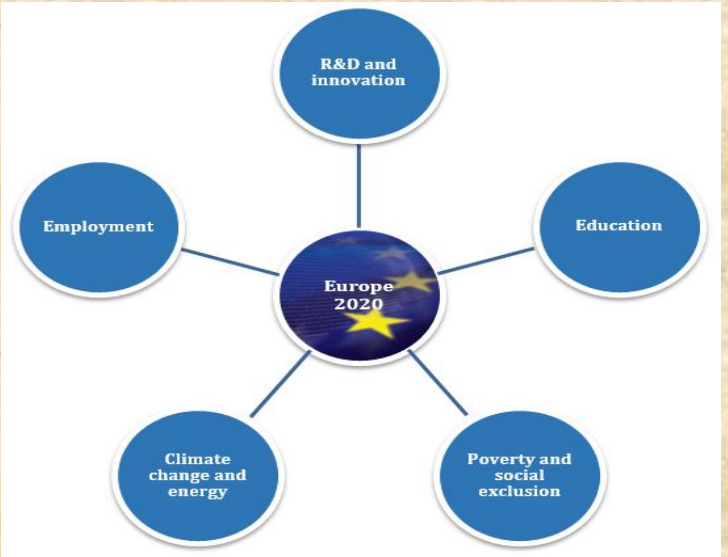
1) **employment**

2) **education**

3) **R&D** and **innovation**

4) **climate change & energy**

5) **poverty** & **social exclusion**



Europe 2020 Growth Strategy & the Innovation Union

SCOPE AND GOALS OF EUROPE 2020

The **seven flagship initiatives** of the Europe 2020 Strategy include:

- ***Innovation Union*** (improve framework conditions and access to finance for R&D)
- ***Youth on the move*** (enhance education and facilitate job market for young people)
- ***Digital agenda for EU*** (improve high speed internet & create digital single market)
- ***Resource-efficient EU*** (promote energy efficiency & the use of renewable energy)
- ***Industrial policy for globalisation era*** (improve the business environment)
- ***Agenda for new skills & jobs*** (modernize job markets, better match supply/demand)
- ***Platform against poverty & social exclusion*** (ensure social / territorial cohesion)

Europe 2020: Seven flagship initiatives

Education and Training

Smart Growth	Sustainable Growth	Inclusive Growth
Innovation *« Innovation Union »*	**Climate, energy and mobility** *« Resource efficient Europe »*	**Employment and skills** *« An agenda for new skills and jobs »*
Education *« Youth on the move »*	**Competitiveness** *« An industrial policy for the globalisation era »*	**Fighting poverty** *« European platform against poverty »*
Digital society *« A digital agenda for Europe »*		

	Targets	Flagship initiatives
Smart Growth	— 3 % of GDP to be invested in the research and development (R&D) sector. — Reduce the rates of early school leaving to below 10 %, and at least 40 % of 30 to 34 year olds to have completed tertiary or equivalent education.	— Innovation Union — Youth on the move — A digital agenda for Europe
Sustainable Growth	— Reduce greenhouse gas emissions by 20 % compared to 1990 levels. — Increase the share of renewables in final energy consumption to 20 %. — 20 % increase in energy efficiency.	— Resource efficient Europe — An industrial policy for the globalisation era
Inclusive Growth	— 75 % of 20 to 64 year old men and women to be employed. — Reduce poverty by lifting at least 20 million people out of the risk of poverty and social exclusion.	— An agenda for new skills and jobs — European platform against poverty and social exclusion

Europe 2020 Growth Strategy & the Innovation Union

INNOVATION UNION INITIATIVE - MEANING

The smart aspect of the **Europe 2020 Strategy** has its roots on the development of an **economy** based on **knowledge & innovation**. As one of the seven flagship initiatives, the **Innovation Union** aims '*to improve framework conditions and access to finance for research and innovation, so as to ensure that innovative ideas can be turned into products and services that create growth and jobs*'.

The Commission was still looking for a solution of the 'European paradox', and to this end was promoting the **strengthening** and further development of the role of EU **instruments** to **support research and innovation.**

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INNOVATION UNION INITIATIVE - MEANING

In the Communication (2010) presenting the Innovation Union initiative, the **Commission** recognised that '**innovation** is the **overarching policy objective**', and that the EU and Member States have to adopt a more strategic approach to innovation.

The **EU Parliament**, in two resolutions (2010), welcomed the Europe 2020 Strategy & the Innovation Union initiative. It suggested the EU Commission:

► to work towards a **more coherent innovation strategy**

► to **increase** the total **budget** allocated to **research** & **innovation**

► to work with MSs and further **converge policies** on **innovation**

[VIDEO]

Europe 2020 Growth Strategy & the Innovation Union

INNOVATION UNION INITIATIVE - MEANING

Two **Commission's Communications (2010)** completed the vision set under the Innovation Union. A **communication on '*regional policy*'** defined regional innovation policy as 'a key mean of turning the priorities of the Innovation Union into practical action on the ground'. Another **communication on '*integrated industrial policy*'** stated that 'a new industrial innovation policy is needed to encourage the much faster development and commercialization of goods and services, and to ensure that EU firms are first onto the market'. Both Council and Parliament supported the initiative:

► **Council**: EU & MS should adopt a strategic, **integrated approach** to innovation

► **EU Parliament**: the policy success of the initiative depends on strategic orientation, design & implementation of all the policies and measures, coordination among the different policy areas actions and instruments, and **prevention of fragmentation**

Europe 2020 Growth Strategy & the Innovation Union

INNOVATION UNION INITIATIVE - PRIORITY AREAS

The Innovation Union tries to address six priority areas: **i) strengthening the knowledge base and reduce fragmentation** (create an excellent education system in all MSs; complete the European Research Area; streamline EU research and innovation funding instruments); **ii) getting good ideas to the market** (create a Single Innovation Market regarding IPRs and standards; promote openness, knowledge and ideas); **iii) maximising social and territorial cohesion** (spread the benefits of innovation across EU & promote social innovation); **iv) European Innovation Partnerships** (promote a new approach to innovation through partnerships & ensure efficient governance-implementation); **v) leveraging EU policies externally** (attract leading talent and deepen scientific/technological cooperation with non-EU countries); **vi) making it happen** (measure and monitor progress; reform both research and innovation systems).

Europe 2020 Growth Strategy & the Innovation Union

INNOVATION UNION INITIATIVE - PRIORITY AREAS

For instance, among the cited priorities, the **European Research Area (ERA)** continues to constitute a crucial pillar of the Innovation Union. The intent is to provide researchers with a unique and comprehensive research space, and allow them to share ideas and generate new *momentum* for European innovation. Therefore, the ERA chapter of the Innovation Union initiative promote:

- **mobility** of researchers across countries and sectors
- **cooperation** and dissemination of research results
- **interaction** between researchers and businesses (SMEs)
- **cross-border operation** of research performing bodies

Europe 2020 Growth Strategy & the Innovation Union

Europe 2020 Growth Strategy & the Innovation Union

INNOVATION UNION INITIATIVE - RELEVANT PROJECTS

Several projects have been launched or strengthened in the context of the initiative:

► '**European Institute of Innovation and Technology (EIT)**', launched in 2008, has been strengthened under the Innovation Union. Its aim is to increase European sustainable growth and competitiveness by reinforcing the innovation capacity of the Member States and the EU. The Institute has created integrated structures (Knowledge Innovation Communities - KICs) connecting higher education, research and business sectors to one another, thereby boosting innovation and entrepreneurship. The KICs generally focus on priority topics with significant societal impact (*e.g.*, climate change, sustainable energy, information and communication technology).

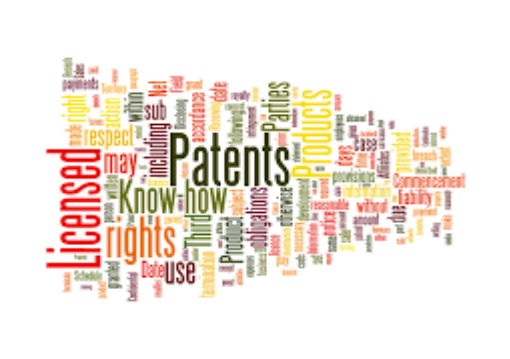
Europe 2020 Growth Strategy & the Innovation Union

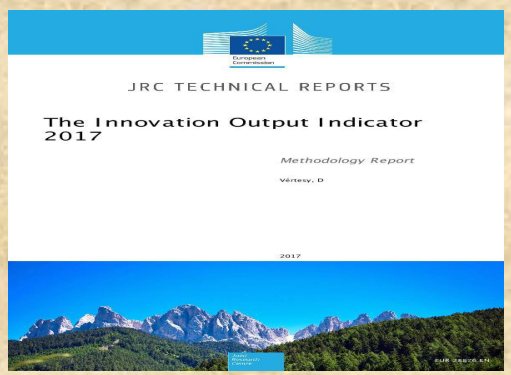
INNOVATION UNION INITIATIVE - RELEVANT PROJECTS

► **'European Innovation Partnerships'** have been launched in order to accelerate the development and use of the technologies needed to tackle societal challenges. They bring together existing resources & competences from all over Europe, and are active across the whole research and innovation chain. Hence, such partnerships represent a new approach to coordinate and streamline new or existing actions of actors of the innovation process in a specific area (*e.g.*, energy, transport, climate change, health).

► **'Contractual Public Private Partnerships'** consist in contractual arrangements between the Commission and associations representing the interests of the private sector in specific areas. Both parties commit to a long term investment in research and innovation. They emerged at the end of the Lisbon Strategy decade, in order to increase the level of investments in research and innovation from the private sector.

Europe 2020 Growth Strategy & the Innovation Union





Europe 2020 Growth Strategy & the Innovation Union

INNOVATION UNION INITIATIVE - RELEVANT PROJECTS

► **'Smart Specialization Strategies' (S3)** extend the concept of Regional Innovation Strategy, launched in 1994. The S3 identify a number of priority areas at the regional level in order to concentrate resources and efforts, and avoid distributing investments across a broad range of topics. Such specialization strategies are developed and agreed by the local actors of the innovation ecosystem.

► **'Innovation Output Indicator'** was developed by the Commission in 2013 as a single integrated indicator for innovation, reflecting the outputs of the innovation process. It combines four indicators of the European Innovation Scoreboard with a new measure of employment in fast growing firms of innovative sectors.

Europe 2020 Growth Strategy & the Innovation Union

INNOVATION UNION INITIATIVE - RELEVANT PROJECTS

► '**European Knowledge Market for Patents and Licensing**', proposed by the Commission and based on the use of trading platforms, facilitating the match between supply & demand of IPRs and enabling financial investments in intangible assets.

► **Review of the role of competition policy**, proposed with specific reference to the antitrust rules on horizontal agreements (R&D agreements, technology transfer agreements), in order to safeguard against the use of IPRs for anticompetitive aims.

► **Achievement of the EU Single Market,** through the creation of an EU patent & by strengthening standardization policy to make it consistent with innovation patterns (Communication 2017 on '*investing in a smart innovative and sustainable industry*').

Europe 2020 Growth Strategy & the Innovation Union

INNOVATION UNION INITIATIVE - RELEVANT PROJECTS

► '**Horizon 2020 (8th Framework Programme for Research and Innovation)'**, which is a funding programme launched by the EU Commission and represents the financial instrument for implementing the Innovation Union. It supports & fosters research in the European Research Area, and aims at its completion also by coordinating national research policies. The specific focus is on innovation, and its main pillars are: *Excellent Science* (focused on basic science), *Industrial Leadership* (focused on streamlining EU industries), *Societal challenges* (focused on implementing solutions to social & economic problems). The program covers the period 2014-2020.

Europe 2020 Growth Strategy & the Innovation Union

INNOVATION UNION INITIATIVE - MONITORING & DEVELOPMENT

After the launch of the Innovation Union flagship, the **progress** in the implementation of the strategy has been constantly **monitored**. In a first **report** of the Commission (**2011**), the authority reviewed the several commitments deriving from the flagship. It highlighted that most of the **commitments** were **on track**. It further noted that it was necessary that 'all actors take **collective responsibility** for Innovation Union delivery', and that the success of the Innovation Union was strictly related to the successful implementation of **actions** at both **national** and **regional levels**.

In the following **report** (**2012**), the Commission confirmed that progress had been made in strengthening the policy framework for an Innovation Union. On the other side, however, it pointed to a substantial **delay** in designing the **European Research Area**, and to the existence of relevant **divergences** in innovation at **regional levels**.

Europe 2020 Growth Strategy & the Innovation Union

INNOVATION UNION INITIATIVE - MONITORING & DEVELOPMENT

In a **communication** on '*research and innovation as sources of renewed growth'* (**2014**), the EU Commission clarified that some important **gaps remain** and need to be filled in order to turn Europe into a more innovative society'. As stated in the communication, 'research and innovation affect many policy areas and involve a large number of actors and should therefore be driven by an **overarching strategy**'. It was also specified that further efforts were needed to address the **fragmentation** and the **inefficiencies** in the **Single Market**, and that a **human resource base** with the necessary skills was crucial to achieve the goals identified.

Europe 2020 Growth Strategy & the Innovation Union

INNOVATION UNION INITIATIVE - MONITORING & DEVELOPMENT

The **Commission** also presented (**2014**) '***an investment plan for Europe***', based on three different routes:

1) **mobilising finance for investments**: the *European Fund for Strategic Investments* (2015) represented the main action. It was suggested that funds should be used mainly for the areas of research and innovation.

2) **making finance reach the real economy**: the goal was to channel extra public and private money to projects with a solid added value for the EU social market economy.

3) **improve the investment environment**: the objective was to remove barriers to investment across Europe, reinforce the Single Market, and create the optimal framework conditions for investment in Europe (*e.g.*, lower barriers to knowledge transfer, open access to scientific research, and greater mobility of researchers).

Europe 2020 Growth Strategy & the Innovation Union

INNOVATION UNION INITIATIVE - MONITORING & DEVELOPMENT

In the **2015 communication** on '*better regulation for better results*', the Commission elaborated a new **framework** to **assess** and **design regulation**. It launched the Regulatory Fitness Programme (REFIT) platform in order to collect suggestions on 'regulatory and administrative burden reductions'. The Guidelines on Better Regulation, adopted together with the Communication, include a research and innovation tool to examine the impact of new or existing regulations on innovation.

► the aim was to **address regulatory uncertainties** identified by innovators (which can hinder innovation within the existing legal framework), and **promote** an **innovation-friendly regulatory environment.**

Europe 2020 Growth Strategy & the Innovation Union

INNOVATION UNION INITIATIVE - MONITORING & DEVELOPMENT

In the following **report** on the progress of the Innovation Union and its outcomes (**2015**), mixed conclusions were drawn. It recognised that the Innovation Union has introduced a **more strategic approach to innovation**, by promoting decisive actions that addressed both the supply and demand-side elements of the innovation ecosystem.

However, it was also noted that the outcome of such processes has been uneven across the various Member States. As previously emerged in other reports, the main issues concern: the need to address **skills shortage**; the need for **closer investments** by society to develop an innovation culture; and **inconsistencies** of rules and practices regarding the Single Market.

Europe 2020 Growth Strategy & the Innovation Union

INNOVATION UNION INITIATIVE - MONITORING & DEVELOPMENT

In a **2016 Communication**, on '*science, research and innovation performance of the EU*', the Commission stressed the importance of the concept of '**Open Innovation**', and remarked the need to create the **right ecosystem**, **increase investments**, and bring more companies and regions into the **knowledge economy**. A main problem is still represented by the persistence of an **innovation divide** (fragmentation) across the European Union. Further issues also concern the essential framework conditions :

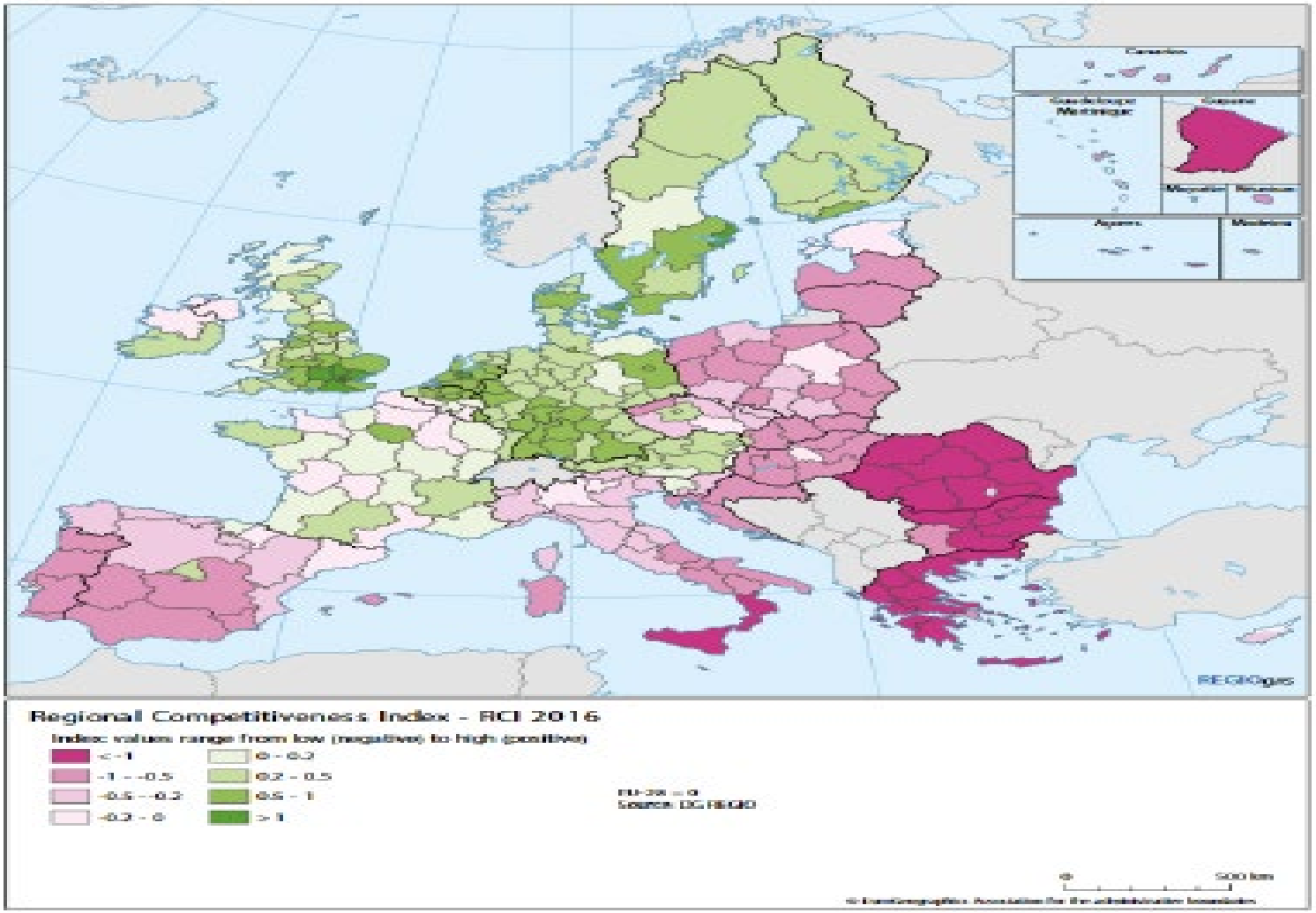
- ► product market regulations
- ► barriers to entrepreneurship
- ► intellectual property rights protection

Europe 2020 Growth Strategy & the Innovation Union

INNOVATION UNION INITIATIVE - MONITORING & DEVELOPMENT

In the context of regional innovation policies, the Commission adopted a specific **communication** (**2017**) on '*strengthening innovation in Europe's regions*'. Here, it remarked the importance of enabling EU **regions** to build on **smart specialization** and fully **unlock** their **potential** for technological change, digitization and industrial modernization. The Commission also identified some **challenges** which need to be addressed: i) further reform of research and innovation systems within regions; ii) increasing cooperation in innovation investment across regions; iii) leveraging research and innovation in less developed regions; iv) exploit synergies and complementarities between EU policies and instruments.

Performance of EU regions in terms of innovation[44]



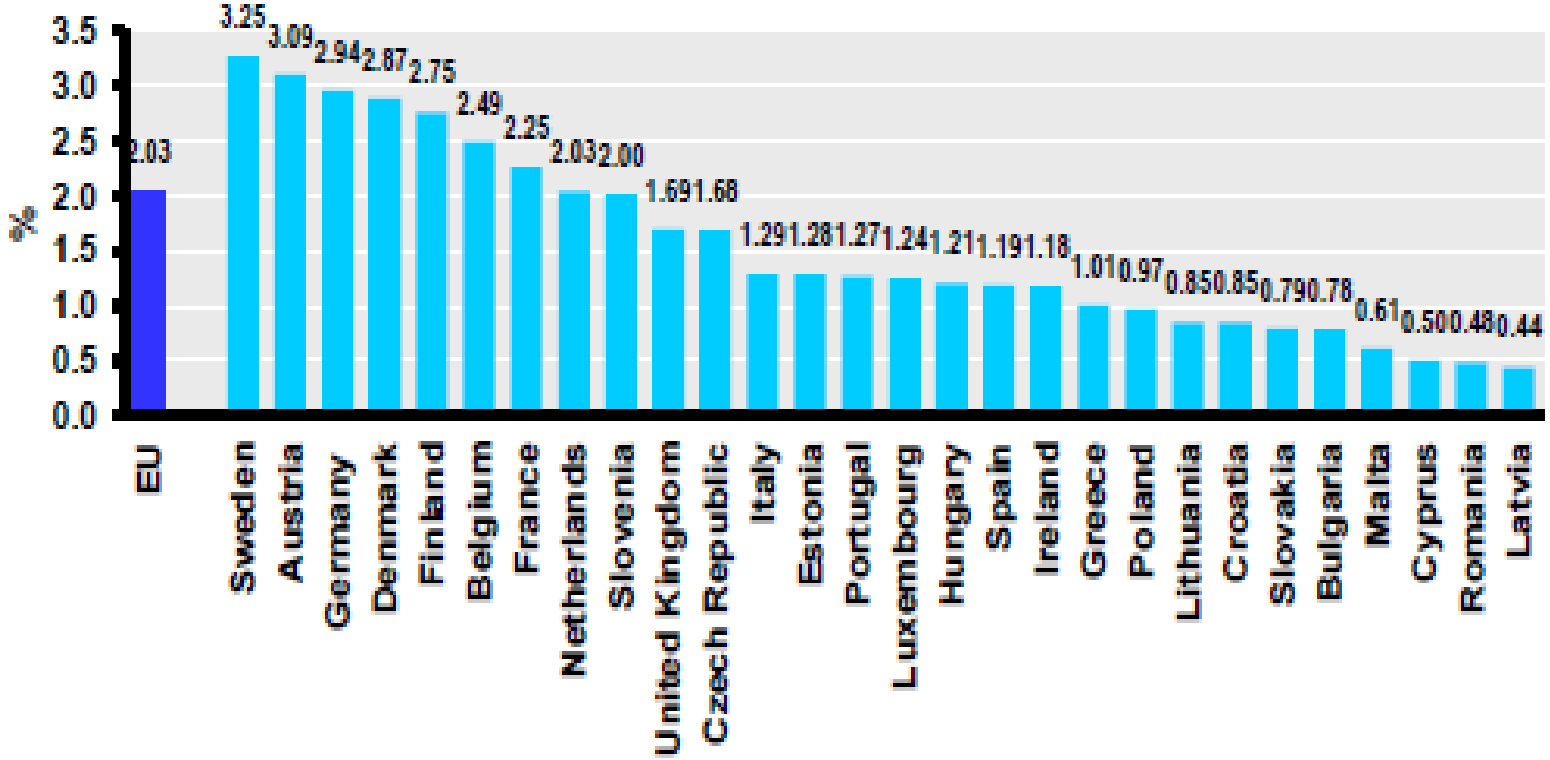
Europe 2020 Growth Strategy & the Innovation Union

INNOVATION UNION INITIATIVE - MONITORING & DEVELOPMENT

► in the interim **evaluation** of the **Horizon 2020** programme (**2018**), the Commission recognised that 'it has been an EU **success story** with undeniable EU added value'. In this regard, Horizon 2020 seems on track to contribute significantly to the creation of jobs and growth; it is increasing EU attractiveness as a place for research & innovation.

► in the **2018 Communication** on '*a renewed European agenda for research and innovation',* the Commission remembered the importance of **connecting** the different local & regional research and innovation **ecosystems** to foster innovation across EU value chains. It further highlighted the need to stimulate **investment** in R&I, and to make **regulatory** frameworks fit for innovation.

Research and Development intensity 2016[13]



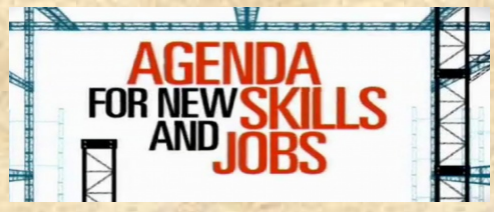
Europe 2020 Growth Strategy & the Innovation Union

INNOVATION UNION AND THE OTHER INITIATIVES

As clarified by the many reports and communications, the **Innovation Union initiative** is clearly at the core of innovation policy for the new decade. Yet, some of the **other initiatives** are also **connected** to innovation, with key innovation-related components.

► **Digital Agenda** (which aims at strengthening a key infrastructure for modern innovation patterns)

► **Agenda for new Skills &Jobs** (investments in education may eventually boost research and innovation potentials)



Europe 2020 Growth Strategy & the Innovation Union

INNOVATION UNION AND THE OTHER INITIATIVES

► **Industrial Policy for a Globalization Era** (*eg,* in relation to the action of assessing the sector-specific innovation performance for some economic fields, such as construction / bio-fuels / road and rail transport etc)

► **Resource-efficient Europe** (*eg,* for issues related to the sustainability of transports or smart grids, and to the concept of eco-innovation)

- what did the Commission plan in order to connect research and industry?
- what are the main bottlenecks faced in shaping the Innovation Union?
- how does the Innovation Union relate to the other initiatives?

Europe 2020 Growth Strategy & the Innovation Union

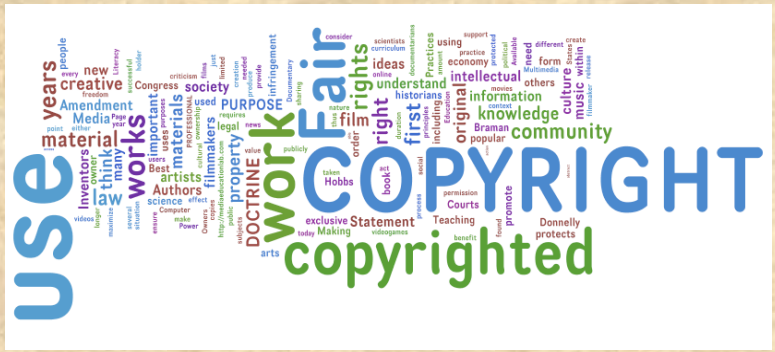
SUGGESTED READINGS

- EU Commission, 'Europe 2020 – A Strategy for Smart, Sustainable and Inclusive Growth', COM(2010) 2020
- EU Commission, 'Europe 2020 – Flagship Initiative Innovation Union', COM(2010) 546
- EU Commission, 'A Renewed European Agenda for Research and Innovation – Europe's Chance to Shape its Future', COM(2018) 306
- EU Commission, 'Proposal for a Regulation Establishing Horizon Europe', COM(2018) 435
- European Parliament (Research Service), 'EU Innovation Policy - Part I' (2016)
- M. Granieri & A. Renda, *Innovation Law and Policy in the European Union* (Springer 2012)

MODULE II

SINGLE MARKET FOR INTELLECTUAL PROPERTY RIGHTS

(*Lecture IV*)



The Modernization of Copyright and Related Rights

IPR AS PART OF THE FRAMEWORK CONDITIONS

As noted earlier, the EU **innovation policy mix** comprises on the one hand **key policies** targeting those actors involved in the innovation process (R&D, education, regional, industrial policies); on the other, it also includes **key framework conditions**. The latter cover policies and instruments organizing the flows of knowledge skills and funds between the actors of the innovation process, and shaping their interactions.

Intellectual property rights are part of these key framework conditions, together with other elements (*i.e.,* regulation, standards, single market and competition, taxation).

The Modernization of Copyright and Related Rights

IPR AS PART OF THE FRAMEWORK CONDITIONS

The **key framework conditions** (which can be classified in financial, regulatory and soft tools) are directly linked to the creation of a Single Market. Several measures have been adopted at EU level to create an EU framework for **IPRs,** to align **regulations** facilitating the innovation process, to harmonize **standards,** to promote **funding** of innovation-related activities. Most of these measures aim at **tackling** the **fragmentation** of the EU landscape for innovation, and at **addressing** those **barriers** hindering the innovation process in the various Member States.

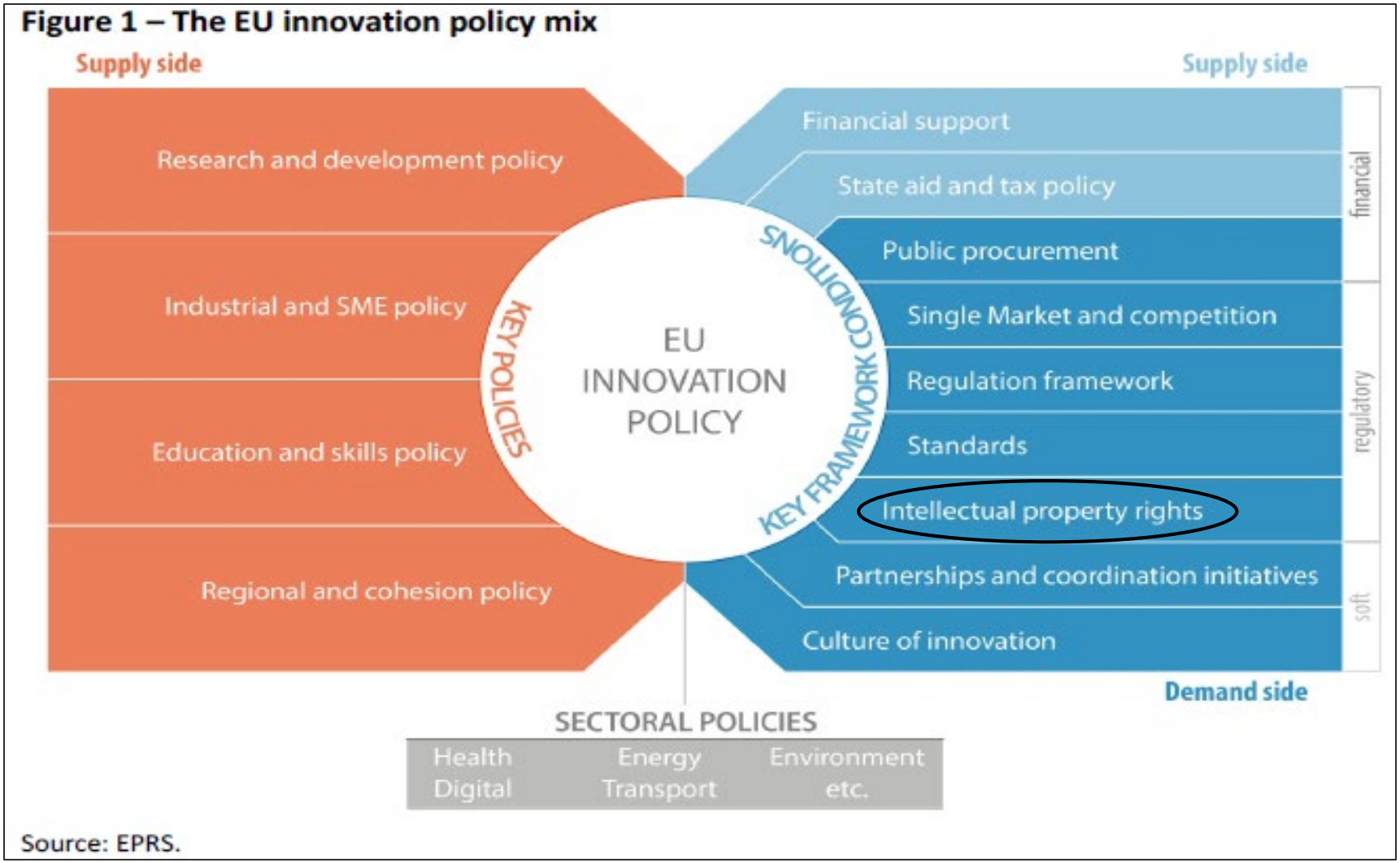


Figure 1 – The EU innovation policy mix
Supply side
Supply side
Research and development policy
Industrial and SME policy
Education and skills policy
Regional and cohesion policy
KEY POLICIES
EU INNOVATION POLICY
KEY FRAMEWORK CONDITIONS
Financial support
State aid and tax policy
Public procurement
Single Market and competition
Regulation framework
Standards
Intellectual property rights
Partnerships and coordination initiatives
Culture of innovation
financial
regulatory
soft
Demand side
SECTORAL POLICIES
Health
Digital
Energy
Transport
Environment
etc.
Source: EPRS.

Table 1 – Competences of the EU for each of the components of the EU innovation policy mix

Key policies	Fund	Regulate	Promote
R&D policy	✓✓	✓	✓✓
Industrial and SME policy	✓	✓	✓
Education and skills policy			✓✓
Regional and cohesion policy	✓✓		✓✓
Key framework conditions	**Fund**	**Regulate**	**Promote**
Financial support	✓✓	✓	✓
State aid and tax policy		✓	✓✓
Public procurement	✓	✓	✓✓
Single Market and Competition		✓✓✓	✓
Regulation framework		✓	✓✓
Standards		✓	✓✓
IPR		✓✓✓	✓
Partnerships and initiatives	✓✓	✓	✓✓
Culture of innovation			✓

Source: EPRS ✓: Potential action or low competence ✓✓: Important feature ✓✓✓: Strong competence

The Modernization of Copyright and Related Rights

- IPR AND THE SINGLE MARKET

- **IPRs**, as the other framework conditions, are closely **related** to the **development** of a **Single Market**. The creation of a **common market** was a key goal of the European Economic Community established by the Treaty of Rome in **1957**. Efforts focused on ensuring the **free movement** of **persons**, **goods**, **services** and **capital**. Yet, the establishment of a fully functioning single market in Europe is still a work in progress.

- It can be argued that the establishment of a Single Market is the **driver** for many of the **framework conditions** concerning the enhancement of the innovation process. The Single Market policy itself includes measures related *inter alia* to IPRs (beyond to the areas of taxation, regulation, standardization). Achieving the goals set under the single market policy is a key aspect of EU innovation policy.

The Modernization of Copyright and Related Rights

GENERAL FRAMEWORK FOR IPR

Intellectual property rights comprise **copyright**, **patents**, **trademarks**, **design rights**, and **related issues** such as trade secrets and geographical indications. In the context of the creation of the single market, the EU institutions launched in the 1990s a **process** aimed at **harmonizing** the **legislation** on **IPRs.**

► in the **1996 action plan** for innovation in Europe, the Commission noted that 'action at Community level ... is necessary to draw up and enforce the rules of the game, particularly those on competition, IPRs and the internal market'.

The Modernization of Copyright and Related Rights

GENERAL FRAMEWORK FOR IPR

► the **Treaty of Amsterdam** (1997) introduced the possibility for the Council of the EU acting unanimously to adopt measures on IPRs after consulting the Parliament.

► in 2007, the **Treaty of Lisbon** included provisions dealing with IPR in the Treaty on the Functioning of the EU. Article 118 TFEU states that the ordinary legislative procedure - involving EU Commission, Parliament and Council - is to be used (rather than an unanimous vote in the Council & mere consultation of the Parliament) for the EU to establish measures for the creation of intellectual property rights aimed at providing uniform protection of intellectual property rights throughout the EU.

The Modernization of Copyright and Related Rights

GENERAL FRAMEWORK FOR IPR

► in 2011, in the context of the **Europe 2020 Strategy** and the Innovation Union flagship initiative, the Commission started to work on the project of a **single market for IPRs in Europe**. Despite all measures taken, it recognised that the IPRs framework is still **fragmented** in the Union. Further, the acceleration of technological progress seems to put the legal framework under pressure for a change. As the EU Commission held, the 'EU IPR legislation must provide the appropriate enabling framework that incentivises investment by rewarding creation, stimulates innovation in an environment of undistorted competition and facilitates the distribution of knowledge'.

The Modernization of Copyright and Related Rights

GENERAL FRAMEWORK FOR IPR

► the **EU Commission** planned to **revise** the whole **IPR framework** and to review the 2004 **Directive** on **IPR enforcement**. In this regard, in 2014, it published an **action plan**, and in 2016 conducted a **public consultation** on the evaluation and modernization of the legal framework for the enforcement of IPR.

► the **EU Parliament** supported this action plan and underlined that Member States are responsible for IPR enforcement. It also highlighted that 'the key objective of the action plan should be to ensure the effective, evidenced-based enforcement of IPR, which plays a key role in stimulating innovation, creativity, competitiveness, growth and cultural diversity'.

The Modernization of Copyright and Related Rights

- THE DIGITAL SINGLE MARKET

- **IPRs**, and in particular **copyright**, are at the core of some policy actions promoted by the **Digital Single Market Strategy for Europe**, which was presented by the Commission in **2015**. The strategy is based on **three pillars**: i) **boosting** consumers' and businesses' access to digital goods and services; ii) **developing** the conditions for digital networks and services to expand; iii) **making** the best of the growth potential of the digital economy. The Digital Single Market can be considered as one of the sectoral policies included in the **innovation policy mix**.

The Modernization of Copyright and Related Rights

- THE DIGITAL SINGLE MARKET

- The cited three pillars are related to three main **policy areas**:

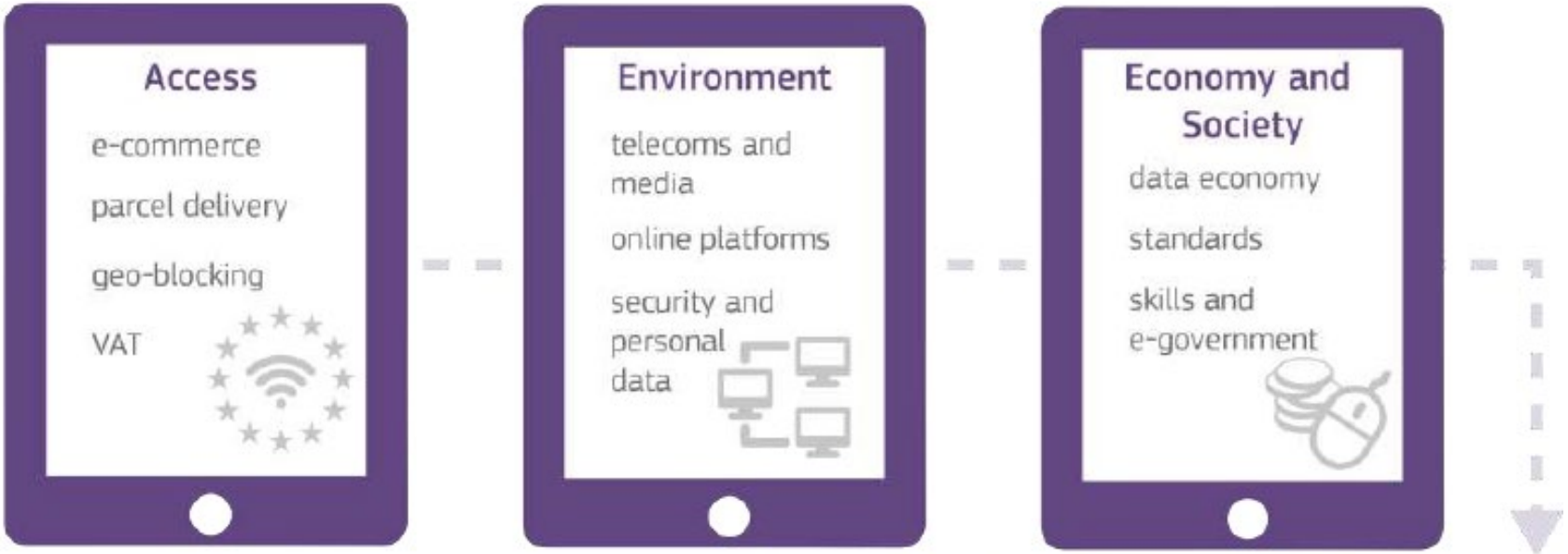
- ► **better access** for consumers and businesses to online goods: making the EU digital world a level market to buy and sell

- ► **optimal environment** for **digital** networks & services: implementing rules which support the development of infrastructures and match the pace of technology progress

- ► **economy and society:** ensuring that industry, economy and employment take full benefit of the advantages offered by the digital world

A DIGITAL SINGLE MARKET FOR EUROPE

MORE INTEGRATED NETWORKS, PRODUCTS AND SERVICES



Creating a #DigitalSingleMarket

Annex: Roadmap for completing the Digital Single Market

Actions[22]	Timetable
Better access for consumers and businesses to digital goods and services across Europe	
Legislative proposals for simple and effective cross-border contract rules for consumers and businesses	2015
Review the Regulation on Consumer Protection Cooperation	2016
Measures in the area of parcel delivery	2016
A wide ranging review to prepare legislative proposals to tackle unjustified Geo-blocking	2015
Competition sector inquiry into e-commerce, relating to the online trade of goods and the online provision of services	2015
Legislative proposals for a reform of the copyright regime	2015
Review of the Satellite and Cable Directive	2015/2016
Legislative proposals to reduce the administrative burden on businesses arising from different VAT regimes	2016
Creating the right conditions for digital networks and services to flourish	
Legislative proposals to reform the current telecoms rules	2016
Review the Audiovisual Media Services Directive	2016
Comprehensive analysis of the role of platforms in the market including illegal content on the Internet	2015
Review the e-Privacy Directive	2016
Establishment of a Cybersecurity contractual Public-Private Partnership	2016
Maximising the growth potential of the Digital Economy	
Initiatives on data ownership, free flow of data (e.g. between cloud providers) and on a European Cloud	2016
Adoption of a Priority ICT Standards Plan and extending the European Interoperability Framework for public services	2015
New e-Government Action Plan including an initiative on the 'Once-Only' principle and an initiative on building up the interconnection of business registers	2016

The Modernization of Copyright and Related Rights

THE DIGITAL SINGLE MARKET

As the EU Commission noted, our **world** has been drastically **transformed** by the **internet** and **digital** technologies. Yet, the existence of **barriers online** does not allow businesses and governments to fully benefit from digital tools; further, consumers are not able to take advantage of the newest goods and services.

Offline barriers to the **single market** often **spread** to the **online digital environment**. For example, online markets are still mainly domestic in terms of online services. A small percentage (7%) of SMEs in the EU sells cross border. Such a situation can change by **putting** the **single market online**, letting people - firms to trade and innovate freely and safely.

The Modernization of Copyright and Related Rights

- THE DIGITAL SINGLE MARKET

- In other words, it is necessary to **make** the EU **single market fit** for the **digital age**, by eliminating regulatory barriers and by guaranteeing the free movement of persons, goods, services, capital and data – thus creating a market where citizens and firms can securely and fairly access online products whatever their nationality and residence is.

- A digital single market could have a **big impact** by contributing € 415 billion per year to our economy, by boosting jobs investments competition growth and innovation. It could further offer better products, expand markets, and create opportunities for new start-ups. Ultimately, the digital single market can help the European Union to hold its position as a world leader in the digital economy.


"I want to see pan-continental telecoms networks,
digital services that cross borders
and a wave of innovative European start-ups.
I want to see every consumer getting the best
deals and every business accessing the widest
market – wherever they are in Europe."
Jean-Claude Juncker, 6 May 2015
European
Commission


"Our rules now need updating for the digital age. They have to become more conducive for investors and promote more competition. No more barriers to access, splintered markets or national distortions."
Andrus Ansip, 13 October 2015
"The vision of a Digital Union can only become a reality if we have unconstrained connectivity. To improving opportunities for businesses and citizens everywhere, we must make connectivity available for all SMEs, research centres and the wider economy in general."
Günther H. Oettinger, 13 October 2015
#DigitalSingleM
European Commission

The Modernization of Copyright and Related Rights

THE DIGITAL SINGLE MARKET

To sum up, the main **actions** of the Digital Single Market strategy are about :

- **boosting e-commerce** in the EU (*e.g.*, tackle geo-blocking)
- **strengthening cyber-security** and **adapting e-privacy rules**
- **updating** the audiovisual-media rules
- **promoting** the development of **digital skills & ** of better **internet connectivity**
- **unlocking** the potential of a European **data economy**
- **modernising** the **EU copyright** rules to fit the digital age

The Modernization of Copyright and Related Rights

- WHAT IS COPYRIGHT ABOUT ?
- Before looking at the modernization process of copyright in details, it is appropriate to understand what copyright is about. The term '**copyright**' describes the rights that creators have over their literary, scientific, artistic works. Copyright does not protect ideas; it rather **protects** the **expression** of **ideas**. In the EU, copyright protection is obtained from the moment of **creation** of the **work**; this means that **no registration** (or other formality) is required. Nevertheless, in some countries, it is possible to voluntarily register or deposit works protected by copyright – this may be useful, for instance, to solve disputes over ownership, or to facilitate financial transactions.

The Modernization of Copyright and Related Rights

COPYRIGHT AND RELATED RIGHTS

As to the **requirements** to obtain copyright protection, it must be said that copyright is **regulated** at **national level**. Therefore, the requirements may in theory vary from one country to another. In general, the **work should**:

► **be original** - there is no complete harmonization, at EU and international levels, on the meaning of the word 'original'; however, based on EU jurisprudence, the originality requirement is satisfied when the author expresses his creativity by making free and creative choices, resulting in a work that reflects his personality.

► **exist in some form** - there is no harmonization at EU level on whether the work has to be fixed in a material form in order to benefit from copyright protection.

The Modernization of Copyright and Related Rights

- <u>COPYRIGHT AND RELATED RIGHTS</u>
- As to the type of protection conferred, **copyright** is **territorial** and **national** in scope. Consequently, the law of the country in which the author seeks protection applies.
- However, a number of **conventions** and **international treaties** allow authors to benefit from copyright protection in several countries (EU nations included).

The Modernization of Copyright and Related Rights

COPYRIGHT AND RELATED RIGHTS

For instance, the **Berne Convention** 'on the protection of literary and artistic works' (1886) **grants authors** the following categories of rights:

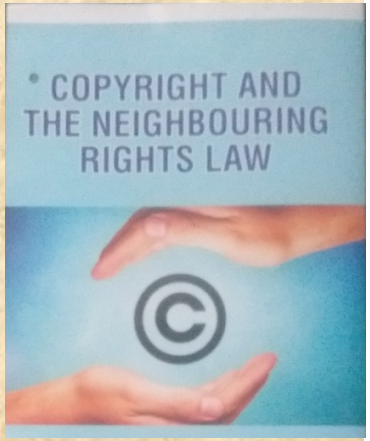
► **economic rights -** enable authors to control the use (*e.g.*, making and distributing copies) of their works and be remunerated by selling or licensing them to others. They last at least 50 years from author's death. Economic rights are harmonised at EU level.

► **moral rights -** usually non transferable, include the right to claim authorship, the right to object to a distortion or mutilation of the work which would affect their honour. They usually have no time limit. Moral rights are not harmonised in the EU.

The Modernization of Copyright and Related Rights

COPYRIGHT AND RELATED RIGHTS

Despite being related to copyright, **neighbouring or related rights** differ as they have a specific subject matter and protect the interest of right-holders different from the work's author. Indeed, neighbouring rights usually **confer protection** to the **performers**, **producers**, **publishers**, **broadcasting organizations**.



The Modernization of Copyright and Related Rights

- <u>COPYRIGHT AND RELATED RIGHTS</u>
- The **Rome Convention** (1961) regulates such rights at international level, and establishes a term of **protection of 20 years** from the end of the year in which :
- i) the performance took place
- ii) the broadcast took place

- iii) the fixation was made (for phonograms & performances incorporated in them)
- However a **longer term** of protection may in theory be provided for by national laws.

The Modernization of Copyright and Related Rights

COPYRIGHT AND RELATED RIGHTS

It is not possible to outline an exhaustive list of works that can be protected by copyright. Nevertheless, the following **works** are usually **covered** by **copyright**:

- literary works (poems, novels, plays, newspapers articles etc)
- musical compositions, films, choreographies
- artistic works (photographs, sculptures, drawings, paintings)
- databases, computer programs
- architecture, technical drawings, maps

The Modernization of Copyright and Related Rights

HOW DID COPYRIGHT DEVELOP IN THE EU ?

In the EU, copyright rules have been subject to scrutiny in different circumstances:

► in **1988**, the Commission published a **Green Paper** which represented the first step in creating a Community framework for copyright and neighbouring rights. It was followed by a **Working Program** (**1991**) defining a possible roadmap to harmonise copyright legislation. Such a programme also addressed issues concerning piracy, computer programs and databases, copying at home. A new Green Paper on copyright was adopted in 1995, in the context of the emerging information society.

► the digitalization of information, goods and services brought a new **challenge for copyright**. This later led to the adoption of **Directive 2001/29**, on the harmonization of certain aspects of copyright & related rights in the information society.

The Modernization of Copyright and Related Rights

HOW DID COPYRIGHT DEVELOP IN THE EU ?

► a review of the framework of copyright in Europe was further promoted by the **Commission's Communication** (**2011**) on the Single Market for IPR. The copyright framework was seen as no longer fit for purpose in the digital age. After a public **consultation** launched in **2014** on the review of EU copyright rules, the Commission announced (**Communication 2015**) that it would revise Directive n. 2001/29 and would consider amending the legal framework for IPR enforcement. It would also propose solutions concerning the remuneration of authors and performers in the EU.

► in the last years, many stakeholders have invoked a reform of copyright that would support creativity and innovation (***Copyright Manifesto***). EU stakeholders in research also stressed the need to provide a text and data mining exception for research activities in the review of the copyright reform.

The Modernization of Copyright and Related Rights

HOW DID COPYRIGHT DEVELOP IN THE EU ?

► in **2016**, the EU Commission adopted a **Proposal for a Directive on Copyright in the Digital Market** (EU Copyright Directive). Aim of the Directive is to **harmonize** the **Union law** applicable to copyright and related rights in the framework of the internal market, taking into account digital and cross-border uses of protected content. In particular, it intends to **ensure** a **well-functioning marketplace** for the exploitation of works and other subject matter.

- in which way are IPRs related to innovation and the Single Market ?
- what are the main pillars of the Digital Single Market Strategy ?
- what is the scope of copyright protection ?

The Modernization of Copyright and Related Rights

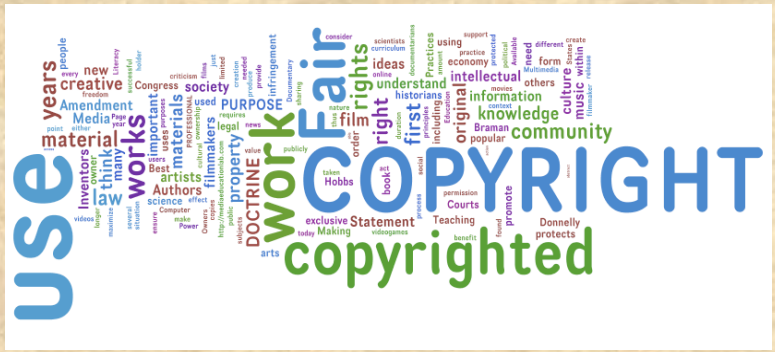
SUGGESTED READINGS

- EU Commission, 'A Digital Single Market Strategy for Europe', COM(2015) 192
- EU Commission, 'A Digital Single Market for Europe: Commission sets out 16 initiatives to make it happen', (2015) Press Release IP/15/4919
- EU Commission (IPR Helpdesk), *Your Guide to IP in Europe* (2017)
- European Parliament (Research Service), 'EU Innovation Policy - Part II' (2016)

MODULE II

SINGLE MARKET FOR INTELLECTUAL PROPERTY RIGHTS

(*Lecture V*)



The Modernization of Copyright and Related Rights

- COPYRIGHT IN THE DIGITAL SINGLE MARKET
- In the mentioned **2015 Communication**, on a *Digital Single Market Strategy for Europe*, the EU Commission explicitly promoted the modernization of the **copyright framework,** which is essential to overcome fragmentation within the single market**.** The authority noted that copyright underpins creativity and the cultural industry, and that the Union strongly relies on creativity to compete globally.

The Modernization of Copyright and Related Rights

COPYRIGHT IN THE DIGITAL SINGLE MARKET

More in details, the 2015 Communication highlighted that :

► **copyright** is a **key element** of the EU cultural social and technological environment, and of the digital economy too

► **copyright** and related rights **stimulate** the creation of and investments in **new works**, as well as their exploitation, thereby contributing to boost competitiveness employment and innovation

► **copyright-intensive industries** (*e.g.*, audiovisual, music, books) are one of EU most dynamic economic sectors, and generate several millions jobs

The Modernization of Copyright and Related Rights

COPYRIGHT IN THE DIGITAL SINGLE MARKET

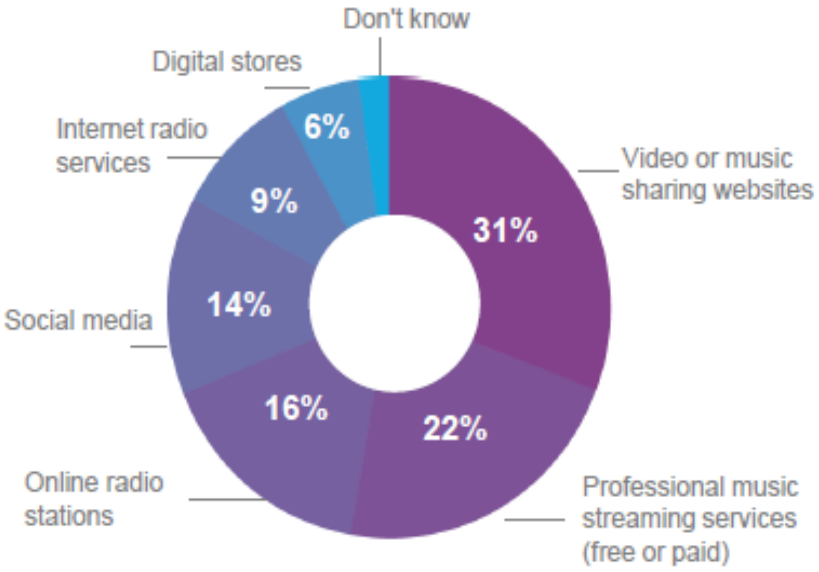
► the **modernization of copyright** is needed in order to achieve a wider availability of creative content across the Union, ensure that EU copyright rules adequately protect right-holders, and maintain a proper balance with other public policy goals – all these objectives are fundamental for the EU economic and societal progress

► in particular, **copyright rules** need to be **adapted** so that all market players and citizens can benefit from the opportunities of the new digital environment

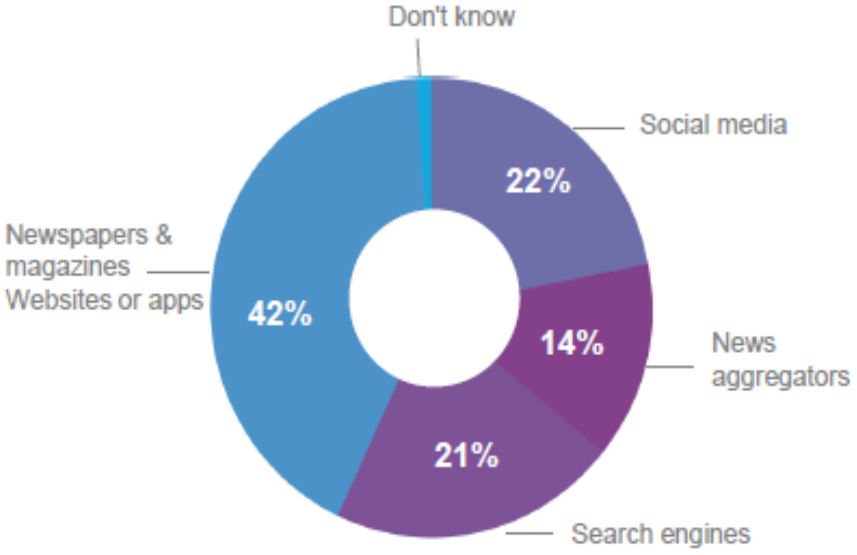
► the **digitization process** has had indeed a strong impact on the way copyrighted works and services are created and consumed, with the internet functioning as a key distribution channel (*eg*, social media, news aggregators, video/music sharing web …)

HOW THE DIGITAL REVOLUTION CHANGES OUR BEHAVIOUR

What type of service do you use most often to access music online?



What are the services you mainly use to access news online?



Flash Eurobarometer 437, March 2016

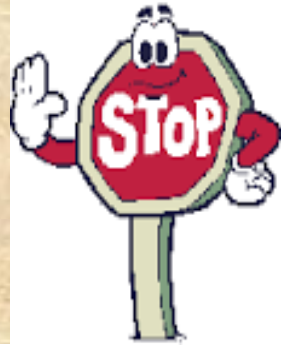
The Modernization of Copyright and Related Rights

- <u>COPYRIGHT IN THE DIGITAL SINGLE MARKET</u>
- The Commission further stressed that **digital content** is one of the main **drivers** of the **growth** of the **digital economy**. This is because consumers increasingly view content (music, videos, games) on mobile devices, and expect to get access to such content wherever they are. However, several problems may arise; **barriers** to cross-border **access** to copyright protected content services and their portability are still common.

The Modernization of Copyright and Related Rights

COPYRIGHT IN THE DIGITAL SINGLE MARKET

In relation to **portability**, when **consumers** move from one Member State to another, they are often **prevented** – on grounds of copyright - from using the content services purchased in their home country. On a further ground, when trying to access or buying online copyright protected content from another Member State, consumers sometimes find it unavailable or not accessible from their own country. The reasons behind this are related to the **territoriality** of **copyright,** and/or to the difficulties regarding the **clearing** of **rights**. In other cases, **contractual restraints** between right holders and distributors (or simply distributors' decisions) may also eventually result in the lack of availability and/or access.



The Modernization of Copyright and Related Rights

- <u>COPYRIGHT IN THE DIGITAL SINGLE MARKET</u>

- The Commission then underlined the need for **greater legal certainty** and for a **clearer legal framework** to enable certain categories of **users** to make wider use of copyright protected **materials**, included across borders; this means access without the need to ask the authorization from right-holders (**exceptions & limitations**).

The Modernization of Copyright and Related Rights

- COPYRIGHT IN THE DIGITAL SINGLE MARKET

- In the EU, indeed, certain uses of copyright-protected works take place under **exceptions and limitations to copyright**, which have been provided in light of the inability of the markets to deliver contractual solutions or in light of the need to achieve public policy goals. In such cases, as mentioned above, certain categories of users do **not need** to **be authorised** for the use of the protected works.
- Yet, most **exceptions** in the copyright field foreseen by EU law remain **optional** for the Member States to implement. This eventually results in a **fragmented framework** across the European Union, as optional exceptions may or may not have been transposed in the national laws (and may also vary in scope).

The Modernization of Copyright and Related Rights

- COPYRIGHT IN THE DIGITAL SINGLE MARKET

- **Exceptions** may play a **key role** in certain areas which are particularly relevant to the Digital Single Market, such as **education research** and **cultural heritage**. In these areas, characterised by the growing relevance of the cross-border aspects, differences in the way Member States deal with the exceptions may be problematic; hence, the importance to promote a **clearer legal framework** and adequate / balanced changes.
- One example concerns the use of innovative technologies by researchers exploited in the context of **text and data mining** (copying of text and datasets in search of significant correlations). Another example relates then to the work of **cultural heritage institutions**, in charge of promoting access to knowledge.

The Modernization of Copyright and Related Rights

COPYRIGHT IN THE DIGITAL SINGLE MARKET

Other key points of the 2015 Communication also referred to the need of :

► developing an **effective** and **balanced IP enforcement system** against commercial scale copyright infringements, while protecting fundamental rights - effective copyright enforcement can indeed promote an efficient marketplace for copyright works, reduce the costs of fighting infringements, and may eventually have a relevant impact on the functioning of the digital single market (recent available data confirm the existence of a correlation between the growth of cultural and creative industries and effective IP protection legislation)

The Modernization of Copyright and Related Rights

COPYRIGHT IN THE DIGITAL SINGLE MARKET

► further clarifying on the **rules** applicable to the activities of **online intermediaries** in relation to copyright protected works, given the substantial involvement of these intermediaries in content distribution (*e.g.*, removal of illegal content from the web)

► developing measures to safeguard the **fair remuneration of creators**, in order to stimulate the future generation of contents - content creators are indeed concerned about the fairness of remuneration conditions, in a context of lack of legal certainty and of differences in bargaining power when licensing or transferring their rights

The Modernization of Copyright and Related Rights

COPYRIGHT IN THE DIGITAL SINGLE MARKET

► striking a better balance in the **relation between right-holders**, on the one hand, **and news aggregators & online platforms**, on the other - specifically, a sense of unfairness is perceived by right-holders, in relation to the transfer of value generated by some of the new forms of online content distribution; further, right-holders point to a lack of level playing field in the online content market

The Modernization of Copyright and Related Rights

- COPYRIGHT IN THE DIGITAL SINGLE MARKET

- In this context, the Commission will thus examine whether the **benefits** of the online use of copyright-protected works are **fairly shared**. It will look at specific **questions**:

  - are **authors** and **performers** fairly remunerated ?
  - are **current rights** clear enough and fit for the digital age ?
  - what is the role of **online platforms** ?
  - is action related to **news aggregators** needed at the EU level ?

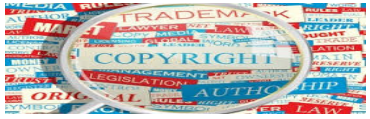
EU COPYRIGHT RULES FIT FOR THE DIGITAL AGE

Better choice and access to content online and across borders

A fairer online environment for creators and the press

Improved copyright rules to make more material available from education, research and cultural heritage organisations and to promote inclusion of disabled people

The Commission will make legislative proposals before the end of 2015 to reduce the differences between national copyright regimes and allow for wider online access to works by users across the EU, including through further harmonisation measures. The proposals will include: (i) portability of legally acquired content, (ii) ensuring cross-border access to legally purchased online services while respecting the value of rights in the audiovisual sector, (iii) greater legal certainty for the cross-border use of content for specific purposes (e.g. research, education, text and data mining, etc.) through harmonised exceptions,(iv) clarifying the rules on the activities of intermediaries in relation to copyright-protected content and, in 2016, (v) modernising enforcement of intellectual property rights, focusing on commercial-scale infringements (the 'follow the money' approach) as well as its cross-border applicability.



The Modernization of Copyright and Related Rights

- <u>COPYRIGHT IN THE DIGITAL SINGLE MARKET</u>

- In brief, the Commission highlighted the importance of **developing** a more **harmonised copyright regime** in the EU, which can provide 'incentives to create and invest while allowing transmission and consumption of content across borders'.

- To this end, the Commission 'will propose solutions which **maximise** the **offers** available to **users** and open up new opportunities for content creators, while **preserving** the **financing** of EU **media** and **innovative content**'.

The Modernization of Copyright and Related Rights

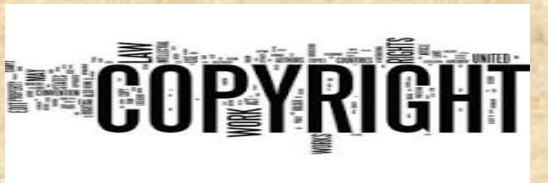
- COPYRIGHT IN THE DIGITAL SINGLE MARKET

- Furthermore, and in order to ensure an effective and uniform application of copyright legislation, it remarked that close **collaboration** with **Member States** is essential.

- In the long term, the objective is the **full harmonization** of copyright in the Union, possibly in the form of a single copyright code and a single copyright title.

The Modernization of Copyright and Related Rights

- <u>COPYRIGHT IN THE DIGITAL SINGLE MARKET</u>
- In a different communication (*Towards a modern, more European copyright framework*, 2015), the Commission further explained how it intends to achieve the goal of a **more modern and European copyright regime**.
- It identified **targeted actions** with related proposals for the short term, and remarked the importance of the 'Creative Europe' programme and of other policy instruments to financially support the growth of the copyright industry.



The Modernization of Copyright and Related Rights

- <u>COPYRIGHT IN THE DIGITAL SINGLE MARKET</u>

- The European Commission, in particular, remembered the need to:

- ○ inject more **single market** and a higher level of **harmonization** into the EU copyright framework (*eg*, addressing aspects concerning the territoriality of copyright)

- ○ adapt copyright rules to the **new technological realities,** and promote wider access to creative content online (including access to 'out of commerce works')

- ○ make sure that **EU copyright rules** are properly **transposed** and **enforced**

The Modernization of Copyright and Related Rights

COPYRIGHT IN THE DIGITAL SINGLE MARKET

Inter alia, and in relation to the **exceptions to copyright**, it was clarified that the Commission was assessing options in order to:

- allow public interest research organizations to carry out **text and data mining** of content they have lawful access to, for scientific research purposes
- provide clarity on the scope of the EU exception for '**illustration for teaching**', and its application to digital uses and to online learning
- provide a clear space for (digital) preservation by **cultural heritage institutions**
- support **remote consultation**, in closed electronic networks, of works held in research and academic libraries (and other institutes), for research and private study

The Modernization of Copyright and Related Rights

COPYRIGHT IN THE DIGITAL SINGLE MARKET

Moreover, as to the **transfer of value**, the Communication made clear that :

- the Commission would reflect on the different factors around the **sharing of the value** created by new forms of online distribution of copyright-protected works among the various market players. The goal is to ensure that players that contribute to generating such value have the ability to fully ascertain their rights, thus contributing to a fair allocation of this value and to the adequate remuneration of copyright-protected content for online users
- the Commission would further consider whether solutions at EU level are required to increase legal certainty, transparency and balance in the system that governs the **remuneration of authors and performers** in the EU

The Modernization of Copyright and Related Rights

- COPYRIGHT IN THE DIGITAL SINGLE MARKET
- Finally, the Commission reaffirmed the relevance of an **efficient IP enforcement system,** including copyright. In this context, it would assess options to amend the legal framework focussing on commercial scale infringements, in order to clarify the rules for identifying infringers, the application of provisional and precautionary measures and injunctions (and their cross-border effect), and the calculation and allocation of damages and legal costs.
- The Commission would further assess, in the context of the **activities of online platforms**, the effectiveness of 'notice and action' mechanisms and of the 'take down and stay down' principle in order to tackle illegitimate uploads of protected contents.

The Modernization of Copyright and Related Rights

COPYRIGHT IN THE DIGITAL SINGLE MARKET

In the end, the **Communication '*Towards a modern, more European copyright framework'*** upheld the approach defined by the Digital Single Market Strategy on copyright issues, and shared its conclusions about the **need to promote**:

- ► the further **convergence** of the Member States' copyright systems
- ► **dialogues** between Member States to ensure a shared vision of EU copyright law
- ► **appropriate measures** against potential barriers to the single market for IPRs
- ► a **long term vision** for copyright in the EU, where authors performers creative industries and users are subject to the very same rules irrespective of where they are

- why is the modernization of copyright linked to EU growth / progress ?
- what are the exceptions to copyright about ? what risk do they raise ?
- why is it essential to have an effective copyright enforcement system ?

The Modernization of Copyright and Related Rights

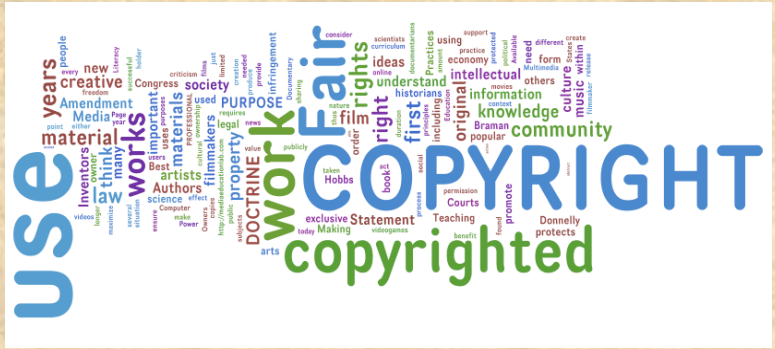
SUGGESTED READINGS

- EU Commission, 'Towards a modern, more European copyright framework', COM (2015) 626
- EU Commission, 'A Digital Single Market Strategy for Europe', COM(2015) 192
- EU Commission, 'A Digital Single Market Strategy for Europe – Analysis and Evidence', SWD(2015) 100

MODULE II

SINGLE MARKET FOR INTELLECTUAL PROPERTY RIGHTS

(*Lectures VI and VII*)



The Modernization of Copyright and Related Rights

- <u>PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE - BACKGROUND</u>
- In the context of the various initiatives supporting the modernization process of copyright and related rights, the EU Commission adopted a ***Proposal for a Directive on Copyright in the Digital Single Market*** (2016).
- As part of the Digital Single Market project, the Proposal intended to ensure a **well functioning marketplace** for the **exploitation** of **works** and other subject matter, taking into account in particular **digital** and **cross-border uses** of protected contents.

The Modernization of Copyright and Related Rights

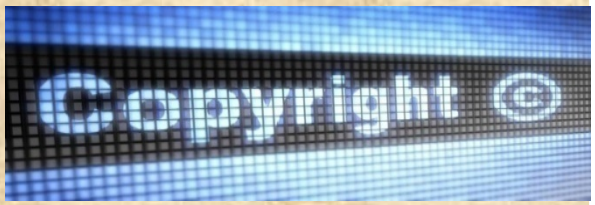
PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE - BACKGROUND

The latest **amended version** of the Copyright Directive Proposal has been approved by the EU Parliament in **September 2018**. A negotiation phase is now involving the EU Parliament, the Council of EU and the Commission itself, in the context of the '**institutional triangle process**'. If adopted, Member States would then be required to enact national laws implementing the copyright directive.

The Modernization of Copyright and Related Rights

PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE - BACKGROUND

Specifically, the Directive Proposal has been adopted in the context of the **review process** of the existing copyright rules, which took place between 2013 and 2016 with the aim 'to **ensure that copyright and copyright-related practices stay fit for purpose in the new digital context**'. Such a review process had found **problems** with the implementation of certain **exceptions** and their **lack** of **cross-border effect**. It had also highlighted the difficulties affecting the **use** of **copyright-protected content** in nowadays digital and cross-border context.



The Modernization of Copyright and Related Rights

- PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE - BACKGROUND
- Several **consultations** moreover were held in the same period, providing the Commission with an overview of **stakeholders' perspective** on the review process (including on exceptions and limitations, on the remuneration of authors and performers, on the role of intermediaries in the online distribution of works, and on the role of publishers in the copyright value chain).
- In addition, an **impact assessment** was carried out for the proposal, having as object the topics of: i) ensuring **wider access** to content; ii) adapting **exceptions** to the digital and cross-border environment; iii) achieving a well-functioning **market** for copyright.

What is the problem and why is it a problem at EU level?

This IA examines a number of issues linked to the functioning of EU copyright rules in the Digital Single Market. It considers adjusting existing rules or introducing new rules in three distinct areas: (i) access to content online; (ii) the functioning of key exceptions in the digital and cross-border environment; and (iii) the functioning of the copyright marketplace.

In the first area, the problems addressed in the IA are directly related to difficulties encountered with the clearance of online rights, by broadcasters, retransmission services, Video-on-Demand (VoD) platforms or cultural heritage institutions (CHIs). Broadcasters face difficulties in particular when clearing rights for making TV and radio programmes available online across borders; similarly, the clearance of rights can be complex for retransmission services other than cable operators when they offer channels from other Member States (MS). The main findings of the evaluation of the functioning of the Satellite and Cable Directive (Directive 93/83/EEC) have been taken into account when assessing the extent of these problems and the possible solutions. Also, difficulties in acquiring online rights contribute to the limited availability of European audiovisual works on VoD platforms. Finally, CHIs face important difficulties when clearing rights for digitising out-of-commerce (OOC) works of their collections and disseminating them to the public.

In the second area, the legal uncertainty as to the acts allowed under the existing copyright exceptions, in particular the digital environment, has been identified as a major issue for the functioning of the Digital Single Market. Teachers and students are affected by legal uncertainty when using content in digitally-supported and cross-border teaching activities. Researchers face legal uncertainty with regard to the possibility to carry out text and data mining (TDM) on content they have lawful access to. Preservation of works by CHIs, in particular in digital forms, may also be hampered by legal uncertainty and disproportionate transaction costs.

In the third area, the IA concentrates on issues related to the distribution of value in the online environment, with a distinction between the problems faced 'upstream' by right holders when trying to license their content to certain types of online services and those faced 'downstream' by creators when negotiating contracts for the exploitation of their works. Right holders face difficulties when seeking to control and monetize the use of their content by online services storing and giving access to content uploaded by end-users. It has also become difficult for press publishers to license their publications and prevent unauthorized uses by online services. Also, all publishers face legal uncertainty as regards the possibility for them to receive a share in the compensation for uses of works under an exception. Finally, authors and performers (creators) may not always have sufficient information on the exploitation of their works allowing them to negotiate an appropriate remuneration in exchange for the exploitation of their rights.

What should be achieved?
Three general objectives have been identified: (i) allow for wider online access to protected content across the EU, focusing on TV and radio programmes, European audiovisual works and cultural heritage; (ii) facilitate digital uses of protected content for education, research and preservation in the single market; and (iii) ensure that the online copyright marketplace works efficiently for all players and gives the right incentives for investment in and dissemination of creative content.
What is the value added of action at the EU level (subsidiarity)?
By concentrating on the functioning of EU copyright rules in the digital and online environment, this IA addresses problems which have an important cross-border dimension. As regards the first area, national solutions for the above mentioned problems related to online access to content, including cross-border, may generate further fragmentation in the Digital Single Market. Therefore, in order to produce clear benefits, a common approach and action should be provided at EU level. As regards the second area, the existing level of harmonisation limits the possibility for MS to act in the area of copyright, as they cannot unilaterally alter the scope of the harmonised rights and exceptions. Moreover, EU intervention is indispensable to guarantee legal certainty in cross border situations. As regards the third area, the rationale for EU action stems both from the harmonisation already in place (notably in terms of rights) and the cross-border nature of the distribution of content online. Intervention at national level would not be sufficiently efficient to address the identified problems (notably because it would lack scale) and could create new obstacles and market fragmentation. Action at EU level is necessary in order to ensure legal certainty for creators and those investing in content, for distributors and for users. It will also allow right holders to better exercise their rights in the online environment and guarantee a level playing field in the Digital Single Market.

The Modernization of Copyright and Related Rights

PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE - BACKGROUND

As a premise, in the explanatory memorandum, the Proposal recalled the key role of the Digital Single Market Strategy and of the Communication *Towards a more modern, European copyright framework* in identifying the steps for the modernization of copyright. It pointed again to the **main changes**, concerning :

► the role played by **digitization** in the way goods / services are created or exploited

► the emergence of **new players**, **new business models**, **new uses** of products

► the increase of **cross-border uses** of copyright-protected content

Hence, it referred to the need to **adapt** the **copyright framework** to the **new realities.**

The Modernization of Copyright and Related Rights

PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE - GOALS

Given this background, the **key goals** pursued by the Directive Proposal included :

- ► creating **copyright exceptions** and ensuring **wider access** to online content
- ► protecting **press publications** through a new neighbouring right
- ► reducing the **value gap** between the profits of online platforms & content creators
- ► preventing **unauthorised posting** of copyrighted content on the internet
- ► encouraging **collaboration** between platforms and content creators

Article 1

Subject matter and scope

1. This Directive lays down rules which aim at further harmonising the Union law applicable to copyright and related rights in the framework of the internal market, taking into account in particular digital and cross-border uses of protected content. It also lays down rules on exceptions and limitations, on the facilitation of licences as well as rules aiming at ensuring a well-functioning marketplace for the exploitation of works and other subject-matter.

The Modernization of Copyright and Related Rights

- PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE - EXCEPTIONS
- The Proposal then explicitly addresses the field of **exceptions and limitations to copyright**, in order to adapt them to the new digital environment and ensure the achievement of a fair balance between the authors' and the users' rights.
- The three scrutinised **areas**, for which EU intervention is specifically needed, concern: i) text and data mining in the field of scientific **research**; ii) digital and cross-border uses in the field of **education**; iii) preservation of **cultural heritage.**

The Modernization of Copyright and Related Rights

PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE - EXCEPTIONS

The objective is to **guarantee** the **legality** of certain uses in these fields, including across borders. As a result of a modernised framework of exceptions and limitations:

- **researchers** will take advantage from a clearer legal space to exploit innovative text and data mining research tools (Article 3)
- **teachers** and users will benefit from digital uses of protected works and other subject matter for the purpose of illustration for teaching (Article 4)
- **cultural heritage institutes** (libraries, museums etc) will be allowed to make copies of protected works in their collection for their preservation (Article 5)

Article 3

Text and data mining

1. Member States shall provide for an exception to the rights provided for in Article 2 of Directive 2001/29/EC, Articles 5(a) and 7(1) of Directive 96/9/EC and Article 11(1) of this Directive for reproductions and extractions of works or other subject-matter *to which research organisations have lawful access and made in order to carry out text and data mining* for the purposes of scientific research *by such organisations*.

Member States shall provide for educational establishments and cultural heritage institutions conducting scientific research within the meaning of point (1)(a) or (1)(b) of Article 2, in such a way that the access to the results generated by the scientific research cannot be enjoyed on a preferential basis by an undertaking exercising a decisive influence upon such organisations, to also be able to benefit from the exception provided for in this Article.

1a. *Reproductions and extractions made for text and data mining purposes shall be stored in a secure manner, for example by trusted bodies appointed for this purpose.*

2. Any contractual provision contrary to the exception provided for in paragraph 1 shall be unenforceable.

3. Rightholders shall be allowed to apply measures to ensure the security and integrity of the networks and databases where the works or other subject-matter are hosted. Such measures shall not go beyond what is necessary to achieve that objective.

4 Member States *may continue to provide text and data mining exceptions in accordance with point (a) of Article 5(3) of Directive 2001/29/EC.*

Article 3a

Optional exception or limitation for text and data mining

1. *Without prejudice to Article 3 of this Directive, Member States may provide for an exception or a limitation to the rights provided for in Article 2 of Directive 2001/29/EC, Articles 5(a) and 7(1) of Directive 96/9/EC and Article 11(1) of this Directive for reproductions and extractions of lawfully accessible works and other subject-matter that form a part of the process of text and data mining, provided that the use of works and other subject matter referred to therein has not been expressly reserved by their rightholders, including by machine readable means.*

2. *Reproductions and extractions made pursuant to paragraph 1 shall not be used for purposes other than text and data mining.*

3. *Member States may continue to provide text and data mining exceptions in accordance with point (a) of Article 5*


PATTERNS
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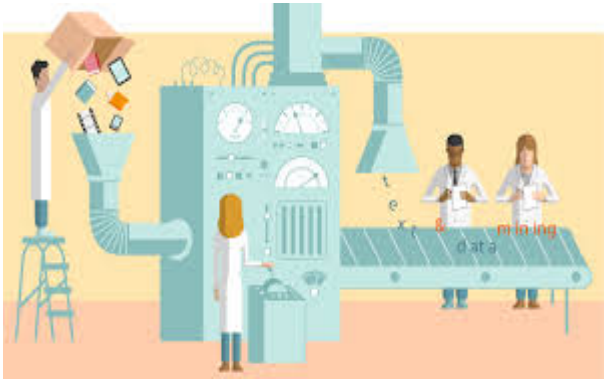
mining
data

Article 4

Use of works and other subject-matter in digital and cross-border teaching activities

1. Member States shall provide for an exception or limitation to the rights provided for in Articles 2 and 3 of Directive 2001/29/EC, Articles 5(a) and 7(1) of Directive 96/9/EC, Article 4(1) of Directive 2009/24/EC and Article 11(1) of this Directive in order to allow for the digital use of works and other subject-matter for the sole purpose of illustration for teaching, to the extent justified by the non-commercial purpose to be achieved, provided that the use:

(a) takes place on the premises of an educational establishment, ***or in any other venue in which the teaching activity takes place under the responsibility of the educational establishment***, or through a secure electronic ***environment*** accessible only by the educational establishment's pupils or students and teaching staff;

(b) is accompanied by the indication of the source, including the author's name, unless this turns out to be impossible ***for reasons of practicability*** .

2. Member States may provide that the exception adopted pursuant to paragraph 1 does not apply generally or as regards specific types of works or other subject-matter, ***such as material which is primarily intended for the educational market or sheet music***, to the extent that adequate ***licencing agreements*** authorising the acts described in paragraph 1 ***and tailored to the needs and specificities of educational establishments*** are easily available in the market.

Member States availing themselves of the provision of the first subparagraph shall take the necessary measures to ensure appropriate availability and visibility of the licences authorising the acts described in paragraph 1 for educational establishments.

3. The use of works and other subject-matter for the sole purpose of illustration for teaching through secure electronic ***environments*** undertaken in compliance with the provisions of national law adopted pursuant to this Article shall be deemed to occur solely in the Member State where the educational establishment is established.

4. Member States may provide for fair compensation for the harm incurred by the rightholders due to the use of their works or other subject-matter pursuant to paragraph 1.

4a. ***Without prejudice to paragraph 2, any contractual provision contrary to the exception or limitation adopted pursuant to paragraph 1 shall be unenforceable. Member States shall ensure that rightholders have the right to grant royalty-free licences authorising the acts described in paragraph 1, generally or as regards specific types of works or other subject-matter that they may choose.***

Article 5

Preservation of cultural heritage

1. Member States shall provide for an exception to the rights provided for in Article 2 of Directive 2001/29/EC, Articles 5(a) and 7(1) of Directive 96/9/EC, Article 4(1)(a) of Directive 2009/24/EC and Article 11(1) of this Directive, permitting cultural heritage institutions to make copies of any works or other subject-matter that are permanently in their collections, in any format or medium, for the *purposes* of preservation of such works or other subject-matter and to the extent necessary for such preservation.

1a. *Member States shall ensure that any material resulting from an act of reproduction of material in the public domain shall not be subject to copyright or related rights, provided that such reproduction is a faithful reproduction for purposes of preservation of the original material.*

1b. *Any contractual provision contrary to the exception provided for in paragraph 1 shall be unenforceable.*

The Modernization of Copyright and Related Rights

PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE - LICENSING

The Directive Proposal furthermore aims at **removing obstacles** to cross-border **access** to **works** and other subject matter. Such obstacles may arise from the difficulty to clear rights, *e.g* in the context of out-of-commerce works stored by cultural heritage institutions or in the context of the online exploitation of audiovisual works (art 7-10).

The Proposal addresses these problems by requiring Member States to introduce **mechanisms** that should **facilitate** the **licensing** and clearing of rights processes, and should thus allow all EU citizens to access cultural heritage and audiovisual works online.

Article 7

Use of out-of-commerce works by cultural heritage institutions

1. Member States shall provide that when a collective management organisation, on behalf of its members, concludes a non-exclusive licence for non-commercial purposes with a cultural heritage institution for the digitisation, distribution, communication to the public or making available of out-of-commerce works or other subject-matter permanently in the collection of the institution, such a non-exclusive licence may be extended or presumed to apply to rightholders of the same category as those covered by the licence who are not represented by the collective management organisation, provided that:

(a) the collective management organisation is, on the basis of mandates from rightholders, broadly representative of rightholders in the category of works or other subject-matter and of the rights which are the subject of the licence;

(b) equal treatment is guaranteed to all rightholders in relation to the terms of the licence;

(c) all rightholders may at any time object to their works or other subject-matter being deemed to be out of commerce and exclude the application of the licence to their works or other subject-matter.

1a. *Member States shall provide for an exception or limitation to the rights provided for in Articles 2 and 3 of Directive 2001/29/EC, Articles 5(a) and 7(1) of Directive 96/9/EC, Article 4(1) of Directive 2009/24/EC, and Article 11(1 of this Directive, permitting cultural heritage institutions to make copies available online of out-of-commerce works that are located permanently in their collections for not-for-profit purposes, provided that:*

(a) *the name of the author or any other identifiable rightholder is indicated, unless this turns out to be impossible;*

(b) *all rightholders may at any time object to their works or other subject-matter being deemed to be out of commerce and exclude the application of the exception to their works or other subject-matter.*

1b. *Member States shall provide that the exception adopted pursuant to paragraph 1a does not apply in sectors or for types of works where appropriate licensing-based solutions, including but not limited to solutions provided for in paragraph 1, are available. Member States shall, in consultation with authors, other rightholders, collective management organisations and cultural heritage institutions, determine the availability of extended collective licensing-based solutions for specific sectors or types of works.*

2. *Member States may provide a cut-off date in relation to determining whether a work previously commercialised is deemed to be out of commerce.*

[...] [...]


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Out-of-commerce
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Heritage
Information
Cartography
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Multimedia
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Archives
Analysis
Scenarios
analysis
Fusion
new

Article 8

Cross-border uses

1. ***Out-of-commerce works*** or other subject-matter covered by Article 7 ***may be*** used by the cultural heritage institution in accordance with ***that Article*** in all Member States.

2. Member States shall ensure that information that allows the identification of the works or other subject-matter covered by Article 7 and information about the possibility of rightholders to object referred to in ***point (c) of*** Article 7(1) ***and point (b) of Article 7(1a)*** are made ***permanently, easily and effectively*** accessible in a ***public*** single online portal for at least six months before the works or other subject-matter are digitised, distributed, communicated to the public or made available in Member States other than the one where the licence is granted, ***or in the cases covered by Article 7(1a), where the cultural heritage institution is established*** and for the whole duration of the licence.

3. The portal referred to in paragraph 2 shall be established and managed by the European Union Intellectual Property Office in accordance with Regulation (EU) No 386/2012.

Article 9
Stakeholder dialogue

Member States shall ensure a regular dialogue between representative users' and rightholders' organisations, and any other relevant stakeholder organisations, to, on a sector-specific basis, foster the relevance and usability of the licensing mechanisms referred to in Article 7(1) ***and the exception referred to in Article 7(1a)***, ensure the effectiveness of the safeguards for rightholders referred to in this Chapter, notably as regards publicity measures, and, where applicable, assist in the establishment of the requirements referred to in the second subparagraph of Article 7(2).

Article 10

Negotiation mechanism

Member States shall ensure that where parties wishing to conclude an agreement for the purpose of making available audiovisual works on video-on-demand platforms face difficulties relating to the licensing of ***audiovisual*** rights, they may rely on the assistance of an impartial body with relevant experience. ***The impartial body created or designated by the Member State for the purpose of this Article*** shall provide assistance ***to the parties*** with negotiation and help ***them to*** reach agreement.

No later than [date mentioned in Article 21(1)] Member States shall ***inform*** the Commission ***of*** the body ***they create or designate pursuant to the first paragraph.***

To encourage the availability of audiovisual works on video-on-demand platforms, Member States shall foster dialogue between representative organisations of authors, producers, video-on-demand platforms and other relevant stakeholders.

The Modernization of Copyright and Related Rights

PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE - FAIR SHARE

Most importantly, the Proposal aims at tackling the **difficulties** faced by **right-holders** when seeking to license their rights and be **remunerated** for the online distribution of their works. Such a situation, already identified by the EU Digital Single Market Strategy, may lower the incentive to produce new creative contents.

It is therefore necessary to ensure that right-holders receive a **fair share of the value** generated by the online use of their works and other subject matter, and to set (at EU level) **suitable measures** improving their position in the context of licensing negotiations.


COPYRIGHT
DIRECTIVE


copyright
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Therefore entertainment individual negotiate ensure success co-authors talent economic guilds professional finally
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The Modernization of Copyright and Related Rights

PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE - FAIR SHARE

A fair share of the value is then specifically necessary to **sustain** the **press publication** sector. The category of press publishers, according to the Commission, is directly affected by the **difficulties** to **license** their publications online and to obtain adequate remuneration. The ultimate risk is to affect citizens' access to information.

For this reason, the Directive has provided for a **new right for press publishers** (Article 11), with the aim of facilitating: i) online licensing of their publications; ii) the recoupment of their investments; and iii) the enforcement of their rights.

The Modernization of Copyright and Related Rights

- PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE - FAIR SHARE

- **Article 11** of the Commission's original proposal conferred remuneration rights to the press publishers for **snippets** used by online platforms. The draft of the EU Parliament equally grants a new right to press publishers for the digital reproduction and distribution of press content.

- Nevertheless, the **EU Parliament's draft exempts** '**hyperlinks** accompanied by individual words' and legitimates **private and non-commercial use** by individual users. What is more, while the EU Commission's draft proposed a 20 year term for the press publishers' right, the draft of the EU Parliament limits the term to **5 years.**

Article 11

Protection of press publications concerning digital uses

1. Member States shall provide publishers of press publications with the rights provided for in Article 2 and Article 3(2) of Directive 2001/29/EC ***so that they may obtain fair and proportionate remuneration*** for the digital use of their press publications ***by information society service providers*** .

1a. *The rights referred to in paragraph 1 shall not prevent legitimate private and non-commercial use of press publications by individual users.*

2. The rights referred to in paragraph 1shall leave intact and shall in no way affect any rights provided for in Union law to authors and other rightholders, in respect of the works and other subject-matter incorporated in a press publication. Such rights may not be invoked against those authors and other rightholders and, in particular, may not deprive them of their right to exploit their works and other subject-matter independently from the press publication in which they are incorporated.

2a. *The rights referred to in paragraph 1 shall not extend to mere hyperlinks which are accompanied by individual words.*

3. Articles 5 to 8 of Directive 2001/29/EC and Directive 2012/28/EU shall apply mutatis mutandis in respect of the rights referred to in paragraph 1.

4. The rights referred to in paragraph 1 shall expire **5** years after the publication of the press publication. This term shall be calculated from the first day of January of the year following the date of publication. *The right referred to in paragraph 1 shall not apply with retroactive effect.*

4a. *Member States shall ensure that authors receive an appropriate share of the additional revenues press publishers receive for the use of a press publication by information society service providers*

The Modernization of Copyright and Related Rights

PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE - FAIR SHARE

The Proposal also addresses the uncertainty concerning the possibility for all publishers to receive **compensation** for **uses** of works under an **exception** (article 12).

Article 12

Claims to fair compensation

Member States *with compensation-sharing systems between authors and publishers for exceptions and limitations* may provide that where an author has transferred or licensed a right to a publisher, such a transfer or a licence constitutes a sufficient legal basis for the publisher to claim a share of the compensation for the uses of the work made under an exception or limitation to the transferred or licensed right, *provided that an equivalent compensation-sharing system was in operation in that Member State before 12 November 2015.*

The first paragraph shall be without prejudice to the arrangements in Member States concerning public lending rights, the management of rights not based on exceptions or limitations to copyright, such as extended collective licensing schemes, or concerning remuneration rights on the basis of national law.

The Modernization of Copyright and Related Rights

PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE - LIABILITY

It further regulates the position of **online content sharing service providers,** which perform an act of communication to the public and therefore have to sign fair and appropriate **licensing agreements** with right-holders (**Article 13**). The licence agreements cover the liability for works uploaded by users. If rightholders do not wish to conclude licence agreements, **cooperation** in good faith among right-holders and providers will be necessary in order to ensure that unauthorised protected works are not available on their services (without preventing availability of non-infringing works).

The Modernization of Copyright and Related Rights

- PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE - LIABILITY

- In brief, Article 13 makes **qualifying platforms** directly liable for copyright infringements caused by user-generated content (UGC) published on their platforms. The EU Commission's draft defined qualifying platforms to include service providers 'providing access to **large amount** of works'. The Parliament's draft focuses instead on the term '**significant amount**', and seems to pay higher attention to the requirement that service providers '**optimize**' (promote, display, tag, curate etc) **UGC**.
- Moreover, according to the EU Parliament's draft, micro-sized, small-sized, and non-commercial enterprises are **exempted** from **liability** for UGC. Under EU law, a small-sized company has fewer than 50 people and less than €10 million in annual turnover.

The Modernization of Copyright and Related Rights

- PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE - LIABILITY
- On a further note, the **European Union Parliament's draft** seems to consider all online content sharing service providers to be directly '**communicating to the public**' (which means acting in a copyright-relevant way). In order to avoid liability for copyright infringements, platforms should ideally introduce content-recognition technologies and should also enter into comprehensive licensing agreements.
- Finally, the EU Parliament's draft states that its provisions
- shall not prevent the **availability of non-infringing content**
- and shall implement 'redress mechanisms'.

European Parliament

Article 13

Use of protected content by *online content sharing* service providers storing and giving access to large amounts of works and other subject-matter uploaded by their users

1. *Without prejudice to Article 3(1) and (2) of Directive 2001/29/EC, online content sharing* service providers *perform an act of communication* to the public. *They* shall *therefore conclude fair and* appropriate *licensing agreements with right holders* .

2. *Licensing agreements which are concluded by online content sharing* service providers *with right holders for the acts of communication* referred to in paragraph 1, *shall cover the liability for works uploaded by the* users *of such online content sharing services in line with the terms and conditions set out in the licensing agreement, provided that such users do not act for commercial purposes* .

2a. *Member States shall provide that where right holders do not wish to conclude licensing agreements, online content sharing service providers and right holders shall cooperate in good faith in order to ensure that unauthorised protected works or other subject matter are not available on their services. Cooperation between online content service providers and right holders shall not lead to preventing the availability of non-infringing works or other protected subject matter, including those covered by an exception or limitation to copyright.*

2b. *Members States shall ensure that online content sharing service providers referred to in paragraph 1 put in place effective and expeditious complaints and redress mechanisms that are available to users in case the cooperation referred to in paragraph 2a leads to unjustified removals of their content. Any complaint filed under such mechanisms shall be processed without undue delay and be subject to human review. Right holders shall reasonably justify their decisions to avoid arbitrary dismissal of complaints. Moreover, in accordance with Directive 95/46/EC, Directive 2002/58/EC and the General Data Protection Regulation, the cooperation shall not lead to any identification of individual users nor the processing of their personal data. Member States shall also ensure that users have access to an independent body for the resolution of disputes as well as to a court or another relevant judicial authority to assert the use of an exception or limitation to copyright rules.*

3. *As of [date of entry into force of this directive], the Commission and the* Member States shall *organise* dialogues between *stakeholders to harmonise and* to define best practices *and issue guidance to ensure the functioning of licensing agreements and on cooperation between online content sharing service providers and right holders for the use of their works or other subject matter within the meaning of this Directive. When defining best practices, special account shall be taken of fundamental rights, the use of exceptions and limitations as well as ensuring that the burden on SMEs remains* appropriate and *that automated blocking of* content *is avoided* .

The Modernization of Copyright and Related Rights

PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE - TRANSPARENCY

It finally includes (Articles 14-16) measures to increase **transparency** and **better balanced contractual relationships** between authors and performers, on the one hand, and those to whom they assign their rights, on the other.

In other words, the Directive explicitly addressed the weak bargaining position of the categories of **authors and performers** when negotiating their rights. The ultimate goal of such broad approach is to achieve a **well functioning marketplace for copyright**, to the benefit of all players involved.

Article 14

Transparency obligation

1. Member States shall ensure that authors and performers receive on a regular basis, ***not less than once a year*** , and taking into account the specificities of each sector ***and the relative importance of each individual contribution*** , timely, ***accurate, relevant and comprehensive*** information on the exploitation of their works and performances from those to whom they have licensed or transferred their rights, notably as regards modes of exploitation, ***direct and indirect*** revenues generated, and remuneration due.

1a. ***Member States shall ensure that where the licensee or transferee of rights of authors and performers subsequently licenses those rights to another party, such party shall share all information referred to in paragraph 1 with the licensee or transferee.***

The main licensee or transferee shall pass all the information referred to in the first subparagraph on to the author or performer. That information shall be unchanged, except in the case of commercially sensitive information as defined by Union or national law, which, without prejudice to Articles 15 and 16a, may be subject to a non-disclosure agreement, for the purpose of preserving fair competition. Where the main licensee or transferee does not provide the information as referred to in this subparagraph in a timely manner, the author or performer shall be entitled to request that information directly from the sub-licensee.

[...] [...]

Article 15

Contract adjustment mechanism

Member States shall ensure, ***in the absence of collective bargaining agreements providing for a comparable mechanism***, that authors and performers ***or any representative organisation acting on their behalf*** are entitled to ***claim*** additional, appropriate ***and fair*** remuneration from the party with whom they entered into a contract for the exploitation of the rights when the remuneration originally agreed is disproportionately low compared to the subsequent relevant ***direct or indirect*** revenues and benefits derived from the exploitation of the works or performances.

Article 16

Dispute resolution mechanism

Member States shall provide that disputes concerning the transparency obligation under Article 14 and the contract adjustment mechanism under Article 15 may be submitted to a voluntary, alternative dispute resolution procedure. ***Member States shall ensure that representative organisations of authors and performers may initiate such procedures at the request of one or more authors and performers.***

The Modernization of Copyright and Related Rights

PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE - KEY RULES

To sum up, in case this **last version** of the Copyright Directive is ultimately enacted:

► **online platforms** would be required to pay a **license fee** to press publishers for publishing snippets beyond mere hyperlinks and a few individual words (**Article 11**)

► commercial **online content-sharing platforms** could be **liable** for copyright **infringements** arising from user-uploaded content (**Article 13**)

The Proposal still seems to favour content creators over internet giants, by creating **monitoring obligations** for platforms and **ancillary copyright** for press publishers.

The Modernization of Copyright and Related Rights

- PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE - DEBATE
- Overall, the Proposal has raised **substantial debate** about its text, scope and goals, both before and after the recent amendments approved by the EU Parliament. The two most controversial provisions were undeniably those in **Article 11** (new right for publishers) and **Article 13** (liability of online content sharing service providers).

The Modernization of Copyright and Related Rights

- <u>PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE & OPPOSITION</u>
- In particular, **Articles 11 and 13** have attracted harsh **criticism** from **U.S. technology companies**, **civil liberties groups** and **academics**. Opponents also include **law scholars**, **internet experts** and **law makers**. Within the EU Parliament, the Proposal has then been opposed by **populist parties** (*e.g* the *Five Star Movement* coalition).
- A German MEP, **Julia Reda**, has described the efforts behind the Directive as large media companies trying 'to force platforms and search engines to use their snippets and to pay for them'. A *UKIP* member of the Parliament then argued that 'the proposal may destroy the capacity for free speech on the internet and social media'.


Reform des EU-Urheberrechts: "Völlig jenseits von Gut und Böse" - S...
Die EU bekommt ein neues Urheberrecht. Was langweilig klingt, könnte das Internet stark verändern. Die Piratin Julia Reda erklärt, welche Einschrän...
spiegel.de
European Commission copyright plans would make Twitter and others pay news publishers when they show link previews like this one.
They claim they are "eroding [news sites'] ad revenue":
In 2016, social media (22 %), news aggregators (14 %) and search engines (21 %) are, taken together, the main way to read news online for 57 % of users in the EU.[453]
On the other hand, 47 % of consumers browse and read news extracts on these websites without clicking on links to access the whole article in the newspaper page, which erodes advertising revenues from the newspaper webpages.[456]
They say "individuals won't be affected" – but if Twitter doesn't pay up, say hi to
"This tweet is not available in your country"
Sources:
• "The target would be services like Twitter", unnamed Commission representative to DPA, Sept 1 (in German)
• Commission's draft Impact Assessment, pg. 143
• Commission's draft Directive on Copyright in the Digital Single Market
JULIA REDA
STAY UP TO DATE: JULIAREDA.EU @SENFICON

The Modernization of Copyright and Related Rights

PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE & OPPOSITION

► **GOOGLE** (owner of YouTube): opposed the Directive since 2016, saying that it would 'turn the internet into a place where everything uploaded to the web must be cleared by lawyers'.

► **YOUTUBE:** its CEO urged content creators on the platform to take action to oppose the Proposal, as 'it poses a threat to both their livelihood and their ability to share their voice with the world'.

► **FACEBOOK:** argued that the Proposal could have 'serious unintended consequences for an open and creative internet'.

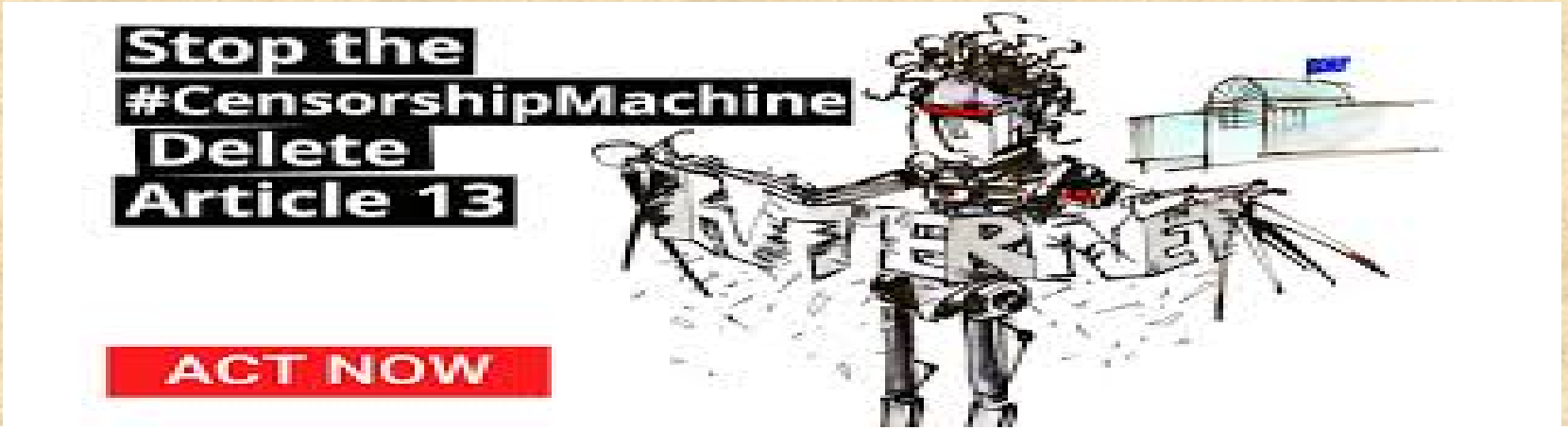
The Modernization of Copyright and Related Rights

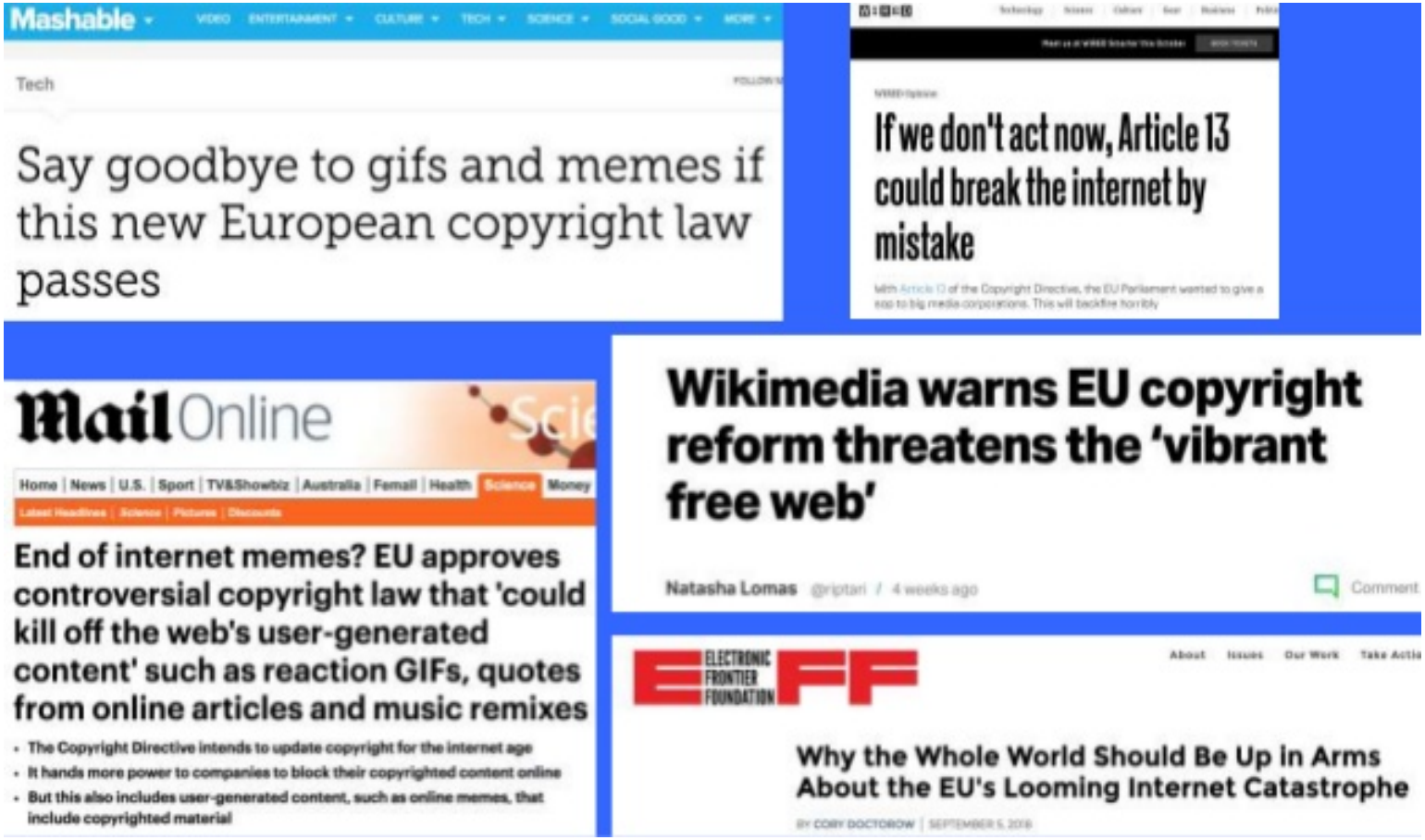
- PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE & OPPOSITION
- Campaigners generally oppose **Article 11** as it would amount to a **'link tax'** requiring web publishers to obtain a license before linking to news stories. Many refer to the negative effects of the recent introduction in Germany and Spain of an ancillary right.

Article 11 - A Link/Google Tax Revamp	
News publishers have lobbied intensively in the past	
Why?	News publishers wanted to charge news aggregators such as Google News to benefit from the advertising revenue generated by the traffic.
How?	Through intense lobbying, the governments **gave publishers the right to charge online news aggregators.**
What happened?	As soon as they tried to enforce this right, Google stopped indexing Axel Springer links which led to a **drop of 80% traffic.**
	Google removed Google News altogether from Spain leading to a cumulated **drop of 20% of traffic overnight for publishers.**

The Modernization of Copyright and Related Rights

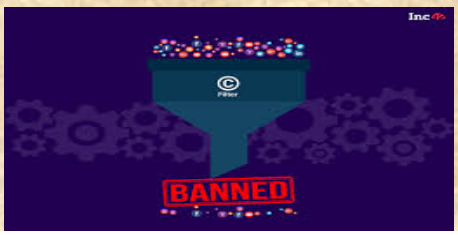
- PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE & OPPOSITION
- **Article 13** has been viewed as a **'meme ban'**, as the content matching technologies which could be used to meet its requirements cannot identify 'fair dealing' (parody).




Mashable
Tech
Say goodbye to gifs and memes if this new European copyright law passes
If we don't act now, Article 13 could break the internet by mistake
Mail Online
Home | News | U.S. | Sport | TV&Showbiz | Australia | Femail | Health | Science | Money
End of internet memes? EU approves controversial copyright law that 'could kill off the web's user-generated content' such as reaction GIFs, quotes from online articles and music remixes
The Copyright Directive intends to update copyright for the internet age
It hands more power to companies to block their copyrighted content online
But this also includes user-generated content, such as online memes, that include copyrighted material
Wikimedia warns EU copyright reform threatens the 'vibrant free web'
Natasha Lomas @riptari / 4 weeks ago
Comment
ELECTRONIC FRONTIER FOUNDATION
About Issues Our Work Take Actio
Why the Whole World Should Be Up in Arms About the EU's Looming Internet Catastrophe
BY CORY DOCTOROW | SEPTEMBER 5, 2018

The Modernization of Copyright and Related Rights

- PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE & OPPOSITION
- It has also been noted that the **duration** of the new ancillary right is too long and that the proposal creates **no harmonization** within the EU. Other issues regard the **costs** and effectiveness of **upload filters** and the negative effects on free speech online.
- On a last note, **academic criticism** has raised several concern about the impact of Article 11 on the readership of online scientific publications, and about the obligations on service providers under Article 13 which would heavily affect small players.




The content you are trying to view has been banned by the EU copyright law

The Modernization of Copyright and Related Rights

- PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE & SUPPORT
- On the other side of the spectrum, most **media groups**, **major music labels**, **mainstream newspapers**, many **artists** (Ennio Morricone, James Blunt, Paul McCartney etc) and **publishers** were in **support** of the Directive.
- A group of major **European press publishers** issued a **letter** in strong support of the proposal, defining it as 'key for the media industry, the consumers' future access to news, and ultimately for a healthy democracy'. They argued that **financial support** to struggling news media should not be provided by Member States, but should rather come **from the internet giants**.

The Modernization of Copyright and Related Rights

- PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE & SUPPORT
- It has even been said that the Directive Proposal has a positive effect on **fundamental rights**. In this regard, it may strengthen copyright as a **property right**, as long as the bargaining position of authors and performers improve and as long as right-holders have a better control of the use of their copyright protected contents. Such impact would be reinforced by the measures implemented to improve licensing mechanisms. The exceptions to copyright, furthermore, have been interpreted as having a positive impact on the **right to education** and on **cultural diversity**.

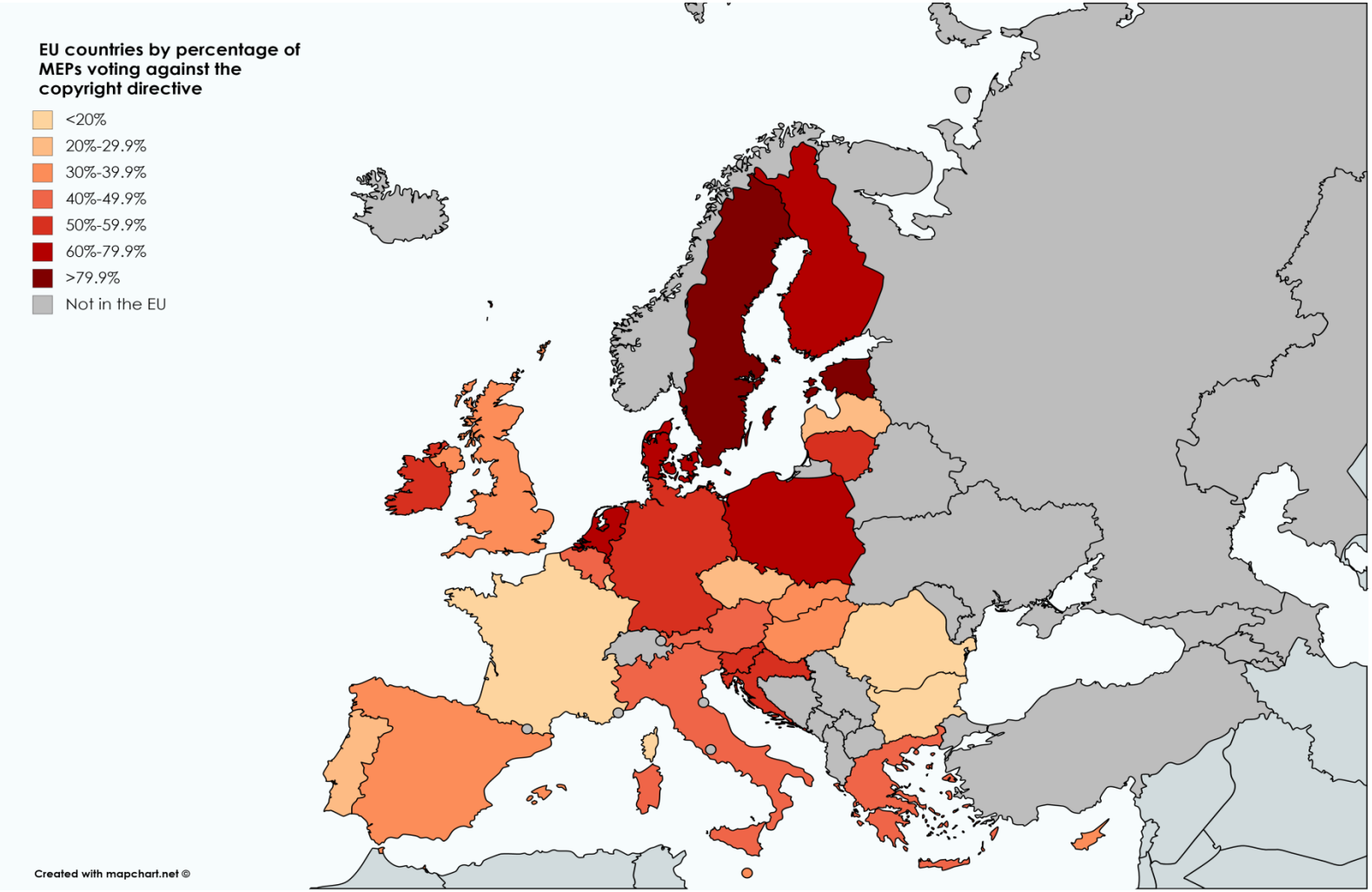
The Modernization of Copyright and Related Rights

- PROPOSAL FOR AN EU COPYRIGHT DIRECTIVE & SUPPORT

- Furthermore, **Axel Voss**, German MEP and ***rapporteur*** of the Directive, **rejected** the arguments of critics according to which the Proposal would promote **censorship**. He criticised such perspective as 'excessive, unjustified and objectively wrong', pointing out that content filtering technologies (Art. 13) have been in use on Youtube for more than a decade and that big internet platforms have mounted **fake news campaigns**.

- **Publishing trade bodies** have similarly noted that companies such as Google and Wikipedia have conducted bad-faith, misleading campaigns to influence members of the Parliament. As to Article 11, some newspapers have also argued that the reform is a **battle** between EU media **pluralism** and monopolistic foreign **internet giants.**


We are not ending internet, we are not ending memes at all. What we want is to make sure that the same copyright rules apply in the real world and online.
AXEL VOSS
RAPPORTEUR ON COPYRIGHT RULES


EU countries by percentage of MEPs voting against the copyright directive
<20%
20%-29.9%
30%-39.9%
40%-49.9%
50%-59.9%
60%-79.9%
>79.9%
Not in the EU
Created with mapchart.net ©

- which were the goals of the 2016 Proposal for a Copyright Directive ?
- what do Article 11 and Article 13 provide for in the last version ?
- what are the main reasons for supporting & opposing the Directive ?

The Modernization of Copyright and Related Rights

SUGGESTED READINGS

- EU Commission, 'Proposal for a Directive on Copyright in the Digital Single Market', COM(2016) 593 final
- EU Commission, 'Executive Summary of the Impact Assessment on the Modernization of EU Copyright Rules ', SWD(2016) 302 final
- EU Commission, 'Promoting a Fair Efficient and Competitive European Copyright-Based Economy in the Digital Single Market', COM(2016) 592 final

MODULE II

SINGLE MARKET FOR INTELLECTUAL PROPERTY RIGHTS

(*Lecture VIII*)

Trademarks and Related Rights Package

- TRADEMARKS AND INNOVATION

- Besides copyright, the category of IPRs also include **trademarks**. The latter are equally important in the context of the **innovation policy mix** and of the **key framework conditions** previously mentioned. The legal protection and economic advantages granted by trademarks may indeed stimulate firms to generate new ideas and products, and eventually be active players of the **innovation process**.

Trademarks and Related Rights Package

TRADEMARKS AND INNOVATION

A trademark, more in details, works as an **engine of innovation**. The necessity to keep it relevant stimulates investments in research and development. This consequently leads to a continuous process of **product improvement** and **development**. Among the many effects of this dynamic process, there also is a positive impact on **employment**.

According to a **study** led by the **EU Intellectual Property Office** (2013), almost 21% of all jobs in the EU during the period 2008-2010 were created by trademark-intensive industries. In the same period of time, those industries were shown to have generated almost 34% of the total economic activity (GDP) in the European Union.

Trademarks and Related Rights Package

WHAT IS A TRADEMARK ABOUT ?

But what is a trademark about ? In other words, how do we define a trademark ?

► **sign distinguishing goods and services of one company from those of another**

As indicators of business origin, trademarks may consist of **words**, **logos**, **letters, numbers, colours, sounds, shapes** / **packaging** of goods, **other distinctive features**, or a combination of them. They should be represented in a **clear** and **precise** manner.

Trademarks and Related Rights Package

WHAT IS A TRADEMARK ABOUT ?

A trademark can become one of the **most important assets** for an enterprise, since it is the mark used by the business to **attract** and **retain customer loyalty**, and **generate value** and **growth**. Specifically, besides identifying the commercial origin of a product, trademarks also **convey** a **message** about the **quality** of a product; in this way, they are able to facilitate the choice of consumers. Moreover, they play a pivotal role in the context of **advertisement**, and can even be interpreted as **investment instruments** (due to the fact that trademarks can be assigned, licensed, etc).


Castrol
chili's
Colgate
Verona
DELL
DHL
ESPN
Esso
FedEx
FINLANDIA
Firestone
GOODYEAR
IKEA
JVC
KODAK
LAND ROVER
LEGO
Mobil
VISA
NBC
NOS
OLD NAVY
Oral-B
PowerBar
SAFEWAY
STP
SUBWAY
swissair
TEXACO
Tropicana
WAL*MART
zippo

Trademarks and Related Rights Package

REQUIREMENTS FOR TRADEMARK REGISTRATION

The following **requirements** are usually needed in order to register a trademark :

► **clear and precise representation** - the sign, whose registration as a trademark is sought, must be capable of being represented in a manner that enables the subject matter of protection to be determined with clarity and precision

✓ a word, a logo, a music sheet...

✗ smell of clouds.

Trademarks and Related Rights Package

REQUIREMENTS FOR TRADEMARK REGISTRATION

► **distinctiveness** – the sign, whose registration as a trademark is sought, must be capable of distinguishing the goods and services bearing the trademark from those of other traders

✓ "BANANA" in relation to clothing.

✗ "BANANA" in relation to bananas.

European IPR Helpdesk

Trademarks and Related Rights Package

REQUIREMENTS FOR TRADEMARK REGISTRATION

► **non-deceptiveness** – the sign, whose registration as a trademark is sought, must not deceive the public (*e.g.*, in relation to the nature, quality or geographical origin of the goods or services)

✘ "GLUTENFREE" for a product that contains gluten.

European IPR Helpdesk

Trademarks and Related Rights Package

REQUIREMENTS FOR TRADEMARK REGISTRATION

► **non-descriptiveness** – the sign, whose registration as a trademark is sought, must not serve to designate the characteristics of the goods or services bearing the mark (*e.g.*, type, quantity, quality, value, intended use etc)

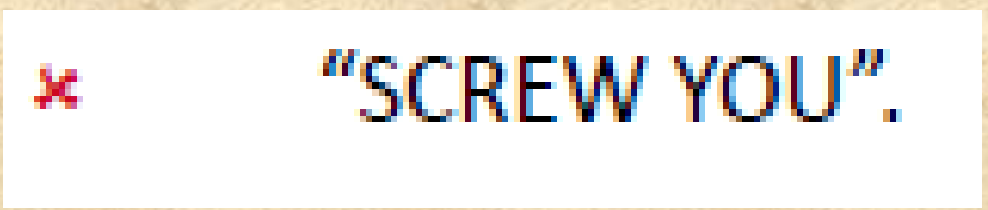
✘ "BANK" for financial services.

European IPR Helpdesk

Trademarks and Related Rights Package

REQUIREMENTS FOR TRADEMARK REGISTRATION

► **non-contrary to public order and morality** – the sign, whose registration as a trademark is sought, must not be contrary to public policy or morality



European IPR Helpdesk

Trademarks and Related Rights Package

REQUIREMENTS FOR TRADEMARK REGISTRATION

► **non-customary in the language** – the sign, whose registration as a trademark is sought, must not be a sign or indication which has become customary in the current language or in the good faith and established practices of the trade

✘ "STIMULATION" for energy drinks.

European IPR Helpdesk

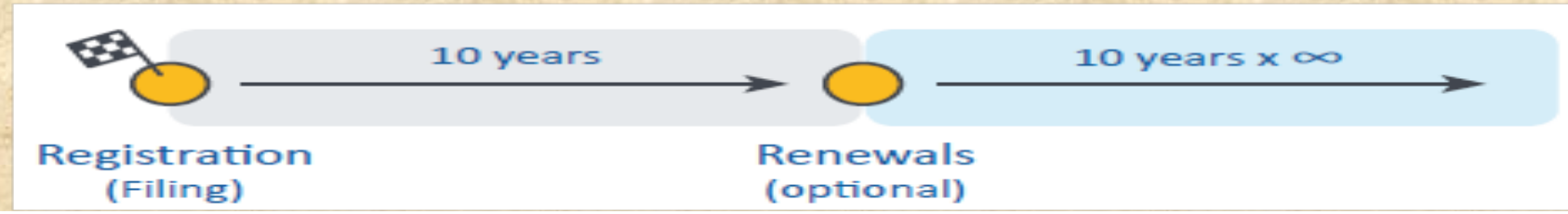
Trademarks and Related Rights Package

- SCOPE OF PROTECTION

- ® a trademark confers an **exclusive right**, which allows the owner to **prevent others** from using the same or similar signs for identical or related goods & services as those protected by the trademark in the course of trade, without owner's prior permission.
- ® the owner, moreover, may either **sell** the **trademark** to someone else or give permission to others to use the trademark on mutually agreed terms (via a **license**).
- ® further, trademarks are **territorial** in **nature**, which means that they are granted and enforceable within the geographical boundaries of the region - country of registration.

Trademarks and Related Rights Package

- TERM OF PROTECTION
- In most countries, **protection** lasts for **10 years** from the date of filing of the trademark application, and it can be **renewed** *ad infinitum* for periods of 10 years.
- After the **expiration** of a trademark, protection ends and anyone can use it in relation to the products covered by the expired trademark without the risk of infringing it.



Trademarks and Related Rights Package

- OBLIGATION OF USE

- On a further note, and in order to maintain registration, a **trademark** has to be put to **genuine use** in relation to the products for which it was registered within a specific period of time following registration (**5 years** for the '**EU trademark**'). In other words, trademarks need to be used in the consumer society. Otherwise, the owner may face the risk of losing it, as third parties may use and register the unused trademark for the same products. Such **obligation** has been adopted in **most countries**.

Trademarks and Related Rights Package

- REGISTRATION PROCESS

- Overall**, trademark registration** is one of the most efficient ways to build and defend a brand, and to make sure that no one else will use it. Registration is performed in one or more **classes** of **specific goods** and **services**, corresponding to the products traded by its owner. A trademark can be usually registered as long as it is **not identical** or **similar** to any earlier trademark for the same or related goods or services (classes).

- Generally, the **'first-to-file principle'** applies; this means that the first natural person or legal entity to file a valid application for a given trademark will become its owner.

TRADEMARK REGISTRATION PROCESS

Application for Name Search in IPO Office.	Preparation and Submission of Forms and required Fee	Substantial Examination of Application	Journal Publishing	Opposition and Hearing	Trademark Registration

Trademarks and Related Rights Package

- <u>REGISTRATION PROCESS</u>

- Generally, after an application has been filed, the intellectual property office will check whether any **absolute or relative grounds** exist for refusing registration. Absolute grounds are typically reasons which are inherent in the mark itself. Relative grounds usually relate to the existence of a conflict with prior rights of third parties.

Trademarks and Related Rights Package

REGISTRATION PROCESS

► **absolute grounds of refusal** may occur for instance in case of: non-distinctive marks; deceptive marks; descriptive marks; marks against public order or accepted principles of morality; marks which have become customary in the current language

► **relative grounds of refusal** may *inter alia* arise in those situations where the mark that someone applies for is already in use or is similar to one already in use

Trademarks and Related Rights Package

REGISTRATION PROCESS

A first possible route concerns registration at the International level. Indeed, the **World Intellectual Property Organization – WIPO international Trademark registration** system (known as the '*Madrid system'*) allows applicants to obtain trademark protection in **more than 100 countries** by filing **one application**. Before filing an international application, the applicant needs to have an existing national trademark or application (basic mark) in the IP office of one of the territories of the *Madrid system*.

Trademarks and Related Rights Package

- <u>REGISTRATION PROCESS</u>

- Another **condition** is that the applicant must either have a business in, or be domiciled in, or be a national of any territory that is a party to the *Madrid system*. Although the application has an **international character**, national laws govern the registration in each territory. This means that a granted international trademark is a **bundle** of **national trademarks** that need validation from the IP offices of the countries selected by the applicant for it to be effective in those countries. In the end, an international application may be successful in some designated territories and be rejected in others.

Trademarks and Related Rights Package

ADVANTAGES OF THE MADRID SYSTEM

- Different **advantages** of the **international trademark system** have been identified :

A single application in one language and paying a single set of fees to obtain trade mark protection in more than 100 territories

Time saving and cost effective filing since there is no need to pay for translations into multiple languages or to spend extra time working through the administrative procedures of multiples offices

Easy management of filing and post-application processes (e.g. recordal of change in owner's name, address etc.), instead of dealing with different jurisdictions

Trademarks and Related Rights Package

REGISTRATION PROCESS

On a further ground, a trademark can be registered both at national level as a **national trademark** at the industrial property offices of the Union countries, and at EU level as a '**European Union trademark**' at the EU Intellectual Property Office (EUIPO). National and EU trademarks coexist and are complementary to each other; thus the **same trademark can be registered at EU and/or national level**.

Trademarks and Related Rights Package

REGISTRATION PROCESS

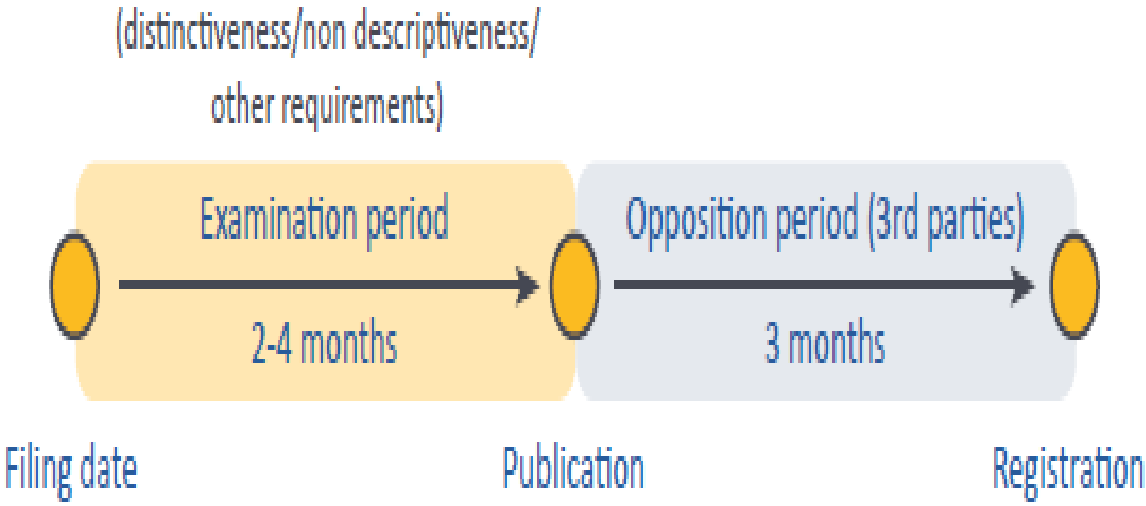
The **EU registration,** in particular, consists of **one single registration procedure** that grants the owner an **exclusive right** to use its trademark in all **28 countries** of the Union. Such a system is able to meet the requirements of enterprises of different sizes, markets and financial capabilities. For instance, **small and medium sized enterprises (SMEs)** or local firms who do not need EU-wide protection may perhaps have a preference for registration at **national level** only.

The EU Commission constantly monitors the **EU trademark system** to identify ways to improve its effectiveness and accessibility for businesses.

Trademarks and Related Rights Package

- ‘ALL OR NOTHING‘ PRINCIPLE
- Notably**, EU trademarks** are subject to the ‘**all or nothing principle**’. This means that an application for an EU trademark will be refused by the EUIPO if there is a cause of refusal even for one country only – *e.g,* due to a similar or identical earlier trademark. In other words, EU trademarks necessarily have to cover all EU countries.
- Nevertheless, if an **EU trademark** application is eventually **rejected** or if the trademark is declared **invalid** or **revoked**, the application may be converted into **national trademark applications** in those EU Member States in which the ground of refusal, invalidity or revocation does not apply.

What happens after filing an EU trade mark application at the EUIPO?



Trademarks and Related Rights Package

ADVANTAGES OF EU TRADEMARKS

The EU Commission has identified the following **advantages** of the **EU trademark** :

Single application for all the EU Member States

Cheaper alternative to individual filings in all EU Member States

Easy management of filing and post-application processes (e.g. recordal of change in owner's address etc.) instead of dealing with different offices

Trademarks and Related Rights Package

TRADEMARKS AND TRADE NAMES

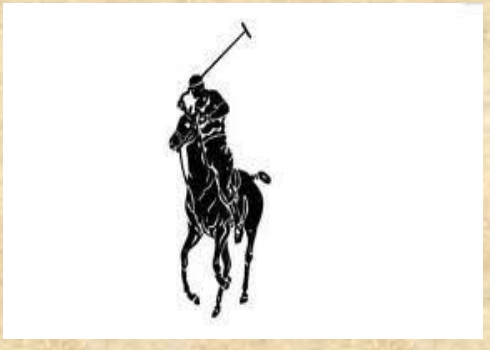
On a last note, trademarks must be distinguished and must not be confused with trade names. A **trade name** is simply the name of a company or business, and its function is to **identify** that **company** or **business** (for instance, the '*Coca Cola Company*').

Trade names are usually **words**, and **not logos**. They can match with trademarks and *vice versa*, but they are not automatically interchangeable. It is the way in which they are used that will determine whether they are trade names or trademarks.

Trademarks and Related Rights Package

- TRADEMARKS AND TRADE NAMES

- ***The Coca Cola Company*** ***Nike Incorporated Company*** ***Ralph Lauren Corporation***



- in which way do trademarks contribute to innovation ?
- what are the main functions of a trademark ?
- which options are available for registration ?

Trademarks and Related Rights Package

SUGGESTED READINGS

- EU Commission (IPR Helpdesk), *Your Guide to IP in Europe* (2017)
- EU Commission (IPR Helpdesk), *IPR Chart - EU Trademark* (2017)
- European Parliament (Research Service), 'EU Innovation Policy - Part II' (2016)

MODULE II

SINGLE MARKET FOR INTELLECTUAL PROPERTY RIGHTS

(*Lectures IX and X*)

Trademarks and Related Rights Package

INTRODUCTION TO THE EU TRADEMARK REFORM

The **first Directive** on trademarks was adopted in **1988** (89/104/EEC) to harmonize the registration of trademarks at national level. It was complemented by a **Regulation** in **1993** (40/94/EC), which introduced a Community trademark.

Trademarks and Related Rights Package

INTRODUCTION TO THE EU TRADEMARK REFORM

In 2009, the EU Commission launched a **review** of the overall functioning of the **European trademark system**. According to a *Max Planck Institute* study (2011), while the foundations of the system were still valid, there was the chance to make it more effective, efficient and accessible in terms of lower costs and complexity, increased speed, greater predictability, enhanced cooperation with national TM offices.

Trademarks and Related Rights Package

- <u>INTRODUCTION TO THE EU TRADEMARK REFORM</u>
- Following the study, in 2013 the Commission proposed to **modernize** the **framework** for trademarks, in order to upgrade & streamline the legislation. The **reform package** included a **Directive** (2015/2436) and a **Regulation** (2015/2424), with the aim to:
- i) simplify, accelerate and harmonise **trademark application procedures**
- ii) ensure better **coordination** between national offices and the EU trademark agency
- iii) update the **governance rules** of the EU trademark agency

Trademarks and Related Rights Package

INTRODUCTION TO THE EU TRADEMARK REFORM

In particular, the **2015 reform** consists of several **elements** :

- a **recast** of the **1989 Directive** approximating the laws of the Member States relating to their national trademarks
- a **revision** of the **1994 Regulation** on the Community trademark, establishing the first EU-wide unitary IPR granted by the office now called 'EUIPO' (earlier, 'OHIM')
- the **introduction** of **implementing** and **delegated acts** (*i.e.*, regulations) concerning the more technical aspects of the EU trademark reform

Trademarks and Related Rights Package

INTRODUCTION TO THE EU TRADEMARK REFORM

The ultimate **effects** of the 2015 EU trademark reform (in terms of harmonization, modernization, efficiency and effectiveness) should mainly benefit both:

- **Consumers**

- **Trademark owners**

Trademarks and Related Rights Package

- MEANING OF THE REFORM FOR USERS
- The reform **package** is a significant step towards a **more harmonised**, **modern** and **efficient trademark system**. Among other things, the package intends to :
- ○ introduce a **more flexible fee-structure** and substantially reduce the (application & renewal) fees for European Union trademarks
- ○ **eliminate** the requirement for a trademark to be capable of **graphic representation** (thus, allowing registration of more types of non-traditional trademarks)
- ○ **allow international registrations** designating the EU to proceed much faster

Trademarks and Related Rights Package

- MEANING OF THE REFORM FOR USERS
- ○ **allow** trademark **owners** to **seize counterfeit goods** in customs situations in the European Union under defined circumstances
- ○ further **harmonize** substantive and procedural **law** relating to **national trademarks**, included requiring Member States to make available office-based cancellation actions
- ○ **provide** owners of EU trademarks with the **possibility** to **clarify specifications** of trademarks filed for the *Nice Classification* headings prior to 2012 (due to the CJEU's decision that class headings do not automatically cover all products in relevant class)

Trademarks and Related Rights Package

- MEANING OF THE REFORM FOR USERS

- ○ **facilitate searching** of **new trademarks** in view of new provisions for intervening rights, namely creating defenses where later trademarks are adopted at a time when earlier conflicting trademarks were dormant (vulnerable to revocation for non-use)
- ○ **establish** a formal **framework** for **cooperation** between EUIPO and national marks
- ○ **give rise** to new **governance rules** for the EU Intellectual Property Office (EUIPO)
- ○ **eliminate** the possibility to make a **declaration** disclaiming exclusive rights to non-distinctive elements of trademarks so as to avoid doubts as to the scope of protection

Trademarks and Related Rights Package

- THE NEW FACE OF EUIPO

- In relation to the **new EUIPO**, the Regulation explicitly identifies its **tasks** in :

- ® the **management** of the EU trademark and design **systems** (to provide for effective, efficient and expeditious examination and registration of EU trademarks and designs)

- ® the **promotion** of **convergence** of practices and tools in the fields of trademarks and designs in cooperation with national IP offices of the EU Member States

- ® the **management** of the online EU-wide **database** for orphan works

- ® the **management** of the European **Observatory** on infringements of IPRs, which raises awareness on the value of IP and provides relevant data to EU IP policymakers

Trademarks and Related Rights Package

- THE NEW FACE OF EUIPO

- According to the Regulation, the **EUIPO** (formerly, Office for the Harmonization in the Internal Market) shall continue to **cooperate** with institutions, authorities, bodies, industrial property offices and international organizations in relation to these tasks.

Trademarks and Related Rights Package

THE NEW FACE OF EUIPO

In order to promote convergence of practices and tools in the fields of trademarks and designs, the EUIPO shall cooperate with the EU Member States' national IP offices in:

- ► the **development** of common examination **standards**
- ► the **creation** of connected or common **databases** and portals
- ► the **sharing** of data and **information** and the **exchange** of technical **expertise**
- ► the **establishment** of common **practices** and the **fight** against **counterfeiting**

Trademarks and Related Rights Package

- THE NEW FACE OF EUIPO

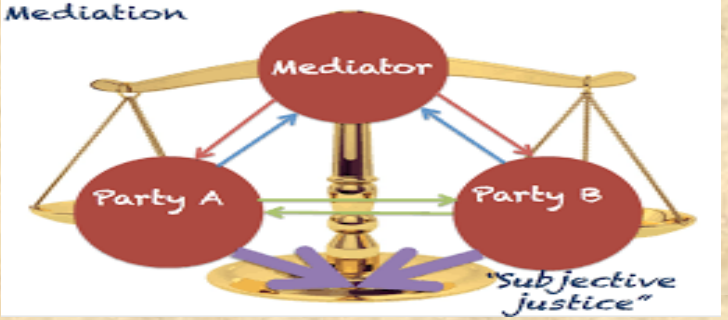
Further, in the context of cooperation, the EUIPO shall propose **common projects** with the aim of **benefiting undertakings** using the trademark systems in Europe. To this end, the EUIPO shall **consult** with the **user representatives**, both in the phase of defining projects and in their ultimate evaluation. It shall also fund such projects.

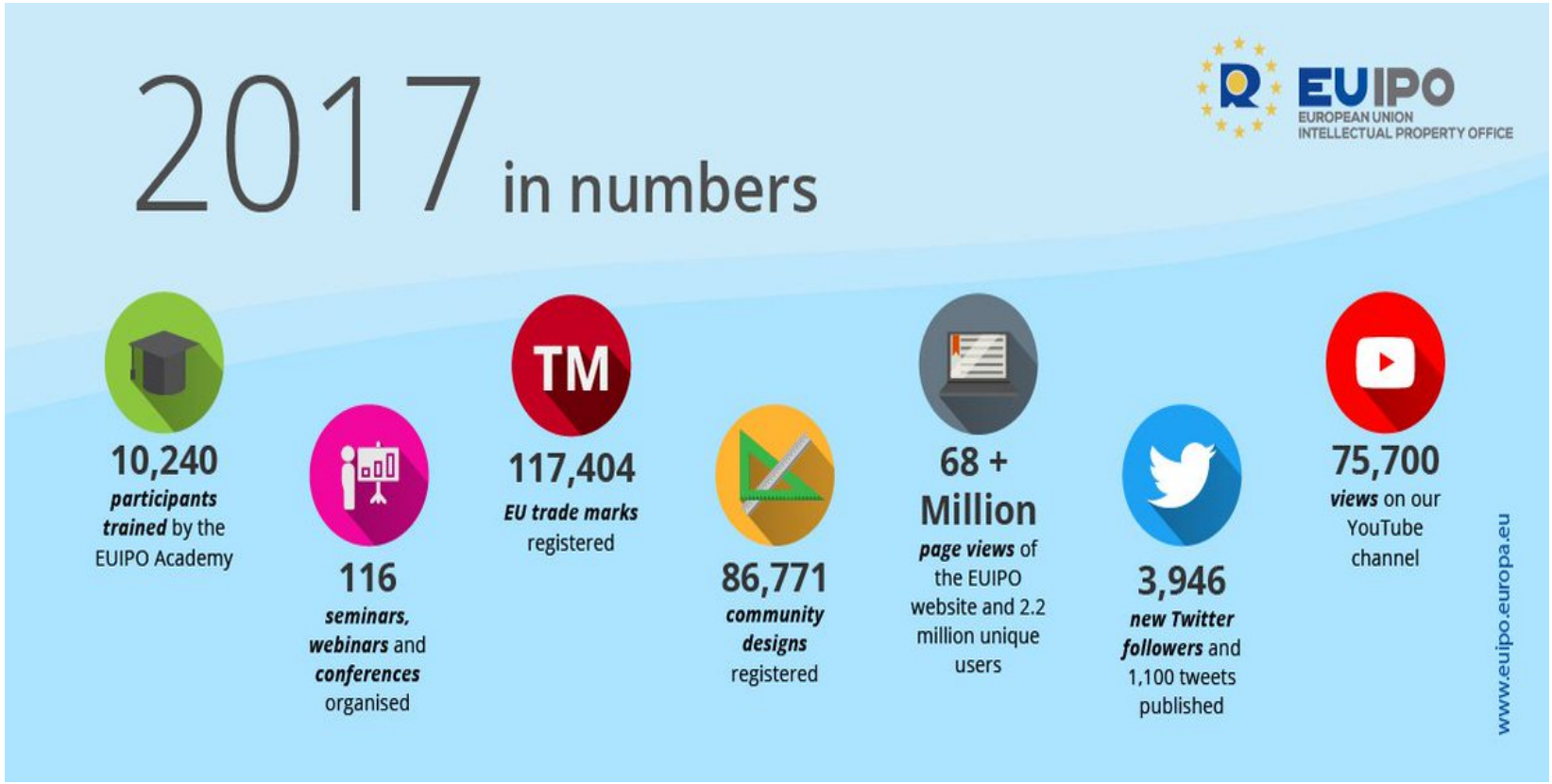
On a different ground, the EUIPO shall **offset** the **costs** faced by the **national IP offices** of the Member States and other relevant authorities in carrying out tasks stemming from the implementation of the EU trademark system (such as opposition and invalidation procedures involving EU trademarks, enforcement activities etc).

Trademarks and Related Rights Package

- THE NEW FACE OF EUIPO

The Regulation, what is more, establishes a **mediation centre** at the EUIPO and includes provisions supporting such dispute resolution method. Its function is to allow parties to look for amicable resolutions via mediation to overcome trademark disputes.




2017 in numbers
EUIPO
EUROPEAN UNION INTELLECTUAL PROPERTY OFFICE
10,240 participants trained by the EUIPO Academy
116 seminars, webinars and conferences organised
TM
117,404 EU trade marks registered
86,771 community designs registered
68 + Million page views of the EUIPO website and 2.2 million unique users
3,946 new Twitter followers and 1,100 tweets published
75,700 views on our YouTube channel
www.euipo.europa.eu

Trademarks and Related Rights Package

- IMPACT ON CLASSIFICATION OF GOODS AND SERVICES

- The EU legislator has expressly recognised the **importance** of the **specification** of trademark registrations for the functioning of the EU and national trademark systems. The new legislation codifies the **CJEU's requirements** (*IP Translator* – C 307/10) according to which: i) all **terms** used in specifications of products have to be **clear** & **precise,** to allow trademark offices courts and traders to be able to determine what is covered; ii) **general indications** from class headings are permissible but include only products covered by their literal meaning. Before, the practice was to consider that full class headings in any given *Nice Classification* covered all products in that class.

Trademarks and Related Rights Package

- IMPACT ON CLASSIFICATION OF GOODS AND SERVICES
- The **reform** basically **requires** EU trademark applicants to **classify** their **products** in accordance with the ***Nice Classification***. As noted earlier, it provides for the chance to **amend** existing EU **trademarks** filed before June 2012, indicating class headings, so as to include those products not covered by the literal meaning of the class heading.

List of Trademark Classes

Trademarks and Related Rights Package

- IMPACT ON CLASSIFICATION OF GOODS AND SERVICES
- The Directive and Regulation then establish that **trademark offices** have to carefully **examine specifications**, and that if the terms indicated are found to be too vague they have to object and (in the absence of appropriate amendments) reject those terms.
- **Classification** has **no impact** on the assessment of the **similarity** of **goods** and **services**. This means that the fact that products are in the same class does not make them similar, and being in different classes does not make them dissimilar.

Trademarks and Related Rights Package

- NEW ADMINISTRATIVE PROCEDURES IN MEMBER STATES

- Administrative procedures for revocation or declaration of invalidity (**cancellation proceedings**) and **opposition proceedings** have been examined in the reform, in light of their key role in the protection of trademarks. They represent the most accessible tools for trademark owners to tackle violations of their exclusive rights.

Trademarks and Related Rights Package

- NEW ADMINISTRATIVE PROCEDURES IN MEMBER STATES

- **Before** the **reform**, and according to the results of the *Max Planck Institute* study (2011), **opposition proceedings** were generally **available** in the EU Member States. Yet, substantial **differences** had been identified in the various **national systems**, in relation to the possible (absolute and relative) grounds of opposition and to the average timing of the proceedings.
- On the other side, in relation to **administrative cancellation proceedings** (for revocation or invalidity), the study highlighted that such proceedings were available in some EU nations but not in others; in the latter, trademark users had to resort to legal actions before national courts in order to have an infringing trademark cancelled.

Trademarks and Related Rights Package

- NEW ADMINISTRATIVE PROCEDURES IN MEMBER STATES

- In the **reform**, the EU legislator has introduced a **mandatory administrative procedure** in all Member States. The Trademark Directive refers to the issue of opposition and cancellation proceedings under **Recital 38** :

> For the purpose of ensuring effective trade mark protection, Member States should make available an efficient administrative opposition procedure, allowing at least the proprietor of earlier trade mark rights and any person authorised under the relevant law to exercise the rights arising from a protected designation of origin or a geographical indication to oppose the registration of a trade mark application. Furthermore, in order to offer efficient means of revoking trademarks or declaring them invalid, Member States should provide for an administrative procedure for revocation or declaration of invalidity within the longer transposition period of seven years, after the entry into force of this Directive.

Trademarks and Related Rights Package

- NEW ADMINISTRATIVE PROCEDURES IN MEMBER STATES

- **Articles 43 and 45** specifically address **opposition** and **cancellation proceedings** :

Article 43

Opposition procedure

1. Member States shall provide for an efficient and expeditious administrative procedure before their offices for opposing the registration of a trade mark application on the grounds provided for in Article 5.

2. The administrative procedure referred to in paragraph 1 of this Article shall at least provide that the proprietor of an earlier trade mark as referred to in Article 5(2) and Article 5(3)(a), and the person authorised under the relevant law to exercise the rights arising from a protected designation of origin or geographical indication as referred to in Article 5(3)(c) shall be entitled to file a notice of opposition. A notice of opposition may be filed on the basis of one or more earlier rights, provided that they all belong to the same proprietor, and on the basis of part or the totality of the goods or services in respect of which the earlier right is protected or applied for, and may be directed against part or the totality of the goods or services in respect of which the contested mark is applied for.

3. The parties shall be granted, at their joint request, a minimum of two months in the opposition proceedings in order to allow for the possibility of a friendly settlement between the opposing party and the applicant.

Article 45

Procedure for revocation or declaration of invalidity

1. Without prejudice to the right of the parties to appeal to the courts, Member States shall provide for an efficient and expeditious administrative procedure before their offices for the revocation or declaration of invalidity of a trade mark.

2. The administrative procedure for revocation shall provide that the trade mark is to be revoked on the grounds provided for in Articles 19 and 20.

3. The administrative procedure for invalidity shall provide that the trade mark is to be declared invalid at least on the following grounds:

(a) the trade mark should not have been registered because it does not comply with the requirements provided for in Article 4;

(b) the trade mark should not have been registered because of the existence of an earlier right within the meaning of Article 5(1) to (3).

4. The administrative procedure shall provide that at least the following are to be entitled to file an application for revocation or for a declaration of invalidity:

(a) in the case of paragraph 2 and paragraph 3(a), any natural or legal person and any group or body set up for the purpose of representing the interests of manufacturers, producers, suppliers of services, traders or consumers, and which, under the terms of the law governing it, has the capacity to sue in its own name and to be sued;

(b) in the case of paragraph 3(b) of this Article, the proprietor of an earlier trade mark as referred to in Article 5(2) and Article 5(3)(a), and the person authorised under the relevant law to exercise the rights arising from a protected designation of origin or geographical indication as referred to in Article 5(3)(c).

5. An application for revocation or for a declaration of invalidity may be directed against a part or the totality of the goods or services in respect of which the contested mark is registered.

6. An application for a declaration of invalidity may be filed on the basis of one or more earlier rights, provided they all belong to the same proprietor.

Trademarks and Related Rights Package

NEW ADMINISTRATIVE PROCEDURES IN MEMBER STATES

Basically, **Article 45** expressly specifies the possible grounds for **cancellation** :

- **lack** of **use** for a period of at least 5 years
- acquired **generic** or **misleading character**
- absolute grounds for **refusal** or **invalidity**
- **conflicts** with earlier **identical** or **similar trademarks**, including trademarks covering goods or services which are not similar to those covered by the earlier trademark, if the earlier sign enjoys a reputation (relative grounds for refusal)

Trademarks and Related Rights Package

- <u>NEW FAIR USE PROVISIONS</u>

- The new **Regulation** (article 12) and the new **Directive** (article 14) both provide then for **new limitations** of the **rights** conferred by a **trademark**. In particular, they deal with the following situations:

- ► the '**own name defense**'
- ► the **use** of **descriptive terms**
- ► **referential use**

'Article 12

Limitation of the effects of an EU trade mark

1. An EU trade mark shall not entitle the proprietor to prohibit a third party from using, in the course of trade:

(a) the name or address of the third party, where that third party is a natural person;

(b) signs or indications which are not distinctive or which concern the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of goods or of rendering of the service, or other characteristics of the goods or services;

(c) the EU trade mark for the purpose of identifying or referring to goods or services as those of the proprietor of that trade mark, in particular, where the use of that trade mark is necessary to indicate the intended purpose of a product or service, in particular as accessories or spare parts.

2. Paragraph 1 shall only apply where the use made by the third party is in accordance with honest practices in industrial or commercial matters.'.

Trademarks and Related Rights Package

NEW FAIR USE PROVISIONS

► in relation to the '**own name defense**', as included in the previous version of Article 12 (former Regulation), reference was not only to personal names but also to trade names and company names. This meant that Member States in the past have applied the 'fair use' provision also to company names regardless of whether the rights concerning the company name had been established prior to the trademark owner's right. The new Regulation (and the corresponding provision in the new Directive) establishes that the 'own name defense' will be **limited only to personal names or addresses of a natural person**. Such amendment should lead to more legal certainty and harmonization among the Member States.

Trademarks and Related Rights Package

NEW FAIR USE PROVISIONS

► in relation to the second fair use situation, the new **text** is **no longer limited** to the use of **descriptive terms**; it also covers **non-distinctive signs**. This amendment mirrors the principle included in Article 7 of the new Regulation, which establishes that not only will descriptive terms be denied registration, but also trademarks which do not have any distinctive character (grounds for refusal of an application).

► in the new amended version, the Regulation finally refers to the allowed **use** of a **trademark** for the purpose of **identification** of or **reference** to the trademark owner's own goods and services (so-called **referential use**).

Trademarks and Related Rights Package

NEW FAIR USE PROVISIONS

► interestingly, the final version of Article 12 of the new Regulation did not eventually include the proposal of the EU Parliament to also justify the '**fair use defense**' in case of use for the purpose of **parody**. This means that such uses continue to constitute a trademark **infringement**, even if the defendant claims this to be a joke (in Recital 21, it is noted that use of a trademark by third parties for the purpose of **artistic expression** is seen as fair as long as it is under honest practices in commercial & industrial matters).

Trademarks and Related Rights Package

- <u>IMPLICATIONS FOR NON-TRADITIONAL MARKS</u>
- For what concerns the **registration of non-traditional marks** (*e.g.*, shapes, colours, sounds, scents), the relevant provisions of the trademark reform are those included in **Articles 4** & **7(1)(e)** of the Regulation, and **Articles 3** & **4(1)(e)** of the Directive.
- Some of the amended articles may raise **obstacles** to the registration of applications and may become a ground for **invalidation** of registrations for other types of marks.

Non-traditional Trademark Matrix

Sound Marks	Taste Marks	Touch Marks	Smell Marks	Holograms	Motion Marks	3D Marks	Single Colors	Color Combinations	Trade Dress


TASTE
HEARING
SMELL
TOUCH
VISION

Trademarks and Related Rights Package

- IMPLICATIONS FOR NON-TRADITIONAL MARKS
- First, the reform has removed the **requirement** for **graphic representation** when registering a trademark – signs can now be represented in any appropriate form, using generally available technology. Under the new Regulation (art. 4) & Directive (art. 3):

Signs of which a trade mark may consist

A trade mark may consist of any signs, in particular words, including personal names, or designs, letters, numerals, colours, the shape of goods or of the packaging of goods, or sounds, provided that such signs are capable of:

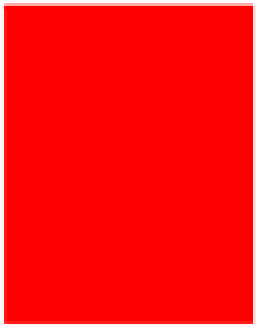
(a) distinguishing the goods or services of one undertaking from those of other undertakings; and

(b) being represented on the register in a manner which enables the competent authorities and the public to determine the clear and precise subject matter of the protection afforded to its proprietor.

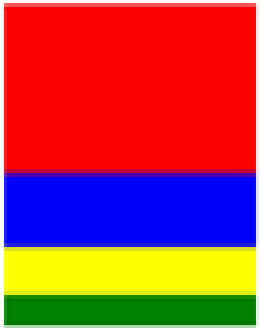
Trademarks and Related Rights Package

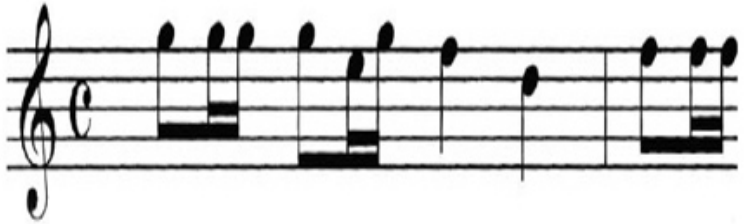
- IMPLICATIONS FOR NON-TRADITIONAL MARKS
- Such a **change** could be **positive** for **non-traditional marks holders**, as it allows the registration of marks that could not be previously registered. From this standpoint, the new legislation should boost the number of applications for non-traditional marks.
- The new legislation (Recital 13 of the Directive and Recital 9 of the Regulation) also provides that the **representation** has to be **'clear, precise, self-contained, easily accessible, intelligible, durable and objective'.** This definition may in theory give rise to **uncertainty** and **litigation** about whether a mark meets such conditions. Consequently, trademark searches and examination by trademark offices could possibly last longer and be more complex.

(Sole Color)



(Combination of Colors)





Trademarks and Related Rights Package

IMPLICATIONS FOR NON-TRADITIONAL MARKS

In relation to the **absolute grounds for refusal**, the **previous version** of Article 7(1)(e) of the **Regulation** established that:

'*The following shall not be registered :*

……

(e) signs which consist exclusively of :

i. the shape which results from the nature of the goods themselves

ii. the shape of goods which is necessary to obtain a technical result

iii. the shape which gives substantial value to the goods'

Trademarks and Related Rights Package

- <u>IMPLICATIONS FOR NON-TRADITIONAL MARKS</u>
- The **rational** of such provision (and of the corresponding Article 3(1)(e) of the former Directive) was to **prevent** trademark **protection** from granting its proprietor a monopoly on **technical solutions** or **functional characteristics** of a product which a user is likely to seek in the products of competitors.
- In other words, the aim was to prevent the protection conferred by trademark right from being extended beyond signs which serve to distinguish a product from those offered by competitors, so as to form an **obstacle preventing competitors** from freely offering products incorporating such technical solutions or functional characteristics in competition with the trademark owner (CJEU - Case C 299/99 *Philips v Remington*).

Trademarks and Related Rights Package

IMPLICATIONS FOR NON-TRADITIONAL MARKS

In the **new version**, **Article 7(1)(e)** of the **Regulation** reads as follows :

'*The following shall not be registered :*

……

(e) signs which consist exclusively of :

i. the shape, or another characteristic, which results from the nature of the goods themselves

ii. the shape, or another characteristic, of goods which is necessary to obtain a technical result

iii. the shape, or another characteristic, which gives substantial value to the goods'

Trademarks and Related Rights Package

IMPLICATIONS FOR NON-TRADITIONAL MARKS

Basically, the lawmaker decided to **extend** the permanent **exclusion clauses** in Article 7(1)(e) from the signs consisting exclusively of the shape of the goods **to other types of signs**. In order to do so, the words 'or **another characteristic**' were added.

The **amendment** was considered necessary to **counterbalance** the **removal** of the **graphical representation requirement** from the definition of a trademark in Article 4 of the Regulation. Put differently, as the removal of the graphic representation requirement permitted the expansion of types of marks that could be registered, the grounds for refusal should also be extended.

Trademarks and Related Rights Package

CERTIFICATION MARKS

The EU trademark reform, what is more, covers **certification marks**, which are a new type of trademark at EU level (though they already exist in some national IP system).

Certification marks allow a certifying institution or organization to permit adherents to the certification system to use the mark as a sign for goods or services **complying** with the **certification requirements**.

Trademarks and Related Rights Package

CERTIFICATION MARKS

► an **EU certification mark** usually concerns the **guarantee of specific characteristics** of certain products (material, mode of manufacture of goods or performance of services, quality, accuracy or other characteristics).

► in brief, such a mark indicates that the products bearing the certification mark **comply** with a **given standard set** out in the regulations of use and controlled under the responsibility of the certification mark owner.

Certification Marks

Trademarks and Related Rights Package

- COUNTERFEIT GOODS IN TRANSIT

- Another relevant aspect concerns the **transit of counterfeit goods** through multiple jurisdictions, which is a **growing phenomenon** requiring a **proper balance** between: on the one hand, allowing right holders to **enforce** their **rights**; on the other, enforcing the applicable law in a manner that does **not disrupt** legitimate **transit trade**.

Trademarks and Related Rights Package

- COUNTERFEIT GOODS IN TRANSIT

- **Before** the **reform**, the rule was that **goods** in transit could be **detained** (or the related release suspended) whenever custom offices had **suspicions** that such goods might in fact be **destined** for the European Union **market**. Suspicions could, for instance, be grounded on the fact that the consignor could not be identified or that the shipper was disguising commercial intentions (Court of Justice of the EU, Case C-495/09 *Nokia*).

- In brief, **counterfeit goods** could be **detained** by customs only if there was a **risk** that they could **enter** the European Union **market**. Otherwise, they had to be released.


Top Counterfeit Brands
The top 10 brands counterfeited
LACOSTE
Reebok
adidas
Microsoft
SONY

Trademarks and Related Rights Package

- COUNTERFEIT GOODS IN TRANSIT
- In the context of the launch of the 2015 EU trademark reform (new regulation and new directive), the **EU institutions announced** that :
- *'……the reform will improve conditions for businesses*
- *to innovate and to benefit from more effective trademark*
- *protection against counterfeits, including non-authentic*
- *goods in transit through the EU ' s territory '.*

Trademarks and Related Rights Package

- <u>COUNTERFEIT GOODS IN TRANSIT</u>

- Notably, the (2015) **substantive trademark legislation** – in combination with the new **EU Customs Regulation** adopted in 2013 – has **expanded** the EU national **customs'** power to **stop counterfeit goods** in **transit** in the **Union territory**.

Trademarks and Related Rights Package

- <u>COUNTERFEIT GOODS IN TRANSIT</u>
- The reform extends the **rights** of the **proprietor** of a **EU trademark** registered at EU level or of a **national trademark** registered at Member State level to **prevent** third parties from **bringing** – in the course of trade, **into the Union** without being released for free circulation, **goods** coming from **third countries** and bearing without authorization a **trademark** which is **identical** with the trademark registered with respect to such goods or which cannot be distinguished in its essential aspects from that trademark, even if the goods are not intended to be placed on the EU market.
- (SEE RECITAL 15 OF THE REGULATION 2015/2424 & RECITAL 21 OF THE DIRECTIVE 2015/2436)

Trademarks and Related Rights Package

- <u>COUNTERFEIT GOODS IN TRANSIT</u>
- In order to ensure the **free flow of legitimate trade**, the mentioned **rights** of the owner of the EU or national registered trademark **shall lapse** if, during the proceedings initiated to determine whether the registered trademark has been infringed, **evidence** is provided by the declarant or the holder of the goods that the **proprietor** of the registered trademark is **not entitled** to **prohibit** the placing of the goods on the market in the country of final destination.
- ► see also the **EU Commission Guidelines (2016)** to EU national customs on the implementation of the relevant provisions in the new trademark legislation


Main producers and transit points for fake goods.
Producers
Transits
Mexico
Belize
Panama
Paraguay
Ukraine
Albania
Armenia
Azerbaijan
Tunisa
Turkey
Kuwait
Iran
Morocco
Egypt
Saudi Arabia
United Arab Emirates
Yemen
Nigeria
Ethiopia
Kenya
Pakistan
India
China
Mongolia
Hong Kong (China)
Macau (China)
Philipines
Bangladesh
Thailand
Cambodia
Malaysia
Singapore
Indonesia
OECD
EUIPO

- what is the ‘fair use’ provision about ?
- can non-traditional marks be registered as trademarks ?
- what does the EU reform say about counterfeit goods ?

Trademarks and Related Rights Package

SUGGESTED READINGS

- EU Parliament and Council of the EU, Directive n. 2015/2436 to approximate the laws of the Member States relating to trademarks, [2015] O.J. L 336
- EU Parliament and Council of the EU, Regulation n. 2015/2424 on the Community trademark, [2015] O.J. L 341
- EU Commission, 'Modernization of the EU trademark system', (2013) MEMO/13/291

MODULE II

SINGLE MARKET FOR INTELLECTUAL PROPERTY RIGHTS

(*Lecture XI*)

European Patent with Unitary Effect

PATENTS AND INNOVATION

Patents are an **essential** instrument to encourage investments in **innovation** and boost its dissemination. They represent an incentive for undertakings to devote substantial resources in **research and development** (R&D).

In order to promote innovation in the Union, the EU Commission is constantly monitoring the **need** for **patent-related laws** and is working to introduce an efficient **uniform patent protection system**, where patent exploitation is also enhanced.

European Patent with Unitary Effect

PATENTS AND INNOVATION

The **Innovation Union Communication** (2010) promoted *inter alia* the economic exploitation of IPRs. In one Staff Working Document, the Commission examined the main **obstacles** that (SMEs) companies in the Union face in the **exploitation** of the so-called '**dormant patents**' – patents unutilised by the owners, thus not valuable to them. In this scenario, it identified options for making better use of dormant patents & ultimately enhance patent valorisation.

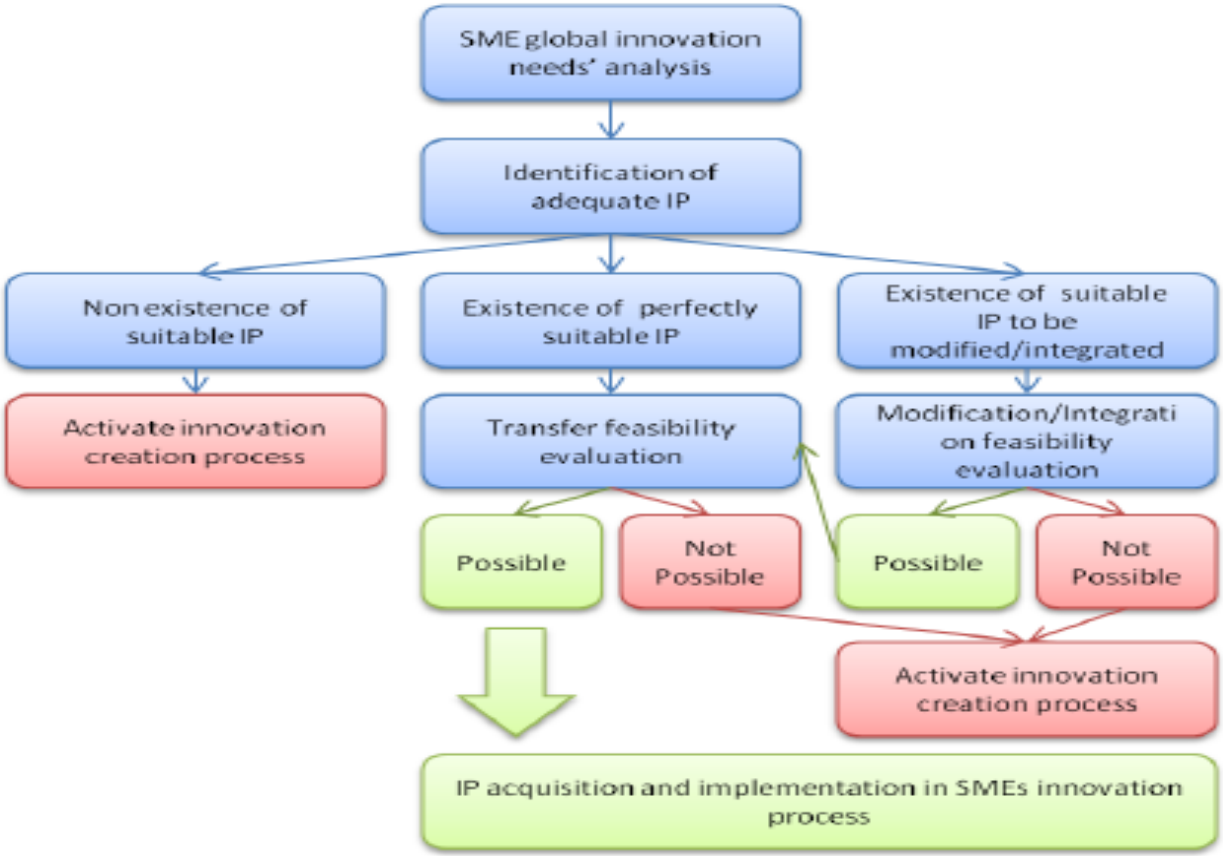
European Patent with Unitary Effect

- PATENTS AND INNOVATION
- On a further ground, in a project titled '*Exploitation of IP for industrial innovation*' (2015), the EU Commission tested the **design** of a **policy instrument promoting** the **development** of new **business** based upon **external IPRs acquisition**, including unused (*i.e.*, dormant) patented inventions. The outcome of the project showed that a policy instrument can be effectively developed to increase the acquisition and use of external (third parties') IPRs by SMEs, focusing on awareness and transaction costs.

IPI

Exploitation of IP for Industrial Innovation

Exploitation of IP for industrial innovation



European Patent with Unitary Effect

- WHAT IS A PATENT ?
- A patent can be defined as a legal title or **exclusive right** granted for the **protection** of **inventions** (products or processes) offering a **new technical solution** or facilitating a **new way** of doing something – a patent can cover how things work, what they do, what they are made of and how they are made; anyone can apply for a patent.
- ► the owner of the patent benefits from the exclusive right to **prevent** third parties from commercially **exploiting** his **invention** for an established period of time; in return, the owner must **disclose** the **invention** to the **public** in the patent application.

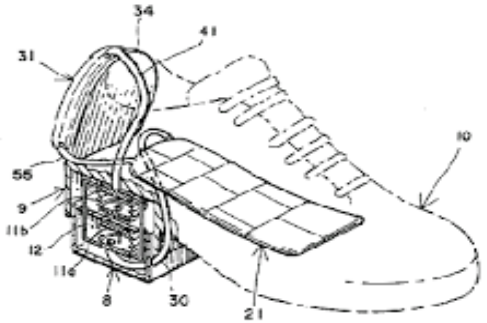

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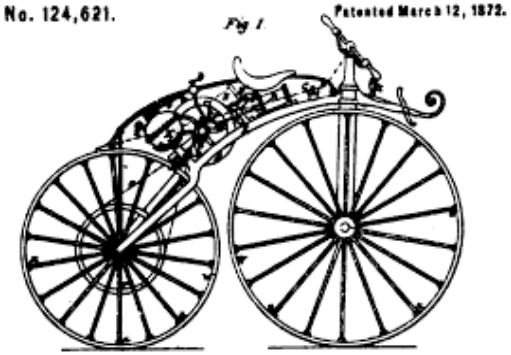
FIG.2


No. 124,621.
Fig 1
Patented March 12, 1872.

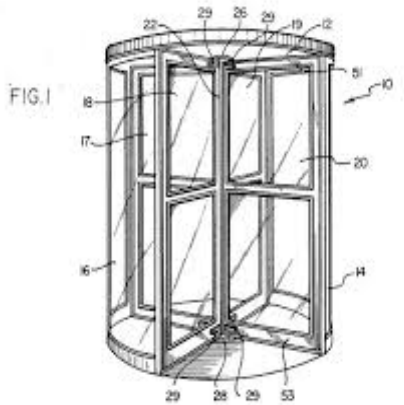


FIG.1
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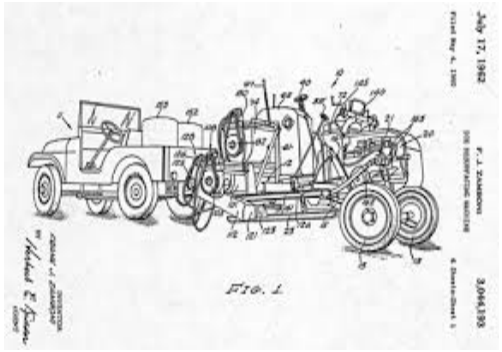
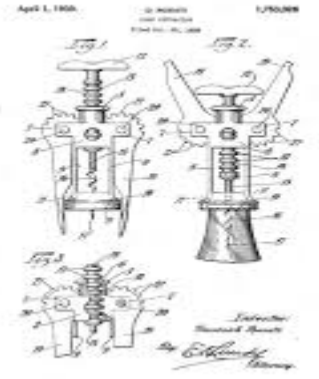
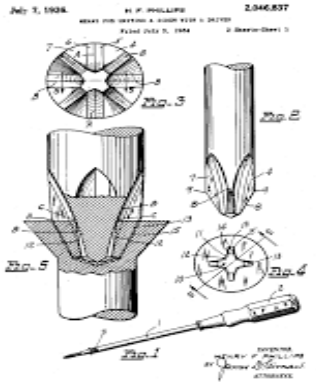

July 17, 1962
3,044,193
FIG. 1




July 7, 1936.
2,046,837
FIG. 3
FIG. 2
FIG. 5
FIG. 4
FIG. 1

European Patent with Unitary Effect

REQUIREMENTS TO REGISTER A PATENT

In order to **register** a **patent**, the following **requirements** are usually **necessary**:

- ***NOVELTY***
- ***INVENTIVE STEP***
- ***INDUSTRIAL APPLICATION***

European Patent with Unitary Effect

REQUIREMENTS TO REGISTER A PATENT

► under the **novelty** requirement, the invention must be new in comparison to the existing knowledge in the relevant technical field - in other words, it must not be part of the state of the art.

► as to the **inventive step**, the invention must be non-obvious; *i.e.*, it cannot be deduced easily by a person with average knowledge in the relevant technical field.

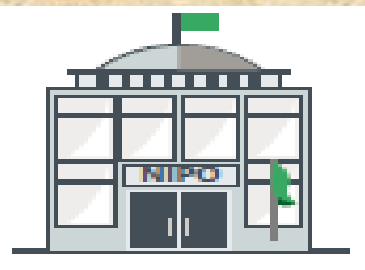
► finally, the invention must be capable of **industrial application** - this simply means that it can be made or used in any kind of industry.

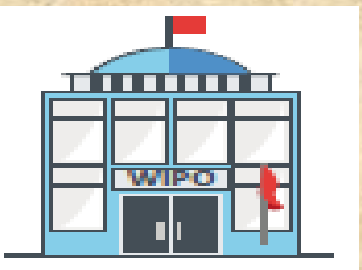

PATENTED

European Patent with Unitary Effect

- AVAILABLE ROUTES FOR PATENT PROTECTION

- The **registration** of a **patent** can be sought at **three different levels**: national, regional (*e.g.*, EU), and international. Depending on the territories where a firm intends to exploit a patent, the choice of registration may consequently vary.





European Patent with Unitary Effect

- AVAILABLE ROUTES FOR PATENT PROTECTION

- ■ First, a patent may be registered at **national level**, at a national IP office. Legal **protection** is obtained only in the **national territory** where the patent is **registered**. Any issue about ownership validity infringement will be tackled by the national court.

European Patent with Unitary Effect

AVAILABLE ROUTES FOR PATENT PROTECTION

■ Secondly, a (regional) **European patent** can be obtained by filing a single application with the **European Patent Office (EPO)** in one of its official languages (English, French, German) or with a **national patent office** of a contracting state**.** Such a registration can be obtained for all the **European Patent Convention - EPC** contracting states (*i.e.*, 38 countries). However, the **registration** is **governed** by the **national laws** in each respective territory. Therefore, a European patent eventually amounts to a **bundle of national patents**, and to be effective it has to be **validated** at the **national offices** of the countries which the applicant has selected.

European Patent with Unitary Effect

- AVAILABLE ROUTES FOR PATENT PROTECTION
- […] In other words, a **European patent is not a unitary right** and differs from the so-called 'European patent with unitary effects'; it remains a **national patent subject to national rules,** and it is **enforced** at **national level.** Only some **procedures** are **centralised** under the European Patent Convention, such as the **opposition procedure** which allows third parties to challenge the validity of a patent.
- Further, decisions of the **EPO Board of Appeals** do not bind the national courts; the latter usually have exclusive jurisdictions on validity and infringement issues after a European patent has been granted (except during the 9 months opposition period).

Getting patents – the European Patent Convention

EN / FR / DE

European Patent Office – The EPC 1973 (revised 2000)

EPO Search

EPO Publication

Examination

Grant Publication

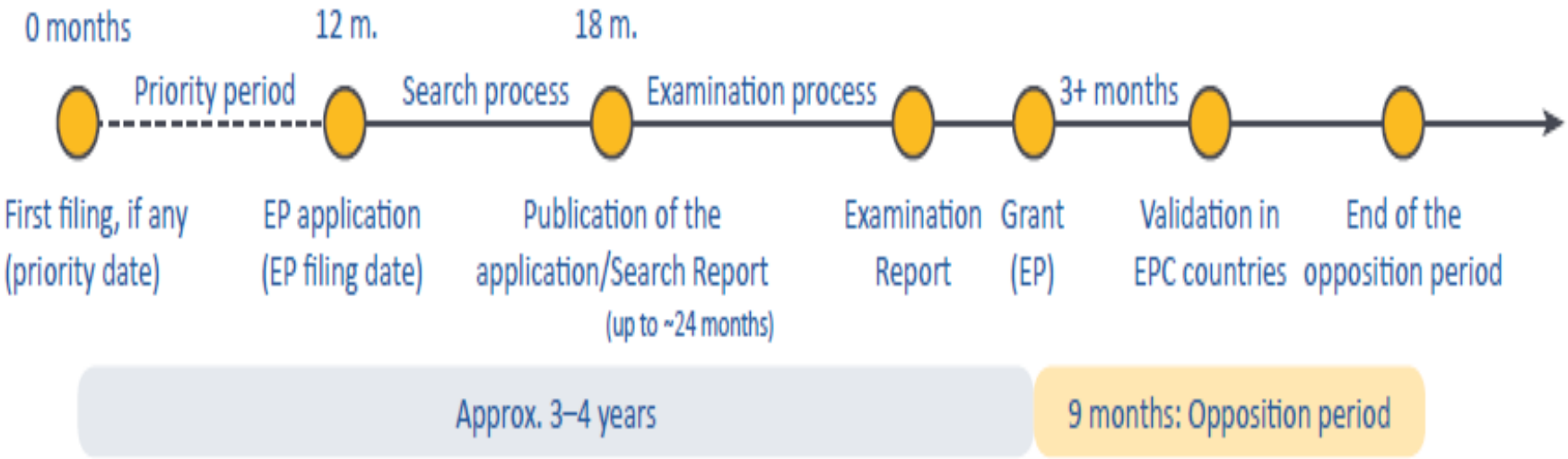
A "bundle" of national rights to be licensed or litigated separately in each member state. Applicant pays for as many states as needed.

Opposition (9 months)

Validated nationally

File translations

What happens after filing of an EP application?



European Patent with Unitary Effect

AVAILABLE ROUTES FOR PATENT PROTECTION

■ Third, a patent can be registered at the **international level**, according to the **Patent Cooperation Treaty** (**PCT**) system. This is administered by the World Intellectual Property Organization, and allows users to obtain patent **protection** in **more than 150 countries** by filing a single application in one language & paying a single set of fees.

Applications can be **filed** either through national IP offices, or directly with the WIPO. As a **condition**, the applicant must be a national or resident of a PCT contracting country. A PCT application, what is more, can be filed directly or within the 12 months period from the filing date of a prior application for the same invention.

European Patent with Unitary Effect

- AVAILABLE ROUTES FOR PATENT PROTECTION
- […] On a different additional note, nationals or residents of a country which is party to the **European Patent Convention** may also file their **PCT application** through the European Patent Office (EPO), if permitted by their national laws.
- Although the application has an international character, national laws govern the registration in each territory. Also in this case, hence, the applicant will get a **bundle of national patents** to be **validated** at the national or regional IP offices. This means that PCT applications involve two distinct phases, the international and national ones.

What happens in the international phase of a PCT application?

European Patent with Unitary Effect

- SCOPE OF PATENT PROTECTION

- The exclusive right conferred by a patent allows the patent holder to **prevent others** from making, using, offering for sale, selling or importing a **product** or a **process based** on the patented **invention**, without the prior authorization of the holder.

- On a further ground, the patent holder may allow others to **use** the **invention** on mutually agreed terms, on the basis of a **patent licensing agreement**. The holder may also **sell** the **patent** to someone else, who will then become the new patent owner.

European Patent with Unitary Effect

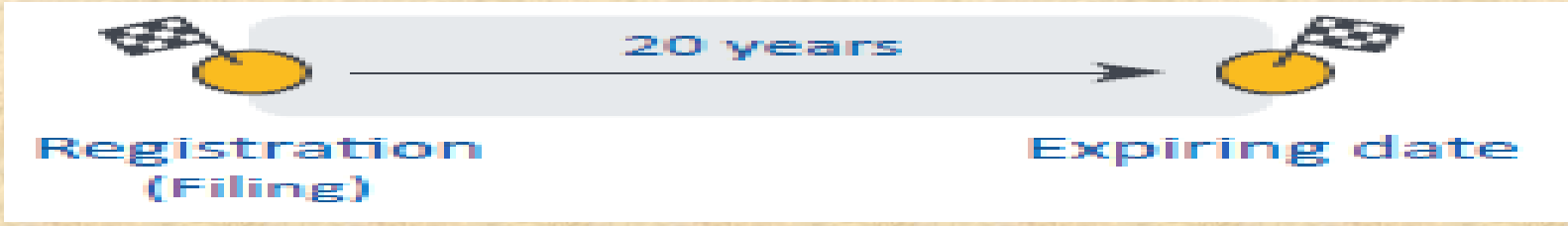
- SCOPE OF PATENT PROTECTION

- Patents are **territorial in nature**. Thus, patent rights are granted and enforceable within the geographical boundaries of the country or region where they are registered.

European Patent with Unitary Effect

- SCOPE OF PATENT PROTECTION

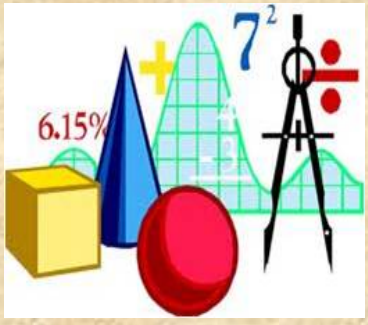
- As to the **duration**, patent protection is usually limited in time. In most countries, it lasts for **20 years** from the date of filing of the patent application. After the **expiration** of the patent, the **protection ends;** this basically means that anyone can commercially exploit the invention without any risk of infringement.



European Patent with Unitary Effect

(GENERALLY) NON-PATENTABLE ITEMS :

- *scientific theories*
- *aesthetic creations*
- *mathematical methods*
- *discoveries of natural substances*
- *commercial methods*
- *methods for medical treatment*
- *plant or animal varieties*
- *inventions contrary to morality/public order*



European Patent with Unitary Effect

PATENTS AND COMPUTER PROGRAMS

Generally, the **patentability** of **software** must be **excluded**, though there is still debate on the matter. A computer program as such cannot usually be considered as a patentable invention. A patent could be granted, under specific circumstances, for a **computer-implemented invention**, where a technical problem is solved in a novel & non-obvious manner. Computer programs may in theory receive **copyright protection**, if they comply with the requirements needed to receive such protection.

European Patent with Unitary Effect

- <u>PATENTS AND UTILITY MODELS</u>

- A **utility model**, also known as 'petty patent', is an **exclusive right** granted for an invention, which allows its holder to prevent others from commercially using the protected invention without their permission, for a limited period of time.

- ► utility models can be granted at **national levels only**; they are territorial in nature, so protection (in the EU, between 7 and 10 years) is limited to the country of registration - there is no European or international utility model.

- ► usually, for an utility model to be granted, **novelty** and **inventive steps** are necessary; however, **conditions may vary** according to the national legislation.

Utility model
Handle shape
Sunblock cover
Design of the car frame (low air resistance)
etc.

Patent
Engine structure
Features of the breaks
Manufacture method of the reinforced glass

Trademarks
Car's brand name
Emblem, etc.

Design
Design of the body (esthetics)
Design of the wheels groove, etc.

European Patent with Unitary Effect

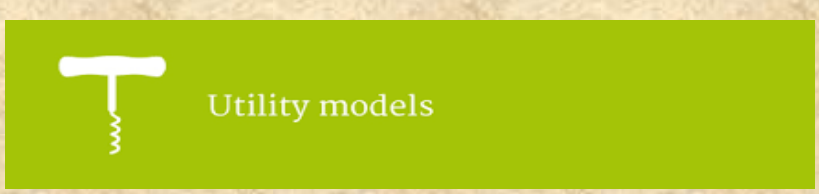
PATENTS AND UTILITY MODELS

The main **differences** between **patents** and **utility models** are the following:

- **requirements** for **utility models** are **less stringent** than those for patents; novelty is always to be met, but the requirement of inventive step is much lower – therefore, protection for utility models is often sought for inventions with a limited inventive step, which may fail under the patentability criteria.
- **term of protection** is **lower** for **utility models** than for patents, and varies from country to country (usually 7-10 years, without possibility to extend or renew).
- **fees** are generally lower for obtaining and maintaining a **utility model.**

European Patent with Unitary Effect

- PATENTS AND UTILITY MODELS
- Depending on the legislation of the countries, it may be possible to **convert** a **patent application into a utility model application**, and vice versa.
- Usually, conversion is requested when the patent application is refused by the relevant IP office for failure to meet the necessary requirements, and the applicant decides to convert the patent application into a utility model application.



- in which way do patents have an impact on innovation ?
- what are the possible routes of registration ?
- how do we distinguish patents from utility models ?

European Patent with Unitary Effect

SUGGESTED READINGS

- EU Commission (IPR Helpdesk), *Your Guide to IP in Europe* (2017)
- EU Commission (IPR Helpdesk), *IPR Chart - European Patent* (2018)
- EU Commission (IPR Helpdesk), *IPR Chart - International Patent Application* (2018)
- European Parliament (Research Service), 'EU Innovation Policy - Part II' (2016)

MODULE II

SINGLE MARKET FOR INTELLECTUAL PROPERTY RIGHTS

(*Lectures XII and XIII*)

European Patent with Unitary Effect

EARLY PROJECTS FOR A EUROPEAN PATENT

The **first projects** for a **European patent** date back to the **'60s**, when both the Commission and the Parliament suggested that the creation of a European patent should be pursued as soon as possible. However, it was also thought that such an **initiative** could not be implemented at Community level as the Community did not have specific competence over the matter, and that it should consequently be pursued **outside** of the **EC legal framework**.

European Patent with Unitary Effect

- EARLY PROJECTS FOR A EUROPEAN PATENT
- This eventually led to the signature of the **European Patent Convention - EPC (1973)**. Such convention has established a single procedure for the granting of patents, either by applying at the European Patent Office or directly at a national patent office of a contracting state. Yet, as mentioned before, a **European patent is not a unitary right**; it remains a **national patent subject to national rules**.

European Patent with Unitary Effect

- <u>EARLY PROJECTS FOR A EUROPEAN PATENT</u>
- The many **steps** made in the **development** of a unitary **European patent** included:
- ► the signature of a **Convention on the Community Patent** in **1975**; however, not all Member States ratified it, so it never entered into force (due to issues related to the costs of translating patents in all EC languages, and to the uncertainties related to the judicial system for litigation)
- ► a **Green Paper on the Community Patent** and the patent system in Europe published by the Commission in **1997**; the document suggested the adoption of a Community regulation to develop an effective European patent system

European Patent with Unitary Effect

EARLY PROJECTS FOR A EUROPEAN PATENT

► a **Proposal** for a **Regulation on the Community Patent** adopted in **2000** by the Commission; despite the support of the Parliament, it was rejected at Council level

► a **Public Consultation on the future of patent policy in Europe**, launched by the Commission in **2006**, interpreting the Community patent as a symbol of the Union's commitment to a knowledge and innovation-driven economy

► a **Communication on the patent system in Europe** (**2007**), published by the Commission in order to revitalize the debate on the patent system in a way which encourages Member States to work towards consensus and progress on the issue

European Patent with Unitary Effect

- <u>EARLY PROJECTS FOR A EUROPEAN PATENT</u>

- ► a **new Proposal** for a **Regulation on the Community Patent**, and a **Draft Agreement on the EU Patent Court**, adopted in **2008** by the Council of the EU

- ► an **Impact Assessment** accompanying the reform proposal and prepared by the Commission (2011), which looked into the **problems** related to the **post-grant stage** of patent protection (*e.g*, high costs of translating and publishing patents, costs of renewal of patents, administrative complexity of registering transfers and licenses). *Inter alia*, the impact assessment highlighted the **key role of patents**, which are essential to **innovate** and consequently **boost economic growth**

European Patent with Unitary Effect

EARLY PROJECTS FOR A EUROPEAN PATENT

► a **Regulation of the Parliament and of the Council (2012)** implementing **enhanced cooperation** in the area of the creation of unitary patent protection

(enhanced cooperation is a path granted by EU Treaty to permit the achievement of certain objectives in those circumstances where it would be difficult to involve all the Union states; it requires at least 9 Member States to participate in it - cooperation in the field of unitary patent protection has been supported by 26 countries, excepted Spain and Croatia)

► the **Agreement on a Unified Patent Court (2013)**, introducing a single and specialised patent jurisdiction (the process of ratification is still ongoing)

European Patent with Unitary Effect

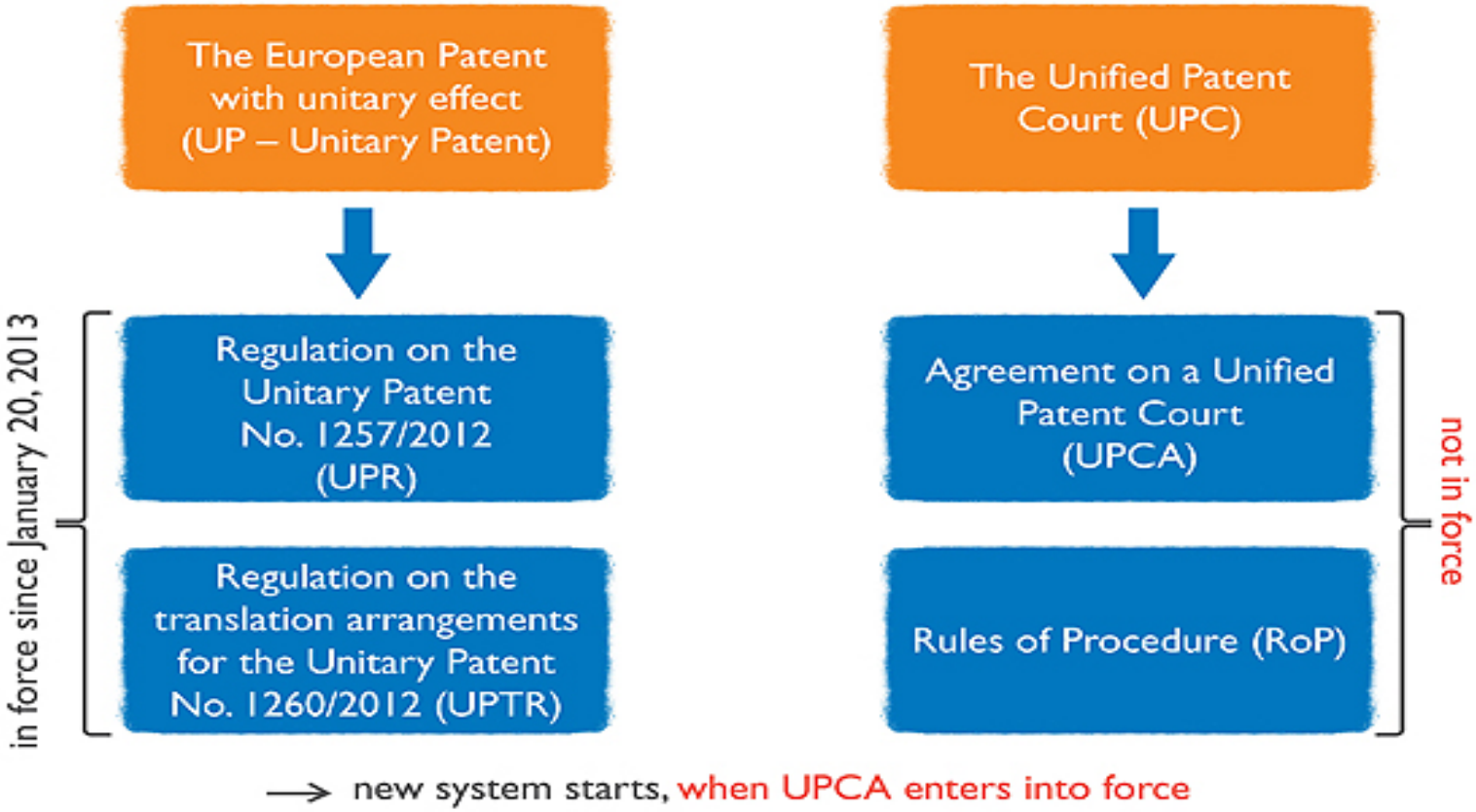
UNITARY PATENT REGIME AND INNOVATION

"The purpose of unitary patent protection is to make innovation cheaper and easier for businesses and inventors everywhere in Europe. It will mean a big reduction in terms of costs and red tape, and provide a stimulus for European innovation. It will be accessible for all companies in the EU, no matter where they are based. It is my deeply held conviction that there is no sustainable economic growth without ***innovation****. And no innovation without efficient intellectual property protection". (Bruxelles, 2011)*

INTERNAL MARKET & SERVICES COMMISSIONER - MICHEL BARNIER

European Patent with Unitary Effect

- UNITARY PATENT REGIME - THE PACKAGE
- In brief, the crucial steps in the development of a **unitary patent protection** in the Union were made in **2012-2013**, when almost all EU countries and EU Parliament agreed on the '**patent package**'. Such legislative initiative included the cited:
  - **Regulation** n. 1257/2012 creating a **European patent with unitary effect**
  - **Regulation** n. 1260/2012 establishing a **language regime** for the unitary patents
  - **Agreement** between EU countries to set up a **Unified Patent Court**


The European Patent with unitary effect (UP – Unitary Patent)
The Unified Patent Court (UPC)
Regulation on the Unitary Patent No. 1257/2012 (UPR)
Agreement on a Unified Patent Court (UPCA)
Regulation on the translation arrangements for the Unitary Patent No. 1260/2012 (UPTR)
Rules of Procedure (RoP)
in force since January 20, 2013
not in force
→ new system starts, when UPCA enters into force

European Patent with Unitary Effect

UNITARY PATENT REGIME - EFFECTS

Under the **unitary patent regime**, it will be possible to obtain a **patent** with **unitary effect** (Reg. 1257/2012), *i.e.* a legal title that will provide **uniform protection** in up to **26 EU countries** on a one-stop-shop basis. Benefits of such a system will include **substantial cost advantages** and reduced administrative burdens. Under the new system, a **Unified Patent Court** will be set, offering a single specialised patent jurisdiction.


lower costs
simplified procedures
Unitary Patent
26 EU member states
Unified Patent Court

Article 1

Subject matter

1. This Regulation implements enhanced cooperation in the area of the creation of unitary patent protection, authorised by Decision 2011/167/EU.

2. This Regulation constitutes a special agreement within the meaning of Article 142 of the Convention on the Grant of European Patents of 5 October 1973, as revised on 17 December 1991 and on 29 November 2000 (hereinafter 'EPC').

Article 2

Definitions

For the purposes of this Regulation, the following definitions shall apply:

(a) 'Participating Member State' means a Member State which participates in enhanced cooperation in the area of the creation of unitary patent protection by virtue of Decision 2011/167/EU, or by virtue of a decision adopted in accordance with the second or third subparagraph of Article 331(1) of the TFEU, at the time the request for unitary effect as referred to in Article 9 is made;

(b) 'European patent' means a patent granted by the European Patent Office (hereinafter 'EPO') under the rules and procedures laid down in the EPC;

(c) 'European patent with unitary effect' means a European patent which benefits from unitary effect in the participating Member States by virtue of this Regulation;

(d) 'European Patent Register' means the register kept by the EPO under Article 127 of the EPC;

(e) 'Register for unitary patent protection' means the register constituting part of the European Patent Register in which the unitary effect and any limitation, licence, transfer, revocation or lapse of a European patent with unitary effect are registered;

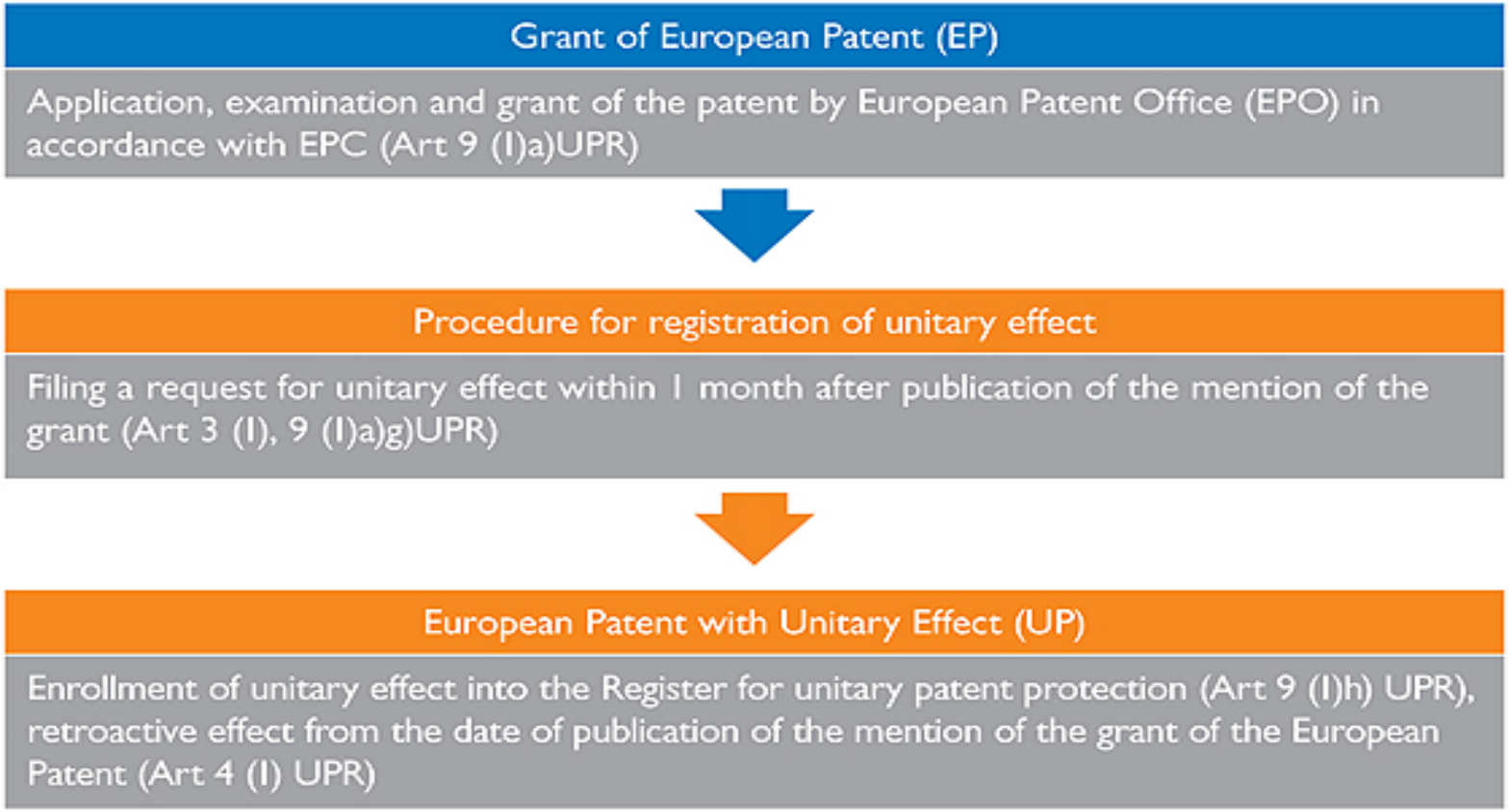
(f) 'European Patent Bulletin' means the periodical publication provided for in Article 129 of the EPC.

European Patent with Unitary Effect

- UNITARY PATENT REGIME - EFFECTS

- In details, the **Unitary Patent protection** will present the following features :

- ► inventors (individuals, companies and institutions) will be able to protect their inventions in up to **26 EU countries** by submitting a **single patent application**; after a patent is granted, there will be no need to validate it in each country. Basically, applicants will have to file an application with the EPO the same way as they do today. Once the EPC - European patent is granted, and the mention of the grant is published in the European Patent Bulletin, the patentee can request the EPO to register the unitary effect in the European Patent Register, so that the patent will take effect in 26 EU countries without any additional validation requirement.


Grant of European Patent (EP)
Application, examination and grant of the patent by European Patent Office (EPO) in accordance with EPC (Art 9 (I)a)UPR)
Procedure for registration of unitary effect
Filing a request for unitary effect within 1 month after publication of the mention of the grant (Art 3 (I), 9 (I)a)g)UPR)
European Patent with Unitary Effect (UP)
Enrollment of unitary effect into the Register for unitary patent protection (Art 9 (I)h) UPR), retroactive effect from the date of publication of the mention of the grant of the European Patent (Art 4 (I) UPR)

Article 3

European patent with unitary effect

1. A European patent granted with the same set of claims in respect of all the participating Member States shall benefit from unitary effect in the participating Member States provided that its unitary effect has been registered in the Register for unitary patent protection.

A European patent granted with different sets of claims for different participating Member States shall not benefit from unitary effect.

2. A European patent with unitary effect shall have a unitary character. It shall provide uniform protection and shall have equal effect in all the participating Member States.

It may only be limited, transferred or revoked, or lapse, in respect of all the participating Member States.

It may be licensed in respect of the whole or part of the territories of the participating Member States.

3. The unitary effect of a European patent shall be deemed not to have arisen to the extent that the European patent has been revoked or limited.

Article 4

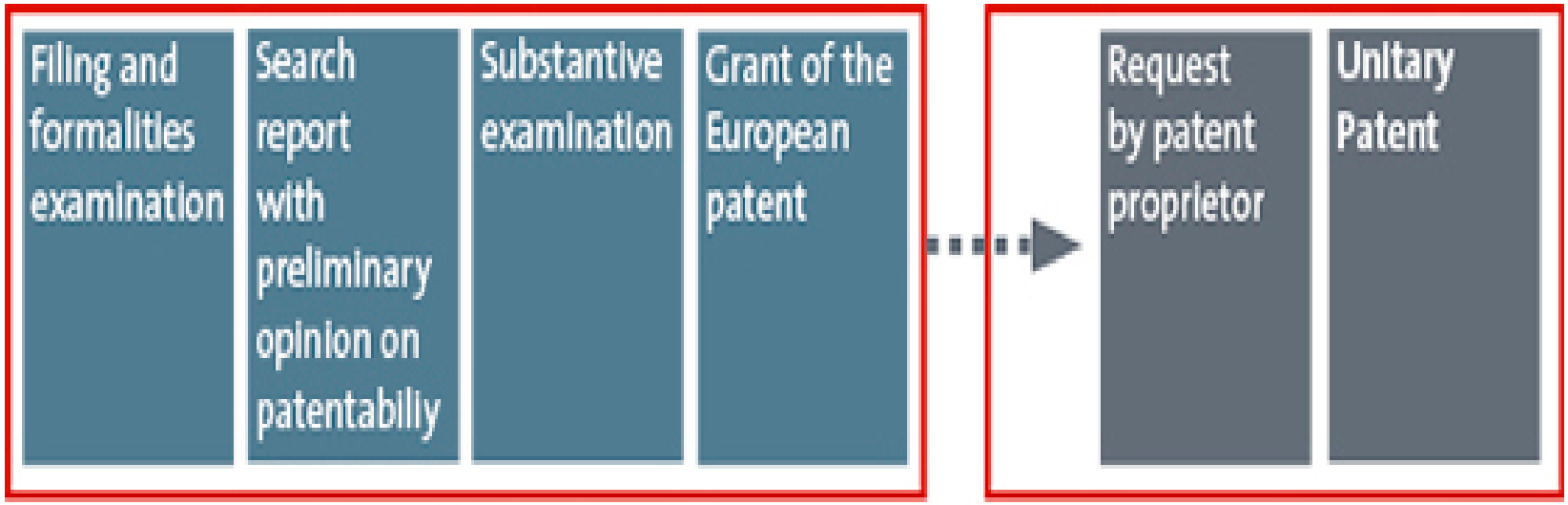
Date of effect

1. A European patent with unitary effect shall take effect in the participating Member States on the date of publication by the EPO of the mention of the grant of the European patent in the European Patent Bulletin.

2. The participating Member States shall take the necessary measures to ensure that, where the unitary effect of a European patent has been registered and extends to their territory, that European patent is deemed not to have taken effect as a national patent in their territory on the date of publication of the mention of the grant in the European Patent Bulletin.

European Patent with Unitary Effect

- UNITARY PATENT REGIME - EFFECTS
- ► the unitary patent system will not affect the EPO's daily search – examination – granting procedures. It will not replace the existing routes for protecting patents in Europe either. It will instead be an **additional option**, together with the existing national patent system and the classic European patent system
- ► to implement the new system, therefore, the EPO will take on a number of new tasks. For instance, the EPO will provide a new **Register for Unitary Patent Protection** that will include legal status information concerning unitary patents, with reference to licensing, transfer, limitation, lapse or revocation. Transfers and licences will hence be registered centrally at the EPO; there will be no need to prepare multiple parallel registrations for national patent registers



Same grant procedure as for the classical European patent

Separate post-grant procedure for the Unitary Patent

The Unitary patent - basic concepts

- A supranational patent
- A post-grant option for EPO patents with many benefits
- The Unitary patent does not need national validation in participating EU countries
- Automatic translations will be used for information.

Europäisches Patentamt
European Patent Office
Office européen des brevets

European patent

Unitary effect

European Patent with Unitary Effect

UNITARY PATENT REGIME - EFFECTS

► the new European patent **system** will become **simpler** and **less expensive** for inventors – for instance, costly translation requirements (needed only during the transitional period) will be reduced; renewal patent fees and other administrative costs will be lower in comparison to those under the European Patent Convention - EPC system (up to 80% lower), thus making the new European patent system more competitive *versus* other IPRs-intensive systems such as the U.S. and Japan

European Patent with Unitary Effect

- UNITARY PATENT REGIME - EFFECTS
- ► specifically, there will be **no fees** for the **filing** and **examination** of the request for unitary effect or registration of a Unitary Patent; for EU-based SMEs, natural persons, universities and public research organizations, a **new compensation scheme** (managed by EPO) will cover **costs related** to the **translation** of the patent application if it was filed in an official EU language other than English, French or German; unitary patents will also not be subject to the currently fragmented renewal fees systems, but there will only be one annual renewal fee – procedure – currency – deadline, paid to EPO; all post-grant **administration** will be **managed centrally** by EPO, further reducing costs & administrative workloads

	Now	When Unitary Patents comes in force
Application/Extension to all member states	36 000 EUR	5000 – 6000 EUR
Patent renewal for first 10 years	29 500 EUR	4685 EUR
Patent renewal for 20 years	159 000 EUR	35 555 EUR

Source: www.epo.org

Article 11

Renewal fees

1. Renewal fees for European patents with unitary effect and additional fees for their late payment shall be paid to the European Patent Organisation by the patent proprietor. Those fees shall be due in respect of the years following the year in which the mention of the grant of the European patent which benefits from unitary effect is published in the European Patent Bulletin.

2. A European patent with unitary effect shall lapse if a renewal fee and, where applicable, any additional fee have not been paid in due time.

3. Renewal fees which fall due after receipt of the statement referred to in Article 8(1) shall be reduced.

Article 12

Level of renewal fees

1. Renewal fees for European patents with unitary effect shall be:

(a) progressive throughout the term of the unitary patent protection;

(b) sufficient to cover all costs associated with the grant of the European patent and the administration of the unitary patent protection; and

(c) sufficient, together with the fees to be paid to the European Patent Organisation during the pre-grant stage, to ensure a balanced budget of the European Patent Organisation.

2. The level of the renewal fees shall be set, taking into account, among others, the situation of specific entities such as small and medium-sized enterprises, with the aim of:

(a) facilitating innovation and fostering the competitiveness of European businesses;

(b) reflecting the size of the market covered by the patent; and

(c) being similar to the level of the national renewal fees for an average European patent taking effect in the participating Member States at the time the level of the renewal fees is first set.

3. In order to attain the objectives set out in this Chapter, the level of renewal fees shall be set at a level that:

(a) is equivalent to the level of the renewal fee to be paid for the average geographical coverage of current European patents;

(b) reflects the renewal rate of current European patents; and

(c) reflects the number of requests for unitary effect.

European Patent with Unitary Effect

UNITARY PATENT REGIME - EFFECTS

► the **broader and less expensive protection** given by a unitary patent also means that **inventions** will be **more valuable**; in the past, many inventors used to patent their inventions only in a few countries, due to the prohibitive costs of the system – this situation made inventions less valuable as the lack of protection in other countries increased the risk for those inventions to be copied more easily

► research, development and investment in **innovation** will thus be **encouraged,** with the ultimate consequence of an **increased growth** in the European Union

Article 5

Uniform protection

1. The European patent with unitary effect shall confer on its proprietor the right to prevent any third party from committing acts against which that patent provides protection throughout the territories of the participating Member States in which it has unitary effect, subject to applicable limitations.

2. The scope of that right and its limitations shall be uniform in all participating Member States in which the patent has unitary effect.

3. The acts against which the patent provides protection referred to in paragraph 1 and the applicable limitations shall be those defined by the law applied to European patents with unitary effect in the participating Member State whose national law is applicable to the European patent with unitary effect as an object of property in accordance with Article 7.

4. In its report referred to in Article 16(1), the Commission shall evaluate the functioning of the applicable limitations and shall, where necessary, make appropriate proposals.

European Patent with Unitary Effect

UNITARY PATENT REGIME - EFFECTS

► once the unitary regime enters into force, **patent applicants** may also **choose** between various **combinations** of **classic European patents** and **unitary patents** :

i) for instance, a **unitary patent** providing protection in the 26 EU Member States taking part in the unitary patent scheme, together with

ii) a **classic European patent** with effect in one or more EPC contracting states which do not participate in the unitary scheme (Spain, Croatia, Norway, Iceland, Switzerland etc) or which have not yet ratified the Unified Patent Court Agreement

European Patent with Unitary Effect

- UNIFIED PATENT COURT
- The **Unified Patent Court (UPC)** will be **competent** to handle disputes (on infringement and validity) concerning both **unitary patents** and current **classical European patents**. As a single specialised patent court, the UPC will benefit from local and regional presence around the European Union. Parties will be able to get a **high quality decision** for all countries where the patent is valid

European Patent with Unitary Effect

- UNIFIED PATENT COURT

- In other words, the reform will bring a **unified litigation system**. This is a big advantage in comparison to the previous system, based on multi-forum litigation where firms may have to litigate in parallel in all countries where the European patent is validated. The previous system finally resulted in higher costs, substantial complexity and legal insecurity. A Unified Patent Court will consequently facilitate the development of a **consistent jurisprudence**, and will increase **legal certainty**

PART I

GENERAL AND INSTITUTIONAL PROVISIONS

CHAPTER I

General provisions

Article 1

Unified Patent Court

A Unified Patent Court for the settlement of disputes relating to European patents and European patents with unitary effect is hereby established.

The Unified Patent Court shall be a court common to the Contracting Member States and thus subject to the same obligations under Union law as any national court of the Contracting Member States.

Article 3

Scope of application

This Agreement shall apply to any:

(a) European patent with unitary effect;

(b) supplementary protection certificate issued for a product protected by a patent;

(c) European patent which has not yet lapsed at the date of entry into force of this Agreement or was granted after that date, without prejudice to Article 83; and

(d) European patent application which is pending at the date of entry into force of this Agreement or which is filed after that date, without prejudice to Article 83.

European Patent with Unitary Effect

- UNIFIED PATENT COURT

- To sum up, the **Unified Patent Court** (an international court) will :
- ▫ represent an **effective forum** for enforcing and challenging patents in Europe
- ▫ stop the need for **litigation** in different countries
- ▫ boost **legal certainty** through harmonised case law on validity & infringement
- ▫ offer simpler and more efficient **judicial procedures**
- ▫ harmonise substantive **patent law** on scope of patents and infringement remedies

European Patent with Unitary Effect

- UNIFIED PATENT COURT

- ▫ represent - for patent owners - a better option for **enforcement** of **valid patents**, with Europe-wide effects of decisions, injunctions and damages (but the Unitary Patent Court will not have jurisdiction over national patents – litigation over the latter will continue before national courts; moreover, owners of European patents may decide to opt out from the UPC's competence during a transitional period)

- ▫ provide – for third parties and the public – a **central revocation action**, separate from the EPO's opposition procedure, at any time during the life of the patent

European Patent with Unitary Effect

UNIFIED PATENT COURT

In relation to the **UPC's specific and exclusive competences**, these include :

- ► actions for actual or threatened infringements and related defences
- ► actions for declaration of non-infringement
- ► actions for provisional and protective measures and injunctions
- ► actions for revocation
- ► counterclaims for revocation

European Patent with Unitary Effect

- UNIFIED PATENT COURT

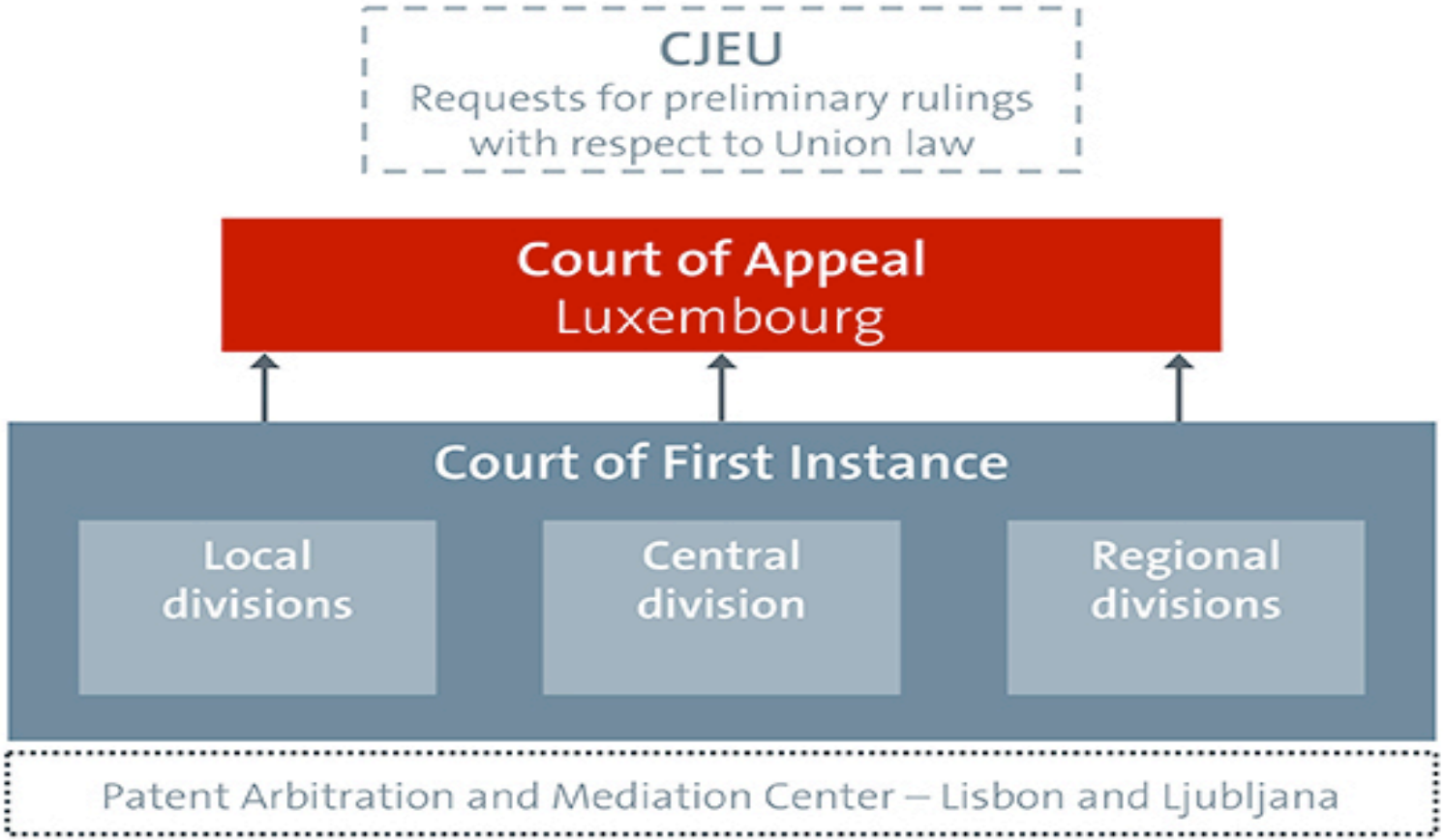
- The **Unified Patent Court** will comprise legally & technically qualified judges :

  - a *Court of First Instance* (with a central division, and local & regional divisions)

  - a *Court of Appeal* (located in Luxembourg)

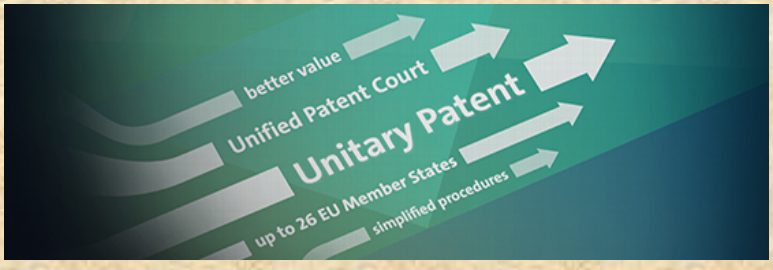
  - a *Registry* (based in Luxembourg)

UPC Structure



European Patent with Unitary Effect

- UNITARY PATENT REGIME - START DATE
- The **start** of the new system is currently expected for the **first half** of **2019;** the EU regulations establishing the unitary patent system entered into force in 2013, but they will only apply from the date of entry into force of the UPC Agreement (it must be ratified by at least 13 states, including France Germany and the UK)



European Patent with Unitary Effect

UNITARY PATENT REGIME - COVERAGE

Unitary patent may be **requested** for any European patent granted on or after the date of entry into force of the **Unified Patent Court Agreement**. Unitary patents may not cover all participating Member States as long as some of them may still have to ratify the Agreement when it enters into force. Thus, there may be **different generations** of **patents** with different territorial scope

European Patent with Unitary Effect

- UNITARY PATENT REGIME - COVERAGE
- Interestingly, the **coverage** of a given generation of **unitary patents** will **remain** the **same** for their entire duration, regardless of any subsequent ratifications of the Union Patent Court Agreement after the date of registration of the unitary effect – this simply means that there will be no extension of the territorial scope of unitary patents caused by later ratifications

European Patent with Unitary Effect

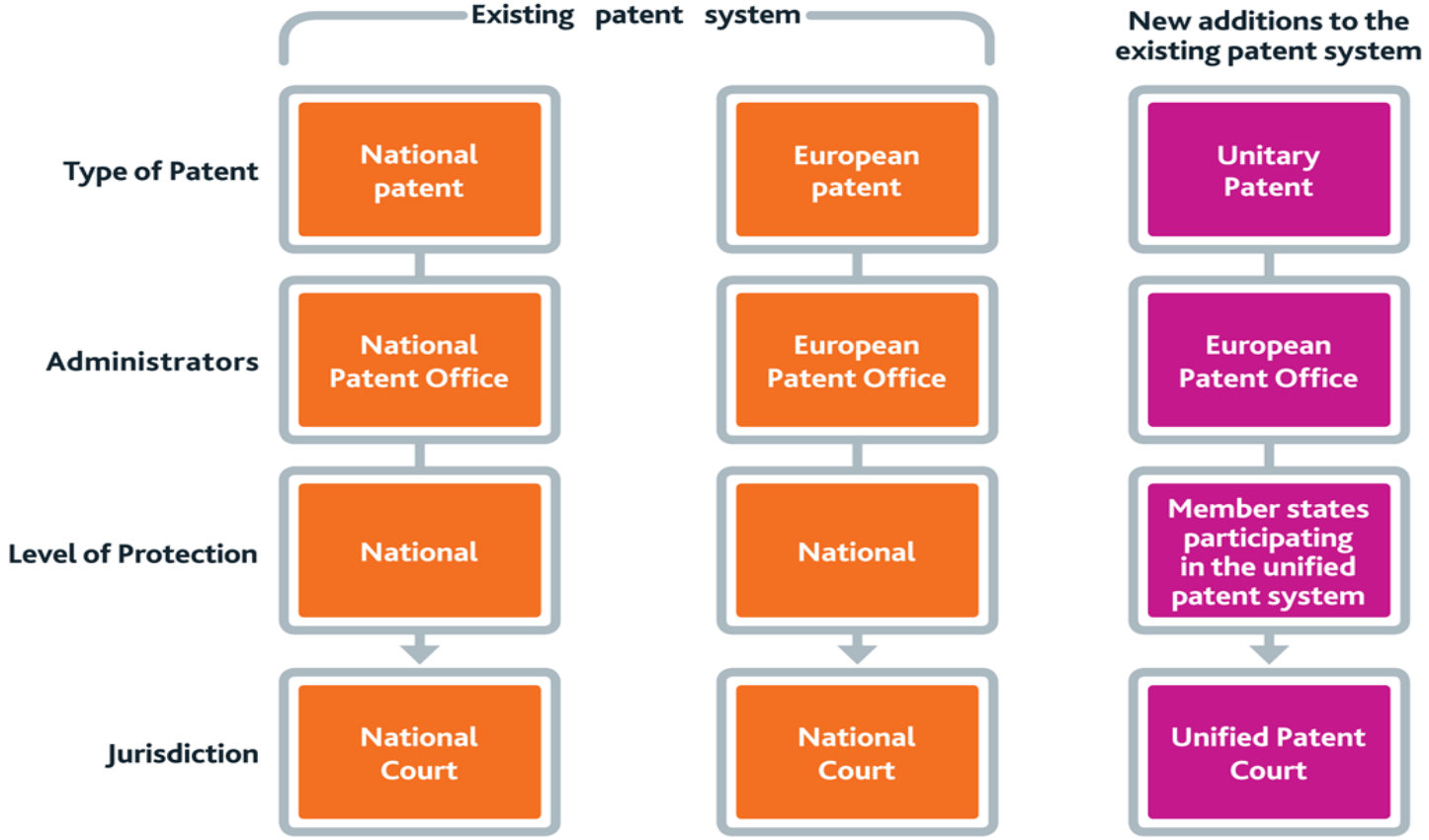
- UNITARY PATENT REGIME & BREXIT
- As the EPO has also noted, the forthcoming **BREXIT**
- may have an **impact** on the **Unitary Patent system**.
- In case the United Kingdom withdraws from the EU,
- the **regulations** introducing the unitary patent reform
- will consequently **cease to produce any effect** there.

European Patent with Unitary Effect

UNITARY PATENT REGIME & BREXIT

Nevertheless, **appropriate solutions** may be found in order to ensure patent protection in the UK for unitary patent proprietors. A possibility, based on a political decision of the EU institutes member states and UK, would be to make UK participation in the unitary patent system legally possible on a long term basis on the ground of specific *ad hoc* agreements.

Patent system in Europe



- how does the registration of a unitary patent work ?
- which are the main advantages of a unitary patent regime ?
- what will the benefits be of having a unified patent court ?

European Patent with Unitary Effect

SUGGESTED READINGS

- EU Parliament and Council of the EU, Regulation n. 1257/2012 implementing enhanced cooperation in the area of the creation of unitary patent protection [2012] O.J. L 361
- Council of the EU, Regulation n. 1260/2012 implementing enhanced cooperation in the area of the creation of unitary patent protection with regard to the applicable translation arrangement [2012] O.J. L 361
- Agreement on a Unified Patent Court, introducing a single and specialised patent jurisdiction [2013] O.J. C 175

MODULE II

SINGLE MARKET FOR INTELLECTUAL PROPERTY RIGHTS

(*Lecture XIV*)

The Trade Secrets Directive

- TRADE SECRETS - RELEVANCE

- Firms, inventors and researchers constantly **develop information and knowledge** which are **commercially valuable**, and which can help them to **perform faster** and **better** in the **marketplace**. This may be achieved for instance through decades of experience, costly and lengthy research processes, or rapid bursts of creativity. The outcome of such dynamics may *inter alia* consist of new manufacturing processes, improved recipes, information on potential clients etc.

The Trade Secrets Directive

- TRADE SECRETS - RELEVANCE

- Large and small players in all economic fields may strategically **protect** such **information and knowledge** by relying on **trade secrets,** and thus turn their innovative ideas into growth competitiveness and jobs. Above all, **SMEs** and **start-ups** rely on trade secrets on a more intensive basis than larger firms, in light of the fact that they do not have sufficient resources to seek, obtain and manage a portfolio of IPRs (*eg*, patents), and enter into costly litigation over IP infringement.

The Trade Secrets Directive

TRADE SECRETS AND IPRS

Trade secrets are **not IPRs**, but they are complementary to IPRs. They are used in the **creative process** leading to **innovation** and to the **creation** of **IPRs**. Therefore, trade secrets are at the basis of patents (a new invention), trade marks (a new branded product), copyright (a new work). Trade secrets are also **used** in relation to **commercially valuable information** for which there is no IP protection, but for which investments and research are required, and which are important for innovation performance (*e.g*, a new business idea, a new recipe, a new marketing study).

The Trade Secrets Directive

TRADE SECRETS - MEANING AND SCOPE

Basically, a **trade secret** consists of any **confidential business information** providing a **competitive advantage** to an **enterprise**. A wide variety of information could be protected as trade secrets :

► know-how

► technical knowledge (which could be patentable – *e.g.*, manufacturing process)

► business & commercial information (*e.g.*, list of customers, business plans)

The Trade Secrets Directive

- TRADE SECRETS - MEANING AND SCOPE

- The **information**, what is more, may have :

- ∞ a **strategic and long-term relevance**
- (*e.g.*, a recipe or chemical compound)

- ∞ or a **more short-lived relevance** (for instance, the outcome of a marketing study, or the name price and launch date of a new product or a new service offered)

The Trade Secrets Directive

TRADE SECRETS - MEANING AND SCOPE

There are **no specific administrative and procedural requirements** for a trade secret to be protected. Yet, certain **conditions** concerning the characteristics of the information must be met. In particular, the **information** must :

- be **secret** (*i.e.*, not generally known)
- has **commercial value** due to its secrecy
- and has been further **subject** to reasonable **measures** to maintain its secrecy

The Trade Secrets Directive

- TRADE SECRETS - MEANING AND SCOPE

- Such **reasonable measures**, which should be implemented by the person in control of the information, may include :

- ○ **storing** confidential information safely

- ○ **signing** non-disclosure or confidentiality agreements (where trade secrets must be discussed with the commercial counterparty)

- ○ **including** non-disclosure or confidentiality clauses within agreements, where the exchange of confidential information is very likely and/or necessary

The Trade Secrets Directive

- TRADE SECRETS - PROTECTION

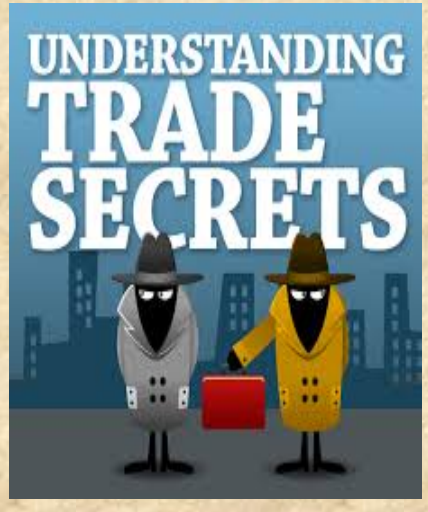
- **No proprietary** or **exclusive rights** over the information are conferred by trade secrets. Nevertheless, if the information is disclosed by someone who was under a confidentiality obligation, such a disclosure would amount to a **breach of contract** and the trade secret owner may benefit from the related contractual remedies.

- On a further ground, protection under **unfair competition laws –** available in the EU and in different European states - may apply in case a person obtains the information by dishonest means (*e.g.,* through espionage).

The Trade Secrets Directive

- TRADE SECRETS - PROTECTION

- In brief, trade secrets **protection** seeks to ensure that such information remains secret (and firms' competitiveness protected), and also identifies remedies against those who disclose it without authorization. Trade secrets do not have a precise limited term of protection. They are protected for an **unlimited period of time**, as long as the conditions for the information to be considered as a trade secret are met.



The Trade Secrets Directive

- TRADE SECRETS - PROTECTION

- **Protection against dishonest conduct** is all the more important for European undertakings which are increasingly exposed to misappropriation of trade secrets. According to surveys, 20% of European companies have been victims of trade secret misappropriation at least once in the last ten years; and 40% of European firms find that the risk of trade secret **misappropriation** has raised during the same period of time. This may be caused by **several factors**, such as intense global competition, increased used of ICT technologies, recourse to external consultants. The **fragmentation** of the **national laws** on the protection of trade secrets may impair firms' ability to build cross-border networks of collaborative research. In the EU, for instance, protection was not harmonised, giving rise to uncertainty.

The Trade Secrets Directive

- <u>EU DIRECTIVE ON TRADE SECRETS</u>
- In 2016, following a proposal from the EU Commission, the Parliament and the Council adopted a **Directive** (2016/943) which standardizes the existing diverging national laws in EU countries on the **protection** against the unlawful acquisition, use and disclosure of **trade secrets**. Such Directive in brief addresses the risk of losses faced by EU companies due to the misappropriation of trade secrets.

The Trade Secrets Directive

- EU DIRECTIVE ON TRADE SECRETS

- Above all, the EU Trade Secrets Directive :

- ► **harmonizes** the **definition** of trade secrets according to the existing internationally binding standards (to avoid obstacles in the EU single market)

- ► **defines** the **unlawful acquisition** (theft, hacking, espionage etc), **use or disclosure** (breach of a contractual duty, breach of a confidentiality agreement etc)

- ► **specifies** that **reverse engineering** & **parallel innovation** must be guaranteed, due to the fact that trade secrets cannot be considered as a form of exclusive IPRs

Article 2

Definitions

For the purposes of this Directive, the following definitions apply:

(1) 'trade secret' means information which meets all of the following requirements:

(a) it is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;

(b) it has commercial value because it is secret;

(c) it has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret;

(2) 'trade secret holder' means any natural or legal person lawfully controlling a trade secret;

(3) 'infringer' means any natural or legal person who has unlawfully acquired, used or disclosed a trade secret;

(4) 'infringing goods' means goods, the design, characteristics, functioning, production process or marketing of which significantly benefits from trade secrets unlawfully acquired, used or disclosed.

Article 3

Lawful acquisition, use and disclosure of trade secrets

1. The acquisition of a trade secret shall be considered lawful when the trade secret is obtained by any of the following means:

(a) independent discovery or creation;

(b) observation, study, disassembly or testing of a product or object that has been made available to the public or that is lawfully in the possession of the acquirer of the information who is free from any legally valid duty to limit the acquisition of the trade secret;

(c) exercise of the right of workers or workers' representatives to information and consultation in accordance with Union law and national laws and practices;

(d) any other practice which, under the circumstances, is in conformity with honest commercial practices.

2. The acquisition, use or disclosure of a trade secret shall be considered lawful to the extent that such acquisition, use or disclosure is required or allowed by Union or national law.

The Trade Secrets Directive

- EU DIRECTIVE ON TRADE SECRETS

- On further notes, the **Directive harmonises** the **civil** (not criminal) **means** through which firms facing trade secret misappropriation can obtain protection, such as :

- ○ **blocking** the **illegitimate use** and disclosure of misappropriated trade secrets

- ○ **removing** from the market **goods** manufactured on the basis of a trade secret illegally obtained

- ○ **getting compensation** for the damages caused by the unlawful use or disclosure of the misappropriated trade secret

Article 10

Provisional and precautionary measures

1. Member States shall ensure that the competent judicial authorities may, at the request of the trade secret holder, order any of the following provisional and precautionary measures against the alleged infringer:

(a) the cessation of or, as the case may be, the prohibition of the use or disclosure of the trade secret on a provisional basis;

(b) the prohibition of the production, offering, placing on the market or use of infringing goods, or the importation, export or storage of infringing goods for those purposes;

(c) the seizure or delivery up of the suspected infringing goods, including imported goods, so as to prevent their entry into, or circulation on, the market.

2. Member States shall ensure that the judicial authorities may, as an alternative to the measures referred to in paragraph 1, make the continuation of the alleged unlawful use of a trade secret subject to the lodging of guarantees intended to ensure the compensation of the trade secret holder. Disclosure of a trade secret in return for the lodging of guarantees shall not be allowed.

The Trade Secrets Directive

EU DIRECTIVE ON TRADE SECRETS

The **freedom of expression** and the **right of information** are **not impacted** by the Directive. This means that **journalists** remain **free** to **investigate** and publish news on firms' practices and business affairs. Even if a trade secret is misappropriated, the Directive establishes a specific safeguard to preserve the freedom of expression and the right to information, which are protected by the EU Charter of Fundamental Rights. The safeguard arises if the divulgation of the trade secret obtained by, or passed to journalists, occurred through the use of unlawful means (*eg* breach of law or breach of contract).

The Trade Secrets Directive

EU DIRECTIVE ON TRADE SECRETS

► interestingly, the **Directive does not remove** the **legal obligations** on firms to **reveal information** for **public policy goals** (public health, environment, consumer safety etc). Thus, the public interest prevails over private interest in such matters. This also means that the Directive does not allow firms to hide information that they are obliged to disclose to regulatory authorities or to the public at large

► moreover, the **Directive does not alter** and **does not have** any **impact** on those **regulations** establishing the **right** of **citizens** to have **access** to **documents** in the possession of public authorities, including documents submitted by third parties such as firms and business organisations

The Trade Secrets Directive

- <u>EU DIRECTIVE ON TRADE SECRETS</u>

- ► finally, the **Directive** expressly **safeguards** those who, acting in the public interest, **divulge** a **trade secret** in order to **reveal** a **misconduct**, **wrongdoing** or **illegal activity**. Such a safeguard applies if the trade secret was acquired or passed to the whistle-blower through the use of unlawful means (*e.g.*, breach of law or contract). On the other side, if no illicit conduct occurs, the disclosure of the trade secret is out of the scope of the Directive and therefore no safeguard is needed

Article 5

Exceptions

Member States shall ensure that an application for the measures, procedures and remedies provided for in this Directive is dismissed where the alleged acquisition, use or disclosure of the trade secret was carried out in any of the following cases:

(a) for exercising the right to freedom of expression and information as set out in the Charter, including respect for the freedom and pluralism of the media;

(b) for revealing misconduct, wrongdoing or illegal activity, provided that the respondent acted for the purpose of protecting the general public interest;

(c) disclosure by workers to their representatives as part of the legitimate exercise by those representatives of their functions in accordance with Union or national law, provided that such disclosure was necessary for that exercise;

(d) for the purpose of protecting a legitimate interest recognised by Union or national law.

The Trade Secrets Directive

- EU DIRECTIVE ON TRADE SECRETS

- To sum up, according to the Directive, **Member States have to** :

- ■ **offer** trade-secret holders strong civil law protection against the unlawful acquisition, use or disclosure of their confidential business information

- ■ **implement** in the national laws corrective measures (including damages) to redress misappropriation and misuse of trade secrets

- ■ **implement** in the national laws measures to preserve the confidentiality of trade secrets in the course of legal proceedings

The Trade Secrets Directive

- EU DIRECTIVE ON TRADE SECRETS

- Overall, the Directive builds a **common**, **clear** and **balanced legal framework** which should discourage unfair competition and dishonest behaviours. It should also **encourage collaborative innovation** and the **sharing of valuable know-how**, to the benefit of a more competitive and economically stronger Union.

- what is the relation between trade secrets and innovation ?
- which are the characteristics of trade secrets ? are they IPRs ?
- what are the safeguards in relation to trade secret protection ?

The Trade Secrets Directive

SUGGESTED READINGS

- EU Parliament and Council of the EU, Directive n. 2016/943 on the protection of undisclosed know how and business information (trade secrets) against their unlawful acquisition, use and disclosure [2016] O.J. L 157
- EU Commission (IPR Helpdesk), *Your Guide to IP in Europe* (2017)
- European Parliament (Research Service), 'EU Innovation Policy - Part II' (2016)

MODULE III

EU INTEGRATION & A SINGLE INNOVATION MARKET

(*Lecture XV*)

Territoriality

The Principle of Territoriality

WHAT IS TERRITORIALITY ABOUT ?

- the **principle of territoriality** has its **origin** in general **public international law** as an expression of **national sovereign authority**

- **sovereign power**, as a general rule, **does not extend beyond the borders** of a state; therefore, national laws and privileges granted by a state can only produce effects within the territory of that particular state

The Principle of Territoriality

- **WHAT IS TERRITORIALITY ABOUT ?**

- Intellectual Property Rights (IPRs) are **territorial** in nature. So what does this mean ?

The Principle of Territoriality

WHAT IS TERRITORIALITY ABOUT ?

- according to the Principle of Territoriality, **IP rights** are only **granted** for a **certain territory** and they only provide **protection** within that territory

- therefore, protection is only available in the country/countries in which **registration** has been **obtained** (*e.g.*, patents, trademarks); or, in case of **unregistered rights** (*e.g.*, copyright), in the country/countries where protection is sought

The Principle of Territoriality

WHAT IS TERRITORIALITY ABOUT ?

- in practice, this means that technical inventions, works of literature and arts, signs etc are subject to a bundle of possibly **more than 150 territorial rights** of national or regional derivation

- these **rights** are **independent from each other**, hence an invention or work or sign may be protected in one country and receive no protection in another; such rights may further be owned by different persons, even if the same subject matter is concerned


Intellectual
Property
use
IP
works
people
society
many
Since
monopoli
temporary
trade-off
time
one
law
example
person
term
rival
simultaneously
used
non-rival
number
ghts


lex loci

The Principle of Territoriality

WHAT IS TERRITORIALITY ABOUT ?

- since all possibly applicable **IP laws** are **limited to a territory** and none is universal in scope, none can apply in another territory; *in principle*, foreign rights cannot be infringed by local activities, and local rights cannot be infringed by foreign activities

- the **law of the country for which protection is sought** (principle known as *lex loci protectionis*), considered to be most closely related to the issue, usually determines whether a right is valid and whether it has been infringed (see also *Rome II Regulation*)

The Principle of Territoriality

WHAT IS TERRITORIALITY ABOUT ?

- in brief, **no unified system** for the protection of IPRs exists as of today

- on the other side, it is worth noting, territoriality may cause various **problems :**

→ **administrative inconveniences** may arise, *i.e.* need for multiple applications

→ difference of laws may then result in **different standards of protection** and **discrimination** based on nationality; this may consequently lead to **barriers** to trade


NORTH AMERICA
EUROPE
ASIA PACIFIC
Global Procedures
AUSTRALIA
SOUTH AMERICA
AFRICA


treaty
sovereign
convention
cooperation
institutions
human
members
country
economic
currency
national
founding
parliaments
European
integration
development
harmonization
law
territories
legal
euro
trade
transnational
enlargement
states
intergovernmental
competence
formally
freedom
member
policy
supranational
fisheries
abolition
bilateral
accede
force
common
political
custom
rights

The Principle of Territoriality

UNITARY INTELLECTUAL PROPERTY RIGHTS

The concerns and obstacles raised by the territorial character of intellectual property rights have been *partly* addressed by introducing **unitary IP rights**, by promoting **regional harmonization processes**, and by signing **international IP conventions**.

- UNITARY INTELLECTUAL PROPERTY RIGHTS: *e.g.,* EU trademark (2015); European patent with unitary effect (2012); Community design right (2002)

The Principle of Territoriality

REGIONAL HARMONIZATION

■ HARMONIZATION PROCESSES: harmonization can reduce the discrepancies between the national IP laws and hence minimize the risk of obstacles to trade; the EU legislature has historically been very active in the field of harmonization

- *Copyright Directive* (2019); *Information Society Directive* (2001/29)
- *E-Commerce Directive* (2000/31); *IPRs Enforcement Directive* (2004/48);
- *Trademarks Directive* (2008/95); *Designs Directive* (1998/71)

The Principle of Territoriality

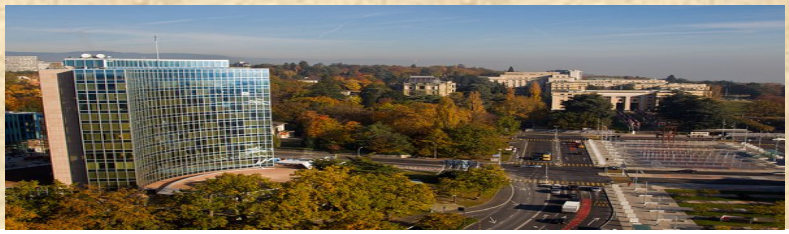
INTERNATIONAL IP CONVENTIONS

■ IP CONVENTIONS: the **Paris Convention for the Protection of Industrial Property (1883),** the **Berne Convention for the Protection of Literary and Artistic Works (1886),** and the **TRIPs Agreement (1994)** (in their revised versions) establish relevant principles in relation to issues arising from the territoriality nature of intellectual property rights.

The Principle of Territoriality

BERNE (1886) AND PARIS (1883) IP CONVENTIONS

The Conventions are administered by the **World Intellectual Property Organization**, an agency of the United Nations based in Geneve. One of the central aims of the WIPO is to '**promote** the **protection** of **intellectual property throughout the world** through cooperation among states and, where appropriate, in collaboration with any other international organization'. WIPO also administers the *Rome Convention* (1961, on the protection of performers), the *Madrid Protocol* (2007, facilitating the filing of trademarks in multiple countries), the *Patent Cooperation Treaty* (1970, facilitating the filing of patents).




PARIS CONVENTION
FOR THE PROTECTION
OF INDUSTRIAL PROPERTY
WIPO
WORLD
INTELLECTUAL PROPERTY
ORGANIZATION

The Principle of Territoriality

PARIS CONVENTION ON INDUSTRIAL PROPERTY (1883)

- article 2 introduces the '**national treatment principle**': nationals of any country of the Union shall, as regards the protection of industrial property, enjoy in all the other countries of the Union the advantages that their respective laws now grant, or may hereafter grant, to nationals […]. Consequently, they shall have the same protection as the latter, and the same legal remedy against any infringement of their rights, provided that the conditions and formalities imposed upon nationals are complied with.

The Principle of Territoriality

PARIS CONVENTION ON INDUSTRIAL PROPERTY (1883)

- article 4 *bis* deals with the **territorial nature of IPRs**, and provides that '**patents** applied for in the various countries of the Union by nationals of countries of the Union shall be independent of patents obtained for the same invention in other countries, whether members of the Union or not'.

- article 6, in relation to **trademarks**, similarly states that 'the conditions for the filing and registration of trademarks shall be determined in each country of the Union by its domestic legislation […]. A mark duly registered in a country of the Union shall be regarded as independent of marks registered in the other countries of the Union, including the country of origin'.


Berne Convention for the protection of Literary and Artistic works
• An international agreement governing copyright, which was first accepted in Berne, Switzerland, in 1886
fppt.com

The Principle of Territoriality

- **BERNE CONVENTION ON LITERARY & ARTISTIC WORKS (1886)**
  - article 5 of the Berne Convention, in relation to the '**national treatment principle**', establishes that '(1) authors shall enjoy, in respect of works for which they are protected under this Convention, in countries of the Union other than the country of origin, the rights which their respective laws do now or may hereafter grant to their nationals, as well as the rights specially granted by this Convention. (2) the enjoyment and the exercise of these rights shall not be subject to any formality; such enjoyment and such exercise shall be independent of the existence of protection in the country of origin of the work […]'.

The Principle of Territoriality

- **BERNE CONVENTION ON LITERARY & ARTISTIC WORKS (1886)**

■ 'Consequently, apart from the provisions of this Convention, the extent of **protection**, as well as the means of redress afforded to the author to protect his rights, shall be governed exclusively by the laws of the country where protection is claimed. (3) protection in the country of origin is governed by domestic law. However, when the author is not a national of the country of origin of the work for which he is protected under this Convention, he shall enjoy in that country the same rights as national authors'.


TRIPS Agreement

The Principle of Territoriality

TRIPS AGREEMENT

The TRIPs Agreement, in force since 1995, is an **international agreement** between all the member nations (162) of the World Trade Organization - WTO.

► the TRIPs Agreement can be considered as the most comprehensive **multilateral instrument for the globalization of intellectual property laws** to date

► it establishes **minimum standards** for the **protection** of **IPRs** (subject matter to be protected, rights to be conferred, duration of protection, exceptions etc); it also deals with effective **IP enforcement** (procedures and remedies) by national governments.

The Principle of Territoriality

TRIPS AGREEMENT

► the Agreement covers *inter alia* **copyright** and related rights; **patents**; **trademarks**; **trade names**; **industrial designs**; and **confidential information**

► it also deals with **dispute resolution procedures** between WTO members

► the Agreement, what is more, incorporates by reference the provisions on copyright from the **Berne Convention for the Protection of Literary and Artistic Works**, and the provisions of the **Paris Convention for the Protection of Industrial Property**

The Principle of Territoriality

TRIPS AGREEMENT

► according to the agreement, protection and enforcement of IPRs shall contribute to the **promotion of technological innovation** and to the **transfer/dissemination of technology**, to the mutual advantage of producers & users of technological knowledge, and in a manner conducive to **social and economic welfare**, and to a **balance of rights and obligations**

The Principle of Territoriality

TRIPS AGREEMENT

Key principles and obligations elaborated by the TRIPs Agreement include:

- ► the **national treatment** principle
- ► the **most favoured nation** (MFN) principle
- ► minimum standards obligation in **IP protection and enforcement**
- ► freedom of members to provide a **more extensive IP protection**

Article 3

National Treatment

1. Each Member shall accord to the nationals of other Members treatment no less favourable than that it accords to its own nationals with regard to the protection[3] of intellectual property, subject to the exceptions already provided in, respectively, the Paris Convention (1967), the Berne Convention (1971), the Rome Convention or the Treaty on Intellectual Property in Respect of Integrated Circuits. In respect of performers, producers of phonograms and broadcasting organizations, this obligation only applies in respect of the rights provided under this Agreement. Any Member availing itself of the possibilities provided in Article 6 of the Berne Convention (1971) or paragraph 1(b) of Article 16 of the Rome Convention shall make a notification as foreseen in those provisions to the Council for TRIPS.

2. Members may avail themselves of the exceptions permitted under paragraph 1 in relation to judicial and administrative procedures, including the designation of an address for service or the appointment of an agent within the jurisdiction of a Member, only where such exceptions are necessary to secure compliance with laws and regulations which are not inconsistent with the provisions of this Agreement and where such practices are not applied in a manner which would constitute a disguised restriction on trade.

Article 4

Most-Favoured-Nation Treatment

With regard to the protection of intellectual property, any advantage, favour, privilege or immunity granted by a Member to the nationals of any other country shall be accorded immediately and unconditionally to the nationals of all other Members. Exempted from this obligation are any advantage, favour, privilege or immunity accorded by a Member:

(a) deriving from international agreements on judicial assistance or law enforcement of a general nature and not particularly confined to the protection of intellectual property;

(b) granted in accordance with the provisions of the Berne Convention (1971) or the Rome Convention authorizing that the treatment accorded be a function not of national treatment but of the treatment accorded in another country;

(c) in respect of the rights of performers, producers of phonograms and broadcasting organizations not provided under this Agreement;

(d) deriving from international agreements related to the protection of intellectual property which entered into force prior to the entry into force of the WTO Agreement, provided that such agreements are notified to the Council for TRIPS and do not constitute an arbitrary or unjustifiable discrimination against nationals of other Members.

PART III

ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS

SECTION 1: GENERAL OBLIGATIONS

Article 41

1. Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.

2. Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.

SECTION 2: CIVIL AND ADMINISTRATIVE PROCEDURES AND REMEDIES

Article 42

Fair and Equitable Procedures

Members shall make available to right holders[11] civil judicial procedures concerning the enforcement of any intellectual property right covered by this Agreement. Defendants shall have the right to written notice which is timely and contains sufficient detail, including the basis of the claims. Parties shall be allowed to be represented by independent legal counsel, and procedures shall not impose overly burdensome requirements concerning mandatory personal appearances. All parties to such procedures shall be duly entitled to substantiate their claims and to present all relevant evidence. The procedure shall provide a means to identify and protect confidential information, unless this would be contrary to existing constitutional requirements.

The Principle of Territoriality

- **TRIPS AGREEMENT**

- It further addresses the **control of anticompetitive practices** in IP contractual licenses

Article 40

1. Members agree that some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology.

2. Nothing in this Agreement shall prevent Members from specifying in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market. As provided above, a Member may adopt, consistently with the other provisions of this Agreement, appropriate measures to prevent or control such practices, which may include for example exclusive grantback conditions, conditions preventing challenges to validity and coercive package licensing, in the light of the relevant laws and regulations of that Member.

The Principle of Territoriality

TERRITORIALITY OF IPRs AND INNOVATION

Overall, trying to address the concerns arising from the territoriality nature of IPRs through the introduction of unitary rights, through international conventions (Berne and Paris, TRIPs Agreement), and through regional harmonization processes may:

- ► provide for a **higher degree of IP protection**
- ► further stimulate businesses' **investments** in R&D
- ► have a positive **impact** on **innovation & trade**

- what is the IPRs territorial nature about ?
- how did the various conventions tackle IP territoriality ?
- what does the 'national treatment principle' say ? and the MFN ?

The Principle of Territoriality

SUGGESTED READINGS

- Agreement on Trade Related Aspects of Intellectual Property Rights - TRIPs [1994]
- Berne Convention for the Protection of Literary and Artistic Works [1886]
- Paris Convention for the Protection of Industrial Property [1883]

MODULE III

EU INTEGRATION & A SINGLE INNOVATION MARKET

(*Lectures XVI and XVII*)

Exhaustion of intellectual property rights

The Principle of Exhaustion and Parallel Imports

EXHAUSTION OF INTELLECTUAL PROPERTY RIGHTS

An intellectual property right (**IPR**) is a **negative right to exclude**; this means that the IPR owner is allowed to exclude others from using making or selling the IP protected item. However, the **right to exclude is limited by 'exhaustion':**

► the IPR owner's **control** over the item **ends** once the **item** is **first sold** ('first sale' by IP owner or with his consent; he has already gotten full benefits from selling item)

► purchaser is allowed to use or resell that item without further restraints from IP law

The Principle of Exhaustion and Parallel Imports

EXHAUSTION OF INTELLECTUAL PROPERTY RIGHTS

► more in details, under the 'first sale theory', the **IP holder loses** the **distribution control** on any product embedding IPRs

► therefore, IP holders are **restricted** from **benefiting perpetually** from the reselling of IP protected items

► the 'first sale theory' is **beneficial** to **consumers** who can get cheaper versions of already sold products in the marketplace

► yet, such benefit **only** concerns the **purchased product in question**

The Principle of Exhaustion and Parallel Imports

EXHAUSTION OF IPRs AND PARALLEL IMPORTS

- **exhaustion** of **IPRs** provides the legal basis for **parallel imports**
- **parallel imports** are items produced and sold legally, but later exported into another country; parallel imports are the consequence of the purchaser's right to resell

The Principle of Exhaustion and Parallel Imports

EXHAUSTION OF IPRs AND PARALLEL IMPORTS

- **prices** at which **products** are sold **may vary from nation to nation** on the basis of various reasons; for instance, due to differences in regulatory requirements, taxes, government subsidies, labour and material costs

- **parallel importers exploit such conditions** by purchasing products in markets where they are fairly inexpensive and selling them in markets where prices are higher; such a mechanism boosts the free movement of goods

The Principle of Exhaustion and Parallel Imports

THEORIES OF EXHAUSTION OF IPRs

Different theories exist on the **exhaustion** of intellectual property rights :

- ► national exhaustion of IPRs
- ► regional exhaustion of IPRs
- ► international exhaustion of IPRs

The Principle of Exhaustion and Parallel Imports

THEORIES OF EXHAUSTION OF IPRs

According to the theory of **national exhaustion of IPRs** :

- **IPR** in a product is **exhausted** once it is **sold** within the **country**
- **parallel imports** are **not allowed** from any other country

The Principle of Exhaustion and Parallel Imports

THEORIES OF EXHAUSTION OF IPRs

Example of application of the national exhaustion doctrine :

- a patented product is sold in South Africa by a South African producer; this product can be resold by the first buyer to other buyers only in that country
- **parallel imports** outside South Africa can be blocked by the patent owner
- thus, South African producer may face **price competition** only in the home market

The Principle of Exhaustion and Parallel Imports

THEORIES OF EXHAUSTION OF IPRs

According to the theory of **regional exhaustion of IPRs** :

- **IPR** in a product is **exhausted** once it is **sold** within the **region**
- **parallel imports** are **allowed** only from countries within the **region**

The Principle of Exhaustion and Parallel Imports

THEORIES OF EXHAUSTION OF IPRs

Example of application of the regional exhaustion doctrine :

- a patented product is sold in France by a French producer; this product can be resold by the first buyer to other buyers in every other EU country

- this leads to **parallel imports**; sales from French producer and subsequent sales from French buyer can both reach other EU countries

- as a result, French producer may face **price competition** in the EU market

The Principle of Exhaustion and Parallel Imports

THEORIES OF EXHAUSTION OF IPRs

According to the theory of **international exhaustion of IPRs** :

- **IPR** in a product is **exhausted** once it is **sold** in **any country**
- **parallel imports** are **allowed** once the product is sold in any country

The Principle of Exhaustion and Parallel Imports

THEORIES OF EXHAUSTION OF IPRs

Example of application of the international exhaustion doctrine :

- a patented product is sold in Canada; this product can be resold by the first buyer to other buyers in Singapore (or anywhere else in the world)

- this leads to **parallel imports**; sales from Canadian producer and subsequent sales from Canadian buyer can both reach Singapore (or any other place in the world)

- as a result, Canadian producer may face **price competition** on a global scale

The Principle of Exhaustion and Parallel Imports

- **THEORIES OF EXHAUSTION OF IPRs**

HIGHEST IP PROTECTION & LOWEST ACCESS	BALANCED IP PROTECTION & ACCESS	LOWEST IP PROTECTION & HIGHEST ACCESS
• NATIONAL IPR EXHAUSTION	• REGIONAL IPR EXHAUSTION	• INTERNATIONAL IPR EXHAUSTION

The Principle of Exhaustion and Parallel Imports

EXHAUSTION IN THE IP TREATIES

Neither the Bern (1886) nor the Paris (1883) Conventions address the **issue of exhaustion**. The **TRIPs Agreement** (1995) merely establishes at article 6 that :

'For the purposes of dispute settlement under this Agreement [...] nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights'

The Principle of Exhaustion and Parallel Imports

EXHAUSTION IN THE IP TREATIES

- basically, **WTO members** are free adopt **any regime** of **exhaustion**; any choice by a WTO member cannot be challenged under the *Dispute Settlement Mechanism*
- however WTO members, in implementing any regime of exhaustion, cannot infringe the other provisions of the TRIPs Agreement (eg *national treatment principle*)

The Principle of Exhaustion and Parallel Imports

EXHAUSTION IN THE EUROPEAN UNION

Within the **European Union**, the concept of **regional exhaustion** is generally accepted. This means that the first sale of IP protected items in any of the EU countries (including the European Economic Area - EEA), by the IP holder or by a third party with his consent, should exhaust IPRs over the specific item within the EU territory.

The Principle of Exhaustion and Parallel Imports

EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU

Exhaustion of IPRs in the European Union is directly related to the TFEU goal to create a **Single Market** and to the **freedom of movement of goods.**

Articles 34 and 35 TFEU prohibit **quantitative restrictions** on the import and export of goods, and all measures having equivalent effect. **Article 36 TFEU** creates an **exception** to such prohibition, and does not preclude restrictions in relation *inter alia* to the **protection of industrial and commercial property**.

The Principle of Exhaustion and Parallel Imports

- **EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU**
- **Article 36 TFEU** also establishes that such restrictions shall not constitute a means of arbitrary **discrimination** or a disguised **restriction** on trade between Member States.
- The **problem** may arise because **IPRs** are **territorial in nature**; so an IPR holder in one Member State might seek to prevent the importation of goods embodying its IPR and legitimately placed on the market in another Member State – for instance, *Hugo Boss*, who has trademarks for perfumes in Germany and Italy, may try to prevent perfumes legitimately purchased in Germany from being imported & resold in Italy.

The Principle of Exhaustion and Parallel Imports

- **EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU**

- If **IPRs** are **used** in such a way to **control** import or export of **goods**, this could be interpreted as **arbitrary discrimination** or a **disguised restriction** on **trade** between Member States.

- In order to address the **tension** (arising from articles 34-36 TFEU) between the goal of pursuing the **freedom of movement of goods** and the **protection of IPRs**, the CJEU has referred to the cited **doctrine of regional exhaustion of IPRs.**


CVRIA

The Principle of Exhaustion and Parallel Imports

EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU

The doctrine of exhaustion in the EU finds its roots in ***Deutsche Grammophon v Metro*** (Case n. 78/70), a case referred to the Court of Justice of the EU.

► ***Deutsche Grammophon*** had marketed sound recordings in France; these sound recordings were purchased by Metro, who sought to import them into Germany

► ***Deutsche Grammophon*** argued that this was an infringement of its distribution right under German copyright law, and obtained an injunction from a regional court

The Principle of Exhaustion and Parallel Imports

EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU

► in the German appeal, proceedings were stayed and questions referred to the CJEU

► the **CJEU clarified on the scope of article 36 TFEU**. It specified that '*although article 36 permits prohibitions or restrictions on the free movement of goods that are justified for the protection of industrial and commercial property, it only allows such restrictions on the freedom of trade to the extent that they are justified for the protection of the rights that form the specific object of this property*'.

The Principle of Exhaustion and Parallel Imports

- **EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU**

- ► *'[...] it would conflict with the provisions regarding the free movement of goods in the Common Market if a manufacturer of recordings exercised the exclusive right granted to him by the legislation of a Member State to market the protected articles in order to prohibit the marketing in that Member State of products that had been sold by himself or with his consent in another Member State solely because this marketing had not occurred in the territory of the first Member State'*

- ► so, according to the CJEU, the **article 36 TFEU exception** would be only **relevant** when it is being used to **protect** the **specific subject matter** of the **IPR**

The Principle of Exhaustion and Parallel Imports

EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU

The doctrine of exhaustion was then recalled by the Court of Justice of the European Union in ***Centrafarm v Sterling Drug*** (Case n. 15/74).

► a patented drug had been marketed by the patent holder ***Sterling Drug*** under the trademark '*Negram*', in both Germany and the United Kingdom

► ***Centrafarm*** bought quantities of this drug placed on the UK market and tried to import and sell them in the Netherlands under the name '*Negram*'

The Principle of Exhaustion and Parallel Imports

EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU

► ***Sterling Drug*** sued ***Centrafarm*** before a Dutch Court for both patent and trademark infringements

► the Dutch Court referred a number of **questions** to the Court of Justice of the European Union, concerning the free movement of goods

► the CJEU, in its judgment, considered the **relationship** between **exhaustion**, **free movement of goods**, and **patent protection**

The Principle of Exhaustion and Parallel Imports

EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU

► as held by **CJEU**, *'an obstacle to the free movement of goods may arise out of the existence, within a national legislation concerning industrial and commercial property, of provisions laying down that a patentee's right is not exhausted when the product protected by the patent is marketed in another Member State, with the result that the patentee can prevent importation of the product into his own Member State when it has been marketed in another state'*

► *'Whereas an obstacle to the free movement of goods of this kind may be justified on the ground of protection of industrial property, [...] a derogation from the principle of the free movement of goods is not however justified where the product has been put onto the market in a legal manner, by the patentee him self or with his consent, in the Member State from which it has been imported, in particular in the case of a proprietor of parallel patents'*

The Principle of Exhaustion and Parallel Imports

EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU

► *'in fact, if a patentee could prevent the import of protected products marketed by him or with his consent in another Member State, he would be able to partition off national markets and thereby restrict trade between Member State, in a situation where no such restriction was necessary to guarantee the essence of the exclusive rights flowing from the parallel patents'*

► *'the question referred should therefore be answered to the effect that the exercise by a patentee of the right, which he enjoys under the legislation of a Member State, to prohibit the sale in that state of a product protected by the patent which has been marketed in another Member State by the patentee or with his consent is incompatible with the rules of the EEC Treaty concerning the free movement of goods within the common market'*

The Principle of Exhaustion and Parallel Imports

EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU

► to sum up, in ***Centrafarm***, the Court of Justice of the European Union argued that article 36 TFEU allows derogations from the prohibitions set out in articles 34 and 35 TFEU where those derogations are necessary to protect the specific subject matter of intellectual property rights

► put differently, the **exhaustion doctrine** was **justified** on the basis that it does not prejudice the specific subject matter of the IPR

The Principle of Exhaustion and Parallel Imports

EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU

Other **EU cases** contributed to clarify on the scope of the **IPRs exhaustion doctrine**

- ***Musik v Gema*** (C-55/80): in relation to copyright, the specific subject matter has been defined to include '*the right to decide on the first placing of a work on the market*'
- ***Centrafarm v Winthrop*** (C-16/74): similarly, in this case, the specific subject matter of trademarks has been interpreted as including '*the exclusive right to utilise the mark for the first putting into circulation of a product'; 'to protect him (the holder) against competitors .. selling goods improperly bearing the mark*'

The Principle of Exhaustion and Parallel Imports

EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU

- ***Peak Holding v Axolin Elinor*** (C-16/03): here, questions were raised as to when goods are deemed to have been 'put on the market' by the IPR holder. The claimant had imported its own goods, carrying its trademark, into the EEA where they had been offered for sale to the public but remained unsold. This was considered by the CJEU not to constitute 'putting the goods on the market' for the purpose of exhaustion.
- ***Centrafarm v American Home Products*** (Case C-3/78): in this case, the CJEU argued that a IP holder cannot rely on its trademark registrations to prevent parallel import of goods from one Member State to another if its intention was to artificially partition the market.

The Principle of Exhaustion and Parallel Imports

- **EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU**
  - ***Levi Strauss v Tesco*** (C-414/99): as the Advocate General held, '*the exhaustion principle is designed to prevent that the trade mark holder's rights of control unreasonably prejudice commerce';* the CJEU also explored the concept of 'consent' from IP owner for the parallel importation of goods from outside EEA into EEA markets and held that '*consent must be so expressed that an intention to renounce those rights is unequivocally demonstrated*'
  - ***Micro Leader v European Commission*** (T-198/98): according to the Court, '*the marketing in Canada of copies of Microsoft software does not exhaust Microsoft's copyright over its products since that right is exhausted only when the products have been put on the market in the Community by the owner of that right or with his consent in the EC'*

The Principle of Exhaustion and Parallel Imports

- **EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU**
- As to the EU legislation, article 7(1) of the **Trademarks Directive** n. 89/104/EEC (now **article 15 of Directive n. 2015/2436**) states that '*the trademark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent*'.
- The provision in the following paragraph (now article 15(2)) states that '*paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market*'.

The Principle of Exhaustion and Parallel Imports

EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU

Article 7 (now art. 15) of the Trademark Directive has been interpreted by the CJEU in the case ***Silhouette v Hartlauer*** **[C-355/96]** to mean that **Member States** are **not allowed** to **apply** a **doctrine of international exhaustion** in the field of trademarks.

► Silhouette was an Austrian company producing and selling on a worldwide basis expensive spectacle frames, protected by trademark in Austria and other countries

► Hartlauer was a company selling spectacles among other cut-priced goods; Silhouette did not supply Hartlauer as it believed that this would harm its reputation

The Principle of Exhaustion and Parallel Imports

EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU

► in 1995, Hartlauer purchased 21.000 Silhouette spectacle frames; such spectacles had originally been supplied by Silhouette to a Bulgarian company, with the instruction to sell only in Bulgaria or Russia; it was not clear from whom Hartlauer had purchased the spectacles

► in Austria, Silhouette sought an injunction to prevent Hartlauer from selling the frames under its trademark, as they had not been put on the EEA market by Silhouette or with its consent; Silhouette argued that it had not exhausted its trademark in EEA

The Principle of Exhaustion and Parallel Imports

EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU

► the CJEU said that '*the Directive cannot be interpreted as leaving it open to the Member States to provide in their domestic law for exhaustion of the rights conferred by a trademark in respect of products put on the market in non-member countries*'

► the Court further noted that '*…a situation in which some Member States could provide for international exhaustion while others provided for Community exhaustion only would inevitably give rise to barriers to the free movement of goods and the freedom to provide services*'

The Principle of Exhaustion and Parallel Imports

EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU

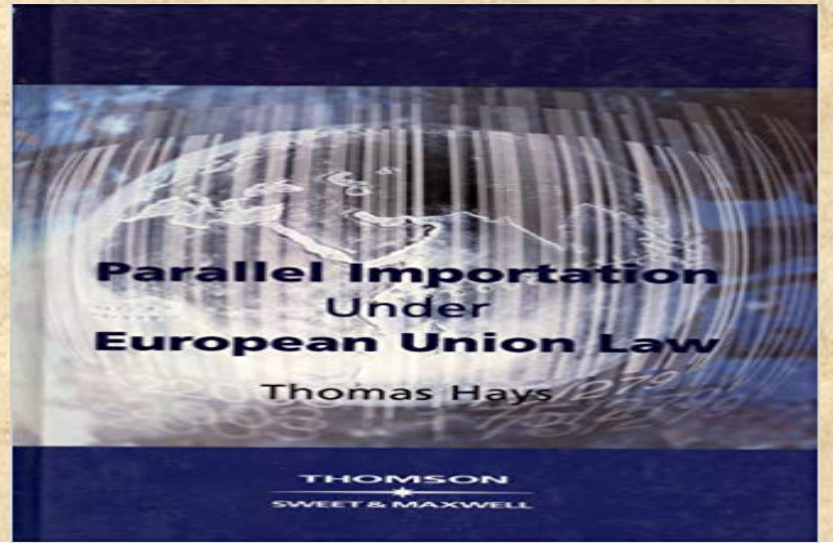
In relation to patents, then, **Regulation n. 1257/2012** (implementing enhanced cooperation in the area of the creation of unitary patent protection) states that :

'*in accordance with the case law of the CJEU, the principle of the exhaustion of rights should also be applied to European patents with unitary effects. Therefore, rights conferred by a European patent with unitary effect should not extend to acts concerning the product covered by that patent which are carried out within the participating Member States after that product has been placed on the market in the Union by the patent proprietor*' (see recital 12 and article 6)

The Principle of Exhaustion and Parallel Imports

EXHAUSTION AND FREE MOVEMENT OF GOODS IN THE EU

Some views from the literature on the exhaustion theory & parallel imports (*T. Hays, 2004*)



T. Hays, *Parallel Importation Under European Union Law* (London: Sweet & Maxwell, 2004), p. 7

The Legal Nature of Parallel Importation

Intellectual property owners sue parallel importers or those merchants supplied by parallel importers for infringement in the market where the importers and merchants sell protected goods without permission even though the goods are genuine and not counterfeit. Intellectual property owners argue that although they or their licensees may have sold the goods in a foreign market they did not give permission for parallel importers to sell the particular goods at issue in the market of importation. Parallel importers argue that any rights the owners had to control the further commercialisation of the goods based on intellectual property ended when they sold the goods, that where the intellectual property rights have ended there can be no infringement, and that intellectual property owners are improperly trying to extend their control over formerly protected goods to protect their own higher prices.

As a legal problem, parallel importation points the way to another greater question, that of the exhaustion of rights: what effect, if any, does a particular sale of protected goods have upon an intellectual property owner's ability to control those goods? Depending upon

the circumstances, some or all of an intellectual property owner's rights may be exhausted by the first sale. Other rights may survive the sale to allow the intellectual property owner to exercise full control over who may resell the goods and where they may resell them. This continued, post-sale control may not be readily apparent to subsequent purchasers of the goods, who presume that they have taken the goods free of any restrictions of resale and are surprised when the intellectual property owner's control resurfaces, perhaps as the basis for accusing the reseller of infringement and to deny him the right to dispose of his purchases as he would have wished. To a degree resellers are supported by general national property rules, particularly under the common law, favouring the free alienability of property. Where these rules are expressed in general bodies of commercial law, like that on contract, parallel importation continues to generate legal conflicts, even after the core issues concerning parallel importation have been litigated.

Intellectual property owners argue that a volitional sale in a particular jurisdiction will exhaust their intellectual property rights in that jurisdiction only; that the exhaustion of rights is confined to the jurisdiction where a sale takes place. Parallel importers and consumer advocates argue that a first sale of the goods anywhere in the world should be effective in exhausting an intellectual property owner's control. Both arguments have points to recommend them.

National Exhaustion of Rights

Jurisdictionally specific exhaustion, the intellectual property owner's position, has the advantage of compartmentalisation. Intellectual property rights are created under the laws of individual countries or groups of countries in the case of the EC Treaty. One nation's intellectual property laws are legally distinct from any other nation. Therefore, it is logical that actions taken in one country should have an automatic legal effect only under that nation's laws. Any intellectual property rights that might arise under the laws of other nations would be unaffected. Thus, if protected goods moved across jurisdictional borders after a sale, intellectual property based on control in the second jurisdiction, unaffected by that sale, would apply to the goods. This argument has the disadvantage of disrupting international trade. It calls into question the alienability of all branded goods on world markets and gives brand owners the ability to partition and isolate markets on the basis of intellectual property rights.

Multinational Exhaustion of Rights

Under a regime of global first sale exhaustion, the parallel importer's position, a subsequent purchaser of goods would be justified in presuming that any intellectual property rights in those goods were exhausted when the goods are encountered in free circulation. Global exhaustion has the advantage of commercial definiteness. A volitional sale of the underlying goods by an intellectual property owner or his licensee would be sufficient to exhaust intellectual property based control in those goods, regardless of the location of that sale. This position has the disadvantage that it is not able to take account of differences in intellectual property regimes, nor of the policy decisions that favour isolated markets.

Community Exhaustion

At the practical level, those who favour limited, Community-wide exhaustion argue that it provides intellectual property owners with higher economic rewards for their investment in research, marketing and distribution, making possible investment in the maintenance or improvement of the quality of existing products and services and the development of new

products and brands. It aids the entry of foreign products and lesser-known brands into the overall Community market, an undertaking that might otherwise be seen as too expensive or risky. Also, it allows Community based firms to sell intellectual property protected goods at lower prices abroad, providing goods to external consumers, increased production with the associated employment within the internal market, and giving consumers within the market some benefits in the form of lower intra-market prices resulting from a larger volume of overall sales.

Furthermore, those who favour a more restrictive exhaustion regime argue that apart from designating the origin of products, trade marks function to guarantee the quality of branded products to protect consumers from disappointing purchases of inferior goods. They argue that the guarantor of quality function of marks is best served when distribution systems are strengthened by the ability to oppose goods of lesser or diminished quality that are being sold by parallel importers, or where otherwise identical branded goods are being sold outside of authorised channels with the benefit of after-sales services. Furthermore, they argue that the composition, quality, and style of branded goods should be allowed to vary between markets, with the same mark representing different product characteristics to different groups of consumers, depending on the consumers' expectations as derived from their experiences with a local variety of a product and the representation of the brand owner about the product through advertising. They argue that the consumer protection function of marks, if such a function exists, is best served where brand owners, their licensees, or their distribution systems can be responsible through a retention of brand based control for complying with any applicable technical or safety standards.

The Principle of Exhaustion and Parallel Imports

- **EXHAUSTION AND FREE MOVEMENT OF SERVICES IN THE EU**

- In the field of copyright, the emphasis is beginning to shift towards the **free movement of services**, as opposed to the free movement of goods. This is because, in the current digital world, copyright works (films, books, music) are increasingly distributed in online formats.

- ○ when **copyright works** are distributed in a digital form, they more closely **recall services** & raise questions about the free movement of services (*eg* streaming of live football match)

- ○ **article 56 TFEU** (similarly to articles 34-35 TFEU) introduces a prohibition on the restrictions of the freedom to provide services within the Union; from settled case law, it is apparent that a restriction could be justified *inter alia* when it is necessary to protect IPRs

The Principle of Exhaustion and Parallel Imports

EXHAUSTION AND FREE MOVEMENT OF SERVICES IN THE EU

- Similarly to what has been said in relation to the free movement of goods, a **tension** may arise between the aim of ensuring free movement of services and the need to protect IPRs.
- ○ ***Coditel v Cine Vog Films*** (Case C-62/79): CJEU considered the exhaustion principle as not applicable to services; in particular, the Court held that the right of cable retransmission was not exhausted by authorizing the primary broadcast in another Member State
- ○ ***Recital 29 of the Info Soc Directive*** (2001/29/EC): further interesting remarks on the issue can be found in the *Information Society Directive*. Here, it is stated that 'the question of exhaustion does not arise in the case of services and online services in particular' (and offering digital contents online may fall under the concept of 'service')

The Principle of Exhaustion and Parallel Imports

- **EXHAUSTION AND FREE MOVEMENT OF SERVICES IN THE EU**

- ***Football Association Premier League v QC Leisure*** (Case C-403/08): this case concerned the free movement of services (*i.e.*, the broadcasting of live football matches) and the related exploitation of copyright. The case raised the issue (better explored by the Advocate General) of whether online delivery of any copyright work will suffice to exhaust the intellectual property rights that the owner has in that work. Unlike *Coditel*, the case has been interpreted as holding that IPRs could be exhausted also when provided as services; yet, the precise scope of the judgment remains highly controversial.

The Principle of Exhaustion and Parallel Imports

TO SUM UP :

The **doctrine of exhaustion denies** the IPR holder the right to **control subsequent sales** of the copyrighted, patented, trademarked item after it has been placed on the market by the right owner or with his consent.

► **national exhaustion** tends to favour the IPR holder (no parallel imports); **international exhaustion** tends to favour importers-consumers (broad access to item)

► the **doctrine of exhaustion** in relation to the various products has been **applied** by countries in **different ways;** there is a **broader consensus** on **national exhaustion**

- how many types of IPRs exhaustion do exist ?
- what are the *pro* and *contra* of IPRs exhaustion ?
- how has exhaustion been interpreted in the Union ?

The Principle of Exhaustion and Parallel Imports

SUGGESTED READINGS

- T. Valletti - S. Szymanski, 'Parallel Trade, International Exhaustion and Intellectual Property Rights: a Welfare Analysis', (2006) *Social Science Research Network*
- J. Schovsbo, 'Exhaustion of Rights and Common Principles of European Intellectual Property Law', (2010) *Social Science Research Network*
- G. Ghidini, *Profili Evolutivi del Diritto Industriale* (Giuffrè, Milano 2015)

SEMINARS

ADVANCED STUDIES ON THE INTERSECTION BETWEEN IP & COMPETITION

(Seminar I)

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION AND EU POLICY

Innovation is essential to **European competitiveness** in the global economy. The European Union is implementing programmes and policies to **support** the development of **innovation** to increase investment in research and development, and to better convert research into improved products and processes for the market.

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION AND EU POLICY

Innovation is particularly important for the **industrial policy** and the **EU competitiveness**. The industrial modernization in the EU is indeed based on:

- the successful commercialization of **innovative goods and services**
- the industrial exploitation of **innovative manufacturing technologies**
- **innovative business models**

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION AND EU POLICY

► studies show that those **firms** who give **priority** to **innovation** are also those who experience the highest **increase** in **turnover**

► **small and medium sized enterprises** (SMEs) are a particular **target** for **innovation policy**; the smaller the company is, the more it faces constraints (*e.g*, lack of financial resources) to innovation or to the commercialization of its innovations

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION AND EU POLICY

The EU **Commission** strongly **promotes innovation** in its various forms: technological advancement, new processes and business models, innovation in the service sector. It also…

- **supports innovation** development in **priority areas** and in **SMEs** (via Horizon 2020)
- **supports** the development and cooperation of **clusters** to boost **SMEs innovation**
- **improves regulatory conditions** for innovations with measures for start-ups, access to finance, digital transformation, Single Market, IPRs and standards

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION AND EU POLICY

- **monitors innovation performance** in order to identify developments that require policy changes (methodologies include the European Innovation Scoreboards, the Regional Innovation Scoreboard, the Business Innovation Observatory etc)
- **fosters** the broad **commercialization** of **innovation** (*e.g* via social innovation, workplace innovation, public sector innovation, demand-side innovation, design for innovation)

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION AND EU POLICY

SOCIAL INNOVATION : new ideas that meet **social needs**, create **social relationships**, and form new **collaborations**; these innovations can be goods, services or models addressing unmet **needs** more effectively – the EU Commission intends to encourage market development of **innovative solutions** and stimulate **employment & growth**

→ *help organizations across the EU to connect and learn from each other*

→ *organize competitions to find new solutions to societal challenges*

→ *offer funding to develop innovative ideas addressing societal challenges*


SOCIAL
CIVIL
POLITICAL
INNOVATION
CONSTITUTIONAL
SOCIETY


SOCIAL
INNOVATION
COMMUNITY


What is
SOCIAL INNOVATION?
Are more sustainable
Are more fair
Are more effective
Ideas that...
Bring value to society
Are novel solutions
Are more efficient

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION AND EU POLICY

DEMAND-SIDE INNOVATION : demand-size innovation policies support and increase the **development** of **innovations** in society; they can involve **legislation** increasing consumer confidence in innovative products, **safety regulations**, **standards** – demand side tools complement supply side policies (*e.g*, public funding schemes), and creating effective links between them can improve efficiency of the innovative system.

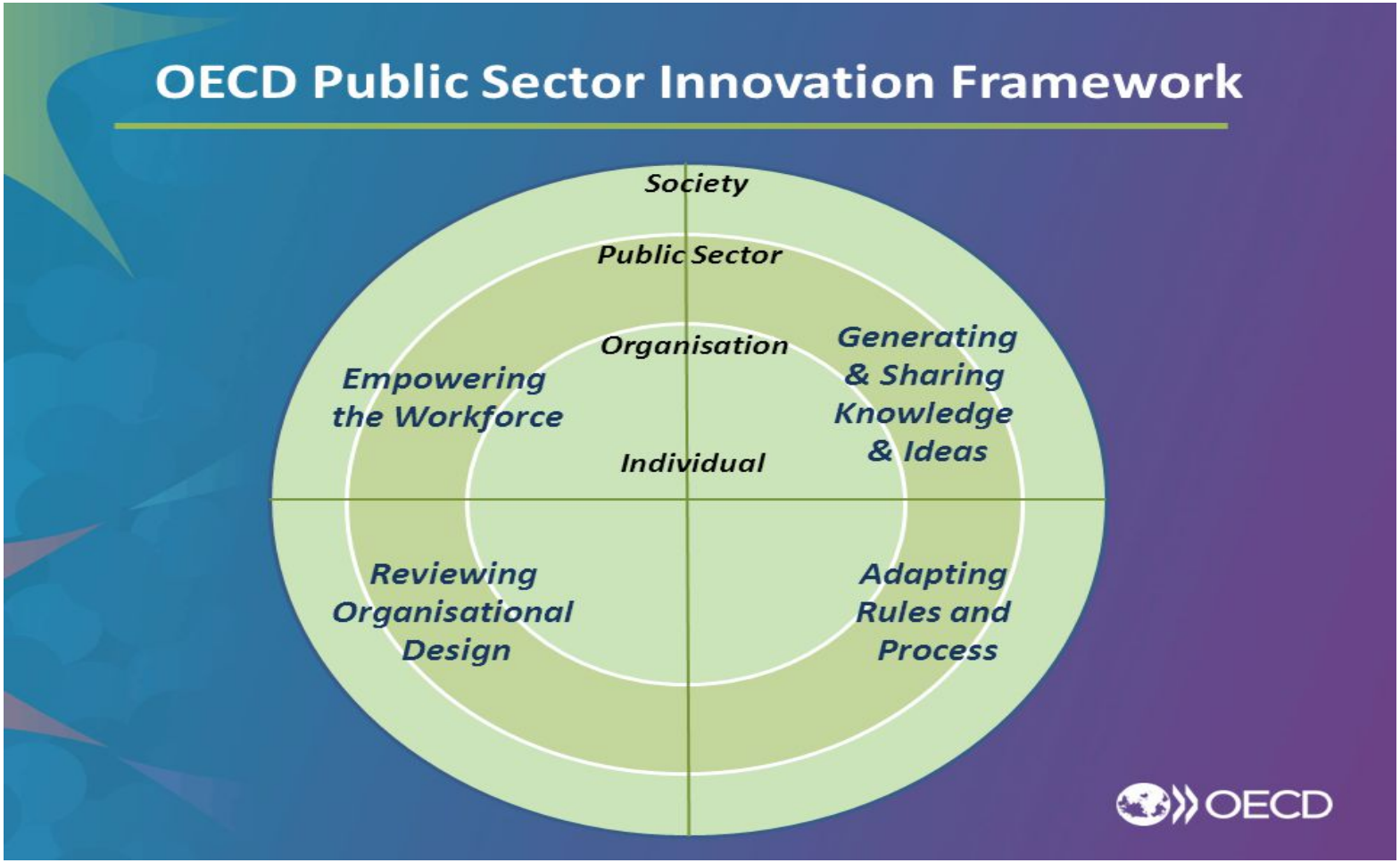
Demand Side Innovation Policy

- Measures that
  - Increase demand for innovation
  - Improve conditions for the uptake of innovation
  - Improve the articulation of demand to spur innovation and support diffusion
- Broad based approach considering the full scope of the innovation cycle

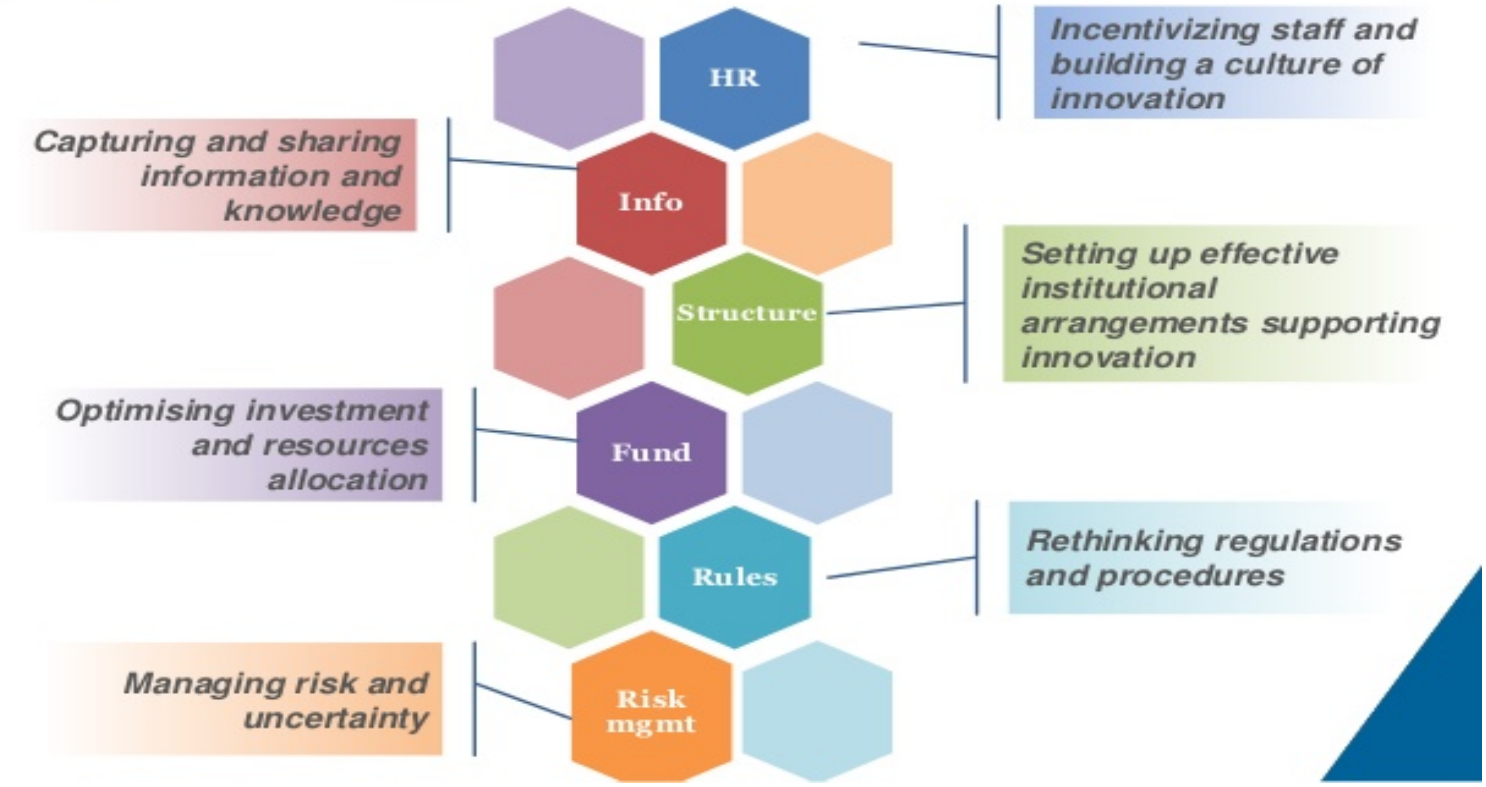
Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION AND EU POLICY

PUBLIC SECTOR INNOVATION : the public sector has a **key economic role** as a regulator, service provider, employer. **25% of total employment** comes from the public sector, which represents a **significant share of economic activity in the EU** – an efficient and productive public sector can also be a strong driver of private sector growth. The European Commission intends to encourage the innovation performance of the public sector in the European Union, since there are still a number of **obstacles**.


OECD Public Sector Innovation Framework
Society
Public Sector
Organisation
Individual
Empowering the Workforce
Generating & Sharing Knowledge & Ideas
Reviewing Organisational Design
Adapting Rules and Process
OECD

OPSI Research: Improving government performance through innovation

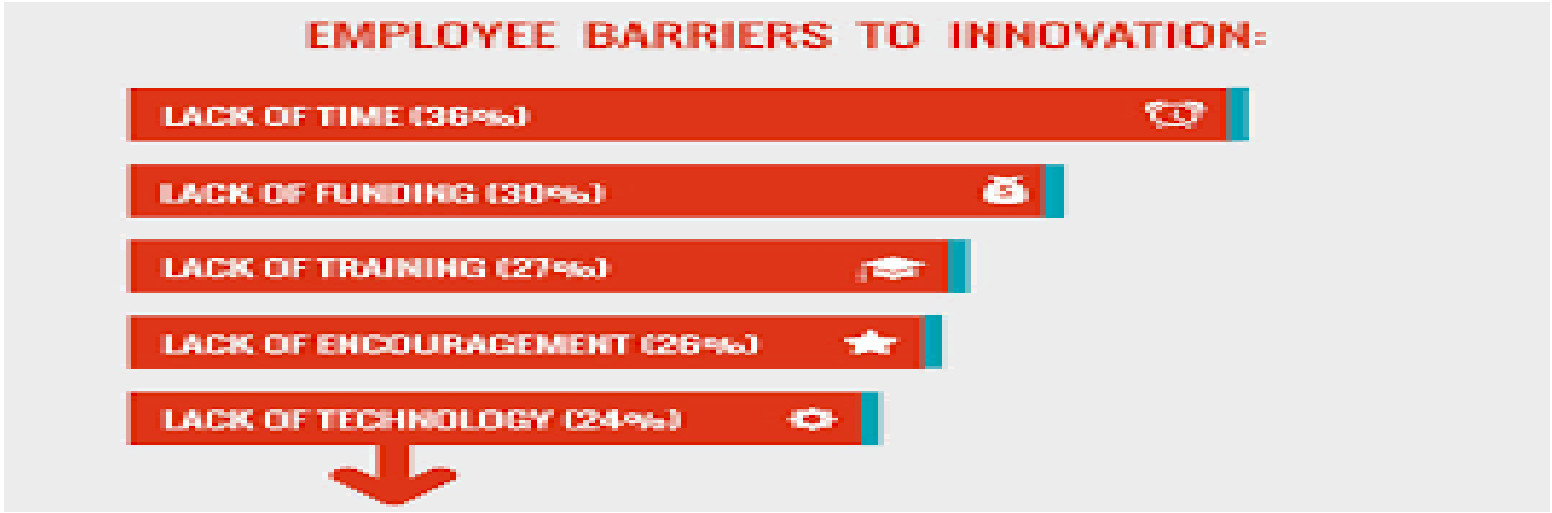


Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION AND EU POLICY

WORKPLACE INNOVATION : workplace innovation can amount to a **change** in **business structure**, **HR management**, **relations** with suppliers & clients, in the **work environment**; workplace innovation improves **motivation** and **working conditions** for employees, and may lead to **higher labour productivity**, **innovation capability**, and **business competitiveness**. All firms can benefit from workplace innovation.


workplace
innovation
dramatic
diagnosis
people
implementing
dialogue
creative
ideas
help


EMPLOYEE BARRIERS TO INNOVATION:
LACK OF TIME (36%)
LACK OF FUNDING (30%)
LACK OF TRAINING (27%)
LACK OF ENCOURAGEMENT (26%)
LACK OF TECHNOLOGY (24%)


Workplace Innovation
People centred change
PEOPLE
Openness and Communication
Trust
Learning and Development
PLACE
Creative use of physical space
Time for innovation
Integration of technology
PRACTICE
Reducing organisational walls and ceilings
Self Managed Teams
Fair and Responsible
BENEFITS
Employee Engagement
Enterprising Behaviour
Increased Productivity

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION AND EU POLICY

DESIGN FOR INNOVATION : design is not only about the **way things look**, but also the **way they work**; design for innovation brings **new ideas to the market** (new shape of a product, new functionalities of a website, more efficient business processes etc); it creates **value** and contributes to **competitiveness**, **efficiency**, **prosperity** and **welfare** in the EU. The Commission promotes the development of design in industrial and innovation activities at Union, regional and national levels.

#Design4Enterprises

Change your point of view!

EASME
Executive Agency for SMEs

European Institute of Innovation & Technology

Design 4 Innovation

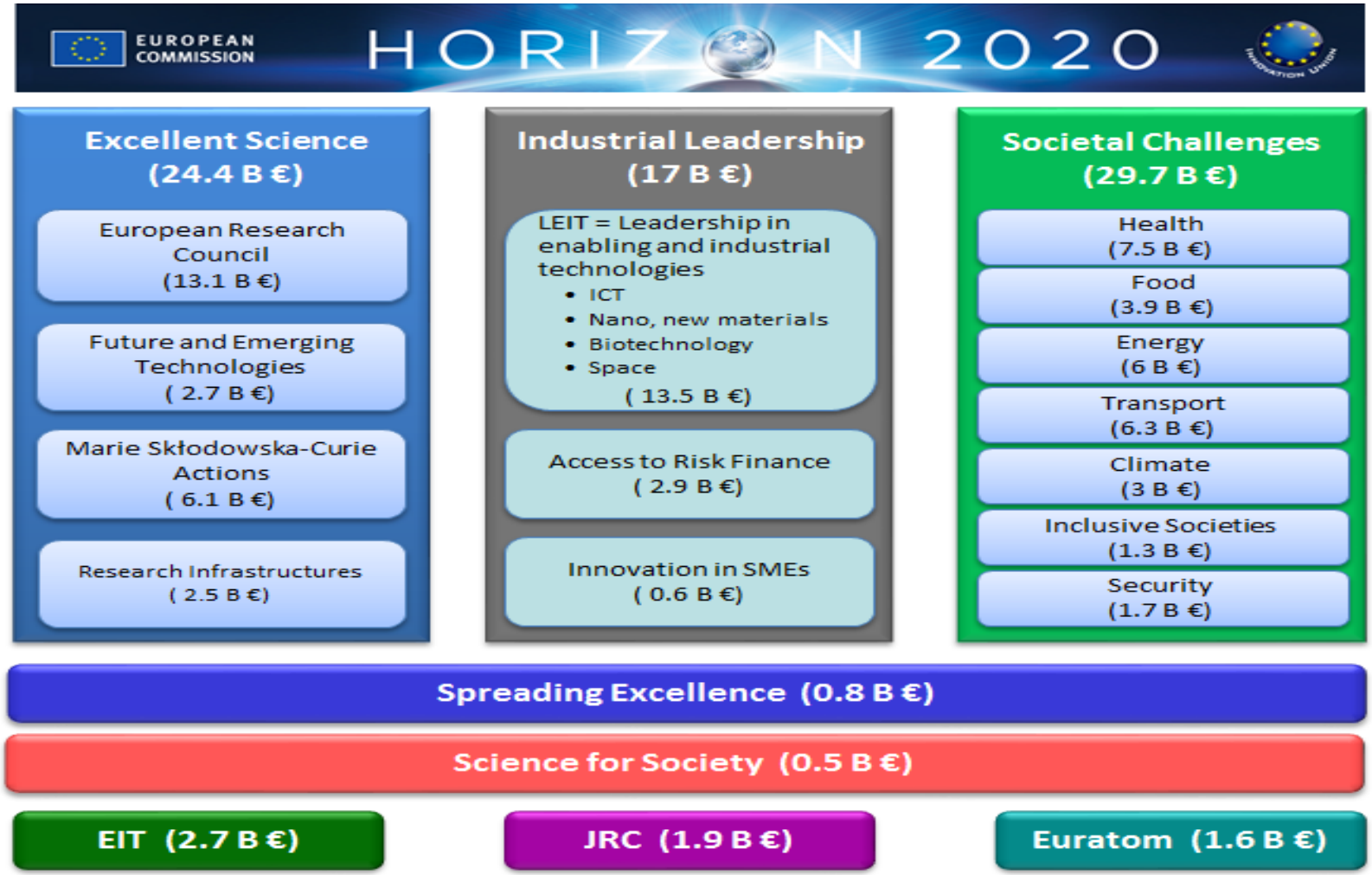
Interreg Europe


eit
European Institute of
Innovation & Technology

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION AND EU FUNDING

In order to promote **commercialization** and **uptake** of **innovation**, the Commission launched the **Horizon 2020 programme** and the **European Structural and Investment Funds (ESIF)**. **Horizon 2020**, with a budget of € 80 billion, intends to help to bring innovative ideas and discoveries to life; it is the biggest EU research and innovation programme for the period 2014-2020. **ESIF**, with a budget of € 110 billion, targets innovation activities, ICT, small and medium sized enterprises (SMEs) and competitiveness. **Regions** in the EU, developing smart specialization strategies, are among the potential beneficiaries of the ESIF programme.


EUROPEAN COMMISSION
HORIZON 2020
Excellent Science
(24.4 B €)
European Research Council
(13.1 B €)
Future and Emerging Technologies
(2.7 B €)
Marie Skłodowska-Curie Actions
(6.1 B €)
Research Infrastructures
(2.5 B €)
Industrial Leadership
(17 B €)
LEIT = Leadership in enabling and industrial technologies
ICT
Nano, new materials
Biotechnology
Space
(13.5 B €)
Access to Risk Finance
(2.9 B €)
Innovation in SMEs
(0.6 B €)
Societal Challenges
(29.7 B €)
Health
(7.5 B €)
Food
(3.9 B €)
Energy
(6 B €)
Transport
(6.3 B €)
Climate
(3 B €)
Inclusive Societies
(1.3 B €)
Security
(1.7 B €)
Spreading Excellence (0.8 B €)
Science for Society (0.5 B €)
EIT (2.7 B €)
JRC (1.9 B €)
Euratom (1.6 B €)

European Union

European Structural and Investment Funds

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

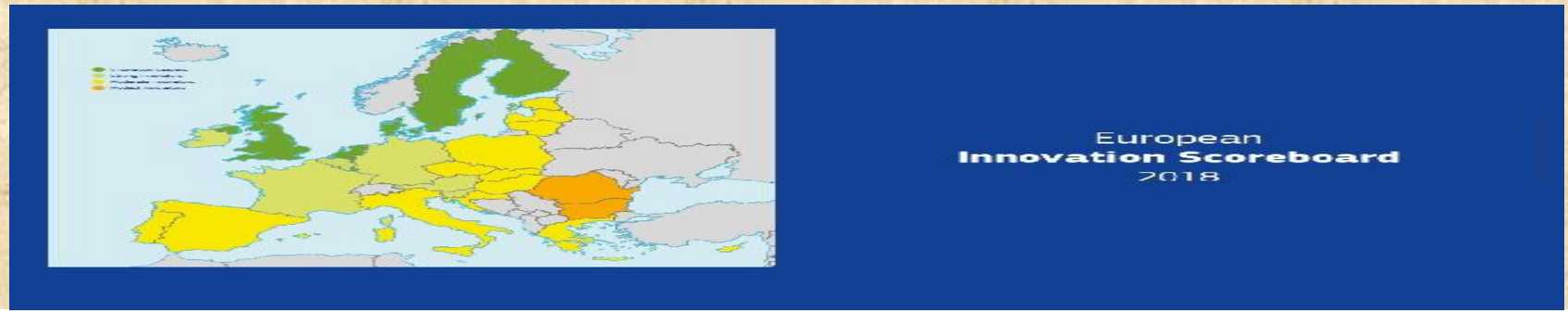
INNOVATION AND EU MONITORING

The EU Commission developed different **tools** that **monitor** and **assess** the **EU performance** in different **innovation areas**. Through these tools, policy makers and practitioners in the EU Member States can **benchmark** their **performance** and **policies**, and can learn about new trends and emerging business opportunities; they can further shape existing or new policies on the basis of all the information.

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION AND EU MONITORING

► **European Innovation Scoreboard** (it provides a comparative assessment of research and innovation performance in Europe – it helps countries and regions to identify the areas they need to address)



Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION AND EU MONITORING

► **Regional Innovation Scoreboard** (it is a regional extension of the European Innovation Scoreboard, and examines the innovation performance of European regions on the basis of certain indicators)

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION AND EU MONITORING

► **European Public Sector Innovation Scoreboard** (it is a tool to improve the ability to benchmark the innovation performance of the public sector in Europe – it shows that the public sector innovates, but it still faces a number of obstacles)

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION AND EU MONITORING

► **Innobarometer** (it is a survey on activities and attitudes related to innovation; it gathers feedback and information from the general public and European firms)

► **Business Innovation Observatory** (it provides data on the latest innovative trends in business and industry, and their impact on the economy) [VIDEO]

- what do we mean by social innovation and workplace innovation ?
- and what about public sector and design for innovation ?
- which are the main tools to monitor performance in innovation ?

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

SUGGESTED READINGS

- EU Commission, 'European Innovation Scoreboard' (2018)
- EU Commission, 'European Innovation Scoreboard 2018: Europe Must Deepen its Innovation Edge' , (2018) Press Release IP/18/4223
- EU Commission, '2018 European Innovation Scoreboard – Frequently asked questions', (2018) Fact Sheet Memo/18/4224
- M. Granieri & A. Renda, *Innovation Law and Policy in the European Union* (Springer 2012)

SEMINARS

ADVANCED STUDIES ON THE INTERSECTION BETWEEN IP & COMPETITION

(Seminar II)

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION PRINCIPLE

The **Innovation Principle** is a tool to help achieve EU policy goals by ensuring that legislation is shaped in a way that creates **optimal conditions** for **innovation** to **grow**. According to this principle, the Commission has to take into account any potential **effect** on **innovation** when developing **new initiatives**. Hence, if the principle is followed, all new **EU policies** or **regulations** will support innovation and the **regulatory framework** will be **innovation friendly**.

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION PRINCIPLE

The **Innovation Principle** was first outlined by the EU Commission in a *Staff Working Document on Better Regulations* (2016). According to this document :

- ► **innovation** is a **necessary** condition for sustainable **growth** in Europe
- ► **action** is needed to stimulate more and better **investments** in **innovation**
- ► **innovation** also **depends** on incentives & obstacles set by **regulatory framework**
- ► it is **necessary** to **assess** the **impact** of existing / new EU **regulation** on innovation

Innovation Principle

"Whenever legislation is under consideration, the impact on innovation should also be taken into full account in the policy and legislative process"

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION PRINCIPLE

- Ideally, the Innovation Principle should cover all 3 phases of the policy-making cycle :
  - **Agenda Setting** - innovation should be considered early in the legislative process
  - **Legislation** - new EU laws should respond to the needs of innovative firms
  - **Implementation** - existing EU rules should be scrutinised in light of the so called
- Innovation Deals, which identify if an EU rule or regulation is an obstacle to innovate

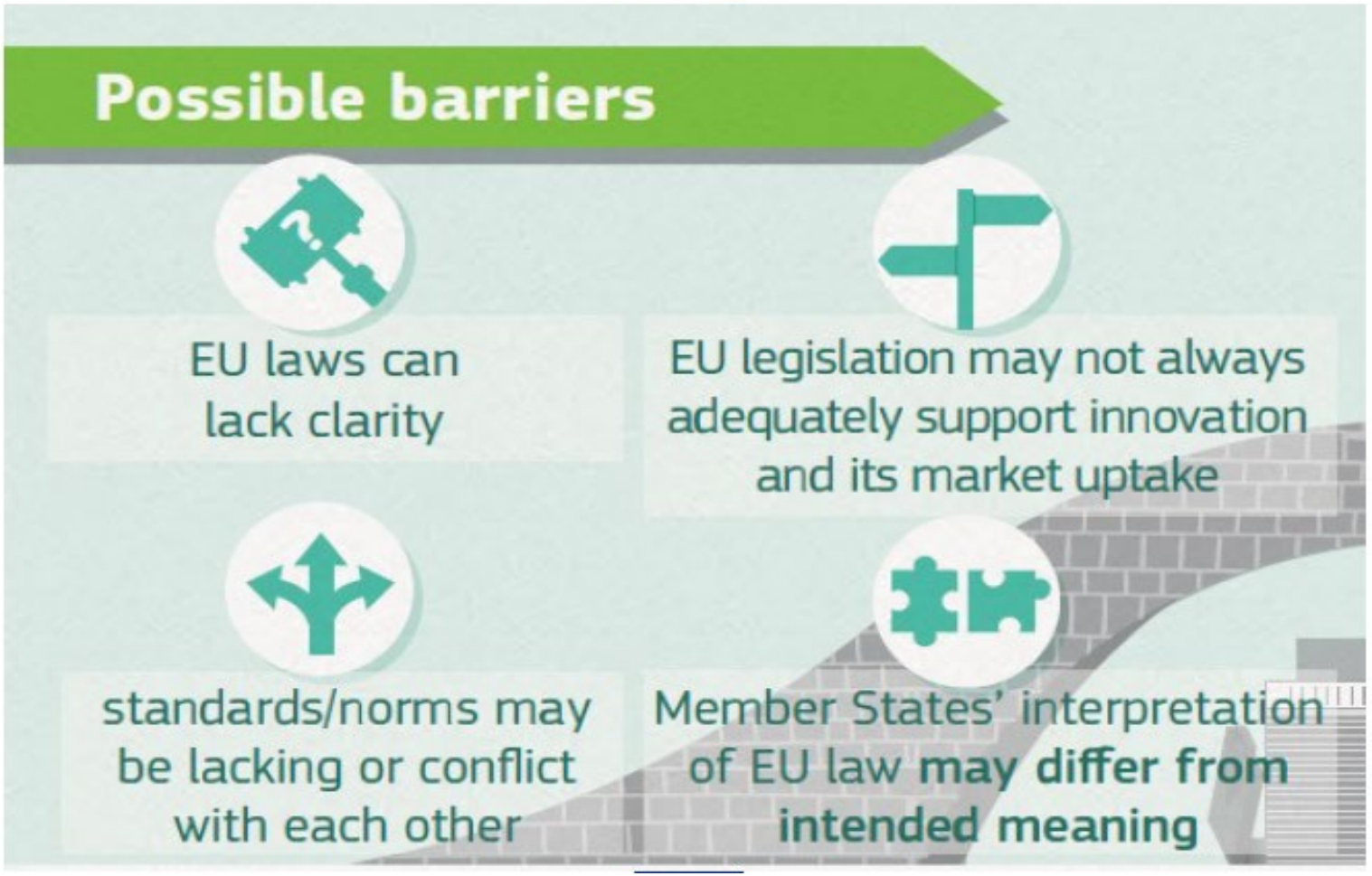
Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION DEALS

Innovation Deals, in particular, are **voluntary cooperation agreements** between the European Union, innovators, and national / regional / local authorities.

- objective of an Innovation Deal is to **gain** a full **understanding** of the scope of an **EU rule or regulation** and of how it works in practice
- if the rule or regulation is found to be an **obstacle** to **innovation**, the deal will make it visible & will **promote further actions** (within the flexibility allowed by such rule)


INNOVATION DEALS
Collaborate to overcome barriers to innovation
European Commission
Innovation deals:
helping innovators bring ideas to market
Innovation Deals offer a fast, pragmatic, transparent approach to help innovators within the Circular Economy agenda to:
• overcome perceived legislative barriers
• facilitate a voluntary cooperation between the EU, innovators and authorities
• have a positive impact on growth and jobs
Research and Innovation

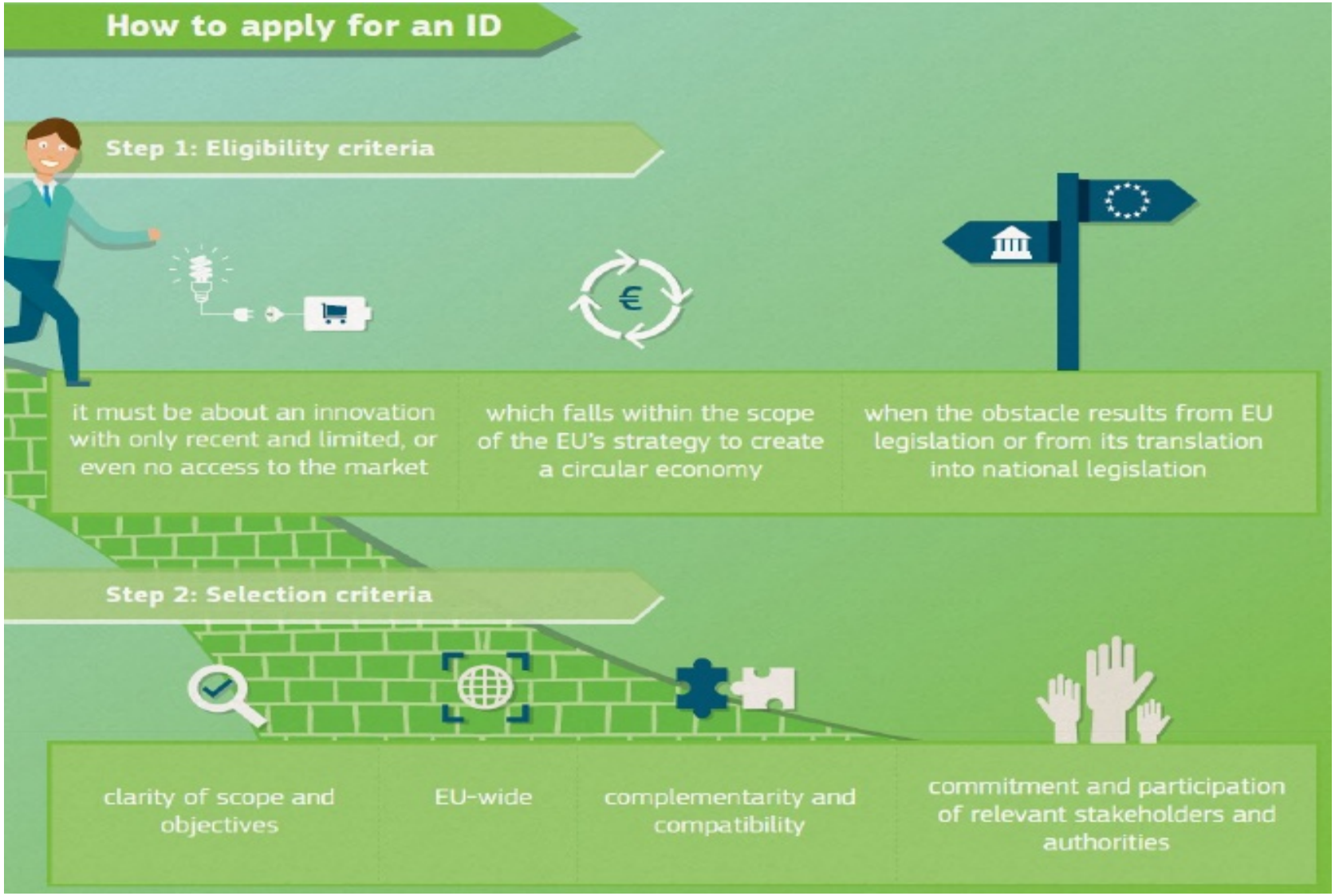

Possible barriers
EU laws can lack clarity
EU legislation may not always adequately support innovation and its market uptake
standards/norms may be lacking or conflict with each other
Member States' interpretation of EU law may differ from intended meaning

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION DEALS

- **Innovation Deals** were first **introduced** by the European Commission in **2015**, in a Communication on *Closing the Loop - An EU Action Plan for the Circular Economy*.
- **Innovation Deals** contribute to **shape** a **more modern and responsive administration**, in line with the Commission's *Better Regulation Agenda* (2015); yet, innovation deals are not about changing legislation.
- The Commission does not fund the preparation & implementation of Innovation Deals.

European Commission


How to apply for an ID
Step 1: Eligibility criteria
it must be about an innovation with only recent and limited, or even no access to the market
which falls within the scope of the EU's strategy to create a circular economy
when the obstacle results from EU legislation or from its translation into national legislation
Step 2: Selection criteria
clarity of scope and objectives
EU-wide
complementarity and compatibility
commitment and participation of relevant stakeholders and authorities

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION DEALS

Innovation Deals found **inspiration** from the **Green Deal Programme (2011)** in the **Netherlands**, where a significant number of Green Deals are successfully supporting the national policy on Green Growth by promoting **regulatory clarity**. [VIDEO]

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION DEALS - EXAMPLES

Different **examples** of **Innovation Deals** can be found in the EU framework. In 2016, **Innovation Deals on Circular Economy** were launched. Innovators wanting to introduce a **circular economy related product or service** to the market, facing **regulatory obstacles**, could apply to join the deal.

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

INNOVATION DEALS - EXAMPLES

► ***Sustainable wastewater treatment combining anaerobic membrane technology and water reuse*** **(2017)**

Under this Innovation Deal, participants study the shift from the **conventional treatment** of **urban waste water** to using it as a **water resource**. Participants look at :

→ how to reuse treated waste water (*e.g*, for the purpose of irrigation in agriculture) and contribute to overcome the challenge of water scarcity in the European Union

INNOVATION DEAL on Sustainable Wastewater Treatment Combining Anaerobic Membrane Technology and Water Reuse

- To improve water, energy and nutrients recovery from wastewater through AnMBR technology implementation
- To overcome barriers to water / nutrients reuse within the European Union
- To boost new market niches within the water sector

While…

Ensuring environmental and health protection

Case-by-case approach, Risk Assessment Plan

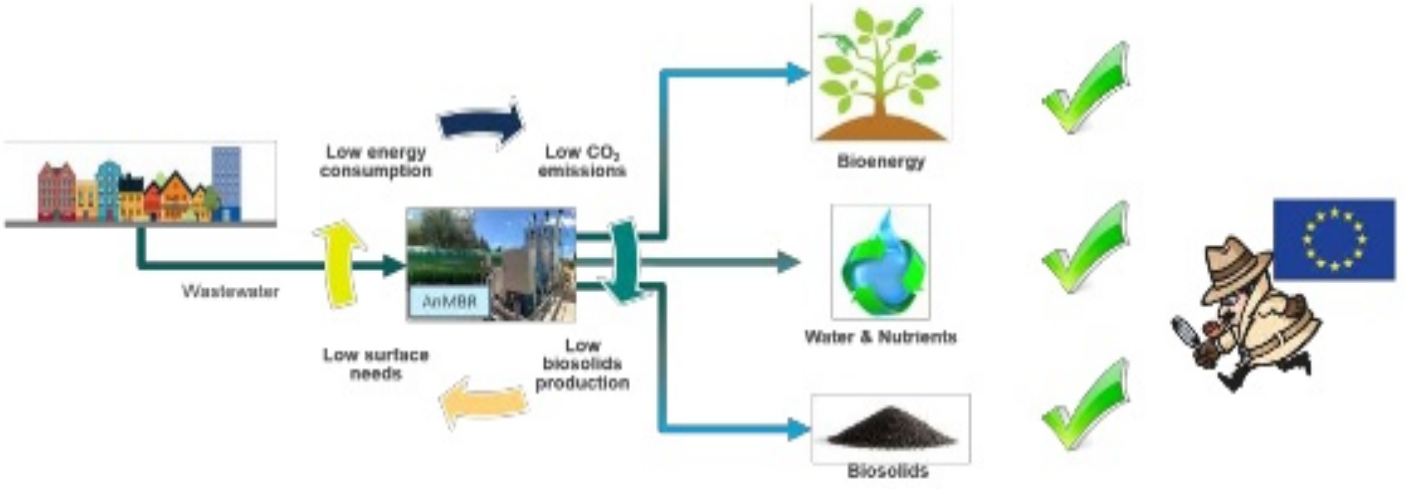
www.smart-plant.eu/EN E3

EIP Water

Boosting opportunities - Innovating water

EIP CONFERENCE 2017 WATER

INNOVATION DEAL on Sustainable Wastewater Treatment Combining Anaerobic Membrane Technology and Water Reuse



Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

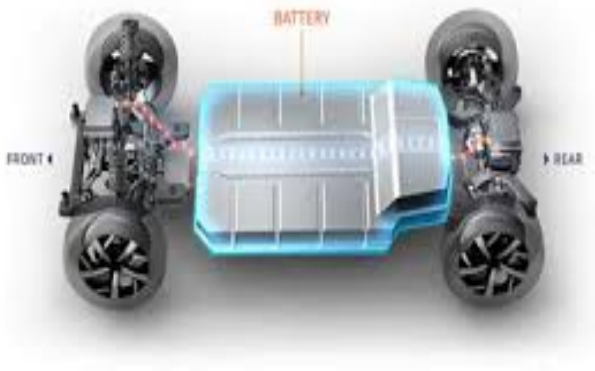
INNOVATION DEALS - EXAMPLES

► ***From e-mobility to recycling: the virtuous loop of electric vehicle*** **(2018)** [VIDEO]

Under this Innovation Deal, participants examine whether existing EU law hinders the **recycling** or **reuse** of propulsion **batteries** for **electric vehicles**. Participants study :

→ the existence of possible **legislative and regulatory barriers** at EU and national level to the use of propulsion batteries in a second life application

→ effective **ways to overcome any of these barrier**, examining their feasibility



For the Province of Utrecht (the Netherlands)

Henri Krol Managing Director a.i. of the Province of Utrecht on behalf of Pim van den Berg Regional Minister for Energy Transition

For the Renault s.a.s (France)

Jean-Philippe Hermine Vice-President Strategic Environmental Planning, Groupe Renault

For the BOUYGUES (France)

Director Innovations & Technologies

For the LOMBOXNET (The Netherlands)

Robin Berg Director

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

CIRCULAR ECONOMY

The Innovation Principle and the Innovation Deals are key elements to help innovators in the context of the **Circular Economy**. But what does Circular Economy mean ?

► the Circular Economy concept is a response to the aspiration for sustainable growth in the context of the growing pressure of production and consumption on the world's resources and environment. It encourages actions **safeguarding products lifecycles** through greater **recycling** and **re-use**, to the benefit of both environment and economy

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

CIRCULAR ECONOMY

► in other words, it promotes **waste prevention**, also through the **re-use of products** and the **marketing of products** that are suitable **for multiple uses**

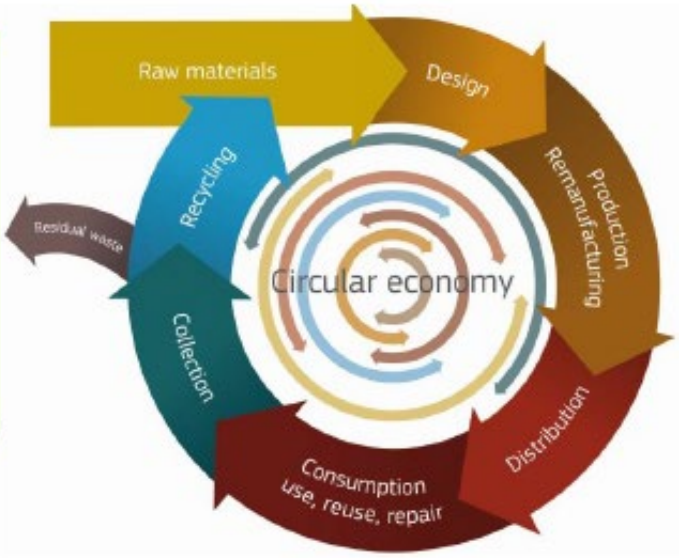
► the Circular Economy can boost EU **economy** and **competitiveness** by bringing **new business prospects** and innovative ways of producing and consuming

European Commission

Circular economy

Circular Economy is about **Change,** and about **Innovation**

requires **RTD&I investments, multi-stakeholder** involvement and an **enabling framework**

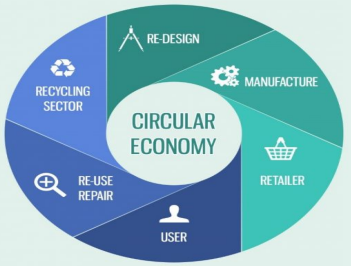


- ***Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals***

- **CIRCULAR ECONOMY PACKAGE**

- In brief, a **Circular Economy** promotes the **preservation** of the **value** of both products and materials for as long as possible. When a product reaches the end of its life, it is used again to create further value. Such a process can eventually bring :

- ► **economic benefits** (save costs/resources)
- ► **innovation** (new innovative businesses)
- ► **growth** (social integration and cohesion)
- ► **job creation** (low and high-skilled jobs)



Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

CIRCULAR ECONOMY PACKAGE

- ► includes a **Communication** (2015) on ***EU Action Plan for the Circular Economy***
- ► comprises 4 **legislative proposals** on **waste**
- ► **key action areas** are: production – consumption – waste management – market for secondary raw materials – innovation – investments and monitoring
- ► **5 priority sectors** include: plastics – bio based products – food waste – critical raw materials – construction & demolition

LINEAR ECONOMY

TAKE MAKE DISPOSE

ENERGY FROM FINITE SOURCES

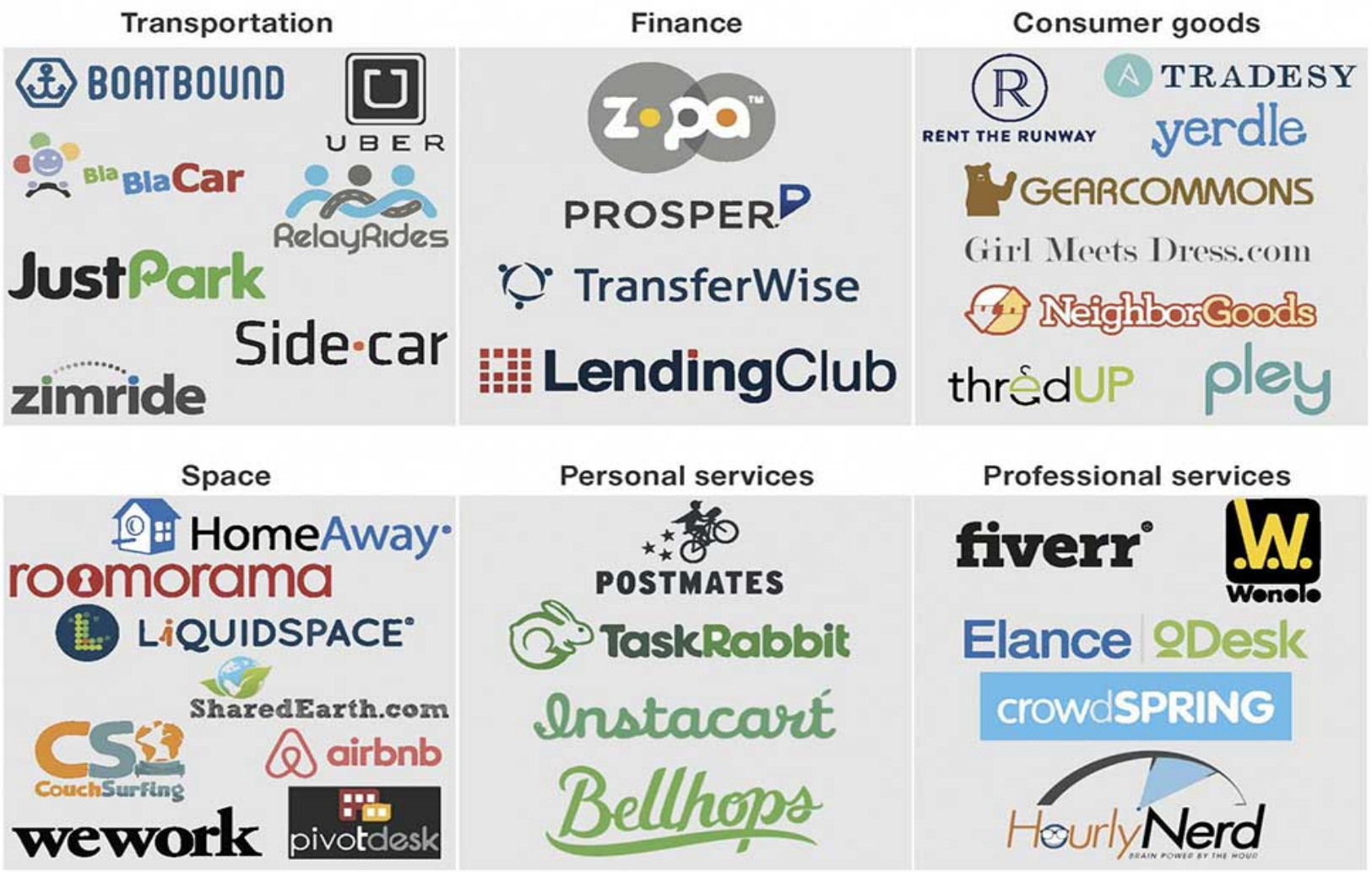
CIRCULAR ECONOMY

ENERGY FROM RENEWABLE SOURCES

- ***Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals***

- **CIRCULAR v COLLABORATIVE ECONOMY**

- The concept of Circular Economy must be distinguished from the Collaborative Economy phenomenon. **Sharing or Collaborative Economy** covers a great variety of fields, and is growing quickly in the UE. It is based on the concept of **collaboration and sharing**; good examples are about **sharing house services** and **sharing car journeys**. The collaborative economy provides for **new opportunities** for consumers and citizens as well as for innovative businesses.


Transportation
BOATBOUND
UBER
BlaBlaCar
RelayRides
JustPark
Side·car
zimride
Finance
Zopa
PROSPER
TransferWise
LendingClub
Consumer goods
RENT THE RUNWAY
TRADESY
yerdle
GEARCOMMONS
Girl Meets Dress.com
NeighborGoods
thredUP
pley
Space
HomeAway
roomorama
LiQUIDSPACE
SharedEarth.com
CouchSurfing
airbnb
wework
pivotdesk
Personal services
POSTMATES
TaskRabbit
Instacart
Bellhops
Professional services
fiverr
Wonolo
Elance
oDesk
crowdSPRING
HourlyNerd

- what is the Innovation Principle about ?
- how are Innovation Deals related to the Innovation Principle ?
- what are the pillars of the Circular Economy ?

Innovation Union and circular economy: innovation principles, new forms of networked innovation, innovation deals

SUGGESTED READINGS

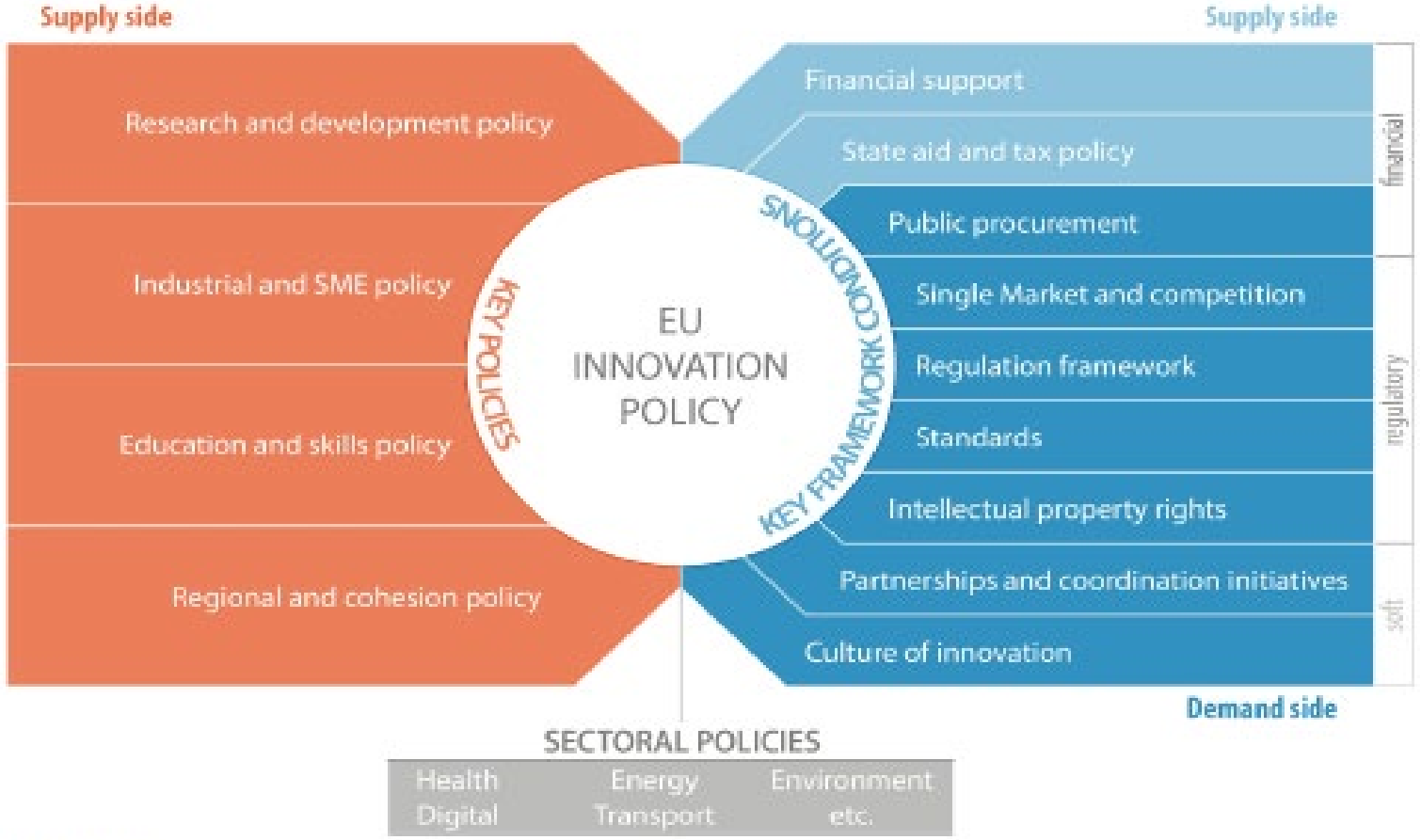
- European Commission, *Better Regulations for Innovation Driven Investment at EU level,* SWD(2016)
- European Commission, *Closing the Loop - an EU Action Plan for the Circular Economy,* COM(2015) 614 final

SEMINARS

ADVANCED STUDIES ON THE INTERSECTION BETWEEN IP & COMPETITION

(Seminar III)

Figure 1 – The EU innovation policy mix



Source: EPRS.

Building the innovation ecosystem through licensing: standardisation based on patent-protected technologies; evaluating standard essential patents; negotiating SEPs

COOPERATIVE STANDARD - 'document established by **consensus** that provides, for common and repeated use, **rules**, **guidelines** or **characteristics** for activities or their results, aimed at the achievement of the **optimum degree** of **order** in a given context' [(ISO)]

Several areas affected by standards

- **Transport**
- **ICT**
- **Health**
- **Electronics**
- **Safety**
- **Environment**

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

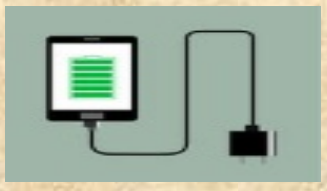
EXAMPLES OF COOPERATIVE STANDARDS

4G (LTE - Long Term Evolution) wireless technology for mobile phones

DSL (Digital Subscriber Line) technology for broadband internet connections

electrical **plugs** and **sockets** (national/regional)

micro-USB for mobile chargers (under examination)



Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

***DE FACTO* STANDARD** - emerging through the **mediation of the marketplace**

"the dynamic in which purchasers on a market take up particular products finally leads to one or more lasting standards being **selected from among diverse possible alternative technologies**"

"widely adopted (specifications or standards that underlie) products, services or practices"

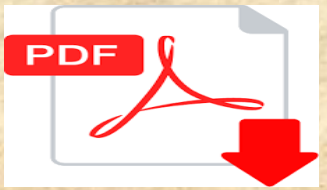
Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

EXAMPLES OF DE FACTO STANDARDS

Microsoft **Word** and **Power Point**

HP Printers Control Language (**PCL**) for laser printers

de facto standards may sometimes become *de jure* standards



(the **Portable Document Format** eventually standardised by ISO)

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

WHAT ARE THE BENEFITS OF COOPERATIVE STANDARDS?

facilitate trade → allow cost savings & increase efficiency → enable interoperability → create network externalities → inform consumers about product characteristics

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

MEANING OF STANDARD SETTING WORLDWIDE

standard setting as a key instrument which wield 'great power in the Nation's economy'

[*American Society of Mechanical Engineers, Inc. v Hydrolevel Corporation*, 456 U.S. 556 (1982)]

'a stronger role for standardization in support of innovation is important for the EU effort to address economic, environmental and social challenges'

[EU Commission, "Towards an Increased Contribution from Standardization to Innovation in Europe" (2008)]

'importance of standardization to trade and commerce recognised worldwide'

[Charter of the Pacific Area Standards Congress (PASC), 2008]

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

WHERE DOES STANDARD SETTING TAKE PLACE ?

A) Formal Standard Setting Organizations

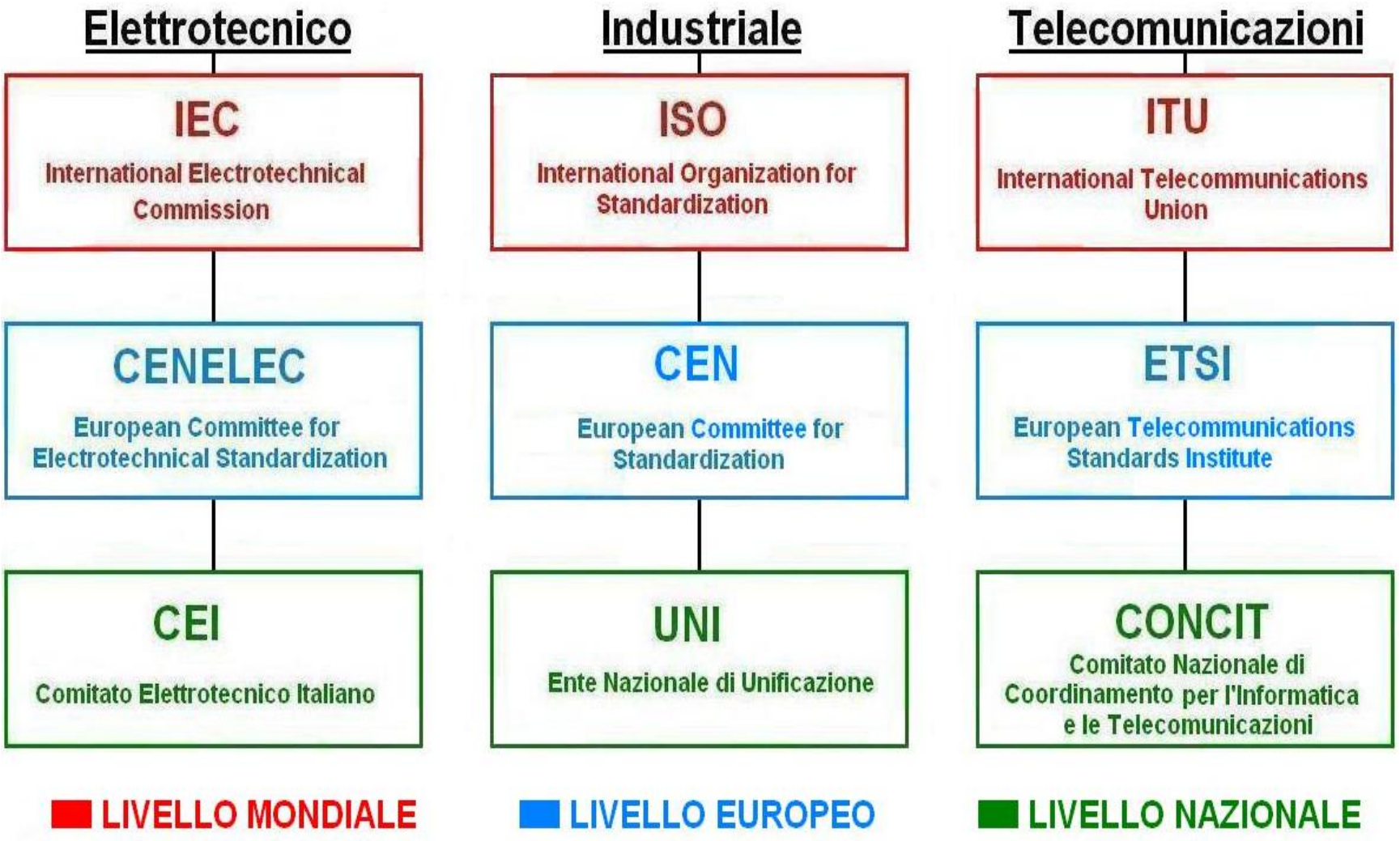
◦ private or public bodies directly or indirectly approved by governments

◦ close cooperation between working groups and standards committees

◦ **national**: American National Standards Institute (ANSI), China Electronics Standardization Institute (CESI)

◦ **international**: International Standardization Organization (ISO), International Telecommunication Union (ITU)

◦ **regional**: European Telecommunications Standards Institute (ETSI), Pacific Area Standards Congress (PASC)


Elettrotecnico
IEC
International Electrotechnical Commission
CENELEC
European Committee for Electrotechnical Standardization
CEI
Comitato Elettrotecnico Italiano
Industriale
ISO
International Organization for Standardization
CEN
European Committee for Standardization
UNI
Ente Nazionale di Unificazione
Telecomunicazioni
ITU
International Telecommunications Union
ETSI
European Telecommunications Standards Institute
CONCIT
Comitato Nazionale di Coordinamento per l'Informatica e le Telecomunicazioni
LIVELLO MONDIALE
LIVELLO EUROPEO
LIVELLO NAZIONALE

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

WHERE DOES STANDARD SETTING TAKE PLACE ?

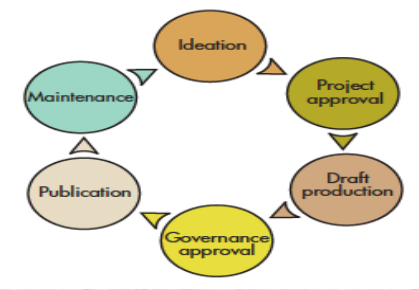
B) Private *Fora* and *Consortia*

- communities or networks lacking formal appointment by governments
- fewer procedural safeguards & members - standardization usually faster
- **World Wide Web Consortium (W3C)** develops standards to ensure growth of the web
- **Digital Video Broadcasting (DVB)** consortium designs standards for global delivery of digital TV
- **Internet Engineering Task Force (IETF)** is concerned with evolution and operation of Internet

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

WHAT ARE THE PHASES IN A STANDARD SETTING PROCESS ?

- **discussions** among participants on a particular subject / problem
- different proposals elaborated by members and submitted for **ballot vote**
- working group (technical experts) sets optimal approach to standard & reaches **initial agreement**
- **publication** of draft standard made available for public comments
- results may be examined by standards committee before **final adoption and publication** of standard



Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

WHY ARE IPRs POLICIES SO IMPORTANT IN STANDARDIZATION ?

- help to **define the legal framework** and **ensure transparency** in standardization processes

- help to **develop standards** that do not infringe anyone's right (free standards) or, if they do, are developed on the condition that IPRs are licensed under defined terms

- essential in information and communication technology **(ICT) industries** where technologies examined are usually covered by IPRs (*e.g.*, **patents**)

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

WHAT KIND OF IPRs POLICY RULES DO THE ORGANIZATIONS USUALLY IMPLEMENT ?

A) SEARCH RULES: require members to search within their IPRs portfolios for any rights that may potentially cover the standard under examination (few SSOs adopt formal search rules)

B) DISCLOSURE RULES: require members to disclose existence of relevant / essential rights of which they are aware of (most SSOs adopt them without formal obligation to search)

C) LICENSING RULES: require that members whose IPRs are read on by proposed standard license them under specific terms (**problem** → what are the optimal licensing terms?)

EXAMPLE OF IPRs POLICY RULES - VMEbus International Trade Association (VITA)

(VITA Standards Organization – Procedures and Policies 2015)

10.1 Early Patent and FRAND License Disclosure Policy

This section implements an early patent and FRAND license disclosure policy.

10.2 Disclosure of Patents

10.2.1 Disclosure Obligations

Each working group member ("WG Member")[1] shall disclose to the working group ("WG") in writing the existence of all patents and patent applications owned, controlled, or licensed by the VITA member company ("VITA Member Company") the WG Member represents, which are known by the WG Member and which the WG Member believes contain claims that may become essential to the draft VSO specification ("Draft VSO Specification")[2] of the WG in existence at the time, after the WG Member has made a good faith and reasonable inquiry into the patents and patent applications the VITA Member Company (or its Affiliates[3]) owns, controls or licenses. An "essential" claim for this purpose means any claim the use of which is necessary to create a compliant implementation and for which there is no technically and commercially feasible non-infringing alternative. The WG Member must provide, on behalf of the VITA Member Company, all patent disclosure information to VSO by completing a "Declaration of VITA Member Company" ("Declaration"), which is set forth in Appendix 6.

EXAMPLE OF IPRs POLICY RULES - VMEbus International Trade Association (VITA)

(VITA Standards Organization – Procedures and Policies 2015)

10.3 Disclosure of FRAND License

10.3.1 License Terms

Each WG Member agrees, on behalf of the VITA Member Company he or she represents, that it will grant to any WG Member, VITA Member Company, or third party a nonexclusive, worldwide, nonsublicensable (except to the extent necessary "to have made"), perpetual patent license (or equivalent non-assertion covenant) for its patent claims essential to the Draft VSO Specification on fair, reasonable and non-discriminatory terms to use, make, have made, market, import, offer to sell, and sell, and to otherwise directly or indirectly distribute products that implement the Draft VSO Specification. Such license need only extend to the portions of the Draft VSO Specification for which the license is essential to its implementation.

10.3.2 Declaration

13

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

WHAT ARE THE OPTIMAL LICENSING TERMS ?

SSOs Licensing Rules ➡ **Free or (F)RAND (Fair Reasonable and Non-Discriminatory) terms**

➡ widely adopted by SSOs in ICT industries (*eg* VITA, ETSI, ITU, IETF)

Definition of **FRAND** ➡ no clear answer from SSOs, economic literature and jurisprudence

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

WHAT DOES (F)RAND MEAN ?

SSOs ➡ reluctant to define (F)RAND, leave definition to parties concerned

➡ defining meaning of (F)RAND may **discourage participation** of IP owners & implementers

➡ patentees & implementers involved in **private bilateral negotiations** after standard is selected

Economic literature ➡ (F)RAND royalty as price negotiated *ex ante*, based on **incremental value** that the technology brings to the licensee compared to the next best alternative available

➡ SSOs should involve innovators in an **auction mechanism** where the price of the technology chosen would reflect competition existing *ex ante* between alternatives

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

WHAT DOES (F)RAND MEAN ?

Courts ➡ treatment of **patents of similar scope** in related industries

➡ price that would have been **voluntarily negotiated** *ex ante (*before agreement*)*

➡ independent **expert assessment** of IPR portfolio's objective quality

➡ **royalties already received** by the innovator from other firms

➡ **nature & scope** of license, **duration** of patent, **nature** of patented invention

[*Georgia-Pacific v United States Plywood*, 318 F. Supp. 1116 (S.D. New York 1970)]

(F)RAND licensing policy still unclear

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

WHICH LICENSING POLICY MAY REPRESENT A BETTER ALTERNATIVE TO FRAND ?

MODEL

1) impose free licensing terms

2) ex ante bilateral negotiation

3) ex ante unilateral disclosure

4) keep (F)RAND policies

5) ex ante joint negotiation

RISKS

a) risk of **price fixing** (Art 101 TFEU & Sec 1 Sherman Act)

b) risk of **disagreement** ex post and litigation

c) risk of lengthy discussions **delaying** process

d) risk to **discourage innovation**

e) 

- what is a standard and why do we need standardization ?
- in which way can SSOs IP policies facilitate standard setting ?
- what is the meaning of a FRAND license ?

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

SUGGESTED READINGS

- G. Colangelo, *Il Mercato dell'Innovazione: Brevetti, Standards e Antitrust* (Giuffrè, 2016)
- U. Petrovcic, *Competition Law & Standard Essential Patents* (Kluwer International, 2014)

- **International Standardization Organization (ISO) Video**
- **International Telecommunication Union (ITU) Historical Video**
- **European Telecommunications Standards Institute (ETSI) Video**

SEMINARS

ADVANCED STUDIES ON THE INTERSECTION BETWEEN IP & COMPETITION

(Seminar IV)

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

MEANING, OBJECTIVES AND PROVISIONS OF EU COMPETITION LAW

Competition can be regarded as a process encompassing **firms** that **strive** to win the customers' **business** in the market place. An undistorted competitive system should bring **better outcomes** than those achieved in a monopolistic market: **lower prices** and **better products.**

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

MEANING, OBJECTIVES AND PROVISIONS OF EU COMPETITION LAW

Given this premise**, competition law** may **apply** to **undertakings** operating and competing in the **marketplace**, in order to pursue and achieve **different objectives** :

- ► promote **consumer welfare**
- ► achieve **market integration**
- ► protect the **competitive process**
- ► enhance **efficiency**
- ► encourage economic **fairness** & **equality**
- ► ensure **economic freedom**

Areas of intervention: i) **anticompetitive agreements**; ii) **abuses of dominance**; iii) **mergers**

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

ANTICOMPETITIVE COLLUSION UNDER EU COMPETITION LAW

In the European Union, **Article 101** of the Treaty on the Functioning of the EU is the relevant provision **prohibiting anticompetitive collusion** between undertakings.

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

ANTICOMPETITIVE COLLUSION UNDER EU COMPETITION LAW

According to **Article 101 TFEU**:

- 1. The following shall be prohibited as incompatible with the internal market: all **agreements** between **undertakings**, **decisions** by **associations** of undertakings and **concerted practices** which may **affect trade** between Member States and which have as their **object** or **effect** the prevention, restriction or distortion of **competition** within the **internal market**, and in particular those which:
- (a) directly or indirectly fix purchase or selling prices or any other trading conditions;
- (b) limit or control production, markets, technical development, or investment;

ANTICOMPETITIVE COLLUSION UNDER EU COMPETITION LAW

- (c) share markets or sources of supply;
- (d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
- (e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.
- 2. Any **agreements** or decisions prohibited pursuant to this Article shall be automatically **void**.

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

ANTICOMPETITIVE COLLUSION UNDER EU COMPETITION LAW

3. The **provisions** of paragraph 1 may, however, be declared **inapplicable** in the case of:

- any agreement or category of agreements between undertakings,
- any decision or category of decisions by associations of undertakings,
- any concerted practice or category of concerted practices,

which contributes to **improving** the production or distribution of goods or to **promoting** technical or economic progress, while allowing consumers a **fair share** of the resulting benefit, and which **does not**:

(a) impose on the undertakings concerned **restrictions** which are **not indispensable** to the attainment of these objectives;

(b) afford such undertakings the possibility of **eliminating competition** in respect of a **substantial part** of the products in question

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

ANTICOMPETITIVE COLLUSION UNDER EU COMPETITION LAW

- the **prohibition** included in Art. 101 TFEU only **applies** to **undertakings**
- no clear definition of the concept of 'undertaking' in the EU Treaties
- 'the concept of undertaking embraces **any entity engaged** in an **economic activity**, regardless of its legal status and the way in which it is financed' (**CJEU – Case *Hofner* 1991**)
- 'undertaking as an **economic unit** (offering goods / services in the market), which may comprise different legal or natural persons subject to the same control' (**CJEU – Case *Knauf* 2010**)

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

ANTICOMPETITIVE COLLUSION UNDER EU COMPETITION LAW

- **Collusion** is interpreted as any form of **interaction** or **cooperation** between (two or more) undertakings which is able to **influence** their **commercial conduct**

→ **horizontal collusion**, which means collusion between undertakings active in the same market at the same level of the production or distribution chain (*i.e.*, direct competitors)

→ **vertical collusion,** which means collusion between undertakings active in the same market but at different levels of the production or distribution chain (producer *v* distributor)

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

ANTICOMPETITIVE COLLUSION UNDER EU COMPETITION LAW

- **Collusion** among firms may take various forms & degrees of interaction (**CJEU, *Solvay* 2011**):

  - **agreement** – concurrence of wills or meeting of minds consisting in written or verbal contracts, gentleman's agreements, letters of intent, conclusive behaviors (mere participation in a meeting)

  - **concerted practice** – form of coordination which does not present the same degree of formality of an agreement; yet, it substitutes practical cooperation for the risks of competition (*eg*, direct or indirect contacts, exchange of business information between firms) (**CJEU , *Suiker Unie* 1975**)

  - **decision of association of undertakings** - regulations, communications, statutes, codes of conduct adopted by cooperatives, trade associations, professional orders etc

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

ANTICOMPETITIVE COLLUSION UNDER EU COMPETITION LAW

■ **Restrictions** of competition can be either **by object or by effect;** it is not necessary to check the effects of the collusive conduct if it is anticompetitive by object **(CJEU, *STM* 1966)**

◊ **collusion** is **restrictive by object** if its very nature is harmful for competition (*eg*, horizontal price fixing, market sharing, territorial allocation etc)

◊ in order to examine whether collusion is restrictive of competition by object, it is necessary to look at its **scope**, **objectives**, **content**, and at the surrounding **economic and legal context**

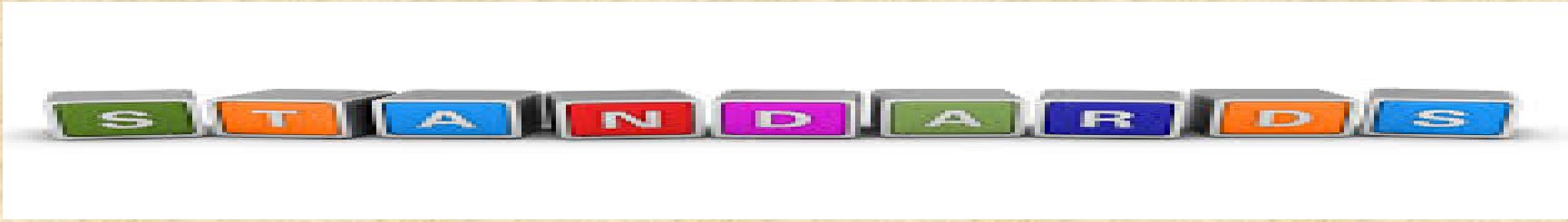
◊ if collusion is **not** restrictive **by object**, it is necessary to look at its **actual** or **potential effects**

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

WHAT ARE STANDARDIZATION AGREEMENTS ABOUT ?

► have as their primary goal the **definition of technical / quality requirements** with which current/future products, production processes, services/methods may comply

Guidelines on the applicability of Art 101 TFEU to horizontal cooperation agreements ([2011] OJ C 11)



Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

WHAT ARE THE MARKETS AFFECTED BY STANDARDIZATION ?

(i) **product / service** market to which the standard relates

(ii) relevant **technology** market (if standard setting involves the selection of a technology and IPRs are marketed separately from the products)

(iii) market for **standard setting** (if a number of SSOs / agreements exist)

(iv) distinct market for **testing & certification** (agreements on the use of logos to certify compliance with the standard refer to a different market)

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

WHAT ARE THE ANTICOMPETITIVE RISKS ?

○ standardization agreements are **restrictive by object** if used as part of a broader restrictive agreement aimed at excluding actual or potential competitors, or if they directly influence prices charged to consumers

○ standardization agreements may harm competition through :

► **the reduction** or **elimination** of **price competition**

► **the foreclosure** of innovative **technologies**

► **discrimination** against firms by denying access to the standard / standard process

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

SSOs AGREEMENTS FALL OUTSIDE ART 101(1) TFEU IF 4 CONDITIONS SATISFIED

(i) **unrestricted participation** in the standard setting process (all competitors can participate in the process – equal rights)

(ii) **transparent procedure** for adopting the standard (effective information on standardization works and Intellectual Property Rights policy)

(iii) **effective access** to the standard on FRAND terms (irrevocable commitment in writing to license on FRAND licensing conditions)

(iv) **no obligation** to comply with the standard (voluntary standard)

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

IF 4 CONDITIONS NOT SATISFIED, TO APPLY ART 101(1) TFEU IT MUST BE EXAMINED

(i) whether SSOs members remain **free to develop** alternative standards (see case *Philips/VCR*)

(ii) what kind of terms / conditions regulate the **access to the standard**

(iii) whether the **participation** in the standard setting process is open

(iv) what are the **market shares** of the goods / services based on the standard

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IF SSO AGREEMENT FALLS WITHIN ART 101(1) TFEU, IT MAY STILL SATISFY ART 101(3) TFEU

(i) if it has **efficiency gains** (*e.g*, boost market integration, encourage competition, promote innovation)

(ii) if a fair share of the efficiency gains attained by the necessary restrictions is **passed on to consumers**

(iii) if it **does not impose restrictions** that go beyond what is necessary to achieve efficiency gains

› restricting participation of some competitors ?

› imposing a standard as binding and obligatory for an industry ?

(iv) if it does not allow the parties of the agreement to **eliminate competition** in respect of a substantial part of the product

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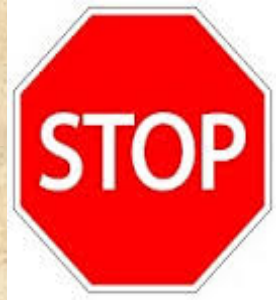
CASE PHILLIPS / VCR (1977)

- Agreement between Phillips, Bosch, Blaupunkt, Grundig, Loewe and others



→ **market for video cassettes and video cassettes recorders**

→ agreement on the uniform application of standards in the VCR sector

→ obligation to develop and exclusively use the Phillips's VCR system

EU COMMISSION: **restriction of competition by object**, limiting technical development, production, sale of other systems of videocassettes – exclusion of other potentially better systems

- what is the scope of Art 101 TFEU? does it apply to standardization ?
- when do SSO agreements fall outside the scope of Art 101 TFEU ?
- may SSO agreements benefit from exemption of Art 101(3) TFEU ?

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

SUGGESTED READINGS

- G. Colangelo, *Il Mercato dell'Innovazione: Brevetti, Standards e Antitrust* (Giuffrè, 2016)
- U. Petrovcic, *Competition Law & Standard Essential Patents* (Kluwer International, 2014)

- **International Standardization Organization (ISO) Video**
- **International Telecommunication Union (ITU) Historical Video**
- **European Telecommunications Standards Institute (ETSI) Video**

SEMINARS

ADVANCED STUDIES ON THE INTERSECTION BETWEEN IP & COMPETITION

(Seminar V)

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

ABUSE OF DOMINANCE UNDER EU COMPETITION LAW

► "Any **abuse** by one or more **undertakings** of a **dominant position** within the internal market or in a substantial part of it shall be prohibited as **incompatible** with the internal market in so far as it may **affect trade** between **Member States** …" [**Article 102 TFEU**, O.J. [2010] C 83/89]

► it is legitimate to obtain a dominant position by competing on the merits; the problem is the abuse of it

► **DOMINANT POSITION** : *"**position** of **economic strength** enjoyed by an undertaking which enables it to **prevent effective competition** being maintained on the relevant market by giving it the **power** to **behave** to an appreciable extent **independently** of its **competitors**, **customers** and ultimately of the **consumers**"* [Case 27/76 *United Brands v European Commission* [1978] E.C.R. 207]

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

ABUSE OF DOMINANCE UNDER EU COMPETITION LAW

How do we assess the **existence** of **dominance** ?

- ► market shares (usually higher than 40%, based on the turnover the undertaking realised by competing in the relevant market)
- ► barriers to entry (IPRs, administrative concession, infrastructure)
- ► position of actual competitors
- ► potential competition
- ► buyer power

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

ABUSE OF DOMINANCE UNDER EU COMPETITION LAW

- **under Article 102 TFEU such abuse may in particular consist in:**

(a) directly or indirectly **imposing unfair purchase or selling prices** or other unfair trading conditions

(b) **limiting production, markets or technical development** to the prejudice of consumers

(c) **applying dissimilar conditions to equivalent transactions** with other trading parties, thereby placing them at a competitive disadvantage

(d) **making** the conclusion of **contracts subject** to **acceptance** by the other parties of **supplementary obligations** which, by their nature or according to commercial usage, have **no connection** with the subject of such contracts

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

WHAT IS PATENT HOLD UP ?

► occurs when a **gap** between economic commitments and subsequent commercial negotiations enables one party to **capture part of the fruits** of another's investment

► a member **joins** the SSO and **subscribes** the relevant policy rules

► upon selection of his technology, member breaches FRAND promise & tries to **charge very high fees**

► to get exorbitant (non-FRAND) fees, member **threatens** to **block** the **implementation** of the standard **by seeking a court's injunction** (remedy available to IP owners in case of infringement of their rights)

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WHY DOES PATENT HOLD UP HAPPEN ?

◊ since bilateral **negotiations** on FRAND terms usually happen **after the standard** is selected

◊ after selection, implementers have **already made sunk investments** in developing the standard

◊ implementers are **locked-in** as it would be too costly to change & implement different standards

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WHAT ARE THE CONSEQUENCES OF PATENT HOLD UP ?

- the (F)RAND policy leaves the implementers of a technology **uncertain** as to the royalty level
- the (F)RAND policy allows the IPRs owners to **over-exploit** such uncertainty and implement deceptive practices (*i.e.*, try to charge excessive royalties for the standard essential patents)
- the ultimate effect would be **detrimental** to consumers as the implementers may pass the burden downstream (*i.e.*, higher prices to be paid by consumers)

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

HOW TO DISTINGUISH FRAND v NON-FRAND LICENSING ROYALTIES ?

- 'charging a **price** which is **excessive** because it has **no reasonable relation** to the **economic value** of the product supplied would be such an abuse' (*eg*, see costs-price margin) [Case 27/76 *United Brands v EU Commission* [1978]]

- fees charged for FRAND-committed SEPs should bear a **reasonable relation to the economic value** of IPR
  - compare the licensing fees charged *ex ante* v *ex post* (before and after the industry is locked in)
  - obtain an independent expert assessment of the centrality/essentiality to the standard of the relevant IPR
  - royalty rates charged for the same IPR in another comparable standard

[EU Commission, Guidelines on the applicability of Article 101 TFEU to horizontal co-operation agreements, [2011] O.J. C 11, para. 287-291]

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

DO FRAND COMMITMENTS TRAVEL WITH THE PATENT ?

- SSOs IP policies should require IPRs owners to ensure that, in case of transfer of SEPs, a FRAND commitment **binds the buyer** (*e.g.*, through a contractual clause between the buyer and the seller)

  [EU Commission, Guidelines on the applicability of Article 101 TFEU to horizontal co-operation agreements, [2011] O.J. C 11 (par. 285)]

- **ETSI** : FRAND licensing undertakings as encumbrances that **bind all successors in interest**.

  'SSOs members willing to transfer their FRAND-committed SEPs to third parties shall include proper provisions in the transfer documents to ensure the FRAND undertakings are binding on the transferees'

  [European Telecommunication Standards Institute, Intellectual Property Rights Policy, (2014), art. 6.1 *bis*]

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

DO FRAND COMMITMENTS TRAVEL WITH THE PATENT ?

- if the transferee was unaware of the FRAND commitment until after the purchase of SEPs, then national courts **may not recognize** the **commitment** made as binding the new owner, if the latter does not accept it

- what happened then? the transferee, not subject to the FRAND undertaking, may still risk to abuse its dominant position and **breach article 102 TFEU** if it refuses to license or if it charges excessive royalties (see for instance the conditions set in the EU cases *Magill, IMS Health, Microsoft*, on refusal to license IPRs)

- if SSO required the member to include specific provisions in case of transfer of the SEPs to a third party, implementers of the standard (intended beneficiaries) **may sue** the transferor for breach of the SSO contract

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

PATENT HOLD-UP AND INJUNCTIVE RELIEF

► in case of disagreement on FRAND, IP owner may **seek injunctive relief** to block SSO

firm's **right of access** to the courts is an essential right

[Article 47, Charter of Fundamental Rights of the European Union, [2010] O.J. C 83/389]

MSs shall ensure that, in case of breach of IPRs, judicial authorities may issue an injunction

[Directive of the EU Parliament and the Council 2004/48/EC, [2004] O.J. L 195/16, Article 11]

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

HOW DO WE LIMIT THE RIGHT TO SEEK INJUNCTIVE RELIEF ?

- **by reforming patent laws** - limiting the grant of injunctive relief under certain circumstances
- **by applying competition law** – seeking injunctions as an abuse of a dominant position
- **by applying principles of civil law** - abuse of rights, breach of contract & good faith duty

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

EU APPROACH : Case AT.39985 *Motorola – Enforcement of GPRS SEPs*, C (2014) 2892 final

- Motorola tried to seek and enforce an injunction against Apple despite FRAND commitments (ETSI)
- Apple had agreed to obtain a FRAND license, as determined by a German court
- **EU Commission**: acceptance of binding third party determination for the terms of a FRAND license, in the event that bilateral negotiations fail, is a clear indication that a potential licensee is **willing to enter** into a **FRAND licensing agreement**
- **EU Commission**: implementers should be allowed to **challenge** validity and essentiality of patents
- **EU Commission**: Motorola had abused its dominant position and **breached article 102 TFEU**

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

EU APPROACH : Case AT.39939 ***Samsung*** – *Enforcement of UMTS SEPs*, C (2014) 2891 final

- Samsung started to seek injunctive relief against Apple despite the FRAND commitments (ETSI)
- Samsung eventually withdrew its claims and offered commitments, accepted by the EU Commission
- Samsung **proposed** the following **licensing framework**:

  a) mandatory negotiation of up to 12 months

  b) if negotiations fail, determination of FRAND by a third party (*i.e.*, a court or arbitration panel)

  c) potential licensee is not precluded from challenging the validity and essentiality of the patents

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

EU APPROACH : Case C-170/13 ***Huawei*** *Technologies Ltd. v* ***ZTE*** *Corp.* [2015] O.J. C 302

- preliminary reference (267 TFEU) from German court asking to clarify on scope of injunction for SEP
- Huawei had tried to seek an injunction against ZTE in relation to its standard essential patents (ETSI)
- **EU Court of Justice's judgment** sets a safe harbor for patent owners and implementers:

a) before seeking an injunction, a patent owner must **inform** the implementer about the infringement

b) a patent owner must present to the alleged infringer, who manifested its willingness to conclude a FRAND license agreement, a **written licensing offer**

c) if the infringer does not accept the proposal, it must promptly submit a reasonable **counter-offer**

d) if negotiations fail, parties may by agreement request a **third-party determination** of FRAND terms

e) the alleged infringer must also provide an appropriate **security** (*e.g.*, bank guarantee or deposit)

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

EU APPROACH : Case C-170/13 ***Huawei*** *Technologies Ltd. v* ***ZTE*** *Corp.* [2015] O.J. C 302

- if the infringer does not diligently respond to the offer (dilatory conduct), the **injunction is granted**
- if the patent owner does not follow the suggested procedure, risk of **abuse of the dominant position**
- the alleged infringer has the right to **challenge** both validity and essentiality of the patents at issue

According to the CJEU, such a test may:

*"**strike a balance** between maintaining free competition [...] and the requirement to safeguard the proprietor's intellectual property rights and its right to effective judicial protection"*

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

EU APPROACH POST *HUAWEI* :

◊ **SEP** does not automatically confer a dominant position - case by case examination (*e.g.*, alternatives)
(*France Brevets v HTC,* Dusseldorf District Court 2015)

◊ **CJEU test** to be also applied to ***non-practising entities*** (*i.e.*, firms active only in the upstream market)
(*Sisvel v Haier*, Dusseldorf Court of Appeal 2016 & *Saint Lawrence v Vodafone,* Dusseldorf Court of Appeal 2016)

◊ **order of assessment**: should we first consider the FRAND nature of the SEP owner's offer, and then look at the nature of the counter-offer ? (*Sisvel v Haier* & *Saint Lawrence v Vodafone,* Dusseldorf Court of Appeal 2016)
or should we grant injunctive relief as long as the infringer's offer is not FRAND or not specific ?
(*Sisvel v Haier*, Dusseldorf District Court 2015 & *Saint Lawrence v Deutsche Telekom*, Mannheim District Court 2015)

Building the innovation ecosystem through licensing: standardisation based on patent - protected technologies; evaluating standard essential patents; negotiating SEPs

EU APPROACH POST *HUAWEI* :

◊ **meaning of dilatory conduct**: after refusal of counter offer, infringer has 30 days to provide security/deposit

(*Sisvel v Haier*, Dusseldorf District Court 2015)

◊ SEP holder has to **prove** the **non-discriminatory character** of its offer:

- through a comparison with other previous licence agreements signed with other market players
- duty of the infringer to respect the confidentiality nature of all the documents produced

(Case I-2 U 31/16, Dusseldorf Court of Appeal 2016 and 2017)

◊ **FRAND** royalties as a single price – no range of different FRAND prices (contrary to CJEU ruling)

(*Unwired Planet*, England and Wales High Court 2017)

- what is patent hold-up about ? what are the causes ?
- which is the role played by injunctive relief in hold-up ?
- what did the CJEU decide in *Huawei v ZTE* ?

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