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by **Chris Reed**

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the Digital Content Directive and "Normal" Contract Law
by **Karin Sein**

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German Act on Responsibility of Social Networks and
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Editorial

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- 1 This issue is my first as editor, and I'm delighted to be part of JIPITEC. It is also a pleasure to be able to publish such an interesting set of articles. The common feature of all of them is that they investigate known problems and identify that the solution to those problems requires some fundamental rethinking about the basis of the current law.
- 2 This is also an opportunity to welcome Professor Dr Karin Sein of the University of Tartu, Estonia, to the Editorial Board, and it is particularly appropriate that the issue begins with her article on digital content, and how we should treat it for liability purposes when it is inextricably mixed with physical products. The problem she identifies is that the nature of a 'product' has changed. Physical products used to be fixed in nature, changing only over time through decay or wear and tear. Now they are malleable and capable of exhibiting new characteristics as their embedded digital content is updated. To determine the liability obligation of a product supplier, we need first to understand this change in the nature of products.
- 3 A similar shift in understanding is necessary to deal with the problem of non-contractual liability for content made available online. The application of offline liability law to intermediaries was so problematic that immunities, such as those of the Electronic Commerce Directive, had to be introduced as an interim measure to ensure that the fear of liability claims did not, effectively, close down the internet. Carsten Ulrich argues that it is time to reconsider those immunities. But this reconsideration cannot limit itself to liability, but has to identify how far we expect intermediaries to take an active role in detecting and preventing dissemination of legally problematic content. Ulrich's insight is that different vertical sectors of the economy require different approaches, and that there is no universal and simplistic liability solution. Later in the issue Gerald Spindler's report on the new German Act on Responsibility of Social Networks returns to this topic. At first sight the law is a purely vertical measure, as Ulrich recommends, and purportedly only relates to notice and take-down of content. But as Spindler notes, the issues at stake go far beyond this, in particular the countervailing interests of content posters (such as free speech and the rights of journalists) which have been largely ignored by the law.
- 4 The nature of a book is questioned by Liliia Oprysk and her co-authors. An e-book has no physical property element, which means that the book purchaser no longer has the same freedoms to dispose of their copy. This raises the question whether a secondary market should be encouraged in order to give e-book buyers the same freedoms as purchasers of conventional books. The answer to the question is not simply one of copyright law, but rather a political decision based on a number of factors including the consumer's expectations. Just like the content liability question, this raises issues of knowledge, assignation of responsibility, and preservation of fundamental rights.
- 5 The re-evaluation of copyright law continues with Pekka Savola's article on liability for internet linking. Copyright used to be about controlling copying, but

is transforming itself into control of accessibility, a very different concept. In doing so, the law is having to ask difficult questions about knowledge, intent and markets which never arose in the case of physical copying. I am increasingly starting to believe that copyright law is no longer about copying, and thus badly misnamed, and Savola's analysis will be helpful in deciding what copyright law *is* actually about.

- 6 Elsewhere in the intellectual property field patents come in for re-examination, and again the real questions turn out not to be those which the law purports to address. Lodewijk Van Dycke & Geertrui Van Overwalle examine the highly controversial issue whether patents for GM cotton should be granted under Indian law. Although this is ostensibly a patent law question, their analysis demonstrates that it is really a mixed political and social question involving rural development policy, food security and environmental sustainability, and that patent law is almost irrelevant to the solution.

I hope that you enjoy reading this issue as much as I enjoyed editing it.

Chris Reed, September 2017

What Rules Should Apply to Smart Consumer Goods?

Goods with Embedded Digital Content in the Borderland Between the Digital Content Directive and “Normal” Contract Law

by Karin Sein*

Abstract: The European Commission’s approach in the “Proposal of Digital Content Directive” to regulate digital content contracts based on the object, rather than the type of contract, has led to a situation where a component of a product (the embedded digital content) can end up being subject to a contractual regime different from that applicable to the rest of the “smart” product. Different solutions have been proposed to solve this situation: firstly, one could apply goods rules to the whole product, including embedded digital content; alternatively, one could

use split rules and subject the hardware of the product to goods rules and embedded digital content to digital content rules. One could even imagine subjecting the whole good to the digital content rules – an approach that would mean a major shift for the existing sales and leasing law. The article discusses the legal consequences of these different options, describes their advantages and disadvantages, and concludes that while there is no ideal solution to be found, the split-approach would be preferable.

Keywords: Smart consumer goods; goods with embedded digital content; Digital Content Directive; contract law

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A. Introduction

1 At the end of 2015, the European Commission published a proposal for the so-called Digital Content Directive (DCD),¹ aiming to harmonise certain legal aspects of consumer contracts for the supply of digital content. Intensive academic discussion has already taken place regarding the standards of conformity of the digital content, as well as concerning the consumer’s remedies in case

a defective digital content has been delivered to him.² There has been less discussion about how to deal with the so-called smart products, or products embedded with digital content, such as fridges that order milk when running low, smart TVs, cars with built-in software, or coffee machines searching the web for the newest coffee recipes. These goods are

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1 Proposal for a Directive of the European Parliament and of the Council on certain aspects concerning contracts for the supply of digital content, COM (2015) 634 of 9.12.2015.

2 *Spindler*, ERCL 2016, 183, 204-217; *Faber*, Bereitstellungspflicht, Mangelbegriff und Beweislast im DIRM-E, and *Koch*, Rechtsbehelfe des Verbrauchers bei Verträgen über digitale Inhalte, in: *Wendehorst/Zöchling-Jud* (Hg), Ein neues Vertragsrecht für den digitalen Binnenmarkt? Zu den Richtlinienvorschlägen der Europäischen Kommission vom Dezember 2015, Manz 2016, 89-131 and 131-159; *Zoll*, EuCML 2016, 250-253; *Schmidt-Kessel*, *Erlar*, *Grimm*, *Kramme*, GPR 2016, 54-70; *Metzger*, JIPITEC 2017, 2-8.

characterised by combining tangible hardware with embedded digital content (mostly software) and they frequently also have internet connectivity.³ While the goods as tangible items are subject to national provisions of consumer sales contracts (based on the Consumer Sales Directive (CSD)⁴ at present and according to the vision of the European Commission as regards distance selling, also on the new Online Sales Directive (OSD)⁵ in the future), the question arises as to which rules should apply to the goods containing digital content. Should they be the rules for the supply of digital content or those for consumer sales, or both at the same time?⁶

- 2 The origin of this problem lies in the innovative approach of the European Commission to set out rules of the DCD on the basis of the object of contracts (digital content). National laws, as well as for example, CSD, Consumer Credit Directive⁷ or Package Travel Directive,⁸ on the contrary, proceed not from the object of the contract but from the typology of the contracts, i.e. from the specific obligations of the parties. This brings about a completely new situation where a component of a product could be subject to a legal regime different from that applicable to the rest of the product. Such legal situation has

³ These items may or may not constitute the so-called Internet of Things. They may have their own IP-address but they can also interconnect via other protocols such as Bluetooth. *Wendehorst*, *Consumer Contracts and the Internet of Things*, in: *Schulze/Staudenmayer* (eds), *Digital Revolution: Challenges for Contract Law in Practice*, Nomos 2016, 189. The Explanatory Memorandum of the DCD describes goods with embedded digital content as ‘smart’ goods, as they combine features of tangible goods and of digital content. Explanatory Memorandum of the DCD Proposal, 11.

⁴ Directive 1999/44/EC of the European Parliament and of the Council of 25 May 1999 on certain aspects of the sale of consumer goods and associated guarantees, OJ L 171 of 7.7.1999.

⁵ Proposal for a Directive of the European Parliament and of the Council on certain aspects concerning contracts for the online and other distance sales of goods, COM (2015) 635 of 9.12.2015. One must bear in mind that the OSD Proposal is based on the principle of maximum harmonisation and will be applicable only to goods sold online whereas the offline consumer sales contracts are governed by the national transposing norms of the minimum-harmonizing CSD.

⁶ See on that, *Wendehorst*, *Hybride Produkte und hybrider Vertrieb – Sind die Richtlinienentwürfe vom 9. Dezember 2015 fit für den digitalen Binnenmarkt?*, in: *Wendehorst/Zöchling-Jud*, 46-56; *Lurger*, *Anwendungsbereich und kaufvertragliche Ausrichtung der DIRM- und FWRL Entwürfe*, in: *Wendehorst/Zöchling-Jud*, 27-28.

⁷ Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC, OJ L 133/66 of 22.5.2008.

⁸ Directive (EU) 2015/2302 of the European Parliament and of the Council of 25 November 2015 on package travel and linked travel arrangements, amending Regulation (EC) No 2006/2004 and Directive 2011/83/EU of the European Parliament and of the Council and repealing Council Directive 90/314/EEC, OJ L 326/1 of 11.12.2015.

not occurred prior to now as there are no special contract law rules with regard to, for instance, products including Bluetooth or nanomaterials.⁹ Yet, as the European Commission has opted to base rules for digital content on the object of the contract, it is necessary to find a rule that would enable us to solve problems arising from such double regulation.

- 3 In the DCD and OSD proposals, the European Commission follows the principle of applying solely the goods rules to a product which is essentially an “ordinary product”.¹⁰ Several academics, on the other hand, argue that the rules on digital content should apply to digital content regardless of whether the content has been supplied separately or embedded in a product.¹¹ Similar amendments have also been proposed by the members of the European Parliament making it necessary to find a solution on this specific issue during the further legislative process of the DCD proposal. This article will highlight the most important differences and specific problems that might arise under one or another regulatory choice by using the examples of everyday consumer goods with embedded digital content. Firstly, two main regulatory options with regard to embedded digital content are described (B.). Secondly, legal consequences of those different regulatory choices are analysed (C.). Finally, the advantages and disadvantages of those different choices are underlined, and a way forward is suggested (D.).

B. Regulatory options with regard to embedded digital content

I. Option 1: goods rules applied to both hardware and embedded digital content

- 4 Firstly, with regards to embedded digital content, there is the possibility within the DCD proposal that only goods rules apply while digital content rules do not (option 1). It is noteworthy that there is no express provision on delimiting the scope of application of DCD and goods rules in the Articles of the DCD. The delimitation rule is somewhat concealed in recital 11 DCD, which states that: “this Directive should not apply to digital content which is embedded in goods in such a way that it operates

⁹ It is worth mentioning that the predecessor of the DCD-Proposal, the Proposal for Common European Sales Law (CESL) did contain rules on digital content but no rules on embedded digital content.

¹⁰ Recital 11 DCD, recital 13 OSD.

¹¹ *Wendehorst*, in: *Wendehorst/Zöchling-Jud*, 56; *Spindler*, *ERCL* 2016, 189.

as an integral part of the goods and its functions are subordinate to the main functionalities of the goods.”¹² A comparable rule is provided in recital 13 OSD.¹³

- 5 Thus, a general rule according to the current proposals for DCD and OSD is that if (i) digital content operates as an integral part of the goods and (ii) its functions are subordinate to the main functionalities of the good, then the good falls within the field of application of the rules on goods, not the rules on digital content. This means that for the majority of smart goods – such as connected cars, smartphones, smartwatches, SmartTVs and smart kitchen appliances – only national consumer sales rules harmonised by the OSD and CSD will apply.¹⁴ Staudenmayer calls this a pragmatic approach, which should ensure that these provisions are future-proof; using the example of software integrated in a washing machine whereby such software contributes to washing the clothes, it falls within the scope of goods rules.¹⁵ Likewise, upon purchase of a laptop or a smartphone, the goods rules would apply to both the laptop or phone hardware and the operating system because the operating system is an integral part of the good and subordinate to its main functionalities.¹⁶ On the other hand, for instance MS Office installed to a computer as an add-on, or an app downloaded to a smartphone would be subject only to the rules of DCD as such software is not subordinated to the main functionalities of the laptop or smartphone and is thus not covered by the definition of embedded content of the DCD-proposal.

12 Manko has called this solution a problematic legislative technique. Manko, Contracts for supply of digital content. A legal analysis of the Commission’s proposal for a new directive. In-Depth Analysis for the European Parliament, <http://www.europarl.europa.eu/RegData/etudes/IDAN/2016/582048/EPRS_IDA%282016%29582048_EN.pdf>, 11.

13 Recital 13 OSD states: “This Directive should apply to digital content integrated in goods such as household appliances or toys where the digital content is embedded in such a way that its functions are subordinate to the main functionalities of the goods and it operates as an integral part of the goods.”

14 Wendehorst, in: *Wendehorst/Zöchling-Jud*, 52.

15 Staudenmayer, ZEuP 2016, 800-801.

16 Wendehorst rightly points out that this will finally depend upon which functionalities of the laptop are owed to the consumer. The operating system will fall under the goods rules only if the consumer may expect to receive a laptop, which is ready for installation of the usual software. Wendehorst, in: *Wendehorst/Zöchling-Jud*, 53. Therefore, if a consumer first buys a laptop and later on an operating system from the same seller, the operating system does not constitute an embedded software and will thus be subject to the DCD. This is so even despite the fact that according to the wording of recital 11 DCD it makes no difference whether the digital content became part of the good before or after the contract was concluded.

- 6 Central to option 1 is the question of what constitutes embedded digital content, as goods rules apply to embedded digital content only and not to other types of digital content. The definition of embedded digital content thus determines the amount of software in a smartphone or some other smart good to which goods rules apply. In connection with the definition of embedded digital content proposed by the Commission, the main problem lies in interpreting the notion of “subordinate to the main functionalities of the good”. What to consider the main function of e.g. a smartphone can vary significantly among different consumers and probably also over time. By way of illustration, my mother uses the phone mainly for making calls, whereas my teenage daughter uses a phone for apps and accessing the internet, and instead of making calls she prefers messaging her friends on social networking sites and apps. This simple example alone shows that there is no uniform average consumer’s understanding of what constitutes the main functionality of a smartphone. To give another example, an autonomous driving software of a car clearly constitutes a main functionality of a self-driving car. “Normal” navigation software, on the other hand, cannot be regarded as main functionality of a car as a car can be driven without it. Therefore, it would fall under the DCD. From the software producer’s as well as from the consumer’s point of view, however, it is very hard to understand why a navigation software of a normal car should fall within the scope of DCD whereas navigation software, which is part of an autonomous driving software, falls under goods rules. Furthermore, a definition of an embedded digital content that requires it to be “an integral part of the good” might not be future-proof, as it is – or may become – technically possible to run crucial software such as operational software on the cloud rather than embedding it into the smart good.

- 7 Wendehorst has put forward an alternative definition of embedded digital content that avoids using the criterion of “subordinate to the main functionalities of the good”. She suggests to define embedded digital content as “digital content which has been installed by or with the assent of the seller, producer or another person in the chain of transactions and which (i) operates as an integral part of the goods and cannot easily be de-installed by the average consumer using this type of goods; or (ii) is necessary for the conformity of the goods with the contract”.¹⁷ Thus, for software to be embedded digital content, it needs to be installed into the good by one or another authorised person. Second, such

17 Wendehorst, Sale of goods and supply of digital content – two worlds apart? Study for the JURI Committee of the European Parliament, <https://polcms.secure.europarl.europa.eu/cmsdata/upload/f897bc4f-95d1-44c4-930a-3c0a55b983da/pe%20556%20928%20EN_final.pdf>, 13.

software should either be an “integral part” of the goods, which cannot easily be de-installed by the average consumer,¹⁸ or necessary for the conformity of the goods with the contract.

- 8 This definition is, on the one hand, more future-proof, as it avoids the ambiguous concept of “subordination to the main functionalities of the good”. On the other hand, it introduces a new concept, that of “necessary for the conformity of the goods with the contract” which, combined with the criterion of installation, enables digital content placed outside of a good to also be regarded as embedded digital content. An example could be a digital bracelet for tracking fitness-related metrics, with the necessary software running “in the cloud”.¹⁹ Following this definition, goods rules would cover even more digital content than according to the Commission proposal. However, this definition was not suggested as an amendment to the DCD proposal but to the OSD proposal, that is, for the “digitalisation” of sales law. Taking into account that the “digitalisation” of sales law on the EU level is politically improbable now,²⁰ this definition of embedded digital content is not usable for the DCD proposal as it currently stands – and was not proposed as such. If one wants to stick to option 1, a workable definition might be the slightly modified one defining embedded software as pre-installed digital content, which operates as an integral part of the goods and cannot easily be de-installed by the consumer.²¹
- 9 The example of fitness bracelet used above also illustrates the problems concerning demarcation of embedded digital content and mixed contracts (Art. 3(6) DCD). Article 3(6) DCD states: “Where a contract includes elements in addition to the supply of digital content, this Directive shall only apply to the obligations and remedies of the parties as supplier and consumer of the digital content.” Thus, in the case of a mixed contract, the part of the contract concerning digital content is covered by DCD, whereas the remaining parts of the contract are governed by the rules on the respective type of contract. This means that if a smart good is

supplied together with a separate digital content, the supply of that separate digital content will fall under the DCD.²² For example, if the supplier of a fitness bracelet sells under the same contract, both the bracelet (a good) and software (an app) which is located separately but necessary to use the bracelet, this is a mixed contract according to Art. 3(6) DCD with the consequence that goods rules apply to the bracelet and DCD rules apply to the app.

- 10 This in turn raises the legal policy question regarding why goods rules should apply to embedded digital content while DCD applies to apps or other software not integrated into the good but equally necessary to use the good.²³ Furthermore, drawing a line between embedded digital content and mixed contracts may become very difficult for example in a situation such as where a consumer buys a car with an in-built satellite navigation system including maps which are regularly updated via the internet.²⁴ Is this a case of embedded software (meaning that rules on goods apply to the car, navigation software and maps) or mixed contract (meaning that rules on goods apply to the car, possibly also to the navigation software, while maps are covered by the rules on digital content)?²⁵ One should probably assume that built-in navigation software is not an embedded digital content at all, as strictly speaking navigation guidance is not “subordinate to the main functionalities of the car.” And whether and why would the situation be different when additional maps or added functions of navigation software are activated only later at separate cost and possibly under separate agreement?²⁶ These examples

18 Thus, pre-installed apps such as Hangouts or Google Maps would also qualify as embedded digital content underlying goods rules, as an average consumer is not able to de-install them easily. However, it is unclear whether they are operating as an “integral part of the good”.

19 Wendehorst, Sale of goods and supply of digital content – two worlds apart? Study for the JURI Committee of the European Parliament, <https://polcms.secure.europarl.europa.eu/cmsdata/upload/f897bc4f-95d1-44c4-930a-3c0a55b983da/pe%20556%20928%20EN_final.pdf>, 13.

20 Wendehorst, in: *Wendehorst/Züchling-Jud*, 56.

21 Such definition can be found in amendment proposal No 397 to the Gebhardt-Voss Draft Report, <<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2f%2fEP%2f%2fNONSGML%2bCOMPARL%2bPE-599.502%2b02%2bDOC%2bPDF%2bV0%2f%2fEN>>.

22 *European Law Institute*, Statement on the European Commission’s Proposed Directive on the Supply of Digital Content to Consumers, <http://www.europeanlawinstitute.eu/fileadmin/user_upload/p_eli/Publications/ELI_Statement_on_DCD.pdf>, 10. Lurger argues that app-controlled domestic appliances could constitute mixed contract under Art. 3 (6) DCD. Lurger, in: *Wendehorst/Zöchling-Jud*, 28.

23 Wendehorst, in: *Wendehorst/Züchling-Jud*, 54-55; Spindler, ERCL 2016, 189.

24 A similar example concerning a separate satnav unit and not a navigation software integrated into a car is brought in the ELI Statement on the DCD proposal. They bring forward a justified argument that it is unclear whether the pre-installed maps are an integral part of the satnav unit or whether they come as part of a mixed contract. Moreover, it is not clear whether the pre-installed maps can be seen as an embedded digital content at all as they are not “subordinate to the main functionalities of the good, they are essential.” *European Law Institute*, Statement on the European Commission’s Proposed Directive on the Supply of Digital Content to Consumers, <http://www.europeanlawinstitute.eu/fileadmin/user_upload/p_eli/Publications/ELI_Statement_on_DCD.pdf>, 10.

25 Lurger, in: *Wendehorst/Zöchling-Jud*, 28.

26 For example, Volkswagen connected car has an in-built satellite navigation system but you can get traffic updates and information on the nearest fuel station prices and

show one of the main weaknesses of option 1: any definition of embedded digital content would run into problems with demarcation of embedded digital content and mixed contracts, and hence the legal policy questions concerning the applicability of one or another legal regime to a substantially similar situation.

II. Option 2: goods rules to hardware, DCD to digital content

- 11 Under option 2, the rules of DCD would apply to any digital content, including embedded digital content, while hardware would be subject to the rules on goods.²⁷ Accordingly, as regards for instance smartphones, rules on goods would only apply to hardware, whereas anything else (OS [operating system], pre-installed apps or apps installed later) would fall under rules on digital content. In option 2, definition of embedded digital content is irrelevant, as nothing depends on this: goods are covered by goods rules, digital content (either embedded or not) is covered by digital content rules. If one chooses option 2, problems will rather arise upon identifying the origin of defects of smart goods, as sometimes it can be very burdensome to find out whether a smart TV is not working due to a problem with hardware or software.
- 12 Another question that arises in connection with option 2 is which are the provisions to rely upon e.g. for terminating a smart good contract or reducing the price if only one component (hardware or software) is non-conforming. In case of non-conforming integrated software (such as the OS of a smartphone), it is impossible to terminate the contract partially that is only regarding the embedded software. Rather, the consumer would prefer to return the entire phone should repair of the non-conformity of the OS fail. Similar problems arise as to other remedies the consumer might want to exercise against the trader. Therefore, when choosing option 2, rules on goods should additionally provide that any non-conformity of the embedded digital content also mean non-conformity of the goods.²⁸ This is

weather reports only if you buy a separate subscription with a separate supplier. See <<http://www.vwcarnetconnect.com/guide-inform/>>. This subscription does not constitute embedded software nor even a mixed contract, but is rather an entirely separate contract concluded with a different contract party for the supply of special digital content.

27 Wendehorst calls it a combination solution. *Wendehorst*, in: *Wendehorst/Zöchling-Jud*, 55.

28 *European Law Institute*, Statement on the European Commission's Proposed Directive on the Supply of Digital Content to Consumers, <http://www.europeanlawinstitute.eu/fileadmin/user_upload/p_eli/Publications/ELI_Statement_on_DCD.pdf>, 11.

the solution used in Section 16 of the UK Consumer Rights Act 2015.²⁹ It is important to stress that only the non-conformity of embedded digital content would bring about the non-conformity of the entire good: the responsibility for apps or other software that are later installed by the consumer lies with their supplier and their defects do not bring about non-conformity of the smartphone.

- 13 To solve problems arising under option 2, the ELI has proposed in its Statement the following rule: *"The consumer should be entitled to /.../ exercise the appropriate rights under sale of goods law, but she could equally choose to make a claim on the basis that the problem lies in the digital content, in which case the consumer should be entitled to proceed under the DCD. If the consumer claims that the problem lies in the digital content the burden of proof that the problem really lies in the hardware should be on the supplier."*³⁰ Here, a consumer is allowed to choose which rules – either those on goods or those on digital content – to rely upon according to the source of non-conformity as identified by the consumer. A positive aspect of this solution is that the burden of proof as regards the source of non-conformity is imposed on the trader; namely, the trader can for instance, prove that the smartphone is not working due to a mechanical defect of its case and not due to a software failure. The author is nevertheless of the opinion that DCD should also not apply where it is obvious from the nature of the goods or from the nature of the lack of conformity that the lack of conformity lies in the hardware of the good. This would preclude odd situations where, say, a brand-new vacuum cleaner containing a limited amount of embedded digital content would be expected to fall under the rules of digital content although the obvious reason why it does not function is not a software problem but a clog in the hose. Further, it is important that under option 2 not only the DCD provisions on the remedies of the consumer would be applicable to embedded digital content. As will be shown below, other provisions of DCD are also relevant for embedded digital content.
- 14 As a modified option 2, it is suggested to apply the DCD rules to the whole smart good (including embedded

eu/fileadmin/user_upload/p_eli/Publications/ELI_Statement_on_DCD.pdf>, 11.

29 Section 16 (1) of the Consumer Rights Act states:

"(1) Goods (whether or not they conform otherwise to a contract to supply goods) do not conform to it if – (a) the goods are an item that includes digital content, and (b) the digital content does not conform to the contract to supply that content."

30 *European Law Institute*, Statement on the European Commission's Proposed Directive on the Supply of Digital Content to Consumers, <http://www.europeanlawinstitute.eu/fileadmin/user_upload/p_eli/Publications/ELI_Statement_on_DCD.pdf>, 12.

digital content) unless the trader proves that the defect lies within the hardware.³¹ This would mean that as a rule, DCD would apply both to hardware and to software of the smart good. Choosing this solution would mean that in the future, selling and leasing of a considerable amount of consumer goods would underlie DCD as more and more goods are containing some kind of digital content. In order to avoid inconsistencies and unwanted consequences, one should then make clear that certain domestic or European goods rules remain applicable instead or in addition to the DCD. For example, the seller of a smart product must not only make available the embedded digital content (Art. 5 DCD), but also hand over the good itself. Similarly, Art. 20 CRD³² must be applicable to the smart good, as the DCD does not contain rules on passing of risk.

C. Legal consequences of different options

I. Data as counter-performance

15 Unlike the CSD and OSD, Art. 3 (1) DCD provides that the consumer's counter-performance may take the form of active provision of his or her personal data or any other data. In other words, active provision of personal or other data by the consumer triggers the application of DCD and makes available the remedies provided therein against the trader. This is an innovative provision³³ up-to-date with market reality and such a concept has not been used before in EU consumer or other contract law. Neither CSD nor OSD treat data as counter-performance and this concept is unknown in the national laws of the Member States.³⁴

31 Amendment proposal No 464 to the Gebhardt-Voss Draft Report, <<http://www.europarl.europa.eu/sites/getDoc.do?pubRef=-%2f%2fEP%2f%2fNONSGML%2bCOMPARL%2bPE-599.502%2b02%2bDOC%2bPDF%2bVO%2f%2fEN>>.

32 Directive 2011/83/EU of the European Parliament and of the Council of 25 October 2011 on consumer rights, amending Council Directive 93/13/EEC and Directive 1999/44/EC of the European Parliament and of the Council and repealing Council Directive 85/577/EEC and Directive 97/7/EC of the European Parliament and of the Council, OJ L 304/64 of 22.11.2011.

33 Schmidt-Kessel, Erler, Grimm, Kramme, GPR 2016, 57.

34 But see the Opinion 4/2107 of the European Data Protection Supervisor suggesting to avoid using the notion of "data as counter-performance" but rather to apply the DCD to services where a price is not paid but which are normally provided for "remuneration". Opinion 4/2017 on the Proposal for a Directive on certain aspects concerning contracts for the supply of digital content, <https://edps.europa.eu/sites/edp/files/publication/17-03-14_opinion_digital_content_en.pdf>, 10-11. Furthermore, Dix and Schantz are of the opinion that Art. 7 (4) GDPR casts a shadow over the whole concept of data as a counter-performance.

16 Therefore, under option 1 (only goods rules to smart goods) data provided to the trader by the consumer cannot be considered as payment and depending on whether the consumer makes any monetary payments for such good or not, the contract is governed by the rules on sales contracts or those on gratuitous contracts. This outcome is questionable from the legal policy perspective if the software integrated in the good which the trader presents as a "gift" to the consumer on promotional purposes later, enables the trader to gather commercially valuable data on the consumer. In that case, the consumer essentially pays for a "free" product in the same way as is paid for the "free" Facebook, for instance. This consequence is rendered unfair by the fact that depending on national law, the trader would be able to rely on the restricted liability of the donor where the provisions regarding gratuitous contracts apply. For example, according to Estonian law, the donor is generally held liable for the lack of conformity only in the case of intention or gross negligence (Subsection 264 (2) of the Law of Obligations Act).³⁵ Therefore in many cases, the consumer would have no remedies against the trader.

17 Under option 2 (DCD rules apply to digital content), the supplier would not be able to rely on the regime of gratuitous contract and its possible liability restrictions. It would be possible to consider at least the embedded software as received for counter-performance and the consumer would thus be able to rely on the provisions of DCD on legal remedies. The consumer could for instance request repair of the smart good or in certain cases terminate the contract and demand that his or her personal data or user-generated content were no longer used or returned (Art. 12 (3) and (5) and Art. 13 (2) DCD).

II. Conformity criteria

18 A significant difference between DCD and OCD proposals and CSD concerns the conformity criteria of the contract object. While Art. 2 (2) CSD and Articles 4 and 5 OCD are combining the subjective and the objective criteria, the wording of Art. 6 DCD indicates the prevalence of the subjective standard, that is, the characteristics of the digital content that have been agreed upon by the parties. This approach has been repeatedly criticised for reducing the level of consumer protection and leaving the consumer at the mercy of the supplier's standard terms and

Dix, ZEuP 2017, 4; Schantz, NJW 2016, 1845.

35 RT I, 31.12.2016, 7. On the liability restrictions of the supplier of "free" digital content under German law, see Faust, Digitale Wirtschaft – Analoges Recht: Braucht das BGB ein Update?, Gutachten, A zum 71. DJT 2016, 63 et seq; Spindler, JZ 2016, 811.

product information.³⁶

- 19 For example, under Art. 2 (2) CSD, a car has to show the quality and performance that are normal in goods of the same type and which the consumer can reasonably expect. This does not apply only if at the time the contract was concluded, the consumer was aware, or could not reasonably be unaware of, the lack of conformity (Art. 2 (3) CSD). A similar rule has been set out in Art. 5 (a) and (c) OSD. Under option 1, the conformity of embedded digital content would also be tested according to these provisions, this is under a combined objective and subjective test. Under option 2 however, digital content such as the operating system of a smartphone or anti-lock brake software of a car should be just as required by the contract (Art. 6 (1) DCD), even if the quality as described in the contract is below average. The latter, though, holds on the condition that the corresponding contract term is transparent.
- 20 As in terms of conformity criteria, the goods rules provide for higher consumer protection levels than the rules on digital content, it seems that consumers would benefit more from option 1 as only the goods rules would apply to a connected car and its integrated software. Nevertheless, the critics point out that the minimum standards required for digital content (e.g. functionality and interoperability) under Art. 6 (1) (a) DCD will in this case not apply to embedded digital content leading to a serious gap in consumer protection.³⁷ This could in turn be challenged by saying that both functionality and interoperability can be subsumed under the objective standard of the purpose and quality of a smart good. For example, in the German legal literature and case law, it is held that where software is sold together with a computer, the hardware must be suitable for running that software, and the use of the software must not be hindered by any technical barriers overcoming of which would require cooperation with the software producer. Otherwise, the computer as a good would lack conformity with the contract.³⁸

36 Spindler, ERCL, 198-199; *European Law Institute*, Statement on the European Commission's Proposed Directive on the Supply of Digital Content to Consumers, <http://www.europeanlawinstitute.eu/fileadmin/user_upload/p_eli/Publications/ELI_Statement_on_DCD.pdf>, 4; Lurger, in: *Wendehorst/Zöchling-Jud*, 40; Faber in: *Wendehorst/Zöchling-Jud*, 105-106.

37 *European Law Institute*, Statement on the European Commission's Proposed Directive on the Supply of Digital Content to Consumers, <http://www.europeanlawinstitute.eu/fileadmin/user_upload/p_eli/Publications/ELI_Statement_on_DCD.pdf>, 2-3.

38 *Westermann* in: *Münchener Kommentar zum BGB*, 7th edn 2016, § 434 BGB, para 75. Faust argues that applying the conformity test to digital content is not more difficult than applying it to ordinary goods: it needs to be construed by the court also in the latter case. In addition, the notion of

- 21 The same applies to (cyber)security as a criterion of conformity with the contract. Article 6 (1) (a) DCD clearly states that security of the digital content is a part of conformity with the contract. So, if the rules of digital content were to apply, a smart fridge which can easily be hacked due to security holes in its software would also clearly lack conformity to the contract – notwithstanding if the fridge was sold or rented. The rules on goods – which would be applicable to the embedded software of a smart fridge under option 1 – do not expressly refer to security as a conformity criterion. Nevertheless, it could be quite easy to achieve by way of interpretation that security problems of embedded software constitute non-conformity of a smart good, for instance, where the embedded software of a smart baby monitor or smart home system makes it susceptible to hackers.³⁹ Indeed, the need for an internet-connected good to conform to the normally expected level of internet security in order to meet the objective conformity standard of the good is easily justifiable.
- 22 If DCD sticks to the subjective conformity criteria, option 2 (DCD rules apply to embedded digital content) would in the author's view clearly mean lowering the consumer protection level in comparison to option 1. In that case, for instance a smartphone seller could apply the "as is" clause also to the operating system of the smartphone or the in-built software of a washing machine, on the condition that this is transparently stated in standard conditions. Yet, if the opinions of legal scholars and consumer protection stakeholders are heard during the further legislative process of the DCD-proposal, and the combination of subjective and objective criteria is accepted, the choice between options 1 and 2 is not of critical importance any longer.

III. Burden of proof

- 23 Art. 3 (1) CSD, Art. 10 DCD, and Art 8 (1) OCD all build on the principle that the seller or supplier is responsible only for the lack of conformity which existed at the moment of delivery. All of these directives also set out time-limits within which the burden of proof is reversed in favour of the consumer.

lack of conformity shall inevitably remain rather abstract according to Faust, as any catalogues of criteria would soon become out of date with the development of technology. *Faust*, *Digitale Wirtschaft – Analoges Recht: Braucht das BGB ein Update?*, Gutachten, A zum 71. DJT 2016, 43 et seq.

- 39 See different real-life incidents of cybersecurity in *Verbruggen, Wolters, Hildebrandt, Sieburgh, Jansen*, *Towards Harmonised Duties of Care and Diligence in Cybersecurity*, <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2814101>. They suggest that cybersecurity be included in objective criteria of the OSD as well as for other ICT goods and services.

The length of these periods varies, however. Art. 5 (3) CSD provides that any lack of conformity which becomes apparent within six months of delivery of the goods is presumed to have existed at the time of delivery unless this presumption is incompatible with the nature of the goods or the nature of the lack of conformity. To put it otherwise, CSD is based on the rule that a lack of conformity which became evident within the first six months was presumably existing at the time of delivery of the good and this triggers the liability of the seller.⁴⁰ Art. 8 (3) OCD extends this period for 2 years, whereas Art. 9 (1) DCD for an indefinite period. To be more precise, DCD establishes a reversed rule whereby the burden of proof with respect to the conformity is always on the supplier.⁴¹

- 24 Where a lack of conformity of the OS of a smartphone or a problem with the washing-machine software manifests in the eighth month of usage, under option 1 it would be for the consumer to establish that the phone or the machine (i.e. the software embedded with it) was non-conforming already upon its delivery.⁴² It is obvious that this would be very burdensome for the consumer.⁴³ The same problem arises in case of smart TVs, smart fridges and other connected goods.
- 25 Under option 2, the consumer could rely on the provisions of the DCD. This means that if a software bug makes its first appearance in the eighth month of usage, the supplier would still have to prove that the software was in conformity with the contract at the time the car or mobile phone was delivered. If the trader fails to do so, the consumer is entitled to use remedies, e.g., to demand repair. This result would obviously be more favourable for the consumer than option 1 whereby the consumer, in order to be entitled to use a remedy, has to prove that the

software of a car or a smartphone was lacking conformity already at the time of delivery. However, there could be a situation where the embedded software becomes infected with malware only after the software has been supplied to the consumer. In such a case, the supplier is liable only if considered to have provided guarantee for the product or if there exists an additional contractual obligation covering software updates and supplements.

- 26 More complex cases arise where it is unclear whether the cause of a non-conformity lies in software or hardware. For instance, a smart TV does not turn on or “crashes” in its tenth month of usage; is it for the consumer to supply evidence that the TV hardware was lacking conformity at the time of supply, or is it for the supplier to prove that the embedded software was conforming to the requirements when supplied? Under option 1 the burden of proof lies within the consumer: in the absence of commercial guarantee, (s)he has to prove that the TV or software embedded within it was non-conforming already at the time of delivery. Under option 2, the burden of proof regarding the embedded software lies with the supplier. Here, the European Law Institute rightly has proposed an additional rule whereby the supplier can prove that the cause of non-conformity lies in hardware;⁴⁴ if that is the case, then goods rules (CSD, OSD) apply. In that case, the consumer would be able to make a claim against the supplier of the TV arguing that as the fault is presumably in software⁴⁵ and was presumably there already at the time of delivery of the TV, (s)he is entitled to use a remedy - for instance, demand the supplier to fix the OS of the smart TV.⁴⁶
- 27 In practice, the question of whether the digital content was lacking conformity at the time of delivery or not is generally one for an expert. Therefore, rules on the burden of proof are of significance also for questions such as who must pay the costs of expertise if it appears that the lack

40 According to the CJEU ruling in *Faber* it is for the consumer to prove the existence of the lack of conformity and that it became apparent within the first six months but not the cause or origin of that lack of conformity. Judgement in *Faber*, C-497/13, ECLI:EU:C:2015:357, para 75. Thus, a consumer can seek remedies against the supplier already if the latter does not succeed to prove that the cause of origin of the lack of conformity lies in circumstances which arose after the delivery of the good. *Ritter, Schwichtenberg*, VuR 2017, 51.

41 *Westphalen*, EuZW 2017, 378. According to recital 32, the reason for such rule is “the specific nature of digital content with its high complexity as well as the supplier’s better knowledge and access to know how, technical information and high-tech assistance” as well as the better position of the supplier to assess whether the lack of conformity with the contract is due to incompatibility of the consumer’s digital environment with the technical requirements for the digital content.

42 The situation is different, of course, in case of a sales guarantee.

43 *Spindler*, JZ 2016, 809. See further *Ritter, Schwichtenberg*, VuR 2017, 51.

44 *European Law Institute*, Statement on the European Commission’s Proposed Directive on the Supply of Digital Content to Consumers, <http://www.europeanlawinstitute.eu/fileadmin/user_upload/p_eli/Publications/ELI_Statement_on_DCD.pdf>, 11-12.

45 We have to remember that the supplier is also supposed to prove the conformity of the digital content, Art. 9 (1) DCD. *Faber*, however, correctly points out that the wording of this provision is not quite clear as to what exactly the reversed burden of proof actually relates. *Faber*, in: *Wendehorst/Zöchling-Jud*, 120-122.

46 The above analysis does not concern situations where it is unclear whether, for instance, crashing of a smart phone is caused by problems of its OS (embedded digital content) or later downloaded apps (other digital content). The author suggests that on this occasion the consumer should be entitled under Art. 9 (1) DCD to use a remedy against either the supplier of the OS or the supplier of apps, who would then have to prove, in order to escape liability, that the lack of conformity was not caused by his software.

of conformity did not exist at the time of delivery but had causes brought about by the consumer. If a lack of conformity becomes apparent during the period within which the burden of proof is reversed in favour of the consumer, the supplier is required, at least under Estonian law, to pay the costs of expertise even if the non-conformity was caused by the consumer.⁴⁷ It is unclear whether this question is a matter of national law or not. On the one hand, it might be argued that the costs of expert reports are a specific case of compensation for damages which is not governed by the directives and falls thus within the scope of national law. On the other hand, the question could also be regarded as lying within the scope of application of the directive(s). Namely, if the national law would be able to provide that expertise costs would in any case be borne by the consumer, then the consumer would not be entitled to repair of the smart good free of charge if it turns out that the good was in fact non-conforming already at the delivery stage.⁴⁸

- 28 Finally, it should be noted that the application of paragraphs (2) and (3) of Art. 9 DCD to embedded digital content would be justified as these provisions better reflect the specificity of digital content by requiring the consumer to cooperate with the supplier to establish the lack of conformity, i.e. to assess the consumer's digital environment. This again supports application of option 2 over option 1.

IV. Time limits

- 29 According to Art. 5 (1) CSD, the consumer can pursue a remedy for a non-conformity that becomes apparent within two years from delivery. As CSD is a directive based on minimum harmonisation, setting out such time-limit is not obligatory for the Member States and not all Member States have done this.⁴⁹ Art. 14 OSD similarly provides that the consumer is entitled to a remedy for the lack of conformity with the contract of the goods where the lack of conformity becomes apparent within two years. However, as OSD is based on maximum harmonisation, the Member States cannot provide a more favourable regime for the consumers. According to the current version of DCD, there is no time limit for the supplier's liability⁵⁰

47 Varul, Kull, Kõve, Käerdi, Völaõigusseadus II. Kommenteeritud väljaanne, 2007, 50.

48 Compare similar arguments in Weber und Putz and Quelle cases decided by the CJEU. Judgements in *Quelle*, C-404/06, ECLI:EU:C:2008:231, paras 28 et seq and *Weber und Putz*, C-65/09 and C-87/09, ECLI:EU:C:2011:396, paras 45 et seq.

49 Schulte-Nölke, Twigg-Flesner, Ebers (ed.), EC Consumer Law Compendium - Comparative Analysis, <http://ec.europa.eu/consumers/archive/cons_int/safe_shop/acquis/comp_analysis_en.pdf>, 641 et seq.

50 Critical on that Faber, in: *Wendehorst/Zöchling Jud*, 128-129.

because the digital content is not subject to wear and tear like "normal" goods.⁵¹ The duration of the liability of a supplier of digital content is determined by national prescription periods.⁵² Likewise, the liability of a lessor of a good with embedded digital content (for instance a connected car or tablet computer) depends on national prescription periods, as this matter has not been harmonised by EU rules.

- 30 As regards embedded digital content, option 1 would mean that the consumer would generally be able to seek remedy against the trader under the rules on goods, that is, on the condition that the lack of conformity of the digital content became apparent within two years as from the delivery of the good (Art. 5 (1) CSD, Art. 14 OCD). After the expiry of this two-year guarantee period there would only remain a theoretical possibility for the consumer to claim against the producer of the digital content if such possibility is provided for the consumer in national law. In the absence of a legal relationship (producer's guarantee) between the consumer and the producer of digital content, the consumer is not entitled to repair of the digital content after the 2 years have elapsed.
- 31 Under option 2 the consumer could file claims related to, for instance, physical faults of a connected car according to rules on goods; that is on the presumption that the lack of conformity became apparent within two years. As regards defective embedded digital content, such as anti-lock brake software, the consumer could use remedies until the end of the national prescription period. Thus, a seller (or a lessor) of a car should take into account that the duration of his liability for the digital content embedded with the car can be longer (or shorter, as the case may be) than that for the car.

V. Remedies

- 32 As for products with integrated software, the central question is whether the consumer can resort to remedies under rules on goods or those on digital content. It is important to understand that while in the case of certain remedies such as repair or compensation for damages it would be possible, in theory, to use a remedy under rules of goods for the goods component and a remedy under the DCD for the digital content component of a product, the remedies of price reduction and termination of the contract can only be applied to the good as a whole and not just to malfunctioning software or defective

51 Recital 43 of DCD.

52 *Spindler*, ERCL 2016, 213. Lurger has criticized this solution as an impediment for full harmonisation. *Lurger* in: *Wendehorst/Zöchling-Jud*, 19.

hardware. Therefore at least in the case of these remedies, relying on either one or the other of the two regimes would be feasible, but not combining both. For this reason, it has rightly been suggested that if option 2 was to apply, the consumer should be entitled to choose which regime to rely on while the trader could avoid the application of the chosen regime by establishing that the defect lies with the other component of the smart good.⁵³

- 33 Under option 1, the consumer could resort to remedies provided in the CSD and OSD. Thus, according to the principle of the hierarchy of remedies, the consumer should first give the seller an opportunity to cure the non-conformity of a smart good and only resort to price reduction or termination of the contract as a second option.⁵⁴ Preconditions for termination depend on the regime being applied: under Art. 3 (6) CSD, the lack of conformity must not be minor, whereas Art. 9 (3) OSD permits termination of the contract for whatever lack of conformity.⁵⁵ Termination of contract in case of leased goods would be possible according to the provisions of national law. The provisions of the DCD would have no significance under option 1 and in a particular case, the decisive question would be if and under which circumstances a defective embedded software or, for instance, its incompatibility means lack of conformity of the good as a whole, and if and under which circumstances this constitutes a minor non-conformity. For instance, is the monthly crashing of the OS of a tablet computer or of a smart TV a minor lack of conformity in respect of the good as a whole?
- 34 Under option 2, the consumer could rely on the remedies of the DCD. While the principle of hierarchy of remedies applies also according to Art. 12 (3) DCD, and the price reduction rules do not differ considerably from those provided for the sale of goods, the termination provisions of DCD contain several specific rules regarding both the grounds for and effects of termination. According to Art. 12 (5) DCD, the consumer may terminate the contract only if the lack of conformity with the contract impairs functionality, interoperability and other main performance features of the digital content such as its accessibility, continuity and security.⁵⁶ The advantage of such rule is in clearly binding

the right to termination to the effect of the lack of conformity on the specific performance features of the digital content such as interoperability, continuity or security. Furthermore, under these circumstances the consumer is protected also by the second sentence of Art. 12 (5) DCD, according to which the burden of proof that the lack of conformity with the contract does not impair functionality, interoperability and other main performance features of the digital content shall be on the supplier. Thus, option 2 is adequately reflecting the particular features of digital content while also being more favourable for the consumer. On the other hand, under option 2, Art. 13 (3), the DCD would also be protecting the suppliers, allowing them to terminate a sales contract of a connected car and also to disable the user account of the consumer.⁵⁷

VI. Special rules concerning long-term contracts

1. Right to terminate after 1 year

- 35 As for long-term contracts, Art. 16 DCD entitles the consumer to terminate the contract at any time after the expiration of the first 12 month period. This provision could be meaningful in respect of embedded digital content only in the context of long-term contracts concerning smart goods, such as a lease of a connected car, since sales contracts cannot be regarded as long-term contracts. Under option 1, this provision would not be applicable to smart goods with embedded digital content and hence in this matter only possibilities offered by domestic legislation would be available.⁵⁸
- 36 Option 2 would not give any legal advantage to a consumer who buys a smart good, because the consumer cannot choose to terminate the contract partly, i.e. only as regards the OS of a smartphone, for instance. Partial termination would only be possible in the case of a mixed contract (Art. 3 (6) DCD), for instance a bundled contract for the sale or lease of a smart TV with video on-demand services, whereby the consequences of such termination underlie national law.⁵⁹

53 *European Law Institute*, Statement on the European Commission's Proposed Directive on the Supply of Digital Content to Consumers, <http://www.europeanlawinstitute.eu/fileadmin/user_upload/p_eli/Publications/ELI_Statement_on_DCD.pdf>, 10 et seq. In this case one also needs a rule that non-conformity of embedded digital content constitutes a defect of the good. *Ibid.*

54 Art. 3 (3) CSD, Art. 9 (3) OSD.

55 In this sense also *Lurger*, in: *Wendehorst/Zöchling-Jud*, 22.

56 Spindler suggests clarifying that also minor non-conformities may add up and entitle the consumer to terminate. *Spindler*, ERCP 2016, 206-207.

57 Unless, in a particular case, the sale of a connected car can be considered a mixed contract so that the termination of consumer's user account would be already justified under Art. 3 (6), Art. 13 (3) DCD.

58 For instance, according to Estonian law a lessee of a movable may extraordinarily cancel a lease contract by giving 30 days' notice, if this is a B2C contract (§ 322 of LOA).

59 See recital 20 of DCD and *Wendehorst* in: *Wendehorst/Zöchling-Jud*, 52.

37 Article 16 DCD may become tricky under a modified option 2, whereby DCD rules would apply not only to the digital content but also to the whole good. In this case applicability of Art. 16 DCD could even be interpreted as allowing termination of a 5-year lease contract of a connected car after 1 year. If the legislator chooses to use modified option 2, such a consequence should clearly be avoided.

2. Supplier's right to unilaterally modify contract

38 For long-term contracts, Art. 15 DCD gives suppliers the right to unilaterally alter functionality, interoperability and other main performance features of the digital content such as its accessibility, continuity and security, to the extent those alterations adversely affect access to or use of the digital content by the consumer. The supplier can exercise this right only if certain conditions under subparagraphs (a) – (d) of Art. 15 (1) are met. Leaving aside questions such as whether the supplier should have such right at all, what the alterations are that adversely affect the consumer and whether the supplier should always be able to make alterations positively affecting the consumer,⁶⁰ under option 1 it would be legitimate to ask why should a seller of a smart fridge be denied the right to alter the fridge's food management software to bring it in line with changes in a digital environment. Or why shouldn't a seller or lessor of a smartphone be able to alter its embedded software online if the predispositions of subparagraphs (a) – (d) of Art. 15 (1) DCD are met? This would be even more incomprehensible considering if the car trader would later provide this software separately on a CD or USB key he would be allowed to modify it under Art. 15 DCD, as according to Art. 3 (3) DCD the software supplied on a durable medium would fall under the rules of DCD.

39 Legal difficulties related to smart goods mostly stem from the fact that while the sale of the goods themselves is a one-time transaction, the software embedded in the goods is by nature leading to a long-term contractual relationship.⁶¹ This indicates

60 As an example, such right has been granted to the lessor under Estonian rules on lease contracts (§§ 283-284 of LOA). True, under Estonian law, only a thing, i.e. a tangible item can be the object of a lease contract (§ 274 of LOA). It cannot be precluded, though, that the courts would apply by analogy the provisions concerning lease contracts to digital content.

61 The European Law Institute's Statement on the DCD raises even the question whether we should re-consider the whole concept of sales contract. *European Law Institute*, Statement on the European Commission's Proposed Directive on the Supply of Digital Content to Consumers, <http://www.europeanlawinstitute.eu/fileadmin/user_upload/p_eli/Publications/ELI_Statement_on_DCD.pdf>, 12.

again that option 2, which would enable to apply the long-term contracts rules of DCD to embedded digital content, is better fitted to the nature of smart goods. True, modifying embedded digital content remains possible also under option 1, but in that case traders have to follow the national rules concerning unfair terms which currently differ from Member State to Member State.

VII. Specific rules regarding personal data

40 Ultimately, the application to digital content of one or the other set of rules also determines whether the specific data provisions of the DCD will be applied; in particular, the rules concerning the effects of termination in relation to consumer data provided to the supplier (Art. 13 (b) and (c) DCD). These provisions would not be applicable under option 1. It has already been claimed that such a result would lead to a serious gap in consumer protection.⁶² Nevertheless, a consumer who has purchased or leased a smart good (a data subject according to General Data Protection Regulation, GDPR⁶³) would preserve the rights given by the GDPR even if provisions on digital content are not applied, and the European Data Protection Supervisor has already warned that two parallel regimes could create legal confusion.⁶⁴

1. Obligation to refrain from the use of consumer data

41 Where the consumer terminates the contract, the supplier shall take all measures which could be expected in order to refrain from the use of the counter-performance other than money which the consumer has provided in exchange for the digital content and any other data collected by the supplier in relation to the supply of the digital content including any content provided by the consumer

62 *European Law Institute*, Statement on the European Commission's Proposed Directive on the Supply of Digital Content to Consumers, <http://www.europeanlawinstitute.eu/fileadmin/user_upload/p_eli/Publications/ELI_Statement_on_DCD.pdf>, 10.

63 Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation), OJ L 119/1 of 4.5.2016.

64 Opinion 4/2017 on the Proposal for a Directive on certain aspects concerning contracts for the supply of digital content, <https://edps.europa.eu/sites/edp/files/publication/17-03-14_opinion_digital_content_en.pdf>, 8-19.

with the exception of the content which has been generated jointly by the consumer and others who continue to make use of the content (Art. 13 (2) (b) DCD). Put simply, the supplier has to stop using the consumer's personal as well as any other data and user-generated content (such as photos, music files, videos or poems created by the consumer and uploaded onto social media).

42 A similar obligation may result for the data controller from Articles 17 and 18 GDPR. The outcomes are not legally identical however. On the one hand, the obligation provided under subparagraph (b) of Art. 13 (2) DCD to refrain from using the consumer's data is somewhat narrower than the obligation to erase personal data provided in Art. 17 GDPR, as refraining from the use of data does not necessarily imply their deletion. On the other hand, the said obligation under DCD is broader than the right to restriction of processing established in Art. 18 GDPR, the latter being provisional in nature while the obligation to refrain from using data upon termination of contract being of permanent character.⁶⁵ The two measures are also distinguished by purpose: Art. 13 (2) (b) DCD intends to regulate the restitution consequences deriving to the parties' relationship from the termination of a contract. Art. 17 GDPR, on the other hand, is largely associated with the fundamental rights of the data subject and aims, inter alia, to strike a balance between the data subject's fundamental right to privacy (right to be forgotten) and other fundamental rights such as freedom of the press.⁶⁶ In addition, Art. 17 GDPR is an expression of the principles of data minimisation and fair and transparent data processing.⁶⁷

43 The point in time at which the data controller should stop using the data is also different according to Art. 17 (1) (a) GDPR and Art. 13 (2) DCD. Under the GDPR the data controller must refrain from using the personal data as soon as the data are no longer necessary in relation to the purposes for which they were collected or otherwise processed (Art. 17 (1) (a) GDPR) or when the data subject withdraws his consent and where there are no other legal grounds for the processing (Art. 17. (1) (b) GDPR). Further, Art. 17 (1) (c) GDPR provides that the data controller is required to erase data in certain cases where the data subject objects to the processing of his data and there are no overriding legitimate grounds for the processing. According to Art. 13 (2) DCD, the obligation to refrain from the use of data arises when the consumer terminates the contract

for the supply of digital content. These moments in time may, but do not necessarily coincide, and thus the coexistence of two parallel regimes would indeed be confusing for the trader and the consumer alike. The supplier may even get the impression from the provision of Art. 13 (2) (b) DCD that a valid (i.e non-terminated) contract for the supply of digital content in any case constitutes a legitimate interest to use the consumer's personal data.

44 It follows from the above that, as regards personal data, the consumer's right to claim refraining from the use of his or her personal data is sufficiently protected under the GDPR and thus the level of protection of consumer rights would not be notably lower under option 1. However, the use of option 2 would be more advantageous to the consumer by putting an obligation on the supplier to also refrain from the use of other data⁶⁸ and user-generated content after the termination. In relation to the latter, Art. 13 (2) (b) DCD in conjunction with Art. 19 DCD would also invalidate clauses often contained in the standard contractual terms whereby the consumer grants the trader a licence for the use of his or her user-generated content also after the termination of the contract.

2. Obligation to return consumer data and user-generated content.

45 According to Art. 13 (2) (c) DCD, the supplier shall in the event of termination provide the consumer with technical means to retrieve all content provided by the consumer and any other data produced or generated through the consumer's use of the digital content to the extent that data has been retained by the supplier. The consumer shall be entitled to retrieve the content free of charge, without significant inconvenience, in reasonable time and in a commonly used data format. It should be underlined that contrary to subparagraph (b) of Art. 13 (2) DCD the wording of subparagraph (c) does not include the consumer's personal data but only "other data", and user-generated content.

46 For personal data, a comparable right of the consumer as the data subject is laid down in Article 20 GDPR.⁶⁹ This article, providing for data

65 However, even upon termination of the contract the supplier can retain a limited right to the use of data for the establishment, exercise or defence of legal claims under Art. 17 (3) GDPR.

66 Recital 65 of GDPR.

67 Paal in: Paal/Pauly (ed.), *Datenschutz-Grundverordnung*, 2017, Art. 17 para 7.

68 In the future, however, most of consumer data will be considered personal data within the meaning of GDPR. Opinion 4/2017 on the Proposal for a Directive on certain aspects concerning contracts for the supply of digital content, <https://edps.europa.eu/sites/edp/files/publication/17-03-14_opinion_digital_content_en.pdf>, 11>. Therefore the importance of "other data" in Art. 13 (2) DCD will diminish considerably.

69 See a profound comparative analysis of both regimes by Janal, *JIPITEC* 2017, 59 et seq. She criticizes the current

portability, grants the data subject both the right to demand that the personal data be transferred to him or her, and the right to have the personal data transmitted directly from one controller to another, where technically feasible. Personal data can be requested by the consumer in a commonly used data format and as a rule, free of charge (Art. 12 (5) GDPR). Nevertheless, GDPR does not provide for the right to demand transfer of user-generated content (which is not necessarily personal data, like nature photos taken with a tablet computer) or other data (such as anonymised technical data created by the consumer's connected car).⁷⁰ The consumer can claim this only under Art. 13 (2) (c) DCD. In addition, Art. 13 (2) (c) DCD stresses that the consumer is entitled to receive the data in reasonable time and without significant inconvenience.

- 47 Regarding the choice between options 1 and 2, option 1 would leave the destiny of data upon the termination of contract to be determined solely by rules on goods. In other words, the consumer's right to receive data and demand refraining from the use of data would be limited to what has been provided in the GDPR, that is only personal data. In any case, the consumer would not be entitled to demand refraining from the use of any other data generated by embedded digital content or user-generated data, nor to claim the return of such data.
- 48 Under option 2, the consumer would be able to demand this pursuant to Art. 13 (2) DCD. The consumer would have such right also in relation to leased items containing embedded digital content. This would be the case for instance, where a consumer has leased a car and when he returns it, wishes to receive the anonymised technical data gathered by the car; or where a consumer has leased a smart phone or tablet computer and used it for taking nature photos. Under option 2, also the consumer who is a lessee would be able to demand return of such data.

D. Pros and cons of the options

- 49 Before weighing up the different options, it should be underlined that neither the application of rules on goods nor the application of rules on digital content determines who it is that the consumer should approach as regards a non-conformity of embedded digital content. Notwithstanding whether the European legislator chose option 1 or 2, the consumer can use remedies only against his or her

contracting party. For instance, in the case of the lack of conformity of the OS or pre-installed apps of a smart phone, the consumer can turn to the store which sold the phone. The question is simply which is the legal regime that ought to be used as the basis for assessing the consumer's claims.

- 50 Similarly, neither of the options would solve the problems arising from the fact that a third party comes into play to enable the consumer uses a functionality of a smart good (even if the necessary software has been integrated into the product).⁷¹ Regulating such situations needs supplementary legislative action.
- 51 The most obvious advantage of option 1 is the fact that at least at first sight a general principle applying goods rules to goods would be clearer and more understandable - goods are goods, even if smart. For both ordinary consumers and lawyers not specialising in IT law, such splitting of applicable legal regime whereby, for instance, a smart TV would be subjected in parallel to the provisions on digital content and those on goods, would be confusing and highly complicated. Indeed, traders' liability for other kinds of in-built technology (such as Bluetooth) is governed by rules on goods. On the other hand, as there is no special contract law directive concerning such technologies, it is obvious that such legal problems do not arise. Not least important is the fact that under option 1 it would not be necessary to establish whether a non-conformity has its origin in software or hardware, in order to determine the applicable set of rules.
- 52 As a negative aspect of option 1, those applying the law would be confronted with complicated problems of delimitation where they need to draw a line between cases of embedded digital content and mixed contracts.⁷² Moreover, one also has to decide what constitutes a main functionality or the essential characteristics of a good - a concept that is changing in time and can lead to arbitrary results.
- 53 Option 2 would avoid these delimitation problems: rules on digital content are always applied to digital content regardless of whether it is embedded in a good or downloaded later. Thus, opting for option 2 would solve the inconsistency of regulatory policy that would evolve under option 1. Namely, in case of option 1 the software additionally supplied to the consumer (such as an additional set of navigation maps for a car, but probably also updates to the OS of a phone) would be treated differently under the law than original embedded software. Likewise, the transfer of certain functionalities of

wording of Art. 13 (2) DCD for being applicable only to certain cases of termination and for not containing a reasonability restriction.

⁷⁰ *Janal*, JIPITEC 2017, 67.

⁷¹ For more on these problems, see *Wendehorst*, in: *Wendehorst/Zöchling-Jud*, 60-66.

⁷² *Wendehorst*, in: *Wendehorst/Zöchling-Jud*, 56.

domestic appliances from inside the goods to the cloud environment would have different legal consequences than leaving the software performing these functions into the goods.⁷³ E.g. where a consumer is using a remote control for TV (which includes appropriate software), it would be governed by goods rules under option 1, as there is embedded software subordinated to the main functionalities of the TV set. By contrast, where the particular TV manufacturer has replaced the “normal” remote control with a remote control app that can be installed to the consumer’s smart phone,⁷⁴ the rules on digital content would be applied to the app under option 1, as there is no software embedded into the product. Thus, the software performing the function of TV control would be governed by goods rules on one occasion and rules on digital content on the other.

- 54 One more advantage of option 2 would be the possibility to apply digital content rules to the embedded content of goods not only to sales contracts but also in the case of lease agreements, currently uncovered by EU law. Leasing and sharing things instead of buying them is a growing trend; increasingly consumers prefer to lease a car, TV, laptop, or even a smartphone. Similarly, e-books and downloadable software are being supplanted by streaming and cloud services. Thus, under option 2, both the national provisions concerning lease agreements and the provisions of DCD would apply to a leased connected car or smart TV. Under that solution the lessor of a connected car would be required to return his or her “other data” to the consumer (Art. 13 (2) (b) DCD) upon termination of the lease agreement because of the non-conformity of its anti-lock brake software. The consumer could also benefit from its more favourable provisions regarding burden of proof and supplier’s liability (Art. 9 (1) and Art. 10 DCD). The trader, on the other hand, would be allowed to make necessary modifications in the software if the preconditions of Art. 15 DCD are met. Depending on the rules of national lease law this could be more (or less) favourable for the consumer, but would in any case establish EU-wide uniform rules for businesses.
- 55 The modified option 2 – applying DCD both to embedded digital content as well as to the hardware would solve certain problems while at the same time creating new ones. Applying Art. 16 to the whole smart good would mean that the consumer could terminate a 5-year lease contract of a car after one year just because it has some embedded digital content in it – and nowadays most of the cars do.

Moreover, if taken literally, Art. 15 would entitle the supplier to modify not only the embedded digital content but also the hardware of the good. If sales rules would not apply to smart goods anymore, then the application of the commercial guarantees provisions of CSD and OSD would be excluded and it is unclear whether the passing of risk rules of Art. 20 CRD remain applicable. Quite clearly, these consequences cannot be intended.

- 56 As the legislative process in EU seems to exclude “digitalisation” of sales law at the moment, the principle that any digital content, including embedded digital content is governed by the rules of DCD (option 2) would be preferable. To save the consumer from facing the difficult problems of proof, that is, establishing whether a non-conformity of a smart good lies with digital content or hardware, it would be necessary to adopt the rule which would enable the consumer to rely on rules on digital content, except where the trader proves that the non-conformity lies within hardware. This exception could be supplemented by the clause familiar from Art. 5 (3) CSD: “unless this presumption is incompatible with the nature of the goods or the nature of the lack of conformity”. The split contractual regime is no doubt complicated from the legal point of view but at least avoids arbitrary results and inconsistencies of option 1 and would also be more beneficial for the consumer.

E. Conclusion

- 57 The approach taken by the European Commission - regulating contracts for the supply of digital content based on their object - has led to a situation where the legislator has to choose whether to subject one component of smart goods (embedded digital content) to a legal regime different from that applicable to the other parts of such a good. In principle, there are two options up for discussion: (i) apply goods rules to the entire smart good, including embedded digital content; or (ii) apply goods rules to goods and the rules of DCD to (also embedded) digital content. A modified option 2 would be to subject the whole smart good (including hardware) to the DCD rules.
- 58 If to prefer option 1, the scope of application of the provisions of DCD depends on the definition of embedded digital content. The narrower it is defined the less there will be smart goods subject solely to the rules on goods (for instance, DCD would be applied to later downloaded apps of a smartphone whereas rules on goods would only be applied to operating systems and probably also to pre-installed apps). And the other way round, the broader the definition of embedded digital content, the more often smart

⁷³ Cf *Spindler*, ERCL 2016, 189; *Wendehorst* in: *Wendehorst/Zöchling-Jud*, 54-55.

⁷⁴ See, for instance, Samsung Smart TV and Samsung Remote App. <http://www.samsung.com/global/article/articleDetailView.do?atcl_id=20>.

goods are covered by goods rules only. It should be emphasised that the definition of embedded content is of substantial significance only regarding option 1: under option 2, DCD would apply to any kind of digital content, either embedded or not.

- 59 Option 2 has a number of substantial and regulatory policy advantages; namely, the fact that in that case the provisions of the DCD would also apply to leased goods with embedded digital content and avoids substantial inconsistencies. Choosing option 2, however, creates a split-regime for the smart good and poses the difficult question of whether and how to prove which component of a good (hardware or digital content) is the source of the non-conformity and which rules to rely on when deciding on the consumer's remedy. Ultimately, the answer depends on who should bear the proof-related risks deriving from the increasingly complicated nature of smart goods. As it is mostly impossible for the consumer to prove the source of origin of a defect without an expert opinion, the risk should be borne by the trader, except where the source component of the lack of conformity is obvious.
- 60 Modification of option 2 - i.e. subjecting the whole smart good to the DCD unless the trader proves that the defect lies within hardware - would mean a major shift in the European and national contract law as the sale or lease of all smart goods would then be subject to the DCD and not the CSD, OSD or national leasing law. Applying e.g. Art. 5, 15 or 16 DCD and not applying commercial guarantees provisions of CSD or OSD to the hardware would lead to clearly unwanted consequences.
- 61 One must also bear in mind that opting for one or another option will not solve numerous legal problems associated with digital goods and services and IoT. In any case, adopting the DCD would mean adding a next layer to the already intricate system of rules regarding consumer contracts. Thus, a connected car or a smart fridge bought using a consumer credit would be subject to no less than five EU directives concerning consumer rights: CSD (or if bought on-line, OSD), DCD (which would certainly apply to later software updates), Consumer Credit Directive (or, if the loan for buying a connected car is secured by mortgage, then Mortgage Credit Directive), CRD, and Unfair Terms Directive. In other words, the legal framework applicable to buying smart goods will be at least as complicated as their technology.

Standards for Duty of Care?

Debating Intermediary Liability from a Sectoral Perspective

by **Carsten Ullrich***

Abstract: The EU's current regulatory framework for the content liability of online intermediaries was created in 2000 with the E-Commerce Directive (ECD). Already in those days, during the run-up to the ECD, there was an intense debate regarding whether a light-touch approach or more stringent content liability regime for intermediaries would be the appropriate way forward. 20 years later the debate is essentially led from the same angle, but has predictably, increased in complexity as the internet makes massive strides in transforming the "offline" world. There are those who argue that a purely horizontal approach in regulating internet intermediaries, or online platforms, remains sufficient. Others think the time has come to reflect the disruptive entrances online platforms made in various sectors of society in more vertical changes affecting substantive law. The EU Commission sits on the fence it seems, however. In its communication on online platforms and the digital single market, the Commission announced last year that it would leave the current intermediary liability regime as it is for now "while implementing

a sectoral, problem-driven approach to regulation". This paper will map out and critically evaluate some current sectoral (read vertical) regulatory developments, which may affect intermediary liability. It will look at recent, more top-down approaches proposed by the EU (e.g. in copyright), as well as self-regulatory efforts. This will be compared to less publicized developments, which have notably taken place in the area of product and financial regulation affecting ecommerce, such as for example efforts to combat the sale of fake medicines, unsafe products online, or anti-money laundering compliance. In these areas, it is argued that regulatory authorities have more proactively engaged online platforms, both on a legislative and practical level. A special focus in this context will be on the role of reasonable duties of care which intermediaries may be required to apply in order to detect and prevent infringements. Could these more "grassroots" developments and the convergence of online and offline worlds provide blueprints to encourage the development of a new content liability framework based on sectoral duties of care?

Keywords: Intermediary liability; regulation; sectoral approach; self-regulation; reasonable duties of care

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A. Introduction[†]

1 The debate over internet regulation began since the internet started to make an increasing impact on culture and the economy. As a purely illustrative example, a contribution from 1995 by Euan Cameron & Caitriona Hegarty¹ argued that

existing substantive law was apt to deal with the transformations introduced by the internet and that the main challenge would be one of enforcement. For copyright - which is one of the more prominent examples discussed - the paper submits that rights owners who take advantage of the new infrastructures should be left with the task of looking

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1 Caitriona Hegarty and Euan Cameron, 'Case for Minimal Regulation of Electronic Network Communications' <<http://bileta.ac.uk/content/files/conference%20papers/1995/Case%20for%20Minimal%20Regulation%20of%20Electronic%20Network%20Communications.pdf>> accessed 3 January 2017.

after enforcement challenges posed by new means of exploitation. The traditional distinction between service provider and facility user may be blurred by the internet - a smart prevision of the debate over the “neutral” and “passive” character of an information service provider, culminating in *L’Oréal v eBay*² 15 years later. Finally, regulation, according to the paper, should be kept to a minimum to allow the internet to flourish. Self-regulation would be the most suitable means to facilitate experimentation and new possibilities of global connectivity and expression.

- 2 One could argue that this view was borne out in the EU E-Commerce Directive in 2000,³ which established general and horizontally available conditions under which an information service provider (ISP) could be held liable for content posted on its network.
- 3 Substantive law on copyright was indeed adapted to electronic communications developments in 1996, one year after the appearance of the above article, when the 1996 WIPO Internet Treaties⁴ introduced the public communication and distribution rights. These were then introduced into EU law by the InfoSoc Directive⁵ in 2001.
- 4 However, even those early days were not free from considerations of a more hands-on regulatory approach towards the information transmitted and hosted by online intermediaries. The reasons for this were principally based on a logic, which looked to retrospective responsibility in the absence of other suitable actors.⁶ It was based on the central role online intermediaries played as gatekeepers and infrastructure providers for various forms of content. The internet posed an entirely new regulatory challenge because it made matters of jurisdiction, detection and enforcement more complex. With the prospect of individuals’ prosecution being of small effect and perpetrators difficult to get hold

of, intermediaries were the only “tangible” actors relatively easy to locate. On the other hand, those voices arguing for a lighter approach towards internet and intermediary regulation were also using economic and moral arguments and technical challenges of policing the internet as justification for a light-touch approach.⁷

- 5 Over 20 years later the debate is essentially led from the same angle, but has predictably, increased in complexity as the internet makes massive strides in transforming the offline world and does indeed challenge some substantive legal concepts (e.g. copyright). There is still the view which cautions against moving away from the current horizontal approach in regulating intermediaries or online platforms, pointing towards largely consistent judgements by the CJEU as proof for the adequacy of the current regime.⁸ However, voices calling for a more robust regulatory approach - including mandating of a more proactive role of intermediaries or online platforms - in combating infringing content have become more frequent.⁹ The assumptions, which underpinned the original liability regime, have changed. First, the industry itself has come of age and is economically more viable. Secondly, intermediaries now engage in activities beyond pure data hosting. They directly benefit from hosting by gaining revenue through advertising add-on services such as display optimization or using traffic data. This puts a new perspective on the technical and automatic character of their activities. Finally, filtering technology has advanced in a way that makes effective monitoring for infringing content more feasible.¹⁰ These considerations can also be

² *L’Oréal (UK) Ltd v eBay International AG, eBay Europe SARL, eBay (UK) Ltd and others*, C-324/09 [2011] ECLI:EU:C:2011:474 (CJEU).

³ Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market, OJ L 187 2000.

⁴ WIPO Copyright Treaty (WCT) and WIPO Performances and Phonograms Treaty (WPPT) (1996), in particular Art. 8 WCT.

⁵ Directive 2001/29/EC, OJ L 167, 22/06/2001 (InfoSoc Directive), Art 3; This gives authors or right holders the exclusive right to communication of their works to the public including making it available “in such a way that members of the public may access them from a place and at a time individually chosen by them.”

⁶ Anton Vedder, ‘Accountability of Internet Access and Service Providers – Strict Liability Entering Ethics?’ (2001) 3 Ethics and Information Technology 67, 69–70.

⁷ Graham Pearce and Nicholas Platten, ‘Promoting the Information Society: The EU Directive on Electronic Commerce’ (2000) 6 European Law Journal 363, pp. 370–376, Lilian Edwards, ‘The Fall and Rise Of Intermediary Liability Online’, *Law and the Internet* (3rd ed, Hart Pub 2009) 84–87.

⁸ See for example Eleonora Rosati, *Why a Reform of Hosting Providers’ Safe Harbour Is Unnecessary under EU Copyright Law* (Zenodo 2016), and Giancarlo Frosio F, ‘Reforming Intermediary Liability in the Platform Economy: A European Digital Single Market Strategy’ [2017] Northwestern University Law Review Online.

⁹ See the more holistic argumentations of Frank Pasquale, ‘Platform Neutrality: Enhancing Freedom of Expression in Spheres of Private Power’ (2016) 17 Theoretical Inquiries in Law 487., Robin Mansell, ‘The Public’s Interest in Intermediaries’ (2015) 17 info 8., and specifically related to infringing content Peggy Valcke, Aleksandra Kuczerawy and Pieter-Jan Ombelet, ‘Did the Romans Get It Right? What Delfi, Google, eBay, and UPC TeleKabel Wien Have in Common’ <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2839213> accessed 2 March 2017. Or Mariarosaria Taddeo and Luciano Floridi, ‘The Debate on the Moral Responsibilities of Online Service Providers’ (2016) 22 Science and Engineering Ethics 1575.

¹⁰ D Friedmann, ‘Sinking the Safe Harbour with the Legal Certainty of Strict Liability in Sight’ (2014) 9 Journal of

traced through CJEU case law, which sought to adapt to the evolving business models and technical activities of hosting providers when looking at the liability exemption for information service providers.

¹¹ Additionally, service providers, as economically viable and powerful gatekeepers of access to the internet, are increasingly charged with a moral obligation to act responsibly and apply duties of care on the lines of corporate social responsibility.¹² As the intermediary landscape diversifies, those ethical norms may call for different kinds of sectoral duties of care depending on the area of infringement.¹³ The problem with these increased responsibilities is that private actors will be required to judge on the legality of a huge variety of content. This problem may negatively affect freedom of expression and information.

- 6 However, it seems that the EU Commission sits on the fence. In response to the results of the “Public Consultation on the Regulatory Environment for Platforms” launched in 2015, the Commission announced last year that it decided to leave the current intermediary liability regime of the ECD as it is for now “while implementing a sectoral, problem-driven approach to regulation”.¹⁴ It still would review, however, in parallel the need for guidance on voluntary, good faith measures and Notice-and-Takedown (NTD) frameworks for online platforms.¹⁵ The consultation had found that 50% of respondents saw the current ECD liability regime as not fit for purpose, citing dissatisfaction with national case law.¹⁶ Moreover, the majority of respondents demanded that further categories of intermediary services be defined, as well as a more differentiated policy approach towards the type of illegal or

infringing content.¹⁷ In addition, most intermediaries maintain that the national application of the concept of the E-Commerce Directive of a “mere technical, automatic and passive nature”¹⁸ of transmission of information by intermediaries needs to be clarified. The legal uncertainty surrounding the concept is inhibiting investment.

- 7 This paper will map out some recent sectoral (i.e. vertical) developments with regards to content hosted by online platforms or ISPs. In the second section, following the introduction, it will review a series of legislative proposals by the EU Commission affecting ISPs and look also at policy developments in the area of trademarks, where no equivalent proposals have been made so far. First, changes to the law that were recently proposed by the European Commission in the area of copyright will be reviewed. Second, sectoral regulatory trends with regard to child protection, hate speech, and fake news will be assessed; in particular, the recent draft proposal of the Audiovisual Media Services Directive (AVMSD)¹⁹ concerning video sharing platforms (VSPs). In addition, efforts to combat this kind of content on other types of platforms will be assessed. For these proposals, the impact on the liability exemption provisions in Articles 14 and 15 of the ECD will be assessed. The review will also include a short excursion into recent national attempts to regulate hate speech and fake news, notably in Germany. The paper will then look at the sectoral challenges with regards to trademark infringements; namely, the sale of counterfeit products on e-commerce sites, where so far no regulatory reform proposals have been made. Section III will then present other more “grassroots” sectoral developments, which have notably taken place in the area of product regulation affecting e-commerce. It will first review national and EU efforts to combat the online sale of fake medicines; secondly, regulatory and enforcement trends in online food retail; thirdly, non-compliant electronic products; and lastly look at anti-money laundering due diligence measures employed in the financial sector. The aim of this broader than usual review is twofold. First, the paper will investigate the impact of these developments on the ECD Articles 14 and 15, specifically the increasingly difficult distinction between specific infringement prevention (Article 14) and the preclusion of a general obligation to monitor (Article 15). Secondly, it will review the impact of these developments on

Intellectual Property Law & Practice 148, pp. 152–153.

- 11 See the consideration of the CJEU in *Google France, Google Inc v Louis Vuitton Malletier*, C-236/08 CJEU [2010] ECLI:EU:C:2010:159 (CJEU). *L'Oréal v eBay* (n 2)., through to the recent ruling in *GS Media BV v Sanoma Media Netherlands BV, Playboy Enterprises International Inc, Britt Geertruida Dekker*, C-160/15, [2016] ECLI:EU:C:2016:644 (CJEU)., *Delfi AS v Estonia*, no 65469/09 (ECtHR (Grand Chamber)).
- 12 Taddeo and Floridi (n 9).
- 13 Valcke, Kuczerawy and Ombelet (n 9). who analyze the duty of care considerations in the recent CJEU and ECtHR judgements in this area.
- 14 EU Commission, ‘Online Platforms and the Digital Single Market Opportunities and Challenges for Europe COM(2016) 288 Final’ p. 9.
- 15 Ibid.
- 16 EU Commission, ‘Synopsis Report on the Public Consultation on the Regulatory Environment For Platforms, Online Intermediaries and the Collaborative Economy’ <<https://ec.europa.eu/digital-single-market/en/news/results-public-consultation-regulatory-environment-platforms-online-intermediaries-data-and>> accessed 29 March 2017. p. 15.

17 Ibid. p.16.

18 Ibid. pp. 15–16, and as stated in Recital 42 of ECD, 2000/31.

19 Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2010/13/EU on the coordination of certain provisions laid down by law, regulation or administrative action in Member States concerning the provision of audiovisual media services in view of changing market realities, COM(2016) 287 final 2016.

efforts to define reasonable duties of care which intermediaries may be required to apply in order to detect and prevent infringements.²⁰ It is submitted that developments in online market surveillance in the area of product regulation, with its strong focus on standardization and industry co-regulation, could serve as a useful example for developing standardized duties of care. Accordingly, a focus will be on EU and national efforts to promote industry self- and co-regulation.²¹ This idea will be taken up with a view to understand how far standardization across sectoral areas can help to bring about more codified, sectoral duties of care as a core element of a new regulatory approach towards intermediaries.

- 8 It should be mentioned that the sectoral outline offered here has its limitations. Given the restrictions of space, depth of coverage has succumbed to breadth. The review concentrates on the recent regulatory proposals and their impact on intermediary liability in the strictest sense. Therefore, a more thorough analysis with regards to substantive law (e.g. the right of communication to the public in the latest copyright directive proposal) and its impact on online platforms, or a more detailed review of applicable case law, has not been undertaken. Consequently, this paper will also not analyse the current regulatory framework, for example, in the area of copyright or audiovisual media services in deeper detail. It will concentrate on recent EU policy proposals and other sector developments in the area of ISP liability and offer a forward looking proposition to incorporate experience from the area of product regulation to define standardized duty of care regimes for ISPs.

B. Sectoral Review

I. Copyright

- 9 The EU Commission announced that as part of its sectoral, problem driven review of intermediary liability, it would first focus on copyright.²² This is not surprising. Intellectual property rights and copyright specifically, were the legal subject areas most rapidly and substantially affected by the arrival of the internet and online intermediaries. The digitization of cultural goods, such as music, literature and films, in connection with the ubiquitous nature of the internet, meant that copyrighted material can be multiplied, accessed and

distributed widely, instantaneously and without loss in quality. Hence the early cross references between the ECD and InfoSoc Directives²³ in 2001, and the IP Enforcement Directive (IPRED)²⁴ in 2004. Since their inception, the ECD's Articles 12 - 15 have been used to a vast extent to determine ISP's liabilities with regards to intellectual property infringements online. This is played out in relevant case law, which deals overwhelmingly with the communication to the public and use of copyright protected works, or the illegitimate sale, advertisement, or use of trademark protected goods and services. Consequently, academic attention is also focussed on the interplay between ISPs and the enforcement of IP rights. For purely illustrative reasons, a keyword search (using Google scholar) returned 1,890 results when searching for "e-commerce directive" in conjunction with "copyright" and 777 results for "trademark". By contrast, one obtains substantially fewer results when coupling "e-commerce directive" with "medicines" (127) and "product safety" (88) or "food safety" (37).²⁵

- 10 True to its communication, following the consultation on online platforms and the Digital Single Market (DSM), the EU Commission published its proposals for a new Directive on copyright in the Digital Single Market (DSM)²⁶ in 2016. These proposals have attracted immediate criticism²⁷: 1) despite the announcement to the contrary, the provisions in Article 13 of the copyright directive would alter the current intermediary liability regime and impose stricter liability provisions on online platforms; 2) the proposals would be in conflict with Article 15 of the ECD, which precludes the imposition of general monitoring obligations on ISPs. For the purposes of this article, the analysis will be limited to the proposed Articles 13 of the new copyright directive, which relate specifically to Articles 12 - 15 of the ECD and its relevant Recitals²⁸ concerning

20 Ibid. Recital 48.

21 Hegarty and Cameron (n 1), p. 7.

22 EU Commission, 'COM(2016) 288 Final' (n 14).

23 Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, OJ L 167 2001. Recital 16.

24 Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights, OJ L 157 2004. Art. 2.

25 Search conducted on 03/03/2017.

26 Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on copyright in the Digital Single Market, COM(2016) 593 final 2016.

27 See the responses by Frosio (n8), European Copyright Society, 'General Opinion on the EU Copyright Reform Package' (24 January 2017) <<https://europeancopyrightsocietydotorg.files.wordpress.com/2015/12/ecs-opinion-on-eu-copyright-reform-def.pdf>> accessed 3 March 2017., Sophie Stalla-Bourdillon and others, 'An Academic Perspective on the Copyright Reform' (2017) 33 Computer Law & Security Review 3.

28 The relevant ECD Recitals are: 42, 45 - 49. Recital 42 ties the

intermediary liabilities.²⁹

- 11 Draft Article 13 is contentious because it appears to have given consideration to industry pressure to use copyright as means to modify the safe harbour provisions through the backdoor.³⁰ Recital 38 states that “where information society providers store and provide access to the public to copyright protected works... and performing an act of communication to the public, they are obliged to conclude licensing agreements with rights holders”³¹ unless they are covered by the liability exemptions of Art. 14 ECD. The text becomes more contentious when looking at the qualifying comments with regards to the role of the ISP. Recital 38 has an almost identical rendition of the judgement in *L’Oréal v eBay*,³² when it says that the ISP’s may acquire an active role by “optimising the presentation of the uploaded works or subject-matter or promoting them”.³³ By contrast, the Commission’s add-on in the same sentence, that the means by which that optimisation is achieved shall be not taken into account, contradicts what had been said by the CJEU in that same judgement. At the time, the CJEU actually referred the matter back to the national court for an examination of the concrete circumstances to decide whether eBay had played such an active role.³⁴ Unfortunately, the application by the UK High Court to which the case was referred back never occurred as the two parties settled in 2014.³⁵ However, it seems that the Commission’s wording would now pre-empt any such assessment. The risk is that this potentially disqualifies ISPs providing structured and optimised content presentation for their content uploaders from the availability of the liability exemption in

availability of the liability exemptions to the “mere technical, automatic and passive nature” of the ISPs activity. Recitals 45 – 49 concern the preventive infringement measures member states can impose on ISPs, while precluding the obligations of general monitoring. They also mention the possibility to require service providers to duties of care for detecting and preventing infringements and to develop voluntary codes of conduct.

- 29 As mentioned above a review of changes in substantial copyright despite of the effect on the scope of copyright protection and extended potential liabilities shall not be undertaken here. The focus of this article is on infringement prevention and duties of care.
- 30 Augustin Reyna, ‘A Tale of Two Industries: The “Value Gap” Dilemma in Music Distribution’ <<https://policyreview.info/articles/news/tale-two-industries-value-gap-dilemma-music-distribution/421>> accessed 3 June 2017.
- 31 See Copyright Directive Proposal (n 26), Recital 38.
- 32 *L’Oréal v eBay* (n 2). Para [116].
- 33 *Ibid.*
- 34 *L’Oréal v eBay* (n 2). Para [117].
- 35 Alex Lawson, ‘L’Oreal, eBay Strike Pact To End Counterfeit Goods Scuffle’ *Law360* (15 January 2014) <<https://www.law360.com/articles/501675/l-oreal-ebay-strike-pact-to-end-counterfeit-goods-scuffle>> accessed 7 March 2017.

Art. 14. While it is true that recent case law may have failed to sufficiently assess the role played by ISPs in the way they structure their content and in particular combine it with advertisements,³⁶ the blanket qualification offered by Recital 38 seems oversimplified. Despite its original announcement, this would actually alter the current liability regime afforded in the ECD and significantly narrow the availability of the hosting provider defence.

- 12 Draft Article 13 also focuses on the mandating of filtering technologies for the enforcement of the licensing agreements prescribed between rights holders and ISPs. It remains to be seen whether this article *de facto* invalidates Article 15 ECD,³⁷ or whether it is “just” a very broad but specific obligation to prevent infringements (Article 14(3) ECD). CJEU case law has in the past been clear in allowing at a maximum the prevention of already notified infringements and rejecting any further general filtering of content uploaded to a hosting provider’s site.³⁸ This has created a true conundrum which exemplifies the problem with the ECD. It was drafted in the last millennium when ISPs and the internet industry were of a different breed and filtering technology was far from what it is today. The changed nature of today’s online platforms has been alluded to above. However, with filtering technology becoming more sophisticated, the actual “tipping point of omniscience”³⁹ for those intermediaries who employ it, is but a matter of time if it has not already been reached. National courts, meanwhile, had to be more pragmatic than the CJEU and the current Commission proposal and adapt to this reality as can be seen in rulings in Germany where courts have engaged in a very detailed evaluation over the kind of duty of care and prevention measures a video platform can be asked to engage in.⁴⁰ It is therefore disappointing that the proposed Article 13 does not take account of these efforts but instead aggravates this unclear situation by further blurring the line between mandatory filtering and the rejection of any general obligation to monitor. It clearly backfires

36 Matthias Leistner, ‘Copyright Law on the Internet in Need of Reform: Hyperlinks, Online Platforms and Aggregators’ [2017] *Journal of Intellectual Property Law & Practice* jpw190, 7. With a specific reference to recent German case.

37 Which precludes member states from obliging ISPs to monitor information stored and transmitted on a general basis.

38 *Belgische Vereniging van Auteurs, Componisten en Uitgevers CVBA (SABAM) v Netlog NV*, C-360/10, ECLI:EU:C:2012:85 (CJEU 2012).at [101].

39 Friedmann (n 10). p. 150.

40 *Haftung der Internetvideoplattform Youtube für rechtswidrige Uploads*, 5 U 87/12 (Hanseatisches Oberlandesgericht Hamburg 5 Zivilsenat). Paras. [363, 364, 370, 477, 481] and a detailed consideration of the Content ID software paras [482-485].

on the legislator that it did not encourage more explicitly, at an early stage, the development of “good Samaritan” efforts to proactively identify and remove infringing content.⁴¹ As it stands, the distinction between specific and general monitoring is becoming obsolete in practice.

- 13 By contrast, the Commission now insists on bringing ISPs and rights holders together to ensure an effective enforcement of the licensing agreements (Draft Article 13). However, the information flow is remarkably one-directional in that ISPs are tasked with providing most of the data on their activities. On the other hand, the detail of the new complaints and redress mechanisms remain patchy. Draft Recital 38 is even more intrusive in that it asks ISPs to share information at an excessive level. For many ISPs their filtering technology is proprietary, and may even be part of more holistic and sensitive fraud detection and investigation activities. It should not be shared with any external third parties, unless explicitly requested by courts and law enforcement authorities. In addition, expecting ISPs to share information on “the type of technologies used, the way they are operated and their success rate for the recognition of right holders’ content” with rights holders, who may be also in contact with competing platforms and other third parties, goes very far. This formulation seems to be informed by rights holder interests and reflects frustration over not getting sufficient information on, for example, repeat infringers or the speed and extent to which intermediaries investigate.
- 14 Moreover, the Commission’s insistence on what appear to be private cooperation agreements between ISPs and rights holders can also be seen critically. Making ISPs, who are privately and commercially motivated actors with decisive power over access to speech and information into copyright enforcement agents for the entertainment industry,⁴² would be a step backward in the quest for an “open, user-centric, interoperable platform ecosystem”, which the internet is supposed to become in Europe.⁴³

II. Protection of minors, hate speech and fake news

- 15 The challenges of vertical legislation in the complex ecosystem in which today’s platforms operate become apparent when looking at the latest proposal to amend the redraft of the Audiovisual Media Services Directive (AVMSD).⁴⁴ The Commission published a proposal to amend Directive 2010/13/EU concerning Provision of Audiovisual Media Services (AMSD) in May 2016 as part of its outcome from the public consultation on online platforms.⁴⁵ While the above proposal on copyright clearly targets all kinds of ISPs, the intermediary liability provisions of Article 28a in the recently proposed re-draft of the AVMSD looks at the protection of minors and at hate speech on video-sharing platforms (VSPs). However, concerns over hate speech and access to material unsuitable for/or abusive towards children are not just an issue concerning video-sharing platforms, but also sites hosting news, blogs, pictures and social media in general. With a consistent sectoral approach the Commission could have targeted this kind of content (be it speech, static, moving images, or sound) across all platforms. For example, the EU Commission recently agreed on a (non-binding) code of conduct with major social media platform operators to combat hate speech and terrorist content.⁴⁶ The press release contains a reference to the NTD mechanism, which resulted from the ECD. In the code of conduct the participating platforms commit, amongst others, to processes for effective notification, review, and removal of hate speech and incitement to violent content (within 24 hours) as well as information sharing on the NTD procedures. The corresponding measures in the AVMSD re-draft (Article 28a) applying to VSPs, are by far more detailed and prescriptive. First, the protection afforded through Article 14 ECD for VSPs is not clear. The Commission refers to the Article 14 (ECD) liability exemptions⁴⁷ but specifies that where the VSPs have control over the organisation of the content, protective measures should apply to the organisation of that content and not to the content

41 Leistner (n 36) p. 6.

42 Enrico Bonadio, ‘File Sharing, Copyright and Freedom of Speech’ (2011) 33 E. I. P. R 619, 628.

43 EU Commission, ‘COM(2016) 288 Final’ (n 14) p. 4.

44 ‘Proposal for a directive of the European parliament and of the Council Amending Directive 2010/13/EU on the Coordination of Certain Provisions Laid down by Law, Regulation or Administrative Action in Member States Concerning the Provision of Audiovisual Media Services in View of Changing Market Realities, COM(2016) 287 Final’ (2016).

45 Proposed AVMSD amendment (n 19).

46 ‘European Commission and IT Companies Announce Code of Conduct on Illegal Online Hate Speech’ <http://europa.eu/rapid/press-release_IP-16-1937_en.htm> accessed 9 March 2017. and ‘Code of Conduct on Countering Illegal Hate Speech Online’ (2016) <http://ec.europa.eu/justice/fundamental-rights/files/hate_speech_code_of_conduct_en.pdf> accessed 9 March 2017.

47 Proposed AVMSD amendment (n 19).

as such. This is ambiguous. In order to organize the content in the way specified in Article 28a (by applying age verification, parental control) the nature of the content would necessarily have to be monitored in some way, unless the platforms rely fully on the user to flag and categorize restricted content. It can be argued however, that in order to offer efficient protection, VSPs would need to accompany user-driven categorization by some due diligence measures, e.g. audits, spot checks. That in itself would involve - if done properly and effectively - analysing, i.e. filtering and screening content. As mentioned above, the proposal appears to not fully take into account the realities of what platforms may be able to do already as part of their risk management activities. In addition, as in the copyright directive proposal this is very close, if not congruent, with a general obligation to monitor, which is precluded by Article 15 (ECD). Thus, would this mean that only those VSPs which do not organize the content at all would be exempt from any of the measures listed in Article 28a? The complementation of the ECD, announced in the draft proposal⁴⁸ would actually amount to a *de facto* modification of Article 14 for VSPs. This is even more complicated when considering that, while prescribing maximum protection measures for content that is harmful for minors and for content inciting to violence, Member States may impose stricter measures to combat illegal content if they comply with Articles 14 and 15 ECD.⁴⁹ It is also not clear how any protection measures beyond the maximum set by the proposed directive and in the context of available technology would not result in general monitoring precluded by Article 15 ECD. If anything, these measures introduce more ambiguity and potentially more inequality compared to picture and news/text based platforms and systems. The Commission uses the European Regulators Group for Audiovisual Media Services (ERGA) (Article 30a) to facilitate co-regulation through establishing codes of conduct (Article 4(7)). The development of codes of conduct and standards drawn up under a co-regulatory approach could be seen as a step towards developing technology-based diligence processes. However, in view of the strict measures proposed in Article 28a, ISPs may be hesitant to volunteer any information about their true technical capabilities. Moreover, a truly sectoral approach would have looked at code of conduct for hate speech and child protection across the entire spectrum of intermediaries. It is understood that the Commission may only have had the AVMSD and its extension of scope to VSPs at hand as a legislative

tool to quickly propose regulation in this area. However as it stands, a company like Facebook may now face different obligations and liability risks depending on whether hate speech is posted by video, or as a written article.

- 16 The current debate surrounding “fake news” on social media platforms not only illustrates the politicised environment in which today’s platforms operate but also how their influence and impact on information and news is perceived in society. While the actual effect of fake news in shaping political views and voting behaviour has not yet been proven, it still highlights the importance of social media as an information source.⁵⁰ In fact, fake news may be much more motivated by underlying economics, enabled by a shift in advertising business models on the internet, than targeted misinformation.⁵¹ The phenomenon attracted the attention of legislators in EU Member States and the Commission.⁵² The German Government even proposed a draft “network enforcement” law to oblige social media platforms to delete “hate crime” content which is “obviously infringing” within 24 hours following notification.⁵³ Non-obvious infringing content must be decided on within 7 days. The draft defines

50 Hunt Allcott and Matthew Gentzkow, ‘Social Media and Fake News in the 2016 Election’ (National Bureau of Economic Research 2017) <<http://www.nber.org/papers/w23089>> accessed 10 March 2017. They argue that fake news are mainly part of a long history of conspiracy theory based information and that the actual impact on voting outcomes in the 2016 US Federal Elections is irrelevant. and: Emma Goodman, ‘How Has Media Policy Responded to Fake News?’ <<http://blogs.lse.ac.uk/mediapolicyproject/2017/02/07/how-has-media-policy-responded-to-fake-news/>> accessed 30 March 2017.

51 Damian Tambini, ‘How Advertising Fuels Fake News’ <<http://blogs.lse.ac.uk/mediapolicyproject/2017/02/24/how-advertising-fuels-fake-news/>> accessed 30 March 2017. Demonstrates how the change in advertising models on the internet which enables publishers worldwide, with no or little adherence to professional ethical principles or journalistic standards, to use platforms to publish news and to benefit financially from its spread. In addition, platforms profit financially too from attracting traffic to their sites.

52 The UK Parliament opened an inquiry into “Fake News” in early 2017: UK Parliament, Culture, Media and Sport Committee, “‘Fake News’ Inquiry Launched” (30 January 2017) <<http://www.parliament.uk/business/committees/committees-a-z/commons-select/culture-media-and-sport-committee/news-parliament-2015/fake-news-launch-16-17/>> accessed 30 March 2017., and the EU Commission also reacted to the phenomenon with heightened attention: EU Observer, ‘EU Raises Alarm on Fake News and Hacking’ (11 January 2017) <<https://euobserver.com/foreign/136503>> accessed 30 March 2017.

53 Bundesministeriums der Justiz und für Verbraucherschutz, ‘Entwurf eines Gesetzes zur Verbesserung der Rechtsdurchsetzung in Sozialen Netzwerken’ <https://netzpolitik.org/wp-upload/2017/03/1703014_NetzwerkDurchsetzungsG.pdf> accessed 15 March 2017. p. 7.

48 Ibid 5.p.3.

49 Proposed AVMSD amendment (n 19). Recital 30, and Article 28a (5). The measures mentioned in Art 28a are maximum measures only with regards to content harmful for minors and content inciting to violence and hatred. Stricter measures may apply for illegal content, but they must comply with Articles 14 and 15 ECD.

“hate crime” as libel, defamation, and incitement to hatred, but also includes “punishable fake news”.⁵⁴ It will be interesting to see how platforms will make the call on “obviously infringing” fake news if the draft enters into force. The law would apply to all social networks (defined by the law) which fall under the definition of service providers as defined per ECD Article 2(b). The draft makes due reference to Article 14 ECD, as well as Recitals 46 and 48 ECD about the possibility of member states to ask providers to prevent repeat infringements and to mandate that the providers apply reasonable duties of care.⁵⁵ Following suit, the draft also mentions that this must not constitute general monitoring duties precluded under Article 15. Indeed, the draft law does not appear to mandate any measures that could be seen as proactive general monitoring. It appears to fix at a national level the code of conduct agreed earlier in the year between platforms and the Commission and a similar agreement concluded at national level,⁵⁶ and prescribes detailed NTD obligations. For the notices, it relies on Government and industry based complaint mechanisms already in place, as well as user complaints. The mandating of regular reporting and the creation of a “responsible person” is in line with similar compliance requirements across other sectors.⁵⁷

- 17 It remains to be seen whether the law will pass in this form and prior to the federal elections in Germany in September 2017. However, these developments can be framed into the wider context over media pluralism and the power online intermediaries have gained as gatekeepers to information. It reflects a tendency to discuss more openly the responsibility of social media platforms, search engines, and platforms in general over the content hosted on their sites. In fact, the danger of “cheap, fluff speech” on the internet undermining the economic basis of quality journalism was noted some time ago.⁵⁸ First, the cost-competition offered by cheaper journalism

(e.g. blogging – be it true or spun news) increases economic pressure on expensive, quality and fact-checking types of journalism, while distribution and availability to a mass audience remain the same. Secondly, the internet diverts advertising revenue away from traditional news media to cheaper online content, which in effect represents a redistribution of funding from traditional journalists to online news creators.⁵⁹ Search engines and news aggregators would inevitably contribute to this trend.⁶⁰

- 18 More generally, there is an inherent bias when search engines, social media, or news aggregators filter, rank and display information and news to users. The algorithms governing the display and ranking of news and search results are composed from both ideological interests to remain relevant for users and economic interests to remain relevant for advertisers.⁶¹ The traditional measure of market power may not apply any longer for powerful intermediaries operating in multi-sided markets with intricate and not yet fully understood interdependencies.⁶² One proposed new regulatory approach would consider intermediaries as “digital utilities”, reflecting their role as gatekeepers for access to speech and information.⁶³ The control they exercise over the kind of information (news, search results) displayed to users would make them content providers with direct liability for defamation or copyright infringement.⁶⁴ A new regulatory approach could also involve mandated algorithmic accountability, or the ability of regulators to evaluate algorithmic models with regards to their impact on serving the public interest.⁶⁵ This discussion shows how closely interrelated content and infrastructure are in today’s online platform economy. The organization and distribution of search results and newsfeeds is crucial for the economic success of various platforms. However for this to happen, algorithms will inevitably have to be able to analyse

54 Ibid. p.10.

55 Ibid. p.12.

56 Ibid., Apart from the EU initiative, the German Government had agreed one year earlier non-binding measures to tackle hate speech with Facebook, Google and Twitter, amongst others: Bundesministeriums der Justiz und für Verbraucherschutz, ‘Together against Hate Speech - Ways to Tackle Online Hateful Content Proposed by the Task Force against Illegal Online Hate Speech’ <http://www.bmjv.de/SharedDocs/Downloads/DE/Artikel/12152015_TaskForceErgebnispapier_eng.pdf?__blob=publicationFile&v=2> accessed 30 March 2017.

57 The concept of “responsible” or “competent” persons and statutory reporting can be traced through data protection, financial compliance, or occupational health and safety regulation.

58 Neil Weinstock Netanel, ‘New Media in Old Bottles? Barron’s Contextual First Amendment and Copyright in the Digital Age’ (2008) 76 Geo. Wash. L. Rev 952, pp.965, 977-980.

59 C Edwin Baker, *Media Concentration and Democracy: Why Ownership Matters* (Cambridge University Press 2007). In: Netanel (n 58), pp.977-980.

60 Annabelle Gawer and others, *Online Platforms: Contrasting Perceptions of European Stakeholders a Qualitative Analysis of the European Commission’s Public Consultation on the Regulatory Environment for Platforms: Final Report*. (Publications Office 2014) <<http://bookshop.europa.eu/uri?target=EUB:NOTICE:KK0416398:EN:HTML>> accessed 13 March 2017.

61 Paško Bilić, ‘Search Algorithms, Hidden Labour and Information Control’ (2016) 3 *Big Data & Society* 205395171665215.

62 Damian Tambini and Sharif Labo, ‘Digital Intermediaries in the UK: Implications for News Plurality’ (2016) 18 *info* 33, pp.34-35.

63 Pasquale, ‘Platform Neutrality’ pp. 493-494.

64 Ibid.

65 Julie E Cohen, ‘The Regulatory State in the Information Age’ (2016) 17 *Theoretical Inquiries in Law* 369, pp.385, 403-404.

and recognise the content as well. The wide-reaching exemption that exists currently for these “mere conduits” or “hosts” who hold such sweeping gate-keeping powers may not be justifiable any longer. The concrete duties which flow from these powers and the balance that needs to be respected between combating illegal content and user rights⁶⁶ need to be recalibrated by the EU legislator. However, the current proposals to tackle hate speech and content harmful for minors are fragmented and do not cover all content formats consistently. Secondly, by advancing the scope of preventive monitoring, the AVMSD proposal ignores the fact that the dividing line to general monitoring is in the process of vanishing. Instead of insisting on the mantra pitting Article 14 against Article 15, it is submitted that a formulation of morally and technically founded duties of care would be more appropriate. Thirdly, the AVMSD proposal outsources the decision making over content removal to agreements between powerful private actors, thus potentially limiting media pluralism and tightening the grip of large platforms over information provision. The latter is also a danger inherent in the code of conduct the EU Commission agreed with major social media platforms earlier in 2016.

III. Trademarks – the online sale of physical goods

19 In the analysis report of the Commission’s Public Consultation on the Regulatory Environment for Platforms, the sale of counterfeit goods via the internet was judged at least as problematic by businesses as the availability of copyright infringing material on the internet.⁶⁷ Rights holders in both the copyright and trademark intensive industries have been similarly strong in their claims of damage caused by infringements caused through online commerce.⁶⁸ However, the Commission did not initiate any legislative action with regards to combating trademark infringements on the internet as part of its self-professed problem driven approach, announced in the communication following the consultation on online platforms. It merely announced that it may consider the role intermediaries can play in protecting IPRs, notably with regards to counterfeit, in its upcoming review of the IPRED.⁶⁹ However, if there is reason to act with regards to copyright and impose significant changes to the intermediary liability provisions through connected legislation, then inactivity

in the area of trademarks could introduce even more inconsistency and legal fragmentation. This is even more surprising as key CJEU rulings on the availability of the liability exemption and reasonable duties of care are coming from the area of trademark law.⁷⁰

20 Perhaps the disparity in legislative activity between tackling digital copyright infringements and trademark violations for goods sold physically through the internet is due to the fact that infringement detection and prevention in both areas require different approaches. First, contrary to digitally distributed products, the production and delivery of physical goods happens in the traditional brick and mortar world. One could argue that detection and control of illegal activities in the physical supply chain would be more straightforward to conduct. Indeed, the disruption of the supply chain, from suppressing manufacturing, to seizures during shipping and distribution are the most commonly sought ways to deal with the phenomenon.⁷¹ Notwithstanding this fact, it is however much more difficult to ascertain from an online offering - where just a product picture may be available - whether it is indeed infringing a trademark. In order to ascertain the infringing nature of a product, detailed brand and product knowledge are needed. This would need to be combined with fact-finding through product inspection, involving specialised staff, and often in close co-operation with the rights-owner. This poses an additional challenge for online marketplaces, which list thousands or even millions products from a plethora of sellers potentially based worldwide.⁷² The difficulties in coming to a more decisive assessment of which reasonable duties of care can be expected from ISPs in order to prevent

70 *Google France v Louis Vuitton* (n 11), and *L’Oréal v eBay* (n 2).

71 See Roudaut, Mickaël R., ‘From Sweathsops to Organized Crime’, *Criminal enforcement of intellectual property: a handbook of contemporary research* (Edward Elgar 2012). for a more detailed description of the supply chain and the breadth of counterfeiting.

72 For example as of 2014 over 2 active million 3rd part sellers were registered on the Amazon platform (‘Amazon’s Third-Party Sellers Ship Record-Breaking 2 Billion Items In 2014, But Merchant Numbers Stay Flat’, *Techcrunch.com*, 5 January 2015, <<https://techcrunch.com/2015/01/05/amazon-third-party-sellers-2014/>>) shipping over 2 bn units during that year. In December 2017, Amazon listed 330 million physical product offers on its worldwide marketplaces. With 8% unit growth during that month an estimated 880K new products would have been uploaded on average every day worldwide, with the large majority coming from 3rd part sellers (‘How Many Products Are Sold on Amazon.Com – January 2017 Report’ [2017] *scrapehero.com* <<https://www.scrapehero.com/how-many-products-are-sold-on-amazon-com-january-2017-report/>>). The content recognition technologies for checking physical goods sold online are less sophisticated than those available to digital products.

66 Taddeo and Floridi (n 9) 1585–1586.

67 Gawer and others (n 60), pp.14-16.

68 *Ibid.*

69 EU Commission, ‘COM(2016) 288 Final’ (n 14) p. 8.

infringement, including repeat offences, have been considered in EU and national case law.⁷³ In *L'Oréal v eBay* the CJEU found that although eBay could not be asked to monitor its entire traffic, according to Article 15 ECD and the balancing exercise required by Article 3 of the IPRED, it should act as a diligent economic operator. It needed to identify the infringing party and prevent further infringements of the same kind.⁷⁴ However, that guidance is broad, and technically the dividing line between this requirement and general monitoring is, once more, blurred. German courts had in the past been more inclusive towards the intermediary with regards to the duty of care that should be expected of them. In *Internetversteigerung*⁷⁵ intermediary eBay had a duty to prevent any “clearly noticeable” trademark infringements relating to the Rolex products in general on its site. “Clearly noticeable” in that context relates to offers that have similar characteristics to the already notified infringements (same brand name and image, including different model numbers).⁷⁶ Note the similar wording in the German draft law against hate speech asking social media platforms to take down “obviously infringing” content within 24 hours.⁷⁷ In *Kinderhochstühle*⁷⁸ II the Federal Supreme Court (BGH) imposed extended duties of care on eBay with regards to offers which it had enhanced by advertisement links from search engines.⁷⁹ Reviewing product images and specifications provided by the seller will often remain the only tangible way of assessing the likelihood of infringement for the intermediary when confronted with a notice of takedown.

- 21 Secondly, the duties of care that can be expected of intermediaries will also depend on the specific business model and would need to be decided on a case-by-case basis by courts. A detailed consideration of this issue was done in *YouTube v Gema*.⁸⁰ This changes somewhat the approach of courts towards duties of care compared to the sales of digital goods. For the latter, the reliance and indeed proposed

mandating of content recognition technologies,⁸¹ seems to be more technically established than technology to identify trademark infringing use in e-commerce on online marketplaces.

- 22 Thirdly, the complexity of trademark law has only increased with the availability of goods online. While the CJEU has repeatedly absolved online platforms from primary liability for trademark infringement, the scope of protection afforded to trademark owners has extended beyond the function of indicating the origin of a product.⁸² Counterfeit is arguably the most clearly infringing issue as in this instance a person affixes a sign identical to that of a registered trademark to goods for which the trademark has been registered.⁸³ In these double identity cases, the intention of the infringer is usually to straightforwardly imitate a trademark and the goods related to it. However, the CJEU has expanded the protection afforded by trademark owners to uses which are much more difficult to decide by platforms if faced with rights holder notifications. In *Bellure*⁸⁴ and *Interflora*⁸⁵ the CJEU ruled that the unfair advantage taken by the use of a sign similar to a registered mark with a reputation does not need to be restricted to cases where there is a likelihood of confusion or a detriment to the reputation of the earlier mark.⁸⁶ Although the rulings related to comparative advertising and the use of Adwords in search engines, there are many sellers on today's marketplace platforms who may fall into the scope of these rulings. For example, a seller might offer stationery, clothing or other accessory products relating to what courts may identify as reputable car brands, thus riding on the attractive power of the car brand to boost its sales. Again, a correct judgement call by the marketplace when approached by brands with notices of infringement is far from evident. Another issue concerns the sale of goods not destined for the EU market – also called grey goods.⁸⁷ In today's global marketplace sellers

73 *Google France v Louis Vuitton* (n 11). *L'Oréal v eBay* (n 2). *Maceo v eBay International AG*, (Tribunal de grande instance de Paris, 3ème chambre, 1ère section).

74 *L'Oréal v eBay* (n 2).at [120]-[122], [139]-[142], [144].

75 *Internetversteigerung III (Rolex v Ricardo.de)*, *Az I ZR 73/05* [2008] MIR06/2008 (BGH).

76 *Ibid.* at [51] – [55].

77 Bundesministerium der Justiz und für Verbraucherschutz (n 53).

78 Copyright Directive Proposal (n 26). Article 13, Recital 39.

79 *Kinderhochstühle im Internet II*, *I ZR 216/11* [2013] MIR 2013 Dok 077 (BGH).

80 *Haftung der Internetvideoplattform Youtube für rechtswidrige Uploads*, *5 U 87/12* (n 40). Hanseatisches Oberlandesgericht Hamburg 5. Zivilsenat, At [370].

81 Copyright Directive Proposal (n 31).

82 Ilanah Simon Fhima, 'Trademark Law and Advertising Keywords', *Research Handbook on EU Internet Law* (Edward Elgar 2014). pp.146-151.

83 See the definition in the Agreement On Trade-Related Aspects Of Intellectual Property Rights (TRIPS) 1994. (TRIPS Agreement), Article 51, Footnote 14.

84 *L'Oréal SA, Lancôme parfums et beauté & Cie SNC, Laboratoire Garnier & Cie v Bellure NV, Malaika Investments Ltd, trading as 'Honey pot cosmetic & Perfumery Sales', Starion International Ltd*, *C-487/07* [2009] ECLI:EU:C:2009:378 (CJEU).

85 *Interflora Inc, Interflora British Unit v Marks & Spencer plc, Flowers Direct Online Ltd*, *C-323/09* [2011] ECLI:EU:C:2011:604 (CJEU).

86 *Bellure* (n 84). At [50], [58] and *Interflora* (n 85). At [60] – [95].

87 Robert W Payne, 'Unauthorized Online Dealers of "Genuine" Products in the Amazon Marketplace and beyond: Remedies for Brand Owners' [2014] *J Internet Law* 3.

can list and sell products across the globe and ship to users worldwide. Customs can only scratch the surface in checking and detecting shipments with such products. Furthermore, generic replacement consumables for OEM products, such as printer cartridges, water filters or even bin liners may pose an issue depending on how they are advertised on the site. These are some of the borderline cases happening on e-commerce platforms. Not all of these cases do necessarily restrict the trademark right of a brand owner. By contrast, they may be subject to abuse by brand owners and their agents themselves by providing abusive notices. Large platforms have responded mainly by entering the kind of private agreements with rights holders which in the long run could stifle competition. For example, Amazon has started to “gate” certain brands on their site, restricting the sale of the brand either to the brand owner themselves or to a pre-authorised selection of distributors.⁸⁸ Meanwhile eBay operates takedowns for participants in its VERO programme, which gives brand owners the opportunity to identify allegedly infringing offers and notify them to the company.⁸⁹

- 23 In 2011 the EU Commission initiated a Memorandum of Understanding between rights holders and marketplace platforms to foster cooperation and the development measures to prevent infringements and act against repeat infringers.⁹⁰ However, the 2013 progress report of the Commission did not show any notable progress and indeed hinted at difficulties in making stakeholders agree on a common approach.⁹¹ The renewed MoU⁹² of 2016 has remained unchanged in wording with the sole difference that stakeholders have agreed to some high level key performance indicators (KPIs) measuring the efficiency of the MoU. It should be noted that it took stakeholders 5 years

to agree on a few basic metrics: showing the number of offers in selected product categories which lead to alleged counterfeit products; the number of listings removed following proactive platform measures and rights-owner notifications; and the number of restrictions imposed on sellers. It is submitted that the current unsatisfactory situation will lead to further gating style private agreements between platforms and rights holders which may further restrict competition and drive out smaller sellers with competitive and innovative offers. It appears the sector is far away from the development of any reasonable duty of care principles and also from the Commission making any legislative proposals.

C. An alternative approach towards standardized duties of care?

- 24 As mentioned earlier the fight against illegal, unsafe or other non-conforming products in e-commerce has received relatively little attention within the academic literature. In the following section, the paper presents efforts with regards to combating the online sale of infringing medicines, food, consumer electronics, as well as anti-money laundering due diligence. The idea is to present approaches adopted by market surveillance authorities and the industry and explore whether they could serve as an example for developing intermediary duties of care.

I. Fake medicines

- 25 The problem of substandard, spurious, falsely labelled, falsified and counterfeit (SSFFC) medical products has been recognised worldwide as an important public health risk which is only exacerbated by the internet.⁹³ While in industrialized countries these products have rarely contaminated official supply chains, the increased importance of recreational drugs and other non-prescriptive medication has been capitalised on by online sellers posing as pharmacies in the Western world.⁹⁴ In 2011, the EU took concrete policy action in view of this problem and passed legislation to prevent SSFFCs entering the supply chain.⁹⁵ Under a new

88 Ari Levy, ‘Amazon’s Plan to Fight Counterfeiters Will Cost Legit Sellers a Ton’ *CNBC* (29 August 2016) <<http://www.cnn.com/2016/08/29/amazons-plan-to-fight-counterfeiters-will-cost-legit-sellers-a-ton.html>> accessed 16 March 2017.

89 Lillian Edwards, ‘The Role of Internet Intermediaries in Advancing Public Policy Objectives Forging Partnerships for Advancing Policy Objectives for the Internet Economy, Part II’ <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1875708> accessed 30 March 2017. p. 70.

90 ‘Memorandum of Understanding on the Sale of Counterfeit Goods over the Internet, 2011’.

91 EU Commission, ‘REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL on the Functioning of the Memorandum of Understanding on the Sale of Counterfeit Goods via the Internet /COM/2013/0209 Final’ COM/2013/0209 final <<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52013DC0209>> accessed 17 March 2017. See Articles 3.1 and 3.8 in particular.

92 ‘Memorandum of Understanding on the Online Sale of Counterfeit Goods, 2016’ <<http://ec.europa.eu/DocsRoom/documents/18023/attachments/1/translations/>> accessed 17 March 2017.

93 World Health Organisation, ‘Medicines: Spurious/Falsely-Labelled/ Falsified/Counterfeit (SFFC) Medicines, Fact Sheet N°275’, January 2016, <http://www.who.int/mediacentre/factsheets/fs275/en/>.

94 Hans-Georg Koch, ‘Strategies against Counterfeiting of Drugs: A Comparative Criminal Law Study’, *Criminal enforcement of intellectual property: a handbook of contemporary research* (Edward Elgar 2012).

95 Directive 2011/62/EU of the European Parliament and of the Council of 8 June 2011 amending Directive 2001/83/

Directive, businesses or persons selling medicinal products at a distance need to notify and register with national authorities. They will then be awarded with a certificate identifying them as an approved online pharmacy, which they will need to display on each offer detail page. The logo links through to a public register, proving the official status of the seller.⁹⁶ The Directive provides a reference to the ECD, amongst others, by stating that persons not meeting these conditions but selling medicinal products at a distance shall be subject to “effective, proportionate and dissuasive penalties.”⁹⁷ Moreover the Directive fosters standardisation by making the approval measures for online pharmacies and the logo subject to the procedures laid down in the Technical Standards Directive.⁹⁸ While nothing is said in that Directive about the processes for online platforms which merely host offers from sellers of medicinal products, the measures appear to give e-commerce platforms a practical tool for checking the compliance of the seller during on-boarding. It is suggested that these measures could be part of reasonable duties of care, which can be expected from ISPs possibly also in other areas. In addition, they could facilitate the prevention and detection of infringing offers, by for example, creating a gated product category exclusively for certified pharmacies. Meanwhile, national market surveillance authorities such as the UK’s MHRA have devoted resources and created specific capabilities to filter the internet for illegal offers. They cooperate with platform operators and law enforcement to withdraw and prevent infringing products.⁹⁹ It could be argued that this co-regulatory cooperation to develop dialogue between platforms and authorities and incorporate technical standards into the process, are more suitable compared to purely self-regulatory models.

EC on the Community code relating to medicinal products for human use, as regards the prevention of the entry into the legal supply chain of falsified medicinal products 2011. Recitals 2, 21.

96 Ibid. Article 85c.

97 Ibid. Article 85c (6).

98 Directive (EU) 2015/1535 of the European Parliament and of the Council of 9 September 2015 laying down a procedure for the provision of information in the field of technical regulations and of rules on Information Society services 2015. see Art 85 c (1) Directive 2001/83/EC (n 95).

99 Medicines and Healthcare products Regulatory Agency, UK, ‘Falsified Medical Products Strategy 2012-2015’ <<http://www.iracm.com/wp-content/uploads/2014/04/MHRA-FMPS.pdf>> accessed 17 March 2017. pp. 26-29.

II. Online food retail

26 Sales of food via the internet have seen a rise in popularity. With delivery services becoming faster and more suited to consumer demand, online sales of food stuffs have seen a marked increase over recent years. The food industry and the entire supply chain are also subject to strict regulation. In 2011 the EU adapted its regulatory framework to the online world.¹⁰⁰ For one, it introduced a new regulation on food information requirements to consumers by which food labelling in online shops was aligned to the labelling requirements for sales in physical shops. This now extends to ingredients lists, allergen warnings and certain nutritional information.¹⁰¹ Secondly, Regulation 852/2004 requires online food retailers to register with national authorities.¹⁰² Depending on the nature of the business, they may even need to apply for authorisation to operate. The surveillance and enforcement of compliance with applicable food legislation is to be performed by national market surveillance authorities.¹⁰³ Finally, a host of additional provisions apply to the sale of food products, such as for example those with pharmacologically active ingredients, products with non-approved health claims, non-approved novel foods,¹⁰⁴ and organic products.¹⁰⁵ For a large e-commerce marketplace that hosts relevant offers, the prospect of a safe harbour in this context may come as a relief. However, this would not help solve the problem. A pilot study conducted in Germany in 2014¹⁰⁶ searched for food stuffs containing the known hazardous food ingredient synephrine in

100 Lomme Van de Veer, ‘Food Online: Radical Changes to the Digital Ship Window’ [2014] *Eur. Food & Feed L. Rev.* 78. pp. 87-90.

101 Regulation (EU) No 1169/2011 of the European Parliament and of the Council of 25 October 2011 on the provision of food information to consumers 2011. Article 14 (1).

102 Peter Kranz, Hannes Harms and Claudia Kuhr, ‘Kontrolle der im Internet gehandelten Erzeugnisse des LFGB und Tabakerzeugnisse (G@ZIELT)’ (2015) 10 *Journal für Verbraucherschutz und Lebensmittelsicherheit* 13. P.14, Regulation (EC) No 852/2004 of the European Parliament and of the Council of 29 April 2004 on the hygiene of foodstuffs 2004.

103 Clemens Comans, ‘Onlinehandel Mit Lebensmitteln – Mit Den Projekten „ELKE“ Und „G@zielt“ Auf Dem Weg Zu Einer Funktionierenden Überwachung Des Onlinehandels’ (2015) 10 *Journal für Verbraucherschutz und Lebensmittelsicherheit* 109. p. 109.

104 For a more detailed description, see: Alexandra Krewinkel and others, ‘Concept for Automated Computer-Aided Identification and Evaluation of Potentially Non-Compliant Food Products Traded via Electronic Commerce’ (2016) 61 *Food Control* 204.

105 Council Regulation (EC) No 834/2007 of 28 June 2007 on organic production and labelling of organic products and repealing Regulation (EEC) No 2092/91. Article 28.

106 See for a detailed description in Krewinkel and others (n 104). pp.207-209.

connection with caffeine. Using a search engine based filter software it identified 219 relevant hazardous products sold across 449 web shops across Europe. The chances that these shops also sell via large online marketplaces are high. This may not look massive but considering the complex list of food additives which are regulated in the EU¹⁰⁷ and the international nature of sellers on the big marketplaces, the problem is likely to be greater. Authorities have long started filtering marketplaces on their own initiative. A project in Germany uses data from tax authorities to identify whether online shops with food offers have registered with the authorities. A web crawler operated by tax authorities has been modified to search for non-registered food businesses, as well as “high-risk” or borderline food. According to this study, 40% of food online retailers had not registered with authorities in 2014.¹⁰⁸ Authorities took concrete action by agreeing with Germany’s major e-commerce trust mark certifiers that sellers who failed to register with authorities be denied certification indicating them as providing a safe shopping experience.¹⁰⁹ While online marketplaces (ISPs) themselves may not qualify as food retailers in their own right, they potentially host hundreds or thousands of food offers by third-party sellers. With the existing legislation in place, a diligent marketplace operator could for example be asked to have verification processes in place to check such registration. This could become even more important where marketplaces take on distribution services such as storage and shipping for individual sellers, and therefore affect the supply chain of the products themselves (such as done by Amazon or eBay shipping programme, or other food delivery platforms). Linking seller recruitment (or on-boarding) to a verification of local registration and/or an official trust mark could be one way forward to proving due care. Moreover, given the detailed labelling and information requirements imposed by legislation, both in food and pharmaceutical online retail, it will be increasingly difficult for a diligent marketplace operator to claim no actual knowledge over the products that are sold on their platforms. A reputable online seller would demand from its content host and platform operator that their offer be optimised in a way that allows consistent display of legally required information. A diligent marketplace operator would need to give the

seller the opportunity to display this information. Arguably, this would entail awareness of the kind of information that needs to be displayed in a given product category and ensue making decisions on the layout and display of the information online. This information would necessarily give the ISP more knowledge and tools to effectively audit for infringing offers, even in a highly automated context.

III. Non-conforming electronic products

27 Consumer electronics are usually subject to CE marking as a sign that the product conforms with necessary technical and safety standards. Without such CE marking products may not be placed on the EU market. The primary liability for product conformity and safety lies with the entity that places the product on the EU market. Depending on the kind of product, consumer electronics may be subject to the Low Voltage Directive (LVD), the Radio Equipment Directive (RED), or the Electromagnetic Compatibility (EMC) Directives,¹¹⁰ which all require CE Marking.¹¹¹ Apart from that, the products are subject to the provisions of the General Product Safety Directive (GPSD).¹¹² The GPSD was enacted in 2001, only one year after the ECD and did not contain any cross reference to the latter. However the ECD in Recital 11 applies without prejudice to the public health and consumer interests laid down in the (predecessor of) the GPSD.¹¹³ When looking at the roles platforms play in enabling making product offers available to a wider public, it could be argued that they would fall within the scope of what the GPSD defines as a distributor.¹¹⁴ According

107 ‘EU Food Additives Database’ <https://webgate.ec.europa.eu/foods_system/main/?event=display> accessed 27 March 2017. and Regulation (EC) No 1333/2008 of the European Parliament and of the Council of 16 December 2008 on food additives. Annexes IV and V.

108 Peter Kranz and others, ‘G@ZIELT – Erfahrungen aus zwei Jahren Kontrolle des Onlinehandels von Lebensmitteln, Futtermitteln, Bedarfsgegenständen, kosmetischen Mitteln und Tabak’ (2015) 10 Journal für Verbraucherschutz und Lebensmittelsicherheit 231. p. 232.

109 Kranz, Harms and Kuhr (n 102).

110 Directive 2014/35/EU of the European Parliament and of the Council of 26 February 2014 on the harmonisation of the laws of the Member States relating to the making available on the market of electrical equipment designed for use within certain voltage limits (recast) 2014., Directive 2014/53/EC of the European Parliament and of the Council of 16 April 2014 on the harmonisation of the laws of the Member States relating to the making available on the market of radio equipment and repealing Directive 1999/5/EC 2014., Directive 2014/30/EU of the European Parliament and of the Council of 26 February 2014 on the harmonisation of the laws of the Member States relating to electromagnetic compatibility (recast) 2014.

111 Specific requirements relating to CE Marking are laid out in Regulation (EC) No 765/2008 of the European Parliament and of the Council of 9 July 2008 setting out the requirements for accreditation and market surveillance relating to the marketing of products and repealing Regulation (EEC) No 339/93 2008.”plainCitation”:”Regulation (EC

112 Directive 2001/95/EC of the European Parliament and of the Council of 3 December 2001 on general product safety 2001.

113 Council Directive 92/59/EEC of 29 June 1992 on general product safety 1992.

114 GPSD (n 112). Article 2 (f) defines a distributor as *any*

to the GPSD, a distributor would need to “act with due care to help to ensure compliance with the applicable safety requirements, in particular by not supplying products which they know or should have presumed, on the basis of the information in their possession and as professionals, do not comply with those requirements”.¹¹⁵ This throws up a potential conflict with the liability provisions in ECD Articles 12-14. It is complicated by the fact that Recital 21 ECD excludes from the scope of the coordinated field “Member States’ legal requirements relating to goods such as safety standards, labelling obligations, or liability for goods”. In today’s context this is confusing if one considers the role platforms play in providing technical means for optimising the display of information on products. In fact, marketplace platforms have been approached by market surveillance authorities with requests to assist in the identification and removal of non-compliant products in various regulated product groups.

- 28 As indicated above, there is a strong link between counterfeit products and safety risks. Typical counterfeit products which pose a risk to safety are for example chargers for portable devices such as mobile phones or tablet PCs, or mobile phones with non-compliant lithium batteries. However, genuine products may also be subject to safety and conformity problems, due to manufacturing errors. Furthermore, there are also products that are straightforwardly illegal for example due to their capacity to interfere with the operation of other devices (i.e. radio jammers). Consumer electronics are a very difficult market to control: for one, the regulatory requirements are often specific and technical; secondly, the product variety is immense which complicates regulatory risk assessment; thirdly, technical innovation and fashion trends foster frequent product replacement; and lastly there are a number of high value OEM brands which have facilitated a very lucrative accessories market. This lends itself to legitimate cheap and innovative competition, but also to counterfeit and non-compliant products. In the EU market surveillance authorities have stirred into action with regards to the sale of consumer electronics online. In the UK, Ofcom, the telecoms regulator, in connection with Trading Standards the local market surveillance authority, regularly monitors the sites of major online marketplaces for products in violation of the RED and EMC Directives and they work with these platforms on the removal of these products.¹¹⁶ In

professional in the supply chain whose activity does not affect the safety properties of a product.

- 115 Ibid. Article 5 (2).
 116 Department for Business, Energy & Industrial Strategy, ‘UK National Market Surveillance Programme January 2016 - January 2017’ <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/539110/

Germany, the Federal Network Agency (BNetzA), which enforces the EMC and RED Directives evaluated and withdrew over 988,000 products sold via the internet in 2016 alone.¹¹⁷ Where it cannot make a decision from simply viewing the offer on online marketplaces, such as eBay or Amazon, it conducts test purchases. Subsequently, it requests takedowns of the offer and may enforce directly against the seller by requesting information from the marketplace. The new focus on online sales has been reflected in the recently recast EMC and RED Directives. Both Directives included a new Recital, which explicitly mentions that they should apply to all forms of supply, including distance selling. Other recent EU product regulation appears to include e-commerce more systematically in its scope: in contrast to its earlier version, the recast Waste Electrical and Electronic Equipment¹¹⁸ (WEEE) now clarifies that distance sellers are subject to the same recycling and takeback obligations as offline businesses. It rectifies the first WEEE Directive, that had caused disparity in the law across member states and unequal treatment between online and offline retailers.¹¹⁹ Meanwhile the also recast Directive specifying energy consumption labelling and information for energy-related products now explicitly imposes information and labelling requirements on internet based sellers.¹²⁰ While these measures concern *a priori* sellers, and not platforms, the effect on the latter is obvious. As has been shown, surveillance authorities use large marketplace operators due to their position as gatekeepers and enablers to enforce the law and follow up on non-compliant offers and sellers. For some of the mandatory information and labelling requirements, platforms would inevitably act as facilitators of compliance by providing the technical means allowing the seller to display statutory information online (as demonstrated above for labelling requirements with regards to food or energy consumption labelling). Cooperation in this area could provide a useful basis for developing technical quality standards and due diligence process for the on-boarding of sellers. In

BIS-16-115UKNMSP-UK-National-Market-Surveillance-Programme.pdf> accessed 17 February 2017. p. 20.

- 117 Bundesnetzagentur, ‘Statistik Der Marktüberwachung 2016’ <https://www.bundesnetzagentur.de/SharedDocs/Downloads/DE/Sachgebiete/Telekommunikation/Verbraucher/WeitereThemen/Marktueberwachung/StatistikMarktueberwachung2016.pdf?__blob=publicationFile&v=3> accessed 20 March 2017. pp.6-9.
 118 Directive 2012/19/EU of the European Parliament and of the Council of 4 July 2012 on waste electrical and electronic equipment (WEEE) Text with EEA relevance 2012.
 119 Ibid. see for further detail Recital 7.
 120 Directive 2010/30/EU of the European Parliament and of the Council of 19 May 2010 on the indication by labelling and standard product information of the consumption of energy and other resources by energy-related products 2010.; Article 7 specifically relates to energy label information provided through *Distance selling and other forms of selling*.

addition, it is possible to make it mandatory for sellers to display information required by law and install processes to screen out non-compliant offers at an early stage.

- 29 In 2007, an EU Commission sponsored study on the Liability of ISPs recommended using standardisation based on the “New Approach” co-regulatory model in the area of product safety to tackle the challenge of content liability on online platforms. According to this the EU could mandate standardisation committees to develop due diligence standards based on available filtering technology, dependent on the area of infringement. Rights holders and ISPs would conjointly develop these standards. ISPs using these standards could eventually rely on liability defences, while the others could face “comprehensive filtering injunctions”.¹²¹ Economic efficiency theory would see ISPs, which are nearest to the technical information and most apt to control access to it, as the “cheapest cost avoider” and therefore most suitable to administer prevention technologies based on agreed industry standards.¹²²
- 30 Based on this logic, *Helman* and *Parchomovsky* advocated for “best available technology standards” in the area of copyright infringement prevention. It would serve as a “technological safe harbour”¹²³ if used by ISPs and it would entirely replace current safe harbour provisions.¹²⁴ Alternatively, third party copyright clearing houses could be employed to maintain and develop filtering technology and offer their services to ISPs.¹²⁵
- 31 Apart from the economic reasoning, however, it also makes sense from a purely moral standpoint to involve ISPs more in the infringement prevention and developing standards for duty of care. As noted above, their growing role as information gatekeepers has led to calls for a definition of specific corporate responsibilities and an ethical framework for ISPs.¹²⁶ Duty of care principles based on sector specific standards, it is submitted, could be one cornerstone of such moral responsibilities.

121 Thibault Verbiest and others, ‘Study on the Liability of Internet Intermediaries, Markt 2006/09/E’. pp. 20-23.

122 Ibid.

123 Lital Helman and Gideon Parchomovsky, ‘The Best Available Technology Standard’ [2011] *Columbia Law Review* 1194.

124 Ibid. Note the authors apply this to the US safe harbour in section 512 of the Digital Millennium Copyright Act of 1998.

125 Ibid. Note that the proposal also tackles the issue of fair use.

126 See Taddeo and Floridi (n 9), Valcke, Kuczerawy and Ombelet (n 9), Vedder (n 6), Pasquale (n 9).

IV. Horizontal anti-money laundering compliance

- 32 The above assertions can be backed up by yet another development in the area of due diligence, which touches on e-commerce companies. In the recent public consultation on the enforcement environment of IPRs, rights-holders criticised a poor implementation of Article 5 ECD citing a lack of know-your-customer (KYC) obligations applied to intermediaries.¹²⁷ While Article 5 ECD refers only to the information Member States may require of ISPs, it appears rights holders lament the fact that intermediaries do not sufficiently verify the identity of their customers (merchants, users, uploaders). The comment appears to relate to a horizontal obligation that already applies to financial institutions in the EU and across the OECD as part of anti-money laundering (AML) legislation. In the EU, financial and credit institutions are obliged to apply due diligence measures to customers by verifying their identity through document checks, establishing beneficiary ownership and conducting ongoing transaction and client status monitoring using a risk-based approach.¹²⁸ Electronic payment services, some of which are owned by or closely connected to leading online platforms,¹²⁹ are covered by this legislation and hence would perform these due diligence measures already when on-boarding merchants. There is so far little official appreciation or experience in linking due diligence measures used in AML with risk management in for example counterfeit detection. However, large e-commerce platforms may manage the entire payment transaction process for sellers or content providers or charge them service or transaction fees using payment card service providers such as MasterCard or VISA.¹³⁰ Linking KYC due diligence from the AML area with duty of care in the area of e-commerce for physical goods, where infringement prevention

127 EU Commission, ‘Summary of Responses to the Public Consultation on the Evaluation and Modernisation of the Legal Framework for IPR Enforcement’, 14 September 2016, <<http://ec.europa.eu/DocsRoom/documents/18661>> accessed 25 August 2017. p.17.

128 Directive (EU) 2015/849 of the European parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing 2015. Article 13.

129 Amazon Payments Europe is registered as an electronic money institution and Paypal Europe as a credit institution with the Luxembourg financial market regulator (CSSF), while Google Payment Ltd has an E-Money issuer license with the UK Financial Conduct Authority.

130 J Bruce Richardson, ‘With Great Power Comes Little Responsibility: The Role of Online Payment Service Providers with Regards to Websites Selling Counterfeit Goods’ (2014) 12 *Canadian Journal of Law and Technology* <<https://ojs.library.dal.ca/CJLT/article/view/6607>> accessed 20 March 2017.

is particularly tricky, could prove a useful tool to bolster duty of care standards.

D. Conclusion

- 33 There is a correct recognition on the part of the EU that ISPs will need to be asked to bear more responsibilities for the content they host, especially when they derive economic gains from it. Both from an economic and moral perspective this claim seems justified. The EU legislator is trying to tackle the challenges posed by the platform economy and infringing content through a problem-driven, sectoral approach, while leaving the current intermediary liability regime of the ECD intact.
- 34 The legislative proposal in the area of copyright however, is ill fitted to achieve this. Article 13 of the copyright directive proposal risks undermining the current liability regime by potentially disqualifying a large number of ISPs from the hosting defence available under Article 14 ECD. Meanwhile, the quasi mandating of filtering technology just pays lip service to the general monitoring preclusion of Article 15 ECD. With filtering technology becoming indeed increasingly potent, it is moreover questionable whether it is worth insisting on the difference between specific preventive filtering and general monitoring. Then forcing information sharing duties on intermediaries, which risk exposing company confidential data, would do more to alienate stakeholders rather than bringing them together. Nowhere in this draft can we find the formerly promoted self- or co-regulatory approach to form codes of conduct or standards. An alternative and forward looking proposal, it is submitted, would replace the current liability regime with a technology based duty of care standard which could serve as a safe harbour.¹³¹
- 35 In the area of child protection, hate speech and fake news, the EU risks fragmenting its approach by focussing on VSPs with a similarly restrictive legislative proposal, while promoting purely self-regulatory efforts for non-audiovisual content. The newly proposed Article 28a engages in a similar squaring of the circle attempt with regards to infringement prevention as does the proposed copyright directive. The risk is that the majority of VSPs lose their hosting liability exemption. Technology, it is suggested, is about to erase the dividing between specific and general prevention. The use of ERGA may help to promote new codes
- of conduct and standards, but the efforts need to cover the entire ISP sector in the area of hate speech and child protection in a consistent form. It will be even more effective if ISPs are encouraged to share their knowledge through the propagation of “Good Samaritan” principles.
- 36 Meanwhile political developments appear to drive national policy action in the area of fake news and hate speech. This area demonstrates the change in perception of the role online platforms play as gatekeepers and power brokers when it comes to access to information and speech. Political voices have been blunter when pinning down the responsibilities and threatening enforcement action against platforms failing to react quickly to remove and prevent infringing content regarding hate speech and so-called fake news. Although the true impact of fake news is not proven, it is encouraging that codes of conduct are being defined and that third party, independent co-regulatory mechanisms are used to screen online content. However, asking platforms to react independently to “obviously” infringing content in addition, and without detailed recourse mechanisms in place, risks giving way to private censorship. The same risk applies to all of the sectoral areas mentioned above, as it is not clear how codes of conduct (if at all encouraged) are being reviewed and tested for their impartiality. This is even a greater risk for the area of trademark infringements, where, despite the EU’s self-professed problem-driven approach, no concrete policy action has been proposed. The current self-regulatory effort promoted through the Memorandum of Understanding on the sale of counterfeit goods via the internet has so far brought little progress. In an area where infringement detection is particularly difficult to master, a firmer grip by the EU Commission to promote and develop technical standards and risk management approaches would be welcome. Experience could be gained from the area of anti-money laundering compliance where mandated customer due diligence obligations exist.
- 37 The area of product regulation serves as a good example for the kind of independent, third party monitoring and standard setting that could help building knowledge and develop duty of care technical standards for combatting infringements. For example, the development of certification for online pharmacies gives market platforms a concrete tool they can apply when on-boarding new sellers and preventing the sale of fake medicines. Similarly, standards for labelling, online product display, and company registration in various areas (food, electronic products) can constitute means for platform operators to apply due diligence in seller

¹³¹ As for example suggested in Verbiest and others (n 121).

on-boarding and product verification. These could develop into concrete Government and industry mandated due diligence standards. However, overly relying on self-regulatory industry agreement between rights-owners and powerful platforms risks restricting rather than promoting diversity and expression on online platforms.

- 38 It is submitted that a new approach, recognising the moral and economic arguments for increased responsibilities of ISPs is needed, resulting in an ethical framework or corporate social responsibilities for information gatekeepers.¹³² The cat and mouse game of *ex-post* versus *ex ante* and specific versus broad monitoring provisions could be replaced by technology based duty of care safe harbours which relate to specific areas of infringement. As online platforms transform more and more areas of previously offline economy sectors, it may be time to take some lessons from the offline world regarding regulation and apply them to ISPs. It could be a way to achieve the EU's vision of a "responsible behaviour of platforms to protect core values".¹³³ Coming back to 1995, the thread of standardisation certainly needs to be taken up, but it could be that internet intermediary regulation itself may fade into sector specific rules, with just an overarching, horizontal commitment towards using the best code available as a standard to contain risk.

[†] This paper was prepared for the 2017 Annual Conference of the British and Irish Law, Education and Technology Association (BILETA) held in April 2017 at the University of Minho, Braga, Portugal, where it won the award of the BILETA Executive Committee.

¹³² Taddeo and Floridi (n 9).

¹³³ EU Commission, 'COM(2016) 288 Final' (n 14), p. 5.

Development of a Secondary Market for E-books

The Case of Amazon

by Liliia Oprysk, Raimundas Matulevičius and Aleksei Kelli*

Abstract: The justification of applying the exhaustion doctrine to intangible copies of copyright protected works is widely discussed in scholarly circles. The discussion mainly concerns the relevant provisions of the international treaties and rationale of the exhaustion doctrine under EU law. However, little attention is paid to the question regarding how the potential outcome is comparable to the one exhaustion brings in the analogue world. This article goes beyond the theoretical legal discussion and presents a case study of e-books disseminated through Amazon. The authors analyse the legal, technological and organisational challenges of

creating a secondary market. In line with the identified challenges, this paper presents two scenarios based on the particular circumstances observed at the Amazon distribution solutions. The first presupposes the creation of a limited secondary market within Amazon. The second enables a broad secondary market of e-books purchased through different channels, including Amazon. The two scenarios could potentially be combined to achieve a secondary market of e-books in a controlled manner. This would allow vendors to keep nearly the same degree of control over distributed copies while serving consumer interests and creating the Digital Single Market.

Keywords: Copyright; digital exhaustion; e-books; Amazon; digital single market

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A. Introduction

- 1 The modern copyright law serves multiple objectives. It aims to protect the author's interests, facilitate dissemination of knowledge, and support societal development. As copyright protection evolved and exclusive rights extended in their scope, the need to balance them with the interests of third parties and society in general arose. The exhaustion doctrine is one of the examples where the introduction of a broad exclusive right of a copyright holder is in most cases accompanied by the principle of exhaustion of the right upon meeting certain conditions.
- 2 On the one hand, copyright provides a monopoly, which restricts competition and the circulation of goods. The European Single Market is based on the free movement of goods,¹ and thus, it is dependent

on the restrictions imposed on the exclusive rights. While the Single Market is a reality for physical goods, the Digital Single Market is in its infancy. Therefore, the establishment of this market is a priority task for the European Commission according to the Digital Single Market Strategy.² It aims, inter alia, to provide

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- 1 See the Consolidated Version of the Treaty on the Functioning of the European Union. Available at <http://eur-lex.europa.eu/resource.html?uri=cellar:2bf140bf-a3f8-4ab2-b506-fd71826e6da6.0023.02/DOC_2&format=PDF> (8.5.2017).
- 2 European Commission. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A Digital Single Market Strategy for Europe. Brussels, 6.5.2015. COM(2015) 192 final. Available

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better access for consumers and businesses to online goods and services across Europe by rapid removal of the key differences between online and offline worlds.

- 3 The article concentrates on the free movement of digital goods. In particular, it focuses on the secondary market of e-books, since it constitutes a widespread basis for comparison of tangible and intangible goods. The authors rely on the EU *acquis* and use the e-books disseminated through Amazon as an example. The goal of the article is to identify the main challenges to the Digital Single Market of e-books (based on the case of Amazon) and suggest the possible steps to overcome them by combining legal, organisational and technological measures. This paper sets out to argue that the challenges relating to the resale of e-books can be overcome only if various legal, technological and organisational aspects are taken into account.
- 4 The article is organised into four main sections. In the first section, the authors address the nature of the exhaustion principle and its role in facilitating the EU Single Market. The second section provides an overview of the dissemination model for e-books adopted by Amazon. These serve as a basis for the analysis of a number of legal, technological and organisational challenges of reselling e-books, discussed in the third section. The fourth section identifies the possible scenarios for enabling a secondary market for e-books by combining legal and non-legal measures.

B. Exhaustion Doctrine at International and EU Levels

- 5 The author's exclusive right of distribution was recognised at the international level rather late.³ Shortly after, it became subject to EU harmonisation under the Copyright Directive.⁴ Article 4(1) of the Directive obliges the EU Member States to provide authors with an exclusive right to authorise or prohibit any form of distribution to the public by sale or otherwise of a work or its copy. While high-level protection forms a basis for the EU harmonisation in the field of copyright as rights are believed to be crucial to intellectual creation, dissemination of

works is another objective, which nevertheless must not be achieved by sacrificing strict protection.⁵

- 6 It is commonly accepted that the broad right of distribution is to be limited to the initial distribution of the work or copies thereof.⁶ In many jurisdictions⁷ it is achieved by the exhaustion principle, which provides that the right to authorise distribution is exhausted upon a copy or work being put into circulation with the right holder's authorisation. Conditions that must be met are not extensively regulated at the international level. Article 6 of the Agreement on the Trade-Related Aspects of Intellectual Property Rights (TRIPS)⁸ sets forth that "nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights". According to a Commentary on the Agreement, "Article 6 disclaims any intent in the TRIPS Agreement to limit the Members' freedom to regulate the issue of exhaustion of rights with regard to all types of IPRs".⁹ Elsewhere, according to the WIPO Copyright Treaty (WIPO CT), countries are free to determine conditions under which the right of distribution is exhausted upon the first sale or other transfer of ownership of the original or a copy of a work with the author's authorisation.¹⁰
- 7 Prior to the harmonisation of certain copyright-related matters at the EU level, the distribution right and exhaustion under the national laws was scrutinised by the Court of Justice of the European

⁵ Directive 2001/29/EC, recitals 9 and 22.

⁶ For earlier discussions on the introduction of the right of distribution and exhaustion, see T. Hesser. Intellectual Property Conference of Stockholm, 1967: The Official Program for Revising the Substantive Copyright Provisions of the Berne Convention. Bulletin of the Copyright Society of the U.S.A 14 (4) 1967. p. 281; Records of the Intellectual Property Conference of Stockholm 1967. WIPO 1971. Vol. 2. pp. 853-854. In the context of WIPO CT and TRIPS, see Basic Proposal for the Substantive provisions of the Treaty on certain questions concerning the protection of literary and artistic works to be considered by Diplomatic Conference. Diplomatic Conference on Certain Copyright and Neighboring rights questions. WIPO CRNR/DC/4 1996. pp. 35-37; Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods. Chairman's Report to the GNG. MTN.GNG/NG11/W/76 1990. p.8.

⁷ Probably, it concerns most of the countries. France is a notable exception, where the distribution right is derived from the right of reproduction.

⁸ The TRIPS Agreement is Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization, signed in Marrakesh, Morocco on 15 April 1994. Available at <https://www.wto.org/english/docs_e/legal_e/27-trips_01_e.htm> (8.5.2017).

⁹ C. M. Correa, Trade Related Aspects of Intellectual Property Rights. A Commentary on the TRIPS Agreement. Oxford University Press, 2007, p. 78.

¹⁰ WIPO Copyright Treaty, Dec. 20, 1996, WIPO Doc. CRNR/DC/94, available at <http://www.wipo.int/wipolex/en/treaties/text.jsp?file_id=295157> (8.5.2017). art. 6.

at <<http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52015DC0192&from=EN>> (8.5.2017).

³ There is no general right of distribution under the Berne Convention. The only international treaty providing for a right of distribution for all types of works is the WIPO Copyright Treaty signed in 1996.

⁴ Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society. OJ L 167, 22.6.2001.

Union (CJEU) in the context of the free movement of goods within the Community.¹¹ As the right of distribution conflicts with free movement in general, the exhaustion doctrine served as an instrument to facilitate it, provided that national laws did not unjustifiably partition the market. For instance, restricting the exhaustion principle to the territory of a particular country was regarded as incompatible with the free movement of goods within the Community.¹² In the course of copyright harmonisation, there were divergent views on whether the Member States should be free to decide on the territoriality of exhaustion as long as it was not restricted to national borders.¹³ Preventing parallel importation from countries outside the Community constituted the main justification behind precluding the Member States from exercising international exhaustion.¹⁴

8 The commencement of the EU copyright harmonisation process also marked the enactment of the conditions of exhaustion within the EU.¹⁵ Consequently in the EU, the right to authorise distribution is exhausted upon the sale or any other transfer of ownership of a particular copy or the original of the work within the Community¹⁶ with the authorisation from the right holder.¹⁷ The exhaustion of distribution rights has been applied only to copies or works fixed on tangible medium, with the exception of software.¹⁸ Some scholars believe that provisions of the WIPO CT,¹⁹ on which

the Copyright Directive is partially based, prevents the application of exhaustion to intangible copies.²⁰

9 Interpretation of the WIPO CT and the respective Copyright Directive provisions is not considered in this paper. On the one hand, the CJEU has stated that the exhaustion doctrine under the EU Software Directive²¹ is applicable to the software delivered by download.²² On the other hand, in the recent VOB decision,²³ the CJEU held that the lending right under the Rental and Lending Rights Directive²⁴ also covers lending of e-books. Accordingly, the Court in at least two separate occasions has adopted the functional approach and stressed the need to observe the purpose of exceptions to safeguard the effectiveness when applying them to circumstances which could not have been taken into account at the time of adoption.²⁵ The Proposal of the European Commission (EC) to amend the VAT Directive would allow the Member States to apply reduced VAT rates to e-publications along with printed ones. This proposal indicates that there might be other measures outside of copyright that remove the differences between offline and online worlds.²⁶

10 Consequently, the exhaustion principle restricting

that for the purpose of these articles copies or originals of works refer exclusively to fixed copies that can be put into circulation as tangible objects.

11 In principle, restrictions on the free movement of goods or measures having equivalent effect are prohibited (Art. 35, 36 TFEU). Certain derogations are nevertheless possible provided that they do not constitute arbitrary discrimination, see Art. 36 of the Consolidated version of the Treaty on the Functioning of the European Union, OJ C 326, 26.10.2012.

12 See CJEU, *Deutsche Grammophon Gesellschaft mbH v Metro-SB-Großmärkte GmbH & Co. KG*. (1971) Case C-78-70; *Musik-Vertrieb membran GmbH and K-tel International v GEMA*. (1981) Joined cases C-55/80 and C-57/80.

13 See Economic and Social Committee's Opinion on the proposal for a Council Directive on the legal protection of computer programs 89/C 329/02. OJ C 329, 30 December 1989. pp. 6-7.

14 See the Follow-up to the Green Paper on copyright and related rights in the Information Society. COM (96) 586 final, 20 November 1996. p.18.

15 It was codified for the first time in the Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs. OJ L 122, 17 May 1991.

16 The Community has to be understood as the European Economic Area (EEA) after coming into force of the Agreement on the European Economic Area, OJ L 1, 3.1.1994.

17 Directive 2001/29/EC, art. 4(2).

18 CJEU, *UsedSoft GmbH v Oracle International Corp.* (2012) Case C-128/11. The CJEU held that right of distribution of a copy of a computer program is exhausted upon authorised download of a copy accompanied by a permission to use that copy for unlimited period. See para. 72.

19 The Agreed Statement on Articles 6 and 7 which provides

20 For a view that WIPO CT precludes application of exhaustion to intangible copies, see P. De Filippi. *Copyright in the Digital Environment: From Intellectual Property to Virtual Property*. 7th International Workshop for Technical, Economic and Legal Aspects of Business Models for Virtual Goods, 2009; For a view that a work only has to be capable of being put into circulation as a tangible object, but not actually distributed as a tangible object, see F. Ruffler, *Is Trading in Used Software an Infringement of Copyright? The Perspective of European Law*. *European Intellectual Property Review* 33(6) 2011; For a view that it constitutes only a minimum requirement and exception for intangible copies can also be introduced following the three-step-test, see. T. Dreier, P. Bernt Hugenholtz (eds). *Concise European Copyright Law*. 2nd rev. ed. Kluwer Law International 2016.

21 Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs. Official Journal L 111, 5.5.2009.

22 CJEU, *UsedSoft GmbH v Oracle International Corp.* (2012) Case C-128/11.

23 CJEU, *Vereniging Openbare Bibliotheken v Stichting Leenrecht* (2016) Case C-174/15.

24 Directive 2006/115/EC of the European Parliament and of the Council of 12 December 2006 on rental right and lending right and on certain rights related to copyright in the field of intellectual property. Official Journal L 376, 27.12.2006.

25 *Ibid.*, para. 50, 42.

26 The earlier application of the reduced VAT rates was held incompatible with the VAT Directive in the *Commission v France* judgment by the CJEU. See Proposal for a Council Directive amending Directive 2006/112/EC, as regards rates of value added tax applied to books, newspapers and periodicals. COM(2016) 758 final. 1.12.2016; CJEU, *Commission v France* (2015) Case C-479/13.

the right of distribution contributes to the removal of barriers to the EU Single Market indicating free movement of goods within its borders. In the context of literary works protected by copyright, free movement also facilitates the dissemination of knowledge and culture within the Community. Goods distributed in one Member State can reach consumers situated in another Member State. This also allows lowering of the price, which generally widens the market and makes works affordable to consumers with high elasticity of demand.

- 11 The situation is, however, different for intangible goods. Firstly, intangible goods are often treated differently from their tangible counterparts, also in the fields other than copyright.²⁷ Secondly, in the absence of legal certainty about the application of the exhaustion doctrine to copies distributed without a tangible medium, there is no apparent secondary market for intangible goods. Thirdly, the nature of intangible goods allows controlling dissemination of copies by technical protection measures²⁸ irrespective of the applicability of the exhaustion doctrine.
- 12 The next part of this paper deals with the dissemination of a particular type of an intangible good – an e-book. Above all, it addresses e-books distributed by Amazon. It also considers the way in which specific conditions influence the possibility of achieving EEA-wide secondary market.

C. Dissemination of E-Books Through Amazon

- 13 According to the study carried out in 2014, a market share of e-books in a given EU Member State amounts to 11.5 percent of the market of books.²⁹ In turn, Amazon's share of the e-book market is high (up to 79 percent in some Member States).³⁰ The company established its presence in the EU by opening separate marketplaces for particular Member States. These marketplaces are accessible to residents of these and neighbouring countries sharing the same language.³¹ Accordingly, the residents of 10 Member

States are able to choose whether to buy e-books from a dedicated marketplace or from the worldwide one. The analysis of top 100 e-books for each of the dedicated marketplaces showed that the lists comprise almost exclusively e-books in the language of a country and there is little overlap between the titles offered across these marketplaces.³²

- 14 Amazon Kindle Store³³ facilitates the distribution of e-books published both by professional publishers and by individuals resulting in a variety of offerings. In this paper, whenever references are made to the procedure of placing an e-book on a marketplace, dissemination of e-books by self-publishers through Kindle Direct Publishing (KDP) service is meant. A publisher can choose whether to make an item available on particular marketplace(s) only, to offer it world-wide, or both. E-books can be put on a market in different languages, although there is a conclusive list of supported languages for the global marketplace if an e-book is published by a self-publisher through KDP. As a result, e-books written in Cyrillic are accessible on the Kindle store, but offered only by recognised publishers.
- 15 A submitted item (e-book) meeting the criteria³⁴ is made available on the Kindle store within 48 hours. Royalties for copies purchased by consumers through the Kindle store depend on the quantity sold and are calculated as a fixed percentage of a price exclusive of VAT and less of delivery cost if a higher level of royalties is chosen.³⁵ Amazon charges publishers delivery costs for each copy of an e-book, which depends on the region, the e-book's price, and the size of a copy.³⁶ There have been occasions where Amazon offered free shipping of e-books, which was challenged in certain jurisdictions, however.³⁷

In total, residents of 10 Member States have access to dedicated marketplaces, e.g. Austria can access the German one.

²⁷ As example, see the above cited case CJEU, Commission v France (2015) Case C-479/13.

²⁸ Circumvention of such technical protection measures is generally prohibited, see Directive 2001/29/2001. Art. 6.

²⁹ R. Wischenbart. Global eBook: A report on market trends and developments. Rudiger Wischenbart Contents and Consulting 2014. Available at <http://www.wischenbart.com/upload/1234000000358_04042014_final.pdf> (8.5.2017). p. 21.

³⁰ 79% in the UK, 43% in Germany, 40% in Spain. See supra note.

³¹ At the moment, there are 6 dedicated marketplaces – for Germany, France, Spain, Italy, UK and the Netherlands.

³² M. Batikas, E. Gomez-Herrera, B. Martens. Geographic Fragmentation in the EU Market for e-Books: The case of Amazon. Institute for Prospective Technological Studies Digital Economy Working Paper 2015/13. JRC98022. p. 7.

³³ The name of an online marketplace provided by Amazon.

³⁴ See more at <<https://kdp.amazon.com/help?topicId=A17W8UM0MMSQX6>> (8.5.2017).

³⁵ Delivery Cost for 70% royalty option available at <<https://kdp.amazon.com/help?topicId=A29FL26OKE7R7B>> (8.5.2017).

³⁶ It is unclear what exactly Amazon's delivery cost consists of besides the cost of transferring bytes through the network. Some suggest that it includes also the cost of on-demand creation of copies and encryption, i.e. cost of server resources necessary to carry out operations.

³⁷ In 2007, the French Court ruled that shipping costs are part of a price for an e-book and fined Amazon for offering e-books at a price lower than 95% of the retail price set by the publisher, which is prohibited by law. *Syndicat de la Librairie Française v Amazon.fr*. Cour administrative d'appel de Versailles, 3ème chambre, du 11 décembre 2007.

- 16 It is possible to engage in price discrimination to maximise the profit by charging different prices for an e-book in different markets. Although generally a publisher can decide on a price himself or use the Amazon service, subscribing to a higher level of royalties means that Amazon will manage the prices itself and decrease them if an e-book is offered at a lower price elsewhere.³⁸ To qualify for a higher royalty rate, the publisher also has to meet certain price criteria and to offer an e-book at a price that is at least 20% lower than the price for a printed copy.³⁹ An average e-book price differs considerably among marketplaces. The same is true for a particular e-book, which is sold at different prices that do not depend solely on the VAT applicable in the country.⁴⁰
- 17 E-books are sold to individual users, one copy per Kindle account, with a possibility to view its content simultaneously on multiple devices associated with an account.⁴¹ However, the bulk sale of e-books is a recently introduced option, which is currently only available in the US.⁴² Amazon's service Whispcast allows customers to purchase multiple copies of an e-book at the same time and their subsequent distribution between individual Kindle accounts.⁴³ E-books purchased through Whispcast can be used for educational purposes or also within business entities, as the platform allows distribution of own content along with purchased e-books.
- 18 Publishers of e-books - either professional or self-publishers - have an option to apply the Digital Rights Management technique (DRM) to copies of their e-books upon creation to restrict certain uses of an e-book. Typically, the choice of a specific

DRM technique will depend on the format of an e-book as different DRM technologies are seldom compatible with the variety of e-book formats, and further options will depend on the publisher's will. Most DRM systems attempt to protect the provider's profit and disregard user convenience.⁴⁴ For e-books disseminated through Amazon, DRM can be applied upon putting an e-book on a marketplace and cannot be reversed for that specific title later on.⁴⁵

- 19 As e-books are not tied to a specific device, but to a Kindle user account, its content can be read simultaneously from different devices as long as they are connected to the same account. There are, however, certain restrictions - a single e-book cannot be loaded into more than 6 devices at the same time. DRM also does not allow access to an e-book other than through the Kindle application, thus preventing manipulating a copy, including its transfer. One-time lending option of 14 days is available if authorised by the publisher.⁴⁶ Lending an e-book makes it unusable for the consumer who purchased it until it's returned automatically within 14 days, so a copy is available for one account at the time.
- 20 In conclusion, Amazon maintains a highly centralised system for the distribution of e-books supplied by professional and self-publishers. The control over copies is exercised to the extent that one copy is associated with one account, but can be read from multiple devices as long as they belong to the same account. Apart from reading, a consumer cannot dispose of a purchased copy as it can only be accessed through special software and may not be transferred to a different account, except for the purpose of a one-time lending option. This does not constitute a transfer in a technical sense as the content is synchronised to a device associated with a different account and becomes unavailable for the primary one. The next section examines how the conditions of dissemination directly challenge the Digital Single Market.

See more at <https://www.legalis.net/jurisprudences/tribunal-de-grande-instance-de-versailles-3eme-chambre-jugement-du-11-decembre-2007/> (8.5.2017).

- 38 Standard royalty amounts to 35% of the e-book price, but can also be as high as 70% for certain markets if the publisher meets certain conditions. See more at <https://kdp.amazon.com/help?topicId=A30F3VI2TH1FR8.> (8.5.2017).
- 39 For details, see <https://kdp.amazon.com/help?topicId=A301WJ6XCJ8KW0.>; <https://kdp.amazon.com/help?topicId=A30F3VI2TH1FR8#70> (8.5.2017).
- 40 Amazon uses rapid responding price algorithms. See more M. Batikas, E. Gomez-Herrera, B. Martens. Geographic Fragmentation in the EU Market for e-Books: The case of Amazon. Institute for Prospective Technological Studies Digital Economy Working Paper 2015/13. JRC98022. pp. 8-9.
- 41 Amazon started offering Kindle Unlimited, currently available in the EU in Germany, UK, Italy and Spain. It allows consumers to read unlimited number of e-books for a monthly fee. Nevertheless, not all the e-books are available on the Kindle Unlimited and only a limited number of e-books can be read simultaneously. See <https://kdp.amazon.com/help?topicId=AA9BSAGNO1YJH> (8.5.2017).
- 42 For retailers other than Amazon offering bulk sale, see Ganxy <http://get.ganxy.com/howitworks-sell-bulk/> (8.5.2017).
- 43 See more at <https://whispcast.amazon.com/> (8.5.2017).

44 Q. Li, J. Zhang, X. Gong, Z. Zhang. A Novel License Distribution Mechanism in DRM System. 22nd International Conference on Advanced Information Networking and Applications. IEEE Workshop 2008. p.1329.

45 See more at <https://kdp.amazon.com/help?topicId=A2OSMOLQXXKIR2> (8.5.2017).

46 For lending option, see <https://kdp.amazon.com/help?topicId=A2P1X97KAW8GZE> (8.5.2017).

D. Challenges to the Digital Single Market of E-Books and Secondary Market Thereof

21 Admittedly, the dissemination of e-books is rather different from that of printed ones. Since the exhaustion doctrine was formulated and enacted in legal provisions at a time when the market consisted mainly of tangible goods and the dissemination of copyright protected works required a separate tangible medium,⁴⁷ there are challenges to applying its logic to copies lacking durable medium.⁴⁸ Those challenges are of legal, technological, and organisational character. The emergence of a secondary market is not self-evident even if we assume that the exhaustion doctrine applies to copies lacking tangible support in the same way it does to tangible copies. For a secondary market to exist, consumers must be able to enter the market, offer their copies for sale, and effectively transfer them. This part of the paper deals with the variety of challenges facing a secondary market.

I. Legal Challenges

22 One of the cornerstones of the exhaustion doctrine, and copyright in general, is the concept of a copy. According to Article 4(2) of the Copyright Directive, a copyright holder's right to control the distribution of a copy of a work or its original is exhausted upon a sale of that copy. Accordingly, a copyright holder's right is exhausted only in regard to a specific copy distributed by sale or otherwise and not the work in general. Creation of copies is at the heart of Internet and network transmissions. In principle, every act of reproduction of a copyright protected work is subject to the right holder's authorisation. Whereas the problem of an overly broad interpretation of the reproduction right was to a certain extent tackled by providing an exception for reproduction taking place in the course of digital transmission,⁴⁹ it is not the case for the concept of a copy as a whole.

⁴⁷ Broadcasting, performance and other ways of communicating a work without providing a copy for disposal fall outside the scope of this paper.

⁴⁸ To be precise, there is always a tangible medium behind a copy of a work – be it the device where it is stored and from which it can be accessed, a remote server etc. This medium, however, does not have such a distinctive character as a printed copy of a book has. For instance, the physical embodiment of a printed book serves the sole purpose enabling a consumer to enjoy the work, unlike a computer/server/device which is being used in many ways.

⁴⁹ Temporary acts of reproduction transient or incidental, which form an essential part of the technological process enabling digital transmission or lawful use, are exempted from acts falling under the reproduction right of the author according to Art. 5(1) of the InfoSoc Directive.

23 A digital copy lacks most of the features of a tangible medium which for a long time was seen as the only means to distribute a work. First of all, it lacks clear boundaries. An intangible copy is often perceived as a file of certain format which, with the use of a particular device and software, allows end-users to consume a work. However, a file is simply an identifier of a place on a hard-drive where specific bytes containing information in a binary code are stored. There might be multiple identifiers (files) pointing to the same sequence of bytes, as there might be links across the computer file system to the same location on a hard-drive. Thus, instead of associating an intangible copy with a file, it would be more logical to tie it to the bytes instead. This approach would, however, be undesirable as it would require technical knowledge to assess whether multiple copies exist on a same drive and whether a copy was manipulated.

24 The notion of a digital copy warrants further research. The CJEU in the *UsedSoft* case partially addressed the notion of a copy and how it translates into the digital environment. *UsedSoft* resold software licences without providing a copy as such; the subsequent acquirer downloaded it from the vendor's webpage and used it with the acquired licence. Hence, the obtained copy was not technically the copy originally acquired. However, for the purpose of applying the exhaustion principle under the Software Directive, it was sufficient that the subsequent acquirer obtained a licence and downloaded a copy from the vendor's webpage. The approach of separating a copy from an acquired licence would indeed be helpful for the secondary market of e-books. The recent CJEU judgment in *Vasiļevičs*⁵⁰ suggests that it is indeed the way to go, as it precludes the resale of backup copies of software. Furthermore, it is in breach of the vendor's copyright to upload backup copies for resale, but not to "sell" licence rights to a copy and direct the acquirer to the vendor's webpage to download a copy in line with the *UsedSoft*.

25 Another requirement for exhaustion to occur is the sale or any other transfer of ownership of a copy. As most intangible goods are being licenced rather than sold according to the Terms of Use of online marketplaces, the CJEU had the chance to rule whether a transaction where a copy of the software was downloaded from the vendor's webpage upon concluding a licence agreement constituted a sale or its equivalent. The licence agreement in question granted the user, in return for payment of a fee, "a right to use that copy for an unlimited period".⁵¹ Therefore, the CJEU reasoned

⁵⁰ CJEU, *Aleksandrs Ranks, Jurijs Vasiļevičs v Finanšu un ekonomisko noziegumu izmeklēšanas prokuratūra, Microsoft Corp.* (2016) Case C-166/15. para. 53-54.

⁵¹ CJEU, *UsedSoft GmbH v Oracle International Corp.* (2012)

that making a copy available and the conclusion of a user licence agreement was designed to make a copy permanently usable by the customer and to remunerate the vendor.⁵² Consequently, such a transaction was deemed to “involve the transfer of the right of ownership of the copy”.⁵³

- 26 The Terms of Use of Amazon Kindle Store specify that “Kindle Content is licensed, not sold, to you by the Content Provider”⁵⁴ and that “Upon your download of Kindle Content and payment of any applicable fees ... the Content Provider grants you a non-exclusive right to view, use, and display such Kindle Content an unlimited number of times ... solely for your personal, non-commercial use.”⁵⁵ On the other hand, next to a particular e-book on the Kindle Store the consumer is exposed to a “Buy now with 1-Click” button, suggesting that it is indeed a sale of an e-book which takes place. It is indisputable that a copyright holder’s right in a protected subject matter as such is sold neither in the case of e-book distribution nor upon a sale of a printed copy. However, if one follows the logic applied by the CJEU in the *UsedSoft*, purchasing e-books on Amazon Kindle Store could presumably be qualified as transfer of ownership of a copy.
- 27 Another point of concern is the territoriality of copyright and exhaustion doctrine. As the Copyright Directive establishes regional EEA-wide exhaustion, the distribution right can only be exhausted in respect of the copies which are put into circulation with the right holder’s authorisation within the EEA. Accordingly, it is necessary to keep track of the initial transaction of sale to determine whether a particular copy can be put on a secondary market. Addressing this aspect requires consideration of a number of legal, technical and organisational measures. From the legal perspective, it might be worth to evaluate the necessity of maintaining regional exhaustion for intangible goods such as e-books. Given the absence of an agreement on justifiability of maintaining a regional exhaustion, it might be insightful to study the impact of international exhaustion on a potential secondary market of intangible copies. There may be a case for promoting greater cultural diversity within the EEA by allowing the import of e-books purchased outside its borders, which are otherwise not accessible on the EU market.
- 28 It follows that the key legal issues for a secondary market of e-books are dependent on the legal interpretation, creation of the EU-wide legal

Case C-128/11, para. 45.

52 Ibid.

53 Ibid., p. 46.

54 See <https://www.amazon.com/gp/help/customer/display.html?nodeId=201014950> (8.5.2017).

55 Ibid.

concepts and policy choices. As indicated in this part, the absence of a clear position on the concept of an intangible copy is one of the main obstacles to further discussions, as manipulating such copies for the purposes of transfer to subsequent acquirers falls within the exclusive rights of right holders. The same applies to the sale or transfer of ownership requirement. Extending the *UsedSoft* approach - where perpetual licences were deemed to constitute a transfer of ownership - would further benefit the secondary market and eliminate uncertainties. As the CJEU rightly stated, online transmission is functionally the equivalent of supply in a tangible medium. Where the effect of such a transmission is the same as of transfer of possession over a tangible object, the form of contractual arrangements should not be decisive in determining whether a transfer of ownership occurs.

II. Technological and Organisational Challenges

- 29 The disposal of an acquired copy of an e-book through sale in most of the cases presupposes the ability to manipulate a copy itself. The most important action for a secondary market is the transfer of a copy either between the storage devices or over the Internet. In a centralised system, such as the one Amazon has, this is particularly restricted. The transfer between the storage devices associated with the same user account is actually happening through the Internet and there is no transfer in a technical sense - a copy of an e-book is synchronised to a “new” device and the synchronised content is removed from the “old” one by delisting an e-book or untying the device from an account. There is no option to extract an e-book from a Kindle device or application in order to transfer it, for instance, to a memory stick. Amazon’s proprietary e-book format and the DRM measures prevent this from taking place. It is possible to use software built to circumvent these technical measures; however, such acts are prohibited under EU copyright law.⁵⁶
- 30 Another challenge, which stems from the territoriality of copyright protection and the exhaustion principle, is the need to keep track of the location where the transfer of ownership takes place. According to current EU legislation, the rights of copyright holders are exhausted in respect of the copies for which the first sale occurred within the EEA. Thus, there has to be a mechanism of ensuring that copies of an e-book put on a secondary market were originally put into circulation within the EEA. Watermarking technology could be one of

56 For provisions on circumvention of technical measures, see Art. 6 of the InfoSoc Directive.

the possible options. Despite the fact that it is not protecting content from being copied, watermarking allows to pass on certain information with each copy, and subsequently, trace it.⁵⁷

- 31 There are a few potential approaches to control access to an e-book through the DRM technologies, which take into account the geographical location along with the environmental and organisational settings. For instance, the Attribute-based access control (ABAC)⁵⁸ grants access to objects after assessing permission rules against the attributes of subjects and objects, operations, and the environment. The access decision depends on the comparison of the attribute values of a potential reader of an e-book to the copy itself. Another access control model - usage control model (UCON)⁵⁹ is based on the monitoring of the use of the resource (e.g. an e-book), which enables enforcing change of the access permissions and re-assessment of the subject's rights, e.g. when the owner of the copy is changing. The final access decision is made by re-assessing the authorisation, obligation and condition constraints by using the specified access rights.
- 32 Another dynamic model - Risk-adaptive access control (RAdAC)⁶⁰ - has the property of adapting access permissions based on the continuous changes in the environment. The permission is granted after estimating the situational factors and assessing the dynamism of the environment; hence, the access permission depends heavily on the changes in the environment. This is especially relevant for the digital right management of e-books when the change in the possession of a copy is taken into account. The use of different access control schemes could potentially help manage the access rights when the owner of a copy, territorial access, or any other environmental properties are changing. However, determining properties of the environment, user,

operational and technological components remains a development challenge.

- 33 Although the sale of multiple copies of an e-book is not a widespread practice yet, it could gain importance in the future. Amazon Whispercast, which was briefly discussed above, allows the purchase of multiple copies of an e-book with further distribution of the copies between individual Kindle accounts. The question would be whether individuals who also possess a copy of an e-book which they were granted access to by Whispercast administrator account,⁶¹ would be able to rely on the exhaustion doctrine to sell these copies, or whether it is solely the owner of a Whispercast administrator account who can resell the copies. Unlike printed books, where the owner of multiple copies loses control over the copies he sells, an administrator of Whispercast retains control and can withdraw a copy from individual accounts.
- 34 It follows firstly, that technological and organisational challenges arise mainly from the difficulties in meeting the legal criteria for copyright exhaustion to occur. Secondly, they result from the adopted business practices and technological solutions implemented to serve these practices and also to comply with the legal regulation. Accordingly, when analysing the possible scenarios to facilitate a secondary market of e-books - in this case purchased through Amazon - it is necessary to consider all the challenges collectively. As suggested in the next section, it does not seem realistic to facilitate a broad secondary market by solely imposing the exhaustion doctrine on e-books (or intangible goods in general). Therefore, also the option of a limited secondary market (within Amazon) is considered.

E. Possible Scenarios of Facilitating Secondary Market of E-Books Sold Through Amazon

I. Limited Secondary Market Within Amazon

- 35 Amazon's ability to manage distribution of e-books centrally is, of course, in conflict with consumer interests to dispose of a purchased copy.⁶² Certain

57 For more, see W. Li. Research on the application of watermark technology in digital works' electronic business. 2012 2nd International Conference on Consumer Electronics, Communications and Networks 2012. p.1252.

58 See V.C. Hu, D. Ferraiolo, R. Kuhn, A. Schnitzer, K. Sandlin, R. Miller, K. Scarfone. Guide to Attribute Based Access Control (ABAC) Definition and Considerations. Tech. Rep. 800-162, NIST Special Publication 2014. Also V.C. Hu, D. Kuhn, D.F. Ferraiolo. Attribute-based Access Control. Computer, 2015. Available at <<https://pdfs.semanticscholar.org/f2d6/98c5a1819b0cfff0c8899b8a391c5721aa2b6.pdf>> (8.5.2017). pp. 85-88.

59 J. Park, R. Sandhu. The UCON ABC Usage Control Model. ACM Transactions on Information and System Security (TISSEC) 7(1), 2004. pp. 128-174.

60 See R.W. McGraw. Risk-adaptable access control (RAdAC). In: Privilege (Access) Management Workshop. NIST 2009. Available at <http://csrc.nist.gov/news_events/privilege-management-workshop/radac-Paper0001.pdf> (8.5.2017). Also R.A. Shaikh, K. Adi, L. Logrippo. Dynamic Risk-based Decision Methods for Access Control Systems. Computers and Security 31(4), 2012. pp. 447-464.

61 An administrator account in Whispercast is the one purchasing multiple copies and administering their dissemination between individual accounts. See more at <<https://whispercast.amazon.com/terms>> (8.5.2017).

62 Especially when the content is removed on the Amazon side without the consumer being aware. See as an example <<https://www.theguardian.com/money/2012/oct/22/amazon-wipes-customers-kindle-deletes-account>>

consumer interests are nevertheless taken into account, such as the possibility to access an e-book on multiple devices and to lend it to a friend or a family member (although it is as a time-limited and one-time option). The centralised system is even more controversial when it comes to the disposal of a copy for the purposes of entering a secondary market. This disadvantage, however, can be turned into an advantage for both sides if Amazon were to take an active role in enabling a secondary market.

- 36 Making it technically possible to move purchases in-between user accounts would provide consumers with an option to dispose of a copy (albeit limited to potential acquirers in possession of a Kindle user account) and also provide Amazon with a certain degree of control, particularly when it comes to enforcing the applied DRM measures. What is required to this end, is to provide a consumer (in possession of a Kindle user account) with an option to transfer his or her purchase to a different consumer (with a Kindle user account). The consequence of this would be that the content of an e-book is synchronised to the devices associated with the acquirer's account and that an e-book is delisted from the previous owner's account, resulting in synchronised content being removed from respective devices.
- 37 When facing territoriality of exhaustion, it would also be necessary to verify for each copy whether the rights are actually exhausted. Correspondingly, one needs to implement a check whether a copy was placed on a market within the EEA, and, if yes, then the transfer should be permissible. To determine which transactions took place within the EEA, the most straightforward solution would be to filter out transactions from the 6 dedicated marketplaces of the EU Member States. If this option is chosen, purchases by consumers situated in the EU but without access to any of the dedicated marketplaces within the EU, would be out of the scope of a secondary market. This should most certainly be prevented. If the exhaustion principle is to remain EEA-wide, there is a need to classify transactions not based on whether they took place on a dedicated marketplace, but to filter out purchases made by the residents of the EU Member States on all the marketplaces. This second option would also ensure that copies purchased by residents of 10 EU Member States having access to dedicated marketplaces would be eligible for entering a secondary market regardless of whether they were purchased on a dedicated marketplace or on a global one.
- 38 In regard to bulk purchases, resale depends on the answer to the question posed in a previous section; namely, who would be eligible to resell the copies. The solution would be rather similar in every case

(8.5.2017).

as was described above: either an individual Kindle account or Whispercast administrator account could enjoy the option to transfer a copy to a different account. In the event that only an administrator account is permitted to resell the purchased copies, it is possible to carry out a transfer irrespective of whether or not individual copies were already distributed across separate Kindle accounts. This is due to the fact that Whispercast - like a regular Kindle - is managed centrally and delisting a title from an account will result in removing the respective synchronised content from associated devices. However, the question whether a resale of a copy purchased through Whispercast by an individual account should be permitted remains. By analogy to the world of printed books, it should be the case. Nevertheless, this can also be seen in the context of the *UsedSoft* judgment and prohibition on splitting volume licences.⁶³

- 39 The scenario described above is not a new one for Amazon. In 2009, the company filed an application and in 2013 was granted a patent in the US for a secondary market for digital objects.⁶⁴ According to the patent description, the system allows storing digital objects purchased from original vendors in a secure personalised data store and moving objects into the other user's data store subject to meeting certain (if any) conditions. These conditions can include one or more business rules, such as a move limit e.g. restricting the number of times an object can be moved between the users, levying a fee upon movement, etc. Accordingly, such a system is close to that proposed, as it ensures that a copy is accessible to one user account at the time and is managed centrally.
- 40 What is overlooked here is the territoriality of the exhausted rights. It, however, could be implemented technically by introducing extra business rules as a condition for system authorisation of a transfer. For instance, limits on transferability of a copy could be put in place by the copyright holder upon publishing an e-book. Nevertheless, such limits would have to be checked against the applicable legislation. By way of example, a copyright holder is not able to prevent transfer within the EU of a copy put into circulation with his authorisation in one of the Member States. That is to say, an authorisation system of this type needs to respect possible restrictions on the copyright holder's right to control distribution of copies, as enumerated in the law.
- 41 The option described above could be the first step in enabling a fully functional secondary market of

63 CJEU, *UsedSoft GmbH v Oracle International Corp.* (2012) Case C-128/11. para. 86.

64 E. Ringewald, inventor; Amazon Technologies, Inc., assignee. Secondary market for digital objects. US patent 8,364,595. January 29, 2013.

e-books. It would preserve the vendor's ability to exercise a certain level of control over purchases and transfers, not least when it comes to the enforcement of DRM measures. This solution would require only limited legislative change as DRM would not have to be discarded or substantially altered. Amazon's patent in the US shows that the retailer is aware of the potential emergence of a secondary market, not only a limited one, but also a broad one, where different intangible goods originating from diverse vendors are being stored in a secure location and transferred between the accounts, as it will be elaborated in the next part.

II. Broad Secondary Market of E-Books Including Those Purchased Through Amazon

- 42 While a limited secondary market comprises e-books purchased through Amazon and transferred between the user accounts, a broad one would include copies purchased from different vendors and available for potential purchasers regardless of whether or not they are in a possession of a user account or a particular device. For e-books purchased through Amazon to be able to enter such a secondary market, it is necessary to create conditions for export of a copy from a device or Kindle application and its transfer to a different data storage (mostly over the Internet). For this reason, a copy would have to be made unusable at the time of transfer and DRM modified or abolished to allow a transfer.
- 43 Redistribution of digital content has been studied by some scholars primarily from the technical perspective. Whereas the purpose of the DRM measures is to restrict the user's disposal of a copy and as such it conflicts with the aim of redistribution, proposals have been made on how to facilitate redistribution while preserving DRM policies.⁶⁵ Acknowledging the technical difficulty of securing digital content, the authors suggest focusing on the distribution of digital copies to a variety of devices instead of only custom-built compliant devices, and its subsequent controlled redistribution. This solution allows the use of watermarking for the purpose of tracing a copy; furthermore, it also allows the inclusion of a payment mechanism into a transaction, either as a direct one between the consumers, or with the involvement of a provider or even a financial institution.
- 44 If such a system, preserving DRM policies upon a

copy's transfer, is indeed implementable, it could potentially address concerns associated with enabling a broad secondary market. For instance, if DRM measures are preserved and watermarking is used to pass metadata of content and of transaction, vendors should not be concerned with users extracting copies from an associated compliant device. What remains to be studied is whether large-scale changes to the DRM policies of Amazon are necessary to allow export of the content while preserving other DRM policies. Another alternative to enable a transfer of a copy protected by DRM is to completely abolish DRM, which is clearly a more radical step. Nevertheless, certain publishers experimented with issuing e-books DRM-free and reported that they did not observe a significant increase in piracy levels and would continue to do so.⁶⁶

- 45 The only aspect that was identified as a challenge of a legal, technological and organisational nature, and not directly addressed in the solution described above, is territoriality of the exhaustion principle. However, as technical implementations could potentially permit preservation of certain DRM policies and watermarking, it could facilitate passing on information regarding the initial transaction. Having this information stored securely along a copy, combined with mechanisms as described in the Amazon patent and allowing checks whether certain conditions were met to either confirm or deny a transfer, could serve the purpose of determining which copies can be transferred. However, there is also a need to decide on which basis transactions would be qualified as taking place within the EU/EEA. If for e-books distributed through Amazon it could be, as discussed earlier, transactions made on the dedicated marketplaces or those made by the EU or EEA residents, it is more challenging to define it for the wide array of e-book distribution channels.
- 46 Enabling a broad secondary market of e-books, which is the closest equivalent of a secondary market existing for printed books, is clearly more challenging than facilitating a limited one. However, relevant analysis indicates that such an option has been studied both from technical and business side. As a secondary market of e-books is non-existent at the moment, then following the second scenario of creation of a broad secondary market seems less realistic than starting with the first option of enabling a limited secondary market in a more controlled manner. Dividing the creation of a secondary market into stages would allow to explore any further challenges to a broad secondary market while preserving a certain degree of control by the

⁶⁵ S.K. Nair, B. C. Popescu, C. Gamage, B. Crispo, A. S. Tanenbaum. Enabling DRM-preserving Content Redistribution. Proceedings of the Seventh IEEE International Conference on E-Commerce Technology (CEC'05) 1530-1354/2005.

⁶⁶ One Year Later, the Results of Tor Books UK Going DRM-Free. Available at <<http://www.tor.com/2013/04/29/tor-books-uk-drm-free-one-year-later>> (8.5.2017).

vendors.

F. Conclusion

- 47 Technological development has heavily influenced the consumer's habits and preferences. Whereas certain goods are only supplied as tangible ones, more and more intangible copies are being offered. It does not mean that they are independent from the material components, but it rather indicates that each copy does not require a separate tangible embodiment (e.g., paper, CD, etc.). Whereas this shift makes it convenient for consumers to access a work, it can also be a disadvantage because goods tend to be differentiated for a number of purposes depending on the existence of a tangible embodiment.
- 48 A rather prominent example is the exhaustion principle in copyright. There is reluctance to apply it to intangible copies. Difficulties arise due to the provisions which were adopted at the time when the distribution of intangible copies was not yet a reality. The exhaustion principle is important not only from the perspective of copyright and consumer access to a secondary market of goods, but also from the perspective of free movement of goods at the EU level. The Digital Single Market strategy aims to create a single market facilitating free movement of digital goods within the EU. The exhaustion principle was used early on by the CJEU as an instrument of removing barriers to trade in tangible goods. It is thus important to consider using it as an instrument of creating the Digital Single Market too.
- 49 This paper considers the exhaustion doctrine as an instrument of facilitating the Digital Single Market of e-books disseminated through Amazon and a secondary market thereof. The main challenges to the market posed by the exhaustion principle in its current wording are: the concepts of a copy; application of DRM measures; and territoriality of exhaustion. It is apparent that the application of the exhaustion principle to intangible copies will not itself result in a functioning secondary market because of the distinct ways of disseminating intangible goods. Accordingly, technological and organisational challenges to creating a digital single and secondary market must be considered.
- 50 Based on the analysis of challenges, two scenarios were identified. The first one implies facilitating a limited secondary market of e-books distributed through Amazon, where subsequent transfers, just as the initial one, are centrally managed. It provides a greater control for the copyright holder and vendor - in this case Amazon. Since 2013 Amazon holds a patent in the US covering such a system. This solution requires implementation of technological and organisational changes on the vendor's part and maintenance of a centralised system. It would not facilitate transactions involving copies purchased outside the centralised system. Subsequently, such a secondary market would be narrower in scope than a respective secondary market of printed books.
- 51 The second scenario - a clearly more advanced and challenging one - is to enable consumers to dispose of a copy of a purchased e-book by extracting it from a trusted Kindle device or Kindle reading application and exporting it with either preserving or discarding the applied DRM policies. There could be different ways to achieve this and researchers in the computer science field have already worked out certain options. For instance, there is a model proposed which allows transfer of intangible copies while preserving the applied DRM policies. This is in line with both the consumer's and copyright holder's expectations.
- 52 The first identified scenario of a limited secondary market could become a starting point to facilitate a broad secondary market. As it requires less effort on the vendor's side and allows vendors and copyright holders to retain almost the same level of control as with an initial purchase, it should be largely acceptable. Moreover, this option would allow the preservation of all the DRM policies applied to a copy. As the second step, a system allowing large-scale transfers of digital copies subject to particular conditions, as described in the broad secondary market option, could be developed. Only when such a system is in place, it becomes possible to arrive at a secondary market of e-books similar to the printed books.
- 53 In order to overcome the legal challenges, political decisions are required. The absence of a clear and distinctive meaning of certain concepts under EU law makes it difficult to effectively address the identified obstacles to a secondary market of intangible goods. Although the CJEU case law is of crucial importance, the fragmentation of applicable EU copyright legislation leads to differences in the national law. This results in barriers to the free movement of intangible goods.
- 54 While implementing the Digital Single Market strategy, the European Commission should consider the exhaustion principle as an instrument to leverage the Digital Single Market and a secondary market for intangible goods as its integral part. The scenarios developed in this paper indicate that different approaches can be taken. It should be possible to achieve a secondary market of e-books in a controlled manner by providing wider access to copyright-protected works while preserving the interests of copyright holders enforcing DRM technologies.

EU Copyright Liability for Internet Linking

by Pekka Savola*

Abstract: This article analyzes linking on the internet from the perspective of the EU copyright concept communication to the public in the light of recent developments in late 2016 and early 2017, especially the Court of Justice of the European Union judgments *GS Media*, *Filmspelers*, and *Ziggo*. The article highlights the doctrinal approach on communication to the public and de facto harmonization of certain aspects of classic indirect liability. The article analyzes open issues relating to linking to illegal pub-

lications, specifically the uncertainty relating to the extent of liability for the contents of the linked page, the scope of pursuing profit when linking, and the linker's duties of care. The article also discusses two aspects related to linking to legal publications; that is, the conceptualization of the "new public" requirement as a regulated implied license and the conditions of restricting access and circumventing restrictions.

Keywords: Internet linking; copyright liability; EU; ECJ; *GS Media*; *Filmspelers*; *Ziggo*; new public

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A. Introduction

1 Article 3 of the Information Society Directive (2001/29/EC) provides, based on Article 8 of the World Intellectual Property Organization (WIPO) Copyright Treaty (WCT) of 1996, that "Member States shall provide authors with the exclusive right to authorise or prohibit any communication to the public of their works, by wire or wireless means, including the making available to the public of their works in such a way that members of the public may access them from a place and at a time individually chosen by them."¹

2 The first part concerns the original communication to the public, the second part a "sub-right", so-called making available. The latter refers to providing access for on-demand transmission, and it is more extensive in this context because it applies irrespective of transmission occurring. During the WCT treaty preparations, making available was referred to "offering" and "providing access to a work", and it was coined to prevent uploading and making protected files accessible online.² At the time, there was no consideration of making available covering hyperlinking to a work already legally or illegally available elsewhere.³ Linking as such has

* LL.D. and Lic.Sc.(Tech), Market Court Judge. The views are expressed in a researcher's capacity. I would like to thank Martin Husovec for the brainstorming and dialogue that led to this article, and Taina Pihlajarinne and the reviewer for helpful comments and feedback.

1 According to Recital 23 of the directive, "This right should be understood in a broad sense covering all communication to the public not present at the place where the communication originates. This right should cover any such transmission or retransmission of a work to the public by wire or wireless

means, including broadcasting. This right should not cover any other acts." Per Recital 27, the mere provision of physical facilities for enabling or making a communication does not in itself amount to communication.

2 See e.g. *Tsoutsanis: Why Copyright and Linking Can Tango*, 9(6) *JIPLP* 495 (2014), pp. 499–500, 505; *ALAI: Report and Opinion on the Making Available and the Communication to the Public in the Internet Environment – Focus on Linking Techniques on the Internet* (2013).

3 *Ziggo (Opinion)*, C-610/15, EU:C:2017:99, para. 4 refers to

also not been subject to EU legislation, and it would be up to the judiciary to deal with any upcoming issues.

- 3 This article analyzes linking on the internet from the perspective of the EU copyright concept “communication to the public” in the light of the case law of the Court of Justice of the European Union (CJEU), and the *GS Media* judgment in particular.⁴ The CJEU’s approach is taken as a given and therefore the focus is on interpretation and mapping (and even filling) the blanks. In the interest of brevity, discussion of earlier judgments and communication to the public in general is kept to a minimum.⁵ The unharmonized moral rights and other copyright aspects, such as the reproduction right, as well as domestic remedies on non-copyright grounds, are likewise out of scope.⁶
- 4 The rest of this article is structured as follows. Part B summarizes the key points and uncontroversial findings of internet linking case law up to and including the *GS Media* judgment.⁷ Part C highlights the two most important and general doctrinal aspects raised by the recent judgments: the conceptualization of communication to the public and its expansion towards also covering indirect liability for the acts of others. Part D discusses fundamental practical open issues, specifically the uncertainty of the extent of liability for the contents

linking as “secondary communication of works already accessible on the internet” in contrast to “original communication” (in that case, made on a peer-to-peer network).

- 4 *GS Media*, C-160/15, EU:C:2016:644. This topic has also been extensively studied before the latest CJEU judgments, which have in many ways changed the landscape and detailed discussion of earlier accounts is not useful here. For a more detailed account and past criticism, see e.g. *Koolen*: The use of hyperlinks in an online environment: putting links in chains? 11(8) *JIPLP* 585 (2016) and *Mezei*: Enter the matrix: the effect of CJEU case law on linking and streaming technologies 11(10) *JIPLP* 778 (2016).
- 5 For more cases and commentary, see e.g. *Clark/Dickenson*: Theseus and the labyrinth? An overview of “communication to the public” under EU copyright law: after *Reha Training* and *GS Media* – Where are we now and where do we go from here? 39(5) *EIPR* 265 (2017) and *Rosati*: *GS Media* and its implications for the construction of the right of communication to the public within EU copyright architecture, 54(4) *CMLR* 1221 (2017a), pp. 1233-1237 including the references.
- 6 EU Member States are precluded from deviating from the autonomous concept of communication to the public by providing more extensive protection with additional criteria (*Svensson*, C-466/12, EU:C:2014:76, paras. 33–41). This would also seem to rule out an increased level of protection of similar conduct as such on other grounds.
- 7 Also subsequent judgments *Filmspeler*, C-527/15, EU:C:2017:300 and *Ziggo*, C-610/15, EU:C:2017:456 have been taken into account to the extent relevant here. (Instead of the CJEU website shorthand “Stichting Brein”, for the sake of clarity, different case names are used).

of the linked page, the scope of pursuing profit when linking, the linker’s duties of care, as well as the conceptualization of the “new public” requirement as a regulated implied license and the conditions of restricting access and circumventing restrictions. Part E concludes this article.

B. Summary as of *GS Media*

- 5 The *GS Media* case concerned the liability of an online website for the articles that included hyperlinks to a file sharing website where unpublished photographs had been uploaded without the consent of the right holder. Advocate General Wathelet suggested redefining the course set in the earlier case law so that linking would not be an act of communication, and even if it were, it would not be a communication to a public.⁸ The CJEU was not willing to accept either proposal. Instead, it opted to invent a new condition to be imposed on top of the latter alternative.
 - 6 The Court recalled several complementary and independent criteria, which may in different situations be applied individually and in their interaction. The first and most important of them was the indispensable role played by the user and the deliberate nature of its intervention.⁹ The profit-making nature of a communication was also deemed relevant.¹⁰
 - 7 Further, the Court explained that the previous internet linking cases, *Svensson* and *Bestwater*, were meant to apply only in cases where the works had already been made available with authorization, and in those cases the act of communication was not made to a new public.¹¹ In essence, *Svensson* had allowed linking to a freely accessible protected work published with the consent of the author, and *Bestwater* confirmed that all forms of linking are treated equally.¹² Indeed, “as soon as and as long as that work is freely available on the website to which the hyperlink allows access”, the copyright
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- 8 *GS Media (Opinion)*, C-160/15, EU:C:2016:221.
 - 9 *GS Media*, paras. 34–35, which referenced indirectly *SGAE*, C-306/05, EU:C:2006:764, para. 42 and *FAPL*, Joined cases C-403/08 and C-429/08, EU:C:2011:631, para. 195. As discussed later, the CJEU does not really address the indispensability requirement later in the judgment.
 - 10 *GS Media*, paras. 38–39. These followed Grand Chamber judgment in *Reha Training*, C-117/15, EU:C:2016:379. In contrast, in *Reha Training*, para. 49, profit-making was deemed “not irrelevant”. In this context, the further criterion on the number of people in the public would not typically prove to be problematic.
 - 11 *GS Media*, para. 41. See *Svensson* and *Bestwater*, C-348/13, EU:C:2014:2315.
 - 12 See *GS Media*, para 40 and the explanation of *Bestwater* in *GS Media (Opinion)*, C-160/15, EU:C:2016:221, paras. 36–42. The different means are not germane to this article, however.

holders have consented to such a communication, i.e., linking.¹³ In contrast, it could not be inferred that linking to non-consented publications would not be communication to the public.¹⁴

- 8 The Court observed that the internet is of particular importance, taking into account that automatically considering all linking to non-consented publications as communication to the public would have highly restrictive consequences on the freedom of expression and of information. Further, the Court contemplated the difficulty of ascertaining the consent and practical difficulties in verifying the legality.¹⁵
- 9 This conundrum led the Court towards an individualized assessment to define an entirely new set of conditions. In essence, the liability for linking to works published without authorization depends on a reasonable knowledge standard. A person who does not pursue profit when posting a link (non-commercial linker), is not as a general rule, expected to be aware of the lack of authorization. When posting links is carried out for profit (commercial linker), the expectation is to carry out necessary checks to ensure the work is not illegally published on the website to which those hyperlinks lead, which amounts to a rebuttable presumption of knowledge. The knowledge standard “knew or ought to have known” can also be established with other means, for example, an explicit notification of illegality. That is, non-commercial linkers may be shown to have had actual knowledge, and commercial linkers can exonerate their liability by rebutting the construed knowledge.¹⁶

- 10 Moreover, the links that allow circumventing the restrictions taken by the site to only subscribers constitute communication to the public.¹⁷ On the other hand, the Court also noted that there would not be a new public if the works have been made freely available on another (apparently actually any other) website with the consent of the right holder.¹⁸ These conditions which allowed the right holders to take action against either linkers or original publications were deemed to provide the required high level of protection for authors.¹⁹
- 11 The judgment also essentially stated that upon a notification of illegality, the linkers cannot rely upon the copyright exceptions of Article 5(3) of the Information Society Directive.²⁰ The opening paragraphs included Article 5(3)(c), on reporting on current events by the press, but no specific copyright exception was further discussed. However, the lawfulness of the source is not required by that specific exception or EU copyright law in general unless derived from Article 5(5), and in consequence the basis and impact of this statement is left vague.²¹

C. Shaking the Doctrinal Foundations

I. The liability and foundations of communication to the public

- 12 In the preceding *Svensson* doctrine, all linking acts are in principle making available and therefore acts of communication. These acts of communication almost always have an indeterminate number of potential

13 *GS Media*, para. 42, referring to that effect of *Svensson* and *Bestwater*. Consent is discussed in Part D.IV. If it was not obvious already with *Svensson* (see e.g. *Headdon*: An epilogue to *Svensson*: the same old new public and the worms that didn't turn, 9(8) *JIPLP* 662 (2014), p. 665), inter alia “as long as” seems to confirm that to be relevant, restricting access later must be implemented in such a manner that previously working links cease to function.

14 *GS Media*, para. 43.

15 *GS Media*, paras. 44–46, in particular para. 46: “Furthermore, it may be difficult, in particular for individuals who wish to post such links, to ascertain whether website to which those links are expected to lead, provides access to works which are protected and, if necessary, whether the copyright holders of those works have consented to their posting on the internet. Such ascertaining is all the more difficult where those rights have been the subject of sub-licenses. Moreover, the content of a website to which a hyperlink enables access may be changed after the creation of that link, including the protected works, without the person who created that link necessarily being aware of it.”

16 See *GS Media*, paras. 47–49, 51. Basing the reasoning so heavily on the distinction of profit-making is somewhat surprising, as typically it has little bearing in copyright law (in contrast to, for example, trademarks and commercial use).

17 *GS Media*, para. 50, based on *Svensson*, paras. 27–31. It can be inferred that the restrictions must include some technical function to prevent access, and access may also be restricted later on. See Part D.V.

18 *GS Media*, paras. 52. “Another website” has been considered ambiguous (see, for example, *Clark/Dickenson* (2017), p. 271), and it is. However, at least French, German, Swedish and Finnish language versions use a phrase more equivalent to “some other” or even “any other”, not referring specifically and explicitly to the linked page. The CJEU could have easily used a more specific phrasing if it had wanted to do so. Apparently, a consented publication anywhere on the internet seems to allow linking to non-consented copies. The recent preliminary reference in *Renckhoff* (C-161/17) should clarify this point.

19 *GS Media*, para. 53.

20 *GS Media*, para. 53.

21 Contrast to, for example, the quotation exception in Article 5(3)(d) that allows “quotations for purposes such as criticism or review, provided that they relate to a work or other subject-matter which has already been lawfully made available to the public”. For an implicitly required lawfulness, see for example *ACI Adam*, C-435/12, EU:C:2014:254, para. 29. Similar kind of support is provided by *Filmsteper*, paras. 68–69, where the lawful use requirement of temporary copies of Article 5(1)(b) was not satisfied.

recipients and are therefore also communication to a public.²² These do not necessarily attract a new public, however, and then there would not be communication to *the* public.²³ In *Svensson*, the focus was on the new public, rather than qualifying the linker's "intervention" and considering why the linking is an act of communication in the first place.²⁴

- 13 In *GS Media*, the issue is characterized as whether the linker intervenes in full knowledge (construed or actual) of the consequences of his conduct in order to give access to an illegal publication. If such knowledge is missing, there is no communication to the public.²⁵ While the AG advocated a position that linking must be indispensable – as in *vital* – to access the works the CJEU only referred to the indispensable role in the context of previous case law and only used "deliberate intervention" in the context of circumventing access restrictions.²⁶ Essentially the CJEU appears to have softened the requirement especially when compared to its literal meaning.²⁷
- 14 In case of linking to illegal publications, *GS Media* did not take an implicit or explicit doctrinal stance on the partitioning into different "components" of communication to the public, except by excluding the new public condition. Thus, one was left to wonder whether the deliberate intervention test would be an alternative only to the new public requirement, the previous communication to the public doctrine entirely, or even something else.²⁸

22 See *Svensson*, paras. 19–23.

23 See *Svensson*, para. 24.

24 In contrast, in *GS Media (Opinion)*, paras. 55–57, the AG argued that the intervention of the hyperlinker must be vital or indispensable, as arguably required in *SGAE* and *FAPL*. The CJEU's argumentation in *Svensson* and the new public criterion has been subject to a lot of criticism from various fronts. That discussion is however out of scope of this article.

25 The level of knowledge seems to be the essential qualification, as modulated by the pursuit of profit, not the other way around.

26 Contrast *GS Media*, paras. 35, 50 to *GS Media (Opinion)*, paras. 57–60, 69–73.

27 Likewise, *Filmspelers*, para. 50, did not dwell on the indispensable role of the seller of the multimedia player, and *Ziggo*, para. 26 added "or would be able to do so only with difficulty" to the absence of the intervention requirement "those customers would not be able to enjoy the broadcast work". *Midelieva: Rethinking hyperlinking: addressing hyperlinks to unauthorized content in copyright law and policy*, 39(7) *EIPR* 479 (2017), p. 482 argues that in *GS Media* the CJEU treated the presence of knowledge as negating the lack of indispensability. *Rosati: The CJEU Pirate Bay judgment and its impact on the liability of online platforms*, forthcoming *EIPR* (2017b) <<https://ssrn.com/abstract/3006591>>, pp. 3–4 argues that the CJEU has rejected the narrow interpretation of the indispensability of the user's role.

28 For example, *Rendas: How Playboy photos compromised EU*

- 15 AG Opinions in *Filmspelers* and *Ziggo* examined and held that there is a new public, even though in both cases linking concerned unconsented publications.²⁹

- 16 In *Filmspelers*, the CJEU held that the sale of the multimedia player was considered an act of communication, it targeted a public, it was made in full knowledge of the fact of hyperlinks giving access to works published illegally on the internet, and was done with a view of making a profit. The CJEU specifically discussed but distinguished the case from ones finding a new public.³⁰

- 17 In contrast, in *Ziggo* the CJEU held that the making available and management of a file sharing platform was an act of communication, protected works were communicated to a public, the platform provided access to works published without the consent of the right holders, and there was communication to a new public.³¹ Further, the making available and management of the online sharing platform was carried out with the purpose of obtaining profit.³²

- 18 In the light of *Filmspelers*, it seemed clear that for all kinds of linking, first the conditions on "act of communication" and "a public" need to be examined. Then linking to consented publications must fulfill the "new public" requirement, and linking to unconsented publications the deliberate intervention and construed or actual knowledge requirements. The most plausible explanation would seem to be to disregard the new public elements in *Ziggo* as an unnecessary doctrinal misstep.³³ Alternatively, linking to illegal sources (as was the case in *GS Media* and indirectly in *Filmspelers*) might be evaluated based on a different doctrine than communication to the public in general (which may or may not have been the case in *Ziggo*).

copyright law: The *GS Media* judgment, 20(11) *JIL* 11 (2017), p. 14, supported a view that the CJEU's deliberate nature and profit-making purpose are an alternative to the previous two cumulative elements. More generally, *Clark/Dickenson*, pp. 272 and 276, have argued that there does not appear to be a coherent, easily applicable overarching theory to cover communication to the public. They have divided the cases to groups concerning retransmission on one hand, and linking and framing on the other.

29 *Filmspelers (Opinion)*, EU:C:2016:938, paras. 55, 59; *Ziggo (Opinion)*, para. 47.

30 *Filmspelers*, paras. 42, 46, 48, 50, 51.

31 *Ziggo*, paras. 39, 43, 45.

32 *Ziggo*, para. 46.

33 *Ziggo*, para. 45, on the new public, references "to that effect" paragraph 50 of *Filmspelers*, which discusses the knowledge of the provider of the multimedia player that it would provide access to works published illegally on the internet, that is, the deliberate intervention condition of *GS Media*. It is suggested that this is the finding that *Ziggo* intended to make, and the preceding paragraph (with its references to *Svensson* and *Bestwater*) and the new public discussion were redundant and incorrect.

- 19 The doctrinal consequence of *GS Media* and *Filmspeler* seems to be that the “volition” or “act” (understood widely to encompass the whole communication to the public) disappears if the knowledge standard is not met. The implications remain to be explored. This is a somewhat unexpected doctrinal situation, because typically the lack of knowledge may result in the person not being liable, and not nullify the illegality of the deed.³⁴
- 20 A doctrinal alternative might have been that the act of linking remains unlawful, but the lack of negligence or required intention may result in the lack of liability, as with criminal law and torts in general. However, in the EU framework, there is only limited harmonization of liability and damages.³⁵ Adopting this alternative would have required overriding domestic liability standards, which typically apply strict liability for direct copyright infringement, by enforcing intention-based liability. Taking this and the structure of communication to the public right into account, the CJEU did not have much room to manoeuvre to take into account doctrinal aspects. On the other hand, the third option would have been to refuse holding infringement of communication to the public, falling back to the various domestic secondary liability doctrines, or awaiting the EU legislator’s future initiatives.³⁶
- 21 One of the most fundamental consequences is the evaluation of liability in this context. While the CJEU does not classify communication to the public as direct and indirect liability, the knowledge requirements make this more akin to

indirect liability. Even though, from the domestic perspective, liability may still be strict, fewer acts would be considered infringing in the first place, leading essentially to a similar result as with intention-based liability regimes.³⁷

II. De facto harmonization of secondary liability

- 22 “Intervention, without which, ... in full knowledge of the consequences” that originated in *SGAE*³⁸ is in fact secondary liability of a sort: a deliberate and conscious act that leads with likelihood to an infringement by someone else.
- 23 EU law does not harmonize secondary liability and there are varying domestic approaches.³⁹ However, the AG opined in *Ziggo* that the solutions must be sought in EU law, rather than left to the devices of domestic legal systems (and therefore their secondary liability regimes).⁴⁰ After the sale of a specific kind of multimedia player had been deemed communication to the public in *Filmspeler*, there was little doubt that there would also be communication to the public in *Ziggo*. Indeed, the CJEU was willing to find solutions in EU law, even by extension and expansion, rather than leave the issues to be addressed by domestic law and the EU legislator.
- 24 Consequently, in practice de facto harmonization of secondary liability is already under way in these specific conditions.⁴¹ The CJEU further defined the “knowledge” or culpability-related aspects of secondary liability in *GS Media*, *Filmspeler*, and *Ziggo*. Further clarifications are likely to follow and domestic judgments will probably continue to apply some of the domestic secondary liability principles.⁴² The CJEU also took a stance on the indispensable role, that is, the causal element typically examined

34 As criticised by, e.g., *Ficsor: GS Media* and *Soulier* – may the hyperlink conundrum be solved and the “new public”, “specific technical means” and “restricted access” theories be neutralized through the application of the implied license doctrine and the innocent infringement defense? (2017), p. 6 and *ALAI: Provisional opinion on the right of communication to the public; the Advocate General’s Opinions in Filmspeler Case C-527/15 and Ziggo Case C-610/15* (27.3.2017), pp. 4–5. Indeed, the AG opined in *Filmspeler* that the subjective component is more appropriate for excluding personal liability than for deciding on objective unlawfulness and the classification of conduct (para. 71). The AG’s opinion was premised on the users merely using hyperlinks without pursuing profit. On the other hand, the CJEU held that the potential purchasers of the specific multimedia player were, as a rule, deliberately accessing unauthorized protected works (para. 69). So, the CJEU did not address this problem in this context.

35 For example, Article 13 of the Enforcement Directive (2004/48/EC) requires ordering damages as a result of infringement, when the infringer who knowingly, or with reasonable grounds to know, engaged in an infringing activity. However, according to Article 2(1), the domestic law may provide means more favorable for right holders.

36 In a similar fashion, see *Angelopoulos: AG Szpunar in Stichting Brein: An Indirect Harmonization of Indirect Liability*. Kluwer Copyright Blog <<http://kluwercopyrightblog.com/2017/03/23/ag-szpunar-stichting-brein-v-ziggo-indirect-harmonisation-indirect-liability/>> (23.3.2017).

37 However, there may also be differences, for example, it is not obvious whether and how the level of intention might affect the amount of compensation or damages.

38 *SGAE*, para. 42.

39 See, for example, *Angelopoulos: European intermediary liability in copyright: A tort-based analysis* (2016); *Frosio: From horizontal to vertical: an intermediary liability earthquake in Europe*, 12(7) *JIPLP* 565 (2017), p. 570 fn 61; *Mideliava* (2017), pp. 484–485.

40 *Ziggo (Opinion)*, para. 3. Further discussion was provided later, in the event that the CJEU would find that there is no communication to the public based on EU law, at paras. 65–68.

41 See *Angelopoulos* (2017).

42 The existing secondary liability standards and the means of evaluation might provide inspiration in future follow-up cases. At the very least, the courts should try to refrain from adopting interpretations on communication to the public that would be incompatible with established secondary liability doctrines.

in secondary liability.

D. Selected Open Issues

I. The extent of liability for the linked page

1. Introduction

- 25 Web pages are technically text files, possibly literary works on their own, which almost always include clickable links to other web pages and Hypertext Markup Language (HTML) instructions for users' web browsers to load images or other elements from the same or other websites (inline linking).
- 26 Is the linker also responsible for linking (with construed or actual knowledge) to websites which include inline or clickable links to infringing material? That is, is the linker also responsible for elements whose loading was caused by the author of the linked page or, respectively, the possibility of users to access other webpages through clickable links? Does the ambit of the commercial linkers' reasonable checks include verifying these elements, or can the non-commercial linkers' knowledge of these be established?
- 27 These questions can be examined using two scenarios depicted in Figure 1. The bottom one, "Link Page Example", concerns linking to a page including clickable links to illegal content elsewhere. The top one, "Blog Example", concerns linking to a page also including an inline-linked image from an unlawful source as well as a link to the link page.

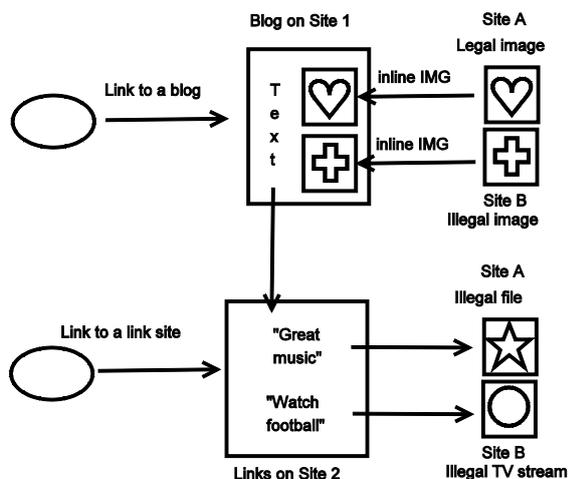


Figure 1: examples for discussing the scope of liability when linking to a web page

- 28 The factual background in *GS Media* was that the first link had been set to a website from whereby clicking on another link the photos at issue could be found.⁴³ However, later in the judgment this is described differently as “provid[ing] the hyperlinks to the files containing the photos at issue”.⁴⁴ The second hyperlink provided access to a website “where one or more of the relevant photographs could be viewed”.⁴⁵ The third article “contained a hyperlink to the photos at issue” and “forum users of that (the referring) website then posted new links to other websites where the photos at issue could be viewed”.⁴⁶ In the latter two cases, the wording suggests that the photographs may have been directly available on the target website without further clicking, but the phrasing leaves this ambiguous. Given the factually inaccurate and inconsistent descriptions of the first linking case one is left to wonder whether the CJEU grasped this distinction – or understood it but deemed it irrelevant and hence seemed to treat these in the same manner.
- 29 Nonetheless, the referred question concerned a hyperlink to “a website on which the work has been made available”. The CJEU interpreted the question to mean, in essence, “hyperlink to protected works, freely available on another website”. This distinction could be extremely important depending on whether “website” is deemed to mean only the directly linked element, everything on the linked page, or even everything available on the target website through clickable links. The CJEU seems to mainly discuss the case when the hyperlink *directly* refers to protected works, but with a wider interpretation of “website” it is possible to also consider the target page or website as a whole.⁴⁷

43 *GS Media*, para. 10: “By clicking on a hyperlink accompanying that text, users were directed to the Filefactory website, on which another hyperlink allowed them to download 11 electronic files each containing one of those photos.” The AG Opinion provides a bit more information (para. 10): “By clicking on a hyperlink, indicated by ‘HERE’, readers were directed to an Australian data-storage website called Filefactory.com. By clicking on the following hyperlink, they could open a new window which contained the button ‘DOWNLOAD NOW’. By clicking on the button, the readers opened a file in zip format containing 11 files in pdf format, each of which contained one of the photographs.”

44 *GS Media*, para. 54.

45 *GS Media*, para. 14. The AG did not provide more detail on this (para. 12): “That report, too, contained a hyperlink to the Imageshack.us website, where one or more of the photographs in question could be found.”

46 *GS Media*, para. 15. The AG provides more context on this (para. 12): “On the GeenStijl forum users then posted new links to other websites where the photographs could be viewed.”

47 The operative part of the judgment concerns “hyperlinks to protected works, which are freely available on another website” and infringement could be found depending on “illegal nature of the publication of those works on that other website”.

2. Possible interpretations

- 30 For illustrative purposes, let us consider four different interpretations and scopes of infringement. Other variations are also possible and therefore the list is not exhaustive. Unfortunately, the inconsistencies and legal and policy implications make it very hard to both interpret and predict future application, and especially CJEU interpretation, of *GS Media* criteria. Nonetheless, some options are considered.
- 31 With a narrow interpretation, the linker could only be liable for the directly linked element itself. In the case of the Blog Example, this would be the HTML text of the blog, but not the images or other elements of that site.
- 32 With a medium interpretation, the linker could be liable for the directly available contents on the linked page. In the case of the Blog Example, this would also include the inline-linked images from the same or other websites as they visually appear as part of the linked page. However, the liability would not cover hyperlinks requiring further user intervention. Therefore, there would not be liability in case of the Link Page Example.
- 33 With a broad interpretation, the linker could also be liable for everything available on the linked page, including clickable links on the same website but not links to other websites. This would also cover liability in case of the scenarios in *GS Media*.
- 34 With the broadest interpretation, the linker could also be liable for clickable links to other websites. This would also cover the Link Page Example and the Blog Example when it comes to the external hyperlink.

3. Discussion

- 35 Technically and for clarity of the scope of liability, the narrow interpretation would be preferable. However, this interpretation would not even cover the most expansive interpretation of the factual background of *GS Media* and the CJEU likely did not intend such a narrow scope of protection. This approach must therefore be rejected.
- 36 Likewise, the broadest interpretation offered would incur very extensive liability for the original linker. Even if such interpretation might be deemed useful from a legal policy perspective (consider the Link Page Example), the implications for the freedom of expression would be drastic because the linker would need to verify that the linked page does not include any links to infringing sites. Commercial linking to a legal website “A” would result in infringement,

if “A” linked to any non-authorized website “B”. Such chain reactions would seem disastrous when considering reasonable duties of care. With this interpretation, linking to the *GS Media* articles themselves might also have been infringing. This approach must also be rejected, unless a very low threshold of rebutting knowledge of illegality is accepted. If some protection is deemed necessary, one could in some cases require verification of only those external hyperlinks that directly reference copyright works.

- 37 *GS Media* included a phrase “illegally published on the website to which those hyperlinks lead” in the context of verification.⁴⁸ Such wording would seem to explicitly direct the examination only to the linked website (whatever that is considered to include). To cover the factual scenario of *GS Media*, this would have to also include hyperlinks within the target website but not hyperlinks to external websites. It is not clear if inline linking would likewise be covered.
- 38 If we were to ignore the actual factual scenario of *GS Media*, taking into account that the preliminary question was rephrased to concern directly linking to copyright works, it would be preferable if clickable links that refer to the same website would also be rejected. From the perspective of knowledge and deliberate intervention, additional clicking requiring the volition of the web user could be significant.
- 39 If the linker would attract liability for inline linking conducted by the target website (Blog Example), the linker would need to conduct visual inspect of all the contents on the web page. This is also somewhat problematic, but not necessarily disastrous. Again, inline linking from a different website could be distinguished.

II. The scope of pursuing profit when linking

- 40 The CJEU did not elaborate what would qualify as pursuing profit when linking. The spectrum of financial gain is broad and may include direct and/or indirect profits to varying degrees.⁴⁹ The main distinction is whether the website where the link is provided is run with profit-making purpose or a website operator intends to profit from posting that specific link.⁵⁰ The former option has been exclusive in the literature and has been considered more in line with earlier CJEU case law, and this is how domestic courts in Sweden and Germany have

48 *GS Media*, para. 51, also in a similar fashion at para. 53.

49 *Clark/Dickenson* (2017), pp. 269–270.

50 *Rendas* (2017), p. 14 fn 38; *Rosati* (2017a), p. 1238.

applied the *GS Media* judgment.⁵¹

- 41 Let us also consider an alternative. The wording in *GS Media*⁵² requires that posting hyperlinks must be done for profit. However, it is notable that the CJEU did not phrase this as setting links when pursuing an economic activity, which had already been established in *Papasavvas* to also cover remuneration through advertising.⁵³ If the latter option were to be adopted, this could imply that there may be (otherwise) commercial activities in which setting links is incidental or irrelevant to obtaining profit. If so, at least a weak link of causation would be needed.
- 42 That is, the judgment could also be read so that the focus would be in the act of setting links, although not necessarily that specific link. The *GS Media* case concerned a typical “clickbaiting” headline to attract the users to the articles by advertising the availability of photographs through hyperlinks.⁵⁴ The website was a top 10 news site in the Netherlands and it was undisputed that the website operated for profit.⁵⁵ Therefore, at least setting links on such a popular site to attract users with the hope of getting advertising income qualifies as commercial linking.⁵⁶ Paid subscriptions are clearly not required. A site that is operating as part and related to other commercial activities likely also qualifies automatically. Therefore, it is not obvious that the CJEU necessarily intended the broadest possible interpretation of commercial activity.

51 See e.g. *Rosati* (2017a), p. 1238. See also *Brüss*: Hamburg court applies *GS Media* for the first time in Germany, 12(3) *JIPLP* 164 (2017); *Malovic/Haddad*: Swedish court finds that an embedded link to unlicensed content infringes copyright, 12(2) *JIPLP* 89 (2017). Cf. *Leistner*: Closing the book on the hyperlinks: brief outline of the CJEU’s case law and the proposal for European legislative reform, 39(6) *EIPR* 327 (2017), p. 331 criticizes domestic courts interpreting *GS Media* too literally and without taking into account what is reasonable and proportionate.

52 *GS Media*, para. 47: “posting of a hyperlink to a work freely available on another website is carried out by a person who, in so doing, does not pursue a profit” and para. 51: “posting of hyperlinks is carried out for profit”.

53 *Papasavvas*, C-291/13, EU:C:2014:2209, para. 30: “Article 2(a) of Directive 2000/31 must be interpreted as meaning that the concept of ‘information society services’, within the meaning of that provision, covers the provision of online information services for which the service provider is remunerated, not by the recipient, but by income generated by advertisements posted on a website.”

54 See the description earlier in Part D.I.1.

55 *GS Media*, paras. 54, 7: “*GS Media* operates the website *GeenStijl*, which includes, according to information provided by that website, ‘news, scandalous revelations and investigative journalism with lighthearted items and wacky nonsense’ and which is viewed daily by more than 230 000 visitors, making it one of the 10 most visited websites in the area of news in the Netherlands.”

56 In a somewhat similar fashion, *Clark/Dickenson* (2017), p. 269, argue that the CJEU attempted to distinguish average internet users and deliberate profit-seeking infringers.

- 43 In any case, an important question would be whether setting links on any blog including advertising could qualify as pursuing profit.⁵⁷ Typically the answer in the literature and domestic case law appears to be in the affirmative. As before, it seems likely that the standard may have been intended to be set somewhat higher, for example in actively seeking and obtaining financial gain. For example, when linking is casual and not the main object of the site, and there are only a few advertisements which barely pay off the expenses of keeping the site or blog online, this might not necessarily be considered commercial linking.⁵⁸

- 44 Even if the issue of pursuing profit requires either an affirmative or negative answer,⁵⁹ its implications should still be more diverse. Specifically, it would be logical that the weaker the pursuit for profit and the scope of the associated economic activity is, the less would be required as a duty of care (more on this in Part D.III). In *eBay*, the standard of a diligent economic operator was established.⁶⁰ It is not very far-fetched to argue that the diligence requirements may differ based on the type of activity and that different kind of operators may have different degrees of due diligence.⁶¹ Therefore, even with a broad interpretation of commercial activity, the problems could be somewhat mitigated by requiring only a very modest rebuttal (“I checked the website and it seemed to be OK”) especially if there is nothing obviously illegal on the linked web page. On the other hand, for example, very significant economic activity, very clear causative element between setting a link⁶² and pursuing profit or possibly in some cases of journalism, a higher of standard of care could be required.

57 Likewise considering also blog operators and advertising, see *Rendas* (2017), pp. 14. Cf. *Leistner* (2017), p. 330 deems “any posting on websites refinanced by advertisements would undoubtedly have to be regarded as postings carried out for profit”.

58 On predominantly minimal profits from advertisements, see *Midelieva* (2017), p. 484 fn 91.

59 See *Clark/Dickenson* (2017), p. 270 on knowledge and profiting forming a kind of a circle.

60 C-324/09, EU:C:2011:474, paras. 120, 122.

61 Likewise, *Leistner* (2017), pp. 330–331 calls for adjusting, specifying and reasonably limiting duty of care, taking into account all the specifics of the case in light of the proportionality principle.

62 For example, *Leistner* (2017), p. 331 describes the facts of *GS Media* as very specific, including multiple warnings on infringing links and persisting in infringing activity nonetheless.

III. The linker's duties of care

1. Introduction

- 45 The linker's prima facie infringement is based on construed (commercial linking) or actual (non-commercial linking) knowledge standard. The required individualized assessment implies that the proof and the level of knowledge required may depend on circumstances.
- 46 Commercial linkers are expected to "carry out the necessary checks to ensure that the work concerned is not illegally published" and such postings are presumed to "occur with the full knowledge of the protected nature of the work and *possible* lack of consent".⁶³ The construed knowledge of illegality is therefore based on a duty of care to verify the legality. This level of knowledge can obviously also be strengthened for example through notification.⁶⁴ Inevitably, in some cases it will (later on) turn out that the checks performed have not been sufficient, requiring evaluation of whether the checking still qualifies as a successful rebuttal.
- 47 The AG and CJEU presented strong arguments as to why it is difficult to verify the legality of the target site.⁶⁵ These are just the tip of the iceberg. These also affect commercial linkers because the required verification standard cannot be set very high without crippling the operation of the internet.⁶⁶
- 48 The duty of care would suggest requiring some sort of manual assessment when the link is set. Depending on the extent of liability as discussed in Part D.I, is it required to visit the target before linking, and if so, what precisely would need to be checked? The requisite depth of review is very much an open question. The wording alone implies that there is no need to ascertain absolute certainty and there is no way to do so in any case. It would seem

63 It is not obvious why the judgment mentioned "possible" lack of consent, but not when it comes to the protected nature of the work. One explanation might be that the linker cannot know for sure whether publication has been consented to, given (for example) that the same work could have been published freely accessibly with consent somewhere else.

64 What kind and how specific notice is required to establish knowledge, for example when compared to current Notice-and-Takedown regimes? Because there are no required formalities, more informal notice could be adequate. It seems plausible to require identifying the specific URLs or otherwise providing specific information where the link that should be removed is located. Specific claims and the basis for illegality should obviously also be provided. The implications of insufficiently substantiated notification are also open to debate.

65 See *GS Media*, para. 46 and *GS Media (Opinion)*, para. 78.

66 In a similar fashion, see *Leistner* (2017), p. 331.

sensible to suggest that the required level of care would be highest with the direct target of the link, might be somewhat lower with the other objects on the target page, and hyperlinks on the target page would require even less verification (if at all). That is, if the link referenced a protected work directly, the level of care would be higher than with more indirect content. Also, the required level of duty of care could also depend on the type of profit-making interests of such linking.

2. On some practical difficulties of verifying the legality

- 49 The first practical problem is that there may be dozens, or even hundreds, of links to third-party websites on a single page, and one may doubt how realistic the verification requirement really is.⁶⁷
- 50 Nonetheless, the evaluation of whether the target is a protected work is complex enough and in practice this would result in erring on the side of caution, with the resulting "chilling effect".⁶⁸ Such verification could require quite a bit of work and also legal expertise.⁶⁹ Verifying that copyright holders have consented to publication is even more difficult or even impossible: in general, there is not even a way to ensure who is the copyright holder. When it comes to traditional publications, it is not the author, but someone else (a publisher or a third party) who is communicating to the public. The webpage might be unnamed, and the possible works located there might be unnamed as well. How could you even try to determine if these people had consented to publication? Or can you assume that a publisher acts with the author's consent unless there are strong reasons to believe otherwise?
- 51 Article 15 of the Berne Convention and Article 5 of the Enforcement Directive provide presumption of authorship as to who is entitled to enforce rights. These provisions do not apply as such to what linkers are allowed to assume of authorship. In a typical strict liability setting this would be problematic because it would not be enough. The only sensible and practical interpretation of the knowledge and reasonable duty standard is therefore some kind of "obvious illegality" requirement; the "know or ought to have known" standard should not require very

67 See, e.g. *Rosati* (2017a), p. 1232 and the example provided therein.

68 In a similar fashion on the chilling effect, see *Rendas* (2017), p. 15.

69 On earlier discussion of verification requirements, see e.g. *Schellekens*: Reframing hyperlinks in copyright, 38(7) EIPR 401 (2016), p. 404. Also on difficulties, see *Leistner* (2017), p. 331.

extensive verification.⁷⁰

- 52 When considering what would be required of verification, one needs to recall that *GS Media* concerned deliberate and repeated linking, with headlines resembling “clickbaiting” to obtain financial gain, to obviously illegal unreleased photographs.⁷¹ The verification standard therefore requires at least that level of care. While the language is generic enough to be read to require also much more extensive care, the arguments on the importance of linking to the internet architecture and freedom of expression clearly suggest that this can be ruled out. However, it remains to be seen where the level of care is set.

3. Proving sufficient verification and the lack of knowledge

- 53 The established duty of care demonstrates a significant problem for all commercial linkers who must be able to rebut the presumption of knowledge. There is no basis to require verification from the non-commercial linkers, although their knowledge of illegality might possibly be established for example if the link itself clearly indicates illegality.⁷² Therefore, when non-commercial linkers are faced with claims of actual knowledge, they may also want to prove the lack of it.
- 54 Duty of care could hardly include an obligation to periodically or in some other manner actively check whether the linked page might change. The language in *GS Media* seems to imply a one-off assessment when the link is set.⁷³ Consequently, the events occurring after the link is set should not cause liability. However, actual knowledge established

70 In a similar fashion, *Leistner* (2017), p. 331 argues for “compliance with minimal, most basic, duties” which could in certain automatic linking contexts be even close to non-existent.

71 Likewise, the intention and knowledge were apparent in *Filmspeler* and *Ziggo*.

72 For example, linking to a “www.piratedmovies.com” subpage including a protected work could be argued to be in scope of actual knowledge also for non-commercial linkers.

73 In *GS Media*, para. 51, the necessary checking requirement and the status of legality are connected to the time of posting of the hyperlink. While discussing the challenges of verification, the reasoning also includes text to the effect of “may have changed in the meanwhile”, which if read out of the context might suggest liability could result in such a case at least in some circumstances. *Rosati* (2017a), p. 1232, also argues the impossibility of making sure that “links provided are and remain (the content linked to and hosted on a third-party website can in fact change over time) to licensed content”, possibly implying an ongoing responsibility. However, the context of discussing difficulties of too broad interpretation should not be taken to imply affecting liability standard, but rather to the contrary.

through notification obviously requires reacting in this case.

- 55 In practical terms, a strict interpretation of the verification requirements could result in a need to save (as a screen capture or some other way) and keep a diary of such checks to prove what the commercial linker has performed.⁷⁴ Such documentation might prove useful even years later. The evidence of the contents as of the date when the link was set and/or changes afterwards could likely qualify as a rebuttal. The plaintiff may need to demonstrate historical record of illegality; that is, illegality when the link was set. If only proof of current illegality is provided, the rebuttal might succeed by proving that the link was set much earlier.

IV. Exhaustion or an implied license to link

- 56 According to *GS Media*, as soon and as long as authorized work is freely available, it is allowable to link. It would seem to be impossible to forbid linking or withdraw consent to publish other than by restricting access or obviously removing the content.
- 57 An extreme application of the new public criterion has been argued to effectively imply the exhaustion of the right of communication to the public.⁷⁵ The “new public” has also been argued to have been developed as an implicit license argument. Karapapa argues that the implicit license does not cover the act of communication as such, but its intended recipients at a certain point of time, as a consequence allowing the right holders to change their mind later if they so choose. Therefore, it is argued that *Svensson* is more akin to an affirmation of an implied license.⁷⁶ The argued distinction seems important and convincing. The rejection of the “new public” when it comes to unconsented publications as discussed in Part C.I also supports the doctrinal conceptualization as an implicit license.

74 A cautious commercial linker might in any case need to adopt this methodology until the requirement has been clarified.

75 For example, *Hugenholz/Van Velze: Communication to a new public? Three reasons why EU copyright law can do without a “new public”*. 47(7) IIC 797 (2016), p. 811. Even more forcefully, see e.g. *Rosén: How Much Communication to the Public is ‘Communication to the public?’*, in *Stamatoudi* (ed.): *New Developments in EU and International Copyright Law*. Kluwer Law International (2016), pp. 331–350.

76 *Karapapa: The requirement for a “new public” in EU copyright law*, 42(1) ELR 63 (2017), pp. 64, 74–75. For an argument for applying implicit license before *Svensson*, see *Pihlajarinne: Setting the limits for the implied license in copyright and linking discourse – the European perspective*, 43(6) IIC 700 (2012).

- 58 Indeed, in *Soulier and Doke* it was argued that *Svensson* essentially included a form of implicit consent of the author to link and communicate to the public.⁷⁷ Implicit consent typically means that the consent can be somehow changed by an explicit declaration or withdrawal, and the aforementioned judgment concerned precisely that. This could be at odds with the main point of *GS Media*.
- 59 To reconcile these approaches, *Svensson* and *GS Media* should not be considered to be based on implicit consent in its purest and unreserved form. Rather, the implicit consent in this setting seems to include mandatory restrictions regarding how it must be withdrawn; that is, by removing or restricting the accessibility of such works, which could be called for example regulated implied consent.⁷⁸

V. The conditions of restricting access and circumventing restrictions

- 60 What qualifies as an appropriate restriction? According to *Svensson* and *GS Media*, the restrictions must be “put in place” or “taken by the site”, they must be used in order to restrict access by the public, and the link must provide an intervention without which others could not benefit from the works. It follows that restrictions must include a technical function that prevents access unless circumvented.⁷⁹ This would preclude for example contractual clauses such as licenses or disclaimers such as “by using this site you agree not to link to it”.⁸⁰
- 61 In consequence, technical restrictions must be implemented in such a manner that existing links no longer allow access. This also avoids problems

⁷⁷ *Soulier and Doke*, C-301/15, EU:C:2016:878, para. 36, where “in a situation in which an author had given prior, explicit and unreserved authorisation to the publication of his articles on the website of a newspaper publisher, without making use of technological measures restricting access to those works from other websites, that author could be regarded, in essence, as having authorised the communication of those works to the general internet public.” Cf. for example *Ficsor* (2017), p. 11, seems to criticize whether the consent is sufficient merely due to the lack of technological protection, also accepting forbidding linking in contractual terms or through notice on the website.

⁷⁸ Alternatively, the theory could be conceptualized as a mandatory license of a sort: keeping works freely available on the internet inherently includes certain restrictions.

⁷⁹ In a similar fashion, *Headdon* (2014), p. 668 and *Koolen* (2016), p. 594.

⁸⁰ Cf. *Ficsor* 2017, p. 11, who includes contractual terms or notices and *Mezei* (2016), p. 782, who included also paywall registration pages or robots.txt files as sufficient restrictions.

with the lack of knowledge of changes after the link was set. In practice, adequate restrictions could be performed by modifying the URL and/or using cookies or user authentication. The implication would be that no infringement would be found if the method of restricting access has not at least disabled access using links set earlier.

- 62 Is communication to the public when circumventing restrictions based on typical domestic (e.g., strict liability) standard, or are there defenses such as those based on knowledge? *Svensson* did not discuss any defenses. However, *GS Media* might have changed the landscape and could be read to provide some support for such argument: “In contrast, where it is established that such a person knew or ought to have known that the hyperlink he posted provides access to a work illegally placed on the internet, for example owing to the fact that he was notified thereof by the copyright holders, it is necessary to consider that the provision of that link constitutes a ‘communication to the public’ within the meaning of Article 3(1) of Directive 2001/29. – *The same applies* in the event that that link allows users of the website on which it is posted to circumvent the restrictions taken by the site where the protected work is posted in order to restrict the public’s access to its own subscribers, the *posting of such a link then constituting a deliberate intervention* without which those users could not benefit from the works broadcast (emphasis added).”⁸¹
- 63 The first question is whether “the same applies” refers only to the conclusion of the preceding paragraph; i.e., it is communication to the public, or more extensively also to the condition whether the person knew or ought to have known that such posting provides access. The text was probably intended to only cover the conclusion. Nonetheless, the conclusion of the second paragraph, “the posting of such a link then constituting a deliberate intervention”, could be read to implicitly include a requirement that such intervention actually has to be deliberate in some manner.⁸²
- 64 It would also be somewhat inconsistent with the rest of *GS Media* if the user could circumvent restrictions by accident. That is, links circumventing access to legal publications might be evaluated based on the strict liability standard but links to illegal publications based on the actual or construed knowledge standard. It would seem to be preferable to have a similar approach to both cases. While there is no clear basis for a similar “presumption of innocence” for non-commercial linking that

⁸¹ *GS Media*, paras. 49–50.

⁸² Likewise, “full knowledge of consequences” has been taken as a sign that some form of knowledge is required for liability in *Schellekens* (2016), p. 404.

circumvents access restrictions, a “knew or ought to have known” standard would not be very far-fetched.

- 65 Finally, how noticeable will the restrictions have to be? In the earlier Federal Supreme Court of Germany *Session-ID* judgment (I ZR 39/08), the restrictions had to be noticeable but not necessarily have efficiency comparable to technical protection measures (TPMs) used in digital rights management (DRM). It would make sense to require at least noticeability in cases to follow. This would also diminish the problems if the aforementioned lack of knowledge defense is not accepted.

E. Conclusions

- 66 The CJEU has distinguished linking to consented and non-consented publications in *GS Media* and *Filmspeler* both practically and doctrinally from each other.⁸³ The former is essentially governed by a new public requirement, which seems to be doctrinally based on a special kind of regulated implied consent, requiring technically restricting access if the author wants to prohibit linking. The latter is essentially governed by actual or construed (based on the due diligence verification requirements) knowledge standard that depends on the profit-pursuing intention and whether the linker has been notified of the illegality.
- 67 The most significant open issue – crucial when evaluating linking to non-consented publications – concerns the extent of liability. In addition to the directly linked web page, the linker might also be liable for, for example, at least some clickable links on the linked web page. The interpretation is also very closely related to the duties of care regarding verifying illegality. Taking this to the extreme would lead to impractical and catastrophic results, unless only minimal duties of care were to be adopted. (Un)fortunately the *GS Media* judgment and its consideration of the factual background was inconsistent and somewhat vague, and therefore both issues are very much open until the situation is clarified by new CJEU judgments.
- 68 The interpretation of when posting of hyperlinks is carried out for profit is also a very significant open question. *GS Media*, *Filmspeler*, and *Ziggo* concerned rather severe situations, where the linking and knowledge seemed deliberate and closely tied to pursuing profit.⁸⁴ The CJEU did not specifically say

that any economic activity (for example, running a blog with advertisements) would necessarily qualify as such. Further, the degree and type of commercial activity could act as a mediator for the extent of due diligence requirements. That is, the more significant the economic activity is, the more care would be required as to verifying the legality.

- 69 In *GS Media*, human editors seemed to perform linking. It is not obvious that the same principles were meant to apply to automatic linking.⁸⁵ Further, the judgment does not affect intermediaries (such as social media platforms) that operate within the liability exemptions provided by the E-Commerce Directive (2000/31/EC) where links are posted by the users, except that notifications of illegality may also concern links.
- 70 Finally, there may be contexts where linking to illegally published material might be socially desirable (for example, journalists describing leaked copyright-protected material). One might suppose there could be exceptions to the *GS Media* doctrine so that, for example, in some cases the freedom of expression interests could be weightier than intellectual property protection.⁸⁶

place.

85 This is particularly significant when it comes to the verification requirements, which seem to be premised on human and visual inspection of the linked website. For example, *Leistner* (2017), p. 331 fn 39 considers limiting search engines and aggregators’ reasonable checks to metatag automation.

86 For discussion, see, for example, *Geiger/Izyumenko: Copyright on the Human Rights’ Trial: Redefining the Boundaries of Exclusivity Through Freedom of Expression*, 45(3) IIC 316 (2014) and the referred European Court of Human Rights judgment *Ashby Donald v. France* of 10.1.2013 (case 36769/08).

83 As discussed in Part C.I, *Ziggo* could be considered a misstep or an application of communication to the public in general, rather than linking in particular.

84 Quite another issue is that the defendants may not have anticipated that linking by them or the third parties could lead to their liability for copyright infringement in the first

Genetically Modified Crops and Intellectual Property Law

Interpreting Indian Patents on Bt Cotton in View of the Socio-Political Background

by Lodewijk Van Dycke and Geertrui Van Overwalle*

Abstract: In India, patents on Bt cotton have given rise to an unproductive controversy. This controversy has compromised the deliberative debate on the potential contribution of genetically modified crops to rural development. Notwithstanding the ongoing controversy, the article argues that the central demand of the campaign against patents on Bt cotton (the abolishment of patents on plants and plant parts) is actually not in contradiction with the prac-

tices of the Bt cotton industry (which mainly uses patents on the Bt technology). Furthermore, the Indian courts do have the legal possibility to interpret the Indian Patent Act in such a way that it prohibits the patenting of plants and plant parts. Such an interpretation could potentially help to appease the ongoing controversy and to foster a deliberative debate on genetically modified crops and rural development.

Keywords: Bt cotton; genetically modified crops; patents; intellectual property; India; deliberative democracy

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A. Introduction

1 From the year 2001 onwards, genetically modified (GM) crops have profoundly influenced the agricultural practices in many Indian states.¹² More

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1 Choudhary and Gaur, 'Biotech Cotton in India, 2002 to 2014' (ISAAA Series of Biotech Crop Profiles, ISAAA 2015) <https://asiarice.org/resources/publications/biotech_crop_profiles/bt_cotton_in_india-a_country_profile/download/Bt_Cotton_in_India-2002-2014-Hindi.pdf> accessed 27 July 2016.

2 For a historical overview of the events mentioned in this article, see Table 1 Historical overview.

specifically, GM cotton has overtaken the Indian cotton areal and is now grown on approximately 95 per cent of the Indian cotton fields.³ In this GM cotton, a gene from a common soil bacterium (*Bacillus Thuringiensis* or "Bt") has been introduced: the "Cry gene" or "Bt gene", hence "Bt cotton". This gene causes the plant to produce a protein that is toxic for insects of the Lepidoptera order, which comprises the fiercest insect pest for cotton: bollworms.⁴ Bt

3 James and others, 'Global Status of Commercialized Biotech/GM Crops' (ISAAA Brief 51, ISAAA 2015) <<http://www.salmone.org/wp-content/uploads/2016/04/mergedpdf>> accessed 17 May 2016.

4 Vaeck and others, 'Transgenic Plants Protected from Insect Attack' (1987) 328 Nature pp. 33-37; Peferoen, 'Progress and Prospects for Field Use of Bt Genes in Crops' (1997) 15 Trends in Biotechnology pp. 173-177; Herring, 'WHY DID "OPERATION CREMATE MONSANTO" FAIL?: Science and Class in India's Great Terminator-Technology Hoax' (2006) 38 Critical Asian Studies pp. 467-493.

cotton would allow farmers to reduce insecticide spraying and thus production costs.⁵ As of today, Bt cotton is still the only GM crop with a significant acreage in India.⁶ Hence, in an Indian context, GM crops and Bt cotton are practically coterminous.

- 2 The introduction of GM crops has often been associated with intellectual property (IP) protection. In view of the increasing privatisation of agricultural research, it has been argued that private companies need IP protection, including patents, to provide for a return on their research investments.⁷ However, concerns have been expressed that excessive IP rights on GM crops might result in limited access for those who need it most of all: resource-poor farmers in developing countries.⁸
- 3 In India, GM crops and the related IP protection have become the object of a tense societal controversy.⁹ A coalition of international NGOs and Indian civil society action groups, including several farmers' organisations, has continuously opposed GM crops, as well as IP protection for such crops because both GM crops and IP protection would be detrimental for farmers. However, Herring considers the civil society campaign against GM crops to be a failure, as Bt cotton has been adopted almost uniformly.¹⁰ According to Herring, the divergence between the universal take-up of Bt cotton and the demands of the civil society campaign, illustrates that the campaign is unaware of farmers' actual concerns and practises, whereas the campaign claims to speak on behalf of farmers.
- 4 The problem this article aims to address is the unproductive societal controversy revolving around GM crops and IP in general, and Bt cotton and patents in particular. More specifically, the article aims to address the dominant, detrimental tendency within the Indian civil society campaign to prioritize opposition to patents on Bt cotton. The civil society campaign seems to view the abolishment of patent protection for Bt cotton as key to resolving all problems related to the deployment of GM crops in

India. The article will demonstrate that this myopic focus is unjustified because patents have played no significant role in the development of the Bt cotton industry at all. The article will argue that this myopic focus is even counterproductive as it has contributed to the polarisation of the debate revolving around GM crops, IP and rural development. The article will argue why a non-polarised debate on GM crops, IP and especially rural development, based on Habermasian democratic deliberation, is pivotal. Finally, the article will try to contribute to the inception of such a deliberative debate.

- 5 Influenced by the myopic focus of the civil society campaign, the debate on GM crops, IP and rural development has not been conducted as a deliberative debate, but as a yes-or-no controversy regarding patents on Bt cotton. Democratic deliberation does not thrive in such an environment where the only question at stake is "yes-or-no patents on Bt cotton". The narrowing down of the debate restricts the room to manoeuvre, the arguments that are regarded as relevant, and the chances of finding a compromise. Therefore, the article argues that creating the space for a deliberative debate requires a reopening of the narrow controversy regarding patents on Bt cotton to a broad debate about how GM crops and other agro biotechnologies contribute to or hamper rural development, and about what roles IP might play in that respect.
- 6 Due to the unlikelihood that the influential civil society campaign will abandon its myopic view, reopening the debate is not likely to happen automatically. Therefore, the article explores two legal pathways to settle the yes-or-no controversy on patents on Bt cotton, by establishing the unpatentability of GM plants. The article does so in an attempt to create the intellectual and political space to pass on to a deliberative debate on GM crops, IP and especially rural development.
- 7 The article will proceed in eight sections. First, the characteristics of a deliberative debate will be sketched, and it will be argued why such a debate is needed regarding GM crops, IP and rural development (Section B.). Second, the yes-or-no controversy regarding patents on Bt cotton in India will be compared with a deliberative debate. It will be illustrated that the yes-or-no controversy substantially diverges from a deliberative debate, due to the abundant and persistent use of stereotypical arguments regarding patents on Bt cotton (Section C.). Third, the demands of the civil society campaign regarding patents on Bt cotton will be analysed. The central demand will turn out to be "no patents on plants" (Section D.). Fourth, the article will scrutinise to what extent plants are actually patentable in India. It will turn out that plants are not directly patentable, but that they might be within the scope

5 Peferoen (n 4); Herring (n 4).

6 James and others (n 3).

7 Borlaug, 'Ending World Hunger. The Promise of Biotechnology and the Threat of Antiscience Zealotry' (2000) 124 *Plant Physiology* pp. 487-490; Barton and Berger, 'Patenting Agriculture' (2001) 17 *Issues in Science and Technology* pp. 43-50.

8 Borlaug (n 7); Barton and Berger (n 7).

9 Herring, 'Miracle Seeds, Suicide Seeds, and the Poor' in Ray and Katzenstein (eds), *Social movements in India: Poverty, power, and politics* (Rowman & Littlefield Publishers 2005); Herring, 'WHY DID "OPERATION CREMATE MONSANTO" FAIL?' (n 4).

10 Herring, 'Miracle Seeds, Suicide Seeds, and the Poor' (n 9); Herring, 'WHY DID "OPERATION CREMATE MONSANTO" FAIL?' (n 4).

of product claims pertaining to genes (Section E.). Fifth, the role patents play in the Bt cotton industry will be scrutinised. It will be shown that patents, and especially plant patents, play only a very limited role in the Bt cotton industry (Section F.). Sixth, the article will explore two legal pathways to ascertain the unpatentability of plants, while assessing whether the suggested pathways are compliant with the Indian Patent Act (Section G.) and whether the Indian plant patent regime is compatible with international patent law (Section H.). The article will conclude by arguing that no modifications to the Indian Patent Act are required as all suggested adaptations can be achieved through interpretations of the Indian Patent Act by the Indian courts (Section I.).

B. Need for a deliberative debate on GM crops, IP and rural development

- 8 A “deliberative debate” is a genuine and sincere debate in which the stakeholders are willing to take into account each other’s well-reasoned arguments and in which the stakeholders are willing to nuance their own opinion in order to reach a compromise (cf. the deliberative democracy model of Habermas)¹¹. There are two sets of reasons explaining why the debate on GM crops, IP and rural development needs to be deliberative: legal reasons (i.e. formal mentioning in authoritative legal documents) and substantive reasons (i.e. content-related, factual, practical reasons).
- 9 The legal reasons are contained in two international treaties.¹² First, Article 9.2 (c) of the International

Treaty on Plant Genetic Resources for Food and Agriculture determines that farmers’ rights include “the right to participate in making decisions, at the national level, on matters related to the conservation and the sustainable use of plant genetic resources for food and agriculture”. The Governing Body to the Treaty has urged the Contracting Parties at several occasions to nationally implement Article 9.2 (c) of the Treaty (Resolutions 2/2007, 6/2009, 6/2011, 8/2013 and 5/2015). Resolutions 8/2013 and 5/2015 stress the need for a deliberative debate by specifying that: “The governing body, [...] 4. Invites each Contracting Party to engage farmers’ organizations and relevant stakeholders in matters related to the conservation and sustainable use of plant genetic resources for food and agriculture, and consider their contributions to awareness raising and capacity building towards this aim”. Second, General Comment 12 to the International Covenant on Economic, Social and Cultural Rights on the right to adequate food (Article 11 International Covenant), determines that: “The formulation of national strategies for the right to food requires full compliance with the principles of accountability, transparency, people’s participation, decentralization, legislative capacity and the independence of the judiciary.” Once again, this hints at the need for a deliberative debate.

- 10 The substantive reasons why a deliberative debate is needed are three-fold. First, legislation pertaining to seeds is not implemented seamlessly in many developing countries, among which India.¹³ More specifically, Indian patents on Bt cotton have not always been fully enforced.^{14,15} As a consequence,

say-no-bt-brinjal-say-no-release-genetic.html> accessed 16 August 2016.). Furthermore, it is argued throughout the article that Bt cotton and GM crops should be seen in relation to rural development. The links between rural development and rural poverty on the one hand and rural food provision on the other hand are well-established, also legally. As a consequence, there are links between cotton and food provision, despite the fact that cotton is no food crop. The legal links between rural development, rural poverty and rural food provision are the following. First, the preamble of the food-related International Treaty on Plant Genetic Resources for Food and Agriculture proclaims that achieving sustainable agricultural development is one of its goals. Second, the General Comment 12 on the right to adequate food links inadequate food provision to poverty.

- 13 Herring, ‘Miracle Seeds, Suicide Seeds, and the Poor’ (n 9); Leon, ‘National Farmers and Social Strike Gets Seeds Control Law 970 Suspended’ (*The Real News Network*, 14 September 2013)<http://therealnews.com/t2/index.php?option=com_content&task=view&id=31&Itemid=74&jumival=10722> accessed 10 November 2015.
- 14 Tripp, *Biotechnology and Agricultural Development: Transgenic Cotton, Rural Institutions and Resource-Poor Farmers* (Routledge 2009).
- 15 Herring, ‘Miracle Seeds, Suicide Seeds, and the Poor’ (n 9) p. 221 argues that ‘In practice, farmers seem quite willing to ignore everyone’s property claims in seeds’. Research indicates that the enforcement of IP rights and especially plant patents on the Indian countryside is culturally

11 Habermas and McCarthy, *The Theory of Communicative Action* (Beacon press 1985).

12 Both treaties relate to food crops respectively to the right to food, whereas cotton is not a food crop. Still, it is justified to derive legal reasons from the two treaties for the present article. The article argues to abandon the yes-or-no controversy regarding patents on Bt cotton and to engage in a deliberative debate regarding GM crops, IP and rural development. ‘GM crops’ is broader than only ‘Bt cotton’ and includes GM food crops. Therefore, in the context of the present article, legal reasons can be derived from the two food-related treaties. In this respect, it is also pertinent that the Indian contestation regarding Bt cotton is about to reproduce itself regarding Bt brinjal, a food crop (cf. Entine, ‘As success grows for Bangladesh’s Bt brinjal (eggplant), Mae-Wan Ho renews GMO disinformation campaign’ (*Genetic Literacy Project*, 27 April 2015) <www.geneticliteracyproject.org/2015/04/27/as-success-grows-for-bangladeshs-bt-brinjal-eggplant-mae-won-ho-renews-gmo-disinformation-campaign/> accessed 16 August 2016. vs ‘SAY NO TO Bt Brinjal: SAY NO TO Release Of Genetically Modified Crops In India’ (*Environment Support Group*, 6 February 2010) <www.esgindia.org/campaigns/press/

there is a schism between the law as “agreed upon” and the law as implemented on the terrain. From the point of view of legal certainty, this is problematic. A deliberative debate might contribute to the democratic legitimacy of the seed legislation and eventually to its enforcement. Second, nowadays even agronomists have come to realise that agricultural policy issues do not only involve technical and agronomic questions, but also political, societal and ethical questions.¹⁶ The anthropologist Robert Tripp wrote in the introduction to his seminal work on GM crops in developing countries: “Given the complex nature of the arguments surrounding biotechnology, decisions about its future must ultimately be made by well-informed citizens in appropriate political forums.”¹⁷ Consequently, a growing number of scholars seem to agree that the GM crops issue needs a democratic solution based on a deliberative debate. Third, the debate on GM crops, IP and rural development is part of the even broader and extremely important debate on rural development itself. Feeding the world after 2050 in a context of an expanding world population and climate change, will not be a sinecure.¹⁸ Meanwhile, investment in (agronomic research for) the rural south is on the rise. In 2009, the G8 leaders committed themselves to overhaul the decades long decline in rural investment.¹⁹ Furthermore, the International Food Policy Research Institute stressed the importance of investment in rural development specifically for India.²⁰ In a nutshell, the twenty-first century global and Indian rural challenges, and the means invested to meet those challenges, are significant. Tackling these challenges and deploying those means are not served by a polarised debate on GM crops and IP, narrowed down to a controversy about patents on Bt cotton. The intricacies between GM crops and IP form, after all, only one piece of the puzzle that has to be completed to achieve sustainable rural

development.²¹

C. Yes-or-no controversy regarding patents on Bt cotton is insufficiently deliberative

- 11 Triggered by the swift uptake of Bt cotton, the academic debate on GM crops and rural development in India took off around 2001, involving agronomists, development scholars, economists, anthropologists and the like. This debate has run in parallel to the societal controversy, and shows how complex, sensitive and subtle the Bt cotton topic actually is. The academic debate relates on the one hand to the agronomic effects of Bt cotton (“field”), about which two questions have been raised: “Does Bt cotton perform the way it is supposed to perform?”²² and “Is Bt cotton environmentally sustainable?”²³. On the other hand, the academic debate relates to the socio-economic effects of Bt cotton (“farm”). Again, two questions have been raised: “Can poor, marginalised households reap any benefits from Bt cotton at all?”²⁴ and “Has Bt cotton reinforced existing relationships

inacceptable (Kochupillai, *Promoting Sustainable Innovations in Plant Varieties* (Springer 2016)).

- 16 Sumberg and Thompson, *Contested Agronomy: Agricultural Research in a Changing World* (Routledge 2012).
- 17 Tripp (n 14) p. 4.
- 18 ‘How to Feed the World in 2050’ (*Food and Agriculture Organisation*, 2009) <http://www.fao.org/fileadmin/templates/wsfs/docs/expert_paper/How_to_Feed_the_World_in_2050.pdf> accessed 15 January 2016; De Schutter and Vanloqueren, ‘The New Green Revolution: How Twenty-First-Century Science Can Feed the World’ (2011) 2 *Solutions* pp. 33-44; Foley, ‘Can We Feed the World & Sustain the Planet?’ (2011) 305 *Scientific American* pp. 60-65.
- 19 ‘L’Aquila Food Security Initiative (AFSI) Final Report’ (*US Department of State*, 2012) <<http://www.state.gov/s/globalfoodsecurity/rls/rpt/laquila/202837.htm>> accessed 2 September 2016.
- 20 Thorat, ‘Investment, Subsidies, and Pro-Poor Growth in Rural India’ (*Vol. 716*, International Food Policy Research Institute 2007) <<http://www.ifpri.org/publication/investment-subsidies-and-pro-poor-growth-rural-india>> accessed 2 September 2016.

- 21 Blakeney, *Intellectual Property Rights and Food Security* (CABI 2009) pp. 2-4; Tripp (n 14) pp. xi-xii.
- 22 Barwale and others, ‘Prospects for Bt cotton technology in India’ (2004) 7 *AgBioForum* pp. 23-26; Bennett and others, ‘Economic impact of genetically modified cotton in India’ (2004) 7 *AgBioForum* pp. 96-100; Bennett, Ismael and Morse, ‘Explaining Contradictory Evidence Regarding Impacts of Genetically Modified Crops in Developing Countries. Varietal Performance of Transgenic Cotton in India’ (2005) 143 *The Journal of Agricultural Science* pp. 35-41; Sadashivappa and Qaim, ‘Bt cotton in India: Development of benefits and the role of government seed price interventions’ (2009) 12 *AgBioForum* pp. 172-183.
- 23 Wolfenbarger and Phifer, ‘The Ecological Risks and Benefits of Genetically Engineered Plants’ (2000) 290 *Science* pp. 2088-2093; Jayaraman and others, ‘Indian Bt Gene Monoculture, Potential Time Bomb’ (2005) 23 *Nature Biotechnology* p. 158; Ramanjaneyulu and Kuruganti, ‘Bt Cotton in India: Sustainable Pest Management?’ (2006) 41 *Economic and Political Weekly* pp. 561-563; Mancini and others, ‘Increasing the Environmental and Social Sustainability of Cotton Farming through Farmer Education in Andhra Pradesh, India’ (2008) 96 *Agricultural Systems* pp. 16-25; Shah, ‘Social Responses to Crop Biotechnology: Bt Cotton Cultivation in Gujarat, India’ in Brunn (ed), *Engineering Earth* (Springer 2011); Krishna and Qaim, ‘Bt Cotton and Sustainability of Pesticide Reductions in India’ (2012) 107 *Agricultural Systems* pp. 47-55.
- 24 Subramanian and Qaim, ‘Village-wide Effects of Agricultural Biotechnology: The Case of Bt Cotton in India’ (2009) 37 *World Development* pp. 256-267; Glover, ‘Is Bt Cotton a Pro-Poor Technology? A Review and Critique of the Empirical Record’ (2010) 10 *Journal of Agrarian Change* pp. 482-509; Glover, ‘Exploring the Resilience of Bt Cotton’s “Pro-Poor Success Story”’ (2010) 41 *Development and Change* pp. 955-981; Subramanian and Qaim, ‘The Impact of Bt Cotton on Poor Households in Rural India’ (2010) 46 *The Journal of Development Studies* pp. 295-311.

of inequality?”²⁵.

- 12 Regarding all these questions, diverging and even opposed academic views have been expressed. No decisive, overarching judgment pro or contra Bt cotton can be discerned. Scientists seem unable to reach a consensus on a comprehensive policy regarding GM crops in relation to rural development. GM crops seem to be beneficial in some circumstances, but detrimental in others, and patents add another layer of complexity.²⁶ The academic debate indicates how complex the issue is and how nuanced a societal debate on Bt cotton is supposed to be in order for it to be called “deliberative”. Yet, it can be derived from the exemplary statements mentioned below that prominent voices in the civil society campaign have made vulgarising and blunt claims, condemning GM crops and IP rights. Moreover, the exemplary statements will show that opposition to IP and to patents forms an important focal point of the civil society campaign.
- 13 One of the exponents of the civil society campaign has been Vandana Shiva of Navdanya. Shiva wrote in 2006: “Pushed into deepening debt and penury by Monsanto-Mahyco and other genetic-engineering multinationals, the introduction of Bt cotton heralds the death of thousands of farmers... High costs of cultivation and low returns have trapped Indian peasants in a debt trap from which they have no other escape but to take their lives.”²⁷ Shiva does not only refer to the agronomic effects of Bt cotton, but explicitly challenges the socioeconomic effects of

Bt cotton, particularly the “dependency of farmers on multinational seed companies” and the “high cultivation costs for farmers”. Deccan Development Society, a grassroots female farmers’ organisation from Andhra Pradesh, goes one step further and directly links the (presumed) negative consequences of biotechnology to IP, in a publication specifically dealing with Bt cotton: “Biotechnology is hailed as a great saviour of the world’s poor. A handful of corporations are investing billions of dollars in developing proprietary technologies, anticipating massive returns, using intellectual property rights (IPRs) as tools to exploit farmers.”²⁸ On the website of Shiva’s Navdanya, a comparable statement on biotechnology and IP can be read: “The new IPR laws embodied in the TRIPs agreement of WTO have unleashed an epidemic of the piracy of nature’s creativity and millennia of indigenous innovation.”²⁹

- 14 Meanwhile, proponents of Bt cotton have been quoted writing statements such as: “While a vocal band of opponents is still protesting biotech crops, a growing multitude of farmers around the world is planting them. The reason is no mystery; Monsanto seeds contain genes that kill bugs and tolerate weed-killing pesticides, therefore they are much easier and cheaper to grow than traditional seeds.”³⁰
- 15 The statements of proponents and opponents are so different that it seems almost unlikely that they are talking about the same reality. Because of the mutual “trench-mentality”, the controversy seems to be a far cry from a deliberative debate. Especially the increased incidence of suicide among cotton farmers in the Warangal district of Andhra Pradesh (now Telangana) has made feelings run high.³¹ In this view, it has been remarked that “India is a key battle line in the global war over genetically modified [GM] crops, and both sides interpret the Warangal suicides as supporting their position.”³²

25 Morse, Bennet and Ismael, ‘Inequality and GM Crops: A Case-Study of Bt Cotton in India’ (2007) 10 *AgBioForum* pp. 44-50; Shah, ‘What Makes Crop Biotechnology Find Its Roots? The Technological Culture of Bt Cotton in Gujarat, India’ (2008) 20 *The European Journal of Development Research* pp. 432-447; Subramanian and Qaim, ‘Village-Wide Effects of Agricultural Biotechnology: The Case of Bt Cotton in India’ (n 24); Stone, ‘The Anthropology of Genetically Modified Crops’ (2010) 39 *Annual Review of Anthropology* pp. 381-400; Shah, ‘Social Responses to Crop Biotechnology’ (n 23); McKinney, ‘Troubling Notions of Farmer Choice: Hybrid Bt Cotton Seed Production in Western India’ (2013) 40 *The Journal of Peasant Studies* pp. 351-378; McKinney, ‘“Hybrid Cottonseed Production Is Children’s Work”: Making Sense of Migration and Wage Labor in Western India’ (2014) 13 *ACME: An International Journal for Critical Geographies* pp. 404-423; McKinney, ‘Situating Corporate Framings of Child Labor: Toward Grounded Geographies of Working Children in Globalized Agriculture’ (2015) 59 *Geoforum* pp. 219-227.

26 Plahe, ‘The Implications of India’s Amended Patent Regime: Stripping Away Food Security and Farmers’ Rights?’ (2009) 30 *Third World Quarterly* pp. 1197-1213; Plahe, ‘TRIPS Downhill: India’s Plant Variety Protection System and Implications for Small Farmers’ (2011) 41 *Journal of Contemporary Asia* pp. 75-98; Bhavishyavani, ‘Gene Patents in India: Gauging Policy by an Analysis of the Grants made by the Indian Patent Office’ (2013) 18 *Journal of Intellectual Property Rights* pp. 323-329.

27 Shiva, ‘Resources, Rights and Regulatory Reform’ (2006) 3 *Context* pp. 85-91.

28 Qayum and Sakkhari, ‘Bt cotton in Andhra Pradesh. A Three-Year Assessment’ (*Deccan Development Society*, 2005) <http://ddsindia.com/PDF/BT_cotton_-_A_three_year_report.pdf> accessed 16 August 2016.

29 ‘Biopiracy Campaign’ (*Navdanya*, 2016) <<http://www.navdanya.org/campaigns/biopiracy>> accessed 3 August 2016.

30 Hindo, ‘Monsanto: Winning the Ground War’ (*Bloomberg*, 6 December 2007) <<http://www.bloomberg.com/news/articles/2007-12-05/monsanto-winning-the-ground-war>> accessed 28 July 2016.

31 Stone, ‘Biotechnology and Suicide in India’ (2002) 43 *Anthropology News* p. 5; Shah, ‘“A Life Wasted Making Dust”: Affective Histories of Dearth, Death, Debt and Farmers’ Suicides in India’ (2012) 39 *The Journal of Peasant Studies* pp. 1159-1179; Mishra, ‘Farmers’ Suicides in India, 1995-2012: Measurement and Interpretation’ (*Working Paper* 62, London School of Economics Asia Research Centre 2014) <http://spandan-india.org/cms/data/Article/A2014924102931_11.pdf> accessed 7 April 2016.

32 Stone, ‘Biotechnology and Suicide in India’ (n 31).

- 16 After more than twenty years, no appeasement between the positions of proponents and opponents of (patent protection for) Bt cotton is in sight. Moreover, the contestation regarding Bt cotton is about to reproduce itself regarding Bt brinjal, which is once again attracting severe proponents (such as the Genetic Literacy Project)³³ and strong-headed opponents (such as the Environment Support Group).³⁴

D. The central demand of the civil society campaign

- 17 In Section C., Opposition to patents on Bt cotton has been identified as a focal point of the civil society campaign. However, in reality the campaign's central demand relates more specifically to the abolishment of plant³⁵ patents³⁶ and not so much to the abolishment of *other* plant-related IP rights³⁷. Most of the concerns underlying the civil society campaign's opposition to patents on Bt cotton relate to the effects of these patents upon farmers in the field, and plant patents are the only form of plant-related IP rights which have effects upon farmers in the field.
- 18 First, it can be derived from statements of the civil society campaign's most prominent NGOs that many

of the campaign's concerns relate to the effects of patents upon farmers in the field. When describing why patents on Bt cotton are detrimental, Vandana Shiva (Navdanya) wrote, for instance:

Firstly, [the amendment to the Patent Act to make the Act TRIPS compliant] allows patents on seeds and plants through sections 3(i) and 3(j), as we saw above. Patents are monopolies and exclusive rights which prevent farmers from saving seeds; and seed companies from producing seeds. Patents on seeds transform seed saving into an "intellectual property crime".

*Secondly, genetic pollution is inevitable. Monsanto will use the patents and pollution to claim ownership of crops on farmers' fields where the Bt gene has reached it through wind or pollinators.*³⁸

- 19 Shiva explicitly mentions the potentially detrimental effects of patent law on farmer seed saving and refers to the potentially detrimental effects of patent law on crop ownership. These concerns show that Navdanya is especially concerned about patents that have effects upon farmers in the field. Another example of civil society's explicit concern with the field effects of patents is provided by "No patents on seeds", a coalition of European NGOs. The coalition, not by coincidence named "No patents on seeds", joined forces with Navdanya in 2016 to challenge Monsanto's European patent on Indian melon (EP1962578).^{39,40} This patent comprises claims on plants, plant parts and seeds (see EP1962578).

- 20 Second, plant patents are the only plant-related IP rights which have effects for farmers in the fields. Patents whose product or process claims solely relate to genes, cells, plant tissues or other technological tools have no effect for farmers in the fields as they do not relate to plant materials that pass through the hands of farmers such as plants, plant parts, or seeds. Furthermore, Section 39(4) of the Protection of Plant Varieties and Farmers' Rights Act, which introduces plant variety protection in India, contains extensive farmers' rights which allow farmers to save, sell and resow (sic.) protected seeds. Hence, the Indian plant variety protection does not influence farmer practices on the terrain.

33 Entine, 'As success grows for Bangladesh's Bt brinjal (eggplant), Mae-Wan Ho renews GMO disinformation campaign' (*Genetic Literacy Project*, 27 April 2015) <www.geneticliteracyproject.org/2015/04/27/as-success-grows-for-bangladeshs-bt-brinjal-eggplant-mae-won-ho-renews-gmo-disinformation-campaign/> accessed 16 August 2016.

34 'SAY NO TO Bt Brinjal : SAY NO to Release Of Genetically Modified Crops In India' (*Environment Support Group*, 6 February 2010) <www.esgindia.org/campaigns/press/say-no-bt-brinjal-say-no-release-genetic.html> accessed 16 August 2016.

35 When referring hereinafter to 'plants', the article intends to refer to all plant materials that pass through the hands of farmers (e.g. seeds, other plant reproductive materials, entire plants, parts of plants etc.). The term 'plants' does not refer to genes, cells, plant tissues or other technological tools used to develop GM plants, as farmers do not usually get in touch with these tools, despite the fact that they can also be viewed as plant materials.

36 When referring hereinafter to 'plant patents', the article intends to refer to all patents whose product or process claims directly or indirectly grant the patentee exclusivity rights pertaining to plants (as defined in n 4). Patents whose product or process claims solely relate to e.g. genes, cells, plant tissues or other technological tools used to develop GM plants, are not part of the category of 'plant patents'. In a nutshell, plant patents do have effects upon farmers in the field, whereas other patents do not have such effects.

37 When referring to 'plant-related IP rights', the article intends to refer to the overarching category comprising: plant patents, patents whose product or process claims solely relate to technological tools and plant variety protection to the extent that it is applied to GM varieties.

38 Shiva, 'India Seed Act & Patent Act: Sowing the Seeds of Dictatorship' (*GRAIN*, 2005) <<https://www.grain.org/article/entries/2166-india-seed-act-patent-act-sowing-the-seeds-of-dictatorship>> accessed 18 May 2016; emphasis added.

39 'Opposition to Monsanto's Patent on Indian Melon' (*No Patents on Seeds*, 2011) <<http://no-patents-on-seeds.org/en/information/news/opposition-monsanto-s-patent-indian-melon>> accessed 16 August 2016.

40 It is true that Navdanya and "No patents on seeds" are also concerned about appropriation of biological diversity or 'biopiracy' per se, regardless the influence of this appropriation on farmers' practices in the field. However, this concern seems to be less prominent.

- 21 As a consequence, the civil society campaign's concerns do not relate to patents whose product or process claims solely relate to genes, cells, plant tissues or other technological tools, or to plant variety protection, but these concerns do all the more relate to plant patents. What is relevant in this respect is not whether the signalled concerns regarding plant patents (annihilation of seed saving, expropriation of crops) hold true, but that after 20 years, the civil society campaign is not likely to back down on the central demand for the abolishment of plant patents, regardless of academic evidence⁴¹ denying (or confirming, for that matter) their claims.

E. Legal analysis of the Indian plant patent regime

- 22 The importance of a deliberative debate on GM crops, IP and rural development has been indicated. It has been shown that persistent stereotypical arguments relating to patents on Bt cotton have brought the debate to a deadlock. The central demand of the civil society campaign - key to the witnessed deadlock - has been identified. Because of the unlikelihood that the influential civil society campaign will back down on its central demand, the article will now examine this central demand and conduct a legal and economic analysis of the Indian plant patent regime.

I. Plants, Seeds and Essentially Biological Processes are not Directly Patentable

- 23 A first question to be answered is whether plants *are* actually patentable in India. India is a World Trade Organisation (WTO) Member State. As a consequence, India has to comply with the Agreement on Trade-Related Aspects of Intellectual Property Rights or

41 For authors who discuss the effects in positive and in negative sense of plant-related IP rights in general and plant patents in particular, see Douglas, *Successful Seed Programs: A Planning and Management Guide* (Westview Press 1980); Borlaug (n 7); Barton and Berger (n 7); Srinivasan, 'Concentration in ownership of plant variety rights: some implications for developing countries' (2003) 28 *Food Policy* pp. 519-546; Louwaars, 'Seeds of Confusion' (PhD thesis, Wageningen UR 2007); Nagarajan and Smale, 'Village Seed Systems and the Biological Diversity of Millet Crops in Marginal Environments of India' (2007) 155 *Euphytica* pp. 167-182; Pandey and others, 'Role of Informal Seed System in Promoting Landrace Diversity and Their on-Farm Conservation: A Case Study of Rice in Indian Himalayas' (2011) 58 *Genetic Resources and Crop Evolution* pp. 1213-1224; 'Concentration in Seed Business' (ETC Group, 2015) <http://www.etcgroup.org/sites/www.etcgroup.org/files/files/etcgroup_agmers_17nov2015.pptx__0.pdf> accessed 16 August 2016.

TRIPs Agreement.⁴² India has adapted its patent legislation to the TRIPs requirements through subsequent reforms in 1999, 2002 and 2005.⁴³ Since its adaptation by the Patent Amendments Act 2005, Section 3(j) Indian Patent Act reads as follows: "The following are not inventions within the meaning of this Act: [...] plants and animals in whole or any part thereof other than micro organisms but including seeds, varieties and species and essentially biological processes for production or propagation of plants and animals".

- 24 As plants, plant parts, seeds, varieties, species and essentially biological processes are not considered patentable subject matter, the direct means for patenting plants and other plant materials that pass through the hands of farmers, have been ruled out. In light of Section 3(j) Indian Patent Act, the only means left to establish plant patents in India are indirect. It might be possible to establish plant patents via patents which contain product claims pertaining to genes, cells, plant tissues etc. or via patents which contain process claims pertaining to non-biological processes,⁴⁴ on the condition that these patents' claims have effect in farmers' fields. It remains to be seen whether patents which contain such claims are actually permissible in India.

42 Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization, signed in Marrakesh, Morocco on 15 April 1994.

43 Plahe, 'The Implications of India's Amended Patent Regime: Stripping Away Food Security and Farmers' Rights?' (2009) 30 *Third World Quarterly* pp. 1197-1213.

44 Monsanto's much debated patent on Bt cotton (Indian Patent no. 232681) contains both product claims which relate to genes (see claim 1) and process claims which relate to non-biological processes (see claim 12).

"1. A synthetic DNA molecule, comprising at least fifteen nucleotides of SEQ ID NO: 11 or SEQ ID NO: 12, and overlapping the junctions of the Cr²Ab insertions in cotton event MON 15985 or the junctions of the Cr²Ab insertions and the genomic sequence in cotton event MON 15985, or the complement thereof, wherein said cotton event MON15985 occurs in the cotton seed having been deposited with the American Type Culture Collection under accession number PTA-2516."

"12. A method of producing an insect resistant progeny cotton plant comprising

(a) modifying a cotton plant's genome to incorporate nucleotide sequences of SEQ ID NO:14; SEQ ID NO:15; SEQ ID NO:16, SEQ ID NO: 17, and SEQ ID NO: 18, thereby producing an insect resistant cotton plant;

(b) crossing said insect resistant cotton plant with another cotton plant

(c) obtaining at least one progeny cotton plant derived from the cross of (b); and

(d) selecting a progeny cotton plant that is insect resistant and comprises nucleotide sequences of SEQ ID NO: 14".

II. Genes are Patentable

25 It will be argued that product claims pertaining to genes⁴⁵ are indeed permissible in India.⁴⁶ The Indian Patent Act does not contain an express provision on the patentability of genes. According to Bhavishyavani,⁴⁷ there is no authoritative case law that determines whether or not product claims pertaining to genes are permissible either. Awaiting a final answer, Bhavishyavani⁴⁸ has tried to uncover to what extent genes have been considered patentable subject matter, by scrutinising the Manual of Patent Practice and Procedure and the granting practise of the Indian Patent Office. On the basis of the remarks regarding Sections 3(c)⁴⁹ and 3(j) Indian Patent Act in the draft Manuals of 2005 and 2008,⁵⁰ concludes that under Indian law, a gene is patentable if “it is recombinant and having inventive step and industrial application”, and that the patentability of genes requires “substantial human intervention”. Scrutinising granted patents compels Bhavishyavani⁵¹ to add that “[Indian patent officials] mention that the exclusion referring to plants/animals/parts of plants or animals are not applicable at the molecular/cellular level where genes are involved” and that: “A lot of these patents cover an isolated sequence, it being placed in a vector and put into a host cell to express the desired characteristic or protein/to use the sequence to diagnose using a kit having a probe that is nothing but the complementary sequence etc.”

26 Valuable clues can also be found in the Report of the Technical Expert Group on Patent Law Issues,⁵² which pays specific attention to the patentability of “new chemical entities” and “new medical entities”

45 The article will not look into the patentability of animal or human genes, for which additional conditions might apply, especially regarding public order and morality.

46 The patentability of cells, plant tissues, non-biological processes etc. will not be discussed in this article. In Europe, a discussion about the indirect patentability of plants was going on in the 1990s. The European discussion mainly revolved around the patentability of plant cells, instead of genes. The European discussion culminated in two European Patent Office cases: Plant Genetic Systems (T 0356/93 (Plant cells) of 21.2.1995) and Novartis (G 0001/98 (Transgenic plant/NOVARTIS II) of 20.12.1999). In view of the available literature about Indian patent law, the article will focus on the patentability of genes and not on the patentability of cells.

47 Bhavishyavani (n 26).

48 *ibid.*

49 Section 3(c) determines that discoveries do not constitute patentable subject matter.

50 Bhavishyavani (n 26).

51 *ibid.*

52 Mashelkar and others, ‘Report of the Technical Expert Group on Patent Law Issues’ (Government of India, 2007) <<https://ideas.repec.org/p/ess/wpaper/id830.html>> accessed 5 August 2016.

(Section 3(d) Patent Act):

Entirely new chemical structures with new mechanisms of action are a rarity rather than a rule. Therefore, “incremental innovations” involving new forms, analogs, etc. but which have significantly better safety and efficacy standards, need to be encouraged. What is important, however, is for the patent office to be vigilant about setting high standards of judging such innovations so that efforts on “evergreening” are scrupulously prevented.

27 The Report further states that: “Genes and gene products are treated similar to chemical compositions. Patenting of animal and human genes quite often attracts issues regarding public order and morality.” The Report’s comments on Section 3(d) suggest that new alleles of the same gene are patentable to the extent that they provide better safety and efficacy standards.

28 In view of the Report of the Technical Expert Group on Patent Law Issues⁵³ and the research done by Bhavishyavani,⁵⁴ it seems warranted to suppose that genes are, under certain conditions, patentable in India. These conditions seem to be that:

- The invention related to the gene fulfils the criteria of novelty, inventiveness and industrial applicability;
- The invention related to the gene has required substantial human intervention;
- The gene has been isolated;
- The gene is recombinant, for instance by having been inserted into a vector or into host DNA;
- The gene induces the expression of a certain characteristic or the production of a protein in a host cell or can be used to have a certain effect (e.g. for diagnosis);
- New forms of existing genes (new alleles) seem to be patentable on the additional condition that the new form allows a higher safety or efficacy standard.

III. No Interpretation of the Scope of Claims pertaining to Genes

29 Hence, under certain conditions, product claims pertaining to genes seem to be permissible in principle in India. Furthermore, patents which contain product claims pertaining to genes have

53 *ibid.*

54 Bhavishyavani (n 26).

been granted in India.⁵⁵ Still, it is not clear whether or not these product claims are at odds with the central demand of the civil society campaign (“no patents on plants”). This depends upon the effect of these product claims on farmers in the field, which in turn depends upon the scope of protection of these product claims. Do the rights of the patent holder of the patented gene (or patented cell, tissue, process, to the extent that these would turn out to be patentable) extend to the plant materials into which the patented gene was inserted? To satisfy the central demand of the civil society campaign, the answer to this question would have to be no. As of yet, this question has received no authoritative (legislative or judicial) answer under Indian patent law. Before arguing in favour of a negative answer (Section 7), the article will conduct an economic analysis of the Indian plant patent regime (Section 6).

F. Economic analysis of the Indian plant patent regime

30 According to Indian patent law, it cannot be ruled out that patents which contain claims pertaining to genes (or cells, tissues, processes, to the extent that these would turn out to be patentable) would have an effect upon farmers in the field (i.e. constitute plant patents). It is crucial to assess to what extent and how the Bt cotton industry has used patents that contain claims pertaining to genes. Have these patents been used at all? Have these patents been used in such a way that they influence farmers’ practices in the field?

I. Introduction of Bt Cotton by Local Seed Companies

31 Bt cotton was first introduced to the Indian fields by a local seed company called Navbharat,⁵⁶ based in Ahmedabad (Gujarat, West-India). The company reportedly crossed non-GM Indian varieties with a GM parental line developed by Monsanto, without the permission of Monsanto.⁵⁷ At first, Navbharat denied the transgenic character of the resulting GM Bt cotton variety Navbharat 151. The variety was advertised as merely “insect-resistant”.⁵⁸ However, in

2001, Navbharat 151 withstood a particularly severe bollworm pest and observers grew suspicious. The seed was tested and turned out to be transgenic.⁵⁹ In 2001, the acreage of Bt cotton in Gujarat amounted to 10,000 acres. By 2004, the area planted with Bt cotton had increased to 3 million acres in India as a whole.⁶⁰

32 In 2001, GM crops were not patentable in India under the Indian Patent Act 1970⁶¹ and the Protection of Plant Varieties and Farmers Rights Act was still under negotiation. Hence, in 2001, there were no IP rights on GM crops. Moreover, there were no enforceable biosafety requirements whatsoever either, given the defunct character of the Environment Protection Act.⁶²

33 Scholars have claimed that the quick spread of Bt cotton was fuelled by a lack of enforceable IP and biosafety legislation and by the vitality of the informal seed system.⁶³ The new technology could be adopted quickly precisely because there were no legal requirements for its spread. As a consequence, there were no legal impediments to the quick exchange and sale of seeds through social networks, especially in Gujarat.⁶⁴ In 2001, the Government of India did try to confiscate cotton that was illegal from the point of view of biosafety legislation, but farmers themselves prevented the destruction of the cotton.⁶⁵ Hence, IP rights on GM crops in general, and plant patents in particular, have played no role in the initial introduction of Bt cotton to the Indian cotton fields.

II. Patents and the Business Model of Multinational Seed Companies

34 After the initial introduction of Bt cotton by local seed companies, multinational seed companies did not stay behind for a long time. Having been denied permission to test Bt cotton in India in

55 *ibid.*

56 Bharathan, ‘Bt-Cotton in India: Anatomy of a Controversy’ (2000) 79 *CURRENT SCIENCE-BANGALORE* pp. 1067-1075; Jayaraman, ‘Illegal Bt Cotton in India Haunts Regulators’ (2001) 19 *Nature Biotechnology* p. 1090.

57 Jayaraman (n 56); Jayaraman, ‘Illegal Seeds Overtake India’s Cotton Fields’ (2004) 22 *Nature Biotechnology* pp. 1333-1334.

58 Tripp (n 14) p. 95.

59 *ibid.*

60 Jayaraman, ‘Illegal Seeds Overtake India’s Cotton Fields’ (n 57).

61 Plahe, ‘The Implications of India’s Amended Patent Regime: Stripping Away Food Security and Farmers’ Rights?’ (n 42).

62 Jayaraman, ‘Illegal Bt Cotton in India Haunts Regulators’ (n 56); Jayaraman, ‘Illegal Seeds Overtake India’s Cotton Fields’ (n 57).

63 Jayaraman, ‘Illegal Seeds Overtake India’s Cotton Fields’ (n 57); Shah, ‘What Makes Crop Biotechnology Find Its Roots?’ (n 25); Shah, ‘Social Responses to Crop Biotechnology’ (n 23); McKinney, ‘Troubling Notions of Farmer Choice’ (n 25).

64 Shah, ‘What Makes Crop Biotechnology Find Its Roots?’ (n 25); Shah, ‘Social Responses to Crop Biotechnology’ (n 23); McKinney, ‘Troubling Notions of Farmer Choice’ (n 25).

65 Herring, ‘Miracle Seeds, Suicide Seeds, and the Poor’ (n 9); Herring, ‘WHY DID “OPERATION CREMATE MONSANTO” FAIL?’ (n 4); Sadashivappa and Qaim (n 22).

1990,⁶⁶ Monsanto established a joint venture in 1998 with the local seed company Maharashtra Hybrid Company (Mahyco), called Mahyco Monsanto Biotech (MMB).⁶⁷ In 2002, MMB obtained biosafety clearance to market a first generation of Bt cotton technology in India.⁶⁸ From 2004 onwards, Monsanto has licensed its Bt cotton technology (i.e. the Bt gene, the Bt trait and the related processes) via MMB to over 28 local seed companies.⁶⁹ From 2006 onwards, other institutions and companies such as Biocentury (China) and the Indian Institute of Technology have started to license the Bt cotton technology to local seed companies as well.⁷⁰

- 35 The Times of India recently published an article indicating that it is unsure whether the first generation of Monsanto's Bt cotton technology ("Bollgard") was actually patented in India.⁷¹ Government sources appear to be equivocal when confronted with the question of whether the technology was patented. It has been confirmed that in 2009, Monsanto has been granted patent protection in India for the second generation of its Bt technology ("Bollgard II") (Indian Patent No. 232681). Monsanto's Bt gene (more specifically the cotton event MON 15985) has thus been patented in India, but only since 2009. Nevertheless, Monsanto has also collected royalties for its Bt cotton technology between 2002 and 2009.⁷² It has been claimed that Monsanto originally licensed the biosafety data needed to obtain variety approval, instead of the patent.⁷³ Hence, originally the biosafety legislation functioned as a kind of quasi-patent protection.

66 Iyengar and Lalitha, 'Bt Cotton in India: Controversy Visited' (2002) 57 *Indian Journal of Agricultural Economics* p. 459.

67 Jayaraman, 'Illegal Bt Cotton in India Haunts Regulators' (n 56); Jayaraman, 'Illegal Seeds Overtake India's Cotton Fields' (n 57); Herring, 'Miracle Seeds, Suicide Seeds, and the Poor' (n 9); Herring, 'WHY DID "OPERATION CREMATE MONSANTO" FAIL?' (n 4).

68 Tripp (n 14) p. 95; 'Mahyco Monsanto Biotech (India) Private Limited - Who we are' (Monsanto, n.d.) <<http://www.monsanto.com/global/in/whoweare/pages/mahyco-monsanto-biotech-private-limited.aspx>> accessed 29 July 2016.

69 Tripp (n 14) p. 90; 'Mahyco Monsanto Biotech (India) Private Limited - Who we are' (Monsanto, n.d.) <<http://www.monsanto.com/global/in/whoweare/pages/mahyco-monsanto-biotech-private-limited.aspx>> accessed 29 July 2016.

70 Tripp (n 14) p. 90.

71 Arya and Shrivastav, 'Seeds of Doubt: Monsanto Never Had Bt Cotton Patent' (*The Times of India*, 8 June 2015) <<http://timesofindia.indiatimes.com/india/Seeds-of-doubt-Monsanto-never-had-Bt-cotton-patent/articleshow/47578304.cms>> accessed 4 May 2016.

72 *ibid*; Smyth, 'A Monsanto Case That Could Alter the Dynamics of Technology Transfer to India' (*The IPKat*, 4 March 2016) <<http://ipkitten.blogspot.com/2016/03/a-monsanto-case-that-could-alter.html>> accessed 21 May 2016.

73 Tripp (n 14) p. 95.

- 36 Since the licensing of technology is prominently used as a business model, and because multinational seed companies do hold Indian patents containing claims related to the Bt cotton technology,⁷⁴ it is very likely that patents do play a role in the business model of multinational seed companies, at least since 2009. Before 2009, multinational seed companies derived quasi-patent protection from licensing biosafety data. Still, even since 2009, patents are predominantly used to license technology to local seed companies, and not to sell seeds to farmers. Consequently, the Bt cotton industry does not seem to make use of patents whose effects extend to farmers' fields.

III. Technological Barriers and the Business Model of Local Seed Companies

- 37 Local seed companies cross the Bt gene - which they obtain from multinational seed companies through licensing contracts - into local hybrid varieties. The hybrid character of these local varieties provides a technological barrier against further propagation. The seeds from a hybrid plant no longer yield plants with hybrid vigour and increased production.⁷⁵ Hence, it is not useful to save seeds of hybrid varieties. Therefore, local seed companies, who sell hybrid Bt cotton seeds to farmers, do not need patent protection to make their business model viable: their customers will come back to buy new seeds each year in any case. Hence, in relation to plants, seeds or other plant materials that pass through the hands of farmers, patents do not play a significant role as technological barriers are more efficient.⁷⁶
- 38 It can be concluded that plant-related IP rights in general and plant patents in particular play only a minor role in the Bt cotton industry. Patents play a role for seed companies whose business model

74 A quick search on the 'Indian Patent Advanced Search System' for patents with 'Bacillus Thuringiensis', 'Bt' or 'cry gene' in their title, taught that also other entities than Monsanto, including other multinational seed companies have acquired patent protection for the Bt technology in India. The search resulted in a total of 14 granted patents. In 10 out of 14 cases, the grantees were multinational seed companies, including Bayer (4), Monsanto (3), Syngenta (1), Pioneer (1) and Dow (1). In the remaining 4 cases, Indian public research institutions (3) and universities (1) were the grantees (May 2016).

75 Loden and Richmond, 'Hybrid Vigor in cotton—Cytogenetic Aspects and Practical Applications' (1951) 5 *Economic Botany* pp. 387-408; Turner, 'A Study of Heterosis In Upland Cotton II. Combining Ability and Inbreeding Effects' (1953) 45 *Agronomy Journal* pp. 487-490.

76 Herring, 'Miracle Seeds, Suicide Seeds, and the Poor' (n 9) p. 221.

is based on licensing the Bt cotton technology. Often, these seed companies are multinational seed companies. However, patents do not play a role in the business model of seed companies who sell seeds, as these seeds are hybrids and thus protected by technological barriers. Mostly, seed companies who sell seeds are local seed companies. To sum up, patents are used to license technology, but not to sell seeds. Consequently, patents whose claims solely relate to e.g. genes, cells, plant tissues or other technological tools used to develop GM plants are important for the development of the Bt cotton industry, but plant patents are not.

G. Potential legal pathways to establish the unpatentability of plants

- 39 Complying with the central demand of the civil society campaign (“no patents on plants”) does not seem to be insurmountable for the Indian seed companies, as plant patents are not that important after all. In parallel, it follows from the relative irrelevance of plant patents that abolishing them will only have a minor impact on resolving the agronomic and socioeconomic issues related to GM crops, IP and rural development.
- 40 Hereunder it will be argued that it is possible to rule out plant patents by interpreting product claims pertaining to genes in such a way that plants and other plant materials that pass through the hands of farmers are not within their scope. This suggested restriction can be achieved either via limiting the scope of these claims (Section 7.1) or via introducing tailor-made exceptions to the scope of these claims (Section 7.2). The reasoning in the two scenarios set forth could also be applied to limit the effects of claims pertaining to cells, plant tissues, processes etc., to the extent that these claims are permissible in India.⁷⁷

I. Limiting the Scope

- 41 The legal argument underpinning a limitation of the scope can be found in Section 3(j) Indian Patent Act, which stipulates since 2005 that “plants and animals in whole or any part thereof other than micro organisms but including seeds, varieties and species and essentially biological processes for production or propagation of plants and animals” are not considered to be inventions. As

a consequence they are not patentable. The legal argument essentially boils down to the following: if plants or other plant materials that pass through the hands of farmers would be within the scope of product claims pertaining to genes, then they would be patent protected and the prohibition of Section 3(j) on patents on plants, parts of plants, seeds etc. would become obsolete.

- 42 More extensively phrased, the argumentation reads as follows: the Indian Patent Act determines that genes are patentable (Section 3(j) Indian Patent Act *a contrario*; also according to Bhavishyavani⁷⁸). The Indian Patent Act also determines that plants, parts of plants, seeds etc. are *not* patentable (Section 3(j) Indian Patent Act). It is valid to argue that Section 3(j) limits the scope of protection of permissible product claims pertaining to genes. It is valid to argue that Section 3(j) and the unpatentability of plants, parts of plants, seeds etc. would be deprived of their meaning if plants which incorporate GM technology would be in the scope of protection of product claims pertaining to genes. Such an extensive scope would imply an alternative way of patenting unpatentable plants, parts of plants, seeds etc.
- 43 As there is no express provision in Indian law which states that genes are patentable, there is no provision to be deprived of its meaning if plants, parts of plants, seeds etc. would *not* be in the scope of protection of product claims pertaining to genes. More importantly, even if plants, parts of plants, seeds etc. are not in the scope of product claims pertaining to genes, these claims can still play a role in relation to licensing the Bt technology to local seed companies. Furthermore, they can play a role e.g. in relation to genes which are used as mere research tools (markers).
- 44 A disadvantage of this first pathway is that the protection provided by patented genes would stop as soon as the gene has been inserted into a plant with the permission of the patent holder, even if this plant is still the property of a seed company. The multiplication of GM seeds via sexual reproduction by local seed companies would thus not be patent protected under the first pathway. This could limit the patent protection granted to multinational seed companies vis-à-vis local seed companies. This potential disadvantage is remedied under a second pathway.

⁷⁷ For feasibility reasons, the permissibility of these claims is not discussed in this article, see *supra* footnote 46.

⁷⁸ Bhavishyavani (n 26).

II. Introducing Tailor-made Exceptions to the Scope

45 An alternative scenario to restrict the scope of patent claims pertaining to genes is to introduce a tailor-made exception to these claims' scope especially for farmers, similar to what is foreseen in the Protection of Plant Varieties and Farmers' Rights Act (PPV&FR Act). The PPV&FR Act stipulates in its Section 39(4) that farmers are allowed to "save, use, sow, resow, exchange, share or sell their farm produce including seed of a variety protected under this Act in the same manner as he was entitled before the coming into force of this Act: Provided that the farmer shall not be entitled to sell branded seed of a variety protected under this Act" (sic.). The second legal argument essentially boils down to extending farmers' rights to "save, use, sow, resow, exchange, share or sell their farm produce including seed" from the PPV&FR Act to the Indian Patent Act. Without the proposed extension, this farmers' right risks becoming obsolete for farm produce including plants and seeds protected under both the PPV&FR Act and the Indian Patent Act.

46 More extensively phrased, the argumentation reads as follows: it is virtually certain that there is a considerable number of cotton plants in India that are protected via plant variety protection and that could turn out to be indirectly patent protected via product claims pertaining to genes. On the one hand, cotton features prominently among the species of which a considerable amount of varieties have been protected via plant variety protection:⁷⁹ between 2007 and 2010 there were 562 applications for plant variety protection related to cotton out of a total of 1853 applications.⁸⁰ On the other hand, 95 per cent of all cotton in India contains the Bt gene,⁸¹ which is in many cases patent protected since 2009.

47 For plants that are protected via both plant variety protection and patents, the following dilemma could emerge. On the basis of the PPV&FR Act, farmers would have the right to save and exchange the plants, seeds and the other farm produce which

they have obtained from their harvest (Section 39(4)). The Indian Patent Act, however, does not have a section which is comparable to Section 39(4) PPV&FR Act. Hence, under the Indian Patent Act, farmers are not allowed to save the plants, seeds and the other farm produce which they have obtained from their harvest. The question is whether farmers enjoy the right to save and exchange plants, seeds and other farm produce which, on the one hand, contain patented genes, but which, on the other hand, belong to a variety protected via plant variety protection.

48 It is valid to argue that if the right to save and exchange plants, seeds and other farm produce which farmers possess under the PPV&FR Act would not be honoured under the Indian Patent Act, Section 39(4) of the PPV&FR Act would be deprived of its meaning regarding plants, seeds and other farm produce protected via both plant variety protection and patents. That constitutes an argument to copy-paste the right to save and exchange farm produce - including plants and seeds - from the PPV&FR Act into the Indian Patent Act, at least for those plants that are protected under both Acts.

49 A comparable copy-paste approach was adopted by the EU in its Biotech Directive (Article 11 Directive 98/44/EC), which copy-pastes the farmers' privilege, i.e. farmers' rights to replant the product of their harvest on their own farm, from the EU Regulation on Community plant variety rights (Article 14 Regulation (EC) No 2100/94) to the patent laws of the EU Member States.

H. Compliance of the Indian plant patent regime with international patent law

50 It remains to be seen whether the Indian plant patent regime complies with international patent law. Especially Article 27(3)(b) TRIPs Agreement is important in that respect. The Article reads as follows:

3. Members may also exclude from patentability:

(a) [...]

(b) plants and animals other than micro-organisms, and essentially biological processes for the production of plants or animals other than non-biological and microbiological processes. However, Members shall provide for the protection of plant varieties either by patents or by an effective sui generis system or by any combination thereof.

[...]

79 Kochupillai, 'India's Plant Variety Protection Law: Historical and Implementation Perspectives' (2011) 16 Journal of Intellectual Property Rights pp. 88-101; Venkatesh, Sangeetha and Pal, 'India's Experience of Plant Variety Protection: Trends, Determinants and Impact' (Agricultural and Applied Economics Association & Western Agricultural Economics Association Joint Annual Meeting, San Francisco, 26-28 July 2015) <<http://ageconsearch.umn.edu/bitstream/200413/2/P%20Venkatesh-paper.pdf>> accessed 15 December 2015.

80 Kochupillai, 'India's Plant Variety Protection Law: Historical and Implementation Perspectives' (n 79).

81 James and others (n 3).

- 51 Article 27(3)(b) allows WTO Member States to exclude plants and plant varieties from patentability. Article 27(3)(b) TRIPs Agreement does not state anything about the possible exclusion of seeds or parts of plants. Yet, it has already been remarked that the Indian Patent Act does exclude seeds and parts of plants from patentability (Section 3(j) Indian Patent Act). Is this exclusion from patentability of seeds and parts of plants in accordance with the TRIPs Agreement? Furthermore, the TRIPs Agreement does not say anything about the permissibility of restrictions to the scope of product claims pertaining to genes. Still, the article suggests that India would additionally restrict the scope of product claims pertaining to genes. Is the suggested restriction to the scope of product claims pertaining to genes in accordance with the TRIPs Agreement?
- 52 To answer the first question (patentability), two arguments can be derived from the “Patent Declaration.⁸² First, Article 27(1) TRIPs Agreement requires WTO Member States to provide patent protection for “any invention [...] in all fields of technology”. The Patent Declaration states, however, that there are no codified nor customary international rules determining what the concept “invention” means (Consideration 10). More specifically, it is not crystal-clear what the dividing line is between an “invention” and a “discovery”. Therefore, the Patent Declaration states that it is perfectly possible for WTO Member States to determine that biological materials such as seeds, parts of plants or genes are not patentable subject matter because they are discoveries and not inventions. Consequently, TRIPs does not require the patentability of seeds, parts of plants or genes.
- 53 Second, Article 27(1) TRIPs Agreement states that WTO member states will provide for patent protection for inventions in all fields of technology, to the extent that these inventions are not excluded on the basis of Article 27(2) or 27(3), if these inventions are “new, involve an inventive step and are capable of industrial application”. The Declaration states that WTO Member States enjoy discretion in applying these criteria (Consideration 11). They can for instance, decide to deny product patents for biological material as biological materials are not “new” or “inventive”. Consequently, TRIPs does not require the patentability of seeds, parts of

plants or genes.

- 54 These two arguments lead to an answer to the patentability question: the TRIPs Agreement does not require the patentability of seeds and parts of plants (and genes, for that matter). Hence, according to the Patent Declaration, Section 3(j) Indian Patent Act does not violate the TRIPs Agreement. Building on these two arguments, an additional step must be taken to answer the question related to the scope restriction of product claims pertaining to genes. Despite the fact that India is not obliged to provide patent protection for genes, India seems to have chosen to provide patent protection for genes. Still, as India was not obliged to provide patent protection for genes in the first place, it is all the more so not obliged to interpret the scope of product claims pertaining to genes broadly. Hence, according to the Patent Declaration, it is perfectly permissible for Indian courts to make sure that the scope of product claims pertaining to genes (or of claims pertaining to cells, plant tissues, processes etc.) does not include plants.

I. Conclusion: Judicial interpretation to establish the unpatentability of plants

- 55 Only patents directly related to the GM technology, such as patents whose claims solely relate to cells, genes, tissues, processes etc., have played a role for the transformation of the Indian cotton areal. However, the seed companies that directly sell seeds to farmers have not made use of these patents. This is partly caused by the fact that these seed companies profit from technological barriers to seed saving. Another reason is eloquently phrased by Herring: “In practice, farmers seem quite willing to ignore everyone’s property claims in seeds.”⁸³
- 56 To enhance legal certainty and to adapt the Indian plant patent regime to the economic reality of the seed industry, it would be useful to clarify that plants (as in “all plant materials that pass through the hands of farmers”) are not in the scope of product claims pertaining to genes. There are sufficient legal and societal arguments to underpin this restriction. Those same legal and societal arguments underpin a parallel restriction of the scope of claims pertaining to cells, plant tissues, processes etc.
- 57 Because the scope of the abovementioned claims is not determined in the Indian Patent Act, the power and the responsibility to restrict this scope rests with the Indian higher courts, more specifically

82 The “Declaration on Patent Protection – Regulatory Sovereignty under TRIPs” (Burk and others, ‘Declaration on Patent Protection’ (2014) 45 IIC - international review of intellectual property and competition law pp. 679-698.) will be used as the main source to provide guidance. The “Patent Declaration” is a joint endeavour of more than ten eminent patent scholars from different continents which is meant to clarify the amount of regulatory sovereignty retained by WTO Member States in the area of patent protection after ratification of the TRIPs Agreement.

83 Herring, ‘Miracle Seeds, Suicide Seeds, and the Poor’ (n 9).

with the High Courts and with the Supreme Court of India. Hence, no change to the Indian Patent Act is needed. In the past, the Indian higher courts have not shied away from interpreting patent law in a restrictive fashion in sensitive cases related to the pharmaceuticals (Novartis AG v. Union of India, Madras High Court, 2007; Novartis AG v. Union of India & Others, Supreme Court of India, 2013).

- 58 Eventually, the suggested restriction would result in a simplification of Indian patent law. It would be possible to summarise Indian patent law regarding GM crops via the following buzz phrase: “(There are) no patents on plants!”. As plant patents have been identified as the central demand of the civil society campaign, achieving a situation in which there are no patents on plants might settle the controversy on patents on Bt cotton. This might remove the focus from IP to the bigger picture of rural development, food security and environmental sustainability in India, the country that will have the largest population of the world by 2050, hosting 1.7 billion people on a relatively small surface.⁸⁴ A deliberative debate regarding this bigger picture is thus long overdue.

Year	Factual event	Legal event
1986		Environmental Protection Act
1990		Multinational seed company Monsanto denied permission to test Bt cotton technology in India (Bt cotton is genetically modified cotton)
1995		WTO TRIPS Agreement
1998	Establishment MMB (Monsanto-Mahyco Biotech), a joint venture between local seed company Maharashtra Hybrid Company and Monsanto	
1999		First (minor) amendment to Indian Patent Act 1970
Before 2001	Introduction of cotton variety Navbharat 151 to the Indian fields by local seed company Navbharat	
2001	Navbharat 151 survives fierce bollworm pest; test reveals that	

84 ‘Word Population Prospects: the 2015 Revision - Key Findings and Advance Tables’ (UN Department of Economic and Social Affairs - Population Division, 2015) <https://esa.un.org/unpd/wpp/publications/files/key_findings_wpp_2015.pdf> accessed 16 August 2016.

2001	Bt cotton becomes controversial in India	
2001		Protection of Plant Varieties and Farmers’ Rights Act
2002		MMB acquires biosafety approval for first generation Bt cotton technology (Bollgard)
2002		Second (minor) amendment to Indian Patent Act 1970
2004	MMB starts licensing Bt cotton technology to local seed companies	
2004	Rapid uptake of Bt cotton varieties all over India	
2005		Third amendment to Indian Patent Act 1970, resulting in current Indian Patent Act
2006	Biocentury (multinational seed company) and the Indian Institute of Technology (national research institute) start licensing Bt cotton technology to local seed companies	
2009		Monsanto acquires Indian patent on second generation of Bt cotton technology (Bollgard II)
2010	Bt brinjal becomes controversial in India	
2015	95 percent of the Indian cotton areal consists of Bt cotton varieties	
2016	Government sources doubt whether Monsanto had Indian patent on Bollgard	
2016		Several multinational seed companies have acquired patents on Bt cotton technology

Table 1: Historical Overview.

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Internet Intermediary Liability Reloaded

The New German Act on Responsibility of Social Networks and its (In-) Compatibility with European Law

by Gerald Spindler*

Abstract: Fake News and hate speech are at the centre of discussions at least since Donald Trump won the U.S. elections in 2016. Politicians around the world fear the influence of social networks and distribution of fake news that will foster populism as well as blur the lines to traditional media. Thus, after having tried self-regulatory mechanisms which according to the belief of the German Government turned out to be unsatisfactory the German Govern-

ment brought in a new bill called „Netzwerkdurchsetzungsgesetz“ which should impose on social networks fines up to 50 Mio Euro if they do not comply with obligations to remove illicit content. The article deals with the structure of the act and its compatibility with European law, in particular the E-Commerce-Directive, based upon a legal expertise commissioned by the German Association of Telecommunication and Internet Industry.

Keywords: NetzDG; responsibility of social networks; Fake News; hate speech; E-Commerce-Directive

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A. Introduction

1 The German parliament has passed a new „Act improving law enforcement on social networks [Netzwerkdurchsetzungsgesetz – NetzDG]“ which has been notified to the EU-Commission on 27th of March 2017.¹ The act aims mainly – as the German notification points out – at

„the introduction of statutory compliance rules for social networks in order to encourage them to process complaints about hate speech and other criminal content more quickly and comprehensively.“

2 The German government states that social networks (and alike providers) should live up to their responsibility to immediately remove infringing

content – which according to the statement of the German government they still do not in a satisfying manner.²

3 To achieve a more satisfying level of removing illicit content and fake news the act provides in principal roughly two obligations:

- to report periodically to authorities as well as to the public their actions concerning complaints about illicit content and their organization to handle these complaints
- to remove in 24 hours content which is blatantly³ illicit and within 7 days all other illicit content. Providers may, however, refer the decision regarding unlawfulness to a recognised selfregulation institution within 7

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1 NotificationNumber2017/0127/D-SERV60. The notification wrongly named the Act „Netzdurchführungsgesetz – NetzDG“.

2 Notification „Brief statements of grounds“.

3 It is unclear if the German Act will refer to „blatantly“ (so the wording in the notification of the German Government) or to „manifestly“ (as used in the translation of the German act by the German Government).

days of receiving the complaint and if they agree to accept the decision of that institution.

- 4 If some of these obligations are not fulfilled, fines may be imposed up to 5 Mio Euro in case of deliberate or negligent non-compliance with the reporting obligations, violation of the obligation to have effective complaint management, etc., up to 50 Mio Euro for legal persons.
- 5 I will argue, that the new envisaged German act on social networks is not compatible with European law in several regards, such as
 - incompatible with the principle of country of origin as enshrined in Art. 3 of the E-Commerce-Directive⁴ as the act just refers to Art. 3(4) for service providers in other EU-member states. This reasoning disregards the case-by-case approach of Art 3(4) which does not allow for general derogations (cf. IV.)
 - incompatible with Art. 14, 15 E-Commerce-Directive with respect to recitals 46 and 48 regarding the notice-and-take-down procedure as the act substitutes the notion of „expeditiously” by fixed terms and thus leading to deviation from full harmonization (V.A)
 - introducing special requirements for the notion of „knowledge” in Art. 14 E-Commerce-Directive (V.B)
- 6 Some of the criticism against the proposed act have been dealt with during the parliamentary procedure, such as the proposed obligation to remove also copies as well as the missing judicial control concerning the disclosure of personal data. Hence, the article will do not deal with these issues.

B. Conflict with country of origin principle, Art. 3 E-Commerce-Directive

I. The international applicability of the act on social networks

- 7 The proposed act (Sec.1 (1)) applies to all operators of commercial telemedia services (roughly information society services according to the E-Commerce-Directive) who operate a platform which enables

⁴ Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (Directive on electronic commerce), OJ No. L 178, p. 1 of 17.7.2000.

users to exchange any kind of content, to share this content or to make the content publicly available. Exempted are platforms with own journalistic-editorial content (journalistisch-redaktionell gestaltete Angebote) or small platforms with less than 2 Mio users registered in Germany.

- 8 Moreover, the application of the new enforcement obligations depends on certain illicit content which is enumerated in Sec. 1(3) of the act, referring mainly to communication offenses in criminal law such as defamation or rabble-rousing but also to distribution of every kind of pornography etc.
- 9 As the act does not provide for a territorial exemption all obligations of the new act apply to providers based in Germany as well as to those based in other countries, be it in other EU-member states or in third countries. The act does not contain any provision which would be alike Art. 3 of the E-Commerce-Directive (which has been implemented in Germany in Sec. 3 of the Telemedia-Act). The international applicability of the proposed act is also reflected in Sec. 4(3) which states explicitly that violations of the duties can also be fined when they take place outside Germany.
- 10 Thus, all providers with users in Germany will be affected, regardless of the location of their headquarters or their seat. Sec. 1(2) of the proposed act reflects this approach to international applicability when the provision stipulates a minimum threshold of 2 Mio users registered in Germany – hence, the only relevant criteria are users in Germany of the social network.

II. The country of origin principle

- 11 Given the applicability of the envisaged act to providers seated in other EU-Member States it is highly arguable if the act is compatible with Art. 3 E-Commerce-Directive:

1. Underlying rationale

- 12 The underlying rationale of the country of origin principle refers to the goal of harmonizing the legal framework for all information society providers in the EU, given the global character of the Internet. The EU clearly stated that goal in Recitals 1, 3, 5 and 10 of the E-Commerce-Directive.⁵ Moreover, Recital 22 point out that:

„(22) Information society services should be supervised at

⁵ See also CJEU 25.10.2011 – C-509/09 e-Date.

the source of the activity, in order to ensure an effective protection of public interest objectives; to that end, it is necessary to ensure that the competent authority provides such protection not only for the citizens of its own country but for all Community citizens; in order to improve mutual trust between Member States, it is essential to state clearly this responsibility on the part of the Member State where the services originate; moreover, in order to effectively guarantee freedom to provide services and legal certainty for suppliers and recipients of services, such information society services should in principle be subject to the law of the Member State in which the service provider is established."

- 13 Once again, the E-Commerce-Directive lays stress on the „freedom to provide services” and on „legal certainty” for providers, guaranteed by the country of origin principle. The Court of Justice of the EU took the same stance in the eDate advertising decision:⁶

„66 In relation to the mechanism provided for by Article 3 of the Directive, it must be held that the fact of making electronic commerce services subject to the legal system of the Member State in which their providers are established pursuant to Article 3(1) does not allow the free movement of services to be fully guaranteed if the service providers must ultimately comply, in the host Member State, with stricter requirements than those applicable to them in the Member State in which they are established.

67 It follows that Article 3 of the Directive precludes, subject to derogations authorised in accordance with the conditions set out in Article 3(4), a provider of an electronic commerce service from being made subject to stricter requirements than those provided for by the substantive law in force in the Member State in which that service provider is established.”

- 14 Hence, it is not overemphasized to qualify the country of origin principle as one of the cornerstones of the E-Commerce-Directive.

2. Applicability of the country of origin principle

- 15 The country of origin principle applies to the so-called „coordinated field” which is defined by Art. 2 h). The proposed German act provides obligations for providers to install complaint management systems, to establish in Germany a person who could be held responsible, to report periodically about the state of the complaints, and to remove illicit content in a prescribed way. Thus, the planned obligations clearly fall under the coordinated field, in particular requirements concerning behaviour of the service provider.

- 16 Hence, the envisaged act on enforcement of social

networks has to comply with the country of origin principle – which is confirmed indirectly by the official reasoning of the German government which states that there is no conflict with Art. 3 of the E-Commerce-Directive by invoking the exception of Art. 3 (4).⁷

3. Exceptions to the country of origin principle

- 17 Crucial for the evaluation of the proposed act is thus the compatibility with the country of origin principle, in particular with the exceptions which Art. 3 E-Commerce-Directive provides in Art. 3 (3) and Art. 3 (4). Whereas it is evident that Art. 3 (3) and the Annex cannot justify the planned act on social networks as no legal area or activity mentioned in the Annex is being covered the German government concentrates on Art. 3 (4). As this provision is crucial for the legal assessment it shall be cited here:

„Member States may take measures to derogate from paragraph 2 in respect of a given information society service if the following conditions are fulfilled:

(a) the measures shall be:

(i) necessary for one of the following reasons:

- public policy, in particular the prevention, investigation, detection and prosecution of criminal offences, including the protection of minors and the fight against any incitement to hatred on grounds of race, sex, religion or nationality, and violations of human dignity concerning individual persons,

....

(ii) taken against a given information society service which prejudices the objectives referred to in point (i) or which presents a serious and grave risk of prejudice to those objectives;

(iii) proportionate to those objectives;

(b) before taking the measures in question and without prejudice to court proceedings, including preliminary proceedings and acts carried out in the framework of a criminal investigation, the Member State has:

- asked the Member State referred to in paragraph 1 to take measures and the latter did not take such measures, or they were inadequate,

- notified the Commission and the Member State referred

⁶ CJEU 25.10.2011 – C-509/09 e-Date.

⁷ Begründung Regierungsentwurf NetzwerkdurchsetzungsG p. 13, 14.

to in paragraph 1 of its intention to take such measures.”

- 18 The German government contends in particular that the act would comply with the requirements of Art. 3(4) as the act would concern „a specific information service provider”. However, the reasoning misunderstands Art. 3(4) E-Commerce-Directive as this exception in Art. 3(4) applies exactly to a specific case, for instance procedures against one social network (judicial or administrative) etc. The exception in Art. 3(4) does not refer to a whole group of information service providers⁸ – in contrast to the proposed act which covers all kinds of social networks or other services such as E-Mail-providers⁹ and does not refer only to one specific case.
- 19 That Art. 3(4) does not refer to entire classes of information society providers is also reflected by Art. 3(4) b) i which requires the recipient state which wants to take action to ask beforehand the state of the origin of the service provider to take care of the (specific) provider. This procedure is clearly related to other uses of the country of origin principles enshrined, for instance, in financial markets Directive, such as the Market for Financial Instruments Directive (II).¹⁰ The procedure addresses the coordination between supervising authorities in order to guarantee the free flow of services in the European Union, to avoid establishing national barriers to services coming from another EU member state (European Pass). However, this procedure is not related to legal acts addressing whole class of service providers.
- 20 This interpretation of Art. 3(4) E-Commerce-Directive is affirmed if we take into account the general exceptions to Art 3(1) by Art. 3(3) E-Commerce-Directive referring to the annex. This annex contains exceptions referring to legal areas such as intellectual property rights or contractual consumer protection – and not specific cases. Such an annex would rather be unnecessary if Art. 3(4) could be applied to whole classes of information service providers as member states could easily invoke one

8 See also Weller in Beckscher Online Kommentar, Informations- und Medienrecht, § 3 TMG, Rz. 32; Nordmeier in Spindler/Schuster (eds.), Recht der elektronischen Medien, 3rd. ed. 2015, § 3 TMG Rz. 22; also Wimmers/Heymann, Archiv für Presserecht (Journal = AfP) 2017, 93, 97; Feldmann, Kommunikation und Recht (Journal = K&R) 2017, 292, 296.

9 As E-Mails also serve as a means to share information etc. Thus, every E-Mail-provider also has to be qualified according to the German Act as a „social network” as E-Mail-services can be qualified also as telemedia services.

10 Directive (2014/65/EU) of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (recast), OJ L 173/349, 12.6.2014. See for instance, Art. 34 of the MiFID II and Art. 86 MiFID II concerning precautionary measures by the host state.

of the exceptions grounds provided for in Art. 3(4). This can also clearly be demonstrated if we look at the exceptions for consumer: Whereas Art. 3(3) and the Annex state an exception for all contractual protections concerning consumers, Art. 3(4) once again refers in general to consumer protection – the repeated (and extended) reference would not make any sense if Art. 3(4) could be understood in a way that whole classes or groups of cases are embraced by Art. 3(4).¹¹

- 21 Moreover, the French version clearly indicates that all exceptions are related to just one service provider rather than to a class of them:

„4. Les États membres peuvent prendre, à l’égard d’un service donné de la société de l’information, des mesures qui dérogent au paragraphe 2 si les conditions suivantes sont remplies:”

- 22 The French version (and all other romanian versions) makes it more clear than the German or English version that a singular is being used and only one specific case is being addressed.

- 23 Finally, and very clearly, the EU-Commission took the same stance in the Communication of 2003 regarding electronic financial services and derogations by member states:

„2.1.2. Concept of “given information society service”

A “given” service is taken to mean here that the Member State of destination may not, under Article 3(4), take general measures in respect of a category of financial services such as investment funds or loans.

To be covered by Article 3(4), the measure must, therefore, be taken on a case-by-case basis against a specific financial service provided by a given operator.

For example, it could be a measure such as a warning or a penalty payment taken by a country of destination against a bank proposing from its place of establishment in another EU country non-harmonised investment services to residents of that country. Such measures could, for instance, be taken on the ground that the bank was not complying with certain rules of conduct designed to protect consumers in the country of destination.

However, a Member State could not, on the basis of Article 3(4), decide that its entire legislation on, say, non-harmonised investment funds was applicable in a general and horizontal fashion to all services accessible to its residents.”¹²

- 11 This is disregarded also by the German High Federal Court in the decision of 30.3.2006 – I ZR 24/03 BGHZ 167, 91, 101 f. – Arzneimittelwerbung im Internet. The court did not assess the relationship between the E-Commerce-Directive and other directives (here: prohibition of advertising for medical drugs).

- 12 Communication from the Commission to the Council, The

24 Thus, the Commission makes it very clear that Art. 3(4) refers to a case-by-case basis. In particular, every case has to be analyzed on grounds of the proportionality test¹³ – and not in a general way. Hence, there is no room for such an interpretation as the German government is undertaking.

4. Urgency (Art. 3(5))

25 Moreover, the German government argues that an instant action is needed to combat hate speech and other criminal actions in the Internet.¹⁴ However, it is highly questionable that a case for urgency can be construed: The issues at stake has already been known for a longer time, be it at the national or European level. That the US-elections has been influenced by fake news or activities at the social networks is just a prominent emanation of this general trend concerning communication on the Internet and in particular on social networks.

26 Nevertheless, these issues have been well known for years¹⁵ – for instance, the author of this expertise also has presented a large legal expertise on personality rights and enforcement problems on the Internet at the Deutsche Juristentag (the German Conference of all legal professions) in 2012.¹⁶ Hence, it should be out of question that the matter of defamation, hate speech, and fake news were already at stake in the last decade. Proportionality Test

27 Even though Art. 3(4) cannot be called into play to justify the proposed act it should be finally mentioned that the act has to pass at any rate the proportionality test. Without going into details here as these issues are out of the scope of the expertise, there are severe doubts if all categories of content foreseen by Sec. 1(3) of the proposed act would pass the proportionality test and could justify barriers to free flow of information society services, in particular with regard to risks to fundamental freedoms such as freedom of expression as granted by Art. 11 of the EU-Fundamental Rights Charta. If

European Parliament and the European Central Bank – Application to financial services of Article 3(4) to (6) of the Electronic Commerce Directive, 14.5.2003, COM(2003) 259 final.

13 Communication from the Commission, COM(2003) 259 final point 2.2.4.

14 Begründung Regierungsentwurf NetzwerkdurchsetzungsG p 14.

15 See also *Wimmers/Heymann*, in: *Archiv für Presserecht* (Journal = AfP) 2017, 93, 98.

16 *Spindler*, *Persönlichkeitsrechte im Internet*, *Deutscher Juristentag 2012*, Gutachten F (Personality rights in the Internet, Legal Expertise for the German Conference of all lawyers, judges, and other juridical professions).

really all kinds of defamation could form a basis for additional obligations to information society services in other EU-member states is highly questionable.

III. Summary

28 The envisaged German Act violates the country of origin principle laid down in Art. 3 (2) E-Commerce-Directive. The exceptions in Art. 3 (4) E-Commerce-Directive only apply to a case-by-case approach and do not justify general laws applying also to providers in EU Member States. Finally, there is no evidence for a case of urgency according to Art. 3 (5) E-Commerce-Directive.

C. Specification of notice-and-take-down procedures and of „knowledge“

I. Provisions of the proposed Act

29 The proposed act raises also concerns about its compatibility with the provisions laid down in Art 14 E-Commerce-Directive, in particular the notice-and-take-down procedure and the notion of „knowledge“. In the notification for the planned act the German government states:

„The draft sets out legal standards for effective complaint management to ensure that social networks delete blatantly criminal content corresponding to an objective offence in one of the criminal provisions stated in § 1(3), as a rule 24 hours after receipt of the complaint from the user. The draft makes it compulsory to have effective, transparent methods for the prompt deletion of illegal content, including user-friendly mechanisms for registering complaints. (...) Service providers are bound to immediately remove illegal content they are storing for a user, or to block access to said content once they become aware of it. The compliance obligations laid down in this draft presuppose said requirement imposed on service providers and specify it further.“¹⁷

30 More specifically, the planned act will introduce scaled obligations for providers to remove illegal content or to block it:

- First, providers have to introduce an efficient complaint management, in particular mechanism for users to file complaints (Sec. 3(1) of the act)

17 Note, that the translation uses the word „manifestly“ instead of „blatantly“.

- Second, providers have to take care to take note expeditiously of the complaint and to assess the content on a legal basis (Sec. 3(2) Nr. 1 of the act). For blatantly¹⁸ criminal content concerning the criminal offences mentioned in Sec. 1(3) of the act providers have to remove the content within 24 hours after having received the complaint, with the exception of longer terms agreed upon with prosecuting authorities (sec. 3(2) Nr. 2 of the act)
- Third, to remove or block any illicit content within 7 days after having received the complaint (sec. 3(2) Nr. 3 of the act).
- However, the 7-days period may be exceeded if the social network refers the decision regarding unlawfulness to a recognised selfregulation institution pursuant to subsections (6) to (8) of Sec. 3 of the act within 7 days of receiving the complaint and agrees to accept the decision of that institution; the 7-days-period may also be exceeded if the complaint is based upon alleged false facts that need to be explored further.

31 All these duties are sanctioned by imposing fines on acting persons as well as the enterprise, in the latter case up to 50 Mio Euro (Sec. 4(1) and 4(2)).

II. Notice-and-take-down-procedure

32 By these means the act specifies the obligation of (host) providers enshrined in Art. 14 of the E-Commerce-Directive. These provisions are flanked by recitals 46, 48:

„(46) In order to benefit from a limitation of liability, the provider of an information society service, consisting of the storage of information, upon obtaining actual knowledge or awareness of illegal activities has to act expeditiously to remove or to disable access to the information concerned; the removal or disabling of access has to be undertaken in the observance of the principle of freedom of expression and of procedures established for this purpose at national level; this Directive does not affect Member States' possibility of establishing specific requirements which must be fulfilled expeditiously prior to the removal or disabling of information.

(48) This Directive does not affect the possibility for Member States of requiring service providers, who host information provided by recipients of their service, to apply which can reasonably be expected from and which are specified by national law, in order to detect and prevent certain types of illegal activities.”

33 The liability privileges in Art. 12 – 15 E-Commerce-

¹⁸ Or as in the translation „manifestly”.

Directive are fully harmonizing, giving leeway to the Member States only where explicitly stated.¹⁹

34 Whereas Art. 14 just requires that a provider „upon obtaining knowledge or awareness, acts expeditiously to remove or to block access to the information” Sec. 3(2) Nr. 2 and Nr. 3 refer to fixed terms within a provider has to act, starting with the date of having received the complaint. In contrast Sec. 3(2) Nr. 1 of the planned act refers to Art. 14 (1) E-commerce-Directive when requiring the provider to take note expeditiously of the complaint and assess the legality of the content. Thus, the proposed German act deviates significantly in some issues from Art. 14 of the E-Commerce-Directive:²⁰

- First, instead of acting „expeditiously” the requirement to act within 24 hrs. or at least 7 days
- Second, by calculating the term starting with the reception of the complaint instead of referring to actual knowledge

1. Fixed terms

35 As mentioned, Art. 14 of the E-commerce Directive uses explicitly the term „expeditiously”, in the French version „promptement”, in the Spanish version „con prontitud”, in the Italian version „immediatamente”, in the Netherlands version „prompt”, in the German Version „unverzöglich”.

36 However, the E-Commerce-Directive does not specify what has to be understood by expeditiously – thus, it seems that the E-Commerce-Directive would leave some leeway for member states to specify this term. This perspective seems to be fostered by recital 46 S. 2 of the E-Commerce-Directive which obviously allows the member states to introduce procedures for the removal:

„the removal or disabling of access has to be undertaken in the observance of the principle of freedom of expression and of procedures established for this purpose at national level;”

37 However, the phrase has to be read carefully: The „procedures established” at national level refer explicitly to „this purpose” which refers to removal or disabling of access. Thus, procedures means ways of **how** to remove or block an access – but not **when** (or at which moment in time) a content has to be

¹⁹ Cf. German High Federal Court (Bundesgerichtshof) 04.07.2013 - I ZR 39/12 NJW (Neue Juristische Wochenschrift) 2014, 552 – Terminhinweis mit Kartenausschnitt, Paragraph 19, 20.

²⁰ See also *Wimmers/Heymann*, Archiv für Presserecht (Journal = AfP) 2017, 93, 95.

removed. Recital 46 S. 1 states once again that the removal etc. has to be done expeditiously; S. 2 does not refer or specify this notion but just refers to the removal or disabling of access as such. This is confirmed by the second restriction in Recital 46 S. 2 which requires „the observance of the principle of freedom of expression” – hence, once again a requirement which concerns the removal as such in order not to discourage users from using their freedom of expression, but not the point in time when the removal has to be done.

- 38 Furthermore, Member States could argue that Recital 46 S. 3 allows them to specify requirements for removal or disabling information:

„this Directive does not affect Member States’ possibility of establishing specific requirements which must be fulfilled expeditiously prior to the removal or disabling of information.”

- 39 However, this part of the recital clearly refers to requirements **prior** to the removal, hence for the procedure before removing or blocking a content – such as prior information to the owner of the content. For instance, the German High Federal Court introduced such a procedure in the context of injunctions against defamations in blogs, requiring the blog provider to ask the blogger for a statement referring to a complaint and then vice-versa the complainer if he would uphold his complaint in the light of this blogger’s statement.²¹ In contrast, the fixed terms of Sec. 3 (2) of the proposed act do not refer to such a procedure prior to the removal rather than specifies the term „expeditiously”.
- 40 In sum, Recital 46 allows to establish procedures for the removal or blocking of content as such but does not allow to specify the notion of „expeditiously” in Art. 14 of the E-Commerce-Directive.
- 41 There are also good reasons on the European level not to allow member states too much leeway in specifying Art. 14: Different terms in member states which would concretise the notion „expeditiously” by introducing fixed terms could very soon lead to a scattered landscape of liability privileges in Europe. Thus, whereas Germany provides for fixed terms of 24 hours or 7 days other member states could introduce complete different terms such as 7 hrs. or 48 hrs. etc. or even longer than 7 days. The intention of the E-Commerce-Directive to fully harmonise liability of intermediaries would thus be severely undermined.

21 German High Federal Court (Bundesgerichtshof), 25.10.2011 – VI ZR 93/10 BGHZ 191, 219 (Official edition of Decisions Vol. 191, p. 219) – Mallorca-Blogger; see also German High Federal Court (Bundesgerichtshof), 1.3.2016 – VI ZR 34/15 – Jameda, AfP 2016, 253.

- 42 The same phenomenon already has been stated concerning different notice-and-take-down procedures in Europe.²² Moreover, different terms in Member States have led, for instance, in consumer protection to a review of consumer protection directives and to a new directive in order to stick to fixed mandatory terms for all Member States so that legal insecurity shall be avoided.²³
- 43 Finally, there is no indication that the notion of „expeditiously” should not be interpreted on the European level by the Court of Justice of the European Union (CJEU) as an autonomous notion of the E-Commerce-Directive.

2. Obligation after having received a complaint

- 44 Secondly, the envisaged German act calculates all terms upon the reception of the complaint. However, Art. 14 (1) S. 2 b) explicitly refers the obligation to act to the „obtaining (of) such knowledge.” This deviation matters in different perspectives:

a.) Knowledge versus reception of a complaint

- 45 First, reception of an information cannot be equally treated as „knowledge” according to Art. 14 (1) E-Commerce-Directive. Whereas reception of an information refers – at least according to traditional German Doctrine enshrined in Sec.130 of the German Civil Code – to achieving control of an information, such as receiving a letter in a letter box, and does not relate to the actual knowledge (such as opening the letter) the term of knowledge in Art. 14 (1) refers to human actual knowledge of a content, that a human being has noted the content in an aware manner. As Art. 14 (1) E-commerce Directive intends to privilege neutral, automatized activities (as the CJEU noted)²⁴ only human knowledge is relevant for the liability privilege.²⁵ Hence, knowledge in the sense of Art.

22 Cf. *Verbiest/Spindler/Riccio/van der Perre*, Study on the liability of internet intermediaries (Markt/2006/09/E), 12.11.2007, <http://ec.europa.eu/internal_market/e-commerce/docs/study/liability/final_report_en.pdf> p. 15 and following with references to national reports.

23 Directive 2011/83/EU of the European Parliament and of the Council of 25 October 2011 on consumer rights, amending Council Directive 93/13/EEC and Directive 1999/44/EC of the European Parliament and of the Council and repealing Council Directive 85/577/EEC and Directive 97/7/EC of the European Parliament and of the Council, OJ L 304/64 of 22.11.2011.

24 CJEU 12.7.2011 – C-324/09 L’Oreal v ebay Paragraph 113 and following.

25 If not, the E-Commerce-directive would be construed

14 (1) E-Commerce-Directive is not the same as the reception of the complaint. Whereas one could argue that in most cases reception of information would lead to the same result as knowledge, in particular concerning blatantly (or manifestly) criminal offenses, it may not be the same when calculating a 24 hrs. term.

b.) Knowledge of illicit content

46 Secondly, knowledge as used by Art. 14(1) E-Commerce-Directive does not only refer to the knowledge of the content as such rather than also knowledge of illicit character.²⁶ Whereas the German and English version are not clear the French or Spanish version clearly indicate that knowledge in Art. 14(1) E-Commerce-Directive also refers to the legal assessment of a content:

“le prestataire n’ait pas effectivement connaissance de l’activité ou de l’information illicites”

„conocimiento efectivo de que la actividad o la información es ilícita”

47 Hence, the reception of a complaint cannot be treated as the relevant knowledge in the sense of Art. 14(1) as knowledge requires also the legal assessment – which may take more time than 24 hrs.

48 Even though a thorough analysis of constitutional legal aspects of the planned act, such as dangers for the freedom of expression (Art. 11 Charter of fundamental rights of the European Union (2000/C 364/01)²⁷, is out of the scope of this analysis it should be noted that such fixed terms as they are provided for in the planned German Act could force providers into a dilemma when they have to check like a judge if a content is within the borderlines of freedom of expression (or arts etc.).²⁸ Hundreds of disputed decisions even between the highest courts

in such a way that the provider would have to introduce automated decision procedures which surely cannot take into account aspects of freedom of expression.

26 For the German discussion cf *Eck/Ruess*, *Multimedienrecht* (Journal = MMR) 2003, 363, 365; *Freytag*, *Computer und Recht* (Journal = CR) 2000, 600, 608; *Dustmann*, *Die privilegierten Provider*, S. 107; *Wimmer/Kleineidam/Zang*, *Kommunikation und Recht* (Journal = K&R) 2001, 456, 460 f.; *Berger*, MMR 2003, 642, 645; *Hoffmann*, MMR 2002, 284, 288; *Beckscher Onlinekommentar Informations und Medienrecht/Paal*, § 10 TMG Rn. 30; *contravening opinion: Beckscher Kommentar Recht der Teledienste /Jandt*, § 10 TMG Rn. 18; *Härting*, CR 2001, 271, 276. See also *Eck/Ruess*, MMR 2003, 363, 365; *Gercke*, MMR 2003, 602, 603.

27 OJ No. C 364, p. 1 of 18.12.2000. Issues of the German Constitution are out of scope of this expertise.

28 Cf. *Wimmers/Heymann*, *Archiv für Presserecht* (Journal = AfP) 2017, 93, in particular p. 99 and following.

in Europe highlighten these intrigue issues how to strike the balance between defamation and freedom of expression (for instance, of prominent persons such as Caroline of Monaco).²⁹

49 Regarding the planned German act, the provider has to take a decision in order not to be fined up to 50 Mio Euro. In contrast, if the provider would remove the incriminated information he risks only claims for damages of the user which are hardly to assess (immaterial damages etc.) and could result in very low sums. Thus, it is very likely (and economic rationale) that the provider will make up his mind to remove the information (or to block access to it). Thus, such an obligation would highly endanger the fundamental freedom of expression.³⁰

50 The E-Commerce-Directive takes such dangers explicitly into account: As recital 46 puts it, the provider has to take his decision with obedience to the principles of freedom of expression. However, if the provider faces fines up to 50 Mio Euro and if no judicial act is necessary to remove the information the balance is shifted to the detriment of freedom of expression.

c.) Knowledge and general complaints

51 Thirdly – and more important than all other arguments – the term used in the German act refers to a complaint – not specifying when a complaint may trigger the obligations to act. Hence, such a complaint could be formulated in a general way, not always enabling the provider to discern immediately the incriminated content. Even very general complaints could then trigger the obligations for the provider, resulting in fact in an obligation to inspect the case thoroughly.

52 In contrast, Art. 14 (1) E-Commerce-Directive refers to the content as such – thus, a specific content has to be named, the provider is not being held to monitor his servers (Art. 15). This perspective is affirmed by Art. 14 (1) 2nd. alternative which refers for civil damage claims to the knowledge of evident circumstances (!), in contrast to the knowledge of the content as such (Art. 14 (1) 1st. alternative). Such a distinction would not make any sense if knowledge in Art. 14 (1) 1st. alternative could be construed in such a way that also general hints would trigger already the obligation for the provider to act. Moreover, any obligation to thoroughly scrutinize

29 Cf. European Court of Human Rights 7.2.2012 - 40660/08 against German Federal Constitutional Court 26.2.2008 - 1 BvR 1626/07 and German High Federal Court of Justice (Bundesgerichtshof) 6.3.2007 - VI ZR 51/06.

30 Same result in also *Wimmers/Heymann*, *Archiv für Presserecht* (Journal = AfP) 2017, 93, 98.

a case by inspecting all circumstances and facts would contravene the objective of the E-Commerce-Directive to enhance automated business models.

- 53 Even concerning civil damages (Art. 14(1) 2nd. alternative) the CJEU clearly states that not all notifications will result in an „awareness” of facts and circumstances:³¹

„122 The situations thus covered include, in particular, that in which the operator of an online marketplace uncovers, as the result of an investigation undertaken on its own initiative, an illegal activity or illegal information, as well as a situation in which the operator is notified of the existence of such an activity or such information. In the second case, although such a notification admittedly cannot automatically preclude the exemption from liability provided for in Article 14 of Directive 2000/31, given that notifications of allegedly illegal activities or information may turn out to be insufficiently precise or inadequately substantiated, the fact remains that such notification represents, as a general rule, a factor of which the national court must take account when determining, in the light of the information so transmitted to the operator, whether the latter was actually aware of facts or circumstances on the basis of which a diligent economic operator should have identified the illegality.”³²

- 54 The German parliament tried to specify the complaint in such a way that Sec. 3(2) No.1 refers only to complaints which concern a reported specific content. If this provision is apt to cope with the aforementioned European legal requirements remains doubtful as the act still remains somehow opaque what a “reported content” means.

III. Summary

- 55 In sum, the envisaged German Act deviates in several ways from the full harmonizing Art. 14 E-Commerce-Directive by:
- introducing fixed terms instead sticking to the „expeditiously” deletion or blocking access to an infringed information
 - referring to the reception of a complaint instead to „knowledge” as required by Art. 14 E-Commerce-Directive
 - not taking into account that „knowledge” according to Art. 14 E-Commerce-Directive requires also knowledge of the illegality of an information.
 - triggering obligations by a mere complaint and

31 CJEU 12.7.2011 – C-324/09 L’Oreal v ebay.

32 Underlining by the author.

not referring to a specific information.

D. Scope of application – legal insecurity

I. The planned Act

- 56 According to the reasoning of the German Government the act should be restricted „to the operators of large, influential social networks, instead of to all service providers as set out in the Telemedia Act [Telemediengesetz – TMG]”.³³ Moreover,

„the draft does not cover media platforms that publish their own journalistic and editorial content. The definition of a social network includes both the exchange of content between users in a closed or ‘gated’ community, and the public distribution of content. A minimum size is provided for relatively small companies (start-ups).”

- 57 Thus, the planned act defines social networks in Sec. 1(1) as those information society providers

„...who operate platforms in the Internet with an intention to make profit which enable users to share any kind of content mit other users or to make the content publicly available”³⁴

- 58 Only platforms with less than 2 Mio users registered in Germany are exempted (Sec. 1(2) of the planned act).

II. Compatibility with the E-Commerce-Directive

- 59 This broad definition raises concerns about legal certainty for information society providers and is not in line with the notion of information society providers which host information according to Art. 14 E-commerce-Directive. The definition of the planned act aims at social networks such as Facebook or Twitter but could be applied to any kind of service which enable users to exchange content. In the original version of the proposed act, even E-Mail-services would be concerned as well as any kind of cloud computing platform. It would have been sufficient that a user just shares his content outside the platform with other users by sharing a hyperlink or by just enabling them access to the platform – the definition unspecifically just required an „enabling” of sharing content which could be done by any means of uploading content and then sharing it. For

33 Notification of the Act.

34 Translation by the author.

example, services such as dropbox would be affected as well as other sharing platforms – which do not have any effect upon public discussions etc.

- 60 The German parliament dealt with this issue by introducing another exemption in Sec. 1(1) of the act:

“The same (cf. an exemption) shall apply to platforms which are designed to enable individual communication or the dissemination of specific content”.

- 61 However, only e-mail providers and strict individual communication is thus excluded; in contrast to the intent of the German parliament still professional networks such as LinkedIn or XING are encompassed as well as any kind of cloud provider.
- 62 Hence, taken literally there would be in the end no difference between host providers as referred to in Art. 14(1) E-Commerce-Directive and the planned German Act. Even though a provider probably could not have any knowledge of sharing activities of the users the planned German Act could apply – for instance, a cloud provider who stores content for his users would be faced to comply with the obligations of the planned German Act as the content stored in the cloud may be shared with other users.
- 63 Only if the notion of „enabling” in the planned German act can be construed in such a way that the platform itself has to offer sharing tools so that any „external” sharing activities are not concerned the definition will not cover all host providers of Art. 14(1) E-Commerce-Directive.

III. Inequal treatment

- 64 However, even though the German act may be specified by a restrictive interpretation it is highly questionable why these platforms (with internal sharing tools) should be treated differently from other host providers. As the cases in copyright law have shown sharing activities could be done by a variety of business models, such as placing links to content stored on other servers (such as rapidshare).
- 65 Moreover, Art. 14(1) E-commerce-Directive does not distinguish between small and big enterprises. A distinction between small and big information society providers may be justified on grounds of defending public security and interests as platforms with a lot of users are more likely to affect the public discussion – as the US-elections and the debate about „fake news” etc. have shown. However, the German Act refers to a variety of criminal offenses which cover not only offenses against public interest or security rather than also more individual legally

protected interests such as defamation. Hence, it is hard to justify a different treatment of small platforms which also endanger individual interests (as in cases of defamation etc.).³⁵ Thus, Art. 14(1) E-Commerce-Directive does not distinguish between offenses against public interests and individual interests (only between damages based upon civil law and other offenses). Moreover, Art. 14(1) E-Commerce-Directive applies to any kind of information society provider without regard to numbers of users or capital etc.

IV. Summary

- 66 In sum, the definition in the envisaged Sec. 1 of the German Act deviates from Art. 14 E-Commerce-Directive and the notion of providers of information services. The E-Commerce-Directive treats small and big providers in the same way – in contrast to the planned act. Moreover, the privileges and also obligations of Art 14 E-Commerce-Directive apply to all kind of offenses and illegal activities – in contrast to the planned act.

E. Conclusion

- 67 Whereas the German Act in principle aims at the right target – fighting fake news and hate speech – the way ahead seems to be more than problematic. In a digital single market the way ahead should not be taken by national legislators rather than the EU institutions. If such “specifications” of the ECRD would be allowed for national legislators any harmonisation of the ECRD would vanish soon. Hence, even though the goals of the German Act may be supported national legislators should not be competent to regulate notice-and-take-down requirements (in contrast to procedures). Moreover, what is needed is a thorough development of fast judicial procedures to handle complex conflicts of defamation cases where fundamental rights of freedom of expression are touched as well as personality rights.

³⁵ Same result in *Wimmers/Heymann*, Archiv für Presserecht (Journal = AfP) 2017, 93, 96.

Attachment: Unofficial Translation of the Network Enforcement Act³⁶

Editing status: 12 July 2017, 3:22 pm

Act to Improve Enforcement of the Law in Social Networks (Network Enforcement Act)

The Bundestag has adopted the following Act:

Article 1

Act to Improve Enforcement of the Law in Social Networks (Network Enforcement Act)

Section 1

Scope

(1) This Act shall apply to telemedia service providers which, for profit-making purposes, operate internet platforms which are designed to enable users to share any content with other users or to make such content available to the public (social networks). Platforms offering journalistic or editorial content, the responsibility for which lies with the service provider itself, shall not constitute social networks within the meaning of this Act. The same shall apply to platforms which are designed to enable individual communication or the dissemination of specific content.

(2) The provider of a social network shall be exempt from the obligations stipulated in sections 2 and 3 if the social network has fewer than two million registered users in the Federal Republic of Germany.

(3) Unlawful content shall be content within the meaning of subsection (1) which fulfils the requirements of the offences described in sections 86, 86a, 89a, 91, 100a, 111, 126, 129 to 129b, 130, 131, 140, 166, 184b in connection with 184d, 185 to 187, 241 or 269 of the Criminal Code and which is not justified.

Section 2

Reporting obligation

(1) Providers of social networks which receive more than 100 complaints per calendar year about unlawful content shall be obliged to produce half-yearly German-language reports on the handling of complaints about unlawful content on their platforms, covering the points enumerated in subsection (2), and shall be obliged to

publish these reports in the Federal Gazette and on their own website no later than one month after the half-year concerned has ended. The reports published on their own website shall be easily recognisable, directly accessible and permanently available.

(2) The reports shall cover at least the following points:

1. general observations outlining the efforts undertaken by the provider of the social network to eliminate criminally punishable activity on the platform,
2. description of the mechanisms for submitting complaints about unlawful content and the criteria applied in deciding whether to delete or block unlawful content,
3. number of incoming complaints about unlawful content in the reporting period, broken down according to whether the complaints were submitted by complaints bodies or by users, and according to the reason for the complaint,
4. organisation, personnel resources, specialist and linguistic expertise in the units responsible for processing complaints, as well as training and support of the persons responsible for processing complaints,
5. membership of industry associations with an indication as to whether these industry associations have a complaints service,
6. number of complaints for which an external body was consulted in preparation for making the decision,
7. number of complaints in the reporting period that resulted in the deletion or blocking of the content at issue, broken down according to whether the complaints were submitted by complaints bodies or by users, according to the reason for the complaint, according to whether the case fell under section 3 subsection (2) number (3) letter (a), and if so, whether the complaint was forwarded to the user, and whether the matter was referred to a recognised self-regulation institution pursuant to section 3 subsection (2) number (3) letter (b),
8. time between complaints being received by the social network and the unlawful content being deleted or blocked, broken down according to whether the complaints were submitted by complaints bodies or by users, according to the reason for the complaint, and into the periods “within 24 hours”/“within 48 hours”/“within a week”/“at some later point”,
9. measures to inform the person who submitted the complaint, and the user for whom the content at issue was saved, about the decision on the complaint.

³⁶ Source of the translation: German Federal Ministry of Justice and Consumer Protection, available at: <https://www.bmju.de/SharedDocs/Gesetzgebungsverfahren/Dokumente/NetzDG_engl.pdf?sessionid=214B47C122833D1E5BFFD3C37BEA9264.1_cid297?__blob=publicationFile&v=2>, last accessed 23 August 2017.

Section 3

Handling of complaints about unlawful content

(1) The provider of a social network shall maintain an effective and transparent procedure for handling complaints about unlawful content in accordance with subsections (2) and (3). The provider shall supply users with an easily recognisable, directly accessible and permanently available procedure for submitting complaints about unlawful content.

(2) The procedure shall ensure that the provider of the social network:

1. takes immediate note of the complaint and checks whether the content reported in the complaint is unlawful and subject to removal or whether access to the content must be blocked,

2. removes or blocks access to content that is manifestly unlawful within 24 hours of receiving the complaint; this shall not apply if the social network has reached agreement with the competent law enforcement authority on a longer period for deleting or blocking any manifestly unlawful content,

3. removes or blocks access to all unlawful content immediately, this generally being within 7 days of receiving the complaint; the 7-day time limit may be exceeded if

- a) the decision regarding the unlawfulness of the content is dependent on the falsity of a factual allegation or is clearly dependent on other factual circumstances; in such cases, the social network can give the user an opportunity to respond to the complaint before the decision is rendered;

- b) the social network refers the decision regarding unlawfulness to a recognised self-regulation institution pursuant to subsections (6) to (8) within 7 days of receiving the complaint and agrees to accept the decision of that institution,

4. in the case of removal, retains the content as evidence and stores it for this purpose within the scope of Directives 2000/31/EC and 2010/13/EU for a period of ten weeks,

5. immediately notifies the person submitting the complaint and the user about any decision, while also providing them with reasons for its decision,

(3) The procedure shall ensure that each complaint, along with the measure taken to redress the situation, is documented within the scope of Directives 2000/31/EC and 2010/13/EU.

(4) The handling of complaints shall be monitored via

monthly checks by the social network's management. Any organisational deficiencies in dealing with incoming complaints shall be immediately rectified. The social network's management shall offer the persons tasked with the processing of complaints training courses and support programmes delivered in the German language on a regular basis, this being no less than once every six months.

(5) The procedures in accordance with subsection (1) may be monitored by an agency tasked to do so by the administrative authority named in section 4.

(6) An institution shall be recognised as a self-regulation institution within the meaning of this Act if

1. the independence and expertise of its analysts are ensured,

2. appropriate facilities are in place and prompt analysis within a 7-day period is guaranteed,

3. it has rules of procedure which regulate the scope and structure of the analysis, stipulate the submission requirements of the affiliated social networks, and provide for the possibility to review decisions,

4. a complaints service has been set up, and

5. the institution is funded by several social network providers or establishments, guaranteeing that the appropriate facilities are in place. In addition, the institution must remain open to the admission of further providers, of social networks in particular.

(7) Decisions leading to the recognition of self-regulation institutions shall be rendered by the administrative authority named in section 4.

(8) Recognition can be wholly or partly withdrawn or tied to supplementary requirements if any of the conditions for recognition are subsequently no longer met.

(9) The administrative authority named in section 4 can also stipulate that the possibility for a social network provider to refer decisions in accordance with subsection (2) number (3) letter (b) is barred for a specified period if there is a reasonable expectation that the provider in question will not fulfil the obligations under subsection (2) number (3) by affiliating itself with the system of self-regulation.

Section 4

Provisions on regulatory fines

(1) A regulatory offence shall be deemed to have been committed by any person who, intentionally or negligently,

1. in contravention of section 2(1) sentence 1, fails to produce a report, to produce it correctly, to produce it completely or to produce it in due time, or fails to publish it, to publish it correctly, to publish it completely, to publish it in the prescribed form or to publish it in due time,

2. in contravention of section 3(1) sentence 1, fails to provide, to provide correctly or to provide completely, a procedure mentioned therein for dealing with complaints submitted by complaints bodies or by users whose place of residence or seat is located in the Federal Republic of Germany,

3. in contravention of section 3(1) sentence 2, fails to supply a procedure mentioned therein or to supply it correctly,

4. in contravention of section 3(4) sentence 1, fails to monitor the handling of complaints or to monitor it correctly,

5. in contravention of section 3(4) sentence 2, fails to rectify an organisational deficiency or to rectify it in due time,

6. in contravention of section 3(4) sentence 3, fails to offer training or support or to offer them in due time, or

7. in contravention of section 5, fails to name a person authorised to receive service in the Federal Republic of Germany or fails to name a person in the Federal Republic of Germany authorised to receive information requests from German law enforcement authorities, or

8. in contravention of section 5 subsection (2), second sentence, fails to respond to requests for information while acting as the person authorised to receive service.

(2) In cases under subsection (1) numbers 7 and 8, the regulatory offence may be sanctioned with a regulatory fine of up to five hundred thousand euros, and in other cases under subsection (1) with a regulatory fine of up to five million euros. Section 30(2) sentence 3 of the Act on Regulatory Offences shall apply.

(3) The regulatory offence may be sanctioned even if it is not committed in the Federal Republic of Germany.

(4) The administrative authority within the meaning of section 36(1) number 1 of the Act on Regulatory Offences shall be the Federal Office of Justice. The Federal Ministry of Justice and Consumer Protection, in agreement with the Federal Ministry of the Interior and the Federal Ministry for Economic Affairs and Energy, shall issue general administrative principles on the exercise of discretion by the regulatory fine authority in initiating

regulatory fine proceedings and in calculating the fine.

(5) If the administrative authority wishes to issue a decision relying on the fact that content which has not been removed or blocked is unlawful within the meaning of section 1(3), it shall first obtain a judicial decision establishing such unlawfulness. The court with jurisdiction over the matter shall be the court that rules on the objection to the regulatory fine order. The application for a preliminary ruling shall be submitted to the court together with the social network's statement. The application can be ruled upon without an oral hearing. The decision shall not be contestable and shall be binding on the administrative authority.

Section 5

Person authorised to receive service in the Federal Republic of Germany

(1) Providers of social networks shall immediately name a person authorised to receive service in the Federal Republic of Germany and shall draw attention to this fact on their platform in an easily recognisable and directly accessible manner. It shall be possible to effect service on this person in procedures pursuant to section 4 or in judicial proceedings before German courts on account of the dissemination of unlawful content. The same shall also apply to the service of documents initiating such proceedings.

(2) To enable the receipt of requests for information from German law enforcement authorities, a person in the Federal Republic of Germany shall be named who is authorised to receive such requests. The person so authorised shall be obliged to respond to such requests for information pursuant to the first sentence within 48 hours of receipt. In cases where the requested information is not exhaustively provided, reasons for this shall be included in the response.

Section 6

Transitional provisions

(1) The first issue of the report pursuant to section 2 shall be due in respect of the first half-year of 2018.

(2) The procedures pursuant to section 3 shall be introduced within three months of the entry into force of this Act. If the social network provider does not fulfil the requirements of section 1 until some later date, the procedures pursuant to section 3 shall be introduced within three months of this date.

Article 2

Amendment of the Telemedia Act

The Telemedia Act of 26 February 2007 (Federal Law

Gazette I p. 179), last amended by Article 1 of the Act of 21 July 2016 (Federal Law Gazette I p. 1766) shall be amended as follows:

1. The following subsections (3) to (5) shall be added to section 14:

“(3) Furthermore, the service provider may in individual cases disclose information about subscriber data within its possession, insofar as this is necessary for the enforcement of civil law claims arising from the violation of absolutely protected rights by unlawful content as defined in section 1 subsection (3) of the Network Enforcement Act.

(4) Before information is disclosed in accordance with subsection (3), a court order on the permissibility of such disclosure shall be obtained; this shall be requested by the injured party. Jurisdiction for issuing any such order shall lie with the regional court, regardless of the value of the claim. Territorial jurisdiction shall lie with the court in whose district the injured party has his domicile, his seat or a branch office. The decision shall be rendered by the civil division. The provisions of the Act on Proceedings in Family Matters and in Matters of Non-Contentious Jurisdiction shall apply *mutatis mutandis* to the proceedings. The costs of the court order shall be borne by the injured party. The remedy of immediate complaint is admissible in respect of the regional court decision.

(5) The service provider shall be involved as an interested party in proceedings pursuant to subsection (4). It may inform the user that proceedings have been instigated.”

2. In section 15 subsection (5), the fourth sentence shall be worded as follows:

“Section 14 subsections (2) to (5) shall apply *mutatis mutandis*.”

Article 3

Entry into force

This Act shall enter into force on 1 October 2017.

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