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## Editorial

# New Editor: Chris Reed

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Since the beginning JIPITEC has been a European based academic peer reviewed journal. One of the main principles of JIPITEC is to gather editors which are responsible for their countries and for one edition in order to guarantee a balanced view on European intellectual property rights, E-Commerce, data protection, and IT-security, just to name a few of the topics which are dealt with by authors in JIPITEC. The editorial board now welcomes Prof. Chris Reed, BA (Keele), LL.M. (London) as a renowned representative of UK and expert in IT-law who will contribute to JIPITEC as one of the editors. Chris is a member of the Centre for Commercial Law Studies (CCLS) and responsible for the University of London LL.M. courses in information technology law, Internet law, electronic banking law and telecommunications law. Chris has published widely on many aspects of computer law and research in which he was involved led to the EU directives on electronic signatures and on electronic commerce, recently in particular on cloud computing.

The editors of JIPITEC warmly welcome Chris as a new editor on board, thus broadening the scope of the journal as one of the rare real academic open access and peer reviewed journals.

Thomas Dreier/S  verine Dusollier/Lucie Guibault/Axel Metzger/Miquel Peguera/Gerald Spindler

# Platform Privacy: The Missing Piece of Data Protection Legislation

by Magnus Westerlund and Joachim Enkvist\*

**Abstract:** After years of deliberation, the EU commission sped up the reform process of a common EU digital policy considerably in 2015 by launching the EU digital single market strategy. In particular, two core initiatives of the strategy were agreed upon: General Data Protection Regulation and the Network and Information Security (NIS) Directive law texts. A new initiative was additionally launched addressing the role of online platforms. This paper focuses on the platform privacy rationale behind the data protection legislation, primarily based on the proposal for a new EU wide General Data Protection Regulation. We analyse the legislation rationale from an Information System perspective to understand the role user data plays in creating platforms that we identify as "processing silos". Generative digital infrastructure theories are used to explain the innovative mechanisms that are thought to govern the notion of digitalization and successful business models that are affected by digitalization. We foresee continued judicial data protection

challenges with the now proposed Regulation as the adoption of the "Internet of Things" continues. The findings of this paper illustrate that many of the existing issues can be addressed through legislation from a platform perspective. We conclude by proposing three modifications to the governing rationale, which would not only improve platform privacy for the data subject, but also entrepreneurial efforts in developing intelligent service platforms. The first modification is aimed at improving service differentiation on platforms by lessening the ability of incumbent global actors to lock-in the user base to their service/platform. The second modification posits limiting the current unwanted tracking ability of syndicates, by separation of authentication and data store services from any processing entity. Thirdly, we propose a change in terms of how security and data protection policies are reviewed, suggesting a third party auditing procedure.

**Keywords:** Platform Privacy; Data Protection; GDPR; Data Storage Solutions; Internet of Things

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## A. Introduction

1 During the last twenty years, the world has gone through a technology era often referred to as the Internet age. This has led to a tremendous change in how individuals and businesses function in daily life. Yet, across the world, privacy laws which govern the operational modus for companies providing services to consumers, may have been devised during a time when the Internet was predominantly used in research and academia. It can be argued that the Internet was initially designed without security or privacy in mind, but rather as a method for allowing countless data packets and as many nodes as possible to pass through the network unhindered. Based on

these technical design goals we can consider the Internet a complete success as, for example, today the data packet delivery time over large distances is to a large extent limited by physical laws and not by technological constraints. However, the impossible task of foreseeing the impact of the Internet on our social constructs, has to a large degree directed subsequent academic research in the field towards trying to solve issues of security and privacy that were omitted from the original standards. These are considerations that the initial Internet communication protocol did not address. One example is that the email communication protocol does not include an encryption policy, and as a consequence email traffic between two organisations is mostly transferred in a plain text format. Arguably,

the majority of research in the area of security and privacy is based on the assumption that anonymity in its various forms is achievable and desired.

- 2 The European Data Protection Directive<sup>1</sup> (95/46/EC) adopted in 1995 and subsequently enacted in national legislation in the separate member states, was based on the premise of the right to respect one's "private and family life, his home and his correspondence" as defined by the European Convention on Human Rights<sup>2</sup> (Article 8, CETS No.: 005, 1950). The subsequent point in Article 8 states: "There shall be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of the rights and freedoms of others." In the context of the business-consumer relationship, the Data Protection Directive has consequently been interpreted that information pertaining to identifying a physical individual can only be stored and processed with the consent of the data subject. Data processing should also be proportionate in relation to the legitimate purpose pursued. The proportionality measure refers to what the minimum extent is for delivering the expected service to the data subject.<sup>3</sup>
- 3 Considering that the most dominant Internet-related service providers are often non-EU based companies (mostly US companies) and that countries such as the US have no encompassing data protection law, the enforcement of EU law for the benefit of its citizens and companies has been challenging. A recent example of such a dispute was a call from the EU Parliament to "unbundle search engines from other commercial services".<sup>4</sup> This stems from a fear of anti-competitive practices related to a search engine provider that has well over a 90% market share in many European member states. This can be considered a realization on behalf of the EU authorities that the data of European consumers

have aided in creating a situation where the search engine provider can "[commercialise] secondary exploitation of obtained information". This has an implication on the competitiveness of other companies such as EU start-ups, which then may have a competitive disadvantage compared to the incumbent US provider with access to user data on a massive scale. The EU Parliament's statement is focused on a search provider, but it uses a language that is certainly generalizable in its relevance to other areas as well, such as social networks. As "all internet traffic should be treated equally, without discrimination, restriction or interference" and "to prevent any abuse in the marketing of interlinked services by operators". Since the US have adopted what is often referred to as a sectorial approach legislation,<sup>5</sup> as well as a lack of laws governing data protection particularly for search engines, this can be seen as contributing to a potential abuse of a dominant market position. The balance between fostering a positive self-enforcing environment for innovation within Information Technology enabled sectors and difficulty regarding preserving the rights of a consumer. Whilst the US believes in self-regulation by the companies, the EU has taken the opposite view and enacted what can be viewed as strong consumer protection laws. In an effort to modernize and unify data protection laws for all conditions involving a natural person in the Union, an EU Commission proposal was given for a new General Data Protection Regulation (GDPR or Regulation). We hereafter refer to the preliminary consolidated Regulation proposal text (also referred to as the outcome of the inter-institutional negotiations) on the protection of individuals with regard to the processing of personal data and on the free movement of such data (ST 5455/2016).<sup>6</sup>

- 4 Today the Internet has become a global platform for commerce and communication. It is predictable that within the coming decades this will extend to include many other areas as well, e.g. personal healthcare and home automation. These new areas will introduce a myriad of highly sensitive information sources; information that must be processed and also often stored for an indefinite and sometimes infinite period of time in order to be able to digitalize these areas. By embedding information-sharing electronics into everyday physical objects, we will create a "global cyberphysical infrastructure".<sup>7</sup> The term often used for describing this future Internet

1 European Commission (28 January 2015). Data Protection Day 2015: Concluding the EU Data Protection Reform essential for the Digital Single Market. Accessed 18.10.2015: [http://europa.eu/rapid/press-release\\_MEMO-15-3802\\_en.htm](http://europa.eu/rapid/press-release_MEMO-15-3802_en.htm).

2 European Convention on Human Rights (1950). CETS No.: 005, Accessed 18.10.2015: <http://conventions.coe.int/Treaty/Commun/QueVoulezVous.asp?NT=005&CM=8&D-F=17/02/2015&CL=ENG>.

3 CAHDATA (2014) RAP03Abr, AD HOC COMMITTEE ON DATA PROTECTION. Accessed 17.2.2015: [http://www.coe.int/t/dghl/standardsetting/dataprotection/TPD\\_documents/CAHDATA-RAP03Abr\\_En.pdf](http://www.coe.int/t/dghl/standardsetting/dataprotection/TPD_documents/CAHDATA-RAP03Abr_En.pdf).

4 European Parliament, MEPs zero in on Internet search companies and clouds, REF.: 20141125IPR80501, 2014. Accessed 17.2.2015: <http://www.europarl.europa.eu/news/en/news-room/content/20141125IPR80501/>.

5 Corbet, R. (2013). "EU v US data protection - exploring the similarities." *Privacy & Data Protection*, 13(6), pp. 3-4.

6 ST 5455 2016 INIT - 2012/011 (OLP), Proposal for an EU General Data Protection Regulation (2016). Accessed 02.02.2016: [http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1454437448923&uri=CONSIL:ST\\_5455\\_2016\\_INIT](http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1454437448923&uri=CONSIL:ST_5455_2016_INIT).

7 Miorandi, Sicari, De Pellegrini and Chlamtac (2012). Internet of things: Vision, applications and research challenges, *Ad Hoc Network*.

vision is the “Internet of Things” (IoT) and is based on standardized communication protocols and merging computer networks into a “common global IT platform of seamless networks and networked ‘Smart things/objects’”.<sup>8</sup> From the perspective of service innovation, by utilizing the Internet of Things technology, the current data protection Directive is problematic. The proportionality notion that a minimum of data should be stored for as short a time as possible, can be considered limiting for the innovation process. Unfortunately, this applies to the proposed Regulation as well, which if approved, will likely limit innovation in Europe further. The progress of technology is going in the opposite direction, i.e. to store and process as much personal data as possible and deliver services based on insights gained. In contrast to the original intention of the Regulation,<sup>9</sup> we anticipate that the Regulation will not open up the complete domination some incumbent global companies currently experience in regards to European consumer data. This consumer data is often said to be the commodity of the future, and is compared to the importance of oil in today’s economy. Some economist may argue that there is no monopoly on data, only sector silos that limit others’ access to the specific data. They are correct in that no single private organisation or platform has a monopoly on personal data. However, from a mathematical and technical perspective it means data on roughly 340M people, given that for example, a search engine platform reaches a sample size of 90% of an estimated 75% of the EU-28 population of 508M that uses the Internet once a week. From the field of big data analysis, we know that it is common that user data is incomplete, but the models can still predict with a high degree of certainty a given outcome, provided we have a population sample large enough to train on. Such an incomplete training set can be compared to a monopoly on data in the sense that this monopoly data set would just as likely be incomplete, because our physical life is not yet digitalized to the degree that every action or behaviour we make is recorded. We will however use the term “processing silo” further on to describe the ability of incumbent digital platform providers with a large market share in a certain segment to close off the market to competitors. We find that solving the issue of “processing silos” should be at the core of a future Regulation in order to restore consumers’ trust in digital services. The fact that the proposal will not accomplish this - although it was widely hoped it would - should not be seen

as an obstacle for ratifying the currently proposed Regulation. The Regulation is an improvement for the digital service innovation landscape in Europe when compared to the Directive. A harmonization among member states in line with the single digital market strategy is greatly needed.

- 5 The main focus of this paper is on the data subject’s privacy. However, since the angle of study is platform privacy issues, the focus becomes intertwined with competitive behaviour in the market, considering that the ability to choose among offerings in itself can be an enhancement of privacy. Based on the proposed Regulation and current practices, this paper examines a way forward for data protection legislation that considers both the interests of individuals (data protection) and entrepreneurs (by improving competitiveness) for bringing data science based innovation back to Europe. Following the introduction, we continue by deliberating the rationale behind the data protection legislation. In the subsequent section, we highlight the challenges in common practices through examples, which indicate that platform discrimination of privacy-aware consumers is an issue in today’s environment. One important finding is that consumers are currently being educated from a young age by the mobile industry in particular, to be indifferent concerning issues of privacy. The penultimate section analyses and discusses the legislation rationale in regards to how it should be modified towards looking at consumer data as a currency. A currency that belongs to the data subject and that can be loaned or sold to a service provider for a fee, but not co-owned by the service provider - this obscurity creates a legal conundrum. We emphasise how to increase competition by opening up the platforms through unravelling the “processing silos” and introducing data subject controlled “data stores”. The section also formulates three core modifications to the rationale. The first is aimed at improving service differentiation on platforms by lessening the ability of incumbent global actors to lock-in the user base to their service/platform. The second modification regards limiting the current unwanted tracking ability of syndicates by separation of authentication and data store services from any processing entity. Thirdly, we propose a change in terms of how security and data protection policies are reviewed. The final section concludes our findings and recommendations.

## B. Current Legal Foundation Rationale

- 6 At the time of writing, issues of data protection are regulated in the Data Protection Directive (95/46/EC) adopted in 1995. The directive has led to diverse

8 Vermesan, O. and Friess, P. (2011). Internet of Things - Global Technological and Societal Trends From Smart Environments and Spaces to Green ICT, River Publishers, Denmark, p. 10.

9 See former EU Commissar Vivian Reading’s press release (SPEECH/2012/26) on transparency and data portability. Accessed 18.10.2015: [http://europa.eu/rapid/press-release\\_SPEECH-12-26\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-12-26_en.htm).



legislation in the separate EU member states. The aim of the proposed General Data Protection Regulation is to eliminate this diversification among member states. A further rationale is to improve the clarity and coherence of personal data protection by strengthening individual rights and reducing administrative formalities for companies. The proposed regulation is very comprehensive, and the intention of this article is to focus on only some legal foundations in the proposal that are relevant for our discussion. A noteworthy fact is that many EU member states have, in addition to the Directive (DPD), implemented sectorial data protection legislation, e.g. within health care.

7 Writing legislation for an area under intense development has not been straightforward, and there has been a lot of criticism against the proposal. Not surprisingly one of the most critical voices has been from the business sector. Some business representatives fear that implementation of the Regulation will be expensive and harm digital service development.<sup>10</sup> There has even been criticism from within academia and fears that it could have negative legal consequences on research involving personal data.<sup>11</sup> There has however also been opposing opinions stating that the regulation will lead to better business continuity.<sup>12</sup> Today's digital economy is based on data, which means that personal data has become a significant economic factor,<sup>13</sup> and the proposed regulation will boost the digital economy.<sup>14</sup> The economic value of personal data has been growing rapidly, and there are estimations that the value of European citizens' personal data will grow to nearly €1 trillion annually by 2020. According to the European Commission, the proposed Regulation should offer great business opportunities, and privacy-friendly European companies ought to have a competitive advantage.<sup>15</sup>

8 A characteristic feature of data protection is that it

is closely linked to issues of human rights granted in the EU Charter of Fundamental Rights (in particular articles 7 and 8). This was also stressed in the case *Google Spain SL v Agencia Espanola de Proteccion de Datos* (C-131/12), where the CJEU<sup>16</sup> held that the data subject's fundamental rights under Articles 7 and 8 of the Charter will as a rule override the interests of the public (i.e. other Internet users) in finding information on said subject, as well as Google's economic interest.<sup>17</sup> One key foundation of the draft Regulation is Privacy by Design (PbD; article 23 in the proposal). The controller shall ensure that only those personal data are processed which are necessary for a specific service. Referring to PbD, privacy must be taken into consideration in the beginning of a new development project and privacy must be implemented by default in new technologies.<sup>18</sup> When the privacy matters are considered early in the design stage, it is considered easier to produce privacy-friendly systems.<sup>19</sup> Former Canadian Information and Privacy Commissioner, Cavoukian, has drawn up seven foundational principles related to PbD.<sup>20</sup>

9 Another key principle in the draft Regulation is to empower the data subject. Personal data may not be collected and processed without consent from the data subject. According to Recital 25 of the draft Regulation, silence or inactivity do not constitute consent. Consent shall be freely given, which means that there shall be no constraint or pressure on the person giving his or her consent.<sup>21</sup> The requirement of consent does not mean that the consent has to be

10 Schutte, S. (2014). New Data Protection Regulation could harm UK SMEs, Accessed 18.10.2015: <http://realbusiness.co.uk/article/28580-new-data-protection-regulation-could-harm-uk-smes>.

11 Myklebust, J. P. (2014). Will data protection legislation harm science?, Accessed 18.10.2015: <http://www.university-worldnews.com/article.php?story=20140501112331485>.

12 Ashford, W. (2015). EU data protection regulation will drive privacy by design, says Kuppinger-Cole; Accessed 18.10.2015: <http://www.computerweekly.com/news/4500245095/EU-data-protection-regulation-will-drive-privacy-by-design-says-KuppingerCole>.

13 Sahin, A. (2014). "New EU data protection laws: European Parliament proposes restrictive data protection laws in Europe." *Computer and Telecommunications Law Review*, 20(2), pp. 63-65.

14 Grac-Aubert, V. (2015). "A love and hate relationship? Recent developments in data protection and competition law." *European Competition Law Review*, 36(5), pp. 224-231.

15 European Commission, loc.cit.

16 CJEU (2014). *Google Spain SL. Google Inc. v Agencia Espanola de Proteccion de Datos*, Mario Costeja González, Case C-131/12, Decision of May 13, 2014.

17 Crowther, H. (2014). "Remember to forget me: the recent ruling in *Google v AEPD and Costeja*." *Computer and Telecommunications Law Review*, 20(6), pp. 163-165.

18 Salgado, M. (2013). "PIAs and privacy by design - using them to your advantage." *Privacy & Data Protection*, 13(8), pp. 3-5.; Walker, K. (2012). "Cookies and using data on the move." *Computer and Telecommunications Law Review*, 18(6), pp. 172-174. Vermesan et al. 2013, *Internet of Things Strategic Research and Innovation Agenda*, in *Internet of Things - Global Technological and Societal Trends*. River Publishers. Aalborg, Denmark.

19 Brown, I., Korff, D. (2010). *Comparative Study on Different Approaches to New Privacy Challenges, in Particular in the Light of Technological Developments*. Final report. EC, Directorate-General Justice, Freedom and Security, Contract Nr: JLS/2008/C4/011 - 30-CE-0219363/00-28.

20 For more detailed information, see: <https://www.privacybydesign.ca/content/uploads/2009/08/7foundationalprinciples.pdf>.

21 Solove, D. J. (2013). "Introduction: Privacy Self-Management and the Consent Dilemma". *Harvard Law Review*, Vol. 126, pp. 1880-1903.; Cleff, E. B. 2007. "Mobile advertising regulation. Implementing the legal criteria of meaningful consent in the concept of mobile advertising." *Computer Law & Security Review* (23), pp. 262-269.



given in written form.<sup>22</sup> It is possible to give explicit consent e.g. by ticking a box on a website.<sup>23</sup>

- 10 The draft Regulation outlines data portability. According to Article 18, the data subject has a right to obtain a copy of data undergoing processing in an electronic and structured format from the controller. The initial proposal defines the right to transmit all information provided by the data subject and retained by an automated processing system to another party. *Another party* is not clearly defined, but can be the data subject's own device. The controller shall not be entitled to hamper the transmission of user-submitted data. Article 18 also suggests that the data subject does not have the right to any processed artefact that has been a result of profiling. It is unclear if the controller, if requested, must delete a processed artefact such as a profile or any refined data that has been altered from its original form.

## C. Platform Challenges with Proposed Legislation and Current Practices

- 11 In this section we will analyse data protection regulation from two different positions to better understand issues that arise from the extensive use of digital platforms. The first perspective is data protection for the individual and the second aspect is improving conditions for competitiveness for new digitalisation business ventures (including both incumbent institutions and start-ups) in relation to the already dominant Internet companies. The latter position is rather an analysis of how the Regulation could increase competition in the market, as a guarantee for better privacy. To achieve this, we will first briefly review the current literature on digital platforms and then analyse how the Regulation deals with current practices linked to the platform.
- 12 Many of today's successful digital ventures are considered to take the form of a digital ecosystem where companies and consumers coexist. The Android mobile operating system is frequently used as an example of such an advanced ecosystem. A digital ecosystem is often described in terms of its natural counterpart, were adaptiveness, competition and sustainability define the success of the ecosystem. Lyytinen and Yoo started the analysis of such environments based on their identified trends

in technology of mobility, digital convergence, and mass scale. Research from an economic perspective has verified that the ecosystem can often be described as a platform for multi-sided markets.<sup>24</sup> Gawer and Cusumano<sup>25</sup> argued that creating either a platform or service is a strategic decision. A service is, in their judgement, an early version of a platform, a standalone product, or a service that can also exist upon a platform. To become a platform, they consider that the service must satisfy two prerequisite conditions: performing at least one essential function that can be described as a "system of use", and it should be easy to connect to or to build upon to expand the system of use.

- 13 Zittrain<sup>26</sup> explained the changes the Internet brought on digital infrastructures as generativity. In their research, Henfridsson and Bygstad<sup>27</sup> identified three generative mechanisms at the core of creating successful digital infrastructures: innovation, adoption, and scaling. These mechanisms were considered self-reinforcing processes that create new re-combinations of resources. As user adoption increases, more resources are invested into developing the service and therefore the usefulness of the infrastructure increases. True service scaling attracts new partners by offering incentives for collaboration and increasing collective rewards. Today we see that scalable information system architectures are often designed on the principle of microservices.<sup>28</sup> A microservice is a specialized self-contained software system that communicates through lightweight mechanisms and with a bare minimum of centralized management of these types of services. The services may be designed in different software environments and use different data storage technologies, but communicate through a well-defined Application Programming Interface (API) using a generic protocol. This type of architecture is particularly well suited for building digital platforms that are highly efficient and allow for user data to be moved rapidly between services for processing. The technical distinction between service and platform disappears when the service is designed as a microservice. A microservice architecture can be seen as a distributed enabler

22 Lyngé, E. (1995). "New draft on European directive on confidential data". BMJ, Vol. 310, p. 1024.

23 Westerlund, M. and Enkvist, J. (2013). "Profiling Web Users – In light of the proposed EU Data Protection Regulation." Retfaerd - Nordic Journal of Law and Justice. Vol. 36, Nr 4/143, pp. 46-62.

24 Rochet, J. C., & Tirole, J. (2003). Platform competition in twosided markets. Journal of the European Economic Association, 1(4), 990-1029.

25 Gawer, A., & Cusumano, M. A. (2008). How companies become platform leaders. MIT Sloan management review, 49(2), 28.

26 Zittrain, J. (2006). The Generative Internet, 119 Harvard Law Review Volume 199:1974.

27 Henfridsson, O., & Bygstad, B. (2013). The generative mechanisms of digital infrastructure evolution. MIS quarterly, 37(3), 907-931.

28 Lewis, J. and Fowler, M. (2014). Microservices, Accessed 4.10.2015: <http://martinfowler.com/articles/microservices.html>.

to achieve service scaling in the cloud computing environment. The microservice can contain any needed business logic for its independent existence and communication with others. From a technical perspective, the platform is often defined as the communication medium. This communication medium can take many forms, e.g. as a market for distributing games and applications between consumers and third-parties. A second important insight from the generative mechanisms is the role adaptation plays in the availability of user data. As we will discuss later on in section D, the possibility of being able to process user data is at the core of the success of a digital platform, but it is also at the core of regulating platform privacy.

- 14 In a recent Gartner report, Ekholm and Blau<sup>29</sup> analyse the next step in the evolution of the personal cloud connected to the vision of the Internet of Things. They use the term Cognizant computing for describing how analytics can be used “in order to increase personal and commercial information about a consumer through four stages: ‘Sync Me,’ ‘See Me,’ ‘Know Me’ and ‘Be Me’”. A closely related field with a consumer perspective is virtual personal assistants which, by observing its user’s behaviour, builds and maintains data models, with which it draws inferences about people, content, and contexts. Austin et al.<sup>30</sup> defines the virtual personal assistant’s intention as “to predict its user’s behaviour and needs, build trust and, eventually, with permission, act autonomously on its user’s behalf”. Gartner estimates that current dominant companies such as Apple, Facebook, Google and Microsoft will be best positioned to embark into the new era, partly because of their already existing access to massive user data sets. The vision set forth is that it will be in the data subject’s best interest to open up as much of their lives as possible to the companies that offer these services, in order to benefit from them.
- 15 Henfridsson and Bygstad<sup>31</sup> present the view that previous research into digital infrastructures fail to articulate “the multiple paths by which successful digital infrastructure evolution comes about”. They pose the argument that “there is a tendency to offer partial explanations, rather than focusing attention on the complete set of key mechanisms and their interaction.” The question we raise, based on the discussion of past, present and future, is whether

this is true for the rational governing of the legal texts as well? Instead of examining data protection as individual forces that exert pressure as suggested by Lessig,<sup>32</sup> we ought to examine this as a function of a service objective. How can a Data Protection Regulation return and retain the individual user’s trust in digital services, while maintaining the generative mechanisms needed to build tomorrow’s platforms that employs intelligent services?

- 16 One can put forth the argument that the Regulation should not deal with platform issues, but rather focus on the data subject. The proposed Regulation has already grown approximately ten-fold compared to the Directive and has become a relatively complex piece of legislation. The EU commission strategy for a digital single market identifies the open questions of platform regulation and network security regulation. In September 2015, the EU commission consequently launched a public consultation on the regulatory environment for platforms, online intermediaries, data and cloud computing and the collaborative economy.<sup>33</sup> The consultation was motivated by a need to gain a better understanding of online platforms and the necessity for further regulation. In particular, the consultation focused on illegal content on platforms, such as copyright issues, but it also highlights transparency issues. Here we will continue examining the privacy rights issues that are closely linked to data protection, which we find is not elaborated in the current data protection Regulation proposal. We will argue that regulating privacy and personal online security from a platform point of view offers the best opportunity to achieve a more trusting relationship between those that provide services on a platform and their users. Current platform owners, have had very little incentive to develop platform privacy since the relationships with the consumer are mostly governed by unilateral contracts, i.e. provider defined.

## I. Unreasonable Expectations

- 17 The Regulation demands that each interaction between the data subject and controller involving data identifying the subject begins with a consent to process this data. Common current practices, as later described in regards to consent contracts often strive to outmanoeuvre or simply void earlier described legislation. Maintaining a limited number of these often highly complex consent contracts should

29 Ekholm, J. and Blau, B. (2014). Cognizant Computing Analysis, in “Hype Cycle for Human-Computer Interaction”, 2014 Ghubril, A.C. and Prentice, S., Gartner, Inc. G00264133, p. 16.

30 Austin, T., Manusama, B., and Brant, K.F. (2014). Virtual Personal Assistants, in “Hype Cycle for Human-Computer Interaction”, 2014 Ghubril, A.C. and Prentice, S., Gartner, Inc. G00264133, p. 12.

31 Henfridsson, O., and Bygstad, B. (2013). The generative mechanisms of digital infrastructure evolution. *MIS quarterly*, 37(3), 907-931.

32 Lessig, L. (1999) *Code and other laws of cyberspace*, Basic Books, New York; Lessig, L. (2006) *Code Version 2.0*, Basic Books, New York; Lessig, L. (1995). The path of cyberlaw. *The Yale Law Journal*, 104(7), 1743-1755.

33 See <https://ec.europa.eu/digital-agenda/en/consultations> for further details. Accessed 10.02.2016.

to some degree be possible for the data subject, e.g. office tools, email, search, mobile operating system/platform, and social network. However, exceeding a certain number of these contracts will make it implausible for the average data subject to remember what he has given consent to and to whom. For example, as is the case currently, each application installed on a smartphone or service on the Internet is required to maintain their separate contracts. When sharing information, over time it will become unmanageable for the individual to control his digital presence. For the data subject it will be virtually impossible to obtain an overall picture of collected and stored data, which in turn leads to difficulties in making decisions about deleting specific data. In our view, the legislation sets unreasonable expectations on the data subject. A more appropriate solution would be to impose an obligation on the controller, particularly in relation to a platform, to periodically submit information to the subject regarding what data has been collected, how data has been processed, the result of the processing, and to whom data has been shared. As an example, a mobile platform controller is the collector of the original data subject who consented to use a platform which involves the processing of personal data. The platform controller should be given an additional obligation that includes the management, storing and maintaining, of specific consents to any additional third party services (i.e. applications or games) distributed in relation to the platform. Today most mobile platforms only register the permission details granted to apps for accessing platform APIs, e.g. a location API to access the geo-location of the user. Currently it is often impossible for a data subject to retrieve any information from the platform concerning when a service accesses personal data and processes or distributes it further. The said service would still need to obtain specific consent from the data subject, but would also be obliged to submit information back through the platform on processing details. This would allow the data subject to more easily gain a transparent overview on how data is collected and used in extension of the platform.

- 18 The Regulation delegates a similarly unreasonable expectation upon supervisory authorities. Their duties include launching investigations on their own accord and certifying controllers and processors as to let data subjects quickly assess the level of data protection provided by any service provider. We consider the proposed certification mechanism to be a plausible idea for improving trust and transparency, but the implementation and collection of compliance records is questionable. As it is currently proposed, the supervisory authorities of the member states will not have resources to perform this task adequately. Certifying a platform, e.g. a mobile operating system, will require in-depth

technical and considerable monetary resources to perform with any credibility. For a company to merely state compliance to some defined notion of privacy, without there being any transparency in regards to processing in said platform or service, does not initiate trust on a general level.

## II. Discriminative practices Against Privacy-Aware Users

- 19 The business world is facing a challenge regarding the adoption of new technology to process big data (high-volume, high-velocity and/or high-variety data) and establishing new revenue models based on big data analysis. Balancing the right to privacy for the individual consumer is equally demanding given this new demand and ability to process any existing data. Many of the social networking and media companies (e.g. Facebook and Twitter) and search engine companies (e.g. Google and Yahoo) employ a revenue model primarily based on delivering personalized advertisement on-site.<sup>34</sup> By using their service, a consumer (data subject) agrees to be shown advertisement as part of the service experience. Lately, however, many of the well-established service providers have started offering consumers the possibility to opt out of personalized advertisement. This is a development that has arisen from the data subject's right to not be subjected to automated processing that could lead to legal issues or significantly affect the data subject (art. 15 Directive). Those within the industry have argued against such a development, citing that advertisement value increases with targeted advertisement, and thus these funds can be reinvested for creating a better service experience. Hence a monetary value can be assigned to the collection, storing and processing of user data. Therefore, companies also have a direct business interest in learning as much as possible about the data subject, which again conflicts with the legal view in the proposed Regulation that "Data processors, as well as producers of IT systems, should design their services in a data-minimising way and with the most data protection-friendly pre-settings".<sup>35</sup>
- 20 The definition of personal data in the proposed Regulation limits its applicability to physically identifiable data subjects. The lack of protection for virtual identities was raised in Westerlund and

34 Chaffey, D. and Smith PR. (2013). *Emarketing Excellence: Planning and Optimizing your Digital Marketing* 4ed. pp. 104-106. Routledge.

35 Albrecht, P. (2015). EU General Data Protection Regulation State of play and 10 main issues. Accessed 3.3.2015: [http://www.janalbrecht.eu/fileadmin/material/Dokumente/Data\\_protection\\_state\\_of\\_play\\_10\\_points\\_010715.pdf](http://www.janalbrecht.eu/fileadmin/material/Dokumente/Data_protection_state_of_play_10_points_010715.pdf).



Enkvist,<sup>36</sup> who examined an online forum that tracks users without asking for or storing any information referring to identification of a natural person. This “example demonstrates how it is possible for a service provider to profile users without the possibility to identify the physical identity of the user.” Data that has undergone pseudonymisation, which could still be attributed to a natural person by the use of additional information should be considered as information on an identifiable natural person. This protection does not apply to virtual identities. As the natural person’s identity can be irrelevant for profiling with the intention of e.g. direct marketing purposes, the protection for virtual identities<sup>37</sup> (also referred to as pseudonyms) hence fall outside the scope of the proposed Regulation, as the Regulation only applies to data concerning an identified or identifiable natural person.

- 21 We continue this section by examining some current industry practices that we find challenging for the proposed Regulation. We find these practices to have a detrimental effect on the individual’s ability to choose his or her level of privacy and data protection. Declining to grant the controller rights to user data for these services will effectively mean a refusal of service by the controller.

## 1. The Right to Use Pseudonyms

- 22 Common practice in the design of current platforms, e.g. smartphone operating systems, is to oblige the user to identify themselves through a physical identification mechanism in order for the consumer to be able to make full use of the platform and its services. Employing a mechanism that requires physical identification suggests that all platform operations and services distributed on said platform are legally bound by the Regulation. Hence, each application consequently installed on a smartphone should ask for the data subject’s permission to store and process data. A similar authentication process is also often used for signing up to a web service. Thus, we pose the question of whether the platform owner should be allowed to require a physical identification mechanism such as linking an email account to a phone number or a credit card, unless there exists an explicit legal need for identification. As defined earlier, the controller has a monetary interest in collecting data by means of user profiles. Being able to combine data from the physical world with the digital makes the data collected more valuable.

36 Westerlund, M. and Enkvist, J. (2013). “Profiling Web Users – In light of the proposed EU Data Protection Regulation.” *Retfaerd - Nordic Journal of Law and Justice*, Vol. 36, Nr 4/143, pp. 46-62.

37 Virtual identities are often used in addition to web forums, in games and virtual reality worlds.

However, there can also be certain service quality reasons for employing methods based on verified physical identities. For example, it can be argued that using a real identity makes users more aware of privacy. Due to that, the user has to make a conscious decision in the linking process, the user is also likely to be more vigilant in what information is shared in the future. Another argument is that the use of “real names” helps to keep the community safer, by reducing malicious activity and improving methods for detecting such activity.

- 23 Nevertheless, the data subject’s inability to make a conscious decision whether or not to link the physical identity to said user profile, should not be considered best practise. For example, in the case of smartphones, linking a pseudonym (or virtual identity) to a hardware-based device ID should be considered adequate, without the consumer having to identify himself by physical means. In the case of public safety reasons, authorities have other means to cross-reference a device ID with a natural person through the telecom operators. The issue of pseudonym identities has also been raised by German regulators in suggested amendments to the current proposal as well as in its interpretation of current German data protection law.<sup>38</sup>

## 2. The Right to Use a Service Without Having to Disclose Information Irrelevant for Said Service

- 24 The development of smartphone ecosystems with an abundance of context-aware apps have led to what can be seen as excessive collection of user data. The argument that every single mobile app provider needs access to the data subject’s personal information (e.g. call logs, photos, and location) in order to use a service is in many cases too excessive and uncontrolled. Several studies have shown that users of these devices are often unaware of how much data the apps gather, but also dislike the fact when told.<sup>39</sup> A survey by Pew Research Center showed that 81 % of parents “are concerned about how much information advertisers can learn about their child’s online behavior, with some 46% being ‘very’ concerned”.<sup>40</sup> In a recent examination of the

38 Unabhängiges Landeszentrum für Datenschutz Schleswig-Holstein (2015). ULD issues orders against Facebook because of mandatory real names. Accessed 18.10.2015: <https://www.datenschutzzentrum.de/presse/20121217-facebook-real-names.htm>.

39 Shklovski, I., Mainwaring, S. D., Skúladóttir, H. H. and Borgthorsson, H. (2014). Leakiness and Creepiness in App Space: Perceptions of Privacy and Mobile App Use, CHI 2014, April 26 - May 01 2014, Toronto, ON, Canada.

40 Madden, M. Cortesi, S., Gasser, U., Lenhart, A., and Duggan, M. (2014). Parents, Teens, and Online Privacy, *Pew Research*

apps in the Android App store, Google Play, it was found that many apps showed the behaviour of “overly aggressive communication with tracking websites, of excessive communication with ad related sites, and of communication with sites previously associated with malware activity”.<sup>41</sup> In their experiment they installed 2146 popular apps directly from Google Play on a standard Android smartphone and consequently observed their traffic activity behaviour. After executing and interacting with each app that they had installed, they had recorded connections to almost 250000 unique URLs across 1985 top level domains. The issue of mass data collection has become a part of everyday life for most smartphone and web users.<sup>42</sup> Grace et al.<sup>43</sup> categorised three problematic behaviours from analysing mobile in-app advertisements. 1) “Invasively Collecting Personal Information”, by requesting information not directly useful in fulfilling their purpose. 2) “Permissively Disclosing Data to Running Ads”, offering direct exposure of personal information to running ads, e.g. for the purpose of circumventing platform permissions. 3) “Unsafely Fetching and Loading Dynamic Code”, for the purpose of bypassing existing static analysis efforts by undermining the capability of predicting or confining any code behaviour. Although apps and games are distributed through official App Stores, research still shows us that self-regulation is perhaps not enough in an environment without any de-facto oversight. However, it is evident that people still continue to use the technologies and applications implicated, otherwise the said smartphone ecosystems would not continue to flourish. This behaviour is referred to as the “‘privacy paradox’ where intentions and behaviours around information disclosure often radically differ”.<sup>44</sup>

- 25 The interesting question from a legislation point of view is perhaps not to ask why people continue using these platforms or services despite the unfavourable the privacy violations, but rather how they can be given an option of determining what is communicated about them, while still maintaining their access to current virtual networks and the digital presence in general. For the purpose of technological and social inclusion, e.g. teaching children that if you care about your own privacy you cannot play many

popular games or use apps, can be considered a discriminatory message that we strongly wish to avoid. Advertisement driven business models are not the issue here; however, the excessive collection of personal information for the single purpose of exploiting the data subject conflicts with both the current Directive and proposed Regulation.

### 3. Privacy Policy as a Lock-In Mechanism

- 26 Privacy policies (or data policy; or terms of service) governing the digital relationship between the controller and the data subject are often complicated matters. Research has shown that more than half (52%) of Americans do not understand the purpose of a privacy policy.<sup>45</sup> Through a longitudinal study they observed that there has been little progress in raising awareness during the last decade. The majority of respondents still believe that the intention of a privacy policy is that the controller agrees to keep user data confidential. Facebook (the social network service) has perhaps one of the most publicly discussed terms of service. Facebook states that the user grants Facebook “a non-exclusive, transferable, sub-licensable, royalty-free, worldwide license to use any IP content”<sup>46</sup> that is uploaded. The company also reserves the right to transfer users’ information between their other services such as Facebook Payments, Instagram, and WhatsApp in accordance with their respective terms. Thus a situation arises where users become so intertwined and dependent on said company, that they can arguably be considered as “locked-in”. Harrison et al.<sup>47</sup> found four broad categories of service relationship lock-in factors: “Moral/Obligatory Factors”, “Personality Factors”, “Switching Costs and Lack of Alternatives”, and “Positive Benefits of Staying”. These factors all contribute to creating the privacy paradox. At present there are very few alternative social network sites that rival the likes of Facebook. However, Facebook has become more than a social network. Today we can consider Facebook to be “the global communication platform company”, often superseding national telecom carriers in voice, text, video, images, and directory services. This is in addition to their original service of users receiving notifications when friends update their profiles.

- 27 The issue we seek to highlight in this discussion is

*Center’s Internet & American Life Project, NOVEMBER 14, 2012.*

- 41 Vigneri, L., Chandrashekar, J., Pefkianakis, I. and Heen, O. (2015). Taming the Android AppStore: Lightweight Characterization of Android Applications, EURECOM, Research Report RR-15-305, April 27th, 2015.
- 42 Ibid.
- 43 Grace, M. C., Zhou, W., Jiang, X., and Sadeghi, A-R. (2012). Unsafe exposure analysis of mobile in-app advertisements. In Proceedings of the fifth ACM conference on Security and Privacy in Wireless and Mobile Networks (WISEC ’12). ACM, New York, NY, USA, pp. 101-112.
- 44 Shklovski et al. loc. cit.

- 45 Pew Research Center (November, 2014). “What Internet Users Know About Technology and the Web”.
- 46 Facebook Terms of Service as of 30.1.2015, Accessed 30.12.2015, <https://www.facebook.com/terms>.
- 47 Harrison, M. P., Beatty S. E., Reynolds K. E., and Noble S. M. (2015). «Why Customers Stay in Relationships: The Lock-in Factors.» In Proceedings of the 2008 Academy of Marketing Science (AMS) Annual Conference. Springer International Publishing, pp. 94-94.

that from studies regarding network externalities, we know that digital service companies that can manage to lock-in their user base, tend to be able to create and sustain a “processing silo” within certain segments.<sup>48</sup> There are arguably other social network companies than Facebook, such as LinkedIn, but they are currently competing within different segments of the market.<sup>49</sup> Even Google, who tried creating a competitor to both Facebook and LinkedIn, Google+, has not succeeded in getting users to switch and start using the service. In the case of Google+, it is worth mentioning that Google began with a massive persistently signed-in user base from both its email service as well as the Android operating system. These users were then often reminded that they could merely turn on the features for Google+ by clicking an acceptance link. Haucap and Heimeshoff<sup>50</sup> reasoned that if a company can create a proprietary single platform, then strong network effects can lead to a highly concentrated market structure. In contrast to traditional wisdom regarding monopolies, strong network effects in digital services also tend to make highly concentrated market structures efficient. The authors find that this efficiency leads to an unambiguity in how market concentration affects consumer welfare.

- 28 Spulberg and Yoo<sup>51</sup> argued that the network effects are not a source of market failure in their denouncement of heightened antitrust scrutiny of network industries. They observed that vertical integration and vertical restraints tend to promote, rather than harm, competition in network industries. The above example of Facebook tends to suggest the same; vertical integration in the company has led to, what we consider, a disruption in the whole communication sector globally. What Spulberg and Yoo seem to fail to recognize in their analysis of natural monopolies within the Internet sector is that initial competition within an emerging segment does not equal continued competition, given that “processing silo’s” are maintained. The lock-in factor at play in today’s platforms mostly relate to access to user data<sup>52</sup> and not infrastructure

(cost inefficiencies), service innovation, or price regulation as they suggest. In the Google+ case this was quite evident; the service itself was considered advantageous by many, including media journalists.<sup>53</sup> However, when it came to user contributed content, very little existed. Those that tried out Google+ often did not want to keep cross-posting status updates. As a consequence, the uptake was lacklustre and the desired critical mass was not achieved.

- 29 Many of the EU member states have positive earlier experiences from the regulation of platforms. The telecommunication sector has been transformed through regulation from local regional carriers to a functioning pan-European service market, with some of the lowest prices and highest quality services in the world. The original GSM mobile communication network that was allotted to two or more operators, was divided by member state and not by region. The member states bound the interested telecommunication operators to adopt the 2nd Generation GSM standard through a competitive tender.<sup>54</sup> The change introduced the consumer to a choice of network operator, which for the first time could be based on personal preferences. Eventually even allowing the consumer the option of transferring the phone number between operators in some countries such as Finland,. This option was important, because it removed the last lock-in mechanism available to operators, to “force” consumers to stay with them. This indicates the regulators power to change market dynamics on its own accord for the benefit of the consumer. The regulatory environment improved conditions for European companies by growing the market size, but also created an enriched roaming experience for European citizens. In comparison to the social networks of today, the alternative for a non-regulated mobile telecommunication infrastructure would have been that each operator would develop their own technology that would have been incompatible with all other operators - including communicating from one network to the other. This would likely have created an ecosystem with a few pan-European or worldwide operators that most likely would also have manufactured their own equipment. Although perhaps not a failure of markets from a business point of view, it would be a drastically inferior experience from a consumer point of view.

48 Haucap, J., & Heimeshoff, U. (2014). Google, Facebook, Amazon, eBay: Is the Internet driving competition or market monopolization?, *International Economics and Economic Policy*, 11(1-2), pp. 49-61; Argenton, C. and Prüfer, J., (2012). Search Engine Competition with Network Externalities, *Jnl of Competition Law & Economics* 8 (1), pp. 73-105.

49 Facebook is estimated, by Statista 2015, to have 1.49bn global users, whereas the total number of social network users worldwide is estimated to be 1.79bn. Accessed 25.10.2015, <http://www.statista.com/topics/1164/social-networks>.

50 Haucap, J., & Heimeshoff, U., loc.cit.

51 Spulber, D. F. and Yoo, C. S. (2014). Antitrust, the Internet, and the Economics of Networks. In *The Oxford handbook of international antitrust economics* (Vol. 1) Blair, R.D., & Sokol, D.D. (eds.). Oxford University Press, USA, pp. 380-403.

52 We define user data to include describing, behavioural, created and generated data.

53 Duffy, J. (2012). Google+, PCMag.com. Accessed 30.12.2015, <http://www.pcmag.com/article2/0,2817,2389224,00.asp>.

54 Eliassen, K. A., Nfa, M. S., & Sjøvaag, M. (Eds.). (2013). *European telecommunications liberalisation*. Routledge.



### III. A Challenging Example of Future Internet of Things Enabled Services

- 30 So far in this section we have examined present practices and relevant legislation. In the following part we want to illustrate what can be expected from the digital services of tomorrow. The intention is to provide the reader with a technological vision, serving as a guidance and motivation for the final discussion advocating a proposal for change.
- 31 During recent years we have seen the introduction of the first Internet of Things enabled devices. Among the first such products launched were personal health-monitoring devices. These were first made exclusive for various fitness enthusiasts, but have since been introduced as mass-market products. These are the type of products that can continually monitor a user's activity, location and certain bodily functions such as heart rate. An example of an advanced intended use case is to be able to remotely monitor individuals, such as elderly people in their own home. The intention is to enable the individual to continue living at home as long as possible, while alerting relatives or health supervisors if an anomalous event occurs, such as the person falls down or falls ill. This example shows how sensitive the information gathered can be and provides a glimpse into where technological progress is heading. In addition to personal health measuring devices, sensors measuring impact are being built into floors, motion detection is used for measuring activity, energy use is measured to prevent appliances from running amok, audio recognition can be used for detecting shouts for help, to mention a few. Essentially, the more complete and real-time data we have about an individual, the better the development of service quality. Here we are referring to, in addition to previously mentioned data types, behaviour, usage, the individual's social network and their corresponding data. The data flow for this type of service often includes limited storage on the sensor device and with long term storage in the cloud. Often there is an intermediary device required as well, e.g. a computer or smartphone, where data is cached within a certain application. It is hoped that user data is always secure and encrypted but this is not possible to explore for an average user. The processing of data would likely be in the cloud, provided the data communication is real-time. This example would clearly fall inside the scope of both the Directive and the Regulation, hence requiring a consensual agreement by the data subject and controller.
- 32 The example highlights the positive application and progressive use of data collection and processing. However, from a legal standpoint, the intention of

the Regulation states that data should be collected, processed and stored in a data minimising way. On the other hand, the Regulation does not give the data subject the right to review the security in the data flow for the platform/service. As data subjects we are simply forced to trust that the controller collects data in a minimalistic way, processes data only with the data subject's best interests in mind, stores data securely, always promptly notifies us when data is shared or breached and, if and when the subject wants to close the account, expect that the provider actually deletes all data in a non-retrievable fashion. This is the primary reason why we consider the rationale behind the Regulation to be antiquated and why we call for an increased focus on platform privacy.

### D. Discussion

- 33 User generated data has arguably become the currency of the virtual world. The more complete and timely data we have about an individual, the more it is worth to a service provider. Complete data is here defined as accurate, but also as encompassing and in-depth as imaginable. Determining the exact worth of user data is difficult, as the intrinsic value is dependent on many factors, such as type of data, accuracy, timeliness or uniqueness. Also the market value depends on factors such as the ability of the company to create insight based on the data, connect the data subject to a service market, and monetize upon these earlier findings. The difficulty in setting the price also led Google to create an auction market, AdWords,<sup>55</sup> for selling targeted advertising based on consumer activity to third parties. The auction market allows Google to create a dynamic pricing logic that self-regulates based on demand and availability. Economic research into platforms may have yet to conclude how to value data in relation to a platform. Stucke and Grunes<sup>56</sup> highlighted for antitrust cases the problematic relationship of free services which are paid for by user data, where user data has no determined value. Collected user data has a value determined by any future service that can be sold to the same consumer. Therefore, it can be argued that existing user data should always be considered of value, even if left unprocessed. Stucke and Grunes probe the question of why would companies otherwise continue to "... spend a considerable amount of money offering free services to acquire and analyze data to maintain a data-related competitive advantage." User data in a digital format bear at least the cost of the research

55 See <http://www.google.com/adwords/> for further details. Accessed 10.02.2016.

56 Grunes, A. P., & Stucke, M. E. (2015). No Mistake About It: The Important Role of Antitrust in the Era of Big Data. *Anti-trust Source* (Apr. 2015 (4)).

and development that has gone into implementing said platform. Perhaps, more importantly, the value of user contributed data is best determined by the value it provides the company, which accumulates the data, to create a barrier of entry towards future entrants. Acknowledging that all personal data has a monetary value, although indeterminable in a generalized way, should also improve the ability of regulatory authorities to consider platform privacy in anti-competitive terms.

34 In general, privacy is of immense importance in our digital society, but particularly so in a world where we are striving to create intelligent services that can advise us humans what to do. Still consumers are saying that privacy issues are becoming a greater challenge than before and that a growing number of consumers (45%) no longer trust the companies or platforms behind some of today's digital services with their personal data.<sup>57</sup> Therefore, it should be highlighted that the proposed Regulation is not only one dimensional, in the sense that its existence is to only guarantee the protection of the data subject. Rather, the Regulation should also offer a notion of long term business opportunity, if realised correctly, by improving the consumers trust in companies and their platforms/services. Future Internet of Things enabled platforms are likely to record anything (behaviour, voice, image, and other special categories of sensitive data) that occurs in the consumer's environment. It should then become evident that these services will need the trust of the consumer. The more encompassing data that is being processed regarding the data subject, the greater the importance of privacy and consumer choice among platform services become.

35 Early influencers on the design of privacy preserving information systems, defined the task to accomplish as "The Path to Anonymity".<sup>58</sup> We also find that the current EU rationale for data protection is based on the premise that anonymity is plausible and desired. The Human Rights Convention Article 8 has been interpreted as equivalent to the right for anonymity for a natural person. The design rationale presented by van Rossum, Gardeniers and Borking<sup>59</sup> explores a number of potential techniques regarding how privacy enhancing technology can be employed in information systems. Although the technological jargon presented in their work is still mostly accurate, from a modern digital platform development point of view, we consider the

anonymity target as a utopian objective. At the time, information systems were mostly closed off and user data was very costly to store. Whereas today a state-of-the-art digital infrastructure is often described as an evolutionary entity that employs generative mechanisms in its inner workings that determine its success over time.<sup>60</sup>

36 Based on our reasoning, we formulate three theses that we consider should be the leading indicators for data protection legislation when it comes to the consumer-business platform relationship.

1. Each and every networked device is inherently vulnerable, i.e. leaking information.
2. All digitalized information, with an assignable monetary value, describing data subjects will be stored for an indefinite time and will eventually be processed.
3. Privacy does not equal anonymity, as there cannot be true anonymity in a near-fully connected world.

37 To answer our question in section C, regarding creating trust for digital platforms, we think that the following definition of privacy could regain and maintain the individual user's trust in digital platforms:

- Privacy should be a right for each data subject to actively and continuously monitor and control where and how data pertaining to the individual is stored, eventually processed, and by whom. Once data is intentionally shared outside the private sphere, e.g. in a status update or even when sensitive health data such as the genome is published, it becomes part of the public domain.

38 The remainder of the paper focuses on elaborating this definition.

39 Today, data subjects are often totally exposed to platform providers, and there is often little or no privacy in regards to a handful of global companies. This is enforced through complex privacy policies where users are forced to give up their rights and data protection laws are circumvented. These companies have gone to great lengths to create as complete profiles as possible on their users, by creating syndicates for registering information not only within their service, but also when a subject uses other companies that implement the same

57 See <https://www.truste.com/resources/privacy-research/us-consumer-confidence-index-2015/> for further details. Accessed 10.02.2016.

58 van Rossum, H., Gardeniers and Borking, J. (1995). *Privacy-Enhancing Technologies: The Path to Anonymity*, Vol II. TNO Physics and Electronics Laboratory. Rijswijk: Registratiekamer.

59 Ibid.

60 Tilson, D., Lyytinen, K., and Sorensen, C. (2010). "Digital Infrastructures: The Missing IS Research Agenda," *Information Systems Research* (21:4), pp. 748-759; Henfridsson, O., and Bygstad, B. (2013). The generative mechanisms of digital infrastructure evolution. *MIS quarterly*, 37(3), pp. 907-931.

technology.<sup>61</sup> So far, the gathered information mostly contains behaviour related data for direct marketing purposes, but its future development is not limited to this. To mention a few examples of future prescriptive services: Google recently invested in a health insurance company;<sup>62</sup> Automotive companies (e.g. Tesla and Volvo) are about to launch semi-autonomously driving cars that they want to monitor continuously; and Uber wants to predict users' every need in regards to transportation. The introduction of new Internet of Things data sources (or data generators) makes it even more important that data subjects are given comprehensive control of data related to them in near real-time. Our definition of digital privacy focuses on the data subject as an active actor who can and should make a conscious decision regarding how privacy should be invoked also after the consent contract has been signed. The definition is motivated by the data subject's capacity to choose an alternative platform service approach, which we find is lacking in the current Regulation proposal. Forcing companies, which have already achieved a de-facto monopolistic or oligopolistic position through their "processing silo" platform, to truly open up user generated data, would also lead to an improved competitive digital landscape in Europe.

## I. Competition in Data Intensive Business

40 In the previous sections we put forth the argument that the network externality effect contributes to create de-facto monopolies in the digital world through the creation of "processing silos". We find that the fundamental reason for this is the immobility of data among service providers. Data immobility provides incumbents with a barrier to entry against new competition. User data has become a sought after resource that when traded forward for profit (supported by privacy policies) can cause users harm in some cases. As Pew Research<sup>63</sup> showed, in a large majority of cases, exploitation of user data causes uncertainty and confidence in service providers is weakened. Cerf and Quaynor<sup>64</sup> argued that "a fragmented Internet that is divided by walls will inhibit the free exchange of ideas, increase business costs, stagnate job creation, and fundamentally

disrupt our most powerful global resource." The near non-existence of consumer initiated data sharing among platforms such as social networks highlight this problem. Today, user contributed data is often locked in behind a service gateway connected to a service user ID.<sup>65</sup> For example, an open flow of data would imply that a tweet would show up on the Facebook feed for friends, and a status update on Facebook targeted towards the individual's professional activities would be shown on the user's Linked-in profile. These examples are trivial, yet illustrate how the significance of one service can be reduced and opened up for different types of services on a common platform. Today, many service providers have opened up certain APIs into their services, but to achieve true data mobility we believe a clear legal requirement is required. A mandatory separation of user data storage activities and service provider (processor) into separate legal entities would create the possibility for actual user data control, see figure 1. That services of similar nature could conform to the same platform standard is not implausible from a technological perspective, but rather other interests (e.g. business and sovereign) have so far prevailed. As an example, current social network platforms all share a common data structure, based on messages, user IDs, and relationships. Standardizing such a social networking platform should be fairly straightforward compared to the standardization efforts surrounding mobile communication networks.

41 In an earlier section we stated that the legislation sets unreasonable expectations on the data subject when it comes to managing given consent contracts. By separating the data storage activities into an unconnected entity, new service innovation can be established in data storage solutions (data store).

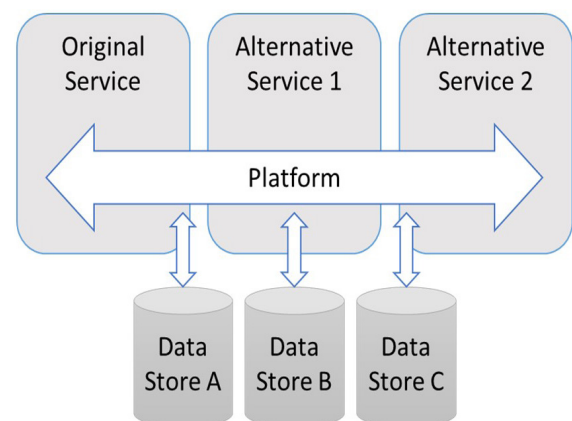


Figure 1- Separation of platform, service, and data store.

In extension, this should lead to a generalized solution where service providers would allow any

61 One such example is Google's Display Network that uses a technique referred to as Remarketing, which uses cookies placed in a user's web browser by other websites.

62 See <http://venturebeat.com/2015/09/15/google-capital-makes-a-32-5m-bet-on-smart-health-insurance-company-oscar-for-further-details>.

63 Pew Research Center (November, 2014). "What Internet Users Know About Technology and the Web".

64 Cerf, V. G., & Quaynor, N. (2014). The Internet of Everyone. *Internet Computing, IEEE*, 18(3), pp. 96-97.

65 There are some decentralized online social networks e.g. Diaspora (<https://diasporafoundation.org>) or Friendica (<http://friendica>) in addition to commercial alternatives that remain marginalised due to data immobility.

data store provider to provide the data store backend to a service. By using data store providers, consumers would have a natural point for storing and controlling all their consent contracts. This solution allows the user to determine the service and security level in a considerably finer grained fashion than today. If the data subject wishes to continue with a similar setup as today it would be possible, as a service provider would likely pay the potential transaction cost on the user's behalf in return for non-restrictive access to processing the user's data. Conversely, privacy-aware customers would have an option as well if they want to pay themselves. Identity management can be handled in a similar fashion to email identities "user (at) domain". A similar authentication service is already in use for a world-wide roaming access service called eduroam,<sup>66</sup> which was developed for the international research and education community. The EU project FutureID<sup>67</sup> has developed a decentralized system for exchanging user ID credentials between different Internet services. Göndör et al.<sup>68</sup> also describe a system for migration of user profiles in the "SONIC Online Social Network Federation".<sup>69</sup>

- 42 These initiatives show that the technology is sufficiently mature to support a more user controlled privacy scheme that would support data mobility between platforms and services. What is currently missing are incentives for incumbent service providers to open up their platforms to decentralized services. Essentially, once a platform and service becomes a de-facto standard, a separation of the two are needed to allow for continued competition in the field. User data can be moved in accordance with the original platform, while processing takes place in the service.

## II. Proposal

- 43 Brynjolfsson and McAfee<sup>70</sup> argue that we need to define "what we really value, what we want more of, and what we want less of". In their world, technological progress cannot and should not be

hindered. In our paper we have argued for modifying the Data Protection rationale from a focus on the right to anonymity towards a Data Protection legislation based on individual control. If we want to achieve a safe digital societal inclusion, we also need a bridge between privacy policies and legislation. As we have illustrated in this paper, policies and legislation currently conflict with each other. Three proposals for consideration in a future EU Data Protection Regulation that would likely clarify the data subject's position in regards to platform privacy issues are outlined below. These proposals will also strengthen the competitive landscape, particularly with a focus on improving conditions for new diversified digital ventures and start-ups.

### 1. Modification One

- 44 One of the central modifications of the Data Protection Regulation ought to be aimed at lessening the ability of incumbent global actors to lock-in the user base to their platform. The rationale behind this is to enable true competition and a selection of differentiated services. The de-facto platform monopolies create a dangerous future where few companies can dictate or influence how the digital communities should behave as well as follow up how they actually behave. One possible way to avoid this lock-in effect is to regulate the company-internal information sharing between all services with a public audience. Unless comparable public data sharing protocols (APIs) exist, any internal information sharing would not be allowed between said services. This, however, with the exception of some internal identity authentication services that the company may not want to expose. These public data API's must have the same service level in regards to reliability, extensiveness and promptness as any internal information sharing protocol.

- 45 Essentially this entails that Facebook for example, would not be allowed to share data subject generated data between WhatsApp and its other services without a public bidirectional API for both extracting and pushing user contributed data through the API. Correspondingly, Argenton and Prüfer<sup>71</sup> suggested a similar solution for regulating search engines. Their argument was that the best way of dealing with Google's dominant position in search engines, would be to force it to share its search data, such as previous user searches and clicks, as well as other important metrics.

66 See <https://www.eduroam.org/> for further details. Accessed 10.02.2016.

67 See <http://www.futureid.eu> for further details. Accessed 10.02.2016.

68 Göndör, S., Beierle, F., Kucukbayraktar, E., Hebbo, H., Sharhan, S., and Kupper, A. (2015). Towards Migration of User Profiles in the SONIC Online Social Network Federation, In the proceedings for The Tenth International Multi-Conference on Computing in the Global Information Technology, [accepted, forthcoming].

69 See <http://sonic-project.net> for further details.

70 Brynjolfsson, E., and McAfee, A. (2014). The second machine age: work, progress, and prosperity in a time of brilliant technologies. WW Norton & Company. pp. 123-124.

71 Argenton, C. and Prüfer, J. (2012). Search engine competition with network externalities, *Jnl of Competition Law & Economics* 8(1) pp. 73-105 doi: 10.1093/joclec/nhr018.



## 2. Modification Two

- 46 The second modification regards federated identity authentication and data stores, as defined in Section D.I. To limit the current unwanted tracking ability of syndicates, we propose that any authentication and data storing service is seceded from any processing entity. By separating the authentication ability and data store into a separate legal entity, it opens up innovation for new types of data storage solutions. By requiring a monetary based (not data based) transaction cost for the identification service, paid either by user or intended service provider (controller), it will be possible to open up innovation for new types of services that offer alternatives to incumbent solutions that are built on the premise that the cost is paid directly or indirectly in user data.
- 47 By implementing a requirement for an external data store as the backend for personal data, the identification of users from other services must be addressed in order to define relations between individuals. The ability to contribute and act under a pseudonym can also be issued by the data store.<sup>72</sup> This hinders provider control and sensitive data misuse by private companies. It is essential to ensure sender anonymity and an inability to link the message to a user in regards to the controller; in case of misuse, authorities can still gain access to the true identity through the data store. The data store provider would thus be able to designate a pseudonym ID to a data subject, that when used can have a certain level of similarity to the true User ID, but offer a way to obfuscate certain easily identifying details about the data subject. A data store would also likely be offering network services, e.g. virtual private network (VPN), in order anonymize access to a public network.

## 3. Modification Three

- 48 The third modification concerns how security and data protection policies are reviewed. Achieving complete security is as probable as achieving full anonymity, as too many attack vectors exist to be able to mitigate them all separately. Nevertheless, the importance of dealing with security breaches in a proactive and reiterated fashion can never be

<sup>72</sup> Cryptographic algorithms exist for this purpose and have been suggested e.g. for broadcast purposes in the automotive industry to ensure privacy. For more information see: Ullmann, M., Wiesebrink, C. and Kugler, D. (2015). Public Key Infrastructure and Crypto Agility Concept for Intelligent Transportation Systems, In the proceedings for The Fourth International Conference on Advances in Vehicular Systems, Technologies and Applications [accepted, forthcoming].

overstated. The proposed Regulation introduces a new role<sup>73</sup> of a company-located data protection officer in addition to the supervisory authority. The role requires: 1) expert knowledge of data protection law and practices; 2) the person to be in a position to perform their duties and tasks independently; 3) liaising with regulators over personal data breaches; and 4) monitoring the performance of the data protection impact assessments of organisations. A mandatory position that can initiate internal security and policy auditing is a first and important step. The role will likely require a law degree for fulfilling the description of a data protection officer. This is similar to the role of a financial officer that also needs a formal financial reporting background. As stated earlier, we find there is a gap between the law and its practical implementation. Security and data protection technology are highly complex technological subjects. We find it improbable that a supervisory authority can markedly improve the consumers' trust in IT-services on its own. To certify a company for how it handles security and data protection requires in-depth engineering skills. We therefore propose a third party auditor role that periodically monitors security and data protection within companies. In practice this would take the form of a compulsory periodically returning review by auditing, in a similar fashion to a financial audit, where the auditor is responsible for expressing an opinion. The auditing opinion indicates that reasonable assurance has been obtained, that the statements as a whole are free from material misstatement, whether due to fraud or error, and that they are fairly presented in accordance with the relevant technological and legal standards.<sup>74</sup> If it is found later on that an auditor neglects their legally stated duties they would be held liable as well.

## E. Conclusions

- 49 In this paper we have highlighted the problematic state of digital platforms implemented as "processing silos" with the support of privacy policies. We consider the present use of some privacy policies to be of a discriminative nature that foster the current privacy paradox environment. The inability to make use of a service is often hindered if the user does not accept the terms of the provider. These terms often require consent to transfer data between the provider's different services or require the sharing of data that can be considered excessive. The privacy paradox contributes to an uncertain digital service environment and a mistrust of anyone in a dominant

<sup>73</sup> Some criteria apply to the necessity of the role.

<sup>74</sup> PWC (2013). Understanding a financial statement audit. Accessed 11.6.2015: <http://download.pwc.com/ie/pubs/2014-pwc-ireland-understanding-financial-statement-audit.pdf>.

position. Dominant position refers to an organisation that holds sensitive information of a personal nature on an individual and processes this information at it wishes. We provide three core proposals for a future Regulation that we believe would return trust in Internet services, including highly sensitive services built on Internet of Things technology. This will without a doubt require a closer cooperation between the legal community, companies, and technology standard-setting organisations. Neither party will be able to accomplish this challenging task alone.

- 50 We also find that start-ups (or any new digital service offering) and consumers alike are facing the problem that data is not transferred between services of companies. For example, why is a status update on a social media service not distributed to anyone outside the said service? A comparative service is email that can be transported across any Internet service provider platform. Hence, the limitation is not of a technical nature, but originates from what we consider to be a behaviour that strives to create a “processing silo” design. Whether these “processing silos” fulfil the definition of a monopoly in anti-competitive terms is beside the point when it comes to determining the platform privacy. Monopolies, regardless of nature, are considered by most scholars both competition and innovation averse in the long run. In the world of Internet of Things, they will also become omniscient. The ability to choose among platform providers should be considered a privacy right. A future platform regulation ought to target individual control-based Data Protection. Data subjects are very different in their ethos and this individuality needs to be addressed from a legal standpoint. We define a service objective for privacy that states that the data subject is always only a click away from both determining the status of his personal data and controlling the access to his data. The incumbent digital platforms are able to exploit their users’ data as long as no real alternatives exist. We have made the argument that separating the platform from the service by having public APIs that allow for bidirectional communication and creating a federated identity authentication scheme would solve the current privacy issues described in the paper. An additional benefit of our proposal would be increased security, since data would only be unencrypted when processed.
- 51 In the future, data will be generated, collected, and processed in an ever increasing rate. Perhaps the greatest challenge will be to define a meta-structure for data to enable real-time communication between services. Data portability requires a common standard that is both flexible and robust, but as highlighted in the paper, data portability is not enough to mobilize data sharing between platforms or services.

- 52 As software increasingly encompasses all areas of life, there is a need for more focus on the security of data. We have proposed an audit procedure to supervise that the letter of the law is followed. As information systems mature there is a need for a more formal approach to security. An alternative to the audit process could be sizable penalties for breaches, but these penalties would become a risk to important services. Due to service scaling (millions of users), awarding each data subject a compensation representing an equal value to any breached personal data would in our view be too destructive to the individual companies. Hence we find the audit procedure to be a better alternative.
- 53 Inducing trust and social inclusion is of the utmost importance also in the digital world. In this area the European Union is the role model for regulators in the rest of the world. Open access to platform data is also highly important for companies in order to build competitive and differentiated alternatives to current services. This can be achieved through a separation of service and platform as suggested in this paper.

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# Trademark Licensing in Keyword Advertising

by Maciej Zejda\*

**Abstract:** This article examines the use of trademarks as keywords in sponsored links campaigns – in particular the impact of such usage on consumer confusion. It is thus important to highlight that there are a number of reasons why a consumer uses search engines. For example, it may be that a consumer searches for a type of product or service that appeals to them; the consumer may engage in comparison-shopping; or the consumer may already know the specific brand that he or she intends to purchase. Secondly, this article explores the possibility of infringement on other functions of trademarks

in the case of the double-identity rule. Thirdly, the article discusses the negative aspects of broadening the concept of taking advantage and isolates this concept from the possibilities of confusion, detriment to the distinctive character, or the reputation of the trademark. Lastly, the article proposes possible remedies to the current situation – in particular the introduction of licensing models for the use of trademarks in keyword advertising and the application of the law on comparative advertising regarding the way the licensee uses those trademarks.

**Keywords:** Trademark; Keyword Advertising; Licensing; Sponsored Links Campaigns

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## A. Introduction

- 1 Internet advertising can lead to a number of complex problems related to trademark infringements, in particular concerning consumer confusion. The aim of this paper is to analyse the view taken by the Court of Justice of the European Union (CJEU) regarding the likelihood of consumers' confusion in respect of online advertising campaigns. The paper additionally discusses the negative consequences of broadening the concept of taking unfair advantage and separation of this concept from likelihood of confusion or a likelihood of detriment to the distinctive character or the reputation of the trademark. Finally, it focuses on the possibility of introducing licensing models, which would potentially strike the right balance between conflicting interests of the trademark holders, advertisers and consumers.
- 2 Everyone who uses search engines knows that after typing a particular word the web browser engine displays two types of results. The first of them,

which also takes up the most space on the website are links to websites, which are “natural” results of the search, i.e. websites indexed by web browsers as the most closely connected with the keyword (the so-called “organic” results). The order in which links are displayed is subject to complex algorithms, which takes into account a number of factors; in particular the number of views and amount of websites referring to specific keyword. The more frequently the website is visited, the higher it will be displayed within the organic results of the search, thus it would mimic an Internet user's natural search behaviour.<sup>1</sup> It is worth noting that usually web browsers strictly protect the structure of algorithms and modify them to prevent the algorithm from potential manipulations by advertisers. It should also be emphasised that advertisers have no legal way to affect the order of the organic results of the search.<sup>2</sup>

1 Tan A. 2010. Google Adwords: Trademark infringer or trade liberalizer, 16 *Mich. Telecomm. & Tech. L. rev.*, p. 477.

2 Dupont J.S. 2013. Uncharted territories of trade mark use,

3 The other results displayed by web browsers' engines are those which are generated by paid search services. Despite the fact that nearly every search engine has such a service, this article will refer only to the Google AdWords service as the key example of contextual advertising.<sup>3</sup> Links displayed in Google AdWords are displayed above organic results or next to them and are distinctly marked as "Ad", "Sponsored" or "Sponsored links". The advertiser may choose between a variety of formats – most commonly advertisements show text consisting of descriptive sentences, a link to the advertiser's website, and the website's URL address. The order of sponsored links is determined by: keywords chosen by advertiser; the amount the advertiser is willing to pay for every "click" on the link to his or her webpage; and the number of views of an advertisement.<sup>4</sup> More than one advertiser may reserve particular keywords. This enables the creation of "sponsored links campaigns", which allow displaying links to the advertiser's webpage in positions visible for web users regardless of webpage position in organic search results. The revenue generated by the sponsored ads makes up a large part of Google's revenues. Most importantly, the advertisers may also choose words, which are registered trademarks as keywords, consequently leading to potential trademark litigations.

## B. Legal Framework of Trademarks' Protection

4 The protection of trademarks afforded by<sup>5</sup> the Directive 2015/2436 of the European Parliament and of the Council of 16 December 2015 (hereinafter referred to as "TMD") is twofold. Firstly, art. 10(2) (a) states, that the proprietor of a trademark may prevent other parties from using this mark without his or her consent when the third party uses a sign identical to the trademark in relation to the goods or services which are identical with those for which the trademark was registered. Additionally, art. 10(2) (b) entitles the owner of a trademark to restrain a third party from using an identical or similar sign to the trademark in relation to identical or similar

goods when there exists a likelihood of confusion on the part of the public, which in particular includes the likelihood of association between the sign and the trademark. Secondly, art. 10(2)(c) allows the proprietor of the registered trademark to prevent all third parties who have not obtained consent from using in the course of trade any sign which is identical with, or similar to, the trademark in relation to goods or services which are not similar to those for which the trademark is registered, where the latter has a reputation in the Member State and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trademark.

5 Despite strict limitations on the protection of trademarks included in art. 10(2)(a) and art. 10(2) (b) of the TMD, the CJEU pointed to the functions of the trademark when determining the scope and limits of trademark protection.<sup>6</sup> However, unlike the statutory limitations, these functions, which are described as "functional equivalent to limitations",<sup>7</sup> are not mentioned or defined in the Directive. Instead they should be "conceptualized as being inherent to the exclusive right and have to be carved out by case law".<sup>8</sup>

6 By virtue of art. 10(2)(a) and (b) of the TMD, trademark owners are given control over communication concerning their marks, which covers the identification and distinction of the goods or services offered in the marketplace. Consequently, protection afforded under art. 10(2)(a) and 10(2)(b) is to be granted only if use of a conflicting sign is likely to cause confusion to the consumers. In case of the double identity rule (when an identical sign is used for identical product) embodied in art. 10(2)(a), the risk of confusion may be deemed so obvious that it can be presumed. Nevertheless, as highlighted in *Senftleben*,<sup>9</sup> existence of such a factual presumption should not encourage the court to deviate from the general requirement of evidence that the likelihood of confusion may arise from the use at issue. As it has turned out in case law of the CJEU, the fact that the third party merely used a registered trademark does not necessarily lead to consumers' confusion. This occurred in the *Arsenal* case,<sup>10</sup> where the defendant

*Intellectual Property Quarterly*, pp. 139-165.

3 Strzelecki M. 2012. Reklama kontekstowa w wyszukiwarkach internetowych w orzecznictwie Trybunału Sprawiedliwości Unii Europejskiej - wybrane zagadnienia. In: Namysłowska Monika ed. 2012. *Reklama. Aspekty prawne*, Warsaw, Wolters Kluwer S.A. pp. 485 – 503.

4 information available at: <https://www.google.pl/adwords/how-it-works/>, <https://support.google.com/adwords/answer/2497836?hl=pl>.

5 Directive 2008/95/EC of The European Parliament and of the Council of 22 October 2008 to approximate the laws of the Member States relating to trade marks, OJ L 299, 8.11.2008, pp. 25-33.

6 CJEU, *Arsenal Football Club plc v. Matthew Reed* (2002) Case C-206/01; CJEU, *L'Oreal SA v. Bellure NV* (2009) Case C-487/07.

7 Ramsey L. P. and Schovsbo J. 2013. Mechanisms for limiting trade mark rights to further competition and free speech. *International Review of Intellectual Property and Competition Law*. Volume 44. pp. 671-700.

8 *Ibid.*

9 Senftleben M. 2011. Keyword advertising in Europe - How the internet challenges recent expansion of EU trade mark protection. *Connecticut Journal of International Law*. Volume 27. p. 42.

10 CJEU, *Arsenal Football Club plc v. Matthew Reed* (2002) Case

offered identical goods to those of the trademark holder using a mark, which was identical to the registered trademark of the claimant. Nevertheless, the defendant displayed signs which informed clients that its products were unofficial. Consequently, consumers could not have been confused as to the origin of the goods. Despite that, the CJEU stated that such a use of a registered trademark constitutes infringement under art. 10(2)(a) if it is capable of affecting one of the functions of the registered mark. As a consequence, the CJEU has interpreted the TMD as protecting a registered trademark against non-trade mark use by a third party due to a likelihood of confusion.<sup>11</sup> In this particular case, it was also held that this type of use affects the original functions of a registered trademark, as the use of the mark was likely to confuse subsequent buyers who were unaware of the defendant's information regarding whether there is a link in the course of trade between the goods and the trademark. More notably, it was the first time the CJEU referred to functional interpretation of the protection of trademarks. It would thus just be a matter of time before the court determined other functions worth protecting. In the L'Oreal<sup>12</sup> decision the CJEU continued this path of extended trademarks' protection by assuming that art. 10(2)(a) protects "not only the essential function of the trade mark, which is to guarantee to consumers the origin of the goods or services, but also its other functions, in particular that of guaranteeing the quality of the goods or services in question and those of communication, investment or advertising". As a result, even if the origin function is not threatened, the double identity rule embodied in art. 10(2)(a) of the TMD may be violated if any of the other functions of the trademark are affected.<sup>13</sup>

- 7 On a different occasion, the CJEU expressed its view that the function of indicating the origin of the trademark is adversely affected when internet users are shown a third party's advertisement on the basis of a keyword being identical to a mark.<sup>14</sup> The Court continued this opinion by stating that:

*the function of indicating the origin of the mark is adversely affected if the ad does not enable normally informed and reasonably attentive internet users, or enables them only with difficulty, to ascertain whether the goods or services referred to by the ad originate from the proprietor of the trade mark or an undertaking economically connected to it or, on the contrary, originate from a third party.<sup>15</sup>*

C-206/01.

- 11 Davis J., Trade Marks and Brands An Interdisciplinary Critique, p. 82  
 12 CJEU, L'Oreal SA v. Bellure NV (2009) Case C-487/07, par. 58.  
 13 Ramsey L. P. & Schovsbo J., op. cit., pp. 671-700.  
 14 CJEU, Google France SARL v. Louis Vuitton Malletier SA (2010) Joined Cases C-236/08 to C-238/08, par. 99.  
 15 Ibid.

- 8 Finally, the CJEU established that:

*where the ad, while not suggesting the existence of an economic link, is vague to such an extent on the origin of the goods or services at issue, that normally informed and reasonably attentive internet users are unable to determine, on the basis of the advertising link and the commercial message attached thereto, whether the advertiser is a third party vis-à-vis the proprietor of the trade mark or, on the contrary, economically linked to that proprietor.<sup>16</sup>*

- 9 In the Interflora case,<sup>17</sup> where the defendant – Marks & Spencer used its competitor's name "Interflora" as a keyword to advertise its own flower delivery services, the CJEU followed the path once established in the L'Oreal case. The CJEU established that the use of the word "Interflora" as a trademarked keyword may cause confusion by insinuating that the flower delivery service offered by the defendant is part of Interflora's commercial network. The CJEU concluded that "the advertising at hand does not allow it to be determined whether M & S is a third party in relation to the proprietor of the trade mark or whether, on the contrary, it is economically linked to that proprietor".<sup>18</sup> Consequently, in those circumstances it is believed that the function of the original trademark would be adversely affected. It is however important to underline, that contrary to the L'Oreal case, the defendant's advertisement or website did not contain any reference to the plaintiff's trademark.
- 10 Hence, it shall be considered whether an average consumer may be confused by a sponsored link, particularly if a trademark is used neither in the text of an advertisement (i.e. sponsored link) nor on the advertiser's website. Primarily, an average consumer typing a trademarked keyword is aware that the website of the trademark holder will be displayed in organic search results or - eventually - in sponsored links. In such an event it is dubious to believe that a well informed and reasonably attentive web user would consider all or even just more than one of the results displayed after entering a specific keyword, as results referring to websites of service providers are economically connected to the owner of the trademark.<sup>19</sup> This may be more problematic in the case of trademark owners, which supply their goods through diverse distribution networks using several official distributors. In such a scenario, consumers may be more vulnerable to confusion as it would be more difficult to assess which distributor is an official dealer and which one is not. Nevertheless,

16 Ibid.

17 CJEU, Interflora Inc. v. Marks&Spencer plc (2011) Case C-323/09.

18 CJEU, Interflora Inc. v. Marks&Spencer plc (2011) Case C-323/09, par. 49.

19 Dupont J. S., op. cit., pp. 139-165.

the majority of consumers should be aware that in most cases, searching for a trademarked keyword in Google may result in the search engine displaying links to websites of the trademark holder's competitors proposing an alternative to the products or services of the trademark holder, as well as a variety of links referring to websites that are not offering any products or services, but rather comparing the prices of services and goods of various businesses in the same industry, or reviews for specific goods or services.

- 11 It is also possible that some of the consumers who enter a trademarked keyword are searching for competitors of a trademark holder – as a result, links referring them to competitive websites would not be confusing to this particular group of web users.<sup>20</sup> Such an assumption is all the more convincing according to the belief that consumers pay less attention to advertisements due to prior negative experiences with them – i.e. obstructing the consumer from purchasing a product directly.<sup>21</sup> However, according to the same research, ninety to ninety-one percent of the more experienced consumers look at the sponsored links that appear above the organic results. Despite this behaviour, it can be presumed that those consumers are less likely to be confused because compared to the average user, they are more aware of the way search engines work.<sup>22</sup> Taking this consideration into account, the view taken by the CJEU in the *Interflora* case may not hold as it does not take into consideration how the consumers perceive the search engines. It can also be argued that the CJEU did not introduce a reasonable test for ascertaining whether the consumers were actually confused. The requirement to prove difficulties with assessing whether the goods or services referred to by the advertisement originate from the proprietor of the trademark, or an undertaking economically connected to it or, on the contrary, originate from a third party, is not particularly clear and possibly sets the standard of proof too low. This would be comparable to the problematic American doctrine of initial interest confusion. Consequently, simply diverting a consumer's attention may be tantamount to the likelihood of confusion, which would be an unrealistic assumption taking into consideration the awareness of average web users. A keyword that triggers an advertisement outside the hit list, which does not contain the senior trademark, should not infer that it originates from the competitor identified by the search term, or that there is a

business connection between the competitor and the advertiser.

- 12 Following the CJEU approach taken in the *Interflora* case, in the brick-and-mortar world, it should be concluded that deliberately placing two competing goods on the same shelf amounts to trademark infringement. In addition, it shall be noted that in response to a question regarding certain brand of shoes, a shop assistant will lead us to a shelf where shoes of other brands are also located. As a result, the consumer would encounter competitors' shoes, despite asking for a specific brand. There is little to no likelihood that an average consumer would conclude that the producers of such products are economically connected just because they are placed on shelf next to each other.<sup>23</sup>
- 13 Consequently, without the need to prove any possible confusion, the CJEU's reasoning indicates that a slight diversion of the web user's attention has an adverse effect on the origin-indicating function of the trademark. Such an approach may undoubtedly have a negative influence on the functionality of web search engines. Consumers using Google's web search engine and typing a trademarked keyword may not only be searching for the website of the trademark holder, but rather for a whole variety of websites related to that product or service.<sup>24</sup> If, because of such a search, the consumer decides to visit the website of an entity which is not the trademark holder – it would not be caused by confusion, but rather because the consumer accepted that by virtue of using the web search engine and clicking on a link referring to a competitor's website. Evidently, it is crucial that advertisements and websites do not use the trademark – otherwise the boundaries of the legitimate use of a trademark would be crossed.
- 14 It should also be considered that even if the sponsored link would mislead a consumer, then a consumer would be aware of this whilst accessing the website – a consumer would find out that the accessed website is not what he or she was searching for. In such circumstances, the consumer may just click "back" (which is effortless and natural for every internet user) and go back to the list of results. In such a case, the competitor may of course gain advantage of an additional visitor to the website generated on the basis of keyword advertising; however, this is rather connected to the aspect of taking unfair advantage, which will be discussed below. Therefore there is likelihood diminished possibility of confusion or undermining the functionality of the web search engine, as the searching does not become much

20 Tan A. 2010, Google Adwords: Trademark infringer or trade liberalizer, 16 *Michigan Telecommunications & Technology Law Review*. Volume 16. Issue 2. p. 499.

21 Rutz O.J. & Bucklin R. E. 2007. A Model of Individual Keyword Performance in Paid Search Advertising, available at: [http://164.67.163.139/Documents/areas/fac/marketing/bucklin\\_keyword.pdf](http://164.67.163.139/Documents/areas/fac/marketing/bucklin_keyword.pdf), p. 8.

22 Ibid.

23 Dupont J. S., op. cit., 139-165.

24 Zweihorn Z. 2006. Searching for confusion: the initial interest confusion doctrine and it's misapplication to search engine sponsored links. *Cornell Law Review*. Volume 91. Issue 6. p. 1367.



more costly or time consuming, and the mere occurrence of links to competitors' websites hardly invokes confusion among consumers. Consumers searching online expect to find results to various websites, from which they may choose to click.<sup>25</sup> A consumer's confusion may be dependent on the layout of the advertisement and the content of the website. However, no confusion shall arise if the sponsored link does not use a misleading layout and is placed in the position typical for sponsored links.<sup>26</sup>

- 15 In addition, it shall be noted that there is high likelihood that the consumers perceive the organic search results as more relevant than sponsored listings. This notion is backed by the results of an eyeball tracker study, where consumers were found to look at the first couple of organic results before looking at the advertisements.<sup>27</sup> It is thus believed that consumers are likely to assume that the most appropriate results will appear near the top of the organic search results since the relevance of those websites qualifies them for a top spot in an unpaid ranking system.
- 16 To counter balance those critical voices, there exist opinions, which support the current view taken by the CJEU. They argue that the mere appearance of a defendant's website on a search engine's results list necessarily indicates consumer confusion at a certain level as comparing to the brick-and-mortar context, it has been recognized that confusion can occur at "subliminal levels" which is, according to some authors, very similar to confusion arising from search engines.<sup>28</sup> It is argued that the side-by-side comparison-shopping experience should only occur if that is what the consumer requests when he or she enters a categorical term in the search engine.<sup>29</sup> Consequently, it is believed that an actionable harm based on confusion of the consumer shall be permitted even if the consumer is not aware of the confusion at the time.
- 17 In regards to analysing the advertising function of a trademark, this function is adversely affected if the third party's use denies the proprietor of that mark the opportunity of using its mark effectively

to inform and win over consumers.<sup>30</sup>

- 18 When the use of a trademark by a third party affects the proprietor's use of its mark as an aspect of a sales promotion or as an instrument of a commercial strategy this infringes upon the advertising function.<sup>31</sup> The CJEU stated that the use of a keyword identical to an existing trademark in the AdWord service does not affect the advertising function of a trademark, as it does not deprive the trademark holder of the use of the trademark to inform and persuade consumers. The CJEU reasoned that there is no infringement upon the advertising function if the trademark holder has to pay more per single click on their own sponsored link than his or her competitor who also chose a trademark as a keyword in the AdWord service.<sup>32</sup> The basis of such a conclusion is that the trademark holder's website would be always displayed on the top of natural results after entering the trademark word.<sup>33</sup> The view taken by the CJEU is questionable due to the following reasons. Firstly, the trademark holder may not possess any website – then there is clearly an exploitation of the trademark's expenses on its conventional advertising in the promotion of the mark. Secondly, it is worth considering whether all entities entitled to use the trademarks have a right to a high place in the natural results. Having a high ranking website among the list of natural results is not necessarily the due to a "natural" process.<sup>34</sup> The occurrence of websites displayed in natural results requires specific skills of a web developer in the field of search engine optimisation.<sup>35</sup> This applies especially to holders of trademarks with a reputation, because many websites may refer to their trademark (e.g. the word "Coca-Cola" may appear on a number of websites and all these websites affect the position of the trademark holder's website in organic search results). There is no doubt that displaying a newly registered trademark holder's website among the top-ranking natural results requires financial expenditure (it is worth noting that most of the keywords are descriptive terms, consisting of existing words, which results in a high likelihood of existence of websites referring to single

<sup>25</sup> Ibid., p. 1361.

<sup>26</sup> Gielen C., On AdWords and metatags: trademark law implications in the Benelux and the rest of the Europe, available at: [https://www.aippi.org/download/reports/forum/forum09/2/Paper\\_CGielen\\_SessII\\_Trademarks%20and%20the%20internet.pdf](https://www.aippi.org/download/reports/forum/forum09/2/Paper_CGielen_SessII_Trademarks%20and%20the%20internet.pdf), p. 374.

<sup>27</sup> Hung W. 2012. Limiting Initial Interest Confusion Claims in Keyword Advertising, 27 *Berkeley Tech. L.J.*, p. 667.

<sup>28</sup> Doellinger J. 2001. Trademarks, metatags, and initial interest confusion: a look to the past to re-conceptualize the future, available at: <http://egov.ufsc.br/portal/sites/default/files/anexos/27474-27484-1-PB.pdf>, p. 47.

<sup>29</sup> Doellinger J., op. cit., 39-40.

<sup>30</sup> CJEU, *Google France SARL v. Louis Vuitton Malletier SA* (2010) Joined Cases C-236/08 to C-238/08, par. 91.

<sup>31</sup> Ibid., par., 92.

<sup>32</sup> CJEU, *Interflora Inc. v. Marks&Spencer plc* (2011) Case C-323/09, par. 56.

<sup>33</sup> Kulk S. 2011. Search Engines Searching for Trouble? Comparing Search Engine Operator Responsibility for Competitive Keyword Advertising Under EU and US Trademark Law, available at: [http://www.stefankulk.nl/publications/search\\_engines\\_searching\\_for\\_trouble.pdf](http://www.stefankulk.nl/publications/search_engines_searching_for_trouble.pdf), p. 65.

<sup>34</sup> Ibidem, p. 65.

<sup>35</sup> Van Couvering E. 2004. New media? The Political Economy of Internet Search Engines. *The Communication Technology Policy section 2004 Conference of the International Association of Media & Communications Researchers (IAMCR)*, p.18.

words constituting a trademark). Furthermore, if obtaining a high position among natural results was a given for all trademark holders, then no trademark holder would decide to use services such as Google AdWords. This leads to another problem related to the advertising function of the trademark. Trademark holders must oftentimes bid on their own marks in search engine keyword auctions to prevent competitors from appearing higher than their unpaid search result.<sup>36</sup> If the trademark holder does not decide to do so, it may lose the opportunity to inform consumers interested in its trademark in the first place about its products. Consequently, the trademark holder is forced to additional financial expenditures in order to maintain the level it achieved through engine optimization just because other entity can freely bid on its trademark as a keyword. As discussed in academic writing, many trademark owners would probably not choose their own trademark as keywords if competitors and other entities were not allowed to do so.<sup>37</sup> Bearing that in mind, one should consider whether the approach taken by the CJEU, which categorically denies any impact of contextual advertisement on a trademark's advertising function, satisfies all the nuances and complexities of e-marketing. There are some concerns regarding whether or not the trademark holder would be entitled to some compensation when it is exposed to greater financial burdens in order to catch up with its competitors due to the use of its trademark as a keyword by those competitors. Thus, it seems that the approach taken by the CJEU requires a more thorough analysis of the technology used in online advertising campaigns.

- 19 According to the CJEU, a trademark has an investment function if its proprietor uses it to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty.<sup>38</sup> In such circumstances, an investment function may be interrelated with an advertising function. However, it should be emphasized that the use of a trademark to acquire or preserve a reputation in the scope of an investment function may occur through other trade techniques than advertising. If the trademark already enjoys a reputation, an investment function is adversely affected if use by a trademark holder's competitor of that mark affects that reputation negatively<sup>39</sup> - however, in such scenario article 10(2)(c) of the TMD, which concerns dilution applies. The CJEU took the view that there is no adverse impact on

a trademark's investment function, if a competitor is using a trademark with respect of trademark's function as an indication of origin and if the only consequence of that use is to oblige the proprietor of that trademark to adapt its efforts to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty.<sup>40</sup> Thus, no investment function of a trademark is affected if, as a result of a competitor's use of trademark, some of the consumers choose competing goods and services instead of goods and services labelled with the trademark. Such analysis is - to some extent - convergent with an adverse affect of the trademark's advertising function, which is causing some difficulties in determining the scope of both functions. The CJEU is of the opinion that neither a need to intensify advertising, nor a potential loss of clients justifies preventing competitors to use a trademark in the AdWord service.

- 20 The use of the trademarked keywords also triggered many concerns regarding the impact of such a use on the reputation of well-known trademarks. Art. 10(2)(c) of the TMD introduce a concept of anti-dilution protection to the European trademark law. Dilution occurs when an entity uses a mark identical or substantially similar to a pre-existing trademark "triggering a mental association on the part of the consumer between the two marks, thereby eroding the strength of the original mark".<sup>41</sup> Art. 10(2)(c) of the TMD consists of provisions which allow the prevention of using of a senior mark where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or repute of the trademark.
- 21 The concepts of detriment to the distinctive character or the reputation are further defined by the General Court in the Intel/CPM case<sup>42</sup> in two manners: as *blurring*, which is detrimental to the distinctive character of a trademark which attempts the exclusive link between the product or service and the owner of that trademark, or *tarnishment*, which provokes the association of the trademark with goods or services that have a negative connotation or are incompatible with the image of the mark. The CJEU, in the Google France decision stated that taking unfair advantage of the distinctive character or repute of the trademark, referred to as the concept of *free riding* covers cases in particular where, "by reason of a transfer of the image of the mark or of the characteristics which it projects to the goods identified by the identical or similar sign, there is clear exploitation on the coat-tails of

36 Boiling A. J. 2014. Confusion or Mere Diversion? Rosetta Stone v. Google's Impact on Expanding Initial Interest Confusion to Trademark Use in Search Engine Sponsored Ads. *Indiana Law Review*. p. 286.

37 Ibid., p. 285.

38 CJEU, Interflora Inc. v. Marks&Spencer plc (2011) Case C-323/09 par. 60.

39 Ibid. par., 63.

40 Ibid. par., 64.

41 McCabe K. B. 2000. Dilution by blurring: a theory caught in the shadow of trademark infringement. *Fordham Law Review*. Volume 68. Issue 5, p. 1828.

42 CJEU, Intel v. CPM. (2007) Case C-252/07.



the mark with a reputation”.<sup>43</sup> The justification for entitling the trademark right holder to ban third parties from taking advantage of a trademark is based on the assumption that the trademark right holder has spent resources on the creation of a reputation of the mark, and that third parties take unfair advantage of the distinctive character or repute of that trademark.<sup>44</sup> Furthermore, the Court assumed that:

*the taking of unfair advantage of the distinctive character or the repute of a mark, within the meaning of that provision, does not require that there be a likelihood of confusion or a likelihood of detriment to the distinctive character or the repute of the mark or, more generally, to its proprietor.*<sup>45</sup>

- 22 Consequently, any advantage taken by the third-party of a trademark with a solid reputation is by default unfair, even when this use did no damage to the well-known trademark.<sup>46</sup> Such an outcome met considerable criticism from academic commentators, who observed, that by setting a low criteria for taking unfair advantage, a loophole is created when evidence of detriment is impossible.<sup>47</sup> Furthermore, critics argue that it is not enough to demonstrate that free riding has occurred, but it shall also be illustrated that legal intervention promotes efficiency by taking account of transaction costs, imperfect information etc.<sup>48</sup> Otherwise, in the brick-and-mortar world, the protection of the mere *level of attention* against the taking of advantage may result in a situation where “a person who invested time and money in developing an attractive garden might be entitled to compensation from the neighbouring property owners as they benefit from owning a house on a ‘well-kept street’”.<sup>49</sup>
- 23 As a result, the defendant was not entitled to advertise their products as alternatives to the products offered by the trademark proprietor by simply describing them as similar to the reputed trademark, irrespective of the fact, that no detriment to the distinctiveness or repute of the famous trade mark occurred. It is of essence to highlight, that products offered by the defendant in the case at

hand were described as similar and not the same - the reputed trademark acted only as a referencing label. In effect, the public could not be accurately informed about the features of the defendant's products.

- 24 This controversial trademark centric-approach was echoed in the *Interflora* decision. The Court assumed that the investment which a proprietor has put into the mark to attract consumers may be jeopardised if a large number of consumers using the keyword will see the competitor's advertisement and decide to purchase its goods or services rather the ones originating from a reputed brand.<sup>50</sup> Such reasoning relates to the arguments raised in *L'Oreal*, however widens the concept of riding on the coat-tails of a trademark with a reputation in order to benefit from its power of attraction to circumstances, when the selection of a sign similar or identical to a trademark with reputation refers only to keywording in Internet search engines. Accordingly, use of prominent trademarks in a descriptive way in order to indicate that defendant's products are similar to those denoted by the well-known trademark is prohibited even when the advertisement triggered by the keyword does not contain the sign.<sup>51</sup>
- 25 In the circumstances of the *Interflora* case, the advertiser undoubtedly takes advantage from the use of the *interflora* trademark as keyword. The choice of the term *interflora* and its various options by Marks & Spencer is aimed at attracting potential consumers to competing services. The factor determining the advertiser's choice of keywords is recognition of the trademark on the market and the reputation of the mark *Interflora* and to enable the customers to associate it with a particular type of service while keeping in mind that a vast number of consumers associate those services only with the operation of *Interflora* Inc. It is thus worth considering whether the advantage taken by the advertiser as a result of the mentioned campaign should be automatically qualified as *unfair* advantage.
- 26 For this reason, two ways of understanding of the word *Interflora* by potential consumers should be analysed. The first refers to the group of people identifying the word only with the trademark owned by the particular business enterprise. These people enter the word *Interflora* into a web browser in order to find the website of the proprietor of the *Interflora* trademark and to choose its service. Even if this group of consumers accidentally enter the Marks & Spencer website, there is a very low possibility that

43 CJEU, *l'Oréal v. Bellure* (2009) Case C-487/07, par. 41.

44 Sakulin W. 2010. Trademark protection and freedom of expression : an inquiry into the conflict between trademark rights and freedom of expression under European, German, and Dutch law, available at: <http://dare.uva.nl/document/2/75293>, p. 79.

45 CJEU, *l'Oréal v. Bellure* (2009) Case C-487/07, para. 41.

46 Blythe A. L. 2012. Attempting to define unfair advantage: an evaluation of the current law in light of the recent *European* decisions, *European Intellectual Property Review*. p. 759.

47 M. Senftleben. op. cit., p. 54.

48 Ganjee D., Burell R. 2011. Trade Marks and freedom of expression: a call for caution, *International Review of Intellectual Property and Competition Law*, 41 (5). pp. 544-569.

49 Ibid.

50 CJEU, *Interflora Inc. v. Marks&Spencer plc* (2011) Case C-323/09.

51 Moro E. 2013. Protection of reputed trademarks and keywords: looking for Ariadine's thread among flowers, perfumes and bags. *UCL Journal of Law and Jurisprudence*, Volume 2. pp. 64-86.

they would decide to use the services provided by it, because they are determined to use the service provided by Interflora and are not interested in any alternatives.<sup>52</sup> These kinds of consumers do not constitute Marks & Spencer's potential customers, and the web searching engine is treated by them only as a way to reach Interflora's website.

- 27 The second group consists of consumers who choose as a keyword a term they associate the most with flower delivery services, but are not strictly determined to use the services provided by the well-known brand. They may probably be interested in competing offers but they use the trademarked keyword to locate this kind of service on the Internet.<sup>53</sup> Such an approach, which allows a competitor to indicate an alternative to the services offered by the most dominant enterprise within the market, seems to be desirable from the perspective of protection of competition. In the Interflora case, the aim of using the trademark by the defendant was to make consumers recall the unique method of Interflora's operation as florist network. In such a situation, advertisers do not use the reputation of the trademark, but rather the way in which its services are organized. Thus, the use of *Interflora* in this case can be treated merely as a use of a trademark in order to describe a certain class of services and offer them to the public.
- 28 If the word *Interflora* is associated with the method of operating of florist network and the trademark holder is so dominant on the market that the average consumer does not know any other entrepreneur providing competing services, then it should be assumed that a number of internet users, by entering word *Interflora* into the web search engine, are doing that in order to find providers of services of this kind.
- 29 In light of above, it would be reasonable if the CJEU draw its attention to the lack of conceptual designates for keywords within the paid search services. Keywords as such have no meaning in reference systems used in contextual advertising because the algorithms of web search engines address the signs regardless of their meaning in any language and without the context in which they were used.
- 30 As a result, the particular word reserved by the advertiser obtains designates only in the mind of the web user.<sup>54</sup> One should not exclude a situation in which the web user enters the word *Interflora* into a web search engine, e.g. to take up employment. In such a situation, the word *Interflora* does not refer to a trademark or description of the method

of conducting business activity, but to a designated employer. The situation becomes even more complicated if one considers that some trademarks are simply natural words, or that there are cases where certain combinations of words have become trademarks as a result of their registration or widespread use in specific industries.<sup>55</sup> Consequently, trademarks have an idiosyncratic nature, which means they can simultaneously transmit multiple meanings.<sup>56</sup> Furthermore, trademarks are being registered in different jurisdictions and for different classes of goods or services, which can cause further problems. To illustrate: it is easy to imagine that in the real world no salesman would have a problem with determining whether a consumer is asking about a coconut chocolate bar or paper towels when they ask for a product called *Bounty*<sup>57</sup> despite the fact that for both products the same verbal trademark is reserved. In practice, consumers just do not confront trademarks in an abstract way very often, and, when they do, context usually makes the product category obvious. However context is what the web search engine lacks and thus restricting the possibility to reserve keywords within services such as Google AdWords may undermine the functionality of the web search engine. It should also be emphasized that interrelation between the use of a trademark and the context of this use may adversely impact on the ability of a trademark with a reputation to remain distinctive.<sup>58</sup>

- 31 The Interflora judgement clearly refers to a relation between the need for descriptive use, which allows a competitor to inform consumers that they offer an alternative to the leading brand, and the need to protect reputed trade marks from "the risk of being hurt by their own success and becoming generic". The CJEU assessed that the use of a reputed mark in keyword advertising by a third party is detrimental to the distinctive character of this trademark if that usage may contribute to turning that trademark into a generic term. The use of a sign similar or identical to a trademark with a reputation is allowed if the advertisement message displayed on the basis of keywords corresponding to that trademark suggests that they represent an alternative to the goods or services of the proprietor of that mark. Moreover, the advertisement cannot offer a mere imitation of the goods or services of the proprietor of that trademark and may not tarnish or dilute or adversely affect the functions of a trademark.

<sup>52</sup> Ibid.

<sup>53</sup> Blythe A. L., op. cit., p. 759.

<sup>54</sup> Blythe A. L., op. cit., p. 760.

<sup>55</sup> Durant A. 2008. How can I tell the trade mark on a piece of gingerbread from all the other marks on it? Naming and meaning in verbal trade mark signs in: Trade Marks and Brands. An Interdisciplinary Critique, Cambridge. Cambridge University Press, p. 123.

<sup>56</sup> W. Sakulin. op. cit., p. 79.

<sup>57</sup> Blythe A. L. op. cit., p. 761.

<sup>58</sup> Tushnet R. 2008. Gone in 60 milliseconds: trademark law and cognitive science, *Texas Law Review*, p. 507.

32 This part of the Court's reasoning represents the due cause defence under which the use of trademarks with a reputation as keywords may be acceptable. The use of a trademark in order to describe a certain class of services and offer them to the public shall be classified as a descriptive use. It is believed that there is a difference between descriptive use and a trademark becoming generic, although in some extreme circumstances descriptive use may cause the trademark to become a generic term.<sup>59</sup> Despite that, the proprietor shall be able to effectively protect its trademark from becoming generic by virtue of various marketing techniques. Otherwise, the right balance between free competition and trademark protection may be jeopardised. This is evidenced by the fact that in most cases, owners of reputed trademarks would be chosen as reference labels for the type of goods or services due to advertising, and as a result gain wide popularity.<sup>60</sup> The consumers simply mostly know the brands which they are exposed to, and at some point they may even associate the whole class of goods or services with this brand. Consequently a well-known trademark may turn into a generic term notwithstanding its competitor's marketing strategies. If we point to the risk of a trademark becoming generic due to competitor's actions it must be emphasised that this well-known trademark must have already been a reference label for a certain class of goods or services at the time of launching the keyword advertising campaign. Otherwise, bidding for the trademarked keywords by the competitor would not make any sense. Furthermore, the requirement to display a message, which suggests that the goods or services advertised represent an alternative to the goods or services of the trademark holder, seems excessive, as it is unreasonable to expect that a consumer may be confused regarding the origin of the goods advertised by links triggered by the keyword. If no confusion occurs, no taking of unfair advantage shall occur as well. It is interesting how such information which suggests that the goods or services advertised represent an alternative to the goods or services of the trademark holder should look like, especially given that advertisements located under links are very short. It shall be also questioned why the holder of the junior mark cannot use the senior mark to inform consumers about their products, if it is perfectly legal to sell such products. Such an approach renders selling legal replicas of well-known products nearly impossible.

33 Moreover, in light of academic writing, the phenomenon of turning a trademark into a generic term is the ultimate weakening of a trademark and makes the proprietors of the most famous trademarks

"victims" of their own success.<sup>61</sup> However, one should bear in mind that the right to use someone else's trademark in a descriptive manner is necessary to preserve competition and to inform consumers about alternatives to products or services offered by leading brands. While it is important to educate the consumers to use descriptive terms for goods or services offered by leading brands while using web search engines in order to reach their competitors, there are trademarks which became almost synonymous with certain classes of goods or services (to name just a few – a Walkman for personal stereo, Vaseline for petroleum jelly, Tarmac for asphalt road surface, or even Google itself as a generic term for internet search engine). It would be very difficult to change consumer's habits and request them to search for neutral descriptive terms. It is hard to think that in those situations a consumer's search would be aided by the ability to remember the product category associated with a brand. Moreover, if a consumer is thinking about purchasing certain goods or services, it may be helpful if the consumer can remember several relevant brands so that he or she can choose among them.<sup>62</sup> In some extreme situations (the abovementioned example of the Vaseline trademark) it would even be unlikely that a consumer might be aware that such a term is a trademark and not a generic term. It would also be unrealistic to expect an average consumer to know the descriptive term for a product, which holds the Vaseline trademark. Furthermore, although trademarks are in general excluded from registration if they are descriptive or devoid of a distinctive character, word signs registered as trademarks do not appear out of a vacuum as they are commonly built out of the existing words. In some situations, they are even descriptive terms that gained their secondary meaning as a trademark (e.g. the North Face for outdoor clothes), because of the use that is made of them, consumers also come to see them as a badge of origin. The other group of trademarks consists of signs, which are already known and exist as part of natural language. It is their use as a trademark that makes them unique, non-trivial, non-figurative – a perfect example of such a word sign is the Apple trademark for computer devices. Consequently, in some cases, policy of restricting the use of trademarks on the Internet may lead to absorbing natural language by trademarks, a result which would be highly undesirable.

34 As a side note, it shall be considered that in some rare circumstances the process of transforming a trademark into a descriptive term, whilst maintaining the meaning as a badge of origin, may bring positive effects for the trademark holder. This

59 Blythe A. L., op. cit. p. 759.

60 Ibid., p. 759.

61 Ibid., p. 759.

62 Klerman D. Trademark Dilution, Search Costs, and Naked Licensing, *Fordham Law Review*, Vol. 74, issue 4, p. 1765.



is encapsulated by the fact that consumers may positively associate a particular trademark with high quality products. We shall not forget that such an outcome is one of the reasons why the trademark holders invest in advertising. A good example of this process is illustrated by the fact that Mercedes trademark conveys a level of quality regarding the automobile industry and thus is often used - at least in Poland - to describe high quality goods or services. This happens because the consumers associate the Mercedes trademark with high quality in general as a result of Mercedes' brand history and marketing techniques. However, it must be stressed that the trademark holder desires such transformation only if the connotation is positive and if the trademark maintains its character as a badge of origin. Therefore, this process may be only positive if it is under the full control of the trademark proprietor.

## C. Conclusions and Possible Remedies

- 35 Firstly, it should be noted that the CJEU inconsistently applies the theory of a function of a trademark. The current approach to the function of origin indication should be reviewed as it does not consider the nature of the use of trademarks in online search engines such as Google AdWords and the level of consumer awareness when it comes to web browsing and confusion. The question of whether Internet users can easily distinguish whether or not the competitor is part of the trademark's proprietor network is relevant in assessing whether there is unfair advantage or dilution. Thus, the approach towards the use of trademarks in the digital environment should rather be more focused on the behaviour of the web users. As a result, the trademark holders' competitors ought to be given more flexibility when structuring their e-marketing strategies. However, the CJEU ignores the adverse impact of keyword advertising on the advertising and investment functions of the trademark.
- 36 Furthermore, the scope of protection of the trademark with a reputation afforded in the EU legal system appears to be too broad. A complete ban on use of the trademarks on the Internet due to expected problems with rebutting the presumption of taking unfair advantage of the distinctive character of the senior mark by its competitors and unclear rules on assessing consumers' confusion may in some circumstances lead to a phenomenon of absorbing the use of natural language in the Internet by the proprietors of the strongest trademarks. It shall be underlined that there are well known and trademarked keywords which are hardly substitutable descriptive terms or consisting of natural words; therefore, introduction of any

limitations, which disallow usage of those words as keywords, would be mostly detrimental for the consumers.

- 37 Thirdly, the view taken by the CJEU that taking any advantage of using the competitor's trademark always denotes *unfair* advantage, contradicts the functionality of web search engines, reduces the benefits that the Internet brings to consumers, and hinders the development of the free market. Giving business enterprises absolute control over the use of their registered trademarks may, in consequence, jeopardize the essential function of the Internet, which is the free flow of information. Additionally, it may result in reducing the potential of web search engines to process commercial information. The due cause defence may only be taken into consideration if the web users have no difficulties with assuming from the competitor's advertisement that it is not part of the senior trademark proprietor's network. Consequently, using trademark law in its current form without any limits, may counterproductively destroy the Internet's utility for everyone.<sup>63</sup>
- 38 As it appears from the judgments of the CJEU, striking the right balance between the consumer's rights to information and trademark owner's right to maintain its investment in the trademark on the basis of the law in force is difficult. The preceding analysis justifies the idea of introducing a mechanism within paid search programs, which would allow purchasers of other entities' trademarks as keywords to use those marks if this use would create a stream of revenue for trademark holders. Such a proposal would establish a licensing model for the use of a competitor's trademark as a keyword in a paid search.<sup>64</sup> This concept originates from the similarities between the position of copyright owners of digital public performance rights for sound recordings and holders of trademarks which are used for keywording.<sup>65</sup> The idea of introducing a licensing model for the use of trademarks requires taking into consideration the wording of art. 21 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). According to this provision, states are prohibited from introducing compulsory licenses for the use of trademarks. Consequently, the licensing model requires the creation of royalty structures for the use of a competitor's trademark as keywords in paid search services dependent upon the consent of the trademark holder. The introduction of the licences would possibly require establishing bodies, which would administer the licenses between

63 Goldman E. 2005. Deregulating Relevancy in Internet trademark law, 54 *Emory L.J.* p. 563.

64 Pimentel K. 2009. Trademark Use as Keywords: A Comparative Look at Trademark Use as Keywords in Paid Search and Digital Public Performance Rights For Sound Recordings, *J. Marshall Rev. Intell. Prop. L.* p. 553.

65 *Ibid.*, p. 563.

trademark owners and licensees.<sup>66</sup> The other aspect that would need to be thoroughly considered is whether the trademark holder shall be free to choose the rate structure imposed on the trademark use. The royalties system may reflect the way in which the search engine providers collect revenues from keyword advertising. Consequently, the royalties model could be structured in the following ways:

1. percent of the click cost of the trademarked keyword;
  2. flat fee per click, or;
  3. flat fee per thousand impressions;
  4. blanket license.
- 39 In the case of the percent of the click cost of the trademarked keyword structure, the trademark owner would only be paid each time clicking on the sponsored link is triggered by the trademarked keyword. This model would reflect the cost of a trademarked keyword in the trademark owner's fee. Consequently, if the cost of a trademarked keyword went up or down, the same would happen to the trademark owner's fee.<sup>67</sup>
- 40 In the flat fee per click system, the advertiser would be charged a flat rate every time a web user clicks on the advertisement. Such a royalty structure does not take into consideration the cost of the keyword; thus it provides the trademark holder with a stable stream of income.
- 41 The flat fee per impressions structure would charge the advertiser a certain fee every time the advertisement is generated as a result of typing a trademarked keyword into the web browser. This royalties structure entitles the trademark holder to remuneration in case the consumer searches for a specific keyword and the trademark holder's sponsored link shows up despite the fact that the consumer may divert his or her attention to a different page. As a consequence, the trademark holder would be compensated every time typing its trademark as a keyword triggers the display of the advertisement.<sup>68</sup> This would allow compensation for the additional expenses incurred by the trademark holder due to the violation of the advertising function of the trademark by the advertiser.
- 42 The last of the possible royalties structure - the blanket license, would introduce an annual license (for a minimal fee) for the use of a trademark in the keyword campaigns. Such a model would be well

suited for smaller brands, which may be unaware of the fact that their trademark is used as a keyword.

- 43 It is clear that there are many possible ways to tailor the royalties system in order to suit different kinds of trademark holders. Consequently, it would be reasonable to leave this choice to the advertisers and trademark holders.
- 44 The other issue regards considering whether the use of trademarks in keyword advertising shall not be treated as comparative advertising. According to Article 2(c) of the DMCA, comparative advertising is "any advertising which explicitly or by implication identifies a competitor or goods or services offered by a competitor". In light of the recent judgement in the Belgian Electronic Sorting Technology case<sup>69</sup> (BEST) it has been proposed that the use of a trademark in a domain name and that of metatags in a website's metadata is covered by the term "advertising", used in the Directive 2006/114/EC of the European Parliament and of the Council of 12 December 2006 concerning misleading and comparative advertising<sup>70</sup> (hereinafter: comparative advertising directive).<sup>71</sup> According to previous decisions of the CJEU, in order to reconcile the protection of registered marks and the use of comparative advertising, the proprietor of a registered trademark is not entitled to prevent the use, by a third party, of a sign identical with, or similar to, its mark, in a comparative advertisement which satisfies all the conditions, under which comparative advertising is permitted.<sup>72</sup> The judgement in the BEST case does not answer the question of whether the use of metatags for the offer of substitutable products constitutes a form of comparative advertising. Should the CJEU resolve this issue positively, then it is highly expected that use of the trademarked keywords in line with the requirements of the comparative advertising directive would remove the use of the trademarks in keyword advertising from the scope of the trademark directive and leave the whole issue to the law on comparative advertising.
- 45 Consequently, the proposed licensing model would provide compensation to the trademark holders for the loss incurred through the infringement of the advertising and investment functions of the trademark found by the CJEU under the double

69 CJEU, Belgian Electronic Sorting Technology Belgian Electronic Sorting Technology NV v. Bert Peelaers et Visys NV (2013) Case C-657/11.

70 Directive 2006/114/EC of the European Parliament and of the Council of 12 December 2006 concerning misleading and comparative advertising, OJ L 376, 27.12.2006, pp. 21-27.

71 CJEU, Belgian Electronic Sorting Technology Belgian Electronic Sorting Technology NV v. Bert Peelaers et Visys NV (2013) Case C-657/11, par. 60.

72 CJEU, O2 Holdings Limited and O2 (UK) Limited v. Hutchison 3G UK Limited (2008) Case C-533/06, par. 51.

66 Ibid., p. 577.

67 Ibid., p. 554.

68 Ibid., p. 556.

identity rule, while the use of the rules related to the comparative advertising may strengthen the position of the trademark holder as regards likelihood of confusion, taking unfair advantage, and causing detriment to the distinctive character or the repute of the trademark. This would be all the more welcomed as the grounds upon which comparative advertising is permitted are the same as the principles introduced in trademark law with one exception - there is no point of reference in the comparative advertising directive to afford protection to other trademark functions.<sup>73</sup> Consequently, the licensing model could compensate for the infringement of the advertising function of the trademark with a stream of revenues, whilst the law on comparative advertising would govern the issues of likelihood of confusion and unfair advantage of the reputation of a trademark protecting the trademark holders from a risk of misuse of their trademarks used under the license agreements. However, in these circumstances, the concept of taking unfair advantage of the distinctive character or the repute of the senior trademark would still need to be reconsidered.

- 46 The abovementioned concept is not flawless, however banning the use of trademarked keywords would undermine the utility of the web browser in a significant manner, and as a result would deprive the consumers of a reliable source of information. Thus, this proposal shall be treated as an attempt to balance the interests of the trademark holders, their competitors, and the consumers. The introduction of a paid license for the use of trademarked keywords and the flexibility of the royalties model shall act as solution for conflicts arising between trademark holders and advertisers, while the need for protection of consumers' information and the protection of fair competition could be solved by the law on comparative advertising.

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<sup>73</sup> Knaak R. 2014. Metatags and keywords as comparative advertising, *Journal of Intellectual Property Law & Practice*, Vol. 9, No. 9, doi: 10.1093/jiplp/jpu130.



# 'Abuse of Rights' in Belgian and French Patent Law

## A Case Law Analysis

by **Amandine Léonard\***

**Abstract:** This paper examines what types of actions undertaken by patent holders have been considered as abusive in the framework of French and Belgian patent litigation. Particular attention is given to the principle of the prohibition of "abuse of rights" (AoR). In the jurisdictions under scrutiny, the principle of AoR is essentially a jurisprudential construction in cases where judges faced a particular set of circumstances for which no codified rules were available. To investigate how judges deal with the prohibition of AoR in patent litigation and taking into account the

jurisprudential nature of the principle, an in-depth and comparative case law analysis has been conducted. Although the number of cases in which patent holders have been sanctioned for such abuses is not overabundant, they do provide sufficient leads on what is understood by Belgian and French courts to constitute an abuse of patent rights. From this comparative analysis, useful lessons can be learned for the interpretation of the ambiguous notion of 'abuse' from a broader perspective..

**Keywords:** Patent Law; Patent Litigation; Abuse of Rights; Over-Enforcement of Patents

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## A. Introduction

- 1 This paper is based on current statements from – mainly US – commentators claiming that patent holders "abusively" exercise their patent rights<sup>1</sup>.

<sup>1</sup> Commentaries, blogs and other articles referring to the term 'abuse': T. Molino, "Strengthening the Patent System by Ending Patent Abuse" (March 2015). R. Bell, "Litigation as an Abuse: European Commission and US Courts Draw a Line under 'Patent Wars' while Adopting a Common Approach on Standard Essential Patents", *Business Law International*, 15.3 (Sept. 2014). M. Street, "Turning the Tide on Patent Abuse: Vermont's New Law Already Inspiring Other States to Act", *ABA Banking Journal*, (Feb. 2014). M. Jones, "Application for central amendment of a patent after revocation at first instance does not of itself render an appeal an abuse of process", *J.I.P.L.P.* (2014). P. Hall "Patent Law Broken, Abused to Stifle Innovation" (July 2013). T. Worstall, "Is This Apple Abusing The Patent System Or The USPTO Abusing It?" (Nov. 2012).

However, there is no clear view regarding what "abuse" precisely means; even less so from a European perspective embedded in civil law tradition. This paper aims to shed some light on what "abuse" could mean in the field of patent law by analysing Belgian and French case law, in which the principle of the prohibition of "abuse of rights" (AoR) has been invoked before national courts. It appears that in the jurisdictions under scrutiny, the principle of AoR is essentially a jurisprudential construction where judges found themselves empty-handed when facing a particular set of circumstances for which no codified rules were available. Due to its jurisprudential nature, it is interesting to conduct a case law analysis and to investigate how judges deal with AoR, in order to better understand its scope of application in patent litigation. Although the number of cases in which patent holders have been sanctioned for these abuses is not overabundant,

they provide sufficient leads on what is understood by Belgian and French courts to constitute an abuse of patent rights.

- 2 The leading research question of the present paper can be formulated as follows: how do Belgian and French judges interpret the principle of AoR in the framework of patent litigation, and what does it entail? Given the state of the art regarding the principle of AoR in general, the following hypothesis is put forward: since, in Belgium and France, patent cases lie in the hands of non-specialised judges<sup>2</sup>, national judges refer to and use the AoR principle in the same fashion as their colleagues do in more "traditional" civil law cases (which do not include elements of IP). Nonetheless, since the principle of AoR is fact-based and must be assessed in light of all the circumstances of the case, a certain pattern in the behaviour of patent holders can be determined to help judges identify abuses in the specific framework of patent litigation.
- 3 This paper will first discuss the principle of the prohibition of AoR from a theoretical perspective (B). Some insights on the general civil law principle known in Belgium and France will be provided (B.I). Particular attention will be given to Art. 1382 of the respective civil codes (liability with fault), which constitutes the essential legal basis for the application of the prohibition of AoR. It will then be examined how the general civil law principle is applied in litigation (B.II). The paper will then turn to the case law analysis in order to fully comprehend how Belgian and French judges interpret the principle of AoR in the framework of patent litigation (C). An initial limitation must be clarified regarding the scope of this paper. Naturally, it is not only patent holders who may abusively exercise their exclusive rights. It also happens that (alleged) infringers abuse their rights or even the judicial system. However, in light of the initial statement that patent holders are responsible for "abuses", this paper focuses solely on cases in which it has been argued (and upheld by courts) that a patent holder has abused his or her rights. After introducing the methodology applied in order to compile the cases, a detailed assessment of the cases will be presented. The analysis of the

cases has been built upon the tripartite structure of Art. 1382 of the Belgian and French civil codes, i.e. the question of fault (C.I), harm (C.II), and causal link (C.III). A section will also focus on the sanctions decided by the courts (C.IV). The paper will then conclude with the findings on what constitutes an "abusive scheme" from patent holders in the context of Belgian and French patent litigation (D).

## B. The Principle of the Prohibition of Abuse of Rights

### I. Abuse of Rights

#### 1. Introduction

- 4 Traditionally, in civil law systems, all subjective rights can be subjected to the prohibition of AoR<sup>3</sup> and a common concept of abuse is generally accepted, i.e. the exercise of a person's rights in a manner which is unreasonable, with consequent harm to another, whether there was an intent or mere carelessness or indifference as to resulting harm (or not).<sup>4</sup> The AoR principle is commonly understood as an instrument, which allows judges to find a remedy for an imbalanced situation and a tool for recovery of distorted exercises of a right.<sup>5</sup> An abuse can be considered as a crossing of internal limits, revealing that despite adherence to formal and external limits by a right holder (the exercise is not illegal), the exercise of a right may be considered reprehensible (the exercise is considered illegitimate).<sup>6</sup> The

<sup>2</sup> There are no specialised patent courts or patent judges in Belgium and France per se. However, patent litigation is centralized. In Belgium, since 2015, all patent litigation proceedings are brought before the District Court for Commercial Matters of Brussels (*Tribunal de commerce/Rechtbank van koophandel*). Before 2015, jurisdiction was shared between the district courts for commercial matters sitting at the headquarters of one of the five courts of appeal of the country. This concerned the district courts of Brussels, Antwerp, Ghent, Liège, and Mons. In France, it is the *Tribunal de Grande Instance de Paris* which exclusively deals with patent cases. Before 2009, the district courts of Paris, Lyon, Marseilles, Bordeaux, Rennes, Strasbourg, Limoges, Nancy and Toulouse had jurisdiction over patent cases.

<sup>3</sup> A. Lenaerts, "The relationship between the principles of *fraus omnia corrumpit* and of the prohibition of abuse of rights in the case law of the European Court of Justice", *C.M.L. Rev.*, vol.25, pp. 1703-1718 (2011). T. Leonard, *Conflits entre droits subjectifs*, Larcier (2005). W. Van Gerven, *Algemeen deel, Beginselen van Belgisch privaatrecht*, I.R. Dillemans & W. Van Gerven (ed.), Standaard, Antwerpen (1973).

<sup>4</sup> A. Lenaerts, "The general principle of the prohibition of abuse of rights: A critical position on its role in a codified European contract law", *E.R.P.L.*, Vol.6, pp. 1121-1154 (2010b).

<sup>5</sup> V-L. Benabou, "L'abus de droit peut-il servir la cause de l'intérêt général en droit de la propriété intellectuelle" in *L'intérêt général et l'accès à l'information en propriété intellectuelle*, Université Libre de Bruxelles, colloque des 21 et 22 avril 2006, Bruylant (2008).

<sup>6</sup> S. Stijns, "Abus, mais de quel(s) droit(s)?", *J.T.*, n 5533, pp. 33-44 (1990). For an overview of both European and national conceptions on abuse see; P-E. Moysse, "L'abus de droit: L'anténorme – Partie I", *McGill L.J.*, Vol.51.4, p. 859 (2012a). P-E. Moysse, "L'abus de droit: L'anténorme – Partie II", *McGill L.J.*, Vol.58.1, p. 1 (2012b). A. Lenaerts, "The role of the general principle of the prohibition of abuse of rights in a codified European contract law", in I. Samoy (ed.) *Evoluties van de basisbeginselen van het contractenrecht*, Metro n.50, Intersentia (2010a). G. Palombella, "The Abuse of Rights and the

principle rejects a rigid adherence to the letter of the law in the evaluation of an individual exercise of rights. In light of the creativity of right holders and their ability to circumvent rules, the principle of AoR proves to be a necessary complement to the principle of formal legality.

- 5 Long considered as a realm where right holders benefit from the most absolute freedom of conduct, the theory of AoR nonetheless has its roots in the field of property law (Art. 544 of Belgian and French civil codes). The well-known *Clement-Bayard* case of the French *Cour de cassation* provides the most striking example of the application of the theory of AoR in the field of property law. Mr Coquerel had acquired a piece of land near the airship hangar of the Clement-Bayard Company. He built two tall wooden scaffoldings bristling with iron spikes, which made it difficult for airships to take off and land from the hangar. The Court ordered Mr Coquerel to pay damages and to remove the iron spikes. Although it may have seemed as if Art. 544 of the French civil code granted an absolute right to the property owner to do whatever he deemed fit on his piece of land; the Court held that he had abused his property rights, given his intention to cause damage.<sup>7</sup> It was clearly established in this case that if property rights holders are entitled to extract the best of their rights, it is only under the conditions of a legitimate exercise.<sup>8</sup>
- 6 In Belgium and France, the prohibition of AoR constitutes a jurisprudential construction built upon different provisions.<sup>9</sup> The most common legal basis is Art. 1382 of their respective civil code for non-contractual (tortious) matter and its regime of liability with fault. This provision requires the fulfilment of three conditions in order for a right holder to be held liable for his actions. First, it is necessary to prove that the right holder is at fault.

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Rule of Law" (2005), available at SSRN : <http://ssrn.com/abstract=992875>. M. Byers, "Abuse of rights: An old principle, a new age", *McGill L.J.*, Vol.47, p. 389 (2002). A. Kjellgren, "On the Border of Abuse – The jurisprudence of the European Court of Justice on circumvention, fraud and other misuses of community law", *E.B.L.R.*, p. 179 (2000).

- 7 *Cour de cassation* (civ.) 3 août 1915, *Recueil Dalloz*, 1917. I.79. J. Snell, "The notion of and a general test for abuse of rights: some normative reflections" in R. de la Feria & S. Vogenauer, *Prohibition of Abuse of Law: A New General Principle of EU Law?*, Hart Publishing, p. 220 (2011).
- 8 F. Terré & Y. Lequette, "Propriété. Caractère absolu. Abus de droit" in *Les grands arrêts de la jurisprudence civile*, 12<sup>e</sup> ed. p. 435 (2007).
- 9 Belgian and French civil codes; Art. 1382: "Tout fait quelconque de l'homme, qui cause à autrui un dommage, oblige celui par la faute duquel il est arrivé, à le réparer". Art. 1383: "Chacun est responsable du dommage qu'il a causé non seulement par son fait, mais encore par sa négligence ou par son imprudence". Art. 1134(3): "Les conventions légalement formées [] doivent être exécutées de bonne foi".

Second the victim of this fault must demonstrate that he/she suffered a harm. Finally, the fault must be at the origin of the harm suffered (i.e. the causal link). Belgian and French courts have developed a set of criteria in order to assess if a right has been abused and therefore demonstrate that a right holder is at "fault". These jurisdictions have adopted a "mixed test" of abuse, based on both a subjective and an objective element; in other words, determining the intention of the right holder and an assessment of all the circumstances of the case.

## 2. Belgium

- 7 Under Belgian case law<sup>10</sup> an abuse is present if the limits of the normal exercise of a subjective right by a careful and cautious person placed in the same circumstances are manifestly exceeded (the *generic* criterion).<sup>11</sup> To assist the judge in the determination of what constitutes a manifestly unreasonable exercise of a right, a non-exhaustive and alternative list of *specific* criteria has been developed.<sup>12</sup>
- 8 A *first* criterion relates to a subjective element. Abuse will be considered to take place when the aim of the right holder is to harm third parties (the intention to harm criterion). A *second* criterion – sometimes perceived as including most of the specific criteria – is the proportionality criterion. There will be an abuse when, facing a choice between different ways of exercising his/her right, a right holder chooses the one which provides him/her a disproportionate benefit compared to the disadvantage inflicted on the other party. In such cases, judges operate a balance of interests – on the one hand, the advantage of the holder's right to such an exercise, and on the other hand, the damage sustained by third parties,. A *third* criterion relates to the interest of the right holder. Abuse will take place when a right holder exercises his right without legitimate or reasonable interest. A *fourth* criterion relates to the different ways of exercising a right. Abuse will occur when amongst the options equally beneficial to the right holder, he/she chooses the option that is the most disadvantageous to third parties or disregards the
- 10 Belgian courts have expressly recognised that the theory of the prohibition of abuse of rights has to be considered as a general principle of law. See notably Cass. 6 janvier 2011, *Pas.* 2011, I, p. 44. Cass. 22 septembre 2008, *Pas.* 2008, p. 1999. Cass. 24 septembre 1992, *Pas.* 1992, I, p. 1049. Cass. 19 octobre 1989, *Pas.* 1990, I, p. 392. Cass. 5 mars 1984, *Pas.* 1984, I, p. 768.
- 11 Cass., 10 septembre 1971, *Pas.*, 1972, I, p. 28. T. Leonard (n.3). S. Stijns (n.6). P. Bazier, "Abus de droit, rechtsverwerking et sanctions de l'abus de droit", *T.B.B.R.*, 2012/8, pp. 393-403 (2012). J. Van Zuylen, "Fautes, bonne foi et abus de droit: Convergences et Divergences", *Annales de Droit de Louvain*, Vol. 71, No.3, (2011).
- 12 T. Leonard (n.3).

general interest. Finally, there will be an abuse whenever the exercise of a right goes against the purpose of this right (the right-function criterion). According to this criterion, it cannot be accepted that a right is exercised for a purpose other than the one which animated the legislature, and the notion of abuse is intrinsically linked to the idea of the existence of a *social function* of subjective rights.<sup>13</sup>

### 3. France

- 9 Under French case law<sup>14</sup>, there is no generic criterion as in Belgium. However, an abuse has to be characterised (*"un abus caractérisé"*). It is recognised that there will be a characterised abuse when a right holder does not act as a normally prudent and reasonable person would act in the same circumstances<sup>15</sup>, which is fairly similar to the Belgian generic criterion.
- 10 Three – *specific* – criteria<sup>16</sup> are generally used by courts to assess if a right has been abused, *i.e.* the intention to harm criterion<sup>17</sup>, the proportionality criterion, and the right-function criterion.<sup>18</sup> These criteria can be defined in the same manner as under Belgian case law. In the French doctrine, much ink has been spilled on the right-function criterion. According to this standard, and as explained above, the legislator has conferred rights upon individuals with specific social aims in mind and these aims should be respected by the right holder.<sup>19</sup> All

rights conferred by law are relative; they are only the means to achieve certain social objectives. It is necessary that the enforcement and exercise of rights stay compatible with such social functions. If they are exercised for other objectives or diverted from their legitimate functions, they can no longer be protected.<sup>20</sup>

### 4. The Sanction of Abuse

- 11 In both jurisdictions, the sanction of an abuse is not the forfeiture of the right which has been abused. Rather, it is only the exercise of this right which is limited to a proper use. The prohibition of AoR is rather considered as a "shield than a sword"<sup>21</sup>; the sanction is there to remove the ability from the right holder to assert his right in a manner considered improper by a judge. The objective of the sanction is to re-establish the victim of abuse in a state *as if* the abuse did not occur. The sanction includes the possibility for allocation of damages<sup>22</sup>. To obtain compensation for the harm suffered, a victim of the abuse must show that the conditions of Art. 1382 of the civil codes are met.<sup>23</sup> Accordingly, he/she must demonstrate that the right holder was at fault (he/she abused his/her right), that he/she suffered harm, and that there exists a causal link between the fault and the harm suffered. To quantify such harm is generally difficult for the victim of abuse, therefore, courts frequently rely on an evaluation *ex aequo et bono* and grant a lump sum to compensate the harm suffered.<sup>24</sup>

## II. Abuse of Rights in the Course of Litigation

### 1. Introduction

- 12 It is indisputable that exercising the right of access to justice<sup>25</sup>, the right of defence, the right to sue, the right to appeal a decision, or the right to request protective measures from a court is not abusive *per*

13 P. Van Ommeslaghe, "Abus de droit, fraude aux droits des tiers et fraude à la loi" note sous Cass., 10 sept. 1971, *R.C.J.B.* pp. 303 et seq. (1976).

14 P. Ancel & C. Didry, "L'abus de droit: Une notion sans histoire? L'apparition de la notion d'abus de droit en droit français au début du XXe siècle" in *L'abus de droit: comparaisons franco-suisses*, Publications de l'Université de Saint-Etienne (2001).

15 J. Flour, J. Aubert & E. Savaux, *Les obligations - 2. Le fait juridique*. Paris, Dalloz, 123 (2007). J. Ghestin & G. Goubeau, *Traité de droit civil - Introduction générale*, Paris, Librairie Générale de Droit et de Jurisprudence, 736 (1994).

16 L. Eck, "Controverses constitutionnelles et abus de droit", *intervention au Congrès de l'association française de droit constitutionnel (A.F.D.C.), atelier sur « les controverses constitutionnelles », Montpellier, Publication numérique des actes du Congrès sur www.droitconstitutionnel.org*, Juin 2005.

17 It is argued that the intention to harm criteria also covers the use of a right in the most damaging way to third parties with equal benefit to the right holder. M. Temmerman, "The Legal Notion of Abuse of Patent Rights", nccr trade regulation working paper No 2011/23, p. 8 (2011).

18 C. Jallamion, "La fortune de Josserand", *Fonction(s) des droits de propriété intellectuelle*, Propriété Industrielle n.10, dossier 2 (2010). L. Josserand, *De l'esprit des droits et de leur relativité*, 2<sup>e</sup> ed., Paris, Dalloz (1939). L. Josserand, *De l'abus des droits*, Paris, Rousseau (1905).

19 S. Herman, "Classical social theories and the doctrine of 'abuse of rights'", 37 *La. L. Rev.* 747 (1977).

20 J. Cuerto-Rua, "Abuse of rights", 35 *La. L. Rev.* 965 (1977).

21 D. Anderson QC, "Abuse of rights", 11 *Jud. Rev.* 348 (2006). Inspired by: E. Teller, *Better a Shield Than a Sword: Perspectives on Defense and Technology*, Free Press (1987).

22 A. Lenaerts (n.4). S. Stijns (n.6). P. Bazier (n.11).

23 See *supra* 6.

24 G. Eloy, "La procédure téméraire et vexatoire", in X., *Droit judiciaire. Commentaire pratique*, 1.5-1-1.5-34, p. 28 (2015).

25 A. Mayrand, "Abuse of rights: France, Quebec", 34 *La. L. Rev.* 993, 999 (1974). The right of access to justice and the right of defense being notably protected via the article 6 European Convention on Human Rights (ECHR).



se.<sup>26</sup> To take legal action does not, in itself, engage the liability of the litigant.<sup>27</sup> Nonetheless, legal remedies are powerful means and they *must* be handled with care and in good faith.<sup>28</sup> In that regard, litigants *must* avoid unnecessary expenses and ought to act in a diligent way, namely by taking into consideration the legitimate procedural interests of the other parties involved<sup>29</sup> as well as the interests of the court itself.<sup>30</sup> As any other right, procedural rights are not absolute and can be the object of legitimate limitations.<sup>31</sup> Therefore, when litigants institute legal procedures – or persevere in a legal action – with the sole purpose of harming the defendant (the intention to harm criterion), in a disproportionate manner (the proportionality criterion) or with a particular objective not intended by the legislator (the right-function criterion)<sup>32</sup>, it can become abusive.

- 13 Even though the assessment criteria are based on the general principle of the prohibition of AoR, the terminology adopted in the course of litigation to qualify an unacceptable procedural behaviour as an abuse varies. Courts refer to concepts such as “unfair procedural behaviour”<sup>33</sup> or “using the procedure to manifestly slow down the litigation process”<sup>34</sup> or “for unlawful purposes”<sup>35</sup>. However, the prohibition of AoR is essentially referred to via the concepts of “frivolous/reckless and vexatious” litigation<sup>36</sup>.

26 H. Boularbah & J-F. van Drooghenbroeck, “L’abus du droit de conclure”, dans *Mélanges – Philippe Gérard*, Bruxelles, Bruyant, pp. 465-466 (2002).

27 N. Cayrol, “Dommages-intérêts et abus du droit d’agir”, HAL (2013) <hal-01017593>.

28 L. Jossierand, “Relativité et abus de droit”, *Evolutions et Actualités – conférences de droit civil*, Sirey, Paris (1936).

29 G. Eloy (n.24) p. 8. P. Knaepen, “La loyauté procédurale, un principe en plein essor”, Note sous Justice de paix d’Ixelles, 25 Février 2014, *J.L.M.B.*, 2014/31, pp. 1496-1500. M. Storme, “L’obligation de procéder de manière diligente et raisonnable : une obligation indépendante du fond de l’affaire”, note sous Bruxelles, 25 janvier 1990, *J.L.M.B.*, p. 458 (1991).

30 B. Vanlerberghe, “Rechtsmisbruik in het procesrecht” in J. Rozie, S. Rutten & A. Van Oevelen (eds.), *Rechtsmisbruik*, Intersentia (2015) p. 123.

31 G. Eloy (n.24) p. 9.

32 A. Boucquey, “La défense”, in X., *Droit judiciaire. Commentaire pratique*, II.2-1-II.2-36, p. 5 (2015).

33 With reference to the application of the concepts of good faith, integrity and diligence in the course of litigation.

34 E.g.: Cass., 16 mars 2012, C.08.0323.F et C.09.0590.F, available on: [www.juridat.be](http://www.juridat.be), p. 26: *Les défendeurs ont, en conclusions, «[dénoncé] l’attitude procédurière des demandeurs, ceux-ci cherchant, par tous moyens, à retarder au maximum la solution judiciaire du litige» [...] Les demandeurs avaient « manifestement pour objectif de [les] décourager » et que l’action n’avait « été engagée que dans le but de leur être désagréable et de leur causer frais et ennuis ».*

35 G. Eloy (n.24) p. 11. E.g.: When a litigant introduces a claim for another purpose than succeeding in the dispute.

36 N. Cayrol (n.24). B. Vanlerberghe (n.30) p. 116. J-F. van Drooghenbroeck, “L’abus procédural: Une étape décisive”

*Frivolous and reckless* litigation means irresponsible or thoughtless litigation, or situations where a litigant institutes legal proceedings without worrying about the consequences or the risks involved for him- or herself or incurred to third parties.<sup>37</sup> It can also be considered reckless for a litigant to introduce a claim which manifestly lacks sound reasoning.<sup>38</sup> An action is considered *vexatious* when a litigant uses the procedure to (intentionally/maliciously) hinder or harm third parties.<sup>39</sup> In short, there will be an AoR in the course of litigation when the right holder exercises his/her rights with either, the intention to harm or when he/she is inexcusably negligent, frivolous or indifferent to the consequences of this exercise.<sup>40</sup>

## 2. Belgium

- 14 According to Belgian case law, procedural abuse is entirely modelled on the general principle of the prohibition of AoR. Therefore, the generic and the specific criteria developed *supra* have to be assessed in the same manner in order to establish a procedural abuse.<sup>41</sup> There will be a procedural abuse if the court is of the opinion that a party litigates in a manner that clearly goes beyond the limits of the normal exercise of his right by a cautious and careful litigant.<sup>42</sup> It is worth noting that prior to 2003, the intention to harm criterion played a predominant role in the evaluation of AoR in the course of litigation. However, in a landmark decision regarding procedural abuses, the Belgian *Cour de cassation/Hof van cassatie* clarified that this criterion was not unique, and that manifest excesses in the exercise of a right can turn a procedure into a vexatious litigation.<sup>43</sup>

note sous Cass., 31 oct. 2003, J.T., 2004, pp. 135-136. ‘*Action téméraire et vexatoire*’ or ‘*tergend en roekeloos geding*’.

37 B. Vanlerberghe (n.30).

38 G. Eloy (n.24) p. 24. A claim that will request from the other plaintiff thorough investigations, production of documents or appointment of an expert, although the claimant knew or should have known that its argument will necessarily be rejected.

39 B. Vanlerberghe (n.30) p. 126. To maliciously sustain a claim that has no reasonable chance of success or to maliciously holding back pieces of evidence.

40 G. Helin, “L’abus de droit dans la jurisprudence”, *Orientations* n.7, Sept. 2010 pp. 19-22. This covers the different criteria (both in Belgium and France) developed above.

41 G. Eloy (n.24). N. Cayrol (n.27). B. Vanlerberghe (n.30) p. 120, 126. J-F. van Drooghenbroeck (n.36). G. Helin (n.40).

42 See e.g.: Cass., 31 octobre 2003, J.T., 2004, p. 134; Cass., 12 mai 2005, C.04.0275.F; Cass., 28 septembre 2011, P.11.0711.F; Cass., 16 mars 2012, C.08.0323.F-C.09.0590.F, available on: [www.juridat.be](http://www.juridat.be).

43 Cass., 31 octobre 2003, J.T., 2004, p. 134: “*Une procédure peut revêtir un caractère vexatoire non seulement lorsqu’une partie est animée de l’intention de nuire à une autre mais aussi lorsqu’elle*

### 3. France

- 15 Similarly to the 2003 decision of the Belgian *Cour de cassation/Hof van cassatie*, the French *Cour de cassation* has also declared that procedural abuse does not require an intentional element. Specifically, it was deemed sufficient to demonstrate that the right had been used for another purpose than its social goal<sup>44</sup> or that the right holder acted with frivolousness<sup>45</sup>.

### 4. The Sanction – Particularity: The Disruption of the Judicial Process

- 16 There are essentially two types of sanctions for an abuse in the course of litigation: damages to the injured party<sup>46</sup> and a civil fine<sup>47</sup>. These two sanctions remedy two different effects of the abuse. The first compensates the injury caused to the litigant victim of the abuse, while the second corrects the harm caused to the judicial system. Specific provisions to remedy to this second effect of abuse exist in Belgian and French procedural codes (*Code judiciaire/Gerechtigd Wetboek* and *Code de procédure civile* respectively). Art. 780bis of the Belgian judicial code and Art. 32-1 of the French code of civil procedure clearly stipulate that the party who uses judicial proceedings to clearly delay the procedure or for unlawful purposes (i.e. in a dilatory or abusive manner), shall be sentenced to a civil fine, without prejudice to other damages which could be claimed.<sup>48</sup> The civil fine aims at compensating the fact that procedural abuse twists the judicial process and disrupts the good functioning of justice.<sup>49</sup> The

imposition of such a fine is part of the discretionary powers of the court<sup>50</sup> and is limited to the amount provided by law.

- 17 As for the procedural costs involved in litigation, Belgium and France provide for a “loser-pay” rule<sup>51</sup>, meaning that the losing party has to bear the procedural costs (i.e. judicial expenses and costs of the winning party). In addition, specific provisions exist for attorney’s fees. Art. 1022 of the Belgian judicial code provides for the allocation of a (fixed) recoverability of attorney’s fees<sup>52</sup>, while Art. 700 of the new French code of civil procedure (CCP) allows for the recovery of costs not covered by the exhaustive list<sup>53</sup> provided by Art. 695 CCP (*les dépens*). This covers expenses incurred during litigation such as attorney’s fees, expert opinions or other irrecoverable costs (*les frais irrépétibles*).<sup>54</sup> In the assessment of these costs, judges can take into consideration all the circumstances of the case in order to grant an appropriate compensation (including the behaviour of the litigants).<sup>55</sup> If under French law judges can decide in equity<sup>56</sup>, under

*exerce son droit d'agir en justice d'une manière qui excède manifestement les limites de l'exercice normal de ce droit par une personne prudente et diligente*”.

- 44 N. Cayrol (n.27). The plaintiff does not act to restore justice, but merely to pressure the defendant.
- 45 Cass. 2e civ., 10 janv. 1985, *Gaz. Pal.* 1985, I, *Panor.*, p. 113.
- 46 G. Eloy (n.24) p. 3. *Supra* 9.
- 47 G. Closset-Marchal, “L’appel abusif, note sous Cass., 5 mai 2008”, *R.G.D.C.*, p. 385 (2009).
- 48 Art 780bis al. 1-2 Belgian judicial code: “*La partie qui utilise la procédure a des fins manifestement dilatoires ou abusives peut être condamnée à une amende de 15 euros à 2.500 euros sans préjudice des dommages-intérêts qui seraient réclamés. En ce cas, il y sera statué par la même décision dans la mesure où il est fait droit à une demande de dommages et intérêts pour procès téméraire et vexatoire [ ]*”. References to reckless and vexatious proceedings can also be found in Art.563 al 3 and 620 Belgian judicial code. Art. 32-1 French Code de procédure civile: “*Celui qui agit en justice de manière dilatoire ou abusive peut être condamné à une amende civile d’un maximum de 3000€, sans préjudice des dommages-intérêts qui seraient réclamés*”. Rem: The same provision is applicable for the right to appeal (Arts. 559; 581) and cassation (Art. 628).
- 49 For Belgium see G. Eloy (n.24) p. 30,32. B. Vanlerberghe (n.31) p. 125. A. Boucquoy (n.32) p. 6. G. Closset-Marchal (n.47) p. 385. For France see N. Cayrol (n.27).

- 50 E.g.: Cass., 28 juin 2013 C.12.0502.N, available on: [www.juridat.be](http://www.juridat.be).
- 51 Arts. 1017-1021 Belgian judicial code and Arts. 695-696 French new code of civil procedure. C. Hodges, S. Vogenauer & M. Tulibacka (eds.), *The costs and funding of civil litigation: A comparative perspective*, Hart Publishing (2010).
- 52 See in particular; Arts. 2 and 3 *Arrêté royal fixant le tarif des indemnités de procédure visées à l'article 1022 du Code judiciaire et fixant la date d'entrée en vigueur des articles 1er à 13 de la loi du 21 avril 2007 relative à la répétibilité des honoraires et des frais d'avocat* (Mon., 09 Nov. 2007).
- 53 Contrary to Art. 1018 Belgian judicial code which does not provide for an exhaustive list of judicial expenses and costs. I. Samoy & V. Sagaert, “‘Everything Costs Its Own Cost, and One of Our Best Virtues Is a Just Desire To Pay It’ An Analysis of Belgian Law” in M. Reimann (ed.), *Cost and Fee Allocation in Civil Procedure*, Ius Gentium: Comparative Perspectives on Law and Justice 11, Springer Science+Business Media B.V. p. 81 (2012).
- 54 Art. 700 New CCP: “In all proceedings, the judge will order the party obliged to pay for legal costs or, in default, the losing party, to pay to the other party the amount which he will fix on the basis of the sums outlaid but not included in the legal costs. The judge will take into consideration the rules of equity and the financial condition of the party ordered to pay. He may, even sua sponte, for reasons based on the same considerations, decide that there is no need for such order”.
- 55 Art. 1022 Belgian judicial code stipulates that the judge has to take into consideration the financial ability of the losing party, the complexity of the case, any contractually agreed compensation between the parties and the manifestly unreasonable character of the situation, to either increase or decrease the amount granted.
- 56 According to Art. 700 CCP, the judge can also take into consideration the economic situation of the losing party. N. Cayrol, “La répartition des frais en procédure civile française” in M. Reimann (ed.) *Cost and Fee Allocation in Civil Procedure*, Ius Gentium: Comparative Perspectives on Law and Justice 11, Springer Science+Business Media B.V. p.137, pp. 144-150 (2012). S. Gjidara-Decaix, “Les règles de

Belgian law the allocation cannot exceed the fixed minimum and maximum amounts<sup>57</sup>.

## C. Abuse of Rights in Patent Litigation: Quid in Practice?

- 18 Having presented the theoretical framework concerning the prohibition of AoR, the paper will now turn to the case law analysis in order to fully comprehend how Belgian and French judges interpret the principle of AoR in the framework of patent litigation.
- 19 Patent litigation typically revolves around two questions, i.e. validity and infringement.<sup>58</sup> The question of validity focuses on the qualities of the patent itself, not on the way the patent holder is exercising the rights attributed to him/her by his/her patent. The same applies to the establishment of infringement: the main focus is on the alleged infringer's behaviour, and not on the patent holder's conduct. The analysis of the application of the prohibition of AoR in patent litigation allows one to take a different perspective on patent litigation, and to shed some light on the behaviour of the right holder. Infringement claims, seizure measures, as well as (preliminary) injunctions represent the most fertile ground of analysis for this paper. It is particularly regarding the way in which a patent holder enforces the exclusive rights conferred to them by their patent(s), that they are likely to be held liable for an abuse of rights. If Art. 3(2) of the European Directive 2004/48/EC on the enforcement of IPRs (the Enforcement Directive)<sup>59</sup> explicitly mentions the possibility of "abuse"<sup>60</sup>, the transposition of the Enforcement Directive in national legislations leaves room for interpretation. This paper aims at understanding what actions undertaken by right-holders can be considered as abusive, which could, in turn, contribute to provide more information on the rather evasive notion of "abuse".

répartition des frais en procédure civile", *Revue Internationale de droit comparé*, 2010, Vol. 62, No. 2, pp. 325-360.

57 Art. 1022 Belgian judicial code.

58 J. Straus, "Patent litigation in Europe – A Glimmer of Hope? Present Status and Future Perspectives", 2 *Wash. U. J.L. & Pol'y* 403, pp. 406-407 (2000).

59 Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights (JO L 157 du 30.4.2004, p. 45-86).

60 A. Metzger, "Abuse of Law in EU Private Law: A (Re-) Construction from Fragments" in R. de la FERIA & S. Vogenauer (eds.) *Prohibition of Abuse of Law, A New General Principle of EU Law?*, Hart Publishing, 16 (2011). S. Vogenauer, "The Prohibition of Abuse of Law: An Emerging General Principle of EU law" in R. de la FERIA & S. Vogenauer (eds.) *Prohibition of Abuse of Law, A New General Principle of EU Law?*, Hart Publishing, 35 (2011).

- 20 Cases have been compiled in Belgian and French patent law jurisprudence over the last 14 years. The collection was generated from a search on the database Darts-IP.<sup>61</sup> A word search was conducted for the terms "*abus de droit*", "*misbruik van recht*" and "*rechtsmisbruik*" ("abuse of right") in order to collect cases in the official languages<sup>62</sup> of the two jurisdictions covered by this paper. According to this search, between January 1<sup>st</sup>, 2000 and December 31<sup>st</sup>, 2014, the principle of the prohibition of AoR has been invoked in the course of patent litigation, in 79 different cases.<sup>63</sup>
- 21 It is worth noting that, contrary to common law countries, the rule of precedent does not apply in Belgium and France. However, case law constitutes a valuable source of law.<sup>64</sup> A case law analysis aiming at identifying a certain degree of unity in the application of AoR in patent litigation is therefore highly relevant. Despite the fact that a total of 79 cases may seem fairly limited, a careful reading and a thorough analysis of each case enabled the filtering out of the essential components of the prohibition of AoR applied in Belgian and French patent litigation.
- 22 As mentioned above, there is no specific provision for abuse under Belgian or French patent law and Art. 1382 of the civil codes represents the legal basis for analysis. The following sections are therefore divided according to the tripartite structure of this pivotal provision, i.e. the fault or "abusive" action (C.I.1), the harm suffered (C.I.2) and the causal link (C.I.3) while integrating this analysis in the framework of patent litigation.

## I. The Fault or the "Abusive" Action

- 23 There is a wide variety of actions which have been qualified as "abusive" in the case law at hand. In theory, the criteria developed under Belgian and

61 Darts-IP collects cases and court documents from major IP courts including Europe, Hong Kong, China, Brazil, and the United States, see <http://www.darts-ip.com/world/>.

62 German is also an official language in Belgium, however, patent cases are not pled in German.

63 These 79 cases include all instances of a particular dispute, i.e. first instance, appeal and cassation level. In the eventuality of a case referring to AoR only at one level of decision, e.g. only on appeal, a more precise search was conducted in order to obtain the other decisions, i.e. the trial judgment and/or cassation judgement. It must be acknowledged that it was not possible to retrieve all the instances since some of them haven't been published. Belgian jurisdictions dealt with 15 of these cases while French jurisdiction decided on the 64 remaining cases.

64 I. Romet, A. Metier & D. Talvard, "Patent Enforcement in France", in C. Heath (ed.), *Patent Enforcement Worldwide: Writings in Honour of Dieter Stauder*. Oxford. Bloomsbury Collection, p. 144 (2015).



French case law<sup>65</sup> could serve as guidance in order to identify these abusive actions. The analysis revealed that such a categorisation is not as straightforward as expected. An attempt to provide some order in the chaos of the cases has therefore been to categorise the abusive actions according to different phases of the procedure. However, certain actions have effects transcending these phases and are therefore comprised under a more general heading.

## 1. General Misconduct

**24 Knowledge** – The knowledge of a patent holder (or the fact that he/she should have known) regarding the invalidity<sup>66</sup> of a patent and/or the lack of infringement<sup>67</sup>, or even regarding other pieces of information considered crucial for a court, is a key element in the assessment of abuse. If it can be established that a patent holder had such knowledge but did not act in good faith, the patent holder can be held liable.

**25** This type of abusive action is particularly well illustrated by a decision from the Paris District Court.<sup>68</sup> In this case, the American electronic company TYCO argued that the French company TTK infringed two of its European patents regarding a method for detecting and obtaining information about changes in variables.<sup>69</sup> Back in 1996, TYCO suspected that TTK violated its patents and engaged into various procedures for infringement. TTK claimed that the lawsuit had only been introduced to fuel a long-lasting dispute between competitors and that TYCO *knew* of the existence of a US patent application back in 1993, that would constitute prior art and invalidate its patent<sup>70</sup>. Despite that knowledge, TYCO decided to advance with multiple proceedings and used all of the available mechanisms in order to delay these proceedings. TYCO did not show any willingness to reach a solution in this case, and adopted a procedural behaviour which slowed down the judicial process to the detriment

of TTK. According to TTK, the combination of these actions demonstrated that TYCO was manifestly abusing its right to claim infringement. The Court invalidated both patents and rejected the claims for infringement. It also deemed it to be abusive to introduce this lawsuit, and to pursue this litigation by unfair means, since it was clear that TYCO's actions had been driven by bad faith. The *knowledge* of the patent holder regarding the highly potential *invalidity* of its patent, and the bad faith adopted during litigation in order to unnecessarily prolong the procedure were deemed sufficient for the Court to hold the patent owner liable for abuse of the right to claim infringement.

**26** Despite the fact that the knowledge of the patent holder represents a key element in the assessment of abuse, patent holders have also been excused in many cases.<sup>71</sup> The difficulty in interpreting the scope of a patent led courts to rule that the patent holder could have misjudged or misinterpreted the scope of its rights and therefore could not be held liable for abuse. Moreover, courts also found that alleged infringers often failed to prove that the patent holder had such knowledge, either when introducing an infringement claim or during the litigation process. The burden of proof of such knowledge is particularly heavy on claimants of abuse.

**27** In a controversial Belgian case<sup>72</sup>, the Ghent District Court for Commercial Matters even dismissed the argument of abuse although the patent holder himself once claimed the invalidity of its own title. In this case, the Belgian company Lotus Bakeries (owner of a Belgian patent on a Speculoos spread<sup>73</sup>) was opposed to one of its competitors (the company

<sup>65</sup> Supra 7, 8.

<sup>66</sup> TGI Paris (3<sup>e</sup> ch. 1<sup>e</sup> sct.) 14 Nov. 2013, *M. Serge G. c. SAS Lise Charmel Industrie* (RG 12/09624); TGI Paris (3<sup>e</sup> ch. 1<sup>e</sup> sct.) 20 Déc. 2012, *SARL Measurix, SARL Measurix France c. SARL Atlog* (RG 11/10918); Cour d'appel de Paris (4<sup>e</sup> ch. Sct. A) 05 Fév. 2003, *SA Colas c. STE T.S.S. (Eurovia Beton)* (RG 2001/08866); Cour d'appel de Paris (4<sup>e</sup> ch. Sct. A) 25 Avril 2001, *Société DIAM Diffusion Internationale d'Articles Manufactures SA c. Société RLB SA* (RG 1999/06310).

<sup>67</sup> Cour de cassation (comm.) 03 Juin 2003, *SA Neptune et Société Cuisimer Cuisine de la mer c. Société Fleury Michon* (E 01-15.740).

<sup>68</sup> TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct.) 28 Jan. 2003, *Société TYCO Electronics Corp. et TYCO Electronics France SAS c. SA TTK*, (RG 02/02889).

<sup>69</sup> EP0133748B1 and EP0250776B1.

<sup>70</sup> Examiners from the USPTO requested to modify the application on the basis of the said prior art (p. 10).

<sup>71</sup> In France, TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct.) 22 Juin 2012, *Watts Industries France (anciennement GRIPP SAS) c. Rehau SA* (RG 10/02331); TGI Paris (3<sup>e</sup> ch. 2<sup>e</sup> sct.) 02 Avril 2010, *Société Levo AG Wohlen c. SAS Invacare Poirier* (RG 08/06015); TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct.) 28 Oct. 2009, *SARL AMD c. SARL Power System* (RG 08/08271); Cour d'appel de Paris (4<sup>e</sup> ch. Sct. A) 04 Juin 2008, *SAS Alcan packaging food France, SA Paul Boye Technologies c. L'Etat Français, SA Matériels Industriels de Sécurité (MATISEC), SA Rovitex et SARL Safitex* (RG 06/17059); Cour d'appel de Paris (4<sup>e</sup> ch. sct. B) 16 Sept. 2005, *M. Marcel M. et SA Matière c. SARL Prefa 31 et al.* (RG 03/06456); Cour d'appel de Toulouse (2<sup>e</sup> ch. sct. 2) 12 Juin 2007, *Technilum c. Valmont* (RG 06/04256); Cour d'appel de Douai (Ch 1, Sct 2) 14 Sept. 2005, *SA Glaverbel, Société Fosbel Intellectual AG, Fosbel Europe BV et Fosbel Intellectual Ltd. c. SAS Compagnie Technique des Pétroles (CTP) et SA FIB Services* (RG 02/06916); Cour d'appel de Paris (4<sup>e</sup> ch. Sct. B) 16 Mai 2003, *SA Saitec c. SARL Isolum* (RG 2001/14523); Cour d'appel de Paris (4<sup>e</sup> ch. Sct A) 27 Nov. 2002, *Stratus SARL, Arome SARL et M. P. Blanc-Beauregard c. Société Athem* (RG 2000/07234). In Belgium, Hof van Beroep te Brussel (8<sup>ste</sup> kamer), 01 April 2014, *Luc Doolaege v. N.V. Atos Worldline* (AR 2009/AR/3204); Hof van Beroep te Brussel (8<sup>ste</sup> kamer) 04 Mei 2010, *De Wijngaert Achille v. V.Z.W. Royal Sporting Club Anderlecht* (AR 2008/AR/2267).

<sup>72</sup> Kh. Gent (Zesde kamer) 20 Jan. 2011, *BVBA Willems Biscuiterie v. NV Lotus Bakeries* (A/09/02830).

<sup>73</sup> BE 1016009A3.



Willems). Back in 2006, two individuals applied and obtained a Belgian patent on the Speculoos spread. Two years later, Lotus approached the patent owners and alleged that the patent was invalid. However, the claim of invalidity was withdrawn and Lotus obtained the exclusive rights on the Speculoos spread. After having obtained and enforced a seizure measure at the premises of two Belgian supermarkets, the patent holder filed an infringement action against its competitor. Willems considered this opportunistic from Lotus to now enforce the patent with panache and verve, as Lotus had once claimed its invalidity. The Court dismissed the argument of abuse and held that in light of the principle of freedom of trade, Lotus could decide to change its strategy. The Court ruled that it was the defendant's decision not to commercialise its own Speculoos spread and that this decision had not been influenced by any allegedly aggressive scheme on the part of Lotus.

**28 Intention to Harm** – Although Belgian and French supreme courts declared that the “intention to harm” criterion was not unique<sup>74</sup>, and that an abuse could be based on other criteria, it is clear from the cases analysed that the “intention to harm” still has a meaningful role to play in the assessment of abuse in the framework of patent litigation.

**29** In 2014, the Paris Court of Appeal had to decide on a landmark case regarding the possibility of sanctioning a pharmaceutical company for abuse of rights. It all started in 2008 when Biogaran, a French pharmaceutical company specialised in generic drugs, obtained three marketing authorizations (MAs) for an anti-arthritic medicine. The German multinational Madaus Pharma was the holder of a European patent<sup>75</sup> (EP414) on an anti-arthritic medicine. Laboratoire Medidom and Laboratoire Negma being its licensees. Madaus' licensees, convinced that the generic drug was infringing EP414, put Biogaran on notice so that they would prevent the commercialisation of the generic by all means deemed necessary. Soon thereafter, Biogaran introduced an action for invalidity of claim 14 of EP414. In parallel, it started the commercialisation of its generic products. In light of this commercialisation, the licensees filed a request for preliminary injunctions. They obtained and enforced the preliminary injunctions (i.e. a ban on the commercialisation and distribution of the generic drugs and a call-back of the allegedly infringing products), but soon after, claim 14 of EP414 was declared invalid for lack of novelty and therefore the preliminary injunctions were withdrawn. In light of these decisions, Biogaran introduced a new action before the Paris District Court and notably claimed that the licensees should be liable on the basis of Art.

1382 of the civil code for dilatory manoeuvres and intention to harm. Biogaran argued that Laboratoire Medidom and Laboratoire Negma fraudulently and intentionally created a monopoly on the medicine at the expense of their competitors. Biogaran based its argumentation on various actions undertaken by two laboratories, such as, but not exclusively limited to; dilatory manoeuvres, blocking strategy for the commercialisation of generic medicines, manoeuvres against the grant of MAs by pressuring the administrative body in charge of the grant, unfair communication to pharmacists, multiplicity of litigation and delaying tactics. In first instance<sup>76</sup>, the Court rejected the claim, and held that the licensees merely used all the legal procedural tools at their disposal and did not adopt an unfair behaviour.

**30** The Paris Court of Appeal<sup>77</sup> adopted a very different position concerning the abuse argument. The Court identified the fact that the licensees intervened before the French agency delivering marketing authorization in order to delay the grant of MAs as essential to the assessment of abuse. Although Laboratoire Negma's claim as an exclusive licensee was doubtful, Laboratoire Medidom nonetheless proceeded with multiple administrative actions in order to delay the resolution of this dispute. More than twenty judicial decisions were handed down between the claimants. False or inaccurate notice letters were sent to pharmacists in order to discredit Biogaran's products. According to the Court, it was the combination of these actions and the manipulation of the legal process, which amounted to an abuse of rights and caused patrimonial and reputational damages to Biogaran. The Court held that the licensees were liable under Art. 1382 of the civil code and had to compensate Biogaran for commercial harm of EUR 3.500.000 as well as for reputational harm of EUR 150.000.

**31** As with the difficulty to prove the knowledge of the patent holder, it is quite clear from the cases analysed that, for the argument of abuse to succeed, it is necessary to demonstrate a *manifest* intention to harm or to clearly objectify this intention by relying on the particular circumstances of the case.

**32 Unfair Competition Practices** – In many cases, the arguments of abuse and unfair competition were intertwined.<sup>78</sup> Although courts appeared to be

<sup>74</sup> Supra 12, 13.

<sup>75</sup> EP0520414B1.

<sup>76</sup> TGI Paris (3<sup>e</sup> ch. 2<sup>e</sup> sct.) 27 Jan. 2012, *Biogaran SAS c. Laboratoire Medidom & Laboratoires Negma* (RG 09/17355).

<sup>77</sup> Cour d'appel de Paris (Pole 5 Ch.2) 31 Jan. 2014, *SAS Laboratoires Negma c. SAS Biogaran* (RG 12/05485).

<sup>78</sup> In Belgium, Voorz. Kh. Antwerpen, 3 April 2012, *United Video Properties Inc. (UVP) v. NV Telenet* (A/11/05443); Kh. Gent (Zesde kamer) 20 Jan. 2011, *BVBA Willems Biscuiterie v. NV Lotus Bakeries* (A/09/02830). In France, Cour d'appel de Paris (Pole 5 Ch.2) 02 Déc. 2011, *M. Antonio Ochoa Marin & Valgraf SL c. SAS Alpeem* (RG 10/09788); TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct.) 23 Mars

more comfortable with sanctioning a patent holder on grounds of unfair competition practices than on grounds of abuse of rights, actions considered as unfair competition practices have occasionally been subsumed under the umbrella of the prohibition of AoR and essentially covered three types of potentially harmful actions.

**33 Denigration Campaign** – First, a patent holder has to be careful when providing information related to an infringement claim to third parties (e.g. customers of the alleged infringer or public officials),<sup>79</sup> and must avoid entering into a denigration campaign. The terms of the notice must be objective, prudent and carefully weighed and the patent holder must comply with the general duty of good conduct vis-à-vis its competitors.<sup>80</sup> The notice can be considered abusive when delivered with a clear intention to harm the suppliers or customers of an alleged infringer,<sup>81</sup> or in cases where an immoderate notice negatively affects a commercial relationship established between an alleged infringer and third parties.<sup>82</sup>

**34 Disorganisation of the Market or Internal Disorganisation of a Competitor** – Second, the impact of a patent holder's misconduct on the market has been scrutinised and taken into consideration for the assessment of abuse, in particular where the

misconduct led to the disorganisation of the market or the internal disorganisation of a competitor business.<sup>83</sup>

**35** This can be illustrated by the following case. The English biomedical research charity Wellcome Foundation was the holder of a supplementary protection certificate (SPC) on the molecule acyclovir. It developed and commercialised its product VALTREX on the basis of this molecule. In 1997, it requested from Flamel, a French specialty pharmaceutical company, to stop its on-going clinical trials on the GENVIR, an allegedly infringing product. Wellcome introduced an infringement action. Flamel claimed that Wellcome adopted a malicious strategy, including fictitious negotiations, abusive seizures and procedures, and unfair competition practices. The overall scheme aimed at preventing Flamel from entering the market with its competitive product. The Paris District Court<sup>84</sup> argued that the introduction of an infringement action could not be abusive in *itself*. However, if the goal of the right holder in introducing such action is not to safeguard its rights but to eliminate or block a competitor from the market, it could be considered abusive. The Court analysed all the circumstances of the case<sup>85</sup> and concluded that Wellcome had a malicious intent and adopted an abusive behaviour. The Court concluded that since Wellcome knew these rights were not infringed upon, the seizure measures and the infringement action did not aim at safeguarding the rights derived from the SPC, but only intended to delay the entry on the market of a competitive product. As for the fictitious negotiations, the Court held that Wellcome relied on Flamel's belief that it was the best possible partner to develop the GENVIR to enter into such negotiations and unfairly obtain information about the development of the said product. Therefore, the Court held that Wellcome was liable, not only because it entered into fictitious negotiations with a potential competitor, but also because it developed an abusive scheme in order to delay the entry in the market of a competitive product.

2005, *Société AMDP et Société Service de Machines et Outillage Technique (SMOT) c. Société Exrod* (RG 02/16042); Cour d'appel de Paris (4<sup>e</sup> ch. Sct. A) 05 Fév. 2003, *SA Colas c. STE T.S.S. (Eurovia Beton)* (RG 2001/08866); Cour d'appel de Paris (4<sup>e</sup> ch. Sct. B) 18 Mai 2001, *STE Sponeta GMBH c. SA Cornilleau* (RG 1999/14452); Cour d'appel de Paris (4<sup>e</sup> ch. Sct. A) 25 Avril 2001, *Société DIAM Diffusion Internationale d'Articles Manufactures SA c. Société RLB SA* (RG 1999/06310); TGI Paris (3<sup>e</sup> ch. 2<sup>e</sup> sct.) 20 Fév. 2001, *Wellcome Foundation Ltd c. SA Flamel Technologies (SARL Parexel Intl., SA Creapharm)* (RG 98/11548).

79 TGI Paris (3<sup>e</sup> ch. 2<sup>e</sup> sct.) 30 Mars 2012, *Actavis Group, Actavis Group PTC EHf Société, Actavis France SAS, et Mylan c. Novartis AG et Novartis Pharma SAS* (RG 08/03802); Cour d'appel de Douai (ch. 2 sct.1) 13 Mars 2013, *SARL Adage & SAS Pochecho c. SAS Mail Inside* (RG 12/03535). TGI Paris (3<sup>e</sup> ch. 1<sup>e</sup> sct.) 23 Nov. 2005, *Société Alcan Packaging Capsules c. SA Sparflex* (RG 03/08711).

80 TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct.) 16 Mai 2000, *SA Societe KIS c. Société Française Automatique (SFA) (ex- Société Games Diffusion International (G.D.I.) et SARL Société Gevin Corporation SRI* (RG 98/10315).

81 TGI Paris (3<sup>e</sup> ch. 1<sup>e</sup> sct.) 4 Mars 1998, *Societe Athem c. Societe Stratus, Societe Arome et M. Philippe Blanc-Beauregard* (RG 95/9984) p. 11. See also, TGI Toulouse (1<sup>e</sup> ch.) 26 Aout 2006, *Société Technilum c. Société Valmont France RCS Cusset et Société Amie Spie Sud Ouest* (RG 04/03366). The patent holder informed different parties – which could be potential contractors for the defendant – of the existence of its intellectual property rights and the potential risks of being considered as contributory infringers if they were to contract with the alleged infringer.

82 TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct.) 28 Jan. 2003, *Société TYCO Electronics Corp. et TYCO Electronics France SAS c. SA TTK*, (RG 02/02889). TGI Paris (3<sup>e</sup> ch. 1<sup>e</sup> sct.) 26 Sept. 2007 [*Sir D. et al.*] c. *Société Biomet Merck France* (RG 06/01414).

83 TGI Paris (3<sup>e</sup> ch. 1<sup>e</sup> sct.) 15 Nov. 2011, *J.C. Bamford Excavators Ltd. et JCB SAS c. S.A. CNH France et SA Manitou BF* (RG 10/15560); TGI Paris (3<sup>e</sup> ch. 2<sup>e</sup> sct.) 20 Fév. 2001, *Wellcome Foundation Ltd c. SA Flamel Technologies (SARL Parexel Intl., SA Creapharm)* (RG 98/11548). Contra: TGI Paris, (3<sup>e</sup> ch. 3<sup>e</sup> sct.) 04 Mai 2012, *Sealed AIR SAS c. Doux Frais SAS* (RG 10/12618).

84 TGI Paris (3<sup>e</sup> ch. 2<sup>e</sup> sct.) 20 Fév. 2001, *Wellcome Foundation Ltd c. SA Flamel Technologies (SARL Parexel Intl., SA Creapharm)* (RG 98/11548).

85 Since early negotiations (in 1995 and 1996) Wellcome knew that the development of GENVIR by Flamel could harm its business. It also knew that GENVIR was a competitive product of the VALTREX. It knew that Flamel wanted to launch the clinical trials for the GENVIR. Moreover, and in light of the judicial past of Wellcome, it could not have ignored the case law related to clinical trial.

36 In most instances involving such market oriented analysis, courts focused on the aim pursued by the patent holder when initiating an infringement action. If the objective of the right holder was not to safeguard its rights but to eliminate or block a potential competitor from entering (or expanding in) the market, courts held that the patent holder abused its rights and/or was liable for unfair competition practices. By focusing on the distortion of the objective of an infringement action, courts seem to be particularly attentive to the general “right-function” criterion of the principle of the prohibition of AoR.<sup>86</sup>

37 **Threats and Pressure** – Thirdly, occasionally, patent holders have used their exclusive rights to intimidate and pressure not only the alleged infringer but also third parties.<sup>87</sup> For example, in 2007, the Brussels Court of Appeal compensated an alleged infringer for the abusive exercise of its rights by a patent holder not only because of its bad faith, and the denigration campaign it undertook, but also because of the threats and pressures it inflicted on the alleged infringer and its resellers. In parallel to the infringement action, the patent holder reached out to resellers and potential clients of the alleged infringer, affirming patent infringement, spreading rumours and threatening these third parties with potential complicity in patent infringement. These actions led to a significant drop in the alleged infringer’s sales although the lawsuit was only in an initial phase. The Court<sup>88</sup> decided to hold the patent holder liable for its misconduct in light of the bad faith, the “free wickedness”, and the relentlessness of the patent holder.

38 In the majority of cases, the knowledge and/or intention of the patent holder and unfair competition practices have not been analysed independently. As pointed out earlier, the proof of a specific knowledge and/or an intention to harm is cumbersome. Evidence of unfair competition practices introduces a more tangible or objective element to the assessment of the case. It provides more room to manoeuvre for judges seeking to sanction a patent holder for abuse of rights.

39 This combination was at the heart of a 2003 French

Supreme Court case.<sup>89</sup> The company Neptune (and its manufacturer and reseller Cuisimer) held a French patent on a process for the manufacturing of surimi.<sup>90</sup> Suspicious of patent infringement and unfair competition practices by its competitor (Fleury Michon) Neptune and Cuisimer brought an action before the Paris District Court. At first instance, the Court rejected the claim of infringement and awarded damages to Fleury Michon for abuse of rights.<sup>91</sup> On appeal, the Paris Court of Appeal<sup>92</sup> confirmed that Neptune and Cuisimer were liable for abuse of their right to introduce an infringement action, as well as their right to introduce an unfair competition claim. In last resort, the French Supreme Court confirmed the decision of the Court of Appeal which held that, in light of the state of the art and the specific market in which the parties were involved as competitors, it was manifestly abusive for a patent holder to enforce a patent for which he/she could not have misunderstood, in good faith, the extent of its scope (i.e. the knowledge of the patent holder). Therefore, a patent holder could not have initiated an infringement action when he/she knew, or should have known, that its patent was actually not infringed upon. To do so could only have been explained by the intention to intimidate a competitor and to drive them out of the market (i.e. unfair competition practices).

40 **Disproportionate Damages** – A particular case falling within the scope of general misconduct focuses on the adequate compensation in case of established infringement. In principle, a patent holder has the right to obtain compensation for the harm suffered, however, this compensation must be proportionate.

41 This type of misconduct has been recognised in 2013 by the Mons Court of Appeal. In 2009, a patent holder (the plaintiff) entered into license negotiations with a competitor (the defendant) for the commercialisation of a gardening tool, the “Rigolet”. Together, they presented the invention to the press and during trade fairs. The defendant even created a company for the manufacture, production, and commercialization of the patented product, and made important investments regarding the development of the product. However, a conflict arose between the parties. The plaintiff requested and obtained a descriptive seizure as well as a preliminary injunction to stop the commercialisation of the

<sup>86</sup> Supra 7, 8.

<sup>87</sup> TGI Paris (3<sup>e</sup> ch. 1<sup>er</sup> sct.) 20 Déc. 2012, *SARL Measurix, SARL Measurix France c. SARL Atlog* (RG 11/10918); TGI Toulouse (1<sup>er</sup> ch.) 26 Aout 2006, *Société Technilum c. Société Valmont France RCS Cusset et Société Amie Spie Sud Ouest* (RG 02/06916); TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct.) 16 Mai 2000, *SA Societe KIS c. Société Française Automatique (SFA) (ex- Société Games Diffusion International (G.D.I.) et SARL Société Gevin Corporation SRI* (RG 98/10315).

<sup>88</sup> Cour d’appel de Bruxelles (9<sup>e</sup> ch.) 8 Juin 2007, *Alnaco S.A. c. [Sir de M.] et SPRL Caltec* (2003/AR/1614), *ICIP-Ing.Cons.*, 2007, n.5, pp. 673-696.

<sup>89</sup> Cour de cassation (comm.) 03 Juin 2003, *SA Neptune et Société Cuisimer Cuisine de la mer c. Société Fleury Michon* (E 01-15.740).

<sup>90</sup> FR2692111B1.

<sup>91</sup> TGI Paris (3<sup>e</sup> ch. 1<sup>er</sup> sct) *SA Neptune et c. Société Cuisimer Cuisine de la mer c. Société Fleury Michon*, 12 Mai 1999 (RG 96/4541).

<sup>92</sup> Cour d’appel de Paris (4<sup>e</sup> ch. sct. A) *SA Neptune et c. Société Cuisimer Cuisine de la mer c. Société Fleury Michon*, 27 Juin 2001 (RG 1999/19537).



"Rigolet". The defendant immediately complied with this order. During the procedure on the merits, the plaintiff claimed damages for infringement. The Court<sup>93</sup> declared that the plaintiff's claim for damages was disproportionate to the harm caused to the defendant, considering the investments made to produce and commercialise the patented product. In light of the history of the parties (i.e. presentation to the press and trade fairs, negotiation phase) and the immediate stop on commercialisation, it was considered that the plaintiff acted without legitimate motive and did not exercise its right as a prudent and diligent right holder. The Court decided that it was abusive for the patent holder to seek such a disproportionate amount of damages, notably because during negotiations the patent holder had encouraged the commercialisation of the infringed goods, but also because the infringement actions had only led to a minimal benefit for the alleged infringer.

- 42 In this case, the criterion of proportionality played a crucial role in the establishment of abuse. The court balanced the interests of the parties in light of all the circumstances of the case and considered that it would have been abusive to allocate a disproportionate amount of damages to the patent holder. In the majority of cases, the criterion of proportionality is less clearly distinguishable. This could be explained by the fact that patent litigation traditionally focuses on two essential questions, i.e. the validity of the title and infringement.<sup>94</sup> During the evaluation of infringement, patent holders are in a stronger position due to their exclusive right and the presumption of validity of their title. However, once the question of infringement is answered in the following phase, which consists in the evaluation of damages, parties are more or less reinstated in a situation of equality. This situation requires judges to weigh the interests of the parties involved in the process and to reach an outcome considered as proportionate. Considering the harm suffered by the patent holder but also the benefits made by the infringer, a patent holder claiming a disproportionate amount of damages can be held liable for abuse of rights.

## 2. Procedural Misconduct

- 43 **Initiating the Procedure** – The exercise of the right to exclude third parties, i.e. the right to claim infringement, represents a fundamental mechanism of protection for patent holders.<sup>95</sup> An infringement

action can only be brought by (a) a plaintiff with appropriate grounds to sue (b) derived from the patent in suit and (c) against the proper defendant who is alleged to have infringed such patent.<sup>96</sup> To initiate an infringement procedure while knowing that one or more of these prerequisites are not met, led courts to conclude that a patent holder abused his/her rights. The "knowledge" of the patent holder<sup>97</sup> on one or more of these three prerequisites was particularly decisive when enquiring potential abuses in the introduction of an instance.

- 44 **Plaintiff with Proper Standing** – For instance, the Paris Court of Appeal<sup>98</sup>, found that it was abusive for an (ex) exclusive licensee to, not only initiate a claim for infringement, but also to have seizure measures performed at the premises of one of the alleged violators, when the exclusive licensee knew he/she did not benefit from this value any longer.<sup>99</sup>
- 45 **Patent(s) in Suit** – For example, it has been considered abusive for a patent holder to claim infringement of titles known to be part of the public domain,<sup>100</sup> or to introduce a claim for infringement when the patent holder relied on different patents (or different patent claims) during different proceedings but against the same alleged infringer and for the same claim of infringement.<sup>101</sup> The latter can also be considered a judicial harassment technique.
- 46 The role played by the patent(s) in suit on the appreciation of abuse was notably at the heart of the 2012 *UVP v. Telenet*<sup>102</sup> case. In this case, the

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Heath & L. Petit (eds.) *Patent Enforcement Worldwide: A Survey of 15 Countries: Writings in Honour of Dieter Stauder*, Hart Publishing, pp. 139-170 (2005). In France over 80% of patent cases concern infringement litigation.

96 L. Petit (n.95) p. 146.

97 Supra 21.

98 Cour d'appel de Paris (4<sup>e</sup> ch. Sct. B) 15 Fév. 2008, *SA Eurofog et Société SAGEM (intimée provoquée) c. Société Photonetics, Société Sofresud, Société Fibersense Technology Corp., et SAS IXSEA* (RG 06/06627).

99 A contrario: Cour d'appel d'Aix en Provence (2<sup>e</sup> ch.), 02 Fév. 2011, *SARL GS Environnement & [M. S.] c. [M. L & M. A] (mandataire judiciaire de la société Prodis SAS)* (Rôle n.09/07185); TGI Paris (3<sup>e</sup> ch., 2<sup>e</sup> sct.) 16 Fév. 2001, *SA Saitec c. SARL Isolum*, 16 Fév. 2001 (RG 99/13164), confirmed by Cour d'appel de Paris (4<sup>e</sup> ch. Sct. B) 16 Mai 2003, *SA Saitec c. SARL Isolum* (RG 2001/14523).

100 TGI Paris (3<sup>e</sup> Ch. 4<sup>e</sup> sct.) 10 Oct. 2013, *Société Carpenter c. Société France Biotex* (RG12/06748). Contra: TGI Paris (3<sup>e</sup> ch. 1<sup>e</sup> sct) 24 Oct. 2007, *SA Secatol et SAS Secatol c. SA Haemmerlin, SARL Morena, M. and Mme. Morena and Florian Eichinger GMBH* (RG 01/18185).

101 TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct) 23 Mai 2007, *SA Tami Industries c. Ap-plexion et SA Céramiques Techniques et Industrielles (CTI)* (RG 05/15960); TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct) 11 Juin 2008, *SARL Générale d'abris et accessoires pour piscines (GAAP) c. Société Abrisud* (RG 06/17811) p. 10.

102 Voorz. Kh. Antwerpen, 3 April 2012, *United Video Properties Inc. (UVP) v. NV Telenet* (A/11/05443).

93 Cour d'appel de Mons (1<sup>e</sup> ch.) 02 Déc. 2013, *X c. SPRL Green & Company* (2012/RG/1003).

94 Supra 17.

95 L. Petit, "The Enforcement of Patent Rights in France", in C.



Belgian cable broadband provider Telenet developed a multimedia platform (Yelo) which allows digital TV users to watch programs on TV and mobile devices. The American company United Video Properties Inc. (UVP) and its affiliated companies (jointly called ROVI) alleged that Yelo was infringing upon its European patent regarding an interactive television program guide system having multiple devices within a household.<sup>103</sup> Despite multiple requests from Telenet to obtain more information on the potentially infringed patents, ROVI constantly refused to provide such information. It also refused to provide information regarding the actual acts of infringement. It only provided a list of more than 100 patents and patent applications and argued that it was for Telenet to identify the relevant patents for its defence in court. Telenet repeatedly asked for more information and indicated to ROVI its intention to advance the matter amicably. ROVI only responded that it would be more expensive for Telenet to contract individual licenses for the infringed patents than to opt for a general license on ROVI's portfolio. In light of these circumstances, the President of the Antwerp District Court for Commercial Matters held that ROVI abused its rights in serving a summons for infringement to Telenet without specifying the relevant patents infringed upon. The President highlighted the importance of the determination of the scope of the invoked patent by its holder in the event of an infringement action. It stressed that if the patent holder decided to serve a notice letter to an alleged infringer, it had to specify which patents were actually infringed upon. The lack of precision regarding the identification of the claims infringed on, although repeatedly requested by the alleged infringer, played a decisive role in the qualification of abuse.

- 47 This case also illustrates why “unfair competition practices” have been included in the general misconduct section.<sup>104</sup> Although the actions taken by the patent holder related to the mandatory procedural requirements of properly introducing an infringement claim, the President of the District Court took the view that the argument based on AoR was actually merged with the argument of unfair market practice and the general standard of good faith in the market.<sup>105</sup> The President concluded that if ROVI had an exclusive right to exclude third parties, this right came with responsibilities and had to be exercised with caution. To merely refer to various patents without specifying which patents were actually infringed upon and which actions were constitutive of patent infringement, especially when

the alleged infringer sought clarification on this point, amounted to an AoR and therefore an act of unfair competition.<sup>106</sup>

- 48 **Proper Defendant/Alleged Infringer**<sup>107</sup> – For instance in 2008, the Paris District Court<sup>108</sup> held that since the patent holder knew (or at least should have known) that the alleged infringer had no commercial activity in the French market, the latter could not be considered as an importer and therefore could not be considered an alleged infringer<sup>109</sup>. The patent holder knew (or at least should have known) that its claim for infringement could not succeed. To lock the alleged infringer in a procedure, despite such knowledge, was manifestly an abuse of rights.
- 49 **Judicial Harassment and (Unnecessarily) Lengthy Procedure** – Initiating redundant and unnecessary procedures or unduly prolonging the procedures against the same defendants for the same infringement claim and on the basis of the same patent (or the same patent claims) can constitute a fault leading to the liability of the patent holder on the basis of the prohibition of AoR.<sup>110</sup>
- 50 **Right to Appeal** – If the exercise of the right to initiate an infringement claim can turn into an abuse, the exercise of the right to appeal a decision

106 In its notice letter, ROVI referred to patents which had been either invalidated in a foreign jurisdiction (i.e. in the UK), revoked at the EPO, or not even in force in Belgium and which were irrelevant for the case at hand. It also relied on patents which were subsequently not invoked in the infringement action.

107 In Belgium, see Tribunal de Commerce de Mons, 28 Juin 2012, *Prefarails SA & Feronia SA c. CDM SA & ALM Industry* (A/10/01456) where the Court found manifestly abusive to drag in the procedure a defendant against whom the patent holders had only frivolous grievance and for which they had very little chance of success (pp. 14-15). Part of the assessment of abuse also focused on the ‘forum-shopping’ technique adopted by the patent holders. The latter sued the alleged contributory infringer in an attempt to have the entire infringement case decided by an incompetent court.

108 TGI Paris (3<sup>e</sup> ch. 1<sup>er</sup> sct.) 18 Mars 2008, *Schneider Electric Industries c. Chint Europe* (RG 06/03701). See also: TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct.) 27 Juin 2007, *Société Calvasoft BV c. [Sir L. et al.] et Société Valor Consultants* (RG 05/08487), p. 18 where the TGI Paris found abusive to drag in the procedure defendants against whom the patent holder had no specific grievance.

109 Chint did not fulfil the two necessary requirements to be considered as an importer responsible for infringement, i.e. to have an activity in France and to be actively involved in the introduction of infringing products in the French market.

110 TGI Paris (3<sup>e</sup> ch. 1<sup>er</sup> sct.) 15 Nov. 2011, *J.C. Bamford Excavators Ltd. et JCB SAS c. S.A. CNH France et SA Manitou BF* (RG 10/15560); Cour d'appel de Douai (Ch 1, Sct 2) 14 Sept. 2005, *SA Glaverbel, Société Fosbel Intellectual AG, Fosbel Europe BV et Fosbel Intellectual Ltd. c. SAS Compagnie Technique des Pétroles (CTP) et SA FIB Services* (RG 02/06916); TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct.) 28 Jan. 2003 *Société TYCO Electronics Corp. et TYCO Electronics France SAS c. SA TTK*, (RG 02/02889).

103 EP1213919B1.

104 Supra 28.

105 Reference is made to Art. 95 de la Loi du 6 AVRIL 2010. - Loi relative aux pratiques du marché et à la protection du consommateur (Mon., 12 Avril 2010).

may as well be considered abusive. Occasionally, courts considered it abusive to appeal a decision which was particularly well substantiated and sufficiently clear for the patent holder. A reasonable and prudent litigant must evaluate its chances of success properly before appealing a decision.<sup>111</sup> Rushing to an appeal procedure without thoroughly evaluating the circumstances of the case or in order to unduly prolong a dispute can turn result in an abuse. However, and more frequently, courts concluded that even if a patent had been invalidated in first instance, to appeal this decision could not be considered an abuse since the invalidity decision was detrimental to the holder and therefore justified its interest in appealing this particular case.<sup>112</sup>

### 3. Misconduct Related to Seizure Measures

51 Belgian<sup>113</sup> and French law<sup>114</sup> provide efficient mechanisms for patent holders to fully enforce their right to exclude third parties. The provisions related to seizure measures are perceived – beyond national boundaries – as being particularly useful.<sup>115</sup> Even before the adoption of the Enforcement Directive, Belgium and France were known for their provisions on *saisie-description* or *saisie-contrefaçon*.<sup>116</sup> Certain conditions must be met in order for a patent holder to obtain seizure rights. However and despite these conditions governing the grant of the measures, abuses remain possible. In particular regarding the way in which patent holders actually enforce the seizure once obtained.

52 **Diverted Purpose** – With regard to the grant or the enforcement of seizure measures, it is worth

mentioning that the “right-function” criterion<sup>117</sup> played an essential role in the assessment of claims of abuse. The aim of seizure measures is evidentiary;<sup>118</sup> it is to obtain elements to prove the existence, origin, destination and scope of the alleged infringement. Seizures can not aim at being “fishing expeditions” or performing industrial espionage.<sup>119</sup> To enforce such measures as a way to obtain confidential information, or to unduly exploit such information from a competitor has sometimes been declared abusive.<sup>120</sup> In addition, to divert the evidentiary purpose of these measures and to use these enforcement mechanisms to throw public discredit on the reputation of an alleged infringer has also been considered abusive.

53 In a landmark case, the French Supreme Court heavily sanctioned a patent holder who used the seizure procedure to conduct a fishing expedition rather than to gather evidence of infringement in a fair manner. In this case, the Swiss company Vetrotech Saint Gobain was the holder of a European patent<sup>121</sup> on a light-transparent heat-protection element. In 2006, it suspected that its French competitor Intervet was infringing its patent by making and selling glazing in France. Vetrotech obtained and enforced various seizure measures followed by the introduction of an infringement action regarding the French tier of its European patent. In first instance, the Paris District Court<sup>122</sup> found that Vetrotech had enforced the seizures under very unusual circumstances. Three patent attorneys were present during the seizure and the bailiff had a list of 24 specific questions to address to the alleged infringer. In light of these facts, the Court partially offset the minute of the seizures since the latter was closer to a fishing expedition than a proper means to obtain evidence of infringement. After an assessment of the allegedly infringing products via the minute of the seizure, it was clear for the Court that Vetrotech had the necessary and sufficient elements to recognise that Intervet’s technology was actually not infringing the patent invoked. The non-

111 Cour d’appel de Bruxelles (9<sup>e</sup> ch.) 8 juin 2007, *Alnaco S.A. c. [Sir de M.] et SPRL Caltec* (2003/AR/1614), *ICIP-Ing.Cons.*, 2007, n.5, pp. 673-696.

112 In France, Cour d’appel de Paris (4<sup>e</sup> ch. Sct. B) 16 Mai 2003, *SA Saitec c. SARL Isolum* (RG 2001/14523). In Belgium, Hof van Beroep te Brussel (8<sup>ste</sup> kamer) 04 mei 2010, *De Wijn-gaert Achille v. V.Z.W. Royal Sporting Club Anderlecht* (AR 2008/AR/2267).

113 Arts. 1369bis/183, 1369bis/185 Belgian judicial code.

114 Arts. L.613 and L.615 French IP code.

115 T. Bouvet, “Pre-trial measures: ex-parte searches and discoveries in IP cases”, Presentation at MIPLC Alumni Conference, Nov. 2007. T. Bouvet & M. Jelf, “Seizure, inspection and disclosure in Europe”, Presentation at Management forum – Successful patent litigation in Europe, Dec. 2009. P. Véron (dir.) *Saisie-contrefaçon*, Dalloz, 2<sup>e</sup> ed., p. 34 (2005). In France, *saisie-contrefaçon* measures are used in 80% of infringement actions, it is considered as the most efficient way to gather evidence of infringement.

116 P. Véron (n.115). D. Keasmacher, “La saisie en matière de contrefaçon: Le code judiciaire à la rencontre des droits intellectuels”, *J.T.*, 2004, pp. 57-71.

117 *Supra* 7, 8.

118 D. Keasmacher (n.116). P. Véron (n.66) p. 6,51, 242.

119 D. Keasmacher (n.116) p. 71. F. de Visscher, “La preuve des atteintes – Réforme de la saisie-description”, in F. Brison (ed.), *Sanctions et procédures en droits intellectuels/Sancties en procedures in intellectuele rechten*, Larcier, p. 157 (2008).

120 In Belgium, TPI Bruxelles (7<sup>e</sup> ch.) 20 Juin 2007, *SA GlaxoSmith-Kline Biologicals v. SA Sanofi Pasteur* (RG2006/6577/A). In France, TGI Paris (3<sup>e</sup> ch. 1<sup>e</sup> sct.) 20 Déc. 2012, *SARL Measurix, SARL Measurix France c. SARL Atlog* (RG 11/10918). Contra: In Belgium, Voorz. Kh. Antwerpen (kort geding) 21 Juin 2011, *Visys v. Best* (C/11/00067). In France, TGI Paris (3<sup>e</sup> ch. 1<sup>e</sup> sct.) 23 Nov. 2005, *Société Alcan Packaging Capsules c. SA Sparflex* (RG 03/08711).

121 EP0620781B1.

122 TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct.) 25 Mars 2009, *Vetrotech Saint Gobain (International) AG c. Intervet Sécurité SA* (RG 07/12696).

infringement also stemmed from Vetrotech's own analysis and reports. This set of facts led Intervet to claim that the patent holder abused its rights. In first instance, the Court ruled that both the seizure measures and the actual infringement action were abusive and that the commercial harm inflicted upon Intervet should be repaired. Vetrotech appealed this decision but the Paris Court of Appeal<sup>123</sup> confirmed the judgement of first instance. Vetrotech lodged an appeal in cassation. The French Supreme Court<sup>124</sup> held that the decisions on abuse were legally justified by the fact that Vetrotech obtained undue information on the manufacturing process of a direct competitor and that the seizure had served as an excuse to conduct illegal investigations. This was considered sufficient to characterise a fault on the part of Vetrotech and to sustain that the lower courts did not err in law.

**54 (Unnecessary) Multiplication of Seizures and Place of Enforcement** – Next to the diversion of the evidentiary objective of seizure measures, the unnecessary multiplication of seizures as well as the place of enforcement of such invasive enforcement mechanisms have also played a significant role in the assessment of abuse in patent litigation.<sup>125</sup>

**55** With regard to the *number* of seizures, the Paris District Court<sup>126</sup> held a patent holder liable for abuse when, following a first seizure at the premises of the alleged infringer which provided him with sufficient elements to prove infringement, it multiplied the number of seizures, in particular at the place of business of a subsidiary of the alleged infringer as well as at the premises of one of the alleged infringer clients. The patent holder should have proceeded with more caution when enforcing these measures and should have refrained from multiplying the number of such unnecessary seizures.

**56** As for the *place* of enforcement, a patent holder has the right to have a seizure enforced at any place deemed necessary to prove infringement.<sup>127</sup> The measure allows for a surprise inspection at the domicile or business premises of a competitor<sup>128</sup>, but also at the show booth during a public trade fair. However, it appears from the cases<sup>129</sup> analysed that the place chosen by the patent holder for the enforcement of a seizure led courts to consider this exercise abusive. For example, if the patent holder already identified the alleged infringer but decided to have seizures conducted at different premises (e.g. that of customers); if the patent holder already had seizure measures conducted at different premises and were sufficient to gather elements of proof; or if the place of enforcement had been chosen to publicly “humiliate” the alleged infringer.

**57** It should be noted that unfair competition practices and the knowledge or the intention to harm on the behalf of the patent holder have played a crucial role in the final determination of an “abusive scheme” including misconduct in the enforcement of seizure measures. To enforce seizure measures can amount to unfair competition practices either with the intention of pressuring a competitor's client or seeking to harm the reputation of the alleged infringer. They can also lead to the disorganisation of a group of competitors. However, courts have regularly excused patent holders on the grounds of a legitimate mistake.

#### 4. Misconduct Related to Injunctions

**58** The right to obtain and enforce (preliminary) injunctions can be of inestimable value for a patent holder.<sup>130</sup> Similar to the wrongful enforcement of seizure measures, harm arising from wrongful enforcement of (preliminary) injunctions has occasionally been remedied via the application of the

123 Cour d'appel de Paris (Pole 5 1<sup>er</sup> ch.) 22 Juin 2011, *Vetrotech Saint Gobain (International) AG c. Intervet Sécurité SA* (RG 09/24271).

124 Cour de cassation (comm.) 12 Fév. 2013, *Vetrotech Saint Gobain (International) AG c. Intervet Sécurité SA* (F 11-26.361).

125 TGI Paris (3<sup>e</sup> Ch. 4<sup>e</sup> sct.) 10 Oct. 2013, *Société Carpenter c. Société France Biotex* (RG12/06748); TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct.) 23 Mars 2005, *Société AMDP et Société Service de Machines et Outillage Technique (SMOT) c. Société Exrod* (RG 02/16042). Contra: TGI Paris, (3<sup>e</sup> ch. 3<sup>e</sup> sct.) 04 Mai 2012, *Sealed AIR SAS c. Doux Frais SAS* (RG 10/12618) and TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct.) 27 Mars 2002, *Aventis Pharma c. Bristol Myers Squibb* (RG 96/25285). In the latter case, it has been considered insufficient to simply point at the number of seizures (seven in total) without specifying which actions undertaken by the patent holder during the enforcement of the seizures were actually abusive.

126 TGI Paris (3<sup>e</sup> ch. 1<sup>er</sup> sct.) 15 Nov. 2011, *J.C. Bamford Excavators Ltd. et JCB SAS c. S.A. CNH France et SA Manitou BF* (RG 10/15560).

127 P. Véron (n.115) p. 152.

128 L. Petit (n.95) p. 152.

129 TGI Paris (3<sup>e</sup> ch. 1<sup>er</sup> sct.) 25 Jan. 2006, *[M. G.] et SA Jean Miguel Marthens c. SA Dupont de Nemours France, SA Dupont de Nemours Suisse International et Société El Dupont de Nemours and Company* (RG 05/06294). Contra: Cour d'appel de Paris (Pole 5 Ch.2) 02 Déc. 2011, *[Sir. O.M.] & Valgraf SL c. SAS Alperm* (RG 10/09788); TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct.) 14 Juin 2006, *SA Jeulin c. M. F. Hervouet (agent liquidator of SARL Euroma)* (RG 04/09028); Cour d'appel de Douai (Ch 1, Sct 2) 14 Sept. 2005, *SA Glaverbel, Société Fosbel Intellectual AG, Fosbel Europe BV et Fosbel Intellectual Ltd. c. SAS Compagnie Technique des Pétroles (CTP) et SA FIB Services* (RG 02/06916); TGI Paris (3<sup>e</sup> ch. 1<sup>er</sup> sct.) 19 Déc. 2001, *STE Agritubel c. STE Guerletub et ST Jourdain* (RG 98/19637).

130 Arts. 9 and 11 Enforcement Directive. European Observatory on Counterfeiting and Piracy report on *Injunctions in Intellectual Property Rights* (2009), available at: [http://ec.europa.eu/internal\\_market/iprenforcement/docs/injunctions\\_en.pdf](http://ec.europa.eu/internal_market/iprenforcement/docs/injunctions_en.pdf).



prohibition of AoR. Noticeably, it is in the framework of patent litigation in the pharmaceutical sector that the argument of abusive (preliminary) injunctions has been predominantly raised.

59 This was the case during one dispute between the Israeli company Medinol Ltd., and the American group Johnson & Johnson, before the President of the Brussels District Court for Commercial Matters<sup>131</sup>. Medinol was the holder of a divisional European patent<sup>132</sup> (EP450) which was split off from another European patent<sup>133</sup> (EP856) which had been revoked at the EPO in March 2004. Before the revocation of EP856, Medinol already entered into numerous litigations across Europe<sup>134</sup>. However, given the invalidity of EP856, Medinol started to launch proceedings on the basis of EP450.<sup>135</sup> In this case, Medinol attempted to obtain a preliminary (cross-border) injunction against Johnson & Johnson. The President held that Medinol's behaviour was inconsistent with the requirement of urgency and the multiple legal actions did not reflect the general principles of patent law. EP450 did not add anything to EP856 and it was considered that the multiple patents were confusing.<sup>136</sup> Medinol essentially attempted to keep its competitors "on the hook" as long as possible by initiating various legal proceedings across Europe on the basis of a divisional patent,<sup>137</sup> although the parent patent had been revoked at the EPO. In light of these circumstances, the President declared that the patent holder abused its rights to exclude third parties through the grant of a preliminary (cross-border) injunction in a summary proceeding.

60 In a second Belgian pharmaceutical case, the German company Merck was opposed to the English company GSK. GSK held a European patent

on the anti-depressant "Paxil". At the time of the procedure, this patent had lapsed in most countries where it was validated, including Belgium. GSK obtained a new term of protection due to the grant of another European patent (EP403).<sup>138</sup> In 2002, Merck announced it would start commercialising its own anti-depressant. In light of this up-coming commercialisation, GSK initiated an infringement action and requested an injunction. Merck petitioned that the principle of "reasonableness and fairness" should be taken into consideration when assessing the necessity of an injunction, in particular considering the public interest. The Brussels judge<sup>139</sup> recognised that the injunction would have profound repercussions on the company's business and that, although judges deciding on the grant of an injunction have wide discretion when deciding upon such measures, they nonetheless have to take into consideration the interests of the various parties involved. On the one hand, the company, which will have to suffer the consequences of the injunction will not be able to sell its product for the duration of the preliminary order. On the other hand, in case of infringing products, to deny the injunction could cause significant harm to the patent holder. In the particular case of "generic-originator" pharmaceutical dispute, the court must take into account the benefits for the public interest of cheaper generic drugs, and the financial cost of R&D suffered by the patent holder. In first instance, the Brussels judge granted the preliminary injunction, and argued that it would be more harmful to the patent holder to deny such a measure than it would be harmful for the defendant not to be able to sell its product for a certain period. However, the Brussels Court of Appeal reversed this decision.<sup>140</sup> It held that there was a strong implication that the second patent (EP403) provided for a second period of protection on the original product and did not protect a new product. The Court declared that the interest of the patent holder, who attempted to obtain an extended period of protection beyond the one intended by the legislator, could not prevail over the interest of the defendant who invoked the expiry of the legal period of protection. The injunctions were therefore revoked.

61 These cases present two similarities. First, judges in charge of granting a (preliminary) injunction did take the interest of the parties into account before granting such a measure. In the pharmaceutical sector, and specifically in litigation between an originator and a generic company, judges held that

131 Rb. Brussel (kort geding) 26 Oct. 2004, *Medinol Ltd. c. Janssen Pharmaceutica, Johnson & Johnson Medical, Cordis Holding Belgium (Johnson & Johnson Group)* (04/607/C).

132 EP846450B1.

133 EP762856B1.

134 In 2000 and 2003, Medinol brought proceedings in the Netherlands and Belgium, notably to obtain cross-border injunctions against the defendants.

135 In Germany, the Netherlands and Belgium. The Dutch court rejected Medinol's claim for infringement in light of the fact that EP450 was actually identical to EP856 and therefore constituted a 'double patenting' activity. In a summary proceeding, the Court of The Hague also rejected Medinol's claim and ruled that considering the revocation of EP856 and the 'double patenting' activity of Medinol, there was no reason to grant a preliminary injunction against the defendants. The judge also granted an 'anti-suit' injunction to the defendants.

136 The question of a potential 'double patenting' or 'ever-greening' situation.

137 P. De Jong, O. Vries & C. Ronse, "Evoluties in het octrooirecht. Overzicht van rechtspraak 2003-2006", *R.D.C./T.B.H.* 2007/5, Mai/Mei 2007, pp. 423-480.

138 EP0223403B1.

139 Rb. (beslag kamer) Brussel, 13 Jun 2003, *N.V. Merck v. SmithKline Beecham Plc* (2003/AR/1606), *I.R.D.I.*, 2003, pp. 275-282.

140 Hof van beroep te Brussel (17 kamer) 29 Jun 2004, *N.V. Merck v. SmithKline Beecham Plc*, (2003/AR/1606), *I.R.D.I.*, 2004, pp. 402-407.



the impact of the measure on the public interest contributed greatly to the proportionality exercise.<sup>141</sup> This balancing test could have been considered as an illustration of the “proportionality criterion”<sup>142</sup> used to determine if a right holder abuses its rights. However, in the framework of a (preliminary) injunction, the balance is performed *ex ante* and is statutory. In the cases at hand, the prohibition of AoR only arose once the injunctive measures were granted, i.e. *ex post*. It served as a mitigating mechanism for the over-enforcement of injunctions by patent holders. Second, the decisions of abuse were based on the fact that patent holders aimed at illegitimately extending the scope of their patents beyond what had been conceived by the legislator. Patent holders obtained a patent on a product which had already been patented and for which the term of protection had expired. By focusing on the aim of the patent holder, which was in contradiction with the general principles of patent law, the “right-function” criterion was directly involved. Moreover, the intention to harm potential or actual competitors in the market by relying on such a title was highly influential in recognising an abuse. These cases demonstrate once again how to substantiate a claim of abuse by relying on multiple misconducts; the “intention to harm”, potential “unfair competition practices” and to base a claim on an “irregular patent”.

## 5. Misconduct Before Administrative Bodies

- 62 The prohibition of AoR requires judges to analyse all the circumstances of the case. Therefore, the conduct of a patent holder before administrative bodies such as patent offices (national<sup>143</sup> or the EPO) or authorities granting marketing authorisation (in the pharmaceutical sector) has also been taken into account in the assessment of abuse in patent litigation.
- 63 For example, in one of the cases analysed, the Paris District Court<sup>144</sup> scrutinised the attitude of the patent holder during the EPO opposition procedure. In particular, the knowledge of the patent holder regarding the exact extent of its rights. The Court held that if the plaintiff amended its claims during

the opposition procedure, it was solely to have the defendant’s product fall within the scope of its patent. It was manifest that the patent application and its amendments aimed to obtain a monopoly detrimental to the activities of a competitor and did not aim to develop the patent holder’s own activity. In light of these elements, the Court ruled that the patent holder was liable on the basis of Art. 1382 of the French civil code.

- 64 Notably, an interesting aspect of this case lies in the fact that what has been taken into consideration for the establishment of an abusive scheme, was the attempt from the patent holder to obtain a monopoly and block competition instead of developing its own activity. Connections with the “right-function” criterion of abuse can be established considering the goals of patent law. Patents represent incentive to innovate, encompassing the promotion of the development of products and services for consumers. In this case, the patent holder did not use its rights in order to fulfil this particular purpose of the law. This diversion led the Court to conclude an abuse on behalf of the patent holder. Another noteworthy aspect relates to the fact that, once again, importance has been given to unfair competition practices, the specific knowledge of the patent holder, or its intention to harm.

## 6. Intermediate Conclusion: The Need to Demonstrate an ‘Abusive Scheme’

- 65 At this stage of the paper it is important to emphasize that it is the combination of various misconducts that guide courts towards ruling patent holders liable for abuse. It is the elaboration of an “abusive scheme” encompassing numerous misconducts which lead to a sanction. When taken separately, the misconducts highlighted above are rarely considered sufficient to substantiate a claim of abuse. For instance,<sup>145</sup> it is not solely because a patent holder enforces a seizure at the premises of a client of an alleged infringer rather than at the alleged infringer’s place of business, that a court will rule that the seizure is abusive. However, a court could conclude that a patent holder is liable for abuse of rights if combined with actions such as: introducing an infringement action solely on the basis of the minutes of the bailiff, which are not clear on the question of infringement; not requesting nor enforcing any physical seizure; accessing and obtaining information non-related to the infringement proceeding from a competitor etc. After reviewing the different cases, it can be said that the misconducts identified as “the knowledge”

141 See also TPI Bruxelles (ch. des saisies) 01 Jan. 2003, *S.A. Euro-generics v. Smith Kline Beecham Plc.* (RG/02/11.997/A).

142 *Supra* 7, 8.

143 TGI Toulouse (1<sup>er</sup> ch.) 26 Aout 2006, *Société Technilum c. Société Valmont France RCS Cusset et Société Amie Spie Sud Ouest* (RG 04/03366). Reversed by Cour d’appel de Toulouse (2<sup>e</sup> ch. sc. 2) 12 Juin 2007, *Technilum c. Valmont* (RG 06/04256).

144 TGI Paris (3<sup>e</sup> ch. 1<sup>er</sup> sc.) 15 Nov. 2011, *J.C. Bamford Excavators Ltd. et JCB SAS c. S.A. CNH France et SA Manitou BF* (RG 10/15560).

145 TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sc.) 23 Mars 2005, *Société AMDP et Société Service de Machines et Outillage Technique (SMOT) c. Société Ex-rod* (RG 02/16042).

of the patent holder, its "intention to harm", and objective "unfair competition practices" are the dominant actions leading courts to declare that a patent holder developed an "abusive scheme" and holding them liable on the basis of Art. 1382 of the respective civil codes.

## II. The Harm Suffered

66 A victim of abuse has to prove the harm suffered. In the cases under scrutiny, this essentially covered three types of harm: commercial harm, reputational harm and (extra) costs of litigation.

67 **Commercial Harm** – This can include, loss of customers, delays in delivery, costs for the replacement of the allegedly infringing products, loss of profits and shortfall suffered by the victim of abuse.<sup>146</sup>

68 **Reputational Harm** – This takes into account the direct impact of the abusive actions on third parties (including customers and/or resellers of the victim of abuse) especially in the case of denigration campaign, threats or pressure, as well as the indirect impact on third parties, such as the repercussion of the litigation process on the relationship between the victim of abuse and third parties. The length of the procedure is also included in the assessment of the reputational harm.<sup>147</sup>

69 It seems particularly difficult for a victim of abuse to successfully demonstrate the existence and to quantify the commercial and/or reputational harm.<sup>148</sup> Even in cases where a court acknowledged

that the patent holder misbehaved (and therefore was at fault), allocation of damages has often been denied for the lack of proof of a distinct harm<sup>149</sup> directly connected to the misbehaviour. As for the quantification of the harm, in the *Biogaran c. Negma* case<sup>150</sup>, the generic drug company victim of abuse substantiated its commercial and reputational harm by providing the Court with extensive commercial and financial records as well as studies from consultancy experts. This case is nonetheless exceptional. In the majority of the cases, courts reduced the amount sought as compensation and awarded a lump sum evaluated *ex aequo et bono* due to the lack of substantive elements to evaluate the actual harm.

70 **Costs of Litigation** – Since Belgium and France both adopted a "loser-pay" rule,<sup>151</sup> the application of the related provisions has been considered sufficient by courts to repair such harm.<sup>152</sup> It is argued that the rules on judicial expenses do not exclude the application of the rules on extra contractual liability (i.e. Art. 1382 of the civil codes) and that a litigant can be charged to pay the costs not covered by these provisions, if caused by its wrongful act.<sup>153</sup> The litigant incurring these extra costs must then demonstrate that a particular harm will not be covered by the specific provision on the costs of litigation. In practice, none of the cases have relied on Art. 1382 of the respective civil codes to allocate such additional repair. This is likely explained by a substantive difference existing between the two jurisdictions analysed. In Belgium, the amount

146 TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct.) 25 Mars 2009, *Vetrotech Saint Gobain AG c. Interfer Sécurité* (RG 07/12696) and Cour de cassation (comm.) 12 Fév. 2013, *Vetrotech Saint Gobain (International) AG c. Interfer Sécurité SA* (F 11-26.361); TGI Paris (3<sup>e</sup> ch. 2<sup>e</sup> sct) 16 Déc. 2005, *Société Eurofog et Société SAGEM (intervenante forcée) c. Société Photonetics, Société Sofresud et Société Fibersense Technology Corp.* (RG 00/10470) confirmed by Cour d'appel de Paris (4<sup>e</sup> ch. Sct. B) 15 Fév. 2008, *SA Eurofog et Société SAGEM (intimée provoquée) c. Société Photonetics, Société Sofresud, Société Fibersense Technology Corp., et SAS IXSEA* (RG 06/06627).

147 TGI Paris (3<sup>e</sup> ch. 1<sup>e</sup> sct.) 15 Nov. 2011, *J.C. Bamford Excavators Ltd. et JCB SAS c. S.A. CNH France et SA Manitou BF* (RG 10/15560).

148 TGI Paris, (3<sup>e</sup> ch. 3<sup>e</sup> sct.) 04 Mai 2012, *Sealed AIR SAS c. Doux Frais SAS* (RG 10/12618); TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct) 04 Mai 2012, *Ulma CYE S.COOP et Ulma Packaging, SARL c. Doux Frais SAS* (RG 11/00284); Cour d'appel de Paris (Pole 1 Ch.2) 22 Fév. 2012, *SAS Solution Impression (anciennement Octo Communication) c. SA Sevu – société spécialités européennes de vulcanisation* (RG 11/04632); Cour d'appel de Paris (Pole 5, ch.4) 18 Jan. 2012, *[Sir P. et al.] c. SA Metabolic Explorer* (09/09895); Cour d'appel de Paris (Pole 5 Ch.2) 02 Déc. 2011, *[Sir O.M.] & ValgrafSL c. SAS Alperm* (RG 10/09788); TGI Paris (3<sup>e</sup> ch. 1<sup>e</sup> sct) 06 Nov. 2007, *Société Agencement Magasins Coordination – AMC c. Société R.G.R.* (RG 04/03229); Cour d'appel de Paris (4<sup>e</sup> ch. Sct. A) 05 Fév.

2003, *SA Colas c. STE T.S.S. (Eurovia Beton)* (RG 2001/08866); TGI Rennes (2<sup>e</sup> ch. civ) 21 Jan. 2008, *Sonefa SARL et Proteaval SARL c. [Sir K.]* (RG 05/02411). On the other hand, a claim of abuse has been rejected by the Paris Court of Appeal, since, although the defendant clearly substantiated a commercial harm, he failed to demonstrate the fault from the patent holder. Cour d'appel de Paris (4<sup>e</sup> ch. Sct. B) 18 Mai 2001, *STE Sponeta GMBH c. SA Cornilleau* (RG 1999/14452).

149 TGI Paris (3<sup>e</sup> ch. 1<sup>e</sup> sct.) 20 Déc. 2012, *SARL Measurix, SARL Measurix France c. SARL Atlog* (RG 11/10918) pp. 21-22.

150 Supra 26.

151 Supra 15.

152 TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct) *SAS Douaisienne de Basse Tension (DBT) et [Sir B.] c. SAS Technolia France*, 11 Juillet 2014 (RG 10/14022); TGI Paris (3<sup>e</sup> ch. 1<sup>e</sup> sct) 14 Nov. 2013, *[Sir G.] c. SAS Lise Charmel Industrie* (RG 12/09624); TGI Paris (3<sup>e</sup> ch. 1<sup>e</sup> sct.) 20 Déc. 2012, *SARL Measurix, SARL Measurix France c. SARL Atlog* (RG 11/10918); TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct.) 22 Juin 2012, *Watts Industries France (anciennement GRIPP SAS) c. Rehau SA* (RG 10/02331); TGI Paris (3<sup>e</sup> ch. 1<sup>e</sup> sct) 23 Oct. 2007, *SAS Gyrax c. Ets. Gard, SAS Desvoys & Fils, Ets. Grenier Franco et SAS Suire* (RG 05/06184); TGI Paris (3<sup>e</sup> ch. 1<sup>e</sup> sct.) 31 Oct. 2006, *SAS Alliora c. Société Corjet, Société Automotization Industrial Hamer et SA Ets. Muguet Grizard* (RG 02/16040).

153 I. Samoy & V. Sagaert (n.53) p. 83. V. Sagaert & I. Samoy, "Cost and fee allocation in civil procedure" (Belgium). *International Academy of Comparative Law, 18<sup>th</sup> World Congress*. July 2010, available at: [http://www-personal.umich.edu/~purzel/national\\_reports/Belgium.pdf](http://www-personal.umich.edu/~purzel/national_reports/Belgium.pdf), p. 11.

of recoverable attorney's fees is "capped". The actual recovery is therefore very limited. In France however, Art. 700 CCP<sup>154</sup> allows for more room to manoeuvre for judges. This case law analysis conveys the impression that this provision, which provides for an "equity" based assessment of the case, has been relied upon as a substitute to the action for abusive procedure when the constitutive elements of the latter were not sufficiently characterised. In comparison to Belgium, this led to the allocation of greater substantive damages compensating for the harm suffered in terms of costs of litigation.

### III. The Causal Link

- 71 A victim of abuse has to demonstrate that the actual harm suffered stems from the abusive exercise of the rights by a patent holder. It goes without saying that this represents a sometimes insurmountable, hurdle for the victim of abuse. In some cases, the lack of proof of causal link between the fault and the harm has been a great flaw in the argument of AoR.<sup>155</sup> In the cases analysed, courts essentially focused on the fault (2.1) and the harm (2.2), therefore providing only limited insight on the causal link.

### IV. The Sanction of Abuse

- 72 **Damages** – The remedy to an abusive exercise of its patent rights by a patent holder has frequently been to allocate damages to the victim of abuse in order to repair the (commercial and/or reputational) harm suffered. These damages have either been clearly evaluated on the basis of substantive financial records and therefore amounted to a full compensation (only in rare cases), or have been evaluated *ex aequo et bono* and resulted in a lump sum (in most cases). The amount of damages awarded varies greatly between the cases. It goes from a symbolic euro to the exemplary sum of EUR 3.650.000.<sup>156</sup> It should be mentioned that the amount of damages actually granted to the victims of abuse of rights from patent holders was, in most cases, far below the amount of damages claimed.

- 73 **Publication of the Judgment** – It is clear from the case law that the allocation of damages represents the most traditional remedy. However, in one specific case, the publication of the judgment has been considered as a sufficient sanction for abuse,

and no damages were allocated.<sup>157</sup> Generally, the publication of the judgment holds potential positive repercussions for the victim of abuse. For example, in the event of unfair competition practices from the patent holder and disorganisation in the market, the publication of the judgment may represent an adequate measure to pacify the market in which the parties were involved.<sup>158</sup>

- 74 **Specific Sanction for the Disruption of the Judicial Process** – Occasionally, defendants claimed compensation for abuses on the basis of either Art. 32-1 French CCP or Art. 780bis Belgian Judicial Code.<sup>159</sup> However, these provisions are at the disposal of the judges and do not constitute defensive mechanisms in the hands of litigants. They aim at redressing a disruption in the judicial process and not at compensating the potential harm caused to defendants. Therefore, based on these provisions, courts have generally considered the claims of abuse inadmissible.<sup>160</sup>

- 75 **Sanction for Abusive Seizure or Abusive Injunction** – Isolated claims of abuse of such measures seem to have largely failed in the cases analysed. They were generally part of a broader "abusive scheme" and their sanction was included in an all-encompassing *ex aequo et bono* evaluation. Because of this type of evaluation of the harm suffered, it is difficult to know which part of the lump sum granted was actually aimed at repairing the harm suffered from the abusive seizure or abusive injunction. Moreover, in most cases, the revocation of the measure represented an adequate remedy and was rarely accompanied by damages for a specific harm.<sup>161</sup>

157 Cour d'appel de Paris (4<sup>e</sup> ch. Sct. A) 25 Avril 2001, *Société DIAM Diffusion Internationale d'Articles Manufactures SA c. Société RLB SA* (RG 1999/06310) p. 15.

158 Cour d'appel de Bruxelles (9<sup>e</sup> ch.) 8 Juin 2007, *Alnaco S.A. c. [Sir de M.] et SPRL Caltec* (2003/AR/1614), *ICIP-Ing.Cons.*, 2007, n.5, pp. 673-696.

159 Supra 14.

160 In France – TGI Paris (3<sup>e</sup> ch. 3<sup>e</sup> sct) *SAS Douaisienne de Basse Tension (DBT) et [Sir B.] c. SAS Technolia France*, 11 Juillet 2014 (RG 10/14022); Cour d'appel d'Aix en Provence (2<sup>e</sup> ch.) 02 Fév. 2011, *SARL GS Environnement et al. c. [Ms. L]* (Rôle n.09/07185); TGI Paris (3<sup>e</sup> ch. 1<sup>e</sup> sct.) 12 Jan. 2009, *SA METabolic Explorer c. SAS Holditech Heurisko, [Sir M. et al.]* (RG 07/08403); TGI Rennes (2<sup>e</sup> ch civ) 21 Jan. 2008, *Sonefa SARL et Proteaval SARL c. [Sir K.]* (RG 05/02411); Cour d'appel de Paris (4<sup>e</sup> ch. Sct.B) 27 Mai 2005, *[Sir F.] c. SA Universeal* (RG 03/05266). In Belgium – Kh. Brussel (23<sup>ste</sup> kamer), 04 Oct. 2011, *N.V. Eurogenerics v. Sanofi-Aventis SA & Sanofi-Aventis Groupe* (AR. A/10/5081).

161 TGI Paris (3<sup>e</sup> ch. 1<sup>e</sup> sct.) 23 Oct. 2007, *SAS Gyrax c. Ets. Gard, SAS Desvoys & Fils, Ets. Grenier Franco et SAS Suire* (RG 05/06184); TGI Paris (3<sup>e</sup> ch. 2<sup>e</sup> sct) 06 Avril 2007, *SA Railtech International c. GTM Génie civil et services, SA KLK Electro Materiales et Société Electra KLK Europe EKE* (RG 04/15727); Ordonnance du TGI Paris (Ch. des requêtes) 05 Avril 2006, *Citel 2CP et Citel OVP c. Société Soule protection surtensions* (RG 06/04814); Cour d'appel de Paris (4<sup>e</sup> ch. Sct.B) 27 Mai 2005, *[Sir F.] c. SA Universeal*

154 Supra 15.

155 TGI Paris (3<sup>e</sup> ch. 1<sup>e</sup> sct.) 20 Déc. 2012, *SARL Measurix, SARL Measurix France c. SARL Atlog* (RG 11/10918).

156 Supra 26.



## D. Conclusion

76 Patent holders have the ability and the means to exercise their exclusive patent rights in an abusive manner. However, decisions from Belgian and French courts clearly demonstrate that patent rights must be exercised within the limits of moderation if patent holders do not want to suffer the “wrath” of judges. If a patent holder actively participates in an “abusive scheme”, courts may be less inclined to forgive, and may potentially lean towards a sanction for abuse. The threshold for defendants to win a case on the argument of abuse is nonetheless fairly high. To demonstrate that a patent holder does not act as a normal, prudent and diligent person (the generic criterion for abuse in Belgium), or that an abuse is characterised (the umbrella used in France) is not an easy task. Even confronted with a patent holder’s actions which are somewhat frivolous or irritating, courts may still consider these behaviours insufficient to fully substantiate a claim of abuse.

77 The presumption of validity that patents enjoy represents a hurdle for victims of abuse (in Belgium in particular). In various cases, judges held that since a patent had been granted by a patent office, its enforcement could not amount to an abuse. Even when foreign jurisdictions (and administrative bodies) revoked (or refused to grant) the patent, it did not affect its *prima facie* validity. This presumption of validity impacted not only the potential abuse of the right to initiate a claim but also the right to obtain a seizure measure and/or (preliminary) injunction. The value attributed to the presumption is however questionable. This paper argues that the validity, and therefore the legality of a patent, does not necessarily mean that its enforcement is legitimate. It is highly possible to face a situation in which a valid patent is enforced in an abusive manner. Otherwise, it would only be in cases where the patent(s) in suit was/were considered “irregular” that the actions undertaken by patent holders could have been sanctioned via the prohibition of AoR. Yet, the case law analysed demonstrates that this is not the case.

78 With regard to seizure measures and (preliminary) injunctions, the prohibition of AoR seems to serve as a last resort mechanism. Conditions to obtain an injunction as well as the legal requirements surrounding the grant of seizure measures give the impression to provide sufficient leeway for judges to sanction illegal requests of such important enforcement mechanisms by patent holders. Once these measures are obtained, over-enforcement is nevertheless open to patent holders. However, it is only in exceptional cases that the prohibition of AoR was able to provide for a remedy to victims of clear misconduct from patent holders. It is suggested

that the scarcity of these cases relates to the fact that the *ex ante* balancing exercise undertaken by judges before granting such interim measures limits the possibilities of having over-enforcement *ex post*, therefore reducing the need to resort to the prohibition of AoR.

79 The leading research question of this paper was to better understand how Belgian and French judges interpret the principle of AoR in the framework of patent litigation, in order to provide more substance to the broad and sometimes vague notion of “abuse” in patent litigation. The prohibition of AoR requires judges to take into consideration all the circumstances of a case before the determination of an abuse and such an all-encompassing analysis has been confirmed in the case law under scrutiny. It was not only the actions taken against the litigant which were part of the assessment, but also the actions having prejudicial consequences for third parties (such as customers of the victim of abuse) and/or actions which took place before administrative bodies (such as patent offices). Regarding the time period covered by the judicial review, the analysis was not limited to the litigation itself, but also included past actions, which sometimes took place years before the litigation.

80 From a distant perspective it may seem that the investigation spectrum of judges is rather broad and that a clear identification of abusive actions from patent holders would be lost in the midst of things. However, as mentioned in the hypothesis put forward at the beginning of this paper, with a closer look at the analysis conducted by judges, such specific guidance could be – and actually was – found. After reviewing the cases at hand, it can be concluded that particular attention should be given to the following elements. Firstly, the knowledge of patent holders (or the fact that they should have known) regarding the invalidity and/or the non-infringement of their title. Secondly, the intention of patent holders to either, harm their opponent in litigation, or harm third parties who have particular relationships with their opponent. Thirdly, the involvement of patent holders in unfair competition practices, including denigration campaign, disorganisation of the market and/or internal disorganisation of a competitor, and threat and pressure. Fourthly, the diversion of patent rights, or actions stemming from these rights such as the right to request and enforce seizure measures and/or (preliminary) injunctions, from their legal purposes. These four elements represent the most common building blocks of an “abusive scheme”.



- 81 One commentator<sup>162</sup> has compared the prohibition of AoR to an elephant and argued that you should be able to recognise an abuse when you see one. It is hoped that this paper provides a clearer idea for readers, enabling them to detect and identify these peculiar legal elephants in the savannah of patent litigation.

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162 H.L. McCarthy, “Abuse of Rights – Europe’s Legal Elephant”, *GITC Review*, June 2007.

# Permissibility of Non-Voluntary Collective Management of Copyright under EU Law

## The Case of the French Law on Out-of-Commerce Books

by **Oleksandr Bulayenko\***

**Abstract:** The possibility of the EU member states to adapt copyright legislation to new circumstances and to address unforeseen issues is limited by the list of exceptions and restrictions of the InfoSoc Directive. In spite of this constraint, the EU copyright framework provides for a possibility of introduction of non-voluntary forms of collective rights management that can help to tackle some of the contemporary problems with remuneration and access.

This article is an attempt to deepen the understanding of non-voluntary collective management and its possible use. First, it provides a detailed description of the French mechanism adopted for facilitating mass digitization and making out-of-commerce books available, which was implemented through a new form of collective management of copyright. Then, it examines the mechanism's compatibility with the InfoSoc Directive through comparison with the extended collective licensing.

**Keywords:** Copyright; EU; Collective Management; French; Mass Digitization; Out-of-Commerce; Books; Mandatory; Extended License; CJEU; C-301/15; Soulier and Doke; InfoSoc; Exceptions; Limitations

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## A. Introduction

1 Digitisation of cultural heritage with the aim of its preservation and making available online is one of important public policy objectives in European countries. Acquisition of the necessary permissions from copyright holders is often complicated due to the lack of information regarding numerous rightholders and the fragmentation of rights. In spite of its cultural importance, with a few exceptions, mass digitization undertaken through the usual rights clearance process is financially too burdensome for public institutions and private undertakings. At the same time, many older works still under copyright do not generate any revenues to their rightholders, undermining the significance of copyright protection. In some cases, legal mechanisms facilitating rights clearance may pave a way to solving the problems associated with the copyright architecture, increased access to

copyrighted works, and revenues to rightholders.

2 In March 2012, France adopted a law on the digital use of out-of-commerce books of the XXth century<sup>1</sup>, providing for a form of non-voluntary collective management of exclusive rights necessary for digital reproduction and providing access to copyrighted works. While some stakeholders were consulted in the legislative process, the legitimacy of the law has been disputed since its adoption. In February 2014, the French Constitutional Council (*Conseil constitutionnel*), replying to a constitutionality request, established that the mechanism complies with the Constitution<sup>2</sup> and does not infringe property

1 Loi n° 2012-287 relative à l'exploitation numérique des livres indisponibles du XXe siècle, *JORF* n°0053, 2 March 2012. Originally, the law introduced 11 new Articles to the Intellectual Property Code of France (CPI). Regarding deleted 22 February 2015 Article L134-8, see *infra* about the third licensing scheme.

2 With Articles 2 and 17 of the Declaration of Man and Citizen

rights.<sup>3</sup> Following persistent opposition, the Council of State (*Conseil d'Etat*) decided on 6 May 2015<sup>4</sup> to submit to the Court of Justice of the European Union (CJEU) the question of whether the mechanism introduced by the law for facilitating exploitation of out-of-commerce books implemented through a collective management organization is compatible with Article 2 (on the reproduction right) and Article 5 (containing the exhaustive list of exceptions and limitations) of the InfoSoc Directive.<sup>5</sup>

- 3 The first part of the paper will examine in detail the French mechanism for digitization of out-of-commerce books, concluding by difficulties associated with its qualification. The second part will outline a brief overview of the EU legal framework on non-mandatory collective management and continue with a comparative analysis of the French mechanism and the extended collective licensing.

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of 26 August 1789. This Declaration is integrated in the corpus of French constitutional law.

- 3 C.C., 28 février 2014, M. Marc S. et autre, n° 2013-370 QPC, para. 18: “firstly, the regime of collective management applicable to the right to reproduction and communication in digital form of out-of-commerce books does not result in the deprivation of property in the sense of Article 17 of the Declaration; secondly, the framework of conditions under which the rightholders enjoy their rights to intellectual property in their works do not disproportionately prejudice these rights in view of the objectives pursued; by consequence, the complaints alleging prejudice to the right to property have to be dismissed”. Some commentators criticised the decision on the grounds that the Constitutional Council confused the “general interests” (mentioned in paras. 12 and 14) justifying limitations to property rights with interests of industry groups, see Emmanuel Derieux (2014), ‘Exploitation numérique des livres indisponibles : Déclaration de conformité à la Constitution des dispositions des articles L. 134-1 à L. 134-9 du Code de la propriété intellectuelle’, *Revue Lamy Droit de l’Immatériel*, No. 103, p. 36 and Sylvie Nérissou (2015), ‘La gestion collective des droits numériques des « livres indisponibles du XX<sup>e</sup> siècle » renvoyée à la CJUE : le Conseil d’État face aux fondamentaux du droit d’auteur’, *Recueil Dalloz*, No. 24, p. 1429.
- 4 C.E., 6 mai 2015, n°368208, M.S., Mme D., art. 2. Request for a preliminary ruling from the Conseil d’État (France) lodged on 19 June 2015 – Marc Soulier Sara Doke v Ministre de la Culture et de la Communication Premier ministre (Case C-301/15) OJ C 294/35, 7 September 2015. Question referred: “Do the provisions, referred to above [Article 2 on the reproduction right and Article 5 on exceptions and limitations], of Directive 2001/29/EC of 22 May 2001, preclude legislation, such as that analysed in paragraph 1 of this decision [law related to the digital use of out-of-commerce books of the XX<sup>th</sup> century], that gives approved collecting societies the right to authorise the reproduction and the representation in digital form of ‘out-of-print books’, while allowing the authors of those books, or their successors in title, to oppose or put an end to that practice, on the conditions that it lays down?”.
- 5 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 [2001] OJ L 167/10.

## B. Collective Management of Digital Rights to Out-of-Commerce Books

### I. General Overview of the Mechanism

- 4 The French law of 1 March 2012 introduced a statutory mechanism for facilitation of use of so-called “out-of-commerce books” of the XX<sup>th</sup> century.<sup>6</sup> Out-of-commerce books are defined as books that were published in France before 1 January 2001, are no longer an object of commercial distribution by a publisher<sup>7</sup>, and are not in the process of publication

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6 “Livres indisponibles” in original language. This phrase can be literally translated into English as “unavailable books”. The translation of “livres indisponibles” as “out-of-commerce books” seems to be more appropriate than the literal translation in light of the definition provided by Article L134-1 of the CPI, the contemporary discourse on out-of-commerce works and the terminology used in relevant European instruments, see Recital 4 of the Orphan Works Directive speaking of “out-of-commerce works” (“œuvres indisponibles dans le commerce”) and the Memorandum of Understanding, Key Principles on the Digitisation and Making Available of Out-of-Commerce Works, 20 September 2011, witnessed by Michel Barnier, Commissioner for Internal Market and Services. Nevertheless, some authors prefer to translate the term as “unavailable books” (Marcel-la Favale, Fabian Homberg, Martin Kretschmer et al. (2013), *Copyright, and the Regulation of Orphan Works: A comparative review of seven jurisdictions and a rights clearance simulation*, Report commissioned by the Intellectual Property Office of the UK, 2013/31, p. 72 and Jane C. Ginsburg (2014), ‘Fair Use for Free, or Permitted-but-Paid?’, *Berkeley Technology Law Journal*, Vol. 29, p. 1425) or as “out-of-print books” (Sylvie Nérissou (2015), ‘Has Collective Management of Copyright Run Its Course? Not so Fast’, *IIC*, Vol. 46, No. 5, p. 506), or use “unavailable books” and “out-of-commerce books” interchangeably (Lucie Guibault (2015), ‘Cultural Heritage Online? Settle It in the Country of Origin of the Work’, *JIPITEC*, Vol. 6, No. 3, pp. 177, 178 and 181).

7 Availability of books on the second-hand market or at libraries is irrelevant for the legal qualification, see, Sénat, Rapport fait au nom de la commission de la culture, de l’éducation et de la communication sur la proposition de loi de M. Jacques Legendre relative à l’exploitation numérique des livres indisponibles du XX<sup>e</sup> siècle, par Mme Bariza Khari, Sénatrice, N° 151, enregistré à la Présidence du Sénat le 30 novembre 2011, p. 5, Frédéric Pollaud-Dulian (2012), ‘Livres indisponibles. Licence légale. Œuvres orphelines. Numérisation. Bibliothèque’, *RTD Com.*, No. 2, p. 339. Some commentators observe with regret that studies, reports, and other documents that were not published in large numbers and were not commercially distributed but are present in library collections in small numbers are outside the provisions regarding the out-of-commerce books, see Emmanuel Derieux (2012), ‘Le régime juridique de l’exploitation numérique des livres indisponibles du XX<sup>e</sup> siècle : Cheval de Troie de Google ?’, *Revue Lamy Droit de l’Immatériel*, No. 87, p. 65 and Emmanuel Emile-Zola-Place (2012), ‘L’exploitation numérique des livres indisponibles du XX<sup>e</sup> siècle : une gestion collective d’un genre nouveau’, *Légipresse*, no 295, p. 357.

either in paper or in digital form.<sup>8</sup> Since the legislation does not speak of “works”, as it is common in copyright law, but refers to “books”<sup>9</sup> (i.e., material media in which literary and other works are fixed), it is important to emphasize that the scope of the mechanism is limited to works published in books (i.e., objects of the digitization process<sup>10</sup>). Books of the XXth century that are not available in the primary channels of commerce and whose works are in the public domain are not concerned by the law.<sup>11</sup>

- 5 The mechanism is implemented through a form of non-voluntary collective management of copyright with the possibility to opt out. Exercise of rights to reproduce or communicate out-of-commerce books in digital form (digital rights) is undertaken by an assigned collective management organization (CMO)<sup>12</sup> upon expiration of six months since listing of the aforementioned books in a special open and free online database.<sup>13</sup>

8 Article L134-1 of the CPI. If books are not available in paper form but only in digital form they cannot be considered as out-of-commerce, see Emmanuel Emile-Zola-Place (2012), *ibid*, pp. 357 and Jean-Michel Bruguière (2012), ‘Gestion collective – Œuvres indisponibles : Notion de livre indisponible (Première partie)’, *Propriété intellectuelle*, No. 45, p. 347.

9 The draft of the law spoke of “out-of-commerce works”, but this wording was criticised by the senator-rapporteur, Bariza Khiari, as not accurately reflecting the content of the legislative act limited in its scope to works published in the form of books, see Sénat, Rapport 2011, *supra* note 7, p. 23. This choice of the legislator to speak of “books” rather than of “works” was criticised by some scholars and the legislator was even described as “ignorant” in regards to the distinction between material objects (media) and immaterial copyrighted works they contain, see Franck Macrez (2012), ‘L’exploitation numérique des livres indisponibles : que reste-t-il du droit d’auteur ?’, *Recueil Dalloz*, No. 12, pp. 751, 752 and 757. For opposing views, see Jean-Michel Bruguière (2012), *ibid*, p. 347 and Florence-Marie Piriou (2012), ‘Nouvelle querelle des anciens et des modernes : la loi du 1<sup>er</sup> mars 2012’, *Communication Commerce électronique*, No. 10, pp. 8-7.

10 Mass digitization of out-of-commerce books was intended to be undertaken relying on the legal deposit collections kept by the National Library of France (BnF), see Accord cadre pour la mise en œuvre d’un projet de numérisation et de diffusion des livres français indisponibles du XXème siècle entre le ministère de la Culture et de la Communication, le Commissariat général à l’investissement, le Syndicat National de l’Edition, la Société des Gens de Lettres et la Bibliothèque nationale de France, 2 février 2011, Articles C and E. Articles L131-2, L132-3 and R132-1 of the Heritage Code (*Code du patrimoine*) provide that the BnF administers the legal deposit of books (published in France as well as imported to France).

11 Article Art. R134-2 of the CPI.

12 Article L134-3, para. I, of the CPI. Before a legislative proposal was drafted, a consensus on this mechanism, in its general form, was reached among some major stakeholders, see Accord cadre 2011, *supra* note 10, Article B. Société des Gens de Lettres (SGDL) – the French writers’ association, participated in the negotiations and signed the agreement as a party defending authors’ moral and material interests in the deal.

13 The database, operational since 21 March 2013, is called

- 6 The CMO managing digital rights of out-of-commerce books has to be assigned by the Ministry of Culture and Communications<sup>14</sup> according to a set of criteria<sup>15</sup> similar to the usual criteria used in French legislation for assigning CMOs for mandatory collective management of certain rights.<sup>16</sup> SOFIA,<sup>17</sup> the CMO already managing the rights of public lending and private digital reproduction of literary works, was assigned with the exercise of digital rights to out-of-commerce books by a Decree (“*arrêté*”) of the Ministry of Culture and Communication of 21 March 2013.<sup>18</sup> The assignment is issued for a renewable term of 5 years<sup>19</sup> and it can be withdrawn if the CMO does not comply with at least one of the criteria set for

*Registre des Livres Indisponibles en Réédition Électronique* and is abbreviated as ReLIRE (meaning “to reread” or “to read again”). It was created and is being maintained by the BnF, as a part of its obligation under Article L134-2 of the CPI. The database can be freely accessed from anywhere at: <http://relire.bnf.fr>. Astonishingly, the current name of the database does not correspond to the name prescribed by the law: “Registre des livres indisponibles du xxe siècle” (Article R134-1, para. 1 of the CPI).

- 14 Article L134-3, para. I of the CPI. From the wording of certain articles of the CPI it seems that the Ministry may assign more than one CMO for management of the digital rights of the out-of-commerce books (Article L134-3, paras. II and IV, Article L134-7 and Article L134-9 of the CPI). Emmanuel Derieux (2012), *supra* note 7, pp. 66-67. It seems to us that assignment of more than one CMO may undermine the efficiency of this particular mechanism.

- 15 Articles L134-3, para. III and R327-1 of the CPI. One of the criterion for selection of a CMO concerns the distribution rules. For a CMO to be assigned it needs to ensure in its rules that amounts distributed to authors are not smaller than the amounts distributed to publishers (Article L134-3, para. III, sub-para. 5 of the CPI). Some observers note that although this general rule on distribution of sums collected was criticised for its likely 50/50 outcome, it often leads to higher royalty rates for authors than usual bilateral publishing contracts. In support of this opinion, see Emmanuel Derieux (2012), *supra* note 7, p. 68. At the same time, it can be observed that publishing contracts generally provide royalty payments only to authors. Publishers normally gain their profits as the primary users of the acquired rights through publication and sale of books.

- 16 E.g., Article L122-12 of the CPI (reprography) and Article L133-2 of the CPI (lending). Sylvie Nérissou (2013), *La gestion collective des droits des auteurs en France et en Allemagne : quelle légitimité ?*, Paris, France: IRJS, pp. 286-287 and Sylvie Nérissou (2015), *supra* note 3, p. 1428.

- 17 *Société française des intérêts des auteurs de l’écrit (SOFIA)*: <http://www.la-sofia.org>. It was created in 1999 on the initiative of SGDL, see Commission permanente de contrôle des sociétés de perception et de répartition des droits, Huitième rapport annuel, May 2011, p. 19. For more information about SOFIA, see Florence-Marie Piriou (2013), *Sociétés de perception et de répartition des droits : Société française des intérêts des auteurs de l’écrit (SOFIA)*, *JurisClasseur Propriété littéraire et artistique*, Fasc. 1573.

- 18 Arrêté du 21 mars 2013 portant agrément de la Société française des intérêts des auteurs de l’écrit, NOR: MCC-B1307162A, *JORF* n°0076, page 5420, texte n° 27.

- 19 The renewal is subject to the same criteria as the initial award (Article R327-4 of the CPI).



its selection.<sup>20</sup>

## II. Scope

- 7 The repertoire of digital rights to out-of-commerce books managed by SOFIA consists of rights to books listed in the aforementioned ReLIRE database, whose entry into collective management was not opposed six months following their listing in the database.<sup>21</sup> The database is supplemented with new book titles once a year on the 21 March.<sup>22</sup> Hence, every year there is a six-month period of information campaigns during which the assigned CMO does not manage the digital rights to a selection of the out-of-commerce books listed in the database.<sup>23</sup>
- 8 The majority of the information necessary for the rights management is provided by the ReLIRE database, which was established and is managed by the publicly funded National Library of France (BnF).<sup>24</sup> A complete list of such books in which digital rights are subject to collective management, can be viewed on the website of the database.<sup>25</sup>
- 9 Any person has the right to request the listing of a book as an out-of-commerce book in the database, or to report an error in the data by filling out an online form.<sup>26</sup> This possibility can be described as a crowd-sourcing component of building the database.<sup>27</sup> However all suggestions for the listing of books in the database are examined and the titles for listing are determined by a scientific committee composed of three representatives of authors, three of publishers, and one of the BnF.<sup>28</sup> When works become a part

of the public domain, they are excluded from the database.<sup>29</sup>

- 10 The maximum number of rights that can be managed collectively within the mechanism is limited to the works contained in the out-of-commerce books published in France in XXth century. The proposal of the law addressed to the National Assembly estimated the number of out-of-commerce books to be around 500 000.<sup>30</sup>

## III. Licensing Schemes

- 11 The law on the out-of-commerce books of the XXth century prescribes an overall framework under which digital rights to these books should be licensed.
- 12 Although there is a single repertoire of works rights that are managed by SOFIA, different licensing regimes are presently applied to two groups of rights forming the overall corpus of digital rights to out-of-commerce books. The third licensing scheme for the benefit of public libraries and their subscribers (readers) was revoked on 22 February 2015 without being ever being applied in practice.
- 13 First, upon entry of the digital rights into collective management, SOFIA has to offer an *exclusive license* to use digital rights for a tacitly renewable term of 10 years to the publisher, who has rights to reproduction of an out-of-commerce book in paper form.<sup>31</sup> The publisher that accepts the exclusive license<sup>32</sup> is obliged to effectively use the work within three years following the acceptance and proof must be provided to the CMO.<sup>33</sup> This scheme greatly facilitates acquisition of digital rights to out-of-commerce books by their original publishers who discontinued their publication in paper form.
- 14 Second, if there is no publisher that has rights to

20 Article R327-6 of the CPI.

21 In case of opposition to the collective management of rights a special mention is made in the database.

22 Article R134-1, para. 1 of the CPI. If 21 March falls on a public holiday, then new titles are uploaded on the next working day.

23 The Memorandum of Understanding on the digitisation of out-of-commerce works (*supra* note 6) states: "Each digital library project shall be widely publicised so that all stakeholders whose rights and interests might be affected can decide whether or not to participate in the project in full knowledge of its scope; and communication to rightholders shall be made sufficiently in advance of any scanning or use." (Principle No. 2, para. 2).

24 Article Annexe to Article R134-1 of the CPI.

25 A complete list of out-of-commerce books rights of which are managed by the assigned CMO can be downloaded from ReLIRE's website at: <https://relire.bnf.fr/registre-gestion-collective>.

26 Article L134-2, para. 2, of the CPI. Furthermore, the requesting person does not need to demonstrate any interest in the book title he requests to list as out-of-commerce, see Frédéric Pollaud-Dulian (2012), *supra* note 7, p. 339.

27 Jane C. Ginsburg (2014), *supra* note 6, p. 1426.

28 Article R134-1, para. 2 of the CPI. Decree of the Ministry of

Culture and Communication of 18 March 2013 determined composition and functioning of the committee. Arrêté du 18 mars 2013 relatif à la composition et au fonctionnement du comité scientifique prévu à l'article R. 134-1 du code de la propriété intellectuelle, NOR: MCCE1307172A, *JORF* n°0067, 20 March 2013, page 4817, texte n° 30.

29 Article R134-2 of the CPI.

30 Assemblée nationale, Proposition de loi relative à l'exploitation numérique des livres indisponibles du XXe siècle, N° 3913, enregistré à la Présidence de l'Assemblée nationale le 8 novembre 2011, p. 4 and Accord cadre 2011, *supra* note 10, Article A.

31 Article L134-5 of the CPI.

32 Mention of acceptance of a 10-year exclusive license by the publisher that has rights for reproduction of the book in paper form is made to the database (Article L134-5, para. 4 of the CPI).

33 Article L134-5, para. 5 of the CPI.

reproduction of an out-of-commerce book in paper form<sup>34</sup>, or if this publisher does not accept the 10-year exclusive license, or after accepting it does not make use of the acquired rights,<sup>35</sup> SOFIA offers digital rights to the books to any undertaking through *non-exclusive licenses* for a renewable term of 5 years.<sup>36</sup>

15 During the legislative process, the senator-rapporteur expressed the view that the original publisher who withdrew a book from the database and did not use the book during the two year period should not have a right of preference<sup>37</sup> for an offer of the exclusive 10-year license, and that the CMO should offer the general terms license of five years to all.<sup>38</sup> At present, the text of the law does not warrant the conclusion that this proposal was implemented. Also nothing prevents original publishers, who did not accept an earlier offer of the exclusive license or after accepting it did not commercially use the book, from obtaining the non-exclusive license.

16 It can be assumed that the duration of licenses imposed by law - 10 and five years respectively - can be shortened in cases when copyright in the works concerned expires before the end of the licenses.<sup>39</sup>

34 Authors or their heirs may demonstrate that the publisher that had rights for publication of books in paper form lost them afterwards. Most of the active publishers are members of SOFIA and hence there should be no big issue finding them.

35 Article L134-5, para. 6 of the CPI. This was characterized by one commentator as an attenuated version of “use it or lose it”, see Jane C. Ginsburg (2014), *supra* note 6, p. 1429. In addition to the requirement of use, all the licenses include an obligation for users to report to SOFIA on uses made of the rights and on revenues generated.

36 Article L134-3, para. 1, sub-para. 2 of the CPI.

37 During the legislative debate this right was referred as a “right of preference” of original publishers, see Assemblée nationale, Proposition de loi relative à l’exploitation numérique des livres indisponibles du XX<sup>e</sup> siècle, N° 3913, enregistré à la Présidence de l’Assemblée nationale le 8 novembre 2011, pp. 6, 8 and 9 and Sénat, Rapport 2011, *supra* note 7, pp. 31 and 33. Then this term was also used by some commentators, see Florence-Marie Piriou (2012), *supra* note 9, p. 10 and Franck Macrez (2012), *supra* note 9, p. 755. From the perspective of rights management, it can also be described as an *obligation* of the CMO to make an offer of an exclusive license to certain users. The Memorandum of Understanding on the digitisation of out-of-commerce works (*supra* note 6) recognized that: “the rightholders [authors of literary and artistic works and publishers] shall always have the first option to digitise and make available an out-of-commerce work.” (Recital 6).

38 Sénat, Rapport 2011, *supra* note 7, p. 33.

39 Duration of copyright cannot be extended or reduced contractually. In France, as a general rule, copyright last for 70 years *post mortem* (Article L123-1 of the CPI). On the impossibility to extend the duration of copyright contractually and on particular cases of copyright duration related to wars and to authors who died for France, see Michel Vivant and Jean-Michel Bruguière (2016), *Droit d’auteur et droits voisins*, 3<sup>rd</sup> edition, Paris, France: Dalloz, pp. 422-425.

17 According to the conditions defined by SOFIA, both licenses can permit the following two types of uses:

- unit sale of digitized books to the public or to lending libraries;
- making digitized books available through bundling or subscription services to libraries.<sup>40</sup>

18 The amount of royalties to be paid by licensees is established by the General Assembly of the assigned CMO, that is, by a vote of its members.

19 The following royalty rates were approved by an ordinary General Assembly of SOFIA 19 June 2014:<sup>41</sup>

- for exclusive licenses: 15% of sale price net of tax<sup>42</sup> or of all the revenues net of tax for marketing through bundling or subscriptions;
- for non-exclusive licenses: 20% of sale price net of tax<sup>43</sup> or of all the revenues net of tax for marketing through bundling or subscriptions.<sup>44</sup>

20 Out of all the out-of-commerce books added to the ReLIRE database in 2013, 234 publishers obtained exclusive licenses for 27 808 books. In 2014, 76 publishers obtained exclusive licenses for 7 739 books. During these periods rights to more than 20 000 books were licensed under non-exclusive licenses.<sup>45</sup> Due to the standardized conditions and automatization of the rights management, all licenses can be obtained online.<sup>46</sup>

40 Minutes of the General Assembly of SOFIA of 19 June 2014, p. 1, available at: <http://www.la-sofia.org/sofia/webdav/site/Sofia/shared/docs%20AG/PV%20AG%20202014.pdf> (last visited 15 February 2016).

41 Minutes of the General Assembly of SOFIA of 19 June 2014, p. 2.

42 Royalties due cannot be lower than the guaranteed minimum of 1 euro.

43 Royalties due cannot be lower than the guaranteed minimum of 1 euro.

44 In case holders of non-exclusive licenses commercialise books in non-interoperable formats or through a single channel of commerce, the royalty rate increases to 30%, and the guaranteed minimum to 1,50 euro. An example of such commercialization can be the release of ebooks only through a single proprietary type of ebook reader. This progressive rate, although applied only to non-exclusive licenses, presumably should be encouraging the greatest possible availability of the out-of-commerce books to the public and competition on the market of ebooks. Licensees that obtained non-exclusive licenses need to pay 1 euro annually per book in addition to the payment of amounts proportional to the revenue.

45 SOFIA’s website, ‘Les licences d’exploitation délivrées en 2014’: [http://www.la-sofialivresindisponibles.org/2015/licences\\_delivrees\\_auteur.php](http://www.la-sofialivresindisponibles.org/2015/licences_delivrees_auteur.php) (last visited 15 February 2016).

46 SOFIA’s website, ‘Souscrire une licence’: [http://www.la-sofialivresindisponibles.org/2015/souscrirelicence\\_editeur](http://www.la-sofialivresindisponibles.org/2015/souscrirelicence_editeur).

- 21 With regard to distribution of revenues between authors (including their heirs) on the one hand and publishers on the other, in case of exclusive licenses all the royalty payments in their entirety are directed to authors, and in case of non-exclusive licenses – divided equally<sup>47</sup> between authors and rightholders.<sup>48</sup>
- 22 While it can be argued that the licensing schemes described above are more beneficial for publishers than for authors,<sup>49</sup> it is interesting to see how authors voted in the General Assembly on licensing and distribution rules.<sup>50</sup>

|            | For          | Against    | Abstained |
|------------|--------------|------------|-----------|
| Authors    | 3 344 voices | 228 voices | 10 voices |
| Publishers | 450 voices   | 0 voices   | 0 voices  |

- 23 Voting via a representative group of rightholders is an important democratic element contributing to differentiating this form of collective management from non-voluntary licenses, where tariffs and distribution rules are often determined or validated by governmental authorities, mixed committees involving representatives of users and of the government, and by judicial or quasi-judicial bodies.<sup>51</sup>
- 24 In addition to safeguarding collection of agreed remuneration, the licensing committee of SOFIA also aims to ensure a certain quality of digitization.<sup>52</sup>
- 25 Third, the original version of the law on out-of-commerce books of the XXth century foresaw the third type of licenses to be issued by the assigned CMO: *royalty-free licenses to public libraries*, which authorizes them to reproduce and make out-of-

commerce books available on a non-commercial basis to their subscribers (readers) in digital form.<sup>53</sup> Under this licensing scheme the CMOs retained a right to a justified refusal of the royalty-free license. Rightholders having rights to the reproduction of such books could request withdrawal of such licenses issued to the public libraries at any moment.<sup>54</sup> Although this provision contained aforementioned safeguards of rightholders' interests it was abrogated by a law of February 2015.<sup>55</sup>

- 26 Therefore, SOFIA is currently obliged by the law to license digital rights to out-of-commerce books under two different licensing schemes. The obligation of SOFIA to make exclusive offers of some rights of its repertoire to original publishers<sup>56</sup> sharply distinguishes this mechanism from the traditional collective management characterized by an equal treatment of users, non-exclusive licenses, and a possibility to propose licenses covering the entire repertoire (blanket license).<sup>57</sup> It can be further added that the right of the publishers, who have rights to reproduction on paper to an exclusive offer of the digital rights, is likely to prevent entry of digital rights to the most commercially interesting books in the second licensing scheme (more "classic" collective management). It is only in case of the second licensing scheme that the CMO can play a role of a single point of contact, where users can obtain rights to any and all works of the out-of-commerce books not licensed to original publishers through a single transaction. Overall, this licensing mechanism based on the collective management, while sparing publishers from the need to search and negotiate with rightholders for numerous works, does not provide the convenience of a single point of contact, as it is commonly one of the primary objectives of non-voluntary collective management.

php (last visited 15 February 2016).

- 47 With exception of instances when the guaranteed minimum of 1 euro is paid. It will be divided in the following way: 75 cents to authors and 25 to publishers.
- 48 Minutes of the General Assembly of SOFIA of 19 June 2014, p. 2.
- 49 Sylvie Nérissou (2013), *supra* note 16, pp. 309-310 (the critique concerns the conditions provided by the law).
- 50 Minutes of the General Assembly of SOFIA of 19 June 2014, p. 2.
- 51 For example, according to Article L311-5 of the CPI remuneration for reproduction made by natural persons for private use is determined by a mixed committee presided by the governmental representative and composed of an equal number of representatives of rightholders on the one hand and of representatives of producers and importers of equipment giving raise to the remuneration on the other hand.
- 52 SOFIA's Communiqué of 17 September 2013, *Livres indisponibles : Quelles seront les conditions d'attribution des licences d'exploitation ?*, available at: [http://www.sgd.l.org/phocadownload/Juridique/gestion\\_collective/Communiqué\\_SOFIA\\_17\\_septembre\\_2013\\_Conditions\\_Licenses.pdf](http://www.sgd.l.org/phocadownload/Juridique/gestion_collective/Communiqué_SOFIA_17_septembre_2013_Conditions_Licenses.pdf) (last visited 15 February 2016).

- 53 The issue of free authorisations to libraries to provide their subscribers with access to digitized out-of-commerce books was a very hotly debated issue in the law making process, see André Lucas, Henri-Jacques Lucas and Agnès Lucas-Schloetter (2012), *Traité de la propriété littéraire et artistique*, 4th edition, Paris, France: LexisNexis, p. 732.
- 54 Former Article L134-8 of the CPI.
- 55 Article 3, para II of the Loi n° 2015-195 du 20 février 2015 portant diverses dispositions d'adaptation au droit de l'Union européenne dans les domaines de la propriété littéraire et artistique et du patrimoine culturel (1), JORF n°0045, 22 February 2015.
- 56 Some concerns were raised regarding the conflict of interest caused by the fact that publishers are members of the CMO and users at the same time, see Frédéric Pollaud-Dulian (2012), *supra* note 7, p. 342.
- 57 In support of this view see Sylvie Nérissou (2015), *supra* note 3, p. 1431. In general, French law recognizes and promotes blanket licenses (Article L132-18 of the CPI). On the non-excludability of collectively licensed uses as a key feature of collective management, see Daniel J. Gervais (2011), 'The Landscape of Collective Management Schemes', *Columbia Journal of Law & the Arts*, Vol. 34, No. 4, pp. 596-601.

## IV. Opting Out

- 27 The non-voluntary form of collective management introduced by the law provides rightholders with possibilities for opting out<sup>58</sup> of the mechanism and exercising their rights individually. To be more precise, there are two distinct options for opting out: *a priori* opt out and *a posteriori* opt out.<sup>59</sup>

### 1. A Priori Opt Out

- 28 During the six months<sup>60</sup> following the listing of book titles in the database,<sup>61</sup> authors (including their heirs) and publishers that have rights to reproduction of the out-of-commerce books in paper form may opt out<sup>62</sup> from the mechanism by notifying the BnF in writing.<sup>63</sup> A simple request is sufficient, there is no need for demonstration of any particular reasons. Essentially, the role of the described period during which the exercise of the digital rights concerned is not affected<sup>64</sup> is to inform rightholders about the future exercise of their rights by the assigned

CMO and to provide them with the possibility to opt out even before entry of the rights into collective management.<sup>65</sup>

### 2. A Posteriori Opt Out

- 29 In case authors, their heirs, or publishers did not oppose the exercise of the digital rights through the assigned CMO during the six-month period following publication of their book titles in the database (i.e., before collective exercise of the rights), they may still opt out from the system afterwards (i.e., once rights enter into the collective management, but not necessarily after issue of a license). The following three scenarios are possible:

- The author of an out-of-commerce book may opt out if he considers reproduction or public digitization of his book may be harmful to his reputation.<sup>66</sup> As it is formulated, this possibility is provided to protect moral rights of authors. This is important because the mass digitization project does not foresee work on the content, and all the books will be digitized as they are.<sup>67</sup> Furthermore, even if SOFIA is undertaking efforts to ensure licensing conditions enforce a certain quality of digitized books and are as a result constantly improving technological tools to enable this goal, some errors are always possible<sup>68</sup>;
- The author may withdraw his digital rights at any moment, provided that he supplies proof that he is the only rightholder of digital rights.<sup>69</sup> In general, publishing contracts concluded in the XXth century do not explicitly mention reproduction of books in digital form and making them available online,<sup>70</sup> with the exception of

58 During the legislative process the English term “opt out” was explicitly used to describe the essence of the mechanism, see Sénat, Rapport 2011, *supra* note 7, pp. 14, 20 and 29). The term is now often used in the French doctrine to describe the withdrawal of rights from the mechanism, see André Lucas, Henri-Jacques Lucas and Agnès Lucas-Schloetter (2012), *supra* note 52, p. 732, Pierre Sirinelli (2016), *Propriété littéraire et artistique*, 3<sup>rd</sup> edition, Paris, France: Dalloz, p. 106 and Marie-Christine Leclerc-Sénova and Nathalie Orloff (2013), ‘La gestion collective en matière d’écrit’, in Patrick Tafforeau (ed.), *Pratique de la propriété littéraire et artistique*, Paris, France: LexisNexis, p. 59.

59 This novel terminology for nuancing the two opt out possibilities of the mechanism was used for the first time by Emmanuel Emile-Zola-Place (2012), *supra* note 7, p. 360.

60 Several commentators criticised this period as being too short, see Frédéric Pollaud-Dulian (2012), *supra* note 7, p. 340 and Franck Macrez (2012), *supra* note 9, p. 756.

61 During this period, the Ministry of Culture and Communication, CMOs managing rights to literary works, and professional organisations in book publishing organise a nation-wide campaign informing rightholders about their rights and the mechanism (Article R134-11 of the CPI).

62 Original publishers that are opposed to this are obliged to publish out-of-commerce books within the two years following the announcement of opposition. If they do not comply with this requirement, the books concerned will be subjected to collective management (Article 134-4, para. II of the CPI).

63 Article L134-4, para. I, sub-para. 1 of the CPI. The documents that authors need to provide for opting out are very minimal. An identification document and a statement testifying the quality of an author suffice. Heirs need to add to the aforementioned documents a document confirming their status of legal successor. Publishers would need to show a document demonstrating their publishing rights (e.g., a publishing contract).

64 I.e., the rightholders may exercise their rights as they wish. Christophe Caron (2015), *Droit d’auteur et droit voisins*, 4<sup>th</sup> edition, Paris, France: LexisNexis, p. 419.

65 Senator-rapporteur, when examining the draft law, expressed an idea to provide a possibility for rightholders to mention their books that they would not want registered on the database of out-of-commerce books on a special website, and hence to be included in the mechanism, see Sénat, Rapport 2011, *supra* note 7, pp. 27 and 32. This suggestion did not make it to the final text, probably being considered tautological and complicating the two-stage system.

66 Article L134-4, para. I, sub-para. 3 of the CPI.

67 Authors will not be provided with a possibility to update or correct their works, or to alter them in any other manner. From a cultural perspective there might be an inherent value in preserving works of the past as they are without “improving” them.

68 Some anxiety with regard to the quality of digitized books was expressed by some critics of the law, see Franck Macrez (2012), *supra* note 9, p. 757.

69 Article L134-6, para 2 of the CPI.

70 Assemblée nationale, Proposition de loi relative à l’exploitation numérique des livres indisponibles du XXe siècle, N° 3913, enregistré à la Présidence de l’Assemblée nationale



contracts that were subsequently amended<sup>71</sup>. The obligation to prove was introduced in the law because of the assumption that there is a valid contract between the authors and the publishers of the books that were published. It seems reasonable to estimate that the vast majority of books published in the 20th century in France, were published with the necessary authorizations of their authors. Although since 1957 contracts need to specifically refer to the uses foreseen by the contract (Law n°57-298 of 11 March 1957), under older publishing contracts authors generally transferred all of their rights to publishers (use of their works in any form). With the development of digital uses, some publishers concluded with authors' amendments or supplements to the contracts signed after 1957 in order to cover digital uses. Secondly, in France it is possible for an author to terminate a publishing contract when the book is not effectively utilized by the publisher (is out-of-print), by undertaking certain acts prescribed by the law (Article L132-17 of the CPI). In the absence of undertaking acts specified by the law, the contract is valid even if the book is not effectively used by the publisher;<sup>72</sup>

- The author, jointly with the publisher, possessing rights to reproduction of his out-of-commerce book in paper form may withdraw the digital rights to the book.<sup>73</sup> In case of such joint withdrawal, the publisher is obliged to start using the out-of-commerce book within 18 months following their notification of withdrawal.<sup>74</sup>

le 8 novembre 2011 and pp. 5-6 and Emmanuel Emile-Zola-Place (2012), *supra* note 7, p. 356.

71 Emmanuel Derieux (2012), *supra* note 7, p. 65.

72 Due to the described-above uncertainty, this line of argumentation is supported by Florence-Marie Piriou (see Florence-Marie Piriou (2012), *supra* note 9, pp. 8-9). Nevertheless, some scholars criticise the assumption and consequently a need for the author to prove the negative fact that he did not assign his rights to anybody and that he is the sole rightholder, which they interpret as being too burdensome and contrary to the general assumption of authorship, see Franck Macrez (2012), *supra* note 9, pp. 756-757, Frédéric Pollaud-Dulian (2012), *supra* note 7, pp. 341 and 343, Emmanuel Emile-Zola-Place (2012), *supra* note 7, p. 361. Jane Ginsburg, while also being critical about the mechanism ("the law gives to the publishers what they may not have received by contract" and "the law expropriates authors not for the public benefit of nonprofit libraries, but for the benefit of for-profit publishers"), observes that "without the licensing scheme, the authors would have derived no revenue from the books that otherwise would have remained out of commerce", see Jane C. Ginsburg (2014), *supra* note 6, pp. 1427-1428.

73 Article L134-6, para. 1 of the CPI.

74 The diversity of periods prescribed by the law for use of works by publishers, ranging from 3 years to 18 months, was criticised by Emmanuel Derieux (2012), *supra* note 7, p.

30 The law provides for a high level of security for licensees in the case that rightholders opt out from the collective management (the last two of the three above-mentioned possibilities),<sup>75</sup> since rightholders cannot oppose the use of out-of-commerce books on the basis of previously issued authorizations by SOFIA for the duration of their licenses (but for the period not exceeding five years) and on a non-exclusive basis. SOFIA notifies users about withdrawal of rightholders.<sup>76</sup> Some rightholders may find this period too long (since it is equal to the duration of non-exclusive licenses) and that their interests are insufficiently protected in comparison to the interests of users.

31 As a book constitutes an indivisible union of digitization, the mechanism does not provide for opting out of some rights to a book. That is, if at least one person holding rights to the out-of-commerce book opts out, the book is considered to be out of the system.

32 One of the secondary differences between the *a priori* and the *a posteriori* opt out is that the former is made through the BnF (on the ReLIRE database) and the latter through the CMO.<sup>77</sup>

33 From the statistics on the requests for opting out received since 2013,<sup>78</sup> it is clear that the proportion of rightholders choosing to opt out is decreasing.

| ReLIRE database   | 2013   | 2014   | 2015   |
|---|--------|--------|--------|
| Number of books added to the database in March  | 63 096 | 45 897 | 85 896 |
| Number of books objects of opt out requests   | 5 760  | 544    | 53     |
| Number of books objects of status change in the database (commercial availability, foreign books, etc.) | 3 532  | 970    | 263    |
| Number of books which digital rights are currently managed collectively                                 | 53 804 | 44 383 | -      |

34 There are no formal obstacles in place for rightholders that opted out from the collective management and changed their opinion to mandate their rights for collective management voluntarily afterwards.

68.

75 Frédéric Pollaud-Dulian (2012), *supra* note 7, p. 341.

76 Article L134-6, para. 5 of the CPI.

77 Articles L134-4, R123-6, R134-7, R134-8 and R134-9 of the CPI.

78 SOFIA's website, Les retraits depuis 2013: [http://www.la-so-fialivresindisponibles.org/2015/demandes\\_sortie\\_auteur.php](http://www.la-so-fialivresindisponibles.org/2015/demandes_sortie_auteur.php) (last visited 15 February 2015).

## V. Supervision

- 35 SOFIA, alike any other CMO in France, is subjected to an oversight by the Ministry of Culture and Communication and by a special commission at the Court of Auditors (*Cour des comptes*) called *Commission permanente de contrôle des sociétés de perception et de répartition des droits* (the Commission controlling CMOs).<sup>79</sup>
- 36 The supervision is generally explained by a de facto monopolistic position often held by CMOs on respective markets and by the public mission they fulfil with regard to facilitation of availability of creative works. Reasons for enhanced governmental control are even stronger when the collective exercise of rights is non-voluntary and involves rightholders who are not members of organizations exercising their rights, but rather operating on their behalf and for their benefit. Presumably for these reasons the legislator added supplementary tools for controlling activities of the CMO managing digital rights to out-of-commerce books.
- 37 The assigned CMO has to report annually to the Ministry of Culture and Communication about use of amounts collected from the use of out-of-commerce books whose rightholders could not be identified or located.<sup>80</sup>
- 38 The Commission controlling CMOs formulates recommendations regarding improvement of research aimed at identification and location of rightholders, and reports annually to the Parliament, to the government and to the General Assembly of the CMO.<sup>81</sup>

## VI. Difficulty with Qualification

- 39 Legal doctrine does not yet clearly and unanimously classify the form of collective management created

for the management of digital rights to out-of-commerce books.

- 40 The proposal of the law qualified the non-voluntary form of collective management as “mandatory collective management”,<sup>82</sup> and compared it to the mandatory collective exercise of exclusive rights to the cable retransmission.<sup>83</sup> However, documents prepared by SOFIA avoid any explicit classification by merely stating that it is not a “mandatory collective management”.<sup>84</sup> Some observers characterized the form of collective management as “mandatory” (but not completely),<sup>85</sup> “hybrid, half-voluntary and half-mandatory”,<sup>86</sup> “semi-mandatory”,<sup>87</sup> “presumed collective management”,<sup>88</sup> or as “extended collective management”, comparing it with the systems existing in the Nordic countries.<sup>89</sup>
- 41 While there is quite some hesitation as to how to name the novel form of collective management, a consensus seems to be emerging that it is neither voluntary nor mandatory but a new type for the French legal system.<sup>90</sup> The author prefers the term

82 I.e., a system under which, as a general rule, rightholders cannot exercise their rights on an individual basis.

83 Assemblée nationale, Proposition de loi relative à l'exploitation numérique des livres indisponibles du XXe siècle, N° 3913, enregistré à la Présidence de l'Assemblée nationale le 8 novembre 2011, p. 7: “Le mécanisme de *gestion collective obligatoire* [mandatory collective management] envisagé ne repose pas sur une cession légale des droits à la société, comme cela est prévu pour le droit de reprographie, mais sur un simple transfert de l'exercice des droits à la SPRD comme dans le précédent du droit de retransmission par câble. La ou les sociétés agréées sont dotées de la faculté d'ester en justice pour la défense des droits concernés par le dispositif.” (emphasis added).

84 SOFIA, Synthèse 2013 et résultats de l'Assemblée générale 2014, p. 10, available at: <http://www.la-sofia.org/sofia/webdav/site/Sofia/shared/docs%20AG/synthe%C2%A6%C3%87se2014-planche-e%C2%A6%C3%BCcran.pdf> (last visited 15 February 2016).

85 Sylvie Nérissou (2013), *supra* note 16, p. 310, while acknowledging the possibility for authors to oppose the collective exercise of their rights; Franck Macrez (2012), *supra* note 9, pp. 749 and 753, clarifying on p. 755 that the possibility for opting out makes the mechanism a new form of mandatory collective management imposed by law but optional or, at least, presumed; Marie-Christine Leclerc-Sénova and Nathalie Orloff (2013), *supra* note 57, pp. 49 and 59.

86 Jean-Michel Bruguière (2012), ‘Gestion collective – Œuvres indisponibles : Régime du livre indisponible (Seconde partie)’, *Propriété intellectuelle*, No. 44, pp. 411-412.

87 Michel Vivant and Jean-Michel Bruguière (2016), *supra* note 38, p. 779.

88 Emmanuel Emile-Zola-Place (2012), *supra* note 7, p. 360 and Sylvie Nérissou (2015), *supra* note 3, pp. 1429 and 1431.

89 Florence-Marie Piriou (2012), *supra* note 9, pp. 7 and 10.

90 André Lucas, Henri-Jacques Lucas and Agnès Lucas-Schloetter (2012), *supra* note 52, p. 731, Emmanuel Emile-Zola-Place (2012), *supra* note 7, pp. 356 and 360 and Jean-Michel Bruguière (2012), *supra* note 85, p. 411.

79 Articles L321-3, L321-6, L321-9, L321-12, L321-13, R321-1, R321-8 and R325-1 – R325-4 of the CPI. For analysis, see Nathalie Piaskowski (2010), ‘Collective Management in France’, in Daniel J. Gervais (ed.), *Collective Management of Copyright and Related Rights*, 2<sup>nd</sup> edn., Alphen aan den Rijn, The Netherlands: Kluwer Law International, pp. 195-203 and Sylvie Nérissou (2013), *supra* note 16, pp. 8, 439, 446-448 and 470-475. Although French legislation provides for a special regime of regulation of CMOs, the aforementioned observers consider competences of the bodies to be limited to some extent and not fully suited to their tasks.

80 Article L134-9, para. 2 of the CPI. During the legislative debate a great emphasis was put on the state supervision of the CMO managing rights to out-of-commerce books and on their activities related to the research of rightholders for distribution of collected remuneration, see Sénat, Rapport 2011, *supra* note 7, p. 31.

81 Article L. 134-3, para. IV of the CPI.

“presumed collective management”.<sup>91</sup>

- 42 Some of the commentators, which qualified the mechanism as a form of non-voluntary collective management, also referred to it as a non-voluntary license.<sup>92</sup> At the same time, the legislative proposal reveals that the recourse to a form of non-voluntary collective management was motivated precisely by a wish to avoid introduction of an exception or limitation.<sup>93</sup>
- 43 These kind of doubts and uncertainties surely contributed to the decision of the Council of State to refer the question about compatibility of the mechanism with the definition of reproduction right of Article 2 and the closed list of exceptions and limitations of Article 5 of the InfoSoc Directive to the CJEU. If the mechanism is qualified as an exception or limitation, then it will not be in line with the EU law.

## C. Permissibility Test Based on the Extended Collective Management

- 44 Having described the new form of non-voluntary collective management of copyright in the first part of the article, this section examines the compatibility of the mechanism with the InfoSoc Directive through a proposed test based on the permissibility of the least restrictive forms of the extended collective management.

### I. EU Law on Non-Voluntary Forms of Collective Management

#### 1. Mandatory Collective Management and the EU Law

- 45 Mandatory collective management is explicitly authorized in some domains by a few EU Directives.<sup>94</sup>

<sup>91</sup> See *infra* on the impossibility to qualify the mechanism neither as “mandatory” nor as “extended”.

<sup>92</sup> Frédéric Pollaud-Dulian (2012), *supra* note 7, p. 340, Florence-Marie Piriou (2012), *supra* note 9, pp. 8 and 9, Sylvie Nérissou (2015), *supra* note 3, p. 1429.

<sup>93</sup> Assemblée nationale, Proposition de loi relative à l'exploitation numérique des livres indisponibles du XX<sup>e</sup> siècle, N° 3913, enregistré à la Présidence de l'Assemblée nationale le 8 novembre 2011, p. 5. In support of this qualification, see Christophe Caron (2015), *supra* note 63, p. 419.

<sup>94</sup> Article 9 of the Council Directive 93/83/EEC of 27 September 1993 on the coordination of certain rules concerning copyright and rights related to copyright applicable to satellite broadcasting and cable retransmission [1993] L 248/15: “Member States shall ensure that the right of copyright owners and holders or related rights to grant or refuse

Although copyright scholars and experts agree that remuneration rights can be subjected to mandatory collective management, as well as exclusive rights in cases when exceptions and limitations are permitted by international and EU law, there are different views on the permissibility of the mandatory collective management of exclusive rights in all cases and whether it constitutes an exception or limitation to these rights.<sup>95</sup>

- 46 In the case of the French mechanism of collective management of digital rights to works in out-of-commerce books (i.e., works that were once put on the market with the consent of the rightholders), the authorization of rightholders to the CMO is presumed,<sup>96</sup> but an opt out from the system, with a subsequent individual exercise, is possible. The latter possibility of individual exercise is not permitted under mandatory collective management.<sup>97</sup>

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authorization to a cable operator for a cable retransmission may be exercised only through a collecting society.” Article 6(2) of the Directive 2001/84/EC of the European Parliament and of the Council of 27 September 2001 on the resale right for the benefit of the author of an original work of art [2001] OJ L 272/32: “Member States may provide for compulsory or optional collective management of the royalty provided for under Article 1 [resale rights royalty]”; and Article 5(4) of the Directive 2006/115/EC of the European Parliament and of the Council of 12 December 2006 on rental right and lending right and on certain rights related to copyright in the field of intellectual property (codified version) [2006] OJ L 376/28: “Member States may regulate whether and to what extent administration by collecting societies of the right to obtain an equitable remuneration [for the rental] may be imposed.”

- <sup>95</sup> Silke von Lewinski (2004), ‘Mandatory Collective Administration of Exclusive Rights – A Case Study on Its Compatibility with International and EC Copyright Law’, *UNESCO e-Copyright Bulletin*, January-March 2004, Mihály Ficsor (2003), ‘Collective Management of Copyright and Related Rights at a Triple Crossroads: Should it Remain Voluntary or May it Be “Extended” or Made Mandatory?’, *UNESCO Copyright Bulletin*, October 2003, Mihály Ficsor (2010), ‘Collective Management of Copyright and Related Rights from the Viewpoint of International Norms and the Acquis Communautaire’, in Daniel J. Gervais (ed.), *Collective Management of Copyright and Related Rights*, 2nd edn., Alphen aan den Rijn, The Netherlands: Kluwer Law International, pp. 42-59, Christophe Geiger (2007), ‘The Role of the Three-Step Test in the Adaptation of Copyright Law to the Information Society’, *UNESCO e-Copyright Bulletin*, January-March 2007, pp. 9-12, Christophe Geiger and Franciska Schönherr (2014), ‘Limitations to copyright in the digital age’, in Andrej Savin and Jan Trzaskowski (eds), *Research Handbook on EU Internet Law*, Cheltenham, UK / Northampton, MA, USA: Edward Elgar, pp. 138-141, Séverine Dusollier and Caroline Colin (2011), ‘Peer-to-Peer File Sharing and Copyright: What Could Be the Role of Collective Management?’, *Columbia Journal of Law & the Arts*, Vol. 34, No. 4, pp. 825-827 and Mihály Ficsor (2002), *Collective Management of Copyright and Related Rights*, WIPO Publication No. 855, pp. 138-139.

<sup>96</sup> Sénat, Rapport 2011, *supra* note 7, p. 32 and Jean-Michel Bruguière (2012), *supra* note 85, p. 412.

<sup>97</sup> See for example, management of cable retransmission rights (Article L123-20-1 of the CPI), of rights to reprogra-



Therefore, the mechanism in question should not be equated to the mandatory collective management. It is important that the compliance of the French legislation on the out-of-commerce books with the EU law is not confused with the question about the capacity of the member states to introduce mandatory collective management of exclusive rights.<sup>98</sup>

## 2. Extended Collective Management and the EU Law

- 47 In its most general sense, extended collective management of copyright is a form of non-voluntary collective exercise of rights based on the statutory-enabled extension of a license concluded between a user and a CMO to cover rights of rightholders non-members of the CMO (extended collective license). Extended collective licensing was created in the Nordic countries long before adoption of the EU instruments in the domain of copyright,<sup>99</sup> and is being used in an increasing number of areas.<sup>100</sup> Similarly to the qualification of the permissibility of the mandatory collective management, there seems to be a consensus that extended collective management is permitted in cases when exceptions and limitations to the exclusive rights are permitted by international and EU law.<sup>101</sup>
- 48 Texts of several EU copyright directives seem to indicate that establishment of the extended collective management of exclusive rights in areas not covered by the exceptions and limitations is permitted. While the InfoSoc Directive provides for an exhaustive list of exceptions and limitations that member states may adopt, Recital 18 states that the

“Directive is without prejudice to the arrangements in the Member States concerning the management of rights such as extended collective licences”, excluding the extended collective management of copyright from the scope of its exceptions and limitations.<sup>102</sup> Furthermore, the Satellite and Cable Directive,<sup>103</sup> the Orphan Works Directive<sup>104</sup> and

phy (Article L122-10 of the CPI) and of rights to remuneration for lending of works by libraries (Article L134-4 of the CPI).

- 98 In support of this concern, see Sylvie Nérissou (2015), *supra* note 3, p. 1429.
- 99 With the entry into force of the post-war Copyright Acts: 1960 in Sweden, 1961 in Denmark, Finland and Norway, and 1972 in Iceland. See Birger Stuevold Lassen (1963), ‘Collectivism and Individual Rights in Norwegian Copyright Law’, *Scandinavian Studies in Law*, Vol. 7, p. 89 and Gunnar Karnell (1991), ‘Peculiar Features of Nordic Copyright Law, the Extended Collective Licence, the Photograph as a Copyright Outcast, the Non-Employed Employee’, *Nordiskt Immaterialt Rättsskydd*, Vol. 1, p. 16.
- 100 See Tarja Koskinen-Olsson (2010), ‘Collective Management in the Nordic Countries’, in Daniel J. Gervais (ed.), *Collective Management of Copyright and Related Rights*, 2<sup>nd</sup> edn., Alphen aan den Rijn, The Netherlands: Kluwer Law International, pp. 283-284.
- 101 Gunnar Karnell (1991), *supra* note 99, p. 434, Mihály Ficsor (2003), *supra* note 95, pp. 9-10, Alain Strowel (2011), ‘The European “Extended Collective Licensing” Model’, *Columbia Journal of Law & the Arts*, p. 668.

- 102 Vappu Verronen (2002), ‘Extended Collective License in Finland: A Legal Instrument for Balancing the Rights of the Author with the Interests of the User’, *Journal of the Copyright Society of the USA*, Vol. 49, p. 1156 (“explicit references in the Infosoc directive are formulated in such a way that it is clear that as regards the scope of this directive, collective arrangements are not considered restrictions to copyright.”), Alain Strowel (2011), *ibid*, p. 666 (“ECLs [extended collective licenses] are presented as a management system in this Directive. Except for cable retransmission, the E.U. framework does not provide for ECLs, but admits their existence under national laws”), Silke von Lewinski (2004), *supra* note 95, p. 13, Felix Trimpke (2012), ‘The Extended Collective License – A Matter of Exclusivity?’, *Nordiskt Immaterialt Rättsskydd*, Vol. 3, p. 293, Anna Vuopala (2013), *Extended collective licensing: A solution for facilitating licensing of works through Europeana, including orphans?*, Finish Copyright Society Articles and Studies, No. 2, p. 13, available at: [http://www.copyrightsociety.fi/ci/Extended\\_Collective\\_Licensing.pdf](http://www.copyrightsociety.fi/ci/Extended_Collective_Licensing.pdf) (last visited 15 February 2016), Johan Axhamn and Lucie Guibault (2011), ‘Solving Europeana’s mass-digitization issues through Extended Collective Licensing?’, *Nordiskt Immaterialt Rättsskydd*, Vol. 6, pp. 513-514 (footnote 10). Tarja Koskinen-Olsson (2010), *supra* note 100, p. 303 (“This [Recital 18] makes it clear that the nature of an ECL [extended collective license] is a modality concerning rights management. The statement in the Preamble is seen as a general statement that applies not only to already existing ECL provisions but also leaves a freedom to establish new ones.”). This understanding of the text is based on its literal and historic interpretation (the Recital was included because of concerns raised at the Directive negotiations by delegations of the Nordic countries).
- 103 Article 3(2) provides member states with the possibility of introducing extended collective management for the right of simultaneous communication to the public by satellite of terrestrial broadcasts, see Jan Rosén (2014), ‘The Satellite and Cable Directive’, in Irini Stamatoudi and Paul Torremans (eds), *EU Copyright Law: A Commentary*, Cheltenham, UK / Northampton, MA, USA: Edward Elgar, p. 213 and Thomas Dreier (2013), ‘Satellite and Cable Directive’, in Michel M. Walter and Silke von Lewinski (eds), *European Copyright Law: A Commentary*, New York, NY, USA: Oxford University Press, pp. 430-431.
- 104 Recital 24 (“This Directive is without prejudice to the arrangements in the Member States concerning the management of rights such as extended collective licences, legal presumptions of representation or transfer, collective management or similar arrangements or a combination of them, including for mass digitisation.”) and Article 1(5) (“This Directive does not interfere with any arrangements concerning the management of rights at national level.”) of the Directive 2012/28/EU of the European Parliament and of the Council of 25 October 2012 on certain permitted uses of orphan works (Text with EEA relevance) [2012] OJ L 299/5, see Uma Suthersanen and Maria Mercedes Frabboni (2014), ‘The Orphan Works Directive’, in Irini Stamatoudi and Paul Torremans (eds), *EU Copyright Law: A Commentary*, Cheltenham, UK / Northampton, MA, USA: Edward Elgar, pp. 656 and 662.



the Collective Management Directive<sup>105</sup> leave to the member states the discretion of establishing extended, as well as some other non-voluntary forms of collective management. Of course, this is not to say that any mechanism named “extended collective license” passes the threshold just by virtue of its name<sup>106</sup> or that the InfoSoc Directive can exempt member states from the need to comply with obligations under the international treaties.<sup>107</sup> There are also some firm views that extended collective management of exclusive rights in the domains not covered by exceptions and limitations is not permitted.<sup>108</sup> Such views lead to the conclusion that legislative provisions of the EEA states on the extended collective licensing of exclusive rights in the domains not covered by exceptions and limitations are in breach of the EU law. An example of reliance on the extended collective management of exclusive rights in the domain not covered by exceptions or limitations for the purpose of mass digitization and making books available is the contract regarding the digital dissemination of books of 30 September 2012, concluded between the National Library of Norway and KOPINOR, Norwegian CMO managing rights to literary works (the project is called “Bokhylla”, translate as “Bookshelf”).<sup>109</sup> Exclusive rights of rightholders non-members of KOPINOR are covered by the contract by virtue of its Article 3 relying on the extended collective license clauses of the Norwegian Copyright Law.<sup>110</sup>

- 49 It is important to note that there is no single model of the “extended collective licensing”. Different provisions on extended collective licensing with different characteristic effects on the protected rights and their exercise can be found in the copyright laws of the Nordic countries. The EU law does not provide for a definition of the “extended collective licensing” to which it refers, nor does it mention a list of attributes of such licensing. As Thomas Riis and Jens Schovsbo put it: “The acceptability of the ECLs [extended collective licenses] in terms of general EU law [...] depends on the actual wording of the rule and the administration in the agreements.”<sup>111</sup> For example, some models of extended collective license clauses do not foresee a possibility to opt out from the system for rightholders whose rights were covered by collective licenses by virtue of the extension effect,<sup>112</sup> and others impose mandatory arbitration in case of disputes with the CMO issuing extended collective licenses.<sup>113</sup>
- 50 Without going further into the analysis of the permissibility of different variations of extended collective management under the EU law, further inquiry builds on the assumption that extended collective management of exclusive rights in the domains not covered by exceptions and limitations, at least in its least restrictive form, is compatible with the EU acquis.<sup>114</sup> This assumption implies that other

105 Recital 12 (“This Directive [...] does not interfere with arrangements concerning the management of rights in the Member States such as individual management, the extended effect of an agreement between a representative collective management organisation and a user, i.e. extended collective licensing, mandatory collective management, legal presumptions of representation and transfer of rights to collective management organisations.”) and Article 7(1) of the Directive 2014/26/EU of the European Parliament and of the Council of 26 February 2014 on collective management of copyright and related rights and multi-territorial licensing of rights in musical works for online use in the internal market (Text with EEA relevance) [2014] OJ L 84/72 (“Member States shall ensure that collective management organisations comply with the rules [...] in respect of rightholders who have a direct legal relationship by law or by way of assignment, licence or any other contractual arrangement with them but are not their members.”), see Lucie Guibault (2014), ‘Collective Rights Management Directive’, in Irini Stamatoudi and Paul Torremans (eds), *EU Copyright Law: A Commentary*, Cheltenham, UK / Northampton, MA, USA: Edward Elgar, pp. 727-728.

106 Thomas Riis and Jens Schovsbo (2010), ‘Extended Collective Licenses and the Nordic Experience – It’s a Hybrid but is It a Volvo or a Lemon?’, *Columbia Journal of Law and the Arts*, Vol. 33, Issue IV, pp. 478-479.

107 Felix Trumpeke (2012), *supra* note 102, pp. 283-287.

108 Mihály Ficsor (2003), *supra* note 95, pp. 9-10.

109 For analysis of the project, see Vigdis Moe Skarstein (2010), ‘The Bookshelf: digitisation and access to copyright items in Norway’, *Program: electronic library and information systems*, Vol. 44, No. 1, pp. 48-58.

110 Translation of the contract in English is available on the

website of the National Library of Norway: [http://www.nb.no/pressebilder/Contract\\_NationalLibraryandKopinor.pdf](http://www.nb.no/pressebilder/Contract_NationalLibraryandKopinor.pdf) (last visited 15 February 2016).

111 Thomas Riis and Jens Schovsbo (2010), *supra* note 106.

112 Felix Trumpeke (2012), *supra* note 102, pp. 279-280 and Thomas Riis and Jens Schovsbo (2010), *supra* note 106, pp. 479 (footnote 13: “the possibility of opting out is often described as an integrated feature of ECL [extended collective licensing], which it is not”) and 485-486. Lucie Guibault (2015), *supra* note 6, p. 181 (“An ECL system without the possibility to opt-out would be akin to a mandatory licence.”). On the basis of this important characteristic, some copyright experts when admitting extended collective licensing of exclusive rights in the domains not covered by exceptions and limitations do not extend this qualification to the extended collective licensing without an opt out clause, see Daniel J. Gervais (2003), *Application of an Extended Collective Licensing Regime in Canada: Principles and Issues Related to Implementation*, p. 40. For an exhaustive list of domains in which an opt out from the extended collective management is not possible see Johan Axhamn and Lucie Guibault (2011), *Cross-border extended collective licensing: a solution to online dissemination of Europe’s cultural heritage?*, Final report prepared for EuropeanaConnect, p. 43.

113 According to some authors such a model “reduces the ECL-clauses to compulsory license-clauses in disguise”, Gunnar Karnell (1985), ‘Extended Collective License Clauses and Agreements in Nordic Copyright Law’, p. 77, Gunnar Karnell (1991), *supra* note 99, pp. 17-18, Vappu Verronen (2002), *supra* note 102, pp. 1148 and 1160.

114 In our view it is difficult to give different interpretation to the wording of the EU acquis without ignoring the ordinary meaning to be given to the terms of the Directives in their context and in light of their object and purpose (assuming

less restrictive forms of non-voluntary collective exercise of exclusive rights in domains not covered by exceptions and limitations should be permissible. Hence, taking the extended collective management in its least restrictive manifestation as a benchmark, I propose to compare it to the new French form of collective management in order to examine whether it is more or less restrictive of the exclusive rights (to conduct an “extended collective licensing test”, so to speak). If this assumption is correct and the examination leads one to the latter conclusion, the new model should be compatible with the InfoSoc Directive.

## II. Application of the “Extended Collective Management Test” to the French Mechanism of Collective Management of Digital Rights to Out-of-Commerce Books

- 51 This section compares some key features of the French mechanism designed for management of rights to out-of-commerce books and of the extended collective management, choosing its least restrictive variations.
- 52 As a preliminary remark of comparison, it is important to note several observations regarding similar *raison d'être* for both mechanisms.
- 53 The main rationales behind the introduction of the extended collective management are the decrease of transaction costs and avoidance of hold-up problems.<sup>115</sup> Both rightholders and users are in need of a practical solution when it is virtually impossible to reach individual rightholders to ensure legal use of their works.<sup>116</sup> As Gunnar Karnell put it: “the ECL-model may serve best in fields of application where authors’ exclusive rights should indisputably be maintained as an ideal state of affairs, but where the exercise of such rights is impossible because of the insurmountable difficulty of finding the individual rights-holders or bringing together all of the rights needed for a specific use of protected works. An ECL-system should then serve as a means of guaranteeing the implementation of rights, insofar as may be possible, where *there would otherwise be rights but no implementation*.”<sup>117</sup>

in particular that the use of words “arrangements”, “management” “collective licensing”, “exceptions and limitations” in the InfoSoc Directive and other directives is not accidental).

115 Thomas Riis and Jens Schovsbo (2010), *supra* note 106, p. 478.

116 Vappu Verronen (2002), *supra* note 102, p. 1159.

117 Gunnar Karnell (1985), *supra* note 113, p. 81 (emphasis added).

- 54 Comparable to the areas where extended collective licensing is introduced, transaction costs involving clearance of rights for numerous books, typically of low market value (out-of-commerce books are by definition works that are currently not enjoying market success and are not generating revenues for their rightholders) are most often disproportionate to the possible benefit. For example, time and costs necessary for identification, location and negotiation with numerous authors of out-of-commerce books of the XXth century containing numerous chapters written by different authors and/or numerous photographs, maps, drawings and diagrams created by different authors effectively prevent digitization and commercialization of such books. In such situations, granting exclusive rights within an ever-extending period without effective mechanism for their exercise is like granting rights in the absence of an effective mechanism for their enforcement. Economic rights without condition for their material implementation do not fulfill their purpose.

### 1. Scope

- 55 All of the out-of-commerce books, rights to which are or will be managed by the CMO, are *exhaustively defined* in the freely accessible database, where they are published once a year.
- 56 Extended collective licenses are characterized by an extension clause, by virtue of which they extend users’ access from only the CMO’s own repertoire to include all rights to works in a specific field, which are outside the system of collective rights management. Usually, *the exact number* of protected subject matter, rights to which are managed through the extension effect, *is not known*. Protected subject matter can be subjected to the extended collective management without any prior notice. Extended collective management also usually deals with a certain type of rights for protected subject matter in a defined domain.<sup>118</sup>
- 57 Both the French mechanism and the extended

118 Just to give an example, in Norway, extended collective licensing is foreseen in the following domains: use in educational activities; reproductions for domestic (internal) use by public authorities, companies and other organisations; use in archives, libraries and museums; certain forms of reproduction for the benefit of persons with functional disabilities; primary broadcasting; use of television programs stored in broadcasting organisations’ archives; and cable retransmission of broadcast works, Johan Axhamn and Lucie Guibault (2011), *supra* note 112. Of all the Nordic countries, only in Denmark use of extended collective licenses is not limited by an exhaustive number of domains by virtue of Article 50(2) of the Danish Copyright Act. For analysis see, Thomas Riis and Jens Schovsbo (2010), *supra* note 106, pp. 476-477 and 487-489.

collective management apply to the works that were previously published with the consent of their authors.

- 58 It can be added that out of several legislative mechanisms studied (presumption- or extension-based) facilitating digitization and making available of cultural heritage in eight European countries (Denmark, Finland, France, Germany, Norway, Slovakia, Sweden and the UK), the French law on out-of-commerce books has the narrowest scope.<sup>119</sup> The decision of the CJEU may have important repercussions for the existing presumption-based systems (e.g., in Germany and Slovakia) and on the possibility of other member states to introduce such mechanisms.

## 2. Application in Time

- 59 The French mechanism of collective management of digital rights to out-of-commerce books is a legislative provision of a *temporary nature*, to some extent related to the digital transition of book publishing and distribution. It applies only to rights of out-of-commerce books that were published before 1 January 2001. With every year of its existence, the mechanism is inevitably losing its significance as works of the XXth century continue to gradually become a part of the public domain. Provided that the law is not changed, the mechanism will be ineffective some years from now, i.e., the mechanism has “an expiration date”, so to speak.
- 60 Extended collective management is a *permanent mechanism*. Furthermore, statutory provisions do not limit the length of extended collective licenses that CMOs may conclude with users.

## 3. Protection of Nonmembers

- 61 Both systems provide for the equal treatment of members and non-members by CMOs managing their rights, and for other safeguards of their interests. As the French mechanism extends to a relatively restricted and defined category of works published in France and is accompanied by a nationwide information campaign, it is more likely that the rightholders concerned will be informed about use of their rights, revenues will be distributed to them, and/or it will be easier for them to take actions they consider appropriate in the case that their rights are taken advantage of, rather than issues of usual extended collective licensing. The French law obliges the assigned CMO to actively search

for non-members whom it represents in order to distribute royalties collected for them. Protection of rightholders non-members should be reinforced through the implementation of Article 7 of the Collective Management Directive. In practice, due to the larger scope of the extended collective licenses, it is seemingly more difficult for non-members to, for example, be informed about uses of their works, to opt out of the system if they wish, or to claim remuneration.

## 4. Supervision and Control

- 62 French CMO representing rights to out-of-commerce books have to be assigned by the Ministry of Culture. In all the Nordic countries, with exception of Sweden, CMOs cannot conclude extended collective licenses if they are not approved by a respective governmental authority<sup>120</sup> (by the Minister of Culture in Denmark,<sup>121</sup> by the Ministry of Education, Science and Culture in Iceland,<sup>122</sup> by the Ministry of Culture in Norway,<sup>123</sup> by the Ministry of Education and Culture in Finland<sup>124</sup>)
- 63 The Collective Management Directive - the most recent of the EU copyright directives and which is still being implemented by the member states - provides for a harmonized framework for good governance and transparency of collective management of copyright across the EU. As it was previously described, the French mechanism already provides some tools for supervising the assigned CMO.

## 5. Opt Out

- 64 Authors and publishers of out-of-commerce books can opt out from the system and exercise their rights individually even before their rights are managed collectively (*a priori* opt out). Once the rights are subject to collective management, the authors that have all the rights to their works can opt out either before or after a license is issued by the CMO to a user (*a posteriori* opt out). Publishers can opt out *a posteriori* only jointly with authors. An opt out from the mechanism results in a special mention in the

<sup>119</sup> Lucie Guibault (2015), *supra* note 6, pp. 181-183.

<sup>120</sup> Jan Rosén (2002), ‘Administrative Institutions in Copyright: Notes on the Nordic Countries’, pp. 168 and 172 (footnote 16), Anna Vuopala (2013), *supra* note 102, pp. 15 and 21.

<sup>121</sup> Article 50(1) of the Danish Copyright Law. Thomas Riis and Jens Schovsbo (2010), *supra* note 106, pp. 475 and 493, and Jan Rosén (2002), *ibid*, pp. 170-171.

<sup>122</sup> Articles 15, 23, 23a, 25 and 45a of the Copyright Law of Iceland.

<sup>123</sup> Jan Rosén (2002), *supra* note 120, pp. 172-173.

<sup>124</sup> Since 2005. Tarja Koskinen-Olsson (2010), *supra* note 100, p. 296.



database of the out-of-commerce books, ensuring that the book will not be reinserted in the system.

- 65 Rightholders may opt out from the extended collective management of their rights only once an extended collective license concerning their rights was granted to a user. This possibility represents only a part of the *a posteriori* option described above. It appears that in case of opt out from one extended collective license there is no guarantee that the rights will not be included in another extended collective license.
- 66 To this point, comparing the possibilities for opting out demonstrates that the law provides a greater chance for rightholders of out-of-commerce books to withdraw their rights from the system and to manage them individually. However, although rightholders that opted out can exercise their rights to out-of-commerce books individually, they cannot prohibit licensees that had previously received licenses from the assigned CMO to continue using their works for the duration of their licenses but for the period not exceeding five years. While the concerns about legal certainty for users acquiring licenses from the CMO are well-understood, the five-year term can be considered too long by some rightholders.

## 6. Representativeness of CMOs

- 67 The proportion of rightholders represented by CMOs through direct mandates from rightholders or agreements with foreign CMOs, (representativeness), is an important feature of the extended collective management, as a high level of representativeness is considered one of the preconditions for the extension of collective licenses.
- 68 Copyright Acts of the Nordic countries require CMOs to represent a “a substantial part of the authors of works used in Norway” (Article 38a of the Norwegian Copyright Act), “numerous authors of works used in Finland” (Article 26 of the Finnish Copyright Act), “substantial number of authors of a certain type of works which are used in Denmark” (Article 50(1) of the Danish Copyright Act), “substantial portion of Icelandic authors” (Articles 15, 23, 23a and 25 of the Copyright Law of Iceland)<sup>125</sup> or “substantial number of Swedish authors in the field concerned” (Article 26i of the Swedish Copyright Act). The latter representativeness criteria are the lowest, as they require only representation of a substantial number of national rightholders.<sup>126</sup> The Danish and

Swedish provisions do not mean that CMOs have to represent a majority of rightholders in the domains concerned.<sup>127</sup>

- 69 Comparison of the representativeness criterion of the two models of collective exercise of rights appears to be problematic because of the very purpose for which the French mechanism was designed. Unlike extended collective licensing targeting all works in a particular domain, it is aimed exclusively at the facilitation of exercise of rights to works published in the form of books *that are out-of-commerce*, explicitly excluding rights of works that are actively exploited. By definition, the mechanism focuses on the rights that are “underused” (excluding works that are commercially successful), as authors or their heirs might be lacking the capacity to make use of their intangible possessions (factual and legal information, etc.). Alike some of the secondary uses of works subjected to extended collective management, most of the out-of-commerce books of the XXth century in paper form will never be commercialized again legally without a licensing arrangement or an exception or limitation due to the associated transaction costs.
- 70 For the sake of consistency regarding the comparison with the extended collective management, it can be stated that the French law does not contain a clear requirement to a CMO to represent a substantial number of rightholders.<sup>128</sup> However Articles L134-3, para. III, sub-para. 1 and R327-1 of the CPI contain a somewhat similar requirement obliging CMOs to prove the diversity regarding categories of members, the number of rightholders they represent, economic importance, and editorial genres in order to be assigned with management of the digital rights to out-of-commerce books (*de jure* analysis). In 2010, the year preceding adoption of the law, SOFIA represented “more than 6 000 authors and 200 publishers constituting 80% of sales revenues of French publishing” (*de facto* analysis).<sup>129</sup> Furthermore,

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right Act prior to 2001 (see Lund Harald Christiansen (1991), ‘The Nordic licensing systems – extended collective agreement licensing’, *European Intellectual Property Review*, Vol. 13, No. 9, p. 349 and Thomas Riis and Jens Schovsbo (2010), *supra* note 106, p. 490).

127 Jan Rosén (2002), *supra* note 120, p. 168 and Lucie Guibault (2015), *supra* note 6, p. 178.

128 The Memorandum of Understanding on the digitisation of out-of-commerce works signed on the European level (*supra* note 6) requires that “Licences for works that are out of commerce will only be granted by collective management organisations in which a substantial number of authors and publishers affected by the Agreement are members, and appropriately represented in the key decision making bodies.” (Principle No. 2 “Practical Implementation of Collective Agreements”, para 1).

129 Commission permanente de contrôle des sociétés de perception et de répartition des droits, *Huitième rapport annuel*, May 2011, p. 19. Another CMO active in the domain is CFC

125 Article 45a refers to a “substantial portion of Icelandic performers and producers”.

126 The Finnish Copyright Act of 1961 contained a similar low representativeness requirement (see Tarja Koskinen-Olsson (2010), *supra* note 100, p. 296) and so did the Danish Copy-



SOFIA had experience with representation of non-members and distribution of revenue to them, as it already managed remuneration to authors and publishers for private copying and public lending.

- 71 Presently it is possible that the percentage of rightholders in a particular domain directly represented by CMOs in the Nordic countries<sup>130</sup> is higher than the percentage of holders of rights to out-of-commerce books<sup>131</sup> represented by SOFIA through direct mandates. Nevertheless, it is important to observe that while a high level of representation of rightholders is considered to be one of the features of the collective management in the Nordic countries today,<sup>132</sup> the extended collective licensing has certainly had a role to play in encouraging rightholders to directly join CMOs. Theoretically, all the rightholders (members and non-members) are equal with regard to the CMO managing their rights, but in practice the rightholders members are “more equal”. Members can more effectively supply CMOs with rights management information crucial for accurate distribution of revenues collected; contemporary online accounts of members permit them to follow collections and to receive relevant information rapidly and comfortably; members may have an impact on the functioning of their CMOs through participation in their governing bodies, etc. Therefore, while under some systems of non-voluntary collective management rightholders may choose not to be members of CMOs, such systems greatly facilitate increase of CMOs’ membership, and hence their representativeness.<sup>133</sup> Therefore, after a few years of its functioning, the French system, which aims at a restricted number of books may achieve a higher level of representativeness (given the limited number of out-of-commerce books) than the Nordic CMOs concluding extended licenses for use of works of the entire world in a particular

domain. Representativeness is an important feature reinforcing the legitimacy of representation of outsiders (the more rightholders are represented through direct mandates, the fewer nonmembers need to be covered by a legal presumption). Without questioning the situation with representativeness at the moment of enactment of the French mechanism, it is worth noting that it is a dynamic feature, and that installment of a system of non-voluntary collective management facilitates non-members to join CMOs.

## 7. Tariff Setting

- 72 In both systems, tariffs are not set or validated by a public authority or a mixed-committee involving representatives of users and the government, or by judicial or quasi-judicial bodies as it is common for some remuneration rights. Tariffs are set by CMOs or in negotiations with users. Extended collective management models where tariffs can be set by an intervention of a special body are excluded from the comparison.

## 8. Foreign Works

- 73 Extended collective licenses also cover rights of foreign rightholders, in addition to the domestic rightholders.
- 74 The situation with the collective management of digital rights to out-of-commerce books is also rather straightforward (*de jure* analysis). Works published in books in France in the XXth century are covered by the mechanism without any further qualification. Hence, the literal interpretation of the law leads to the conclusion that it does apply to translations of foreign works published in France.<sup>134</sup>
- 75 In practice, the situation with translated foreign works is very different (*de facto* analysis), as the French mechanism is not being applied to them.<sup>135</sup> Certain (partial) reasons for this non-application of the mechanism can to a certain extent be drawn from the following facts. The ministry of culture did not foresee its application to translations of foreign works published in France.<sup>136</sup> The mass digitization

(*Centre Français d'exploitation du droit de Copie*), which, among other things, ensures mandatory management of rights to reprography. According to the latest statistical information and estimates made available by SOFIA, the organisation represents more than 7000 authors and 300 publishers corresponding to 85% of sales revenues of French publishing, SOFIA's website, 'La Sofia, faits et chiffres': <http://www.la-sofia.org/sofia/Adherents/sofia.jsp> (last visited April 2016).

130 Thanks to direct mandates from rightholders but mostly to the gradual developed of a number of agreements with foreign CMOs

131 Percentage from the total hypothetical number of rights to out-of-commerce books.

132 Lund Harald Christiansen (1991), *supra* note 126, p. 347 and Tarja Koskinen-Olsson (2010), *supra* note 100, p. 289.

133 On a brief historic account on how rightholders in the domain of reprography in the Nordic countries were coerced to self-organise for introduction of extended collective licensing instead of exceptions or limitations and on an encouragement for authors to “group” themselves, see Anna Vuopala (2013), *supra* note 102, pp. 15 and 22.

134 In support of this statement, see Jean-Michel Bruguière (2012), *supra* note 8, p. 348.

135 ReLIRE's website, 'Vous êtes auteur ou ayant droit d'un auteur': <https://relire.bnf.fr/vos-droits-auteur-ayant-droit> (last visited 15 February 2016) and SOFIA's website, 'Foire aux questions': <http://www.la-sofialivresindisponibles.org/2015/faq.php> (last visited 15 February 2016).

136 Emmanuel Emile-Zola-Place (2012), *supra* note 7, p. 357.

involving public funds<sup>137</sup> is primarily aimed at digitally publishing French cultural heritage in its traditional understanding, i.e., written by French authors and in French language. Additionally, when in the course of a legislative debate an issue of translations of foreign works published in France was mentioned, it was suggested that the coordination among CMOs of different countries can permit gradual introduction of respective rights in the system of collective management.<sup>138</sup>

- 76 In spite of the existing practice, the current legal situation leaves room for application of the mechanism to translations of foreign works (presumably when appropriate copyright infrastructure is established in different countries by actors concerned and reciprocal arrangements are put in place).

## 9. Cost of Management

- 77 Collective management is typically financed through management fees deduced from the revenues collected for rightholders. This is the case for extended collective management in the Nordic countries.
- 78 Uniquely, this is a part of the French mechanism, although it is indirectly financed by the state budget. The database of out-of-commerce books was created and is maintained by the BnF and the out-of-commerce status of books if verified by a scientific committee<sup>139</sup> - both bodies are publicly funded. The database provides the CMO with an essential and costly way to establish rights management information (book titles, names of publishers, authors, years of their death, where applicable, other bibliographic information, etc.).

## III. "Specific Solution" to Address Mass Digitization Issues Related to Out-of-Commerce Books

- 79 A European normative framework for facilitation of mass digitization of copyrighted works is

represented by the Orphan Works Directive,<sup>140</sup> the Memorandum of Understanding on the digitization of out-of-commerce works agreed among some major stakeholders,<sup>141</sup> and the Commission Recommendation of 2006.<sup>142</sup>

- 80 Principle No. 2 "Practical Implementation of Collective Agreements", para. 4 and 5 of the Memorandum of Understanding states the following:

For the purpose of such an Agreement, where a rightholder whose work was first published in a particular Member State has not transferred the management of his rights to a collective management organisation, the collective management organisation which manages rights of the same category in that Member State of first publication *shall be presumed to manage the rights* in respect of such work. [...]

*Rightholders shall have the right to opt out of and to withdraw all or parts of their works from the licence scheme derived from any such Agreement.* (emphasis added)

- 81 Recital 4 of the Orphan Works Directive of 25 October 2012 explicitly clarifies that the EEA member states are free to introduce national solutions to tackle broader mass digitization issues other than the use of orphan works: "This Directive is without prejudice to *specific solutions* being developed in the Member States to address larger mass digitization issues, such as in the case of so-called 'out-of-commerce' works." (emphasis added). The French law on out-of-commerce books was adopted through an urgent legislative procedure 12 March 2012 in anticipation of the Directive.<sup>143</sup> Given how the preexisting provisions on the extended collective licensing influenced the wording of the InfoSoc Directive, it might well be that the standing French legislation on out-of-commerce books had an impact on the subsequent European instruments. Given this background, the French mechanism can be qualified as "specific solutions" at a national level for mass digitization and online publishing of out-of-commerce

137 Accord cadre pour la mise en œuvre d'un projet de numérisation et de diffusion des livres français indisponibles du XXème siècle entre le ministère de la Culture et de la Communication, le Commissariat général à l'investissement, le Syndicat National de l'Edition, la Société des Gens de Lettres et la Bibliothèque nationale de France, 2 février 2011, Articles C and D.

138 Sénat, Rapport 2011, *supra* note 7, pp. 24-25.

139 *Supra* note 27.

140 Directive 2012/28/EU of the European Parliament and of the Council of 25 October 2012 on certain permitted uses of orphan works (Text with EEA relevance) [2012] OJ L 299/5.

141 The Memorandum was signed by the Association of European Research Libraries (LIBER), Conference of European National Librarians (CENL), European Bureau of Library, Information and Documentation Associations (EBLIDA), European Federation of Journalists (EFJ), European Publishers Council (EPC), European Writers' Council (EWC), European Visual Artists (EVA), Federation of European Publishers (FEP) Federation of European Publishers (FEP), International Association of Scientific, Technical & Medical Publishers (STM) and International Federation of Reprographic Rights Organisations (IFRRO).

142 European Commission, Commission Recommendation of 24 August 2006 on the digitisation and online accessibility of cultural material and digital preservation (2006/585/EC) (OJ L 236/28, 31 August 2006).

143 Franck Macrez (2012), *supra* note 9, pp. 749 and 757.

works, complementary to the mechanism provided by the Orphan Works Directive.

- 82 This article demonstrates that the key issue is that the EU is projecting a rather “soft” character, while not directly impacting upon qualification or non-qualification of a national legislative measure as an exception or limitation to copyright within the meaning of the InfoSoc Directive. Thus, this provides a valuable indication of the compatibility of the French mechanism with the EU copyright *acquis*.

## D. Conclusions

- 83 The analysis of the French mechanism for facilitating digitization and making out-of-commerce books available, and its comparison with the extended collective licensing, leads us to the conclusion that, overall, the French law is compatible with the EU copyright *acquis*. Nevertheless, the analytical exercise revealed some methodological difficulties related to the comparison of the two models, notably with regard to the representativeness criterion. The following amendments to the French law would help to evade some concerns about the mechanism:

- The amendment of the criteria stipulated in Articles L134-3, para. III, sub-para. 1 and R327-1 of the CPI, or their interpretation in the way requiring representativeness of an assigned CMO, even if the currently assigned CMO is sufficiently representative;
- Reduction of the period of validity of the license issued by the CMO before opting out by a rightholder;
- Making the application of the mechanism to foreign works subject to respective arrangements with foreign rightholders or their representatives (e.g., CMOs).

- 84 For some time, discussion on non-voluntary forms of collective management of copyright has been predominantly limited to mandatory and extended. This paper contributes to fostering understanding of the freedom granted to EU member states for designing and introducing other forms of non-voluntary collective management for solving contemporary issues with remuneration and access.

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