



Know IP - Stockholm Network Monthly Bulletin on IPRS

Commentary

The Untold Story of the European Constitution (RIP) and IPRs - Helen Disney & Meir P. Pugatch*

Imagine that the European Constitution (the full 482-page version) were to be ratified. What would it tell us about Europe's approach towards IPRs? Well, quite a lot and nothing, all at the same time (some may argue that this is basically the problem with the Constitution as a whole).

But leaving criticism aside, the European Constitution provides a fascinating insight into the potential future state of play of IP policy-making in Europe. A few dimensions should be emphasised.

First, the European Constitution recognised intellectual property as a part of the basic right to property. Article II-77 states that "everyone has the right to own, use, dispose of and bequeath his or her lawfully acquired possessions" and that "Intellectual property shall be protected".

Second, the European Constitution aimed to pave the way for the basic and yet desperately needed goal of harmonising IPRs across Europe. Article III-176 states that "In the context of the establishment and functioning of the internal market, European laws or framework laws shall establish measures for the creation of European intellectual property rights to provide uniform intellectual property rights protection throughout the Union and for the setting up of centralised Union-wide authorisation, coordination and supervision arrangements". The article further states that "a European law of the Council shall establish language

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arrangements for European intellectual property rights."

Third, the European Constitution acknowledges the importance of a pan European Jurisdiction on IPRs. Article III-364 states that "without prejudice to the other provisions of the Constitution, a European law may confer on the Court of Justice of the European Union, to the extent that it shall determine jurisdiction in disputes relating to the application of acts adopted on the basis of the Constitution which create European intellectual property rights".

What about the subject matter of IPRs: knowledge? The European Constitution did recognise the importance of knowledge and innovation to Europe.

Article III-210 establishes that "European laws or framework laws may establish measures designed to encourage cooperation between Member States through initiatives aimed at improving knowledge, developing exchanges of information and best practices, promoting innovative approaches and evaluating experiences, excluding any harmonisation of the laws and regulations of the Member States"

The EU Constitution also recognised the growing innovation gap between the EU and the other industrialised blocs. Article III-279 therefore states that "The Union and the Member States shall ensure that the conditions necessary for the competitiveness of the Union's industry exist", and that "for that purpose, in accordance with a system of open and competitive markets, their action shall be aimed at...fostering better exploitation of the industrial potential of policies of innovation, research and technological development".

The Draft European Decision of the European Council on the Exercise of



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the Presidency of the Council laid out some important principles.

First, the draft decision reiterated the importance of IPRs as a fundamental property right stating that "protection of intellectual property, one aspect of the right of property, is explicitly mentioned in paragraph 2 because of its growing importance and Community secondary legislation. Intellectual property covers not only literary and artistic property but also inter alia patent and trademark rights and associated rights" (Declaration concerning the explanations relating to the Charter of Fundamental Rights, Article 17, p. 444).

Second, it emphasised the Council's commitment to the Lisbon Strategy, aimed at making Europe the most innovative economy in the world by 2010. Article III-184 of the Declaration reaffirms "its (Council) commitment to the goals of the Lisbon Strategy: job creation, structural reforms, and social cohesion".

Third, the draft recognised the need for strategic structural changes in Europe's budgetary priorities: "The Union aims at achieving balanced economic growth and price stability. Economic and budgetary policies thus need to set the right priorities towards economic reforms, innovation, competitiveness and strengthening of private investment and consumption in phases of weak economic growth. This should be reflected in the orientations of budgetary decisions at the national and Union level".

The EU Constitution laid out some very important goals with regard to EU IP policies. It also established a much needed path for a more coherent and synchronised IP system in Europe.

But let's not forget – there is still no agreement on a European Constitution !

Topic of the Month

Enforcing Intellectual Property Rights Globally- Paul Vandoren*

1. The problem

Manufacturers of CDs, DVDs and software lose enormous amounts of money because their products are illegally produced and sold in all corners of the world. Worse, pharmaceuticals and cosmetics are counterfeit and sold without the appropriate ingredients. They may constitute a danger to consumers and public health. Spare parts of automobiles and heavy equipment are also counterfeited and put on the market without meeting safety standards.

There is yet another dimension: pirates and counterfeiters earn masses of money through illegal copying of products and are engaged in money laundering, drug trafficking and even terrorist activities. Very often they get away without being caught by the authorities in the countries where they operate.

The data is shocking. It is estimated that trade in pirated and counterfeit goods amounts to approximately 7 % of world trade in goods. This is a massive figure. Let's also look at the number of counterfeit goods seized at the external border of the European Union. Between 80 and 100 million fake goods were subject to suspended release or detention by customs administrations every year between 2001 and 2003. The number of fake goods intercepted at the external

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border increased by more than 900 % between 1998 and 2003.

2. Which countries are concerned?

First of all, there are the 'source countries', i.e. countries where fake goods are produced either for domestic production or for export. Digital piracy, however, can take place through the internet as well, which makes border checks inefficient. Secondly, there are the 'transit countries', i.e. countries which serve as hubs for channeling fake goods across borders. Thirdly, there are the 'target countries' where the fake goods are finally consumed. In other words, most countries are potentially involved. It is an international problem which should be tackled effectively by all countries, whether or not they are members of the World Trade Organisation (WTO).

As far as the geographical spread is concerned, no part of the world is free of trade in illegally produced goods. However, the extent of the problem is generally significantly less serious in developed than in developing countries. In the developing world, the country on the top of the list is China. This is no surprise because of the mere size of the country, the rapid rise of the industry and the fact that 'copying' was the natural thing to do until very recently, when China became a member of the WTO. One of the conditions for membership was to have legislation in place in conformity with the minimum standards of intellectual property protection laid down in the TRIPS Agreement (Agreement on Trade Related aspects of Intellectual Property Rights). However, the adoption of the necessary legislation is comparatively easy. It is more difficult to effectively enforce the legislation, when violations occur. The latter requires a determination to combat piracy and counterfeiting as well as the availability of conscious and well-trained officials. This is the reason why the European

Union continues to be heavily engaged in programmes for technical co-operation with developing countries.

3. What is being done at the international level for remedying this situation?

All Members of the WTO are obliged not only to adopt legislation and to protect creators and inventors for their copyright, patents, trademarks, geographical indications, etc. but also to provide adequate administrative and judicial procedures enforcing these laws. The key problem is that in many countries these laws are not effectively enforced in practice. Hence, companies suffering from infringements do not obtain expeditious remedies, which could deter infringers from repeating these violations.

The inclusion of a set of specific provisions on enforcement in the TRIPS Agreement is probably the most important innovation of this international agreement on intellectual property.

In countries where there is no tradition of protecting intellectual property, awareness-raising campaigns need to be set up. In order to be effective, such campaigns need to be repeated over a long period of time at all possible levels (central, provincial and municipal). In addition, co-ordination between the various types of authorities (administrative agencies, tribunals, police forces and customs) is indispensable.

Respect for intellectual property must be part of education, beginning at school level, because piracy and counterfeiting equal theft and theft must not be sanctioned.

Developed countries have been calling upon the authorities of developing countries to tackle this



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problem seriously. A lot has already been done, but a lot remains to be done.

Developed countries have to take their share of the responsibility as well. Lately, the European Union and its major developed trading partners, such as the USA and Japan, have stepped up their actions. Joint efforts are useful for raising awareness worldwide. Last year, for the first time, the European Commission, Japan and China organised a successful trilateral seminar on enforcement.

The European Union has strengthened its rules applicable in the Member States by harmonising enforcement measures and procedures. It has also modernised the customs procedures, enabling customs authorities to intervene more effectively at the border. The European Commission is currently working on proposals for harmonising criminal procedures in the Union. Last year, the European Commission adopted a strategy paper on enforcement of Intellectual Property Rights in third countries, as part of its common commercial policy. In this context, the EU decided to step up its dialogue and co-operation with countries where the problems are particularly alarming. It also strongly supports public-private partnerships through which the private sector makes its expertise and experience available to enforcement authorities.

China and the European Union have now established a regular dialogue on IPR issues and both parties have agreed to set up a joint working group to examine specific problems in specific sectors in a very concrete manner, with the possible participation of intellectual property experts (including consultants, academics, practitioners or right-holders). Both trading partners will also continue their technical co-operation - aimed at training judges, customs officials,

police forces, administrative agencies, etc.

In many Asian countries where the problem has often been overwhelming, the authorities have in most cases adopted the necessary legislation, as required on the basis of their international commitments.

A country like China has committed itself, at the highest political level, to fight piracy and counterfeiting. Yet, on the ground, the results are hardly noticeable. More action is required at provincial and municipal level. More co-ordination among law-enforcing bodies is necessary. The judicial branch needs to become more effective. When sentences (fines and/or imprisonment) are imposed, they should be effectively carried out. Raids are not sufficient: places of illegal activity should be permanently closed.

In the context of ASEAN, co-ordination among the relevant enforcing bodies of the member countries is needed to eradicate these illegal activities on their territories and to stop imports of fake products from China. Co-operation among customs authorities of ASEAN members should be a priority. The Framework Agreements between ASEAN and its Asian trading partners should provide for co-operation avoiding cross-border trade in fake products.

Given that piracy and counterfeiting take place at a global level, this problem should also be tackled at the multilateral level. That is the reason why last June the European Union proposed starting discussions among IPR experts in the WTO. The aim is to get a better understanding of where the problems, difficulties and shortcomings are, by examining the implementation of the TRIPS provisions on enforcement and making recommendations on ways to improve the situation, for instance by laying



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down benchmarks to evaluate progress made by national enforcement authorities, suggesting best practices and so on.

This should serve the interests of both developed and developing countries. Intellectual property is good for development and is fundamental to the knowledge-based society. In the absence of effective enforcement, foreign investments are hampered and local producers discouraged from investing in their own country's intellectual capacity. Given that the needs are vast, all interested parties should join forces.

Experts' Corner

U.S. Supreme Court rules on *Grokster* case - Alan Cunningham*

On June 27th, 2005, United States Supreme Court judges voted unanimously that when consumers use peer-to-peer (P2P) software services to illegally download music, movies and other copyright protected material, the software companies will be liable. The Court formally held that if one distributes a device, such as P2P technology, with the object of promoting the use of the device to infringe copyright, one must be liable for any resulting acts of infringement undertaken by third parties.

The Supreme Court decision, given in *MGM Studios Inc v. Grokster Ltd.*, is the first U.S. Supreme Court ruling concerning the legality of distributing software that allows computer users to share computer files over a P2P network. The decision has important implications for the development of the technology market, as it may stagnate innovation surrounding the way in which copyright products can be used and shared by consumers.

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Entertainment companies will be extremely happy with the decision, however. They argue that the illegal downloading undertaken using certain P2P software has been damaging legitimate sales of copyright goods such as music and movies.

The issue of the legality of distributing such P2P software was first looked at by the U.S. Courts in the 9th Circuit Court of Appeals case of *A&M Records v. Napster* (2000). Plaintiffs in this case, a conglomerate of recording companies, alleged that the Napster company was a contributory copyright infringer. Napster had designed, and was operating, a system which permitted the transmission of MP3 music files between and among the users of its system, a process commonly known as P2P file-sharing. The Court of Appeal held that Napster had indeed contributed to the infringement of copyright and had failed to exercise its right and ability to police its system and prevent the unauthorised exchange of copyright material. The Court of Appeal did, however, recognise that the boundaries of the premises that Napster controlled and patrolled were limited. They accepted, in contrast with the District Court decision that the reserved right to police is very much cabined by systems architecture.

The *Napster* decision was good news for the entertainment industry, but their joy was short-lived. In the 2004 case *MGM V Grokster*, the 9th Circuit Court of Appeal held that P2P file-sharing technology is capable of substantial non-infringing uses, and that therefore the distributors of such P2P software could not be held liable for copyright infringement undertaken by third party users. The Court of Appeal utilised the reasoning of the Supreme Court in the famous *Sony v Universal City Studios*, where it was held that a distributor cannot be held liable for users' infringements so long as the tool (in the case of *Sony* the tool was the video



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recorder) is capable of substantial non-infringing uses.

The decision by the Court of Appeal in *Grokster* reflected, arguably, the particular technological and organisational circumstances of the *Grokster* system and in this respect may not have been a balanced decision referring to P2P technology *per se*. The particular circumstances that allowed, or encouraged, the Court of Appeal to make this decision, related to the way in which *Grokster* had established both their business and their technology. Briefly, in *Napster*, it was found that *Napster* was liable because it had sufficient knowledge of infringing activities occurring, had materially contributed to such infringement, and had failed to exercise its right and ability to prevent copyright infringement. *Napster's* liability was, to a large degree, based on the way in which *Napster* had designed its system and business. Conversely, *Grokster* were found to be not liable by the Court of Appeal because, unlike *Napster*, the actual users of the *Grokster* software, and not *Grokster* itself, created the P2P network and thus had ultimate and sole responsibility for their infringing activities. In addition, unlike *Napster*, *Grokster* had not designed its system to be capable of being operated and policed by *Grokster*.

Understandably, the entertainment companies involved in the *Grokster* case had major difficulties with the Court of Appeal's decision. They appealed against the decision, and in December of 2004, the Supreme Court granted *certiorari*. Oral Argument was heard during March 2005.

The decision of the Supreme Court appears to be founded on accepting that the reliance by the Court of Appeal on the *Sony* jurisprudence was misplaced. The Court points out that "*Sony* dealt with a claim of liability based solely on distributing a product

with alternative lawful and unlawful uses, with knowledge that some users would follow the unlawful course". In the opinion of the Supreme Court, the words and deeds of *Grokster* illustrated a going beyond of the mere practice of distribution of a product that has both infringing and non-infringing uses. The Court pointed out that the words and deeds of *Grokster*, in other words their intentions, illustrated a desire to benefit from copyright infringement undertaken by the users of their P2P software product. In this respect, *Grokster* must bear liability for contributing to third-party copyright infringement.

The Supreme Court decision in *Grokster* is controversial, since it is accepted that P2P technology, as a technology, does have interesting and decidedly non-infringing capabilities. In this respect, the decision may have an unfortunate, chilling effect on innovation in the P2P technology market place. However, the distinction that the Supreme Court makes, between mere distribution of a technology, and distribution that points to a desire for third party users to infringe, is highly relevant, and, it appears, quite correct. Ultimately, if a distributor of a technology is doing so in this latter manner, some responsibility must be borne for infringing activities.

Reports, Articles and Links

Joint supplement by Managing Intellectual Property Magazine (MIP) and the Stockholm Network on the Lisbon Agenda and the Future of IP IT Rights available in the MIP September 05 issue

A Stockholm Network/MIP roundtable held in Brussels on June 16, entitled "The Lisbon Agenda and the Future of IT IP rights in Europe: Cause for Hope or Cause for Concern?", was a timely consideration of some of the most important and controversial IP debates in Europe.



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Under discussion was the computer-implemented inventions (CII) directive, which was still being considered at the time of the discussion, but was eventually rejected by the European Parliament in early July. Another topic was the Community Patent proposal, as well as more general issues such as the Lisbon Strategy and the role of IP policy in improving Europe's competitiveness, especially in the IT sector. Several specific questions were identified for discussion, including: Does the Lisbon Strategy provide a practical framework for boosting Europe's knowledge economy? How do EU IP policies affect Europe's innovative position and capabilities in the IT sector? Should the Community Patent be pursued or abandoned? What do we know about monopolies, competition and innovation in Europe? The full Supplement can be accessed through the MIP website at <http://www.managingip.com/?Page=17&ISS=20176&SID=574846>

New OECD report on "Innovation and Policy Performance" (June 2005)

The OECD has released a new report entitled "Innovation Policy and Performance". The report is a cross-country study that compares the innovation policies, as well as performances, of OECD countries such as Austria, Finland, Japan, the Netherlands, Sweden and the United Kingdom. The report also looks at IP policies (such as in tech-transfer areas) and efficiency in the exploitation of IPRs.

Based on Eurostat data one particularly interesting by-product of the report is a study of the relationship between IPRs and SMEs. The report suggests () that almost 20% of SMEs (companies with 500 and employees or more) take on patent, while companies with 50 employees have an exposure ratio of less than 3%.

The report also indicates that SMEs still prefer informal use of IPRs (trade secrets or even copyrights) rather than going the patent way, given its complexity and costs.

The report can be accessed here: http://www.oecd.org/document/5/0,2340,en_2649_37417_35018949_1_1_1_37417,00.html

World Bank study "Singapore as an Innovative City in East Asia: An Explorative Study of the Perspectives of Innovative Industries" (April 2005)

This report - prepared for the World Bank by the National University of Singapore - examines the Singaporean innovation model with a focus on its IP environment.

The authors describe the importance of IPRs to Singapore's economic success. They find an interesting perception gap between the high-tech & research-intensive industries, which address great importance to IPRs, and the Knowledge Intensive Business Services (KIBS), which consider IPRs to be less important to their activities.

In order to enhance the innovative activities of the latter the authors suggest, among other things, promoting Singapore as a regional intellectual property hub. This would include finding ways to encourage the development of skills for IP and legal documentations, setting up an IP Academy (completed in January 2003), and providing incentives for IP creation and exploitation.

The authors conclude that positioning Singapore as an IP management centre will allow it to attract royalties from Singapore-registered patent holdings. The report can be accessed here: <http://www.wds.worldbank.org/external/WDSPContentServer/WDSP/IB/2005/04/25/000012009>