

Critical issues of « Due Diligence »: Shareholder agreements and
IP PROTECTION IN EC LEGAL REGULATION AND PRACTICAL
ASPECTS

**Критические аспекты « Due Diligence »:
Договоры между акционерами
Правовые аспекты защиты интеллектуальной
собственности в ЕС. Возможность патентования
компьютерных программ**

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Europe's Proposed Intellectual Property Enforcement Directive

- Key Provisions in Proposed EU IP Enforcement Directive
- Article 9: Right of Information -- Broad Subpoena Powers to Obtain Personal Information on Consumers
- Article 21: Legal Protection of Technical Devices – Forbids Circumvention Tools
- **Other Provisions in Proposed EU IP Enforcement Directive**

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- Article 7: Evidence
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- Article 8: Measures for Protecting Evidence
- Article 10: Provisional Measures
- Article 11: Precautionary Measures
- Article 12: Recall of Goods
- Article 14: Destruction of Goods
- Article 20: Criminal Law Provisions

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Granting patents on computer programs

- The European Commission (CEC) proposes to legalise the granting of patents on computer programs as such in Europe
- The importance of patents and proprietary software, implicitly suggesting some kind of connection between the two

EUPD

- Article 9 creates broad and easily abused powers for intellectual property holders to obtain personal information on consumers
- Article 21 mandates a ban on technical devices that threatens innovation, competition, the fair use (fair dealing)

EUPD

- It forbids the circumvention of technical devices that restrict a consumer's ability to exercise rights to use intellectual property, so in practice, it will experience a substantial loss to its rights if this proposal is enacted
- European Parliament started discussion on the merits of the proposed IP Enforcement Directive in Brussels on September 11, 2003. The Directive is to be implemented eight-teen months after its adoption

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EUPD

- The proposed IP Enforcement Directive applies to any infringement of an intellectual property right in the European Union that is carried out for commercial purposes or causes significant harm to the right holder
- The text of the proposed Directive defines its scope "*as widely as possible* in order to encompass all the intellectual property rights covered by Community provisions in this field"

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EUPD

- It also invites Member States to "*extend this Directive to include acts involving unfair competition or similar activities,*" further broadening its scope to include types of general business torts and licensing disputes
- Foreign companies who own trademarks in particular, are empowered by the new rights in this proposal. While the proposal detracts from the rights of consumers, it states that it should not detract from national legislation that is more favorable to right holders

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EUPD

- The proposed Directive applies to the enforcement of all rights relating to industrial property including copyright, patent, trademark, satellite broadcasting and cable transmission, databases, biotechnological inventions, computer programs, semiconductors, artwork, medicinal products, plant products, designs, spirit drinks, wine, agricultural products and foodstuffs
- The proposal's Annex contains a list of all types of intellectual property to which Directive applies

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- The privacy rights are threatened by the text's provision for broad subpoena powers to give rights holders the names and addresses of anyone connected to an alleged infringement (Right of Information)
- The proposal would require universities, Internet Service Providers (ISPs), phone and cable companies, and any other third-party intermediaries to turn over personal information on their customers, *even before there has been any finding of infringement or an opportunity for the defendant to be heard on the matter*

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EUPD

- The US recording industry is already using the US Digital Millennium Copyright Act's (DMCA's) broad subpoena powers to collect personally identifying information on thousands of users of file-sharing software for its litigation purposes. These controversial new provisions are under challenge as unconstitutional in several court proceedings in the US
- The proposed Enforcement Directive's "Right of Information" is similarly ripe for abuse by intellectual property owners to obtain information on European citizens

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Fair Use (Fair Dealing) Rights Restricted by Legal Protection for Technical Devices

- It would forbid any technology that could defeat technical restrictions that protect any intellectual property right
- Despite the fact that copyright, trademark, patent and other types of intellectual property laws contain explicit limitations on rightsholders' ability to control the use and distribution of their works, these technical devices permit no unlicensed uses at all
- Europeans are left with no practical means of engaging in fair use (fair dealing) or parody of intellectual property goods, even though the law permits such unauthorized uses

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Fair Use (Fair Dealing) Rights Restricted by Legal Protection for Technical Devices

- Under the legal regime proposed in this Directive, individual liberty is to be replaced by a license
- This license can be revoked by an intellectual property holder or its terms unilaterally changed at any time and for any reason

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Privacy Rights Threatened by RFID Tags' Ability to Track Consumers

- The proposal further endangers the privacy rights of consumers because Europeans would be forbidden from deactivating technical devices such as Radio Frequency ID (RFID) tags that are embedded in clothing, and other ordinary household products in an effort to prevent counterfeiting
- Technical devices such as RFID tags are also used to track the physical movements of individuals without their knowledge or consent. This proposal would make it illegal to neutralize, deactivate, remove, or manipulate these tags in any way, opening the door to massive public surveillance and intrusion into the private lives of individuals

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Consumer's Own Use of Private Property Controlled by IP Holder

- Since it would be illegal to remove the RFID tags or other technical devices embedded into products and designed to protect against infringement, people would be forbidden from using their own property as they choose
- For example, if a person bought a pair of jeans with a RFID embedded into a company logo patch that was sewn onto the jeans, it would be illegal to remove that logo patch; and that person would have no choice but to serve as a "billboard" and provide free advertisement for this jean company by displaying the company logo when she wears the jeans

Freedom of Expression and Information Chilled for Scientists and Programmers

- Another aspect to the proposed Enforcement Directive is its treatment of freedom of expression and information
- The proposal's ban on "illegal technical devices" is wide in scope and includes any technology or component capable of bypassing technical restrictions such as computer software
- Because it bans certain types of computer code, the proposal restricts the ability of computer programmers to discuss certain ideas, in violation of the programmers' freedom of expression rights

Freedom of Expression and Information Chilled for Programmers

- Free and open source software development is threatened by the proposed Directive since it would outlaw large amounts of existing computer code
- Computer security research is threatened by this proposal since scientists would be forbidden from using computer programs that circumvent technical devices
- Scientists and researchers would also be forbidden from discussing in technical terms the vulnerabilities of intellectual property protection schemes if this proposal passes

Elimination of Public Domain Due to Ban on "Illegal Technical Devices"

- The proposed Enforcement Directive would have an effect on the public domain for all types of intellectual property. All works under copyright and patent law are intended to pass into the public domain after the term of exclusive expropriation expires
- European libraries will be forced to serve at the whim of large (mainly US) publishing companies who can forever control all terms of access to a book

Impedes Innovation and Business Competition in Favor of Incumbents

- The proposed Directive creates a legal regime throughout Europe that strongly favors large entertainment and software companies (mostly from the US) at the expense of small to medium-sized local firms.
- Its significantly undermines competition by giving the entrenched industry players a competitive advantage to innovative start-ups

Creates Monopoly Power in New Markets for Devices

- The proposed Directive's ban on "illegal technical devices" is so broad, it creates a monopoly for an intellectual property holder on who can build interoperable devices
- The IP right holder is able to extend its monopoly power in the IP to a separate market for devices by requiring technical mechanisms such as authentication chips that recognize a 'genuine' part
- This is already happening in the realm of copyright law, where the US Digital Millennium Copyright Act has been used
- The proposed Enforcement Directive would give the same broad and easily abused monopoly powers to the holders of any intellectual property right in Europe, not just copyright

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Burdens Resources of ISPs, Businesses, Universities

- Since it places greater responsibilities on businesses, universities, Internet Service Providers (ISPs) and other third-party intermediaries for the infringing activities of others, the proposed Directive also places greater burdens onto businesses and ISPs to monitor and police their networks and services for infringing activity
- The industry-wide resource cost devoted to the protection and benefit of another industry would be crippling. Through this proposed Directive, intellectual property holders would shift the burden of protecting their interests onto others

Consumer's Own Use of Private Property Controlled by IP Holder

- The proposed Directive claims to harmonize enforcement mechanisms for the entire European Union
- The proposal actually selects the most extreme national IP enforcement provisions and imposes them onto all countries in the EU (i.e., stiffer penalties including imprisonment, easily obtained injunctions, allowances for seizures and destruction of property, a right of information to obtain personal identities, the recall of infringing goods at the infringer's expense, banning circumvention devices, etc.

Legal Protection of Technical Devices – *Forbids Circumvention Tools*

- Infringement of intellectual property was mostly considered a civil, not criminal, matter
- Only in recent cases of large-scale commercial piracy were criminal charges against infringers even possible
- The proposed Directive provides for the criminal prosecution, including imprisonment, of anyone who intentionally infringes any intellectual property right and receives any kind of profit, *no matter how small of a profit or violation*
- In order to justify the increased criminal penalties, the proposed Directive attempts to connect infringement of intellectual property to explicitly linking it to illicit trafficking

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Article 21: Legal Protection of Technical Devices – *Forbids Circumvention Tools*

- The proposal also defines "technical devices" as any technology, device or component which is designed for the manufacture of authentic goods and which makes it easier for consumers to recognize the goods as being authentic
- Many security and authentication devices would fall into this category of "protected" technology and could take the form of security holograms, optical devices, smart cards, magnetic systems, special inks, microscopic labels and more

Consumer's Own Use of Private Property Controlled by IP Holder

- Arguably the most dangerous provision in the proposed EU IP Enforcement Directive, Article 21 requires Member States to enact "legal protection against" making, importing, distributing, and using illegal technical devices
- Forbidden "illegal technical devices" are those that are designed to circumvent a technology that aids in the protection of any industrial property right
- It would be illegal to tamper with or to build or provide others with tools or technologies capable of defeating or interoperating with such technical devices

EUPD and UUCD

- The proposed EU IP Enforcement Directive is similar to the EU Copyright Directive (2001/29/EC), which outlawed circumvention devices and which is currently being implemented throughout Europe
- it is also similar to the US DMCA's ban on circumvention, except the Enforcement proposal is much broader in its prohibitions than either, *since it applies to any industrial property right*, not just copyright related rights as in the EUCD and the DMCA

EUPD and UUCD

- Both the DMCA and the EUCD ban the act of circumvention and the provision of tools or components capable of circumvention. On its surface, however, the Enforcement Directive appears to only ban circumvention tools (and not also the act of circumvention)
- But since it also forbids the *use* of circumvention tools, and it is impossible to engage in the act of circumvention without using a tool, the Enforcement proposal effectively bans all acts of circumvention as well as the tools

EUPD and EUCD

- Judicial authorities may require (but will not be bound to require) applicants to produce "any reasonably available evidence" to satisfy themselves that the applicant's rights are being or are about to be infringed
- Previously, the issuance of search warrants without the other party being heard was not available in Members States of Austria, Denmark, and Sweden