

# *Intellectual Property Rights and Integration by Conflict: The Past, Present and Future*

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## **Abstract**

This paper analyses how the Court of Justice of the European Union resolves conflicting situations surrounding intellectual property rights (IPR). More specifically, it looks into how it approaches clashes of IPR with other fundamental rights and economic freedoms and with what consequences. Building upon previous literature, I advance the argument that the resolution of the conflict, by means of the proportionality interest-balancing exercise, pursues a pro-harmonisation agenda not only in the obvious context of free movement, but also in the setting of fundamental rights. I show that the recent *Coty Germany* ruling is likely to accelerate this trend because of its recognition of positive obligations of the Member States in the context of fundamental rights. It is argued that this could also be used by national courts to improve an existing IPR framework, in particular by filing preliminary references that question legislators' choices such as non-implementation of permissible exceptions and limitations. After highlighting the importance of maintaining a separation between different policy levels (secondary law vs Charter), I outline why *Coty Germany* is a very worrying reading of Article 17(2) of the EU Charter, and suggest that this could be remedied by synchronising its interpretation with the Court's doctrine of 'specific subject matter' in the context of free movement.

**Keywords:** intellectual property, proportionality, fundamental rights, free movement, positive obligation, Article 17(2) EU Charter

## I. INTRODUCTION

It is possible to conceive conflict as not necessarily a wasteful outbreak of incompatibilities, but a *normal* process by which socially valuable differences register themselves for the enrichment of all concerned.<sup>1</sup>

The intellectual property case law of the Court of Justice of the European Union has exploded in the last decade.<sup>2</sup> Preliminary references flow to Luxembourg in

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<sup>1</sup> M Parker Follett, *Creative Experience* (Longmans, Green and Co, 1924), p 301.

<sup>2</sup> A quick cursory search in the Curia's database shows that overall 201 preliminary references on IP (ie without all the appeals of decisions of the EUIPO) were filed before the Court in the last ten years.

unprecedented numbers. It is no rarity anymore that a single doctrine of the Union's copyright law is responsible for a dozen preliminary references. This pressures the Court to be increasingly consistent as any ambiguity and inconsistency is 'punished' by a stream of new questions.<sup>3</sup>

Intellectual property (IP) law lends private parties entitlements over certain immaterial objects with the aim of promoting creativity and innovation. These entitlements and their enforcement, however, often conflict with the fundamental rights and economic freedoms. The proportionality principle is a mechanism through which law tries to resolve these apparent conflicts and reconcile them into a coherent message of a legal order. In the resolution of such conflicts, one can best observe the true face of the Court's stance and the consistency of its arguments. Large treatises have been written on the role of the principle for the rule of law and European integration.<sup>4</sup>

This article specifically explores the following questions: (1) what kind of arguments are deciding the cases and how consistent are they across the two areas; (2) whether they are driven by a pro-harmonisation bias of the Court; (3) whether the recent *Coty Germany* ruling could be seen as a first step towards recognition of positive obligations of the Member States also in the context of fundamental rights; and (4) what consequences this will have on the overall intellectual property rights (IPR) framework in the upcoming years.

First, I offer a brief account of the constitutional protection of IPR. Then I consider the case law of the Court of Justice in two blocks: (1) cases in which the Court was able to reconcile the conflict of values within the scope of existing law – thus acting as a moderator of conflict; and (2) cases in which the resolution of the conflict in this way wasn't feasible and thus required an explicit formulation of incompatibility – thus acting as a negative legislator on the basis of primary law. It is very important to disentangle these situations, as they are associated with different consequences.

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(Footnote continued)

Just to compare, during the entire earlier period of the Court (1967–15/5/2006), only 183 IP cases were filed. This means that the last decade is responsible for more preliminary references in the field than all the decades before. It is therefore no surprise that scholars are conducting the first empirical legal studies of specifically IP case law: see M Favale et al, 'Is There a EU Copyright Jurisprudence? An Empirical Analysis of the Workings of the European Court of Justice' (2015) 79(1) *Modern Law Review* 31.

<sup>3</sup> For instance, the case law on the right of communication to the public became so inscrutable – although mostly handled by a single judge, Judge Malenovský – that in a recent preliminary reference, the Court instead decided the case as a Grand Chamber (*Reha Training*, C-117/15, EU:C:2016:379).

<sup>4</sup> J Gardam, *Necessity, Proportionality and the Use of Force by States* (Cambridge University Press, 2004); A Barak et al, *Proportionality: Constitutional Rights and their Limitations* (Cambridge University Press, 2012); G Huscroft et al, *Proportionality and the Rule of Law: Rights, Justification, Reasoning* (Cambridge University Press, 2014); E Ellis, *The Principle of Proportionality in the Laws of Europe* (Hart Publishing, 1999); N Emiliou, *The Principle of Proportionality in European Law: a Comparative Study* (Kluwer Law International, 1996); T Tridimas, *The General Principles of EU Law*, 2nd ed (Oxford University Press, 2006); B Pirker, *Proportionality Analysis and Models of Judicial Review* (Europa Law Publishing, 2013); G de Búrca, 'The Principle of Proportionality and its Application in EC Law' (1993) 13(1) *Yearbook of European Law* 105.

While the former shape existing law, the latter constructs a new one by engraving it into a higher policy level. In the final part, the paper will synthesise the findings and explore how and when the conflict resolution advances goals of European integration and with what consequences.

## II. IP AS A PROTECTED VALUE

Intellectual property shall be protected. At least, that is what we learn from Article 17(2) of the EU Charter of Fundamental Rights. This truly empty expression became legally binding following the Lisbon Treaty.<sup>5</sup> It was inserted, as explained by the EU Network of Independent Experts on Fundamental Rights, ‘taking into consideration an increasing importance of the protection of intellectual property in general, and in the EC law in particular’.<sup>6</sup> Pre-Lisbon case law of the Court of Justice already recognised to an extent that IP forms a part of right to property. This way of protecting IPR first developed under the auspices of Article 1 of the First Protocol to the European Convention on Human Rights.<sup>7</sup> Given that Article 17(2) is meant to be modelled on protection offered by Article 1 of the First Protocol to the European Convention on Human Rights (ECHR), in accordance with Article 52(3) of the EU Charter, the meaning and scope of those Charter rights shall be the same as those contained in the Convention. The former can, however, provide more extensive protection. As will be shown, the latest case law of the Court shows a marked departure from the ECHR origins. As Mylly puts it, nowadays, Article 17(2) assumes roles that are not present under Article 1 of the First Protocol.<sup>8</sup>

<sup>5</sup> See also criticism by C Geiger, ‘Intellectual Property Shall be Protected!?! – Article 17(2) of the Charter of Fundamental Rights of the European Union: A Mysterious Provision with an Unclear Scope’ (2009) 31 (3) *European Intellectual Property Review* 113, p 115; J Griffiths and L McDonagh, ‘Fundamental Rights and European IP law - the Case of Art 17(2) of the EU Charter’ in C Geiger (ed), *Constructing European Intellectual Property Achievements and New Perspectives* (Edward Elgar, 2013), p 76.

<sup>6</sup> EU Network of Independent Experts on Fundamental Rights, ‘Commentary of the Charter of Fundamental Rights of the European Union’, p 168 [http://ec.europa.eu/justice/fundamental-rights/files/networkcommentaryfinal\\_en.pdf](http://ec.europa.eu/justice/fundamental-rights/files/networkcommentaryfinal_en.pdf); see also Explanations Relating to the Charter of Fundamental Rights (2007) OJ C 303/17: ‘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. The guarantees laid down in paragraph 1 shall apply as appropriate to intellectual property.’

<sup>7</sup> See *Smith Kline and French Laboratories Ltd v the Netherlands* (Application no. 12633/87) decision of 4 October 1990; *Balan v the Republic of Moldova* (Application no 19247/03) decision of 29 January 2008; *Anheuser-Busch Inc v Portugal* (Application no. 73049/01) (2007) 44 EHRR 42. For overview see L Helfer, ‘The New Innovation Frontier? Intellectual Property and the European Court of Human Rights’ (2008) 49 (1) *Harvard International Law Journal* 1; S Sebastian, ‘Geistiges Eigentum als europäisches Menschenrecht: Zur Bedeutung von Art. 1 des 1. Zusatzprotokolls zur EMRK für das Immaterialgüterrecht’ (2013) *GRUR International* 524.

<sup>8</sup> T Mylly, ‘The Constitutionalization of the European Legal Order: Impact of Human Rights on Intellectual Property In The EU’ in C Geiger (ed), *Research Handbook on Human Rights and Intellectual Property* (Edward Elgar, 2015), pp 106, 119.

The Court of Justice emphasised the constitutional value of IP for the first time in the *Metronome Musik* case.<sup>9</sup> It held that ‘the freedom to pursue a trade or profession, and likewise the right to property, form part of the general principles of Community law’.<sup>10</sup> In the same breath, the Court also highlighted that ‘those principles are not absolute but must be viewed in relation to their social function’.<sup>11</sup> IPR are thus created for the purpose of fulfilling certain social goals<sup>12</sup> explained often as the promotion of creativity or investment.<sup>13</sup> These ‘requirements of general interest which motivated the grant of the right’ are crucial in the subsequent proportionality exercise, regardless of the legal setting in which it takes place.<sup>14</sup> Despite this early holding, it wasn’t until the *Promusicae* ruling that the constitutional value of IP, and the need for its effective protection, became widely cited maxims.<sup>15</sup> Today, the constitutional rhetoric dominates argumentation even in cases where a proper construction of secondary Union law would be sufficient.<sup>16</sup>

It should be noted, however, that IPR became a focus for conflicting situations even earlier, in the area of free movement of goods and services. These economic freedoms are the cornerstones of the EU’s efforts to construct an internal market.

<sup>9</sup> *Metronome Musik v Music Point Hokamp*, C-200/96, EU:C:1998:172.

<sup>10</sup> Opinion of Advocate General Tesauro in *Metronome Musik v Music Point Hokamp*, C-200/96, EU:C:1998:172, para 21 and fn 19.

<sup>11</sup> *Metronome Musik v Music Point Hokamp*, C-200/96, EU:C:1998:172, para 21.

<sup>12</sup> See also *Martin Luksan v Petrus van der*, C-277/10, EU:C:2012:65, para 68. This is often discussed as a ‘social function of property’, see C Geiger, ‘The Social Function of Intellectual Property Rights, or How Ethics can Influence the Shape and Use of IP Law’ in GB Dinwoodie (ed), *Methods and Perspectives in Intellectual Property Law* (Edward Elgar, 2013); C Geiger, ‘Implementing Intellectual Property Provisions in Human Rights Instruments: Towards a New Social Contract for the Protection of Intangibles’ in Geiger (ed), see note 8 above; A Peukert, ‘Intellectual Property as an End in Itself?’ (2011) 33 *European Intellectual Property Review* 67; F Leinemann, *Die Sozialbindung des Geistigen Eigentums* (Nomos, 1998); E Pahud, *Die Sozialbindung des Urheberrechts* (Berne Verlag, 2000).

<sup>13</sup> See Rec 1 of the Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights [2004] OJ L157/45 ‘The protection of intellectual property is important not only for promoting innovation and creativity, but also for developing employment and improving competitiveness.’ These goals are by no means exhaustive. Different jurisdictions attribute additional roles to diverse intellectual property rights, such as the right to dignity of authors.

<sup>14</sup> See note 10 above, para 33.

<sup>15</sup> *Promusicae*, C-275/06, EU:C:2008:54. *Scarlet Extended*, C-70/10, EU:C:2011:771, paras 43–45: ‘The protection of the right to intellectual property is indeed enshrined in Article 17(2) of the Charter of Fundamental Rights of the European Union (‘the Charter’). There is, however, nothing whatsoever in the wording of that provision or in the Court’s case law to suggest that that right is inviolable and must for that reason be absolutely protected.’; *Laserdisken*, C-479/04, EU:C:2006:549, paras 62, 64; Opinion of Advocate General Trstenjak in *Budějovický Budvar*, C-482/09, EU:C:2011:605, fn 29: ‘The right to property, under which the right to intellectual property falls, is according to the Court’s case-law a fundamental right which is protected in the Community legal order as a general principle of Community law’; *L’Oréal and Others*, C-324/09, EU:C:2011:474, para 131: ‘effective protection of intellectual property’.

<sup>16</sup> See *UPC Telekabel Wien*, C-314/12, EU:C:2014:192.

The Court's role, in this area, is to achieve 'negative integration' by reviewing national policies as to their compatibility with these economic freedoms.<sup>17</sup> Naturally, even the noble goal of economic integration cannot simply override any other interests. For these purposes, the founding treaties always envisaged exceptions that can justify obstacles to free movement. Next to the legislated ones, the Court over the years has developed additional justification grounds under the heading of 'mandatory requirements', now increasingly called 'imperative requirements' or 'overriding requirements of in the public interest' which apply to indistinctly applicable measures.<sup>18</sup> As Barnard puts it, they essentially constitute 'good reasons' put forward by the Member States to justify their conduct.<sup>19</sup> Whereas in the context of free movement of goods, Article 36 of the TFEU and its predecessors explicitly listed 'the protection of industrial and commercial property' as one of the accepted justifications, comparable exception in the context of free movement of services developed under the heading of the above-mentioned judge-made doctrines.<sup>20</sup>

The expression of Article 36 TFEU soon started to encapsulate the entire breath of IP law, covering typical industrial property such as patents, trademarks and designs, and also less industrial and more personal rights such as copyright or related rights.<sup>21</sup> However, various national IP-like misappropriation doctrines protected under unfair competition law could also have found their justification as a form of mandatory requirement.<sup>22</sup> In addition, the Court has gradually recognised an obligation of the Member States to interpret and apply derogations to economic freedoms consistently with the protection of fundamental rights.<sup>23</sup>

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<sup>17</sup> F Scharpf, 'Politische Optionen im vollendeten Binnenmarkt' in M Jachenfuchs and B Kohler-Koch, *Europäische Integration* (UTB, 1996), p 109 ff.

<sup>18</sup> Art 36 TFEU (goods) and Arts 52, 62 TFEU (services). C Barnard, *The Substantive Law of the EU: The Four Freedoms*, 3<sup>rd</sup> ed (Oxford University Press, 2010), p 166. The doctrine of mandatory requirements was first developed in the seminal *Cassis de Dijon* case (*Rewe-Zentral AG v Bundesmonopolverwaltung für Branntwein*, 120/78, EU:C:1979:42) in the context of free movement of goods, but soon extended also to services (*SA Caterpillar Overseas*, 111/79, EU:C:1980:78, para 35). The existing case law is best summarized in *Gouda*, C-288/89, EU:C:1991:323 (services).

<sup>19</sup> *Ibid.*

<sup>20</sup> See *Coditel*, 62/79, EU:C:1980:84; *Football Association Premier League and Others*, C-403/08, EU:C:2011:631.

<sup>21</sup> *Centrafarm BV and Adriaan de Peijper v Sterling Drug Inc*, 15/74, EU:C:1974:114, para 9 (patents); *LC Nungesser KG and Kurt Eisele v Commission of the European Communities*, 258/78, EU:C:1982:211, para 8 (trademarks), para 35 (plant varieties); *Keurkoop*, 144/81, EU:C:1982:289, para 14 (designs); *Deutsche Renault*, C-317/91, EU:C:1993:908, para 17 ff (non-registered trademarks); *Musik-Vertrieb membrane*, 57/80, EU:C:1981:10, para 12 ff (copyright); *Kingdom of Belgium v Kingdom of Spain*, C-388/95, EU:C:2000:244, para 54 (designations of origin); *Exportur*, C-3/91, EU:C:1992:420, para 23 ff (geographical indications).

<sup>22</sup> *Groep v Beele*, 6/81, EU:C:1982:72.

<sup>23</sup> See *ERT*, C-260/89, EU:C:1991:254; *Schmidberger*, C-112/00, EU:C:2003:333; *Omega*, C-36/02, EU:C:2004:614; *Viking*, C-438/05, EU:C:2007:772; *Laval*, C-341/05, EU:C:2007:809.

### III. COURTS AS MODERATORS

Whenever two values conflict, the primary task of the Court is to try to reconcile them by finding a middle ground. However, this role of moderation can be carried out without inflicting an open conflict, only as long as the instruments which underlie the conflict can be read in harmony. In abstract, two values can usually be moderated into a harmonious relationship. Only as soon as the legal instruments become specific enough, is such moderation made more difficult because no moderation can go *contra legem*, ie against accepted ways of interpretation.<sup>24</sup> The moderation can take place between primary Union law and national law (review of national IP laws), but also primary Union law and secondary Union law (review of EU directives/regulations). It is generally accepted in the literature that the Court's standard of review changes depending on, among other things, the legal source that is subject to review.<sup>25</sup>

#### A. Free movement

Intellectual property rights are historically conceived as private entitlements that are territorial in nature. Given that they mostly operate under territorial exclusivity, it was only a matter of time until such rights came into conflict with the idea of an unrestricted flow of goods and services in the new Europe. The prohibition of restrictions having an equivalent effect to quantitative restrictions – Article 34 TFEU – very soon became a strong mechanism for the review of the application and exercise of then mostly national IPR. Whereas in the area of free movement of goods the Court often ended up declaring incompatibility, thus acting as a negative legislator, it is in the area of free movement of services where the conflicts were usually resolved by mere moderation.

In *Coditel I*, the Court had to answer whether the diffusion of a cable television programme from Germany to Belgium – prohibited on copyright grounds owing to the existence of two different licensees in two neighbouring countries – was compatible with the free movement of services.<sup>26</sup> The Court took the following steps. It first enquired into the nature of cinematographic works, which are exploited differently from books or records, concluding that rights-holders have a 'legitimate

<sup>24</sup> Even an obligation to interpret national laws in line with EU law does not require an interpretation of national law *contra legem* (*Maria Pupino*, C-105/03, EU:C:2005:386, para 47; *Impact v Minister for Agriculture and Food and Others*, C-268/0, EU:C:2008:223, para 100). The outer limits of *contra legem* are set by the domestic interpretation methods (*Dominguez*, C-282/10, EU:C:2012:33, para 27). For instance, the German Federal Supreme Court accepts so called teleological reduction which goes *contra verbal legis* as a mandatory interpretation step in order to give a full effect to EU law (BGH [2008] VIII ZR 200/05; BGH [2011] VIII ZR 70/08).

<sup>25</sup> According to Tridimas, the Union measures are traditionally judged less strictly – using the 'manifestly disproportionate test' which is difficult to fail – while the national measures are subjected to the 'least restrictive means test' – see T Tridimas, *The General Principles of EU law*, 2nd ed (Oxford University Press, 2006), p 138; also G de Búrca, 'The Principle of Proportionality and its Application in EC Law' (1993) 13(1) *Yearbook of European Law* 105, p 146.

<sup>26</sup> *Coditel*, 62/79, EU:C:1980:84.

interest in calculating the fees due in respect of the authorization to exhibit on the basis of the actual or probable number of performances'.<sup>27</sup> As a consequence, the Court held that 'requiring fees for any showing of the film is part of the essential function of copyright in this type of ... work'. The Court thus followed an approach of first analysing actual market conditions for the exploitation of a particular work, in order to build up their essential function which is then guaranteed by copyright law. This holding was subsequently confirmed also in *Coditel II*, which complemented the analysis with a possible review under anti-trust provisions.<sup>28</sup>

In the subsequent *Warner Brothers* case, the Court accepted as proportionate yet another limitation of free movement; this time of goods.<sup>29</sup> Denmark introduced an exclusive right to rental, which granted the right-holders a right to authorise and thus to get paid for legitimately purchased copies of video-cassettes that were hired out to third parties. It applied even if they were acquired in countries where hiring-out wasn't subject to any exclusive rights. This meant that legally purchased copies in one country with no such laws were subject to an additional right of authorisation in case of rentals in Denmark. The Court has explained its ruling in favour of the proportionality of such legislation with reference to technological changes which shift the balance of exploitation of works against the interests of right holders. As the Court put it:

consideration must be given to the *emergence*, demonstrated by the Commission, of a *specific market for the hiring-out of such recordings, as distinct from their sale*. The existence of that market was made possible by various factors such as the improvement of manufacturing methods for video-cassettes which increased their strength and life in use, the growing awareness amongst viewers that they watch only occasionally the video-cassettes which they have bought and, lastly, their relatively high purchase price. *The market for the hiring-out of video-cassettes reaches a wider public than the market for their sale and, at present, offers great potential as a source of revenue for makers of films.*<sup>30</sup>

Disparities in IP legislation in the Member States were acknowledged in *Coditel I* and *Warner Brothers*, but also subsequently in *EMI v Patricia* and *Keurkoop* as obstacles to free trade.<sup>31</sup> At the same time, however, they were all accepted as proportionate restrictions on free movement given the state of 'development of Community law' at the time. In turn, these cases created an impetus for action by the Union legislator which has in the last three decades heavily harmonised many areas of IP law, in particular that of industrial property.<sup>32</sup> This interdependence with the state of harmonisation was also confirmed later. In *Peek & Cloppenburg*, the Court

<sup>27</sup> *Ibid*, paras 12, 13.

<sup>28</sup> *Coditel*, 262/81, EU:C:1982:334.

<sup>29</sup> *Warner Brothers*, C-158/86, EU:C:1988:242.

<sup>30</sup> *Ibid*, paras 12, 14, 15 (emphasis added).

<sup>31</sup> *EMI Electrola*, C-341/87, EU:C:1989:30; *Keurkoop BV v Nancy Kean Gifts*, 144/81, EU:C:1982:289.

<sup>32</sup> A Kur and T Dreier, *European Intellectual Property Law* (Edward Elgar, 2013), p. 52–53

mandated a certain narrower reading of a right to distribution.<sup>33</sup> Its decision was preceded by an interesting opinion of Advocate General Sharpston, who suggested this solution on the basis that a broader construction would be incompatible with free movement of goods. It thus construed a provision of the Union law in light of the principle of free movement, as a more proportionate solution.<sup>34</sup>

One of the first cases explicitly operating with the principle of proportionality in the context of free movement was the *Metronome* case. In this case, a German court enquired about the compatibility of a newly-adopted Rental Directive, with the free movement of goods and a fundamental right to conduct business.<sup>35</sup> The Court recalled its holding from *Warner Brothers*, observing that ‘it is impossible to guarantee to makers of films a remuneration which reflects the number of occasions on which the video-cassettes are actually hired-out and which secures for them a satisfactory share of the rental market’. The Court thus shifted its perspective from one of an acceptable measure (*Warner Brothers*) to one of an indispensable measure (*Metronome*). The statements were even stronger when the Court subsequently reviewed the same Directive against the fundamental right to conduct business.

### B. Fundamental rights

The Court employs numerous standards of proportionality review, depending on the context.<sup>36</sup> Traditionally, Union measures are said to be judged less strictly – using the ‘manifestly disproportionate test’ which is difficult to fail – while national measures are subjected to the ‘least restrictive means test’. Thus the level of effective protection of fundamental rights against EU acts was considered lower, a position extensively criticised in the literature.<sup>37</sup> Since the Lisbon Treaty however, there is an indication that the scrutiny of EU acts from the perspective of fundamental rights is also intensifying.<sup>38</sup> *Schecke*, *Digital Rights Ireland* and *Schrems* are all instances of a very strong proportionality review.<sup>39</sup>

<sup>33</sup> *Peek & Cloppenburg*, C-456/06, EU:C:2008:232

<sup>34</sup> Opinion of Advocate General Sharpston in *Peek & Cloppenburg*, C-456/06, EU:C:2008:21, paras 52–54 (accepted a narrow reading of a distribution right due to the principle of free movement).

<sup>35</sup> Council Directive 92/100/EEC of 19 November 1992 on rental right and lending right and on certain rights related to copyright in the field of intellectual property (1992) OJ L 346, pp 61–66.

<sup>36</sup> Some authors also suggest that other variables such as type of a right or a seriousness of an interference also influence the standard of the proportionality review – see V Kosta, *Fundamental Rights in EU Internal Market Legislation* (Bloomsbury, 2015), p 63.

<sup>37</sup> F Jacobs, ‘Recent Developments in the Principle of Proportionality’ in E Ellis (ed), *The Principle of Proportionality in the Laws of Europe* (Hart Publishing, 1999), p 21; S Weatherill, ‘The internal market’ in S Peers et al (eds), *The European Union Charter of Fundamental Rights* (Hart Publishing, 2014), p 195; W Weiß, ‘The EU Human Rights Regime Post Lisbon: Turning the CJEU into a Human Rights Court?’ in S Morano-Foradi and L Vickers (eds), *Fundamental Rights in the EU: A Matter for Two Courts* (Hart Publishing, 2015), p 73.

<sup>38</sup> *Ibid*, Weiß, p 73.

<sup>39</sup> *Volker und Markus Schecke and Eifert*, C-92/09, EU:C:2010:662; *Digital Rights Ireland*, C-293/12, EU:C:2014:238; *Maximilian Schrems*, C-362/14, EU:C:2015:650.

The *Metronome* case was among the first cases testing proportionality of IPR in the context of other fundamental rights. Despite the lack of any EU catalogue of rights, on the request of the German court, the Court has reviewed the Directive in the light of fundamental rights. Namely, a fundamental ‘freedom to pursue a trade or profession’ or ‘fundamental right to operate rental businesses’.<sup>40</sup> The proportionality review was substantially more elaborate than in the context of free movement.

The Court has here for the first time recognised the fundamental rights dimension of IP. Entering the proportionality exercise, the Court noted that not only is ‘industrial and commercial property’ recognised as a justifiable limitation on free movement, but also that the cultural development, including aims of encouraging artistic and literary creation, is one of the objectives of the founding treaties.<sup>41</sup> Following this argument, the Court concluded:

[the limitation] appears *justified by the protection of the extremely high and risky investments which are required for the production of phonograms and are essential if authors are to go on creating new works*. As the Advocate General has explained in point 26 of his Opinion, the grant of an exclusive right to producers certainly constitutes the most effective form of protection, having regard in particular to the development of new technologies and the increasing threat of piracy, which is favoured by the extreme ease with which recordings can be copied. *In the absence of such a right, it is likely that the remuneration of those who invest in the creation of those products would cease to be properly guaranteed, with inevitable repercussions for the creation of new works.*<sup>42</sup>

Even more interesting in this regard is the opinion of Advocate General Teusro to which the Court explicitly refers. In the context of proportionality review, he considered whether the goal pursued by the Directive could not have been better achieved by a right to get paid, rather than a right to exclude others.<sup>43</sup> The Advocate General here entirely relies on a justification offered by the Community legislator, extensively citing the recitals of said Directive and also emerging provisions of international law.<sup>44</sup> It is worth noting, however, that the Advocate General also significantly exaggerated the legislator’s assumptions when he stated:

The justification for the protection offered by the legislation on copyright and related rights to the producers of phonograms has always been based on the protection of the

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<sup>40</sup> *Metronome Musik v Music Point Hokamp*, C-200/96, EU:C:1998:172, paras 9, 12.

<sup>41</sup> *Ibid.*, para 23,

<sup>42</sup> *Ibid.*, para 24 (emphasis added).

<sup>43</sup> *Ibid.*, para 24 et seq. In the law and economics literature, this entitlement distinction is discussed as liability vs property rules: see G Calabresi and D Melamed, ‘Property Rules, Liability Rules, and Inalienability: One View of the Cathedral’ (1972) 85 *Harvard Law Review* 1089.

<sup>44</sup> See note 10 above, para 25 (citing Rec 6) and para 27: The information given in the order for reference and again in the observations of Music Point, according to which the market in sales of CDs did not register any decline in Germany when renting was still permitted, (16) does not seem significant. First, it relates to the market situation at a time when technological developments had not yet made renting a de facto alternative to sales; second — and this is a more important point — the accuracy of the assessments made by the Community institutions as a basis for the content of harmonising legislation cannot be verified solely in the light of statistics relating to one or more Member States.

particularly high-risk and substantial investments which constitute *an absolutely essential precondition for authors to go on creating new works*.<sup>45</sup>

This statement is found nowhere in the Directive. It however shows how externally formulated justification for IPR, irrespective of its correctness, influences the Court in its exercise of proportionality. The Advocate General builds a world-view based on political declarations, international initiatives and legislator's statement to identify an 'extremely wide consensus' in favour of strengthening the protection.<sup>46</sup> A mere right of remuneration (right to get paid), according to the Advocate General, would still leave the door open to 'a risk that it would be impossible to assure adequate remuneration for those who make investments to produce phonographic products' due to the ease of their copying.<sup>47</sup> As a consequence, 'the grant of an exclusive right to producers certainly appears to be the most effective form of protection', a solution that is entirely proportionate to the aims pursued.<sup>48</sup>

Questioning the proportionality of an entire piece of IP law due to its non-compliance with fundamental rights is fairly rare. And as the *Metronome* case shows, also very unlikely to be successful.<sup>49</sup> The Court is likely to rely in its decision-making on statements and trends, and not try to seek economic evidence.<sup>50</sup> On a general level, this approach is correct because policy makers need to enjoy a broad maneuvering space for their policy experiments. It is hardly practicable that the (constitutional) proportionality exercise should be utilised so as to force the legislator to always clearly and empirically soundly establish grounds and effects for all their IP policies. Discussion and persuasion of this kind should be happening in the political, not judicial arena. However, as will be shown, this (rightly) reserved and political-consensus-oriented approach that is followed in cases of possible over-protection by IP rights, is not necessarily always followed in those of possible under-protection.

One of the first cases in which the Court heavily relied on fundamental rights as a device of moderation was the landmark *Promusicae* case.<sup>51</sup> In this case, the Court had to consider the disclosure by an internet access provider of the identity of users linked to a specific dynamic IP address that was found to infringe copyright. The Court, interpreting the data protection framework, arrived at the conclusion that such

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<sup>45</sup> Ibid, para 25 (emphasis added).

<sup>46</sup> Ibid, para 32.

<sup>47</sup> Ibid, para 26.

<sup>48</sup> Ibid, paras 26, 28.

<sup>49</sup> Another attempt of this kind was the case *Kingdom of the Netherlands v European Parliament and Council of the European Union*, C-377/98, EU:C:2001:523 (the Court was asked to review compatibility of the Directive 98/44 on the legal protection of biotechnological with the fundamental right to human dignity and integrity. The Court, however, responded by saying that: 'Reliance on this fundamental right is, however, clearly misplaced as against a directive which concerns only the grant of patents and whose scope does not therefore extend to activities before and after that grant, whether they involve research or the use of the patented products' (para 79)).

<sup>50</sup> Mylly argues that Court accepts all choices by EU legislator, see Mylly, note 8 above, pp 107, 112.

<sup>51</sup> *Promusicae*, C-275/06, EU:C:2008:54.

a disclosure may be justified as it may fall within the derogation for ‘the protection of the rights and freedoms of others’.<sup>52</sup> It is the choice of the Member States whether they take advantage of this; they do not have to. Therefore, despite the fact that a right to third-party information is mandatory and aims to disclose ‘the identity of any third parties involved in the infringement’, the Court held that the remedy does not harmonise situations in which personal data is the subject of such requests.<sup>53</sup> As a consequence, it is up to Member States whether they extend the right to cover personal data; the absence of relief does not breach Union law.

However, the Court also held that if the Member State decides to extend the right to third-party information to cover personal data, it has to assure, as a matter of Union law, that the disclosure allows a fair balance to be struck between the various fundamental rights. This is a result of application of an obligation to protect privacy and data protection of concerned individuals. The Court has explained this holding as follows:

*the Member States must, when transposing the directives mentioned above, take care to rely on an interpretation of the directives which allows a fair balance to be struck between the various fundamental rights protected by the Community legal order. Further, when implementing the measures transposing those directives, the authorities and courts of the Member States must not only interpret their national law in a manner consistent with those directives but also make sure that they do not rely on an interpretation of them which would be in conflict with those fundamental rights or with the other general principles of Community law, such as the principle of proportionality.*<sup>54</sup>

In other words, Union law does not mandate such a disclosure mechanism, but conditionally permits it, provided the proportionate protection of fundamental rights is respected. This decision was issued before the Lisbon Treaty entered into force. The Court based this opinion on ‘fundamental rights or with the other general principles of Community law, such as the principle of proportionality’. It basically relied on its *ERT*-doctrine of fundamental rights review in the context of derogations from Union law.<sup>55</sup> Surprisingly, in *Promusicae*, the Court did not emphasise its earlier holding that the Member States enjoy wide margin of appreciation when carrying out such balancing.<sup>56</sup> Today, the balancing exercise would be resolved

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<sup>52</sup> Directive 2002/58/EC of the European Parliament and of the Council of 12 July 2002 concerning the processing of personal data and the protection of privacy in the electronic communications sector [2002] OJ L 201; Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data [1995] OJ L 281. The Court came to this conclusion by reading Art 15(1) of the Directive 2002/58/EC together with Art 13(1)(g) of the Directive 95/46/EC. The Advocate General was, however, of a different opinion, rejecting the applicability of Art 13(1)(g); see Opinion of Advocate General Kokott in *Promusicae*, note 51 above, paras 85–89.

<sup>53</sup> *Ibid*, Rec 21.

<sup>54</sup> See note 51 above, para 68 (emphasis added).

<sup>55</sup> *ERT*, C-260/89, EU:C:1991:254.

<sup>56</sup> *Schmidberger*, C-112/00, EU:C:2003:333, paras 82, 89: ‘The competent authorities enjoy a wide margin of discretion in that regard.’

explicitly with a reference to Article 51(1) of the EU Charter.<sup>57</sup> In fact as will be shown, very recently, when the Court was faced with the same question in a context of disclosure from banks in the post-Lisbon setting, the Court suddenly went a step beyond this case law toward ever more harmonisation.

After *Promusicae*, the proportionality exercise grew into a firm part of the IP case law. The ‘balancing’ holding of *Promusicae* became widely cited, especially in copyright law. The balancing exercise was mostly advanced by the *Bonnier Audio*, *Sabam* and *UPC Telekabel Wien* decisions.<sup>58</sup> Unlike regular constitutional conflicts, IP disputes which reach the Court of Justice of the European Union are usually horizontal and require the balancing of more than two conflicting rights. A typical example of this is the *UPC Telekabel* case, where the Court had to consider a certain type of website blocking injunctions and its permissibility.<sup>59</sup> Despite the fact that the parties were only a rights-holder and an internet access provider, the Court also heavily considered the interests of affected users or owners of the blocked websites. It even went so far as to condition the grant of such blocking on the availability of an *ex-post* instrument to counter-balance the potential risk of constitutionally unacceptable over-blocking carried out by individuals.<sup>60</sup>

In recent years, the importance of fundamental rights and their balancing has also grown in the context of interpretation of secondary Union legislation. A typical example of this trend is *Deckmyn* case, where the Court held that interpretation of a copyright exception for parody has to be interpreted in the light of freedom of expression.<sup>61</sup> Although the pro-speech effects of the judgment seem to be disputed among scholars, it is undeniable that IP is opening itself up to external review by fundamental rights.<sup>62</sup> This trend, which wasn’t so obvious only a few years ago, is well demonstrated by a recently adopted Trade Secrets Directive which prevents any conflict with freedom of expression by legislating a broadly-worded exception covering acts ‘for exercising the right to freedom of expression and information as set out in the Charter, including respect for the freedom and pluralism of the media’.<sup>63</sup>

<sup>57</sup> See Opinion of Advocate General Saugmandsgaard Øe in *Tele2 Sverige AB*, C-203/15 and C-698/15, EU:C:2016:572.

<sup>58</sup> *Bonnier Audio*, C-461/10, EU:C:2012:219; *Scarlet Extended*, C-70/10, EU:C:2011:771; *UPC Telekabel Wien*, C-314/12, EU:C:2014:192.

<sup>59</sup> M Husovec, ‘CJEU Allowed Website Blocking Injunctions With Some Reservations’ (2014) 9 (8) *Journal of Intellectual Property Law and Practice* 631.

<sup>60</sup> See also M Husovec and M Peguera, ‘Much Ado About Little – Privately Litigated Disconnecting Injunctions’ (2015) 46(1) *The International Review of Intellectual Property and Competition Law* 10.

<sup>61</sup> *Deckmyn and Vrijheidsfonds*, C-201/13, EU:C:2014:2132, paras 27, 34.

<sup>62</sup> See Mylly, note 8 above, p 126: ‘far from being champions of freedom of expression’ vs D Voorhoof, ‘Freedom of Expression and the Right to Information: Implications for Copyright’ in C Geiger (ed), *Research Handbook on Human Rights and Intellectual Property* (Edward Elgar, 2015), p 346: ‘wide and flexible parody concept’.

<sup>63</sup> C Geiger, ‘“Constitutionalising” Intellectual Property Law? The Influence of Fundamental Rights on Intellectual Property in the European Union’ (2006) 37 *International Review of Intellectual Property and Competition Law* 371. Art 5 Directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful

The constitutional proportionality exercise is thus completely embedded in the basic legislative framework by means of an open-ended clause. Needless to say that many EU copyright scholars have been dreaming of such an open clause for years.

Apart from the situations of balancing of two or more conflicting rights, some rulings involved a situation of balancing an IP right – as a fundamental right – with a public interest. The possible difference in balancing of such cases was already suggested by Advocate General Villalón.<sup>64</sup> An illustrative example is the *Painer* decision.<sup>65</sup> The Court had to consider whether the use of a picture of a missing person by a media outlet can be justified as royalty-free on the basis of a public security exemption. The Court held that it cannot, arguing that:

Article 5(3)(e) of Directive 2001/29, being a derogation from the general principle established by that directive, namely the requirement of authorisation from the copyright holder for any reproduction of a protected work, must, according to settled case-law, *be interpreted strictly ... newspaper publishers, cannot be allowed to confer on themselves the protection of public security.* Only States, whose competent authorities are provided with appropriate means and coordinated structures, can be regarded as appropriate and responsible for the fulfillment of that objective of general interest by appropriate measures including, for example, assistance with a search appeal. *Such a publisher cannot, therefore, of its own volition, use a work protected by copyright by invoking an objective of public security.*<sup>66</sup>

It is worth noting that the requirement for strict interpretation of exceptions seems to have been reconsidered in the *FAPL* and *Deckmyn* cases, which rather gave precedence to a goal-oriented (teleological) interpretation.<sup>67</sup> It remains to be seen, however, whether the Court carries on with this case law in situations of conflict with a pure public interest, as opposed to other fundamental rights.

To summarise, in the practice of the Court, horizontal conflicts between rights of individuals dominate. Apart from conflicts of IP with the public interest, where the Court's *Painer* ruling still demands restrictive interpretation, the Court has increasingly adopted a more flexible approach to interpretation where no value has precedence. Most of the recent fundamental rights case law has centered on the issue of granting remedies (*Sabam*, *Scarlet Extended*, *UPC Telekabel*). This is because remedies are usually flexible enough to avoid an open conflict. Sometimes, however, this conceals the true conflict that lies elsewhere, as will be elaborated later. Of the mentioned cases, only the *Deckmyn* case tried to interpret the scope of limitations and exceptions in the light of fundamental rights.

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(Footnote continued)

acquisition, use and disclosure, 2013/0402 (COD) 26 April 2016 <http://data.consilium.europa.eu/doc/document/PE-76-2015-INIT/en/pdf>

<sup>64</sup> Opinion of Advocate General Villalón in *Coty Germany*, C-580/13, EU:C:2015:243, para 32.

<sup>65</sup> *Painer*, C-145/10, EU:C:2013:138.

<sup>66</sup> *Ibid*, paras 109–112 (emphasis added).

<sup>67</sup> *Deckmyn and Vrijheidsfonds*, C-201/13, EU:C:2014:2132, para 27; *Football Association Premier League and Others*, C-403/08, EU:C:2011:631, para 163.

Owing to the Court's reference to the social function of IP, it seems clear that the Court is already willing to interpret the entire body of IP law in the light of other fundamental rights.<sup>68</sup> The multi-layered construction of IP law allows balancing of the individual cases of constitutional unreasonableness on its several levels: (1) enforcement; (2) exceptions and limitations; (3) scope; and (4) the actual subject matter.<sup>69</sup> In the future, there will sometimes be a need to review the very scope of IP rights in the light of fundamental rights, in the same way that the Court reviewed them from the perspective of market freedoms. In some situations, the very subject matter of IP law could be reviewed as a potentially far-reaching limitation on citizens' freedoms. Newly considered IP rights for publishers over very small parts of text seem like an apt candidate.

#### IV. COURTS AS 'NEGATIVE' LEGISLATORS

Whenever the Court of Justice has to declare the incompatibility of a national or Union provision directly with the free movement provisions or fundamental rights because the conflict cannot be reconciled by interpretation, the Court acts as a negative legislator.<sup>70</sup> Based on the primary law, it sets negative boundaries to the legislative activity, which cannot be overstepped. As the incompatibility concerns primary law, any incompatibility introduces a strong inflexibility – an outer limit – for a legislator, be it that of the Union or of the Member State. Compared to moderation, where competing values only guide the interpretation of existing law, these cases literally spell out the (EU primary) law and thus should be approached with higher caution. In the current set-up, this can occur in two situations, the Court: (1) proclaims a national provision incompatible; or (2) directly invalidates a provision of the secondary Union law, typically on a request based on Article 267 TFEU.<sup>71</sup> Both of these situations occur in the IP case law.

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<sup>68</sup> See Mylly, note 8 above.

<sup>69</sup> See to this end the Decision of the Constitutional Court (Ústavný súd SR); 30 September 2014 – Case No II, ÚS 647/2014 (reported in IIC 2015, 729): 'An interference is of a different systematic intensity if it occurs "only" by the situational grant of constitutionally non-conforming remedies than in the case of repeated grant of protection in the subject, which constitutionally unacceptably limits the freedom of expression in every circumstance. A multi-layered construction of copyright law suitably allows balancing of the individual cases of constitutional unreasonableness on its several levels.'

<sup>70</sup> Hans Kelsen famously described constitutional courts as 'negative legislators' when referring to their power to annul acts of the legislature (H Kelsen, *General Theory of Law and State* (HUP, 1945), pp 268–269). The notion of the Court as negative legislator, as used in this paper, thus refers to its role of abstract review which allows to pronounce incompatibility of the legal instruments and thus contributes to formation of law by specifying its limits that cannot be overcome without changing the underlying rules – here primary law.

<sup>71</sup> An interesting, but unsuccessful attempt to strike down Union laws based on free movement of goods was made in the previously mentioned *Metronome* case (see note 9 above), but a similar attempt was also made *Laserdisken* case (see note 15 above).

### A. Free movement

Arguably the first IP cases where the Court acted as a negative legislator were those of parallel imports. The gist of the problem was the inherent conflict between a right holder's right to prohibit import of goods and thus organise trade according to national markets on one hand, and the principle of free movement of goods irrespective of borders on the other. The Court has resolved it in *Deutsche Grammophon* by concluding that:

*It would be in conflict with the provisions prescribing the free movement of products within the common market for a manufacturer of sound recordings to exercise the exclusive right to distribute the protected articles, conferred upon him by the legislation of a Member State, in such a way as to prohibit sale in the state of products placed on the market by him or with his consent in another Member State solely because such distribution did not occur within the territory of the first Member State.*<sup>72</sup>

This holding was then subject to numerous clarifications and further alterations.<sup>73</sup> When the individual IPR were then harmonised, the Union incorporated this principle of so called 'EU exhaustion' directly into the respective secondary Union law. The outcome of the cases, however, is here to stay. It is an expression of the Court's interpretation of the primary law. The provision thus has now a strength of primary law and cannot be easily 'legislated away' because it is engraved at a higher policy level.

With increasing harmonisation of IP through secondary Union law, the Court also became more critical of national deviations from already harmonised standards.<sup>74</sup> Even in the context of minimal harmonisation, the Court did not shy away from pronouncing national deviations as incompatible with the principle of free movement.<sup>75</sup> In the field of IP, such cases are still rare however.<sup>76</sup> In *Peek & Cloppenburg* the Court decided on a narrower interpretation of a (Union-based) right of distribution, arguing that its broader construction would be incompatible with the principle of free movement. Implicitly, the Court thus also rejected the possibility for a national law to deviate by providing more protection to copyright holders.<sup>77</sup>

<sup>72</sup> *Deutsche Grammophon*, 78/70, EU:C:1971:59, para 13 (emphasis added).

<sup>73</sup> *Ibid*; *SA CNL-SUCAL NV v HAG GF AG*, C-10/89, EU:C:1990:359; *Centrafarm BV and Adriaan de Peijper v Sterling Drug Inc*, 15/74, EU:C:1974:114; *Musik-Vertrieb Membrane*, 57/80, EU:C:1981:10; *Pharmon BV v Hoechst AG*, 19/84, EU:C:1985:304; *Merck*, 187/80, EU:C:1981:180; *Generics BV v Smith Kline & French Laboratories Ltd*, C-316/95, EU:C:1997:347; *Parke, Davis and Co v Probel*, 24/67, EU:C:1968:11; *Sirena Srl v Eda Srl and others*, 40/70, EU:C:1971:18; *Laserdisken*, C-479/04, EU:C:2006:549; *Hoffmann-La Roche & Co AG v Centrafarm*, 102/77, EU:C:1978:108; *Loendersloot v Ballantine & Son and Others*, C-349/95, EU:C:1997:530.

<sup>74</sup> Also W Sauter, 'Proportionality in EU Law: A Balancing Act?' (2013) 15 *Cambridge Yearbook of European Legal Studies* 439 (noting that: 'An example is where the Member States invoke national public policy exceptions to principles of EU law such as the market freedoms. The degree to which this is possible depends inter alia on the degree of harmonisation that has been achieved.')

<sup>75</sup> *Verband Sozialer Wettbewerb eV v Clinique Laboratoires*, C-315/92, EU:C:1994:34.

<sup>76</sup> An old attempt of this was *BV Industrie Diensten Groep v JA Beele Handelmaatschappij*, 6/81, EU:C:1982:72.

<sup>77</sup> *Peek & Cloppenburg*, C-456/06, EU:C:2008:232, para 38 read together with Opinion of Advocate General Sharpston in *Peek & Cloppenburg*, C-456/06, EU:C:2008:21, paras 53, 54.

Another example of this kind is arguably a recent hyperlinking saga.<sup>78</sup> The Court was asked to rule when setting a simple hyperlink can lead to a use of a work in the meaning of copyright law. In *Svensson*, the Swedish court enquired whether Swedish law could potentially provide more protection to a copyright owner and thus prohibit hyperlinking even in cases not covered by the EU harmonisation. Without much explanation, the Court held the following:

Article 3(1) of Directive 2001/29 must be interpreted as *precluding a Member State from giving wider protection* to copyright holders by laying down that the concept of communication to the public includes a wider range of activities than those referred to in that provision.<sup>79</sup>

One can argue that since the incompatibility is articulated with reference to a provision of secondary Union law, the principle of free movement has not really played a role. However, the decision is hardly convincing from the perspective of the secondary Union law. Directive 2001/29 is an incomplete harmonisation of exclusive rights and thus it is difficult to see why the Member States could not deviate even from an autonomous concept of the EU law by simply offering more rights to right holders.<sup>80</sup> The only way the outcome of the case can be persuasively explained is by reference to the principle of free movement. One could argue that despite incomplete harmonisation, the Union legislator has stepped down to regulate the area of certain exploitative uses of a work, eg communication at distance. Thus any additional national interventions in the same area will be often disproportionate limitations with the principle of free movement. Despite the absence of any reference to market freedoms, this reading is supported by the broad statement that the Court made when concluding its analysis:

if the Member States were to be afforded the possibility of laying down that the concept of communication to the public includes a wider range of activities than those referred to in Article 3(1) of the directive, *the functioning of the internal market would be bound to be adversely affected*. ... Since the objective of Directive 2001/29 would inevitably be undermined if the concept of communication to the public were construed as including a wider range of activities than those referred to in Article 3(1) of that directive, a Member State must refrain from exercising the right granted to it by Article 20 of the Berne Convention.<sup>81</sup>

In one of the most recent decisions, *FAPL*, the Court reviewed national legislation granting some form of protection to organisers of sports events.<sup>82</sup> Despite the lack of any Union harmonisation, the Court opined that ‘it is permissible for a Member State

<sup>78</sup> *Svensson and Others*, C-466/12, EU:C:2014:76; *BestWater*, C-348/13 EU:C:2014:2315; *GS Media*, C-160/15, pending.

<sup>79</sup> *Svensson and Others*, C-466/12, EU:C:2014:76 (emphasis added).

<sup>80</sup> See Recs 30, 32 of Directive 2001/29; M van Eechoud and others, *Harmonizing European Copyright Law: The Challenges of Better Lawmaking* (Wolters Kluwer, 2009) p 94: ‘the *acquis* has left a number of important exclusive rights fully or partly unharmonized.’

<sup>81</sup> *Svensson and Others*, C-466/12, EU:C:2014:76, para 36, 40 (emphasis added).

<sup>82</sup> *Football Association Premier League and Others*, C-403/08, EU:C:2011:631.

to protect sporting events, where appropriate by virtue of protection of intellectual property, by putting in place specific national legislation'.<sup>83</sup> However, 'it is also necessary that such a restriction does not go beyond what is necessary in order to attain the objective of protecting the intellectual property at issue'.<sup>84</sup> The Court then referred to its *Deutsche Grammophon* mantra, namely that 'derogations from the principle of free movement can be allowed only to the extent to which they are justified for the purpose of safeguarding the rights which constitute the specific subject-matter of the intellectual property concerned'.<sup>85</sup> After this the Court stipulated that this specific subject matter 'does not guarantee the right holders concerned the opportunity to demand the highest possible remuneration'.<sup>86</sup> Any 'such remuneration must be reasonable in relation to the economic value of the service provided', in particular, 'it must be reasonable in relation to the actual or potential number of persons who enjoy or wish to enjoy the service'.<sup>87</sup> On this point, the case law curiously converges with EU competition law.<sup>88</sup>

The Court argued that even without territorial exclusivity, the holders of such protection can charge based on the actual size of the audience with a high degree of precision.<sup>89</sup> As the Court noted, it cannot be ruled out that the amount of the appropriate remuneration also reflects the particular character of the broadcasts concerned, that is to say, their territorial exclusivity, so that a premium may be paid on that basis.<sup>90</sup> However, here such a premium is paid to the rights holders in order to guarantee absolute territorial exclusivity, which is such as to result in artificial price differences between the partitioned national markets.<sup>91</sup> Therefore,

Such partitioning and such an artificial price difference to which it gives rise are irreconcilable with the fundamental aim of the Treaty, which is completion of the internal market. In those circumstances, *that premium cannot be regarded as forming part of the appropriate remuneration which the right holders concerned must be ensured*. Consequently, the payment of such a premium *goes beyond what is necessary to ensure appropriate remuneration for those right holders*.<sup>92</sup>

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<sup>83</sup> Ibid, para 102.

<sup>84</sup> Ibid, para 105.

<sup>85</sup> Ibid, para 106.

<sup>86</sup> Ibid, para 108.

<sup>87</sup> Ibid, para 109.

<sup>88</sup> *Football Association Premier League and Others*, note 82 above, para 109: 'remuneration must be reasonable in relation to the economic value of the service provided. In particular, it must be reasonable in relation to the actual or potential number of persons who enjoy or wish to enjoy the service'. The convergence is curious because the goals of two policies are very different. While market integration is a main policy goal of free movement provisions, it is only one of the adjunct goals of EU competition law which tries to curb abusive market behavior. It would be expected that standards of acceptable return on investment are stricter for the former and more permissive in the context of the latter.

<sup>89</sup> See note 82 above, para 113

<sup>90</sup> Ibid, para 114.

<sup>91</sup> Ibid, para 114.

<sup>92</sup> Ibid, paras 114–116 (emphasis added).

The proportionality of contractually-organised exclusivity was thus dismissed. Even the Court admits, however, that such a conclusion, compared to its previous case law, is made possible only because of certain developments in Union legislation as well as the nature of satellite broadcasting which allows the precise measuring of audience and thus also an adjustment of fair remuneration.<sup>93</sup> This shows that even a higher policy level is, at least partially, defined through a lower policy level.

To summarise, ever since the *Deutsche Grammophon* decision the Court does not shy away from questioning the mandated breadth of IPR. Their legislated scope is never treated as given and the Court is willing to deny outright certain exploitation of rights, for the benefit of the internal market and its citizens. The Court implements an approach where the core of such rights is seen as generally justified as long as it is necessary, while other rights are subject to enquiry that takes into account developments in technology and conditions on the market. As soon as the presence of harmonisation measures of the EU legislator grow in the area, the Court tightens its review of national measures, but at the same time loosens that of the Union measures.

### B. Fundamental rights

A special set of cases where the Court plays a role of a negative legislator are scenarios involving the non-discrimination principle; now enshrined in Article 21(2) of the Charter. The Court has used this principle in numerous cases to ‘fill in’ the gaps in international IP law which still allow for certain types of discrimination based on nationality. In *Phil Collins and Tod’s and Tod’s France*, the Court proclaimed that different treatment for the purposes of a grant of the rights among the Member States is against the primary law.<sup>94</sup> In negative fashion, it has thus ‘upgraded’ the Berne Convention, at least in situations between the EU Member States. In *Ricordi*, the Court concluded that the same provision precludes the term of protection granted by the legislation of a Member State to the works of an author who is a national of another Member State being shorter than the term granted to the works of its own nationals.<sup>95</sup> Again, this meant upgrading the copyright standards of the Member States.

While in most of the cases the fundamental rights served as an external check on over-enforcement or over-expansive interpretation of IP rights, the balancing exercise can also have exactly opposite function. The best example of this is a recent case: *Coty Germany*.<sup>96</sup> The situation in this case was very similar to that in *Promusicae*, the only differences being that: (1) the identity disclosure was demanded from a bank; (2) the case involved an instance of a trademark infringement; and (3) the EU Charter was already legally binding. The German Federal Supreme Court asked the Court of Justice whether a national provision which

<sup>93</sup> *Ibid*, paras 118–121.

<sup>94</sup> *Collins and Patricia Im- und Export v Intrat and EMI Electrola*, C-92/92, EU:C:1993:847; *Tod’s and Tod’s France*, C-28/04, EU:C:2005:418.

<sup>95</sup> *Ricordi*, C-360/00, EU:C:2002:346.

<sup>96</sup> *Coty Germany*, C-580/13, EU:C:2015:485.

generally prohibits such disclosure between individuals is compatible with the Enforcement Directive. If the Court had followed its *Promusicae* ruling, it would have simply answered that there is no obligation to introduce such a remedy covering personal data, but if it is introduced, it has to be proportionate. The Court, however, very importantly changed its course. Instead, it ruled that:

The right to information which is intended to benefit the applicant in the context of proceedings concerning an infringement of his right to property thus seeks, in the field concerned, to apply and implement the fundamental right to an effective remedy guaranteed in Article 47 of the Charter, and thereby to ensure the effective exercise of the fundamental right to property, which includes the IPR protected in Article 17(2) of the Charter. (38) ... *such a provision of national law, taken in isolation, is liable to frustrate the right to information* recognised in Article 8(1) of Directive 2004/48 and is therefore, as follows from paragraph 29 of the present judgment, *such as to infringe the fundamental right to an effective remedy and the fundamental right to intellectual property*<sup>97</sup>

This means that the Court went a step further. Before, the common ground was that the Court already held that EU law ‘does not require the Member States to lay down an obligation to communicate personal data in order to ensure effective protection’ of IPR in the context of civil proceedings.<sup>98</sup> After *Coty Germany*, such an obligation exists and so it is no longer an option for a Member State to institute such a remedy, as its unavailability can infringe the fundamental right to an effective remedy and the fundamental right to IP. This seems to be effectively pushing existing case law by recognising a positive obligation to introduce a specific remedy covering situations that are subject to its derogation. A remedy that neither forms a part of the international standard set by the TRIPS Agreement, nor is present in the domestic laws of all the Member States.<sup>99</sup>

The doctrine of positive obligations was first developed by the ECtHR in *Marckx v Belgium* back in 1979.<sup>100</sup> Its starting point is that the states are accountable for ensuring that fundamental rights are respected among private individuals. For these purposes, they underlie a positive obligation to create favourable environment which

<sup>97</sup> Ibid, para 29 and 38 (emphasis added).

<sup>98</sup> Opinion of Advocate General Villalon in *ACI Adam*, C-435/12, EU:C:2014:254, para 73.

<sup>99</sup> See note 51 above, para 60: ‘As to Articles 41, 42 and 47 of the TRIPs Agreement, relied on by *Promusicae*, in the light of which Community law must as far as possible be interpreted where – as in the case of the provisions relied on in the context of the present reference for a preliminary ruling – it regulates a field to which that agreement applies ... while they require the effective protection of intellectual property rights and the institution of judicial remedies for their enforcement, they do not contain provisions which require those directives to be interpreted as compelling the Member States to lay down an obligation to communicate personal data in the context of civil proceedings.’ See eg *Rechtbank Amsterdam* [2013] *Brein v ING* C/13/539327, NL:RBAMS:2013:CA0350 (denying the disclosure).

<sup>100</sup> *Schüth v Germany* (Application no 1620/03) (2010), 52 EHRR 32, para 55; *Marckx v Belgium* (Application no 6833/74) (1979), 2 EHRR 330, para 31; *Airey v Ireland* (Application no 6290/73) (1979) 2 EHRR 305, para 32.

respects the fundamental rights.<sup>101</sup> If necessary, therefore, they have to legislate or otherwise act where they did not until now. As explained recently by the European Court of Human Rights in *Schüth v Germany*:

although the object of Article 8 is essentially that of protecting the individual against arbitrary interference by the public authorities, it does not merely compel the State to abstain from such interference: in addition to this primarily negative undertaking, there may be positive obligations inherent in an effective respect for private life. *These obligations may involve the adoption of measures designed to secure respect for private life even in the sphere of the relations of individuals between themselves.*<sup>102</sup>

The Court of Justice, on the other hand, at least until *Coty Germany*, appears to have recognised presence of such obligations only in the context of free movement.<sup>103</sup> In *Commission v France*, the Court held France accountable for allowing its farmers to run amok and thereby obstructing the free movement of Spanish strawberries.<sup>104</sup> France was found to be in violation of the free movement provisions for manifestly and persistently abstaining to adopt adequate measures. The Court held that:

Article 30 therefore requires the Member States not merely themselves to abstain from adopting measures or engaging in conduct liable to constitute an obstacle to trade but also, when read with Article 5 of the Treaty, *to take all necessary and appropriate measures to ensure that that fundamental freedom is respected on their territory.*<sup>105</sup>

*Coty Germany* can be read as a first step towards the EU's own development of positive obligations in the context of fundamental rights. Some commentators have already signaled that had the Court answered *Promusicae* differently, it would have had inevitably recognised such a positive obligation.<sup>106</sup> *Coty Germany* does exactly that, although the Court most likely wasn't aware of these consequences. There is a similarly strong statement of a positive obligation of information disclosure against a third party as the European Court of Human Rights' decision in *KU v Finland*.<sup>107</sup>

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<sup>101</sup> For an overview of the case law of the Court see J Akandji-Kombe, *Positive Obligations under the European Convention on Human Rights* (Directorate General of Human Rights, Council of Europe, 2007) <https://rm.coe.int/CoERMPublicCommonSearchServices/DisplayDCTMContent?documentId=090000168007ff4d>

<sup>102</sup> See note 100, para 55 (emphasis added).

<sup>103</sup> O Cherednychenko and N Reich, 'The Constitutionalization of European Private Law: Gateways, Constraints, and Challenges' (2015) 5 *European Review of Private Law* 797, p 818: 'No such 'independent' positive obligations, however, have been accepted by the Court in relation to EU fundamental rights.'

<sup>104</sup> *Commission of the European Communities v French Republic*, C-265/95, EU:C:1997:595.

<sup>105</sup> *Ibid*, para 32 (emphasis added).

<sup>106</sup> Cherednychenko and Reich, see note 103 above, p 820: 'Answering this question in the affirmative would effectively amount to the imposition on the Member States of a positive obligation to respect the EU fundamental rights in question within the scope of the above-mentioned directives.'

<sup>107</sup> *KU v Finland* (Application no 2872/02) (2009) 48 EHRR 52 (recognising a positive obligation of a state to introduce some form of information disclosure against internet access providers).

The recognised obligation not only binds the Member States, but also the Union legislator who arguably cannot update the framework by simply abolishing such a remedy, owing to the (constitutional) positive obligation that underlies it. It is clear that such an outcome petrifies the legislative framework and represents a concealed form of harmonisation via fundamental rights. Moreover, it is also against the Court's rightly conservative course in the context of free movement and its earlier approach. It will be recalled that in *Metronome*, the Court was not willing to question the political consensus on the basis of fundamental rights in order to abridge the protection, while here the Court goes head-on against its earlier case law and any political declarations in order to expand it.

The problematic point of *Coty Germany* is not its recognition of positive obligations, but its reading of Article 17(2) of the EU Charter. The doctrine of positive obligations, as such, is a step that should be generally welcomed. As will be shown, the IP law itself can strongly benefit from it. This is because fundamental rights can not only increase, but also counter-balance protection afforded to rights holders. Until now, most of the cases that could head in this direction have been enforcement cases, where the framework is flexible enough to accommodate any outcome of a balancing exercise. This is also why many recent cases, instead of questioning the proportionality of IP legislation, rather focused on questioning only the proportionality of its application. A great illustration of this problem is a recent Dutch case of Anne Frank's diary where a research institution was sued for copyright infringement.<sup>108</sup> The Court concluded that data mining for the purposes of historical research does not have a corresponding exception in the Dutch Copyright law, so it is technically an infringement. However, it refused to enforce the remedies requested, arguing that they disproportionately limit freedom of scientific research. This naturally conceals the problem which lies at the heart of copyright law's design. Namely, insufficiently broad exceptions and limitations.<sup>109</sup>

The tide might be turning on the national level, however. Recently, the German Constitutional Court (BVerfG) quashed a German Federal Supreme Court (BGH) ruling involving the practice of sampling.<sup>110</sup> In its decision, the BGH found that sampling of two seconds of a phonogram infringes upon the rights of phonogram producers and cannot be justified by any exception or limitation. The Constitutional Court was of a different opinion. It decided that such an outcome is incompatible with artistic freedom as it disproportionately limits it and thus returned the case for re-assessment to the Supreme Court (BGH). At the same time, the Court instructed the BGH to first ascertain to what extent the Union law requires such an outcome,

<sup>108</sup> Decision of Rechtbank Amsterdam [2015] C/13/583257, NL:RBAMS:2015:9312. See also M Caspers, 'The role of Anne Frank's diary and academic freedom for text & data mining' (*Kluwer Copyright Blog*, 20 January 2016) <http://kluwercopyrightblog.com/2016/01/20/the-role-of-anne-franks-diary-and-academic-freedom-for-text-data-mining/>

<sup>109</sup> To this end see generally B Hugenholtz and M Sentleben, 'Fair Use in Europe: In Search of Flexibilities' (November 14 2011) <http://ssrn.com/abstract=1959554>; E Rosati, 'Copyright in the EU: In Search of (In)Flexibilities' (2014) 9 (7) *Journal of Intellectual Property Law & Practice* 585.

<sup>110</sup> BVerfG [2016] *Metall auf Metall* 1 BvR 1585/13, DE:BVerfG:2016:rs20160531.1bvr158513.

and if necessary, to file for a preliminary reference on either interpretation or validity of the provisions of the relevant directive. The Union context of this case is very important. As in the Anne Frank case, the relevant legislation in this case is Directive 2001/29 which provides an exhaustive list of exceptions and limitations. It is expected that the BGH will file a preliminary reference, demanding at least an interpretation to ascertain if sampling, as an activity protected by Article 13 of the EU Charter – freedom of the arts and sciences – can be permitted for instance as a form of citation. Otherwise, an open conflict between two courts – the Court of Justice and BVerfG – could arise.

And here is where the positive obligations can become very relevant. Yet another interesting outcome of such a preliminary reference could be that although a citation exception enshrined in Article 5(3) of the Directive 2001/29 is currently only an option for the Member States, the Court of Justice could potentially recognise it as obligatory in nature even with autonomously broad scope.<sup>111</sup> The obligatory nature would follow not from the directive, but be mandated by its interpretation of a positive obligation surrounding the freedom of scientific research envisaged in Article 13 of the EU Charter. The same ‘mandatisation’ effect caused by interpretation in light of fundamental rights could potentially also arise in the context of other IPR, eg *sui generis* database protection. In consequence, this means that fundamental rights, in a negative fashion, could limit and narrow down the legislator’s IP policy-making space, be it one of the Union or of the Member States. Although so far mostly Article 17(2) of the EU Charter and the principle of non-discrimination have entertained the case law in this context, this could very soon expand to other fundamental rights.

Since in all these situations the Member States implement EU law, the Article 51 (1) of the EU Charter applies. Any possible conflicts with fundamental rights will always need to be tested against its provisions, and not merely against the national constitutions. The Charter, as a source of law, will therefore strongly guide many Member State courts in their interpretation of the secondary law. Possible differing levels of protection of fundamental rights at national and European level will sometimes need to be adjusted to the ‘Charter standards’, regardless of whether they must be lowered or increased for these purposes.<sup>112</sup> As indicated above, this could also mean that the disparities between the Member States caused by optional provisions (eg parody exception) or too generally worded provisions can be further constrained with the goal of safe-guarding effective protection of conflicting fundamental rights. This positive obligation would thus bind the Member States to introduce optional provisions, or direct their application towards a less fragmented legal landscape.

For instance, after the *Deckmyn* case one could argue that not only the parody exception has to be read in the light of freedom of expression, but also that a Member State’s copyright law without such an exception can infringe Article 11

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<sup>111</sup> It has to be noted, however, that quotation exception is mandatory under Art 10 of Berne Convention.

<sup>112</sup> See *Melloni*, C-399/11, EU:C:2013:107.

of the EU Charter. The Court did not have to address this point because Belgian copyright law included such an exception. In its decision, however, the Court only agrees with the Advocate General that the optional nature of a remedy does not mean that countries ‘are free to determine [its] limits’ referring to the goal of the Directive.<sup>113</sup> In other words, the Court is only saying that as long as the Member States implement such an exemption, they have to follow the autonomous concept. However, what happens if they don’t? The views of the Court and the Advocate General confirm that the provision helps to balance out copyright protection with freedom of expression. The Advocate General even states that: ‘In short, *provided that the parody does in fact satisfy the conditions referred to above*, an interpretation of the concept of parody by the civil court in the circumstances of the case *must*, as a matter of principle, *lead to favouring the exercise of freedom of expression by those specific means*.’<sup>114</sup> It is hard to see how the Court would hold otherwise if the question was whether national copyright law lacking such an exemption is compliant with Article 11 of the EU Charter. As a consequence, this could then basically mean that in some circumstances, positive obligations can mandate what is presented as a choice under the secondary law. Thus bringing the legal orders of the Member States again closer to each other; not thanks to positive harmonisation, but despite it.

## V. CONFLICT AS A PROMOTOR OF HARMONISATION?

Free movement’s proportionality review has the integration of the internal market in its DNA.<sup>115</sup> In this pro-harmonisation programme, IPR are usually reviewed as a potentially justifiable obstacle to free circulation of goods or services. Despite this, the Court has developed a careful approach of review. It examines whether a particular exclusive right is necessary for a specific subject matter of said right. While the Court tends to heavily rely on politically formulated justifications as to the foundational claims, it keeps an open mind with respect to their detailed execution and looks at markets and technological developments. Naturally, the Court seems less suspicious about Union developments than those occurring on the national front, since the former are understood as results of a wider political consensus. When the Union legislator intervenes in the area, the Court is less willing to tolerate national deviations from the union-prescribed ‘baseline’ protection, unless properly justified. This is part of a broader trend, of course. The degree of harmonisation is generally accepted as a crucial variable for standard of review.<sup>116</sup> The fact that the harmonisation is explicitly minimal or incomplete does not stop the Court.

<sup>113</sup> *Deckmyn and Vrijheidsfonds*, C-201/13, EU:C:2014:2132, para 16.

<sup>114</sup> Opinion of Advocate General in *Deckmyn and Vrijheidsfonds*, C-201/13, EU:C:2014:458, para 81 (emphasis added)

<sup>115</sup> It is generally established that proportionality serves as a tool of market integration; J Jans, ‘Proportionality revisited’ (2000) 27(3) *Legal Issues of Economic Integration* 239, p 243; T Tridimas, *The General Principles of EU Law*, 2nd ed (Oxford University Press, 2006), pp 193–194.

<sup>116</sup> W Sauter and H Schepel, *State and Market in European Union law: The Public and Private Spheres of the Internal Market Before the EU Courts* (Cambridge University Press, 2009), pp 182–186; D Chalmers et al, *European Union law*, 2nd ed (Cambridge University Press, 2010), pp 206–207.

The harmonisation, even if not directly touching the issue, thus generally narrows down a persuasive ‘argumentation space’ of the Member States within the ambits of Article 36 TFEU or of mandatory requirements.

Fundamental rights’ proportionality review should in theory be agnostic to internal market outcomes. IP scholarship successfully challenged this view some time ago, mostly referring to *Luksan* case.<sup>117</sup> As Griffiths put it, ‘the Court’s conclusions on the application of fundamental rights, including the right to property, have generally promoted an interpretation of the *acquis* that advances a harmonising agenda’.<sup>118</sup> Mylly, on the other hand, highlighted the Court’s approach of expanding the role of fundamental rights by potentially punishing non-compliance with the secondary law as an interference with Article 17(2).<sup>119</sup> Our discussion shows that *Coty Germany* made the Court’s pro-harmonisation agenda not only more visible. It arguably moreover advances a doctrine of positive obligations and opens new questions regarding the content of Article 17(2).

Before *Coty Germany*, the official report of the European Commission on the application of the Enforcement Directive, criticised privacy limits on the enforcement as too strict.<sup>120</sup> The EU Observatory’s study was even more explicit in formulating these concerns. It named the national data protection legislation as ‘a significant obstacle’ to effective enforcement of IP.<sup>121</sup> The obstacle, as was explained above, is now partially removed. Not by the legislator, but the Court itself by the stroke of a pen.

The surprising part of *Coty Germany* is not its application of the idea of positive obligations to effectively protect rights, although EU law experts might find the Court’s tight review surprising given its earlier doctrine.<sup>122</sup> It is arguably rather the contents that the Court ascribes to Article 17(2) of the EU Charter. As mentioned earlier, the scope and goal(s) of Article 17(2) still remain unclear.<sup>123</sup> However, under

<sup>117</sup> J Griffiths, ‘Constitutionalising or Harmonising? The Court of Justice, the Right to Property and European Copyright Law’ (2013) 38 *European Law Review* 65; see Mylly, note 8 above, p 118.

<sup>118</sup> See Griffiths, *ibid*.

<sup>119</sup> See Mylly at note 8 above, p 119.

<sup>120</sup> See Commission, ‘Commission Staff Working Document Analysis of the application of Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on the enforcement of intellectual property rights in the Member States Accompanying document to the Report from the Commission to the Council, the European Parliament and the European Social Committee on the application of Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on the enforcement of intellectual property rights’ COM(2010) 779 final, p 13.

<sup>121</sup> European Observatory on Counterfeiting and Piracy, ‘Injunctions in Intellectual Property Right’ [http://ec.europa.eu/internal\\_market/iprenforcement/docs/injunctions\\_en.pdf](http://ec.europa.eu/internal_market/iprenforcement/docs/injunctions_en.pdf) ‘Jurisprudence in the Member States illustrates the obstacles to obtaining injunctions against ISPs. In some Member States, national data-protection legislation is a significant obstacle, particularly for the initial evidence collection necessary to bring such litigation in the first place. The permissible scope of injunctions is also potentially affected by data protection and other rules, for example, with respect to the types of technical blocking that may be required under injunction.’ (emphasis added).

<sup>122</sup> *Schmidberger*, C-112/00, EU:C:2003:333, paras 82, 89: ‘The competent authorities enjoy a wide margin of discretion in that regard.’

<sup>123</sup> Geiger, see note 5 above; Griffiths and McDonagh, see note 5 above, p 76; A Peukert, ‘The fundamental right to (intellectual) property and the discretion of the legislature’ in Geiger (ed), see note 8 above.

Article 1 of the First Protocol, its model provision, only IP rights that qualify as ‘existing possessions’ are protected.<sup>124</sup> It does not protect the right to acquire property.<sup>125</sup> Harris and others have succinctly summarised this as follows:

The Convention protects an applicant’s existing possessions and assets against interference. *It is not a right to be put into the possession of things one does not already have*, however strong the individual’s interest in this happening may be.<sup>126</sup>

This means that while the provision undoubtedly finds its application in the case of abolishment, shortening or narrowing of the already promised protection by the legislator, it should have nothing to offer to individuals who seek protection but do not have it promised by the law. In other words, it forces the government to stick to its promises, but not to give new ones. This also seems to be the prevailing stance in the literature.

Most notably, Geiger says that the provision should be read as confirmation of the fact that IP is also protected under Article 17(1).<sup>127</sup> He argues that Article 17(2) should be ‘considered to be nothing more than simple clarification of Article 17(1) with consequence that there could be *absolutely no justification* to expand protection on this ground’.<sup>128</sup> According to Griffiths, ‘Art 17(2) will not, therefore support a claim to be entitled to intellectual property protection where none is currently enjoyed’, for example by providing protection to unprotected subject matters or by providing additional rights un-legislated exclusive rights.<sup>129</sup> In the context of enforcement, he specifically says that ‘it cannot reasonably be suggested that Art 17(2) requires the introduction of any specific form of enforcement mechanism’.<sup>130</sup> Farida Shaheed, UN Special Rapporteur in the field of cultural rights, while drawing analogy to the case law of the ECtHR recently, offered the following reading in two of her reports:

The right to property obliges States to respect the copyright laws that they have adopted. *It does not, however, mandate any particular approach to copyright policy*. States are free to adjust copyright rules through legal processes to promote the interests of authors, the right of everyone to take part in cultural life and other human rights such as the right to education.<sup>131</sup>

<sup>124</sup> *Marckx v Belgium* (Application no 6833/74)(1979) 2 EHRR 330, para 50.

<sup>125</sup> *Ibid.*

<sup>126</sup> D Harris et al, *Law of the European Convention on Human Rights*, 2nd ed (Oxford University Press, 2009), p 660 (emphasis added).

<sup>127</sup> C Geiger, ‘Reconceptualizing the Constitutional Dimension of Intellectual Property’ in PLC Torremans (ed), *Intellectual Property and Human Rights* (Kluwer Law International, 2015), p 115.

<sup>128</sup> Geiger, see note 12 above, p 679.

<sup>129</sup> Griffiths and McDonagh at note 5, p 70.

<sup>130</sup> *Ibid.*, p 72.

<sup>131</sup> F Shaheed, ‘Copyright policy and the right to science and culture’, Report of the Special Rapporteur in the field of cultural rights, A/HRC/28/57 [2015] [http://ap.ohchr.org/documents/dpage\\_e.aspx?si=A/HRC/28/57](http://ap.ohchr.org/documents/dpage_e.aspx?si=A/HRC/28/57)

The provisions on the right to property oblige States to comply with the patent rules that have been legally adopted, but do not mandate any particular approach to the design of patent laws and policy; neither do they provide guidelines regarding the form that the protection of intellectual property should take. Additionally, the right to property is subject to very far-reaching government power to regulate its use in line with its social function'.<sup>132</sup>

How to square these opinions with *Coty Germany*? The decision states that a national legislation in a situation subject to a derogation from the secondary EU law, imposes an obligation on a state to prescribe some form information disclosure against the banks. The interpretation of Article 17(2) seems to have substantially changed a generally-accepted interpretation of EU law on the matter. What are the consequences? Does this mean that Article 17(2) of the EU Charter does not only state that granted IPR are protected, within their promised scope, as a form of property, but also that the Union has some positive obligation to protect IP, even with particular remedies?

It should be remembered that international human rights law foresees already some positive guarantees for creators and inventors. Article 27 of the Universal Declaration of Human Rights states that: 'Everyone has the right to the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he is the author'. Similarly, Article 15(1) of the International Covenant on Economic, Social and Cultural Rights states that the states are obliged to 'recognize the right of everyone: (c) to benefit from the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he is the author'. According to Helfer, these obligations 'encompass *modest* economic exploitation and personality guarantees that, taken together, are more circumscribed than those imposed by intellectual property treaties.'<sup>133</sup> Also General Comment No 17 of the Committee on Economic, Social and Cultural Rights stresses that the scope of positive obligation under Article 15(1), 'need not necessarily reflect the level and means of protection found in present copyright, patent and other intellectual property regimes, as long as the protection available is suited to secure for authors the moral and material interests resulting from their productions'.<sup>134</sup> It is therefore even more baffling that the Court in *Coty Germany* imposes a positive obligation to legislate a specific remedy that does not even form a part of the international standard set by the TRIPS Agreement.<sup>135</sup>

<sup>132</sup> F Shaheed, 'Patent policy and the right to science and culture', Report of the Special Rapporteur in the field of cultural rights, A/70/279 [2015] [http://ap.ohchr.org/documents/dpage\\_e.aspx?si=A/70/279](http://ap.ohchr.org/documents/dpage_e.aspx?si=A/70/279) (emphasis added).

<sup>133</sup> L Helfer and G Austin, *Human Rights and Intellectual Property* (Cambridge University Press, 2011), p 513 (emphasis added).

<sup>134</sup> Committee on Economic, Social and Cultural Rights, General Comment No 17 (2005) 'The right of everyone to benefit from the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he or she is the author (article 15, paragraph 1 (c), of the Covenant)' <http://docstore.ohchr.org/SelfServices/FilesHandler.ashx?enc=4slQ6QSmlBEDzFEovLCuW1a0Szab0oXTdlmnsJZZVQcMZjyZlUmZS43h49u0CNAuJlJwgfzCL8JQ1SHY TZH6jsZteqZOpBtECZh96hyNh%2F%2FHW6g3fYyiDXsSgaAmIP%2BP>

<sup>135</sup> See note 51 above, para 60.

In general, there are two situations that might best test the boundaries of Article 17(2) and of its affirmative obligation: (1) the cases which attack the validity of secondary Union law on the basis of its incompatibility with an ‘IP-clause’ for reasons of under-protection; and (2) the cases which would expand IP rights beyond the existing framework due to considerations of under-protection. *Coty Germany* seems to be an instance of the latter and suggests that at least if IP rights are instituted, the Court is willing to afford them effective protection, even if that is not yet afforded by the legislation that is put in place. The reason seems to be that the Court is not only reading the content of Article 17(2) with ‘hindsight’ of the secondary law in the area, thus potentially punishing any non-compliance with IP directives as a violation of the EU Charter, as argued by Mylly, but because it also appears to be developing a string of positive obligations – institutional guarantees – surrounding it.<sup>136</sup>

The closest the Court approached the first constellation was in the much-discussed *Luksan* case.<sup>137</sup> In *Luksan*, the Austrian court inquired whether denying rights to a principal director of a film is compatible with the (secondary) European Union law. The Court recognised that the Berne Convention allows such derogation, but observed that since such derogation is not mandatory; the Member State has to refrain from using it if it turns out to be against the Union law.<sup>138</sup> The Court then found that such denial is against the (secondary) Union law. However, the legal basis of such incompatibility stayed very vague:

a legislative measure as described in paragraph 60 of the present judgment *does not prove compatible with the aim pursued by Directive 2001/29*. It is evident from recital 9 in the preamble to Directive 2001/29, a measure which governs, in particular, the reproduction right and the right of communication to the public, that *the European Union legislature, taking the view that copyright protection was crucial to intellectual creation, sought to guarantee authors a high level of protection*. Intellectual property was therefore recognised as an integral part of property. *Since the status of author has been accorded to the principal director of a cinematographic work, it would prove incompatible with the aim pursued by Directive 2001/29 to accept that that creator be denied the exploitation rights at issue*<sup>139</sup>

The Court then further supported this with Article 17 of the EU Charter eventually concluding that ‘the principal director of a cinematographic work *must* be regarded as having lawfully acquired, under European Union law, the right to own the intellectual property in that work.’<sup>140</sup> The Court found that the national provision was against the secondary Union law, even if on a very vague the grounds, and not against Article 17(2) *per se*.<sup>141</sup> Thus it does not serve as any proof of some ‘core’

<sup>136</sup> See Mylly, note 8 above, p 119.

<sup>137</sup> *Martin Luksan v Petrus van der*, C-277/10, EU:C:2012:65.

<sup>138</sup> *Ibid*, para 55.

<sup>139</sup> *Ibid*, paras 65–67 (emphasis added).

<sup>140</sup> *Ibid*, para 69 (emphasis added).

<sup>141</sup> Same opinion presented by H Grosse Ruse-Khan, ‘Overlaps and Conflict Norms in Human Rights Law: Approaches of European Courts To Address Intersections With Intellectual Property Rights’ in Geiger (ed), see note 8 above, p 78; Peukert, see note 123 above, p 134.

affirmative obligation to IP policy which would exist irrespective of the secondary law. Put differently, the Court could arrive at a different conclusion with respect to Article 17(2) had the Directive looked differently. However, the wording of argumentation used by the Court is certainly very suggestive, especially when read together with other parts of the decision:

such an interpretation, first, would not respect the competence of the European Union in the matter, second, would not be compatible with the aim pursued by Directive 2001/29 and, finally, *would not be consistent with the requirements flowing from Article 17(2) of the Charter of Fundamental Rights guaranteeing the protection of intellectual property*<sup>142</sup>

If the sense of positive obligation to protect IP is perceived strongly among the judges, fundamental rights can be easily used to uncontrollably expand protection. This course of action would be, however, highly problematic due to its consequences for innovation policy, which, instead of being flexible to reflect technological changes, would end up being heavily circumscribed by Article 17(2). It is therefore advisable that the Court rather returns to its own conservative approach present in the context of free movement. The Court should be in particular reminded of its own ruling in *Peek & Cloppenburg* where it held that:

That *protection can be achieved only within the framework put in place by the Community legislature. Therefore, it is not for the Court to create, for authors' benefit, new rights which have not been provided for by Directive 2001/29 and by so doing to widen the scope of the concept of distribution of the original of a work or a copy thereof beyond that envisaged by the Community legislature.*<sup>143</sup>

The free movement case law can be also of inspiration in yet another regard. As explained above, the Court tolerates obstacles to free movement imposed by IPR only 'to the extent to which they are justified for the purpose of safeguarding rights which constitute the specific subject-matter of such property'.<sup>144</sup> In particular, the Court has stressed that this specific subject matter 'does not guarantee the right holders concerned the opportunity to demand the highest possible remuneration'.<sup>145</sup> For instance, a right to organise distribution of goods according to national territories (*Deutsche Grammophon*) or a right to control exhibition of a reproduction of a work in a shop display window without making it available for use (*Peek & Cloppenburg*), weren't regarded as indispensable, because they don't form a core of a particular IP right. This guarantee of the core of IP subject matter that always survives untouched by a razor of free movement could be easily related to institutional guarantee of Article 17(2) of the EU Charter. One could argue that perhaps it is untouched precisely because of such institutional guarantee standing behind it. After all, interpretation of derogation envisaged in Article 36 TFEU has to respect

<sup>142</sup> Ibid, para 71 (emphasis added).

<sup>143</sup> *Peek & Cloppenburg*, C-456/06, EU:C:2008:232, para 38 (emphasis added).

<sup>144</sup> *Deutsche Grammophon*, 78/70, EU:C:1971:59, para 11

<sup>145</sup> See note 82 above, para 108.

fundamental rights, including guarantees imposed by Article 17(2). Also, any limitation on the exercise of the rights and freedoms recognised by the Charter must respect the essence of those rights and freedoms (Article 52(1) of the EU Charter).<sup>146</sup>

The constitutional traditions of several countries already limit the positive obligation to protect IP only to the core of such subject matter. German tradition, for instance, offers institutional guarantees (*Institutsgarantie*) only to the essence of such rights (*Grundbestand*).<sup>147</sup> The rights holders explicitly aren't entitled to any constitutional guarantee to reap every possible benefit attributable to their creations.<sup>148</sup> This corresponds to the Court's own reading of Article 36 TFEU/mandatory requirements which guarantees neither a possibility to demand highest possible remuneration, nor possibility to legally control any use of their work. Interrelating two doctrines would require, however, singling out *Coty Germany* as an excess because it is hardly tenable that a remedy that is not even envisaged in the TRIPS Agreement, suddenly forms part of the constitutional essence of protection.

The over-use of Charter arguments is no less worrying. It again shows how important it is to maintaining separate proportionality reviews for distinct policy levels. To illustrate this, let's take an example of IPR enforcement. Article 3 of the Enforcement Directive, but also some other IP directives,<sup>149</sup> broadly stipulate proportionality as one of the general requirements for the application of remedies. In the case law, it is then often not entirely clear which policy level of review the Court applies (secondary law vs Charter), or whether they constitute one and the same exercise. The Court has a tendency to mix its 'proportionality' arguments in parallel with the EU Charter in its reasoning. This practice of insufficient distinction between the policy levels has two potential consequences. First, it might lead to lowering of the standards of effectiveness in the secondary law, and second it might be weaving provisions of the secondary law into the Charter's fabric.

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<sup>146</sup> One could imagine a situation where the consequences of a stricter Art 36 TFEU review could subsequently be questioned on the basis of its compatibility with the overbroad guarantees of Art 17(2) of the EU Charter. For instance, the Member States could try to defend their domestic obstacles to free movement of goods in form of additional exclusive rights on a basis of protection against expropriation offered by Art 17(2). Unless the Court synchronizes the two doctrines, it could be forced to carry out two separate distinct justification reviews.

<sup>147</sup> See BVerfG [1971] 1 BvR 765/66; BVerfG [2016] *Metall auf Metall* 1 BvR 1585/13; P Badura, 'Zur Lehre von der verfassungsrechtlichen Institutsgarantie des Eigentums, betrachtet am Beispiel des "geistigen Eigentums"', in *Festschrift für Theodor Maunz* (CH Beck, 1981), p 14 ff; P Badura, 'Privatnützigkeit und Sozialbindung des geistigen Eigentums' in A Ohly and D Klippel (eds), *Geistiges Eigentum und Gemeinfreiheit* (Mohr Siebeck, 2007), p 54 ff; B Grzeszick, 'Geistiges Eigentum und Art. 14 GG' (2007) *Zeitschrift für Urheber und Medienrecht*, p 344 ff; A Paulus, 'Schutz des geistigen Eigentums' in J Isensee and P Kirchhof (eds), *Handbuch des Staatsrechts der Bundesrepublik Deutschland: Band X* (CF Müller, 2013), p 832; Decision of the Constitutional Court (Ústavný súd SR); 30 September 2014, Case No II ÚS 647/2014 (reported in IIC 2015, 729).

<sup>148</sup> BVerfGE 31, 229 [1971] *Schulbuchprivileg*, 1 BvR 765/66, para 35.

<sup>149</sup> Eg technological protection measures and the principle of proportionality enshrined in Rec 48 Directive 2001/29; see *Nintendo and Others*, C-355/12, EU:C:2014:25. In Germany, this principle was also used to give effect to constitutional proportionality exercise in BVerfG (2011) *AnyDVD* 1 BvR 1248/11.

The first consequence can be problematic as long as efficiency is not understood in economic terms.<sup>150</sup> It is because the courts interpreting secondary Union law should also be able to reject certain outcomes that perfectly conform to all the human rights concerned as nonetheless undesirable because they are ineffective as a matter of legislator's policy, eg ineffective website blocking. After all, the constitutional requirement of effectiveness is not particularly high, specifically in order to create a sufficient maneuvering space for the legislator.<sup>151</sup> Proportionate, but welfare decreasing (economically inefficient) enforcement outcomes can be prevented in the first place as a matter of ordinary law – secondary legislation.<sup>152</sup> Following merely constitutional acceptance can unnecessarily lower the standards in the secondary law just because they both refer to same instrument: proportionality.

The second consequence is also potentially problematic. It leads to what Mylly calls 'primary law lock-in', and I refer to as 'petrification' of the rules.<sup>153</sup> The concern is that the Court's conception of constitutionally permissible policy is strongly influenced by its manifestation in the ordinary laws of today, such as directives or regulations.<sup>154</sup> To provide an example, in *Scarlet Extended* the Court rejected an injunction that would oblige general monitoring which is prohibited by Article 15 of the E-Commerce Directive in some situations.<sup>155</sup> The Court, however, reasoned its rejecting decision with a broader argument, saying that:

such an injunction would result in a serious infringement of the freedom of the ISP concerned to conduct its business ... In those circumstances, it must be held that the injunction to install the contested filtering system *is to be regarded as not respecting the requirement that a fair balance* be struck between, on the one hand, the protection of the intellectual-property right enjoyed by copyright holders, and, on the other hand, that of the freedom to conduct business enjoyed by operators such as ISPs.<sup>156</sup>

Does this mean that general monitoring is generally a disproportionate interference with the right to conduct a business even in situations where Article 15 does not apply, eg in situations of active hosting? It is hard to tell, but the rhetoric of the Court would suggest that the prohibition of general monitoring now has a power of a 'Charter outcome'. This means that it is applicable even if Article 15 of the E-Commerce

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<sup>150</sup> See A Portuese, 'The principle of subsidiarity as a principle of economic efficiency' (2011) 17 *Columbia Journal of European Law* 231; L Hancher and W Sauter, 'One step beyond? From Sodemare to Docmorris: The EU's freedom of establishment case law concerning healthcare' (2010) 47 *Common Market Law Review* 117.

<sup>151</sup> See Husovec and Peguera, note 60 above, pp 10, 18, 33.

<sup>152</sup> *Ibid*, p 18.

<sup>153</sup> See Mylly, note 8 above, p 127.

<sup>154</sup> Similar criticism is also presented by M Fornasier, 'The Impact of EU Fundamental Rights on Private Relationships: Direct or Indirect Effect?' (2015) 23(1) *European Review of Private Law* 29.

<sup>155</sup> Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market ('Directive on electronic commerce') OJ L 178.

<sup>156</sup> *Scarlet Extended*, C-70/10, EU:C:2011:771, paras 47, 48 (emphasis added).

Directive does not apply, as long as the EU Charter does.<sup>157</sup> As this short example demonstrates, maintaining distinction between the policy levels matters.

## VI. CONCLUSIONS

The analysis above shows that resolution of conflicts in the context of free movement and fundamental rights is approached in different ways by the Court, which is not always properly justifiable. It is argued that the Court should learn more from its free movement case law also for the purposes of resolving conflicts of IP with other fundamental rights. The two ‘conflict spaces’ already share a goal of market integration, as demonstrated by the analysis of recent case law. A common and coherent approach to IP as a value protected by Article 17(2) of the EU Charter and justified as obstacle to free movement is currently missing. This inconsistency might become especially visible if the Court tried to square its judicial practice surrounding Article 17(2) of the EU Charter and that of Article 36 TFEU. Even though the need for such a consolidation has not yet arisen, upcoming case law (in particular that surrounding positive obligations) could easily lead us to a judicial crossroads.

In this paper I have also highlighted how the doctrine of positive obligations can allow domestic courts to trigger also similarly powerful counter-balancing movement by instituting more critical preliminary references in the context of protection of other fundamental rights. They could file for preliminary references that enquire about Charter compatibility for those national laws which do not implement optional provisions of the secondary law and thus under-protect other rights, or even for the secondary law if they still struggle to protect conflicting interests within fully implemented laws. The pro-harmonisation bias of the Court thus does not have to drag the case law of the Court only one way. Conflicts of this kind are already boiling before the courts in the Member States, but are yet to make an appearance before the Court of Justice. Therefore it would be wrong to suggest that the conflict resolution can only act as some form of pro-IP catalyst. While no single IP provision of Union law has yet been invalidated based on disproportionate interference with fundamental rights of others, with increasing legislative activity and often little attention paid to public interest or technological realities, this might change soon.

The Court’s over-reliance on fundamental rights in resolving many disputes might also come at a certain cost. As mentioned earlier, due to an insufficiently rigorous approach to the review on different policy levels, there is a risk that any proportionality exercise on the level of secondary law could ‘spill over’ to primary law. The Court’s conception of constitutionally permissible policy could then be strongly influenced by its manifestation in the ordinary laws of today (such as directives or regulations) which naturally petrifies the legal order by effectively ‘constitutionalising’ parts of secondary law. The Court should therefore be more aware of different policy levels when resolving the conflicts.

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<sup>157</sup> Savola also speculates about this outcome: P Savola, ‘Proportionality of Website Blocking: Internet Connectivity Providers as Copyright Enforcers’ (2014) 5 (2) *JIPITEC* 116, p 133, fn 59.